

**RETHINKING ABOUT PROBLEMS IN THE DEVELOPMENT OF RUSSIAN –  
KOREAN TRADE RELATIONS IN THE ASIAN- PACIFIC REGION.**

**By**

**Dianova Evgeniya**

**THESIS**

Submitted to

KDI School of Public Policy and Management

in partial fulfillment of the requirements

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2012

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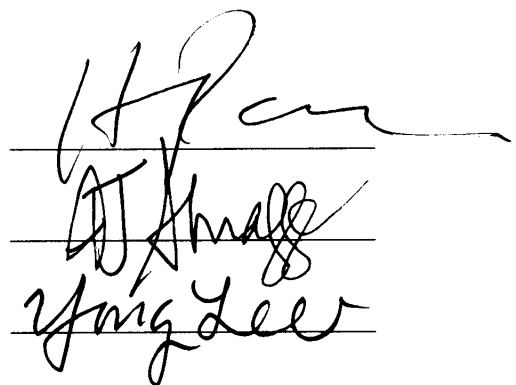
**MASTER OF PUBLIC POLICY IN ECONOMIC DEVELOPMENT**

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The image shows three handwritten signatures in black ink, each written over a horizontal line. The top signature is 'HJ Park', the middle one is 'A. Shragge', and the bottom one is 'Yong Lee'.

Approval as of December, 2012

## ABSTRACT

### RETHINKING ABOUT PROBLEMS IN THE DEVELOPMENT OF RUSSIAN – KOREAN TRADE RELATIONS IN THE ASIAN- PACIFIC REGION.

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With the development of the Russian Far East region in the first half of the twentieth century, Asia-Pacific trade and economic relations have been a prime focus of the Russian Government; moreover, according to Ivashentsov, “partnership with the Republic of Korea is one of the basic elements of Russia’s policy in Asia.”<sup>1</sup> This firm intention was confirmed with the conclusion of “**The Russian-Korean Joint Action Plan for trade and economic cooperation**”<sup>2</sup> (Russian Embassy, 2005) in November 2005; this plan determines the goals, objectives and areas for the future economic progress of both countries. However, according to the Russian statistics information of 2010 (database of exports and imports) the plan of 2005 had not borne as much fruit as was expected.

There are many reasons for the **slow development** of Russia-Korea trade relations; some of them have impeded progress many years. Firstly, the **structure of commodity circulation** between the countries has not developed significantly during the last 20 years; Russian export to S. Korea is still mainly composed of raw materials (90%). Secondly, the Russian – S. Korean trade collaboration is crowded with the **logistics issues** in the areas of transport infrastructure, licensing, customs rules and regulatory framework that are attended by corruption and bribery. Finally, there is **the lack of mutual understanding** between the

two different cultures that hampers one part to deal with another in the proper way; this occurs for the reason that each nation has its own system of values and views on good business practices.

In sum, there are many topical obstacles to the development of foreign trade and economic cooperation. This paper investigates **the issues** that disabled the progress in the field of developing trade relations between Russia and South Korea in the Asia-Pacific region after 2005 year. In order to accomplish these tasks we use primary (statistical information, government reports, and Central bank reports) and secondary sources (articles, working papers, journals, radio and TV programs).

*Keywords: trade, development, trade relations, Russia, S. Korea.*

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# I. INTRODUCTION

## A. History overview

The history of the development of relations between Korea and Russia shows evidence of **years of obstacles and talks**. According to Leonid Petrov, the redistribution of power over Korea was the reason “the Russo-Japanese War (1904-1905) ended—for Russia—with the loss of South Sakhalin and ultimately the headache of the (First) Russian Revolution.”<sup>3</sup>

Later the Cold War (1946 -1990), which emerged immediately after the Second World War, was a serious barrier to the establishment of diplomatic relations between the countries for the next forty years; it was a period of “political rivalry between the two greatest powers at the time: the United States and the former Soviet Union”<sup>4</sup> (Yeremina M., 2012).

It is well known that Soviet and American forces liberated Korea from the Japanese Army in 1945. However, communists and capitalists forces never could live in a friendly manner; for military purposes Korean peninsula was transformed into two states: Korean Democratic People's Republic and Republic of Korea.

“[In 1950], the North Korean leader Kim Il-Sung visited Moscow and enlisted the support of the Soviet Union”<sup>5</sup> (Chan-sik Hong, 2010). After that, on June 25, 1950 the North Army went to Korean South. Its attack was so powerful that after only three days they took the capital of the South, Seoul. It seemed that the final victory of the North’s army was near at hand. However, on July 7 the UNO voted to send international troops to aid South Korea. As a result, in September, the UNO troops (mostly American) came to rescue the Southerners. Events began to develop with the same speed in the opposite direction; North Korea was on the brink of total disaster, when China suddenly helped them. The Chinese leadership sent aid to North Korea without declaring war on the United States. Soon

the front lined along the 38th parallel, where the original border before the two Koreas had been previously established.

The war lasted three years and the combat ended in 1953; however, the conflict is not fully resolved even today.

Eventually, with the end of the Cold War in 1990 **Russia and S. Korea overcame differences and concluded their first trade agreement.** Since this moment historians have emphasized three important phases in the progress of cooperation between two countries. **The first or activation stage** is related to the establishment of KOTRA (Korea Trade-Investment Promotion Agency) in Moscow and the Russian CCI (Chamber of Commerce and Industry) in Seoul immediately after conclusion the agreement mentioned above. CCI as well as KOTRA served “as a bridge between exporters and overseas buyers”<sup>6</sup> (KOTRA, accessed in 2011). This conspicuous the beginning of productive trade relations. The countries started to explore each other’s markets. It was a time when the S. Korean government took dealing with Russia seriously. They thought that Russian market development would favor Korean economic growth, because the country could offer current technologies, large-scale goods and financial sources. In turn, the Russian government hoped to find a counterbalance to Japan by way of S. Korea. Moreover, Korea opened new perspectives for Russia in increasing sales of primary and industrial goods. As a result, the volume of foreign trade with a diversified structure grew considerably. Investment, along with scientific and technical fields, became new areas of co-operation.

**The second or stagnation phase** refers to the Asian Economic Crisis in 1997- 1998, that “started in Thailand with the collapse of the Thai baht in July 1997 and quickly spread to the rest of the region. What began as a currency crisis soon affected the wider economy and led to economic downturns in several countries”<sup>7</sup> (Chew V., 2009). Financial problems

caused a decrease in trading volume between Russia and ROK of 12,6% in 1997 and 36% in 1998.

**The third phase** started up immediately after the crisis in 1999 and has persisted to the present day. Since then the countries have concluded three weighty packages of agreements: Agreement between the Government of the Russian Federation and the Government of the Republic of Korea about tourism cooperation, dated February 28, 2001; the Russian-Korean Joint Action Plan on economic cooperation, dated November 19, 2005; and the agreement between the Government of the Russian Federation and the Government of the Republic of Korea on Cooperation in the Gas Industry, dated October 17, 2006. **The most important trade document is the Russian- Korean Joint Action Plan of 2005.** It is the second and last document that describes bilateral trade relations between Russia and Korea to date. The first one was the declaration on the assistance to the development of trade-economic and science-technology cooperation between the governments, signed in September of 1995; it has become obsolete and inapplicable in recent years.

During this time the trade structure of two countries underwent changes. The movements of some goods (household appliances, automobiles, textiles) from Korea were reduced. Nowadays the most popular Korean export goods are enterprise chemical production, some kinds of household appliances, and textiles, although Russian export goods are mainly the same as they were 20 years ago: raw materials and natural resources. The cooperation has a mutually complementary structure.

Meanwhile, as the tables below demonstrate, the specific weight of S. Korea has not changed significantly for Russia; it is still about 2 and 3 %.

**Table 1. Russia's international trade (mil \$, %)**

Measure	1998		2005		2010	
	Export	Import	Export	Import	Export	Import
Total Russian export and import, mil\$	72553	45559	241352,1	98505,3	396441,7	228953,4
To/from S.Korea, mil\$	998,5	1113,8	3936,62	3864,17	9899,4	7759,8
Proportion of S.Korea, %	1,4	2,4	1,6	3,9	2,5	3,4

*Resources: <http://www.customs.ru>, <http://www.kita.org/>*

The presidents of both countries have taken a serious approach to this issue, having held **negotiations more than 20 times since 1990**. But, for example, Chinese - S. Korean trade relations have rapidly increased since establishment of diplomatic relations in 1992. According to the statistical information, Korean trade with China is 7,2 times larger than trade with Russia during the same period of time. We could conclude that the growth of Russian-S. Korean trade has not still corresponded to the potential opportunities present in both countries.

Experts in economics and political scientists emphasize a **variety of causes** for this paradox. **Firstly**, any positive changes that occurred in **the circulation of commodities** between the countries are the result of the expansion of the S. Korean export structure; nowadays machine-building production and state-of-the-art technologies form about 80% of Korean exports to Russia. Meanwhile, Russia remains principally a source of raw materials for S. Korea; about 90% of Russian exports to S. Korea is composed of metallurgy industry production, energy, minerals, timber and chemicals; however, Russia has a production potential to increase the portion of advanced technology products in the export structure in order to develop the turnover of commodities with S. Korea.

**Secondly**, there are many **logistics obstacles** in the areas of transport infrastructure, licensing, customs rules and regulatory framework. As Russia has just become a member (in 2012) of the World Trade Organization (WTO), the country's foreign economic policy is far

from ideal; tariff barriers and double taxation have influenced the volume of bilateral trade between the countries for many years. The transportation issue creates problems for both countries as well. There are two modes of transportation from S. Korea to the Russian Far East: by sea and by air; delivery of cargo by air is rather more expensive than by sea. However, slow and expensive sea transportation implies unprofitable conditions for those who import goods from S. Korea to Russia in volumes of less than a full container. Meanwhile, the well-developed trade and economic relations between Russia with Western countries make it possible for companies in the Russian East to carry cargo from Western countries less expensively and more effectively than from S. Korea. As a result, expensive and inconvenient means of transport often make it easier for Russian companies to import goods from Western countries (instead of Korea) to the Far East of Russia.

**Thirdly, differences between Asian and Western cultures** complicate matters. As a rule, diverse mentalities lead to misunderstandings between partners in the field of doing business. According to the research of the “East Asian Business Group,” “Koreans generally would never dream of doing business with a stranger; they will need some time to become comfortable with a [partner], [who should not] expect to walk out with a contract from the first sales visit. [It is necessary to spend] time and money on building relationships with [Korean partners].”<sup>8</sup> Meanwhile, Russians prefer to enter into agreements as soon as possible. Moreover, Russians spend rather less time and money than Koreans for establishment of trade relations; in addition, they never take it personally.

These and other problems arise in both countries, and **should be solved in order to provide grounds for further activation of the plans** and agreements between countries in the Asia-Pacific region. Slow development of Russian-Korean foreign economic relations “needs ... the improvement of legislative documents on [trade cooperation] between the two



countries. [Moreover, any projects] will not be effective unless the countries create more favorable conditions for the joint ventures doing business in their territories.”<sup>9</sup>

In sum, exploring issues will help to generate useful and valid recommendations for the public and private sectors in order to improve trade relations between the two countries.

## **B. Literature review**

The thesis addresses a Russian-S. Korean issue about the development of foreign trade in the Asia-Pacific region. A number of articles have provided valuable information illuminating the gravity of the problem. One that is especially useful is posted on the website of **“Voice of Russia”** radio. The author, Svetlana Andreeva, is a well-known special correspondent of the radio station. At the top of article, she quotes words of the former Russian President Medvedev: “The relationship between Russia and South Korea is one of high priority for the Asia-Pacific region and our partnership is acquiring a strategic character.”<sup>10</sup> After these words, the author provides abundant up-to-date information that supports the first and main idea.

According to Andreeva,

The trade and economic relations between the two countries in the 20 years of diplomatic ties have been strengthening... [Trade turnover] ... now equals 11 billion dollars. On the one hand, these are good numbers... On the other, we know that they are far from the indicators that South Korea boasts in its trade with countries like the USA, Japan and China, where we are talking about hundreds of billions of dollars. So there is great potential to further increase cooperation.<sup>11</sup>

Therefore, this short but weighty article plays a significant part for the thesis, because it represents the validity of the pressing problem under exploration in this paper.

Other papers approach the problem from different sides. One of the most recent papers is **“Russia-Korea trade and investment cooperation: current tendencies and perspectives,”** which explores the trade and investment flows between S. Korea and Russia. It is a well-constructed work that includes historical review and paints in bright colors the dynamics of the Russian trade in the Asia Pacific region from 1996 to 2003. The author, Korenevskiy Konstantin, is a candidate in economic science; he explains the problem of slow foreign trade development by “differences in trade policies of Russia and Korea.”<sup>12</sup> Meanwhile, this paper and other papers that were written before 2005 do not handle all the problems in the light of current day truth; in November 2005 the Presidents signed “The Russian-Korean Joint Action Plan for trade and economic cooperation.” “[This plan] has summed up bilateral cooperation in the fields of politics, economy, science, technology and culture.”<sup>13</sup> After this event, some problems were solved, some still exist, and some new ones have already risen. However, Korenevskiy’s research is helpful for this new study because it emphasizes some issues from the past that still exist in the present time; for example, “economic reasons, such as a slightly different structure one economy from another, and undeveloped legislative measures of bilateral trade.”<sup>14</sup>

At the present time, a large body of research has been published on Asia – West cross - cultural issues. Preliminary work on this topic was undertaken by Dennis G. Ballow (2005), who provides the in-depth analysis of the question in the work **“Globalization and cross-cultural issue in the project management”**; the analysis “based on experience working in the Asia Pacific rim for two years as a PMO Manager, and training PM’s in many European countries.”<sup>15</sup> The summary of his research contains all the necessary information about Asian and West dimensions: language, cooperation, individualism versus collectivism. Owing to the characteristics of mentioned parameters we now know that strong collectivism is a distinctive feature of the Asian culture, but not the West. Ballow also identifies how to solve the conflict,

motivate people and work in a group with the companions in accordance with their culture. In sum, the author showed us not only the main differences between nations that exist in the World, but also how to conduct successful business in these frames; It is a helpful source for the second chapter of the thesis where we develop the cross-cultural problem.

The question of doing business with Korean and Russian companies has become very popular in this century. Today both countries play serious roles on the world stage. “[S. Korea is well- known as] the exporter of semiconductors, wireless telecommunications equipment, motor vehicles, computers, steel, ships and petrochemicals; [Russia is popular country because of the selling of] petroleum products, natural gas, metals, wood and wood products, chemicals, and a wide variety of civilian and military manufactures.”<sup>16</sup> The answers to the above questions are easy to find in the papers of the East Asian Business Group (EABG) and Carl F. Fey that call **“Doing business with Korean companies” (2007) and “The key commandments for doing business in Russia” (2010)** respectively.

EABG draws our attention to the national peculiarities of Koreans. They assert that “Koreans generally would never dream of doing business with a stranger; they will need some time to become comfortable with you...”<sup>17</sup> The authors explain it as a result of many years’ suffering at the hands of their enemies – other countries; as a result they learned to treat aliens with distrust. But this research not only talks about the peculiarities of Koreans, but also explains how to deal with it – “Speak the truth... spend time and money on building relationships... be extra – sensitive with Korean feelings... use 1-1 meetings as much as possible... never refuse invitations to socialize...[etc].”<sup>18</sup>

While some studies are written as recommendations, other looks like rules. Carl F. Fey’s research is based on the survey of 36 foreign firms operating in Russia with 8 principles on how to do business in Russia or with Russians: “Practice authoritative not authoritarian leadership; build a strong one-company organizational culture with visible

foreign elements; create an empowered organization step by step; respect local rules, but play your own game; stand firm on major goals and be flexible on details; learn to live and manage in crises; recognize that corruption is omnipresent in Russia and must be managed; cultivate relationships with government agencies at all levels in business and civil society.”<sup>19</sup> Based on the information from the two studies mentioned above we have the grounds for giving the proper answers on up-to-date question about effective communication with Russian/Korean companies.

The discussion will also include a review of the article, the importance of which is related to the Korean (not Russian) point of view and shows a non-typical attitude to the history of Russian-Korean relations: **“South Korea's policy toward Russia: A Korean view,”** by Kim Kook-Chin. This work among others, tells not only about trade barriers and cultural misunderstanding, but also emphasizes the “diplomatic milieu” as a possible key to many doors. “For South Korea, the establishment of diplomatic relations with the Soviet Union/Russia was greatly instrumental in successfully opening a new chapter of the so-called “Omni-directional” diplomacy in its modern history, namely, to be on good official terms with all the countries on the globe, regardless of ideological differences.”<sup>20</sup> This approach could help to light up the issue from all possible sides.

Lastly, the report of **“ROK-Russia Economic Cooperation in Northeast Asia”** seminar, that took place in Vladivostok on June of 2007 and gathered a group of 50 South Korean and Russian experts from the different fields of economy, is another informative resource for the thesis. According to the document, specialists analyzed the ROC-Russia economic cooperation in the field of power engineering, transport, agriculture and automobiles. Speakers brought up the national issues; they stated that freight traffic as well as tariffs of seaports in the region have been growing, even as the Russian automobile logistics

system is profoundly underdeveloped. Opinions from this seminar are not only relevant but also substantial; it supports ideas in the part about transportation issue of the thesis.

These and other sources show us the past and current situations from both Russian and Korean points of view; it helps **to draw the useful and valid base** for understanding the present time issues that slow down the Russian-S. Korean development of commercial relations.

To conclude, it is evident that S. Korea and Russia have a ground for the development of trade relationships; however, 20 years have already passed since the countries started to evolve their intentions, and they have not achieved the expected results. In order to make progress there is a necessity to investigate the reasons for this phenomenon. On the basis of the obtained results It is possible to make substantial recommendations for the future development of this direction. It is precisely what this paper covers.

### **C. Argument**

The thesis aims **to argue** that the development of trade relations between Russia and S. Korea suffers from contemporary as well as historical problems which today appear much more difficult than previously thought. There are three main groups of obstacles standing in the way of progress: underdevelopment of the Russian – S. Korean bilateral trade structure, logistics issues and differences between Asian and Western cultures. Solving these problems should be a primary economic objective for Russian- S. Korean trade in the future. This purpose is of critical importance, especially for Russia; **It is not only a problem** that is related to trade relations with S. Korea, but also a striving that is related to the trade relations with the whole of Asia.

## **D. Research Method**

In order to analyze the commercial trade ties between the countries we will use both qualitative and quantitative researches. In the scope of **qualitative research**, two methods will be exploited. In the first place, the historical background should be reviewed; therefore we will use Historiography, -- “doing historical research or gathering and analyzing historical evidence. There are four types of historical evidence: primary sources, secondary sources, running records, and recollections”<sup>21</sup> (Kahn A., 2011). We are going to use all of them to clarify the nature of problems under consideration.

The next step is the analysis of secondary data, which implies “the reanalysis of data that was originally compiled by another researcher for other purposes than the one the present researcher intends to use it for”<sup>22</sup> (Kahn A., 2011). It is also important in this work in order to find out what has been already clarified and what has not yet been explored.

**Quantitative research** will involve an international trade model. Modern science has developed a number of such models. The empirical models that analyze the determinants of bilateral cooperation include the gravity model. “The gravity model is an econometric method of estimating trade flows. This model has been used to analyze the impact of not only FTAs, but also the effects of General Agreement on Tariffs and Trade–World Trade Organization (WTO) membership, currency unions, migration flows, foreign direct investment, and even disasters”<sup>23</sup> (Plummer M., 2010).

Modeling trade with the help of this methodology allows us to predict the potential long-term trade flows between countries and then compare the estimated result with the real situation.

## **E. Organization of the Thesis**

The thesis is composed of **three parts**, where first one, introduction, is divided into 5 parts. After short historical and literary overviews, we have advanced the argument of the

work briefly. Further, the brief discussion of research methodology explains which methods will be used in the next section in order to support the argument about actual problems in the development of Russian-Korean trade relations in the Asian-Pacific region.

Body of the thesis elucidates general facts about historical and economic background as well as trade statistics and summarizes the reasons for slow development of Russia –S. Korea bilateral trade as examined in the first two parts. Then, the next segment explains possible prospects of the trade cooperation between the countries in accord with obstacles mentioned above. The conclusion contains the main findings of the work.

## **II. BODY OF THE THESIS**

### **A. The analysis of actual problems in the development of Russian-Korean Trade Relations in the Asian-Pacific region.**

“The Asia–Pacific region today is a powerful growth generator. It has 60 per cent of the world’s GDP, half the world’s trade and about 40 per cent of the cumulative international investments”<sup>24</sup> (A. Tatarinov, 2011). Russia has shown a special interest in the progress of commercial relations in the Asia-Pacific region for the last 10 years; as it was mentioned above, **Russian and S. Korean leaders signed the “Russian-Korean joint action plan on economic cooperation” in November, 2005.** According to the Russian Embassy, the main purposes of that document were related to the expansion of the spheres of mutually advantageous cooperation and the development of bilateral trade.<sup>25</sup> It was expected that commercial relations would progress significantly after that event; however, reports of customs statistics from 2005 to 2010 have not shown any serious changes in the bilateral trade between the countries. The reason for that has a complex base: the undeveloped

structure of commodity circulation between the countries, logistic issues (including transport infrastructure problem, disparate customs tariffs and barriers, corruption and bribery), as well as the lack of mutual understanding between the two different cultures do not allow successful headway in commodity circulation even when the contractual intents were indicated at the top level.

Meanwhile, **Korean trade with China is 7,2 times larger than trade with Russia during the same period of time.** Serious changes in trade cooperation have taken place since 2001; in particular, signing the “Agreement on Establishing PRC – ROK investment cooperative committee and official announcing that China had become Korea’s No. 1 export destination.” Then, “in 2004 China [became] South Korea’s top trading partner”<sup>26</sup> (S. Zhou, 2010). In 2005 China and ROK signed the document, “Joint Research Report on Planning Medium- and Long-term Development of Economic and Trade Cooperation.” “Today the countries are halfway to concluding a Free Trade Agreement”<sup>27</sup> (S. Zhou, 2010).

Unfortunately **Russian – Korean cooperation could not boast such a development** even partially; the growth has still not corresponded to the potential opportunities present in both countries. The problems that have been affecting the process since the first agreements still exist and continue currently to hamper progress as well.

In support of findings mentioned above and after **the introduction of general statistical information about the countries, the trade flows between the countries will be estimated;** thereafter, the received data will be compared with the real data with the help of a gravity model, “an econometric method of estimating trade flows.... The main benefit of the gravity model in evaluating [trade agreements] is that it can control ...and...isolate the effects of the [agreement] on trade”<sup>28</sup> (M. G. Plummer, 2010). Further, the mentioned issues that hamper the development of trade will be investigated.



## **B. Foreign trade between Russia and S. Korea: general facts and statistical information about the countries.**

**Russia** is the largest country in the world in terms of geographic territory. Its capital Moscow is the main city of western and central Russia. Another important city, Vladivostok, is about 9 000 km distant, the metropolis of the Russian Far East; it is close to China and N. Korea.

The Russian economy is still developing; however, it has been strong and resilient enough to make a rapid recovery from the financial crises of this century. According to the World Bank, economic growth in 2010 and 2011 is about 4,2 percent and 4,5 percent (forecast) respectively. “Today Russia has the world’s third largest gold and foreign currency reserves, valued at more than US\$500 billion”<sup>29</sup> (Australian Government, 2011). The country possesses a great deal of mineral wealth. As a result export policy has been focused on mining and extractive industries: coal, oil, gas, chemicals and metals. Today the Russian Federation is well-known as “the world’s largest energy exporter”<sup>30</sup> (Australian Government, 2011).

**Table 2. Main customers/suppliers – countries**

<b>Russia</b>		<b>Republic of Korea</b>	
<b>Main customers (% of exports)</b>	<b>2010</b>	<b>Main customers (% of exports)</b>	<b>2009</b>
Netherlands	14.3%	China	23.9%
Italy	6.5%	United States	10.4%
China	5.3%	Japan	6.0%
Germany	4.3%	Hong Kong	5.4%
Poland	3.8%	Singapore	3.7%
Other countries	65.9%	Other countries	50.6%
China	18.0%	China	16.8%
Germany	12.2%	Japan	15.3%

Main suppliers (% of imports)	2010	Main suppliers (% of imports)	2009
Ukraine	6.4%	United States	9.0%
Japan	4.7%	Saudi Arabia	6.1%
Italy	4.6%	Australia	4.6%
Other countries	54.0%	Other countries	48.2%

*Resource:*  
<http://comtrade.un.org/>

The table above suggests that Russia has stable trade relations with the western world, but it does not have strong enough cooperation with the eastern world, with the exception of China. Development of bilateral trade in the Far East region has become the key issue for Russians in recent years. **South Korea**, as a powerful trade player in the Asian market has stimulated Russia's intention to develop bilateral trade relations between the countries as the next step of foreign trade cooperation with Asian markets in the next few years.

**Table 3. Main economic indicators by country**

Main indicators	Russia			Republic of Korea		
	2009	2010	2011 (e)	2009	2010	2011 (e)
<b>GDP (billions USD)</b>	1,221.99	1,479.83	1,884.90	834.06	1,014.48	1,163.85
<b>GDP (cons. prices, annual % change)</b>	-7.8	4.0e	4.3	0.3	6.2e	3.9
<b>GDP per capita (USD)</b>	8,545.39	10,355.67	13,235.63	17,110.09	20,756.25	23,749.24
<b>General government balance (in % of GDP)</b>	-3.4	-1.8e	-0.3	0.7	1.8e	2.1
<b>Inflation rate(%)</b>	11.7	6.9e	8.9	2.8	3.0e	4.5
<b>Cur. Account (bill. USD)</b>	49.52	71.13e	104.00	32.79	28.21e	16.96
<b>Current Account (in % of GDP)</b>	4.1	4.8e	5.5	3.9	2.8e	1.5

*Resource: <http://www.emporikitrade.com/>; IMF.org; WorldBank.org;*

Meanwhile, according to World Bank data, S. Korea is only 109<sup>th</sup> in the world in terms of geographic area but country ranks 14<sup>th</sup> in the world by nominal GDP and 12<sup>th</sup> by purchasing power parity (PPP). Korea's economic strength emerged owing to

the fact of the government's substantial efforts in the region and around the world. The country has strong relations with China, USA, Japan, Australia and Saudi Arabia. Officials spent years of effort in order to create and improve the trade and investment climate. As a result, Korea's modernized economy created many opportunities for Korean products and services around the world.

**Table 4. Main export and imports products by country**

<b>Russia, 2010 year</b>		<b>Republic of Korea, 2009 year</b>	
<b>Main exports</b>	<b>% of exports</b>	<b>Main exports</b>	<b>% of exports</b>
Petroleum oils and oils obtained from bituminous...	34.6%	Cruise ships, excursion boats, ferry-boats, cargo...	10.2%
Petroleum oils and oils obtained from bituminous...	18.6%	Electronic integrated circuits and microassemblies	6.7%
Petroleum gas and other gaseous hydrocarbons	12.8%	Liquid crystal devices not constituting articles...	6.4%
Coal; briquettes, ovoids and similar solid fuels...	2.5%	Motor cars and other motor vehicles principally...	6.2%
Semi-finished products of iron or non-alloy steel	1.9%	Petroleum oils and oils obtained from bituminous...	6.1%
Other products	29.6%	Other products	64.4%
<b>Main imports</b>	<b>% of imports</b>	<b>Main imports</b>	<b>% of imports</b>
Motor cars and other motor vehicles principally...	5.2%	Petroleum oils and oils obtained from bituminous...	15.7%
Medicaments consisting of mixed or unmixed...	4.2%	Electronic integrated circuits and micro assemblies	6.7%
Parts and accessories for tractors, motor vehicles...	2.5%	Petroleum gas and other gaseous hydrocarbons	5.3%
Automatic data processing machines and units...	2.3%	Petroleum oils and oils obtained from bituminous...	3.8%
Transmission apparatus for radio-telephony,...	2.2%	Coal; briquettes, ovoids and similar solid fuels...	3.1%
Other products	83.5%	Other products	65.4%

Resource: <http://comtrade.un.org/>

While Russia is a country possessing abundant natural resources suitable for export, ROK has focused its exports on IT, automobiles, and steel, which are all highly energy-intensive products. These nations have strong complementarities and forceful opportunities

to mature the prescribed area of cooperation as well as to open or develop other fields of trade in depth. However, the necessary changes cannot occur without analysis and taking adequate transformative measures.

### **C. Trade flows estimation according to the Gravity model.**

The gravity model is an empirical model that analyzes the determinants of bilateral cooperation (Deardorff A., 1998). In this section the gravity model will be applied to the annual bilateral trade between Russia and S. Korea **in order to examine the trade potential of the countries**; estimated data will be compared with the real data for the period of time from 2007 to 2010. The result will show us the opportunities of commodity circulation between the countries on the base of GDP and trade data for the period of time from 2000 to 2006; this is the most stable period in the Russian economy till 2005 (the year of the signed trade document), where one year (2006) was provided for the implementation of the mentioned covenant. Theoretically, the real data from 2007 to 2010 should be appreciably greater than estimated data with reference to the signed agreement (November, 2005); the opposite result will denote the marginal changes in the development of trade cooperation between the countries after the signing and implementation of the trade document.

According to Alan Deardorff, “**a simple version of the gravity equation** [looks like this]:  $M_{ij} = G * (Y_i Y_j / D_{ij})$

Where  $M_{ij}$  is the value of exports from country  $i$  to country  $j$ , the  $Y$ s are their respective national incomes,  $D$  is a measure of the distance between them, and  $G$  is a constant of proportionality”<sup>31</sup>.

“Expressed in logarithmic form and attaching a random error term ( $u_{ij}$ ), the basic gravity equation becomes:

$$\ln M_{ij} = \ln G + \beta_1 \ln Y_i + \beta_2 \ln Y_j + \beta_3 \ln D_{ij} + u_{ij} \text{”}^{32} \text{ (M. G. Plummer, 2010)}$$

Where  $M_{ij}$  is the U.S. dollar value of the trade flow from country  $i$  to country  $j$ ;  $G$  is a constant;  $\beta$  are coefficients that should be calculated with the help of least squares methods (multidimensional regression analysis);  $Y_{ij}$  represents a GDPs of countries  $i$  and  $j$ ;  $D$  is geographical distance between countries.

Further we will estimate the incoming data for 4 trade flows: from Korea to Russia, from Russia to Korea, from China to Korea and from Korea to China. Chinese – Korean trade statistical information we use in order to show the existence of real progress after the signing analogous trade document between China and Korea in the same year.

**Table 5. GDP, US\$**

<b>Year</b>	<b>Russia</b>	<b>China</b>	<b>Korea Rep.</b>
<b>2010</b>	1479819314058	5926612009750	1014483158314
<b>2009</b>	1221991353712	4991256406735	834060441841
<b>2008</b>	1660846387626	4521827288304	931402204982
<b>2007</b>	1299705764824	3494055944791	1049235951187
<b>2006</b>	<b>989930542279</b>	<b>2712950886698</b>	<b>951773478985</b>
<b>2005</b>	<b>764000901161</b>	<b>2256902590825</b>	<b>844863004335</b>
<b>2004</b>	<b>591016690743</b>	<b>1931644331142</b>	<b>721975255824</b>
<b>2003</b>	<b>430347770733</b>	<b>1640958732775</b>	<b>643762388701</b>
<b>2002</b>	<b>345110438694</b>	<b>1453827554714</b>	<b>575928909990</b>
<b>2001</b>	<b>306602673980</b>	<b>1324806914358</b>	<b>504585783004</b>
<b>2000</b>	<b>259708496267</b>	<b>1198474934199</b>	<b>533384027729</b>
<b>1999</b>	195905767669	1083277930360	445399303511
<b>1998</b>	270953116950	1019458585326	345432412376
<b>1997</b>	404926534140	952652693079	516282942110
<b>1996</b>	391721392325	856084729312	557643607434
<b>1995</b>	395528488656	728007199936	517118129838
<b>1994</b>	395086555837	559224707281	423434190055
<b>1993</b>	435060123491	440500898965	362135746945
<b>1992</b>	460205414726	422660918111	329885864344

Resource: [www.data.worldbank.org](http://www.data.worldbank.org)

**Table 6. Trade statistics, 1000 US\$**

<b>Year</b>	<b>Korean Imp. from Russia</b>	<b>Korean Exp. to Russia</b>	<b>Korean Imp. from China</b>	<b>Korean Exp. to China</b>
<b>2010</b>	9899456	7759836	71573603	116837833
<b>2009</b>	5788759	4194066	54246056	86703245
<b>2008</b>	8340060	9747957	76930272	91388900
<b>2007</b>	6977477	8087746	63027802	81985183
<b>2006</b>	<b>4572967</b>	<b>5179248</b>	<b>48556675</b>	<b>69459178</b>
<b>2005</b>	<b>3936623</b>	<b>3864170</b>	<b>38648243</b>	<b>61914983</b>
<b>2004</b>	<b>3671455</b>	<b>2339329</b>	<b>29584874</b>	<b>49763175</b>
<b>2003</b>	<b>2521780</b>	<b>1659119</b>	<b>21909127</b>	<b>35109715</b>
<b>2002</b>	<b>2217604</b>	<b>1065875</b>	<b>17399779</b>	<b>23753586</b>
<b>2001</b>	<b>1929476</b>	<b>938161</b>	<b>13302675</b>	<b>18190190</b>
<b>2000</b>	<b>2058265</b>	<b>788127</b>	<b>12798728</b>	<b>18454540</b>
<b>1999</b>	1590469	637052	8866667	13684599
<b>1998</b>	998579	1113846	6483958	11943990
<b>1997</b>	1534783	1767932	10116861	13572463
<b>1996</b>	1810266	1967534	8538568	11377068
<b>1995</b>	1892880	1415881	7401196	9143588
<b>1994</b>	1229652	961911	5462849	6202986
<b>1993</b>	974821	601171	3928741	5150992
<b>1992</b>	7483	118084	3724941	2653639

*Resource: www.kita.org*

**Table 7. Total Export, \$ US**

<b>Years</b>	<b>Russian Federation</b>	<b>China</b>	<b>Korea,Rep.</b>
<b>2010</b>	444609457323	1752600000000	531504420186
<b>2009</b>	343311184834	1333300000000	414780058421
<b>2008</b>	520003701781	1581713000000	493725965247
<b>2007</b>	392044033025	1342206000000	439870649764
<b>2006</b>	<b>333908278474</b>	<b>1061681000000</b>	<b>377701274626</b>
<b>2005</b>	<b>268951741206</b>	<b>836887800000</b>	<b>331754872476</b>
<b>2004</b>	<b>203415480736</b>	<b>655826577000</b>	<b>295165630566</b>
<b>2003</b>	<b>151697510752</b>	<b>485003217000</b>	<b>227692281871</b>
<b>2002</b>	<b>121649122807</b>	<b>365395328000</b>	<b>190781078899</b>
<b>2001</b>	<b>113116215290</b>	<b>299409174000</b>	<b>180342217988</b>
<b>2000</b>	<b>114429434767</b>	<b>279561125000</b>	<b>205695161633</b>
<b>1999</b>	84670999188	218496000000	173989081610
<b>1998</b>	84595569294	207425150000	159465621075
<b>1997</b>	100138288678	207239000128	167237120121
<b>1996</b>	102134748920	171677995072	155370501585
<b>1995</b>	115848176166	147240000000	149076328653
<b>1994</b>	109669623714	118927000000	112793204306
<b>1993</b>	166212955942	86557000000	96069243898
<b>1992</b>	286811344080	78817000448	87717671171

*Resource: www.worldbank.com*

**Table 8. Total Import, \$ US**

<b>Years</b>	<b>Russian Federation</b>	<b>China</b>	<b>Korea,Rep.</b>
<b>2010</b>	321183482613	1520500000000	503205542965
<b>2009</b>	250605696859	1113200000000	383880322336
<b>2008</b>	366597057084	1232843000000	504693888662
<b>2007</b>	279983425069	1034729000000	424021371844
<b>2006</b>	<b>207914383436</b>	<b>852769000000</b>	<b>364502037097</b>
<b>2005</b>	<b>164337988333</b>	<b>712090100000</b>	<b>308926200055</b>
<b>2004</b>	<b>130992710864</b>	<b>606542934000</b>	<b>265147207767</b>
<b>2003</b>	<b>102759676789</b>	<b>448924240000</b>	<b>213089517543</b>
<b>2002</b>	<b>84408293461</b>	<b>328012656000</b>	<b>182284487927</b>
<b>2001</b>	<b>74250942749</b>	<b>271324953000</b>	<b>168927179916</b>
<b>2000</b>	<b>62417348027</b>	<b>250687640000</b>	<b>190456249558</b>
<b>1999</b>	51275385865	189799000000	144207954106
<b>1998</b>	66522411128	163589000000	115010275146
<b>1997</b>	91218668971	164416000000	170353625078
<b>1996</b>	85590285294	154127000000	174745975511
<b>1995</b>	102419312533	135282000000	154727138356
<b>1994</b>	91641644660	111570000000	115936150352
<b>1993</b>	132666576051	98349000000	94653219879
<b>1992</b>	222070295127	73819000000	91538205342

*Resource: www.worldbank.com*



**Table 9. Geographical distances between the importing and exporting countries**

Distance		Rate
$D_{RK}$	Between Russia and Korea	5304,06
$D_{CK}$	Between China and Korea	999,25

Resource: [www.cepii.fr/anglaisgraph/bdd/distances.htm](http://www.cepii.fr/anglaisgraph/bdd/distances.htm)

**Results were substituted into equations:**

$$\ln M_{ij} = \ln G + \beta_1 \ln Y_i + \beta_2 \ln Y_j + \beta_3 \ln D_{ij} + u_{ij}$$

As we have **4 trade flows** (from Russia to Korea, from Korea to Russia, from China to Korea, from Korea to China) we obtained **4 regressions:**

$$\ln M_{RK} = \beta_0 + \beta_1 \ln Y_R + \beta_2 \ln Y_K + \beta_3 \ln D_{RK}$$

$$\ln M_{KR} = \beta_0 + \beta_1 \ln Y_R + \beta_2 \ln Y_K + \beta_3 \ln D_{RK}$$

$$\ln M_{CK} = \beta_0 + \beta_1 \ln Y_C + \beta_2 \ln Y_K + \beta_3 \ln D_{CK}$$

$$\ln M_{KC} = \beta_0 + \beta_1 \ln Y_C + \beta_2 \ln Y_K + \beta_3 \ln D_{CK}$$

Where  $M_{RK, KR, CK, KC}$  are trade flows from Russia to Korea, from Korea to Russia, from China to Korea, from Korea to China respectively;  $Y_{R,K,C}$  are GDPs of Russia, Republic of Korea and China;  $D_{RK, CK}$  are geographical distances between the countries (taken from [www.cepii.fr/anglaisgraph/bdd/distances.htm](http://www.cepii.fr/anglaisgraph/bdd/distances.htm) in accordance with the gravity model calculation);  $\beta$  are coefficients that should be calculated with the help of least squares methods (multidimensional regression analysis). Constant  $G$  becomes part of  $\beta_0$ .

The regression results we expressed in the table below:

**Table 10. Regression Results from the Gravity Model Estimation.**

	<b>From Russia to Korea</b>	<b>From Korea to Russia</b>	<b>From China to Korea</b>	<b>From Korea to China</b>
<b>R<sup>2</sup></b>	0,973321	0,996585	0,994996	0,965088
<b>R̄<sup>2</sup></b>	0,946641	0,993171	0,989993	0,930177
<b>SSreg</b>	0,708574	3,14607	1,606324	1,840234
<b>SSer</b>	0,019422	0,01078	0,008078	0,06657
<b>SStot</b>	0,727996	3,15685	1,614402	1,906803
<b>df</b>	3	3	4	4
<b>β<sub>0</sub></b>	-9,01479	-27,8468	-30,2432	-35,8963
<b>β<sub>1</sub></b>	0,285776	1,131005	0,943458	0,608453
<b>β<sub>2</sub></b>	0,848419	0,688878	1,011194	1,580289
<b>β<sub>3</sub></b>	9,604 * 10 <sup>-14</sup>	9,404 * 10 <sup>-14</sup>	- 2,07 * 10 <sup>-15</sup>	- 2,105 * 10 <sup>-15</sup>

Where R<sup>2</sup> – R square, R̄<sup>2</sup> – adjusted R square, SSreg – sum of squares for regressions, SSer – residual sum of R squares, SStot - total sum of squares, df – degree of freedom, β<sub>0,1,2,3</sub> – estimated coefficients for independent variables.

After β coefficients were found we replaced it in the logarithmic forms:

$$\ln M_{RK} = -9.015 + 0.286 \ln Y_R + 0.848 \ln Y_K + 9.604 \cdot 10^{-14} \ln D_{RK}$$

$$\ln M_{KR} = -27.847 + 1.131 \ln Y_R + 0.689 \ln Y_K + 9.404 \cdot 10^{-14} \ln D_{RK}$$

$$\ln M_{CK} = -30.243 + 0.943 \ln Y_C + 1.011 \ln Y_K - 2.07 \cdot 10^{-15} \ln D_{CK}$$

$$\ln M_{KC} = -35.896 + 0.608 \ln Y_C + 1.58 \ln Y_K - 2.105 \cdot 10^{-15} \ln D_{CK}$$

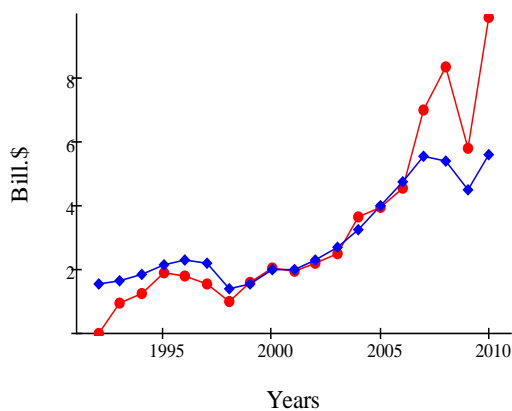
Estimated trade flows (from Russia to Korea, from Korea to Russia, from China to Korea, from Korea to China) are presented in the table below.

**Table 11. Estimated trade flows between the countries, bill.\$**

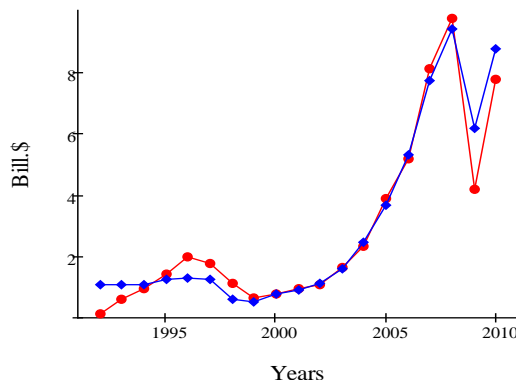
<b>Year</b>	<b>M<sub>РК</sub></b>	<b>M<sub>КР</sub></b>	<b>M<sub>СК</sub></b>	<b>M<sub>КС</sub></b>
<b>1992</b>	1.55	1.076	3.031	4.861
<b>1993</b>	1.651	1.077	3.462	5.775
<b>1994</b>	1.834	1.076	5.079	8.549
<b>1995</b>	2.173	1.236	7.974	13.766
<b>1996</b>	2.311	1.288	10.027	17.116
<b>1997</b>	2.185	1.268	10.261	16.175
<b>1998</b>	1.385	0.61	7.282	8.927
<b>1999</b>	1.567	0.504	9.974	13.846
<b>2000</b>	1.979	0.785	13.164	19.577
<b>2001</b>	1.979	0.911	13.687	19.067
<b>2002</b>	2.29	1.141	17.077	24.862
<b>2003</b>	2.681	1.581	21.425	31.915
<b>2004</b>	3.236	2.45	28.065	42.248
<b>2005</b>	3.979	3.65	38.097	59.536
<b>2006</b>	4.74	5.31	51.123	80.384
<b>2007</b>	5.565	7.728	71.611	109.335
<b>2008</b>	5.396	9.394	80.991	106
<b>2009</b>	4.501	6.153	79.509	94.549
<b>2010</b>	5.611	8.742	113.923	142.927

Then results were expressed in the next figures, where the **real flow** indicated with a red color and **estimated flow** with a blue color:

**Figure 1. Real and estimated export flow from Russia to Korea**



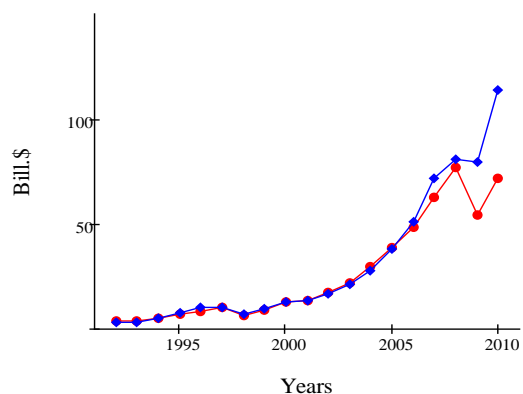
**Figure 2. Real and estimated import flow from Korea to Russia**



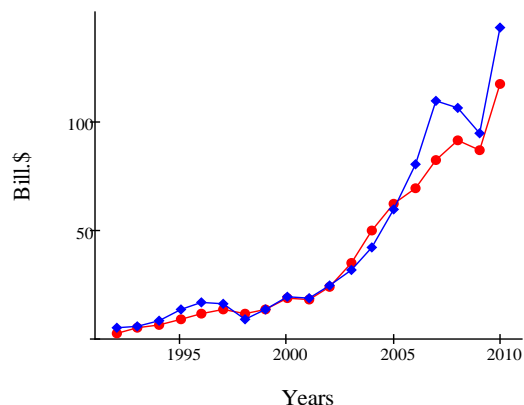
As it was mentioned above **the period was taken from 2000 to 2006**; so in this interval the real points closely coincide with estimated points. Other estimated points from 1992 to 1999 and 2007 to 2010 we received on the bases of calculation. Our gravity model does not include any other characteristics of countries besides GDP and trade data, so the Russian-Korean prognosis from 2007 to 2010 does not contain any amendment in compliance with signed the “Russian-Korean joint action plan on economic cooperation” and the estimated years specified only with the development rate of the previous 6 years.

According to the declared intentions of countries in November 2005, we have to expect the real export and import indicators should be considerably higher than predicted; however, **figures show us that the real flow from Korea to Russia even does not completely meet the estimated data.** Only the export of natural resources from Russia to Korea is a little bit higher than expected, although it could be explained as a result of Korea’s great demand for these goods. Results of the Chinese - Korean bilateral cooperation calculation were expressed in the next figures, where real flow is indicated with a red color and estimated flow with a blue color:

**Figure 3. Real and estimated export flow from China to Korea**



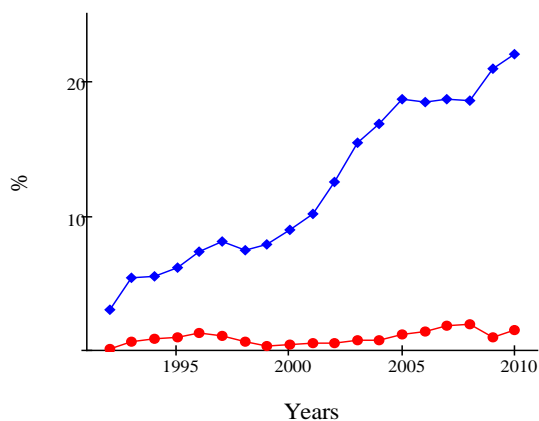
**Figure 4. Real and estimated import flow from Korea to China**



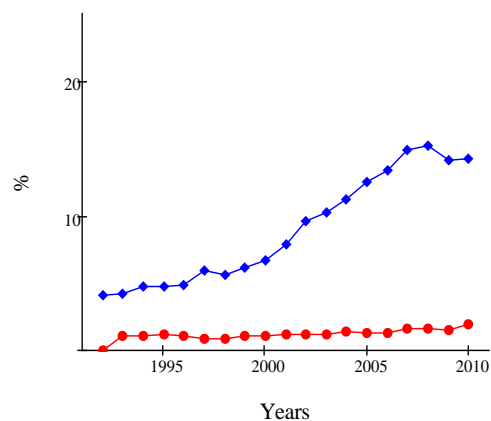
We could see that the development rate of Chinese – S. Korean cooperation is almost 10 times higher than between Russia and S. Korea. The comparatively low real results in 2008 and 2009 are possibly the consequence of the global financial crisis.

The evident difference in bilateral cooperation between the countries is represented below, where China is indicated with a blue color and Russia with a red color:

**Figure 5. Korean Export Flow**



**Figure 6. Korean Import Flow**



Modeling trade with the help of this methodology allowed us to predict the potential long - term trade flows between countries and then compare the estimated result with the real situation. We got added evidence that Russian – Korean bilateral cooperation has not changed

significantly after signing the “Russian-Korean joint action plan on economic cooperation” in 2005.

Next we will discuss the main reasons behind the impediments.

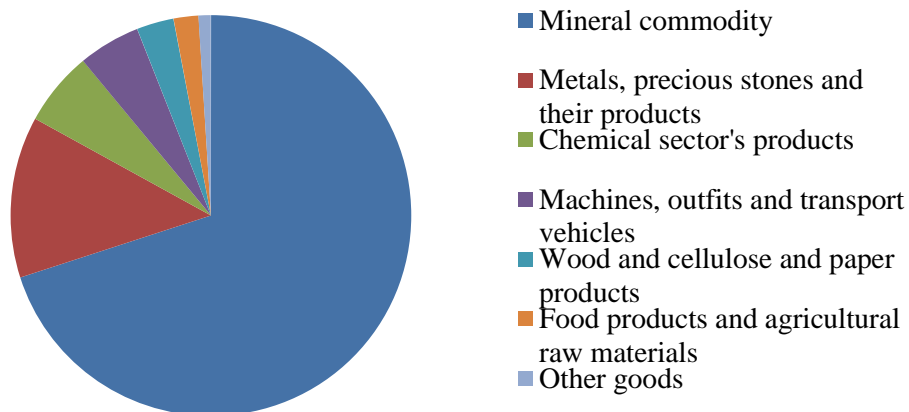
#### **D. Inefficiency of the trade pattern between the countries.**

According to the customs information the structure of commodity circulation between the countries has not developed significantly during the last 20 years. **Russian exports to S. Korea still mainly comprise raw materials (90%)**, while any growth of Korean exports to Russia is determined only by the developing of the Korean export structure. Meanwhile, “as bilateral trade [between China and S. Korea] expands, the trade structure has also undertaken considerable changes. In the early 1990s, China’s principal exports [contained from] primary goods and labor-intensive products, while its major imports from South Korea centered on manufactured products and capital-intensive products”<sup>33</sup> (S. Zhou, 2010). However, with a time the commodity structure has changed; “South Korea continues to export capital- and technology intensive products to China, more of such products are also shipped in the opposite direction”<sup>34</sup> (S. Zhou, 2010) (Appendix C).

At present, **there is a necessity to develop the structure of Russian –Korean bilateral trade** in order to fulfill the interaction potential between the countries. The movements of some goods (household appliances, automobiles, textiles) from Korea to Russia have been reduced over last 8 years. According to customs information, today the most popular Korean export goods in Russia are machinery, equipment and transport vehicles (80%), and enterprise chemical products (10%); however, as it was mentioned above, Russian export goods are mainly the same as they were 20 years ago: raw materials and natural resources. The cooperation has a mutually complementary composition.

The inefficacy of the Russian-Korean trade structure is related most closely to the commodity structure of Russia. Its export structure is less perfect than developed countries such as S. Korea, usually have.

**Diagram 1. Export structure of Russia**



Resource: <http://www.customs.ru>

The course for trade in natural resources took a large jump in value immediately after the disintegration of the USSR during the 1990s. It was a complex period for Russia. “**Before 1992, Russia was a command economy** with regulated prices, state ownership over the vast majority of production assets, a state monopoly over international trade, and comprehensive state planning”<sup>35</sup> (S. Guriev, 2010). That once integrated and co-ordinated “organism” collapsed. Factories and plants that raised the economies of Soviet Republics in the old days were broken down into parts in a few months. Russia had to find a way to survive as soon as possible. The easiest way was related to the rich deposits of natural sources that the country possesses. In that time Russia adopted its export policy for the next years where the dominant role belonged to mineral oil and petroleum products, gas, coal, and others. Hence, according to Russian customs information, in 1996 the country exported to other countries about 92 million tons of crude oil, 197 billion me of natural gas and 25 million tons of coal. The specific gravity of fuel and energy sources was about 46% of total Russian exports. It was a time when country has changed dramatically. “It is no longer a command economy; instead

Russia is now an emerging market, namely, a normal developing upper-middle income economy. Even though a bulk of the corporate sector has been nationalized since 2003, it is still a predominantly private capitalist economy with imperfect but functioning markets”<sup>36</sup> (S. Guriev, 2010). According to the customs data of 2010, the specific weight of natural sources in the Russian export has grown to 70,6%. Russian economic scientists are concerned that the economy has too strong a dependence on natural resources prices. **Today the main export items from Russia to S. Korea are raw materials**, including hydrocarbons, timber, fish, forest and biological resources. In view of the objective economic reasons, such a structure of exports is partly justified economically, but forcing the production and export of primary resources may lead to their rapid depletion and worsening environmental crisis throughout the Russian Far East. Moreover, this scenario of trade relations is against the national interests of Russia; the export of traditional Russian commodities has its limits, about 20 years before resources become seriously depleted. So the main goal of Russian economists currently is to increase the value of Russian exports and decrease the percentage ratio of basic resources in the export structure.

With the transition to an open economy some important things have already been done. The forms of modern international economic cooperation between the Russian Federation and other countries is related to various fields of knowledge and work: cooperation in science and engineering involves planning, forecasting, joint implementation of scientific development, cooperation in the field of scientific and technical sphere of information and training, and exchange of experts to work in research and training centers.

Meanwhile, it is still not enough to solve the problem. According to the Korean customs services, ROK imports such goods as machinery, electronics and electronic equipment, oil, steel, transport equipment, organic chemicals, and plastics. In order to offer to S. Korea a new direction in trade that could further stimulate interest, Russia needs to adopt



the Federal Program for the Development of Russia's Exports; it should stimulate an increase of the proportion of products with higher value-added, knowledge-intensive goods, technologies and services in the total value of Russian exports.

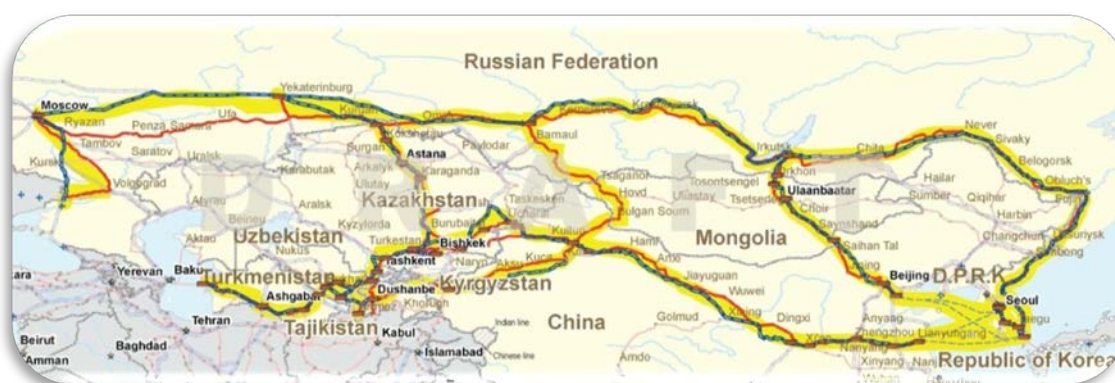
### **E. Logistics issues in the development of trade between the countries.**

The Asia-Pacific region is crowded “with logistics challenges, including infrastructure, regulatory framework, licensing issues and disparate customs rules”<sup>37</sup> (David Biederman, 2010). This statement also could be attributed to the Russian – S. Korean trade collaboration that is filled with the mentioned issues in the areas of **transport infrastructure** (poor quality of roads and railroads as well as the lack of seaports and airports infrastructure development within Russian territory), **government regulation** (the lack of clearness, the complexity of licensing services, long-term waiting for receiving the export/import documents ) and **customs rules** (requirement of a large number of documents for the transportation, lengthy customs procedures at border crossings, the unpredictability of customs treatment), that are attended by **corruption and bribery** (especially high level of corruption is on the control services).

Today, when economies are bound together by the network of world production and consumption, the development of efficient freight systems is a prerequisite for countries that wish to participate effectively in the global economic structure. However “[the progress of transport] infrastructure in the Asia-Pacific region is highly fragmented; on the one hand there are highly developed markets such as Australia, Singapore and South Korea....On the other hand, emerging markets led by India, China [and Russia]... are emerging from decades of underdevelopment and underinvestment in their infrastructures...”<sup>38</sup> (Hong Kong Infrastructure Report, 2008). As a result it influences the speed and quality of movements of goods between the trade partners.

At the present time **the freight traffic between Russia and South Korea proceeds generally by sea and air**; sea and land ways are usually used if goods traffic goes through China and Mongolia. Transportation of goods from South Korea by land to other countries is hampered because of the conflict situation with North Korea. Schemes 1 and 2 show the transport corridors in the region.

**Scheme 1. Intermodal transport corridors in the North East and Central Asia.**



Resource:

[http://www.unescap.org/ttdw/common/TIS/CorridorStudy/Corridor\\_maps/All\\_corridors.pdf](http://www.unescap.org/ttdw/common/TIS/CorridorStudy/Corridor_maps/All_corridors.pdf)

**Table 12. The interpretation of intermodal transport corridors connecting North-East and Central Asia in accordance with the scheme 1.**

No	Corridor itinerary	Modes	Countries covered
1	Busan/Incheon-Tianjin-Beijing-Eranhot-Zamin Uud-Ulaanbaatar-Darkhan-Sukhabaatar-Ulan Ude-Irkutsk-Novosibirsk-Petropavlosk-Yekaterinburg	Port/Road/Rail	Republic of Korea, China, Mongolia, Kazakhstan, Russian Federation
2	Kaesong*/Incheon/Busan-Lianyungang-Zhenzhou-Xi'an-Lanzhou-Turpan-Urumqi-Alashankou-Dostyk-Aktogai-Ushrobe-Almaty (-Bishkek)-Tashkent (-Dushanbe)-Samarkhand-Novoi-Bukhara-Turkmenabad-Mary-Ashgabat-Turkmenbashi	Port/Rail/Road	Democratic People's Republic of Korea, Republic of Korea, China, Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, Turkmenistan

	(Bukhara-Karshi-Sariosiyo-Dushanbe-Yangi Bazar) * Subject to confirmation of DPRK participation in the project	Rail	Uzbekistan + Tajikistan
3	Busan-Rajin/Busan-Pohang-Kosong-Wonsan-Chongjin-Rajin-Khasan-Ussurisk-Khabarovsk-Chita-Ulan Ude-Martsevo	Port/Road/ Rail	Republic of Korea, Democratic People's Republic of Korea, Russian Federation
4	Yekaterinburg-Petropavlovsk-Astana-Karaganda-Chu (-Almaty)-Bishkek-Tashkent-Dushanbe	Rail/Road	Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan
5	Urumqi-Kashi-Irkeshtam-Sary-Tash-Jirgatal-Dushanbe-Sariosiyo-Termez	Road	China, Kyrgyzstan, Tajikistan, Uzbekistan
6	Barnaul-Tashanta-Ulaanbaishint-Hovd-Yarant- (Urumqi)	Road	Russian Federation, Mongolia, China

Resource: <http://www.unescap.org/ttdw/common/TIS/CorridorStudy/Corridor.asp>

### Scheme 2. Railroad transport corridors in the North East and Central Asia.



Resource: <http://www.unescap.org/>

Container shipments by sea directly from South Korea to Russia have 2 schemes: sea freight from Busan to St. Petersburg, that takes about 37-45 days and sea freight from Busan to Vladivostok with delivery time of approximately 25-30 days. If a customer lives in the west or central part of Russia he needs to send the cargo to S. Petersburg (import

registration is possible in the eastern port or in Moscow) and then use one of the delivery modes inside the country: truck, train or air transportation.

There also exist two routes for the **direct air cargo transportation from S. Korea to Russia**: air travel from Incheon airport to Russian cities is the fastest way to deliver cargo from South Korea (from 1 to 3 days); however, it is also the most expensive way. The second, multimodal transportation through consolidation warehouses in Germany with air and truck transport includes the air delivery of goods to Germany for storage consolidation and then organized trucking to Moscow. This route is longer in time (from 15 to 18 days), but less expensive in cost than the first one.

Generally, **the long delivery times are the result of the low development level of transport infrastructure, legislation issues and disparate customs rules in the territory of Russia**. The table below shows the transport infrastructure quality indexes of Russia and S. Korea.

**Table 13. Transport infrastructure quality indexes.**

Indicator	Korea, Rep.		Russia	
	Rank (out of 142)	Score (1-7)	Rank (out of 142)	Score (1-7)
Infrastructure	<b>9</b>	5,9	<b>48</b>	4,5
Transport infrastructure quality:	<b>18</b>	5.9	<b>100</b>	3.6
Quality of overall infrastructure	<b>17</b>	5.8	<b>130</b>	2.4
Quality of roads	<b>8</b>	5.7	<b>29</b>	4.2
Quality of railroad infrastructure	<b>25</b>	5.5	<b>97</b>	3.7
Quality of port infrastructure	<b>28</b>	5.9	<b>105</b>	3.8
Quality of air transport infrastructure				

*Resource: The Global Competitiveness Report 2011-2012.<sup>39</sup>*

South Korea, as opposed to Russia, is a country with a highly developed system of warehousing and powerful structure of road transport; these factors and size of the country make the delivery of cargo inside the ROK inexpensive. However, the fact that the main

production and warehouses in South Korea are away from the seaports engages the next supply chain in case of delivery by sea: conveyance of goods by road from the manufacturer to the seaport, then to the port of destination by sea, and then to the customer in Russia by land or air.

**Once a cargo reaches the Russian territory by sea, it faces a host of obstacles related to the lack of port infrastructure development** within Russian territory that seriously hinders the speed and quality of the transport of freight: the number of terminals to handle the large containers is limited, special handling equipment is rarely available, there are the difficulties in the transport access to the terminals located in the city, container networks have deteriorated in recent years, there is a waste of time at the junctions of different transport modes for the transfer of containers, there is the lack of rail flatcars and special vehicles and heavy containers; then the low level of road infrastructure manifests itself in the extortions by policemen on roads and in towns, attacks on drivers and vehicles, poor road conditions, and the complexity of the orientation on the roads and settlements (no pointers, bad or inaccurate signs).

Other specific problems are related to the **Russian undeveloped system of government regulation**: the complexity of licensing services, requirement of a large number of documents for the transportation, long-term waiting in order to get a permit and other documents from government agencies, inconsistencies in inspection services for road crossings, corruption on the control services, and lengthy customs procedures at border crossings. Tables below support these statements.

**Table 14. Goods market efficiency indexes.**

Indicator	Korea, Rep.		Russia	
	Rank (out of 142)	Score (1-7)	Rank (out of 142)	Score (1-7)
Irregular payments and bribes	49	4,5	115	3,1
Prevalence of trade barriers	118	3,9	134	3,5
Trade tariffs, % duty*	84	7,2	109	11,0
Burden of customs procedures	50	4,4	137	2,8

Source: *The Global Competitiveness Report 2011-2012*.<sup>40</sup>

**Table 15. Trading across borders indicators**

Indicator	Russia	Republic of Korea
Documents to export (number)	8	3
Time to export (days)	36	7
Cost to export (US\$ per container)	1,85	680
Documents to import (number)	10	3
Time to import (days)	36	7
Cost to import (US\$ per container)	1,8	695

Resource: <http://doingbusiness.org/>

According to the table below, the export and import procedures are an especially thorny issue for Russia. It is known that Russia has removed some export duties during the last 5 years; however, for revenue purpose, more than 450 types of products still remain dutiable today. As a result, this situation quite often makes cooperation with international companies inappropriate for Russian companies.

**Table 16. Export and Import costs and duration.**

Parameter	Export Procedures				Import Procedures			
	Duration (days)		US\$ Cost		Duration (days)		US\$ Cost	
	Russia	ROK	Russia	ROK	Russia	ROK	Russia	ROK
Documents preparation	25	2	200	50	25	2	150	65

Customs clearance and technical control	3	1	500	30	4	1	500	30
Ports and terminal handling	3	2	250	100	2	2	250	100
Inland transportation and handling	5	2	900	500	5	2	900	500
<b>Totals</b>	<b>36</b>	<b>7</b>	<b>1,850</b>	<b>680</b>	<b>36</b>	<b>7</b>	<b>1,800</b>	<b>695</b>

Resource: <http://doingbusiness.org/>

Russia faces a number of obstacles to the development of foreign trade relations that derive from **the inefficient work of the state apparatus**; the existing regime of doing business is exceedingly complicated also because of the lack of clearness, transparency and redundancy. The trade representative office of the United States argues that “the Russian government continues to issue unpublished recommendations on import valuations to customs posts ... customs enforcement varies by region and port of entry, and that frequent changes in regulations are unpredictable, adding to costs and delays at the border.”<sup>41</sup> Indeed today Russia realizes that it is necessary to modify the customs fee structure; however, poor attempts only complicate the situation. The table below shows **the striking difference between Russia and S. Korea in terms of the requirements of documents for export and import procedures** that were ratified by government.

**Table 17. Required documents for export and import businesses**

Export documents		Import documents	
Russia	Republic of Korea	Russia	Republic of Korea
Bill of lading	Bill of lading	Bill of lading	Bill of lading
Cargo release order	Customs export declaration	Cargo release order	Customs import declaration
Certificate of origin	Packing list	Commercial invoice	Terminal handling receipts

Commercial invoice		Contract	
Customs export declaration		Customs Cargo Declaration (CCD)	
Inspection report		Customs import declaration	
Packing list		Inspection report	
Terminal handling receipts		Packing list	
		Terminal handling receipts	
		Payment documents	

Resource: <http://doingbusiness.org/>

In addition Russian economists emphasize the following obstructive **factors that also lead to the logistics issues: lack of a stable legal environment, the relatively high rate of inflation, fluctuations in the rate of exchange, unpredictability of customs treatment, discrepancies in acting in accordance with law, corruption and bribery**; they subjoin that bribery or “voluntary contributions”<sup>42</sup> (Carl. F. Fey, 2010) is the main reason for the rigidity of Russian public authorities, the flawed legal system, and selective application of the laws.

We could conclude that problem is deeper that it may have seemed at the beginning. In order to implement the tasks that are related to the growth of commodity circulation between the Russian Federation and the Republic of Korea, Russia should respond to the logistic challenges. For that it could use the experience of foreign countries (for example, ROK). The Russian government should also finally acknowledge the most pressing problems of transport infrastructure and begin to solve them by public and foreign investments in this sector; for that it is necessary to pursue the struggle against corruption. The legislative system should be put and kept in order. In addition, the integration associations could get down to the common barriers for business with the help of all State parties. Only **a comprehensive approach** could change for the better the current complex situation.



## **F. The impact of cultural factors on the development of trade relations.**

Working on the global market is a big issue for many companies in the world. Communication problems between players often emerge when one part cannot deal with another in the proper way. This occurs for the reason that each nation has its own system of values and views on good business practices; Dennis G. Ballow insists that it is a consequence of the fact that “[any] **culture consists of patterned ways of thinking, feeling and reacting** [that usually manifest in the following ways]: language, environmental and technological considerations, social organization, contexting, authority conception, nonverbal communication behavior, time conception.”<sup>43</sup>

These variables on their own account do not supply extensive information about another culture; they are only a reason for external communication obstacles. However, informed people gain an advantage by understanding other nations’ behavior. That helps them to be on good terms with their international partners.

In order to be better guided by the knowledge scientists divided countries into two main groups: Western (USA, Europe, and Russia) and Non-Western countries (China, Japan, Korea, and India) and ascribed to them general features. Let’s look into these differences more closely.

**Table 18. Western and Non-Western general traits.**

#	Western Countries	Non-Western Countries
<b>1</b>	Individualistic orientation.	Group orientation. Clan, Caste, Tribe.
<b>2</b>	Attribution groups are important (family, class, occupation).	Frame groups are important (village, neighborhood, company, region, and nation).
<b>3</b>	Society is built on legalistic contractual relationships.	Society is built on direct personal relationships.
<b>4</b>	Relationships based on rights and duties.	Relationship based on mutual obligations and mutual dependence.
<b>5</b>	Christianity concerned with absolute	Non-Western religions focus on virtue.

	moral values, differences between good and evil, and redemption of the soul.	Buddhism and Confucianism provide an ethical code of behavior.
<b>6</b>	Need for self-assertion.	Need for coordination.
<b>7</b>	Behavior controlled by rules, punishments and rewards	Behavior controlled by group adaptation. Departures from the group norm are accompanied by feelings of shame.
<b>8</b>	Important values are freedom and personal conscience.	Important values are security and obedience.
<b>9</b>	Weak hierarchical structure	Strong hierarchical structure.

*Resource: D.G.Ballow, "Globalization and Cross-Cultural Issues in Project Management.*

According to this formulation, Western people are more self-oriented than Easterners. They do not believe too much in obedience. Westerners are also used to relying more on legalistic contractual relationships while Eastern nations prefer to pin their hopes on personal relationships. The mentioned cultural features make it possible for individuals to become familiar with the main differences between the cultures; however, these characteristics represent only the principal distinctions that usually could not be absolutely attributed to any Western or Eastern country.

**To look deeper in the cultural attributes,** Hofstede created the model that “distinguished cultures according to five dimensions: power distance, individualism/collectivism, masculinity/femininity, uncertainty avoidance, and long-/short-term orientation...”<sup>44</sup> The table below describes the mentioned cultural attributes for S. Korea and Russia.

**Table 19. A typology of Hofstede’s cultural indices.**

Dimension	Country, scores (from 0 to 100)		Associated traits <sup>45</sup>	Measure
	Russia <sup>46</sup>	S. Korea <sup>47</sup>		
Individualism (IDV)	33	18	Belief in individual actions or decisions rather than group.	Low versus high.
Masculinity (MAS)	1	39	Level of inequality between sexes.	Masculine versus feminine.
Power	40	60	Privileges of power holders.	Low versus High.

distance (PDI)				
Uncertainty avoidance (UAI)	>100	85	Attitude towards uncertainty in life. Need for formal rules and regulations.	Strong versus weak.
Long – term orientation (LTO)	37	75	Attitude towards the future rather than the past and present.	Long term orientation versus short – term orientation.

Sources: Andrew D. Pressey, H.G. Selassie: “Are cultural differences overrated? Examining the influence of national culture on international buyer-seller relationships,” Jay Yu, K. King, H. J. Yoon: “How Much are Health Websites Influenced by Culture? Content Analysis of ... Korea,” Thomas L. Bradley: “Cultural Dimensions of Russia: Implications for International Companies in a Changing Economy.”

According to the table above we could conclude that the examined **Western and Eastern countries have considerable differences in terms of cultural characteristics.** Russia has moderate levels of individualism, power distance and long-term orientation, the extremely high degree of uncertainty avoidance, a very low masculinity value; in contrast, S. Korean scores show us the large power distance, high collectivism, a moderate masculinity and strong uncertainty avoidance indices.

Jaehee Lee and Jinjoo Lee in the article “Differences of organizational characteristics in new product development: cross-cultural comparison of Korea and the US” also direct our attention to the fact that **“the contrast between Eastern (Korea) and Western cultures is the relative focus on the good-of-the-group (Collectivism) in the East versus the good-of-the-individual (Individualism) in the West.”**<sup>48</sup> Alisa Matsuzaki confirms in addition that collectivism is inherent in Korean society; she describes Korean companies as “families” with strong hierarchical structure where “work is done in groups.”<sup>49</sup> Russian companies have also a strong hierarchy (this trait is different from many Western countries); meanwhile they are individualistic and autocratic with a centralized decision-making structure. “World Business Culture” corroborates this opinion: **“Russian companies tend to be driven by one strong central figure** that will make strategic decisions with little or no consultation with

anyone other than a handful of close trusted advisors.”<sup>50</sup> This knowledge about the potential trade partner could significantly advance the negotiations between two different nations.

According to the table above, the cultural differences between the Republic of Korea and Russian Federation influence the trading process also in terms **of the level of inequality between sexes**. It is considered that the roots of this situation in the Shamanic, Buddhist and especially Confucian doctrines had an influence on the Korean society. Korea has followed Confucian culture many years, where the best guarantee for social stability was a family based on patriarchal principals. With the passage of time these principals became the guarantee for stability in the other spheres of social life as well. Although nowadays you may find women in leading positions, it is still uncommon for Korean society; meantime, according to Thomas L. Bradley, “Russia has the lowest value in the world on [the masculinity] dimension establishing a highly feminist orientation;”<sup>51</sup> indeed, **family and business in Russia have both matriarchal and patriarchal structures**. We could conclude that it is important to understand that the higher the level of masculinity in one nation the more attention should be paid to the gender of key figures by trade partners from another nation; it could be illogical to choose women as the main specialists in the area of cooperation with a country where men fill the head positions.

The level of attitude towards the future rather than the past and present plays the significant role in the establishment and development of commercial relations as well. On the one hand we could see **S. Koreans who prefer long-term cooperation**; on the other hand, there are **Russians who tend to choose short- or medium-term collaboration**. As a result the behavior of two countries is different when they deal with the potential trade partners. It was estimated that the members of foreign companies have to spend time, money and effort in order to become a partner of Koreans because they are not inclined to do business with aliens at the first summons, even if the cooperation promises rosy prospects for both (East –

Asian business group, 2007). As they oriented on the long-term relations they “will not deal with those they do not trust”<sup>52</sup> (Matsuzaki, 1998). As a result, trade partners should not “expect to walk out with a contract from the first visit”<sup>53</sup> (East Asia business group, 2007). Meanwhile, the situation in Russia is just the opposite. **Russian businessmen are interested in the establishment of the relations as soon as possible.** Jeroen Ketting determines that Russians “think, speak and act fast! [It is not recommended to] come with a plan that you do not expect to execute in the near to medium term future. If a Russian is interested in a certain project, then his interest is focused at executing the project in a relatively short time period.”<sup>54</sup> So, if an international company is able to confirm its incentives for further collaboration by reliable information about the company, Russian businessmen may insist on signing the agreement even at the first meeting.

There are also some moments that were not described in the tables, but should be remembered by participants in the international trade arena; they are related to negotiation processes. It is widely known that **the first meeting** is of the utmost importance for future cooperation for both parts; however, people continue to make mistakes that can ruin their plans for further collaboration. According to Alisa Matsuzaki, “[in Korea], the best way to address people is by their family name and their title, such as “President Kim.”<sup>55</sup> Formalities are different for countries; it is not accepted to use first names in Korea, but if you would like to create a good impression on Russian businessman it is necessary to address a person by his or her first name and patronymic, such as “Nikolay Petrovich.”

**Bowing** is another trait and an integral part of Eastern people’s life that often perplexes Westerns. In Korea, “Bowing is used in many different occasions; [it] is used when introducing, acknowledging, or welcoming a person...”<sup>56</sup> (Matsuzaki, 1998). Russians always prefer the handshake to bowing in such social situations.

**Bargaining** is another element with its own obstacles; here it is important to take into account that the language of international trade communications, English, is not related to the Korean language roots; therefore, it is rather more difficult for this nation to learn, speak and understand English. So there are some rules for foreigners regarding negotiations in English with Koreans: “speak at a steady pace, keep it short and simple, check understanding regularly, summarize regularly and in detail at the end, ask open questions...”<sup>57</sup> (Victor, 2011)

In the 21<sup>st</sup> century it has become popular to **give more initiative to the young generation**. It is common for Russians to see youthful people making a presentation about their company at the very first meeting. However, it does not work in Korea; it is considered that foreigners have to “present an orderly face to [the] Korean clients”<sup>58</sup> (East Asia business group, 2007). Moreover, the meeting should be formal; “this means it is not a free-for-all in which any participant can feel free to say what she/he likes at any time”<sup>59</sup> (East Asia business group, 2007) like Russians usually do.

In conclusion, **knowing the frameworks of Russian and Korean societies is crucial** for prosperous and prolonged relations in international arena for both parts. As the economies continue to grow and develop, it is important to understand the business etiquette and cultural characteristics of international partner, especially when they are as much different as Westerns and Easterns have.

## **G. Prospects and Obstacles of the bilateral trade development.**

Russia supports a huge market for goods, services and capital with a population 150 million people; it has energy resources as well as a skilled and reasonably priced labor force.

In terms of the expansion of South Korean goods and services on the Russian Federation, **there is a great opportunity for the countries** because of the following circumstances: in the Russian market South Korean importers have a real opportunity to purchase almost all the types of industrial and agricultural raw materials they need; in Russia

South Korean businessmen can buy many types of industrial products at very favorable prices and relatively high quality, especially those products that are material - and highly energy - intensive (semi-assemblies and components, products, basic chemicals); they also have access to the procurement of highly sophisticated and often unique products and associated with its use of technology, such as research and development in space, as well as the military-industrial complex; and finally, the last, very important and characteristic for both export and import operations of the Russian market factor -- that is their relatively high level of profitability (20-30%). However, the degree of realization of this potential in the field of foreign trade with ROK is insignificant.

The general overview of the processes occurring in the commercial relations between the countries, gave us an opportunity to see how these operations are complicated and contradictory. It is obvious, that there is a need for a complex approach to ease these difficulties. **For the fruitful development of the strategic economic cooperation** with S. Korea in the Far East, first of all, Russia needs to solve its own emerging economy problems: economic dependence on natural sources, corruption, and infrastructure underdevelopment; these issues are the “huge drain on its economy and society [that] holds the country back [from the progress]”<sup>60</sup> (Saunders P., 2011). In order to solve the cultural issue, the governments should train Russian and Korean businessmen to the international trade activity with the help of publishing a special book about cultural differences; KOTRA (Korea Trade-Investment Promotion Agency) and the Russian CCI (Chamber of Commerce and Industry) could help to spread the mentioned handbook among people.

### III. CONCLUSION

The thesis has shown that RF-ROK trade cooperation has been developing very slowly since the first trade agreement between the countries; moreover, **the signing of “The Russian-Korean Joint Action Plan for trade and economic cooperation” in 2005 had not brought material changes** in the situation. Trade flows estimation that was made on the base of Gravity model had proved it; graphs showed us that the real flow after 2005 from Korea to Russia even does not completely satisfy to estimated data. Only the export of natural resources from Russia to Korea had a little growth. Moreover, commodity circulation between the countries is still unstable; its fluctuations basically related to the demand of S. Korea on raw materials.

The diplomatic and commercial relations between the countries are still in need of advancement. Talks alone between the leaderships will never contribute to strengthen relations between two powers; **it is necessary to carry on a diplomatic training and collaboration** at the working level.

Further, **there are issues** related to the peculiarities of Russian economy, legal system and social policy; underdeveloped export structure, corruption, law and order barriers, complex export and import procedures, expensive and inconvenient transport infrastructure, and high tariffs create unfavorable conditions for collaboration.

Besides, the lack of mutual understanding between the two different cultures is not in favor of the trade development. It should be taken into account by both governments.

In the future, Russia is quite possible to increase in export share of commodities such as pulp, chemicals, fertilizers, etc. in order to change for the better the turnover with the ROK; however, to this effect, country requires a wide range of actions and reforms to bring itself to a higher stage of economic progress.



In sum, **RF and ROK have the solid ground for the trade cooperation.** The described obstacles should be admitted, thoroughly examined and removed on the public level; both governments should continue to work on achieving goals that they set as objects in the last plan for economic and trade cooperation.

## **IV. APPENDICES**

**APPENDIX A**

**Foreign trade indicators**

	Russia					Republic of Korea				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
<b>Imports of goods(mill USD)</b>	164,281	223,486	291,861	191,803	248,397	309,383	356,846	435,275	323,085	425,212
<b>Exports of goods(mill USD)</b>	303,551	354,403	471,606	303,388	400,018	325,465	371,489	422,007	363,534	466,384
<b>Imports of services(mill USD)</b>	43,679	56,768	73,616	59,241	69,879	69,346	83,954	95,433	79,525	92,978
<b>Exports of services(mill USD)</b>	30,866	38,960	50,527	41,068	43,702	55,333	71,375	89,428	72,466	81,570
<b>Imports of goods and services(annual % change)</b>	21.3	26.2	14.8	30.4	-	11.3	11.7	4.4	-8.2	-
<b>Exports of goods and services(annual % change)</b>	7.3	6.3	0.6	-4.7	-	11.4	12.6	6.6	-0.8	-
<b>Imports of goods and services (in % of GDP)</b>	21.0	21.5	22.0	20.4	-	38.3	40.4	54.2	46.0	-
<b>Exports of goods and services (in % of GDP)</b>	33.7	30.2	31.2	27.7	-	39.7	41.9	53.0	49.9	-
<b>Trade Balance(mill USD)</b>	139,269	130,915	179,742	111,585	-	27,905	28,168	5,669	56,128	-
<b>Current Account(mill USD)</b>	94,686	77,768	103,661	49,365	-	5,385	5,876	5,777	42,668	-
<b>Foreign trade (in % of GDP)</b>	54.7	51.7	53.2	48.1	-	78.0	82.3	107.2	95.9	-

Source: www.WTO.org - World Trade Organization; www.World Bank.org

## APPENDIX B

### A chronology of Sino - S. Korean trade-related events

Year	Event
1990	PRC and ROK open the first direct ferry line linking Weihai, China and Incheon, South Korea.
1991	KOTRA (Korea Trade-Investment Promotion Agency) establishes representative office in Beijing, and CCOIC (China Chamber of International Commerce) opens representative office in Seoul.
1992	PRC and ROK establish formal diplomatic relations. China opens its embassy in Seoul, and South Korea also sets up its embassy in Beijing. China and South Korea sign “PRC – ROK Trade Agreement”, “PRC – ROK Mutual Investment Protection Agreement” and “Agreement on Establishing PRC – ROK Joint Committee for economic, Trade and technological Cooperation”.
1994	ROK President Kim Young-sam visits China and holds summit meeting with PRC President Jiang Zemin. The two countries sign bilateral “Air Service Agreement” and “Agreement on Establishing PRC – ROK Industrial Cooperation committee”.
1995	PRC President Jiang Zemin visits South Korea and holds summit meeting with ROK President Kim Young-sam in Seoul. The two countries sign “PRC – ROK Agreement on Economic Development and Cooperation Fund Loan”.
1996	PRC President Jiang Zemin meets ROK President Kim Young-sam on the sideline of the APEC informal summit meeting in Manila, the Philippines.
1997	South Korea in financial crisis. China promises not to devalue RMB and provide financial help to the South Korean government. PRC President Jiang Zemin meets ROC President Kim Young-sam on the sideline of the APEC informal summit meeting in Vancouver, Canada.
1998	ROK President Kim Dae-jung visits China and holds talks with PRC President Jiang Zemin in Beijing. The two countries pledge to build a “Sino-S. Korean cooperative partnership for the 21 century”.
1999	ROK President Kim Dae-jung holds talks on economic issues with PRC PM Zhu Rongji on the sideline of ASEAN+3 meeting in Manila, the Philippines.
2000	China and South Korea sign “Agreement on Garlic Trade”. ROK and PRC governments sign a fishing pact designed to clarify limits of commercial fishing areas.
2001	China and South Korea sign “Memorandum of Agreement on Garlic Trade”, ending the garlic dispute between the two countries. China and South Korea sign “Agreement on Establishing PRC – ROK investment cooperative committee”. ROK President Kim, PRC PM Zhu Rongji, and Japanese PM Koizumi Junichiro agree to establish a trilateral forum among economic ministers to strengthen economic cooperation at the ASEAN Plus Three meeting in Brunei.
2002	China and South Korea celebrate the 10 the anniversary of establishing diplomatic relations and announce 2002 as the PRC-ROK national exchange year. The Korea-China Investment Cooperation Committee is set up in Seoul under the chairmanship of the Korean and Chinese finance ministers.
2003	ROK President Roh Moo-hyun visits Beijing and Shanghai for his first set of meetings with China’s President Hu Jintao, promising to build “full-scale cooperative partnership”. The ROK Commerce Ministry announces that China has officially become Korea’s No. 1 export destination, surpassing the US for the first time.
2004	ROK and PRC begin bilateral negotiations on South Korea’s opening of its rice market as required under the WTO’s Uruguay Round. Finance ministers of Japan, China, and South Korea meet on the sidelines of the Asian Development Bank meeting in Seoul to discuss enhancing regional financial

	<p>cooperation measures, including establishment of currency swaps.          PRC President Hu Jintao meets with ROK President Roh Moo-hyun at the APEC meeting in Santiago, Chile to announce initiating non-governmental possibility study on PRC-ROK bilateral FTA.          China becomes South Korea's top trading partner.</p>
<b>2005</b>	<p>PRC and ROK launch non-governmental joint feasibility study on a bilateral Free Trade Area (FTA).          ROK PM Lee Hae-chan meets with PRC PM Wen Jiabao during a three-day visit to Beijing and signs a memorandum of understanding to cooperate on developing cutting-edge technology and cooperation in the field of neon technology.          The People's Bank of China announces that the South Korean won is one of the components of the currency basket created as part of a new "managed float" mechanism for revaluing the yuan. PRC President Hu and ROK President Roh Moo-hyun hold summit meeting and address ROK National Assembly in Seoul. South Korea grants China the status of market economy. The two countries sign the Joint Research Report on Planning Medium- and Long-term Development of Economic and Trade Cooperation.</p>
<b>2006</b>	<p>South Korea and China agree to strengthen cooperation on technology development, standard settings, and device manufacturing at the sixth Korea China economic ministerial meeting held in Seoul.          Chinese Minister of Commerce Bo Xilai and ROK Trade Minister Kim Hyun-chong agree to update a feasibility study on a China-South Korea FTA at the government-industry-university level in early 2007.</p>
<b>2007</b>	<p>China and South Korea sign an agreement to actively promote the establishment of electronic governance systems.          The first Korea-China-Japan Industrial fair is held in Seoul to foster industrial and commercial exchange.          China and South Korea celebrate the fifteenth anniversary of the normalization of relations between the ROK and the PRC.          PRC and ROK sign a revised Investment Promotion and Protection Agreement.</p>
<b>2008</b>	<p>South Korea's Ministry of Commerce, Industry, and Energy announces that the government has decided to implement measures to support South Korean investors in China that are planning to withdraw from the country.          ROK President Lee Myung-bak visits China and talks with PRC President Hu Jintao. They agree to forge a "strategic cooperative partnership" between the two countries.          PRC President Hu Jintao makes his second state visit to Seoul and has talks with ROK President Lee Myung-bak. The two parties agree to further intensify cooperation in trade, investment, environment, IT, finance, logistics, energy and intellectual property, etc. and initiate employment license labour service cooperation. The two parties also decide to open a bilateral economic cooperation website.          The People's Bank of China and the Bank of Korea finalize a US\$27.2 billion won-yuan swap agreement.</p>
<b>2009</b>	<p>Chinese Foreign Minister Yang Jiechi at China's annual parliamentary session calls for enhanced China-Japan-ROK cooperation on the financial crisis and says FTA negotiations with ROK should begin as early as possible.          PRC President Hu Jintao holds talks with ROK President Lee Myung-bak at the G-20 summit meeting in London, UK.          Over 1,000 Korean firms in IT, automobiles, energy and consumer goods showcase their products at the "Korean Products Show 2009, Beijing"          PRC President Hu Jintao and ROK President Lee Myung-bak hold a summit in New York on the sidelines of the UN General Assembly.</p>

*Source: SINO-SOUTH KOREAN TRADE RELATIONS: FROM BOOM TO RECESSION*

## APPENDIX C

### Trading items between China and S. (1993, 2008) (By the category of H.S code)

No	1993				2008			
	China's Export	%	South Korea's Export	%	China's Export	%	South Korea's Export	%
1	Textiles and textile articles	25.3	Base metals and articles of base metal	23.4	Machinery, electrical equipment, sound, television image	35.9	Machinery, electrical equipment, sound, television image	38.9
2	Vegetable Products	18.6	Machinery, electrical equipment, sound, television image	20.2	Base metals and articles of base metal	26.6	Optical, photographic and medical or surgery instruments	13.5
3	Mineral products	18.3	Textiles and textile articles	18.4	Textiles and textile articles	6.7	Products of the chemical or industries allied	12.3
4	Machinery, electrical equipments, sound, television image	7.3	Plastics, rubber and articles thereof	11.4	Mineral products	6.3	Mineral products	9.9
5	Products of the chemical or industries allied	6.5	Leather, fur skins and articles thereof	6.6	Products of the chemical or industries allied	6.0	Base metals and articles of base metal	8.4
6	Base metals and articles of base metal	6.5	Mineral products	6.4	Optical, photographic and medical or surgery instruments	2.8	Plastics, rubber and articles thereof	7.9
7	Prepared food stuffs, beverages and tobacco	4.5	Products of the chemical or industries allied	6.3	Miscellaneous manufactured article	2.5	Transport equipment	3.8
8	Leather, fur skins and articles thereof	2.8	Paper and articles thereof	3.0	Glassware and ceramic products	2.4	Textiles and textile articles	2.8
9	Wood and articles of wood	1.9	Transport equipment	1.2	Transport equipment	2.0	Paper and articles thereof	0.5
10	Footwear and Headgear	1.9	Miscellaneous Manufactured article	0.9	Plastics, rubber and articles thereof	1.8	Leather, fur skins and articles thereof	0.4
<b>Total</b>		93.6		97.8		93.0		98.4

*Source: SINO-SOUTH KOREAN TRADE RELATIONS: FROM BOOM TO RECESSION*

## APPENDIX D

### Breakdown of economic activity by sector

	Russia			Republic of Korea		
	Agriculture	Industry	Services	Agriculture	Industry	Service
<b>Value added</b> ( <i>annual % change</i> )	0.2	-10.8	-5.4	1.6	-0.9	1.1
<b>Value added</b> ( <i>in % of GDP</i> )	4.7	32.8	62.5	2.6	36.5	60.9
<b>Employment by sector</b> ( <i>in % of total employment</i> )	9.0	29.2	61.8	7.4	25.9	66.6

*Source: www.worldbank.org*

## APPENDIX E

### Duties, VAT, Tax

Country	Duties	Value-added taxes	Excise Tax
<b>RUSSIA</b>	5-20% (avg. 14%)	18%,10%	20-570%
<b>SOUTH KOREA</b>	7.9% (avg.)	10%	15-100% (luxury items, electric goods)

*Source: http://www.uscib.org/*

## **V. NOTES**



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## V. NOTES

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