New Russian “Asian Policy”: Intentions and First Results

P A Minakir¹, O M Prokapalo¹

¹Economic Research Institute Far Eastern Branch Russian Academy of Sciences, Khabarovsk, Russia

E-mail: minakir@ecrin.ru, prokapalo@ecrin.ru

Abstract: Issues of cooperation between the Russian and South Korean strategies of bilateral cooperation in the economic sphere is discussed. The dynamics and current state of foreign trade and investment interactions as a result of the implementation of the new northern policy of the Republic of Korea and the new Asian policy of Russia are analyzed. It is shown that economic interactions do not correspond to the declared goals and expectations at the political level, neither from the points of view of scale, nor from the standpoint of the expected structural modifications. The investment projects agreed upon in the framework of the 9 Bridges policy are considered and the probability of expanding the scope and scope of investment cooperation is assessed, groups of industry projects for investment involving foreign trade interactions are proposed. It is shown that the implementation of new development institutions and subsidizing the leveling of production costs for producers in the Far East and European regions of the Russian Federation does not in itself lead to an increase in the level of competitiveness of the regional investment market. Fixed preservation of the degree of inertia of the structure of foreign trade interactions.

1. Introduction

After the 2012, the Eastern direction of the Russian economy’ development was identified as the main vector of national development. Siberia and the Far East were called the country's main potential. Integration with the countries of the Asia-Pacific region was the target of foreign economic policy [1] and the "Eastern Turn" or the "Asian policy", as it's new edition, has become a kind of brand of Russian economic policy. This declaration was preceded by an unprecedented state program for the development of the post-Soviet period of the city of Vladivostok, timed to coincide with the 2012 APEC summit, which was first held in Russia after its accession to this international organization in 1988. In essence, both the APEC summit and the subsequent proclamation of the "Eastern Turn" meant a certain rethinking the geo-economic positioning of Russia. Since 2000 to 2012 the strategic vector of economic development has been the Euro-Atlantic direction. But since 2013 this vector has begun to shift towards the Pacific Ocean.

For the Russian economy as a whole, such a reorientation seems to be an almost civilizational shift, although earlier in some periods the markets of East Asian countries were a noticeable factor in maintaining the balance and economic development of the Russian Far East. This was especially true of the countries of Northeast Asia (Japan, China, Republic of Korea). However, these links were critical only for the Far Eastern economy. In the 1960s - 1980s, the forest, fish, and coal markets of Japan were the main factors of economic development for the Russian Far East. At the same time, not even foreign trade, but investment cooperation with Japan has become the engine of regional
economic growth and a factor in maintaining market equilibrium in the region. Starting in the 1990s, China and the Republic of Korea began to move to leading positions, and investment cooperation was almost completely superseded by foreign trade interactions with these countries.

In 2012, for the first time, the question was raised about the spread of the "Eastern factor" to the entire Russian economy. Although the term "Eastern policy" itself was first considered in 2006 at a meeting of the Security Council of the Russian Federation, it was also used in a regional context [2]. Now it was about using the development of the Far East as a kind of spatial "agent", whose task is to help the entire national economy integrate with Pacific commodity and factor markets. Previously, the Far East was viewed as a relatively autonomous recipient of national resources, and its cooperation with Eastern markets was perceived as a means of saving these resources, now the region has become a "priority subject of national socio-economic dynamics" whose task is to ensure the implementation of the strategic development goals of the entire national economy [3].

By 2018, at least in the foreign trade area, there was some movement in the eastern direction. The share of Russia's trade with the countries of Northeast Asia (China, Japan, Republic of Korea) was 22.4% of the total value of foreign trade turnover, against 17.7% in 2013. Significantly higher dependence exists between the countries of Northeast Asia and the Russian Far East. More than 75% of the total turnover of the Far Eastern Federal District in 2018 amounted to trade with the above-mentioned three countries of Northeast Asia. It is between them that almost all exports of primary products of the region are distributed, including (in 2018) 91.9% of the total exports of fuel and energy complex (Republic of Korea - 44.8%, Japan - 32.3%, China - 14.8%), 96.7% of fish products (China - 44.2%, Republic of Korea - 41.8%, Japan - 10.7%), 98.5% of wood products (China - 80.3%, Japan - 44%, Republic of Korea - 4.0%). More than half (56.2%) of total exports of DFO mechanical engineering products were delivered in 2018 to the PRC [4].

2. Trade relations

As we can see from the above, the Republic of Korea is one of the most important trading partners of the FEFD, and this article discusses the bilateral aspect of integration interactions between Russia and the countries of Northeast Asia - trade and investment interactions between the Russian Federation and the Republic of Korea. Economic relations between the USSR and the Republic of Korea began to develop rapidly after establishing diplomatic relations in September 1990. In the post-Soviet period, they are regulated by the Russian-Korean Joint Commission on Economic, Scientific and Technical Cooperation.

By now (2017), the Republic of Korea is Russia's second largest foreign trade turnover partner in Asia and the eighth foreign trade partner in general. The positive trend of foreign trade interactions between Russia and the Republic of Korea was interrupted in 2015-2016. due to the complication of geopolitical conditions for the development of the economy and trade and, in particular, due to the fall in world prices for hydrocarbons and economic stagnation in Russia. Only in 2018, the trade turnover between the two countries recovered to the level of 2012 (Table 1).

| Years | Export | Import | Turnover |
|-------|--------|--------|----------|
| 2012  | 13,9   | 11,0   | 24,9     |
| 2013  | 14,9   | 10,3   | 25,2     |
| 2014  | 18,3   | 9,0    | 27,3     |
| 2015  | 13,5   | 4,6    | 18,1     |
| 2016  | 10,0   | 5,1    | 15,1     |
| 2017  | 12,3   | 6,9    | 19,2     |
| 2018  | 17,8   | 7,0    | 24,8     |

Source: Federal Custom Service; http://russian-trade.com/reports-and-reviews/2019-02/torgovlya-mezhdunarodnaya-rossiia-i-yaponiya-v-2018-g/.
Russian exports to the Republic of Korea are mainly associated with mineral products (among which crude oil and coal dominate - almost 56% of total exports in 2017), food products and agricultural raw materials (11.8% of total exports), metals and products from them (6.4% of the value of exports), as well as with precious metals and stones. Imports are dominated by machinery, equipment and vehicles (68.2% of the value of imports in 2017), chemical products (15.2%), metals and products from them (7.9%) [5].

3. Investment cooperation

Investment interactions on scale are significantly inferior to foreign trade, judging by the dynamics of foreign direct investment balances in Russia (Table 2).

Table 2. Direct investments in the Russian Federation from the countries of Northeast Asia (in accordance with the principle of liabilities / assets, according to the balance of payments data), millions of USD.

| Countries | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-----------|------|------|------|------|------|------|
| Total     | 69219| 22031| 6853 | 32539| 28557| 8816 |
| China     | 597  | 1271 | 645  | 345  | 140  | -13  |
| ROK       | 71   | 130  | 116  | 83   | 59   | 110  |
| Japan     | 369  | 295  | 447  | 140  | 83   | 345  |

Source: Central Bank of Russia

Thus, for 2013-2018, the accumulated investments of the Republic of Korea amounted to about 0.6 billion USD, which is little noticeable against the background of the total investment activity of foreign investors in this period (about 170 billion USD), making up only 0.3% of total foreign investment. The total accumulated direct investment from the Republic of Korea for the entire period after 1990 is estimated at 1.5 billion US dollars, which is also only 0.3% of all foreign direct investment in the Russian Federation accumulated during this period (according to UNCTAD).

It should be understood that the Republic of Korea is not among the leading financial sponsors of the international capital market, specializing in point investment projects. In Russia, such projects are implemented in the capitals (Moscow and St. Petersburg), Tatarstan (petrochemicals, car assembly), Khabarovsk (oil refining), Taganrog, Ulyanovsk, Nizhny Novgorod, Kaliningrad (automotive), and the production of consumer electronics. The most successful investment projects include the Hyundai Motor car assembly plant in St. Petersburg, the Samsung Electronics household appliances plant in the Kaluga region, the El Ge Electronics plant in the city of Ruza, Moscow region, the Lotte Group hotel and trade complex " in Moscow.

The introduction of a visa-free regime for citizens of the two countries in 2014 led to an increase in mutual tourism (in 2017, 254 thousand Korean citizens visited the Russian Federation, and 232 thousand Russian citizens visited the Republic of Korea). Despite this, the level of educational and scientific exchanges remains low — about 100 Russian students, teachers and scholars are in the Republic of Korea for various educational programs every year.

Prospects for the development and deepening of economic cooperation between Russia and the Republic of Korea are associated both with the expansion and consolidation of existing directions and or developed at the intergovernmental level, and with projects in new directions.

The first are:

- cooperation in the fuel and energy complex, including cooperation in the development and use of hydrocarbons (cooperation of Gazprom and Kogaz in the field of the Sakhalin-1 and Sakhalin-2 projects, as well as Gazprom and KNOC in the development of the Western Kamchatka shelf of the Sea of Okhotsk ) and the creation of an electric power bridge between the Far East and the Republic of Korea through the territory of the DPRK;

- cooperation in the field of peaceful uses of atomic energy (design and construction of energy capacities, development of instrument engineering for control, testing in nuclear energy systems,
creation of new materials, development of materials and devices for use in science, medicine, agriculture, computer science, etc.);
- cooperation in the automotive industry in the direction of increasing the degree of localization of production systems and components, the transition from auto assembly to the full cycle of design, creation, marketing and maintenance of vehicles;
- cooperation in the field of space in the creation of the Korean rocket and space complex, the development and production of new classes of rocket engines, the organization of joint launches of spacecraft;
- cooperation in the field of shipbuilding in the Far East (a joint venture in the Primorsky Territory for the construction of a shipbuilding plant).

Real progress in the implementation of projects in the above areas will contribute both to an increase in the volume of mutual investments, and foreign trade turnover.

4. Landmark to the Far East

Cooperation in the development of the Far East occupies a special place in the Russian-Korean economic relations. This direction has been particularly emphasized in recent years after the 2012 APEC summit, when the development of the region was declared the political priority of the Russian leadership, although since 2000 there have been intensive modifications of the Russian federal policy towards the Far East. This policy went through several stages in its development.

The first stage (2000-2007) began with the speech of V.Putin in Blagoveshchensk, in which the policy of the central government for the development of the Far East was formulated in line with the programs of Gorbachev (1987) and Yeltsin (1996), that is, represented a continuation of the line on solving basic social problems (maintaining social infrastructure and securing the population) and infrastructural (electric power, transport) nature at the expense of very limited federal budget funds. The main reason for the development of the Far East was the Chinese threat due to the progressive gap in economic potential between the region and the northeastern provinces of China, as well as the threat of a demographic vacuum that China will fill with its population.

Another important factor was the formation of the Far Eastern Federal District, which meant a transition from the chaotic development of individual regions, who were trying to solve their private problems directly in dialogue with economic and political federal bodies, to recreate the actual Far Eastern economic region in the form in which it existed in the USSR State Planning System’ framework. This created a fundamental opportunity to move from the "soft" coordination of economic policies of individual regions on the base of economic interaction between the Far East and Transbaikalia subjects of the Russian Federation’ association to "hard" coordination and even the development of a unified position within a single administrative leadership. However, for a long time these opportunities were used weakly due to the fact that the institutional basis for coordination remained “soft”, based on coordination of the interests of the regions emanating from their own goals.

This uncertainty was also manifested in V.Putin’s Blagoveshchensk speech, as a result of which (as previously according to the results of M.Gorbachev’s speech in Vladivostok in 1986) a state program for the socio-economic development of the Far East and Transbaikalia was prepared, which was only a new 1996 programs (B. Yeltsin’s Presidential Program). This program still retains the main accents of the 1st (1987) and 2nd (1996) regional development programs. There were three such accents: the stabilization of the population, the development of foreign economic cooperation with the countries of the Asia-Pacific Region and the solution of the transport and energy infrastructural problems of the region. Main instruments for the FarEastern development supporting remained the same - the use of predominantly state capital investments for solving transport, energy and social problems in the region. This program remained relevant until 2007, but it did not bring any noticeable results.

In 2007, in connection with the decision to hold an APEC summit in Vladivostok in 2012, the program adopted in 2002 underwent another adjustment, which basically consisted of the development project of the city of Vladivostok as an independent subprogramme. In accordance with this adjustment in 2008-2011 more than 600 billion rubles of capital investments from the federal budget
(more than 20 billion US dollars at the official exchange rate) were directed to the Far East, and almost all of this money was invested in the reconstruction of infrastructure and the creation of a number of new facilities in Vladivostok. As a result of the implementation of this program, Vladivostok was significantly modernized at the expense of the federal budget and concentration points were created for political, administrative and financial resources in the Far East.

This meant that a final turnaround was made from the policy of 1987–2007, which consisted in attempts to massively invest public funds into a whole range of measures to solve a variety of social, infrastructural, production problems throughout the Far East, to a point investment policy, to choose points maximum possible effect (political, social, economic) from institutional and financial investments in the region. It can be considered the entire period of 2002-2007 period of advancement of this approach. It was during this period that the federal government strenuously imposed on all regions, especially the Far East, a cluster approach, the idea of forming growth poles [6]. This was not particularly successful, since it was not accompanied by a corresponding change in the methods and volumes of financing from the state budget. But the main reason for the sluggish response to attempts to force the regions to switch to the ideology of polarized development was that the general state policy was still based on state programs built on the principle of the integrated development of the territory. However, the state did not have sufficient funds for the mastering and development of the territory, and those that were looking for were diverted from the potential growth poles, as they were imagined in the Ministry of Economic Development and the Ministry of Regional Development.

A new stage in the approach to the development of the Far East was 2009, when a separate ministry for the development of the Far East was formed, which should have isolated the region from the general mass of territorial problems and helped to focus limited efforts and funds on the region [7]. However, due to inertia, for some time the new ministry based its activity on the previous approach of increasing the volume of public investment to solve the whole mass of accumulated problems on the basis of state investment programs. The number of problems and the costs of their solution have steadily increased, and the possibilities of the federal budget, starting from the crisis of 2009, have gradually decreased. The gap between the designs of the new ministry and the real possibilities of the federal government during 2009-2012 became more and more, reaching several trillion rubles. This became increasingly difficult to solve the problem, which, obviously, led to personnel and organizational changes in the Far Eastern Federal District and the Ministry for the Development of the Far East. out of habit in 2013, the government approved a new version of the state program of socio-economic development of the Far East and the Baikal region until 2025, in which formally large investments appeared (more than 3 trillion rubles or about 100 billion US dollars). But in reality, this money was never allocated either by the state or by private business in excess of the investments usually made in the region (more than 5 trillion rubles over 5 years).

A new stage of state policy on the development of the Far East began at the end of 2012, when regional development was proclaimed a national priority by President V.Putin, and the new minister (Galushka) became the head of the ministry for the development of the Far East. This Ministry was directly subject to Far Eastern Federal District, Deputy Prime Minister of the Federal Government Y. Trutnev. From that moment, the development of a new concept of public policy, which had already appeared in 2013, began.

The content of the new stage can be characterized by several principles:
- the transition from continuous state investments in the complex socio-economic development of the region to point investments in the development of infrastructure (primarily transport);
- focus on the support of large and major investment projects, focused primarily on the export of products;
- transition from a predominantly investment policy to an institutional policy, the introduction of new development institutions (the human capital development agency, the state corporation for the development of the Far East, the investment support agency);
- the transition from a policy of continuous development to a policy of creating local centers of growth (the territory of advanced socio-economic development [8], a free port, special administrative districts, the "Far Eastern hectare");
  - the transition from the policy of granting individual benefits to the policy of leveling up the conditions for doing business with Russian standards in the field of production costs (transport and energy tariffs).

During 2013-2018, a number of initiatives to create local priority development zones in the Far East, reduce production costs in terms of energy and transport tariffs, and reduce administrative barriers were turned into laws and government decrees.

So far, however, there has not been a significant change in the pace and structure of the economy, demographic trends in the region. The inertia of market-oriented economic behavior, which dictates development in accordance with the dynamics and structure of demand, turned out to be too high and the average accumulation rate of 25-27% for 2014–2018 was unable to overcome this inertia. The state does not have sufficient funds for a significant change in the economy of the region despite the prevailing trends, private capital is guided by traditional export-oriented activities, the dynamics of which are limited by external factors. Foreign capital is mainly interested in commodity projects and the production of export-oriented products, and the possibilities for operating the domestic Russian market in the Far East are very limited.

Since 2019, a new stage has begun in the implementation of the policy for the development of the Far East. It lies in the fact that all resources (both economic and political) are concentrated in the southern part of Primorsky Krai, which since 2008 has been intensively allocated by the federal authorities and administrations as the most important object of development policy. It was Vladivostok that it was decided to turn officially into the only program economic and political center of influence of the Russian Federation in the APR. The recent decision to transfer the administrative center of the Far Eastern Federal District from Khabarovsk to Vladivostok is subordinated to this.

5. Prospects for investment cooperation
There are opportunities for the development of new areas of large-scale cooperation between Russia and the Republic of Korea, which include the following.

1. Cooperation in the field of microelectronics, production and use of components of the element base for the production of a wide range of devices, equipment, durable goods in almost all areas of the civilian economy. Possessing significant reserves of rare-earth elements, Russia has so far been experiencing difficulties with the mass production of components for the electronics industry. This hinders the development of industries for a wide range of products, from automobiles to supercomputers. The Republic of Korea, by contrast, lacking a natural resource base, has a modern and powerful microelectronic industry.

2. Cooperation in the field of shipbuilding, especially in the construction of large-tonnage sea vessels, including ice class. Over the past 30 years, Russia has lost a significant part of production capacity, technology and personnel in this industry. The break of technological and economic ties with shipbuilding enterprises located in Ukraine was a blow. Meanwhile, Russia is experiencing a large shortage of large and medium-tonnage fleet for cargo, passenger (including cruise), and research and development purposes. The development of the Northern Sea Route imposes an increasing demand for ice-class cargo and research vessels. The Republic of Korea, possessing one of the most powerful and modern shipbuilding bases in the world, can significantly help in the reconstruction of the shipbuilding industry of Russia through the development of industrial cooperation and technological exchange, while simultaneously obtaining a large market for both finished products and components of varying degrees of readiness and technological capacity.

3. Cooperation in the field of agriculture, especially vegetable and livestock. In Russia, there is a gradual restoration of the potential of vegetable and animal husbandry lost over the past 30 years on a scientific-industrial basis. Individual projects (for example, the Japanese project of growing vegetables indoors in the Far East) show that projects that were previously unprofitable from the point of view of
costs and prices for consumers show good economic results due to changes in the structure of demand and some increase in the income level of the population. One of the areas of cooperation in agriculture could be the use of land resources of Russia for the organization of pilot farms in the field of vegetable and livestock farming for the regionalization and adaptation of technologies, varieties and breeds.

4. Cooperation in the field of woodworking, especially in the field of the furniture industry. In Russia, light and relatively inexpensive Korean furniture is popular, which could compete with modular furniture from Sweden and from China. The presence of substantial timber reserves in Russia is combined with a shortage of technologies in the field of processing and production of final consumer products. Russian-made furniture, as a rule, is heavy and expensive, including due to the use of a large number of imported elements and fittings. The organization of furniture production in Russia according to Korean technologies would also stimulate trade cooperation with furniture, upholstery fabrics, etc.

5. One of the most important areas of cooperation is healthcare. In 2018, Russia announced the implementation of the second national health care project. However, the situation in this area remains extremely tense, although many specialized high-tech medical centers are being built and built, a large amount of general and special medical equipment has been imported, but a sustainable and efficient, and above all effective system of medical care and health care has not been created. Moreover, permanent "optimization" in medical institutions destroys the primary link of medical care, the cumbersome health insurance system leads to a bureaucracy of the whole sphere with a deterioration in the quality of mass diagnostics and treatment. The experience of the Republic of Korea in building an effective medical care system covering high-tech, polyclinic care, analytical services, equipment and materials, training and retraining of medical personnel at all levels, organizing the functioning of medical centers, building a rational system of medical insurance and financial support for the entire health care system is an invaluable model for Russia. The essence of cooperation lies in the joint activity on the transplantation of this system on Russian soil with Russian funding and Korean organizational and technological assistance, as well as in the creation of joint medical centers operating on Korean technology.

6. Cooperation in the development of the Northern Sea Route and the adjacent Arctic regions and their resources. China is already actively involved in the development of the SMP. The Republic of Korea is also interested in this route as a backup route in case of blocking or difficulties for some reason when posting caravans along the southern sea routes. In addition to the above-mentioned cooperation in the construction of ice-class vessels, this cooperation also includes the joint exploration and exploitation of natural resources, the creation of the necessary infrastructure for this. The results can be many times higher than the costs, which, of course, are large in absolute values.

All the aforementioned opportunities could become not just abstract, but quite real, provided that the Russian economic and political elite are oriented towards the achievement of national interests, and not towards receiving private political and financial rent. Another key condition for stable and mutually beneficial cooperation with both the Republic of Korea and any other country in the future is the removal of unprofessional, financially and politically engaged managers from virtually all areas of life and business in Russia. The generic name for this is “victory over corruption,” which means not just a system of bribes and kickbacks, but above all the creation of a new type of economic rent — administrative and political.

6. References
[1] Message from the President of the Russian Federation to the Federal Assembly http://kremlin.ru/events/president/news/17118
[2] Melamed I I, Prokopiev M S 2013 Eastern policy of Russia and the development of the eastern territories of the Russian Federation Regional economy: theory and practice 43(322) 17-25
[3] Minakir P A, Suslov D V 2018 Foreign direct investment in the economy of the Far East Economic and social changes: facts, trends, forecast 11 3 41-56
[4] Prokapalo O M, Bardal A B, Isaev A G, Mazitova M G, Suslov D V 2019 Economic
conjuncture in the Far Eastern Federal District in 2018 Spatial Economics 15 2 110-149
[5] Sysoev G Interstate Relations of Russia and the Republic of Korea https://ria.ru/20180621/1522910881.html
[6] Savalei V 2015 The evolution of forms of accelerated growth zones in the Russian regions Regional economics: theory and Practice 39(414) 2-16
[7] Minakir P 2017 "Turn to the East" Policy: Expectations and Reality Ekonomika regiona-Economy of region 13 4 1016-1029.
[8] Isaev A 2017 The Territories of Accelerated Development: New Instrument of Regional Economic Policy ECO Journal 4(514) 61-77