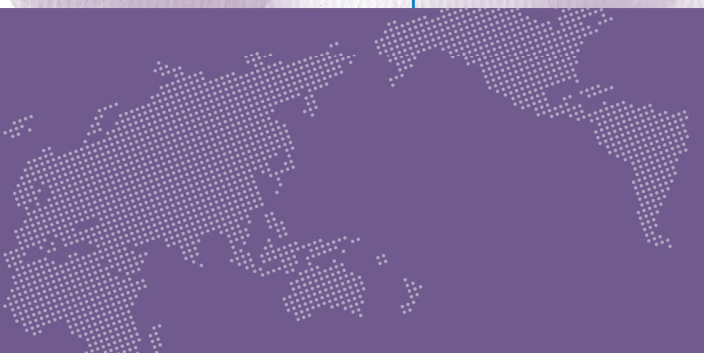




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Collected Papers (International Edition)**

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ECONOMIC POLICY (KIEP)
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KIEP Studies in Comprehensive Regional Strategies 16-15
Published December 30, 2016 in Korea by KIEP

ISBN 978-89-322-2435-0 94320
978-89-322-2064-2 (set)

Price USD 20

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Acknowledgements

Following the 2008 global financial crisis, uncertainty is escalating in the world economy amid disruptions in the financial and foreign exchange markets of emerging economies, mounting geopolitical instabilities triggered by the spread of international terrorism, and rising protectionism in advanced countries. While the term “BRICs” signaled the emergence of new markets in the early 2000s it has since become associated with pessimistic views regarding the future of emerging markets as growth falters in Brazil and Russia.

However, emerging markets are vastly outpacing advanced economies in terms of their contribution to global economic growth. In response to protectionism and isolationism in the sluggish global economy, Korea should act as a mediator between the advanced and emerging countries, providing the momentum for sustainable development. Thus, comprehensive and in-depth research is needed for better understanding about emerging economies. Despite increasing demands for Area Studies, there is still a lack of systematic and insightful research on emerging markets.

In this regard, Korea Institute for International Economic Policy (KIEP) launched the “Studies in Comprehensive Regional Strategies” project in 2009 with the aim of providing readily applicable international economic policy recommendations for policy makers, as well as the public, and to expand the promotion of Area Studies across the spheres of economics, politics, society, and culture.

KIEP carries out a mixed bag of projects as it strengthens networks with regional experts, publishes research papers, jointly holds the international conference “KIEP and Associations of Area Studies,” and invites prominent scholars

from around the world. In particular, we annually call for research papers from regional experts in Area Studies and publish these papers in a single volume.

This year, for the first time, nine prominent scholars across the world have conducted their own research in the areas of Russia-Eurasia, South East Asia, India-South Asia, and Turkey-Eastern Europe. It is our hope that this informative body of research will prove useful to broadening readers' understanding and knowledge of Area Studies. We also hope these research papers will contribute to the lively overseas expansion of Korean enterprises and the establishment of trade policies by the Korean government, and suggest ways to overcome challenges that trouble emerging economies.

On behalf of KIEP, I would like to express our deepest gratitude and appreciation to the referees for their rigorous and helpful reviewing of the papers, as well as the authors for their endeavors to create considerable merit in the papers. The opinions expressed in the papers are the author's own and do not represent the official views of KIEP.

We sincerely look forward to your continued interest in and encouragement of "Studies in Comprehensive Regional Strategies" and KIEP.

December 2016

Jung Taik Hyun
President of KIEP

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Defining Contours of the India–Korea Strategic Partnership: Political and Economic Parameters

Pankaj Jha*

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The author acknowledges the grant given by KIEP and the two anonymous reviewers for their constructive comments.

Introduction

With the disintegration of the Soviet Union and the end of Cold war, a large number of countries adhering to socialist welfare economies had to make a transition to market-based economies. For India, the dilemma was how to transform institutions, governance structures, promote incremental disinvestment and market capitalization. The transition was difficult but necessary. Korea emerged as the viable example, while the new export-oriented tiger economies of Southeast Asia, emerged as the alternate option. This compelled India to learn about new economies and structures to support its transformation from a socialist welfare economy based on import substitution to a more liberalized economy (Yahuda 2011, pp. 183-184). The new world order also developed uncertainty regarding the possible power and economic configuration between the US and China (Heywood 2011, pp. 234-235). The uneven power equation between the two powers gave birth to the concept of the “middle power.” Major countries which were listed as middle powers included Australia, Indonesia, South Africa, South Korea and Turkey (Cotton and Ravenhill (ed) 2011, p. 2). These middle powers have been playing and are expected to play a significant role in geopolitics in the future. Major regional powers such as India are seen as balancers, also referred by C Raja Mohan as “swing states.” In this power matrix, India reached out to the middle powers to bring stability to the emerging multipolar world order. India has built bilateral ties with most of

these middle powers. With Korea, historical connections provided the backdrop for a more interactive and fruitful relationship.

Historical backdrop

The historical reference about India-Korea interactions as civilizations starts with a mention about the Indian Princess from Ayudhya who traveled to Korea and married a Korean prince. However, several historians have differing opinions about whether the reference was about Autya in Thailand (ancient Siam) or Ayudhya, which was close to the Saryu River in ancient India. Siam's Autya came into being during the 14th century, while the narrative about the Indian Princess is from the 13th century, clearly preceding the historical existence of Thailand's Autya. The Buddhist texts and narratives in the ancient scriptures refer to Varanasi and the neighboring areas including Ayudhya, as a natural cradle for religious debates and the further evolution of Buddhism. Different cities in ancient India (which exist today) such as Sarnath, Varanasi and Ayudhya were seen as the early centers of Buddhism. In the post-Ashoka period (326 BCE-500 CE), monasteries were built and supported by the rulers. The Chinese monk Hiuen Tsang, who visited India in the seventh century, in his travelogue mentioned that Ayudhya was home to a number of Buddhist monasteries (Bael 2000, p. 85; Tayal 2014, p. 5).

During the Ashoka period and after his death, in the Mauryan dynasty and subsequently during the Gupta period, Buddhism spread to parts of East Asia and South Asia. The influence of Buddhism reached the shores of Korea in 372 CE. This was when the three Kingdoms (957 BCE - 668 CE) dominated Korean history (Tudor 2012, pp. 34-36). However, there is debate among the narratives. Some scholars advocate that Buddhism came to Korea from China, while some other historians trace the origins of the religion from Central Asia, which was influenced by Buddhism directly from India. Another alternate description is that one of the kings of the Chinese Qin Dynasty sent a religious regent (Buddhist monk) to the court of Koguryo in 372 CE, marking the advent of the religion on the Korean peninsula (Tayal 2014, p. 2). According to Korean folklore and ancient texts related to India, King Ayuk (Muwa) had projected similarities between himself and King Ashoka. Ashoka had dispatched to Korea materials such as iron and gold to build sculptures, and cast images of Buddha. The same material was utilized for the construction of Hwangyong Monastery. However, historical scrutiny exposes the discrepancy that the regime of Ashoka existed much earlier than the building of the Hwangyong Monastery. Indian culture and traditions, along with the spread of Buddhism, were adapted in Korean native culture because of the exchange and visits of Buddhist monks from Korea and India. Indian monks visited China, and during their itineraries stopped by Korea. According to one Korean narrative, the Golgulsa and Girimsa temples located close to Gyeongju were built by an Indian monk (known to be Gwang-yuin 643 CE). The popularity and adoption of Buddhism by the

Korean populace encouraged monks and religious scholars to visit India.

The prevalence of Buddhism in Korea led the Korean monks to undertake journeys during the 6th century CE, and the first recorded visit was that by a Korean monk named Kyoimik. After studying Sanskrit and other religious texts in India, he returned to Korea. On his return journey an Indian monk, Paedalta (Vedartha), accompanied him to Korea. Paedalta (Vedartha) brought back a number of Buddhist texts and religious scriptures which included the Abhidhamma Pitaka. The monk, with the support and sponsorship of King Song of the Paekche Kingdom, translated the Vinaya texts (Tayal 2014, p. 5). Subsequently, the exchange visits continued. Buddhist monks Taebom and Hyecho (704-787 CE) visited India, and thereafter returned to China. Mahabodhi Monastery hosted Taebom during his stay and imparted knowledge to him about Buddhist scriptures. Hyecho was the first Korean monk who used the Southeast Asian route, and traveled via the Andaman and Nicobar Islands to reach the eastern parts of India. He visited all the important Buddhist pilgrimage centers such as Kushinagar, Varanasi, Sarnath, Nalanda and Bodh Gaya. During his visit, he also visited Kashmir and parts of Afghanistan, which at that time was known as Gandhara (present day Kandahar). On his return journey, he visited Samarkand, Turkestan, and Kucha, which was the famous Silk Road, on his journey to China. Hyecho completed his journey in four years, and his travelogue gave a vivid description of the culture, food habits, traditions, climate, social interactions and political situations. Hyecho observed in his memoirs the incremental decline of Buddhism in India (Gupta 2006, pp. 21-23).

Scholars perceive that the zenith of Indo-Korean interactions through Buddhism was attained in the seventh to ninth centuries (Raghavan 2009, pp. 23-45). The decline of Buddhism in India also led to a perceptible freeze in the cultural relations, although theological interactions through religious gatherings and exchange visits continued. While the narrative has been diverse but also comprehensive, the historical and cultural aspects were more highlighted. Buddhist-dominated countries across Southeast Asia and East Asia were an example of civilizational and religious connection. During the Korean War India mediated to diffuse crisis (Dingman 1988, pp. 50-91) and also provided medical relief supplies, but the subsequent Cold War put the two countries on relatively contrasting policy stances. However, with the end of Cold war, the regional security challenges and evolving multipolar security architecture brought the countries back together.

Regional Security – Different Theaters and Emerging Challenges

In order to augment relations with its extended neighborhood, India epistemologically used diverse phrases in the early 1990s such as “cooperative partnership” and “comprehensive partnership” so as to project its cooperative agenda and at the global level, encourage its benign image among the strategically apprehensive states. This overcautious transition was a result of

the Indo-Soviet Friendship Treaty (1971) which had created doubts about India's commitment to the Non-Aligned Movement, and to the advancement of developing countries interests. However, the cooperative and comprehensive partnership did not indicate the importance of the country, and how the partnership would be classified among other relations. Subsequently, in the Indian academic and policy parlance, the word "strategic" gained importance and repeated references were made in a number of articles. Addressing strategic priorities and international dynamics, India initiated the policy of a "strategic partnership." The challenge for India was to adapt to a terminology which neither alludes to alliance arrangements nor gives loose commitment to the bilateral relationship. India has tried to completely avoid any alliance formations to project itself as a country maintaining its strategic autonomy. Further, India has acknowledged that any alliance agreement would require the deployment of its personnel and material for out-of-theater coalition operations. This might lead to problems at the international level and related domestic pressures. So, in a way, the policy mandarins in the South Block acknowledged that more flexible terminology such as "strategic Partnership" would project ambiguous policy encompassing strategic, defence, technical and economic cooperation in related fields among a selective list of nations. The flexibility of the term can suit geopolitical situations and incorporate evolving interests.

Luis Blanco has pronounced that despite being relatively informal institutionalized relationships, "strategic partnerships" have enticed several nations such as India, China, and Russia. Since the early 1990s, so-called

cooperative partnerships have been rechristened and new formulations have been named as “strategic partnerships.” However, the word strategic is as vague as the concept of strategic partnership (Blanco, Strategic Partnership 2015). The word “strategic” denotes an act which is aimed at reaching specific and vital goals while a strategic partnership is usually projected as a comprehensive cooperative relationship between signatories for achieving common goals. “Strategic partnership” is the new terminology which has the potential to explain India’s relationship with the US while at the same time, can justify India’s relations with even Iran and China. Surprisingly, India has not signed any strategic partnership with its South Asian neighbors, clearly outlining the extended neighborhood as the target area. Among the countries in the Indo-Pacific region, India has espoused the strategic partnership, a flexible approach to defining its security and strategic priorities, in such a way that it is not directed against any one country but is at the same time vague, with an undefined purpose.

Among India’s 31 strategic partnerships (see Appendix I), many have been signed with countries in the Indo-Pacific. As discussed, the strategic partnerships encapsulate multiple areas of national interest such as defence, technology, trade, science and technology, nuclear cooperation, information and communication technology, energy, culture, media and various other related sectors. Each partnership has specific attributes, but select partnerships are supposed to be more comprehensive than others, depending on mutual convergence and areas of cooperation between the two countries.

India entered into its first ever strategic partnership agreement with South Africa (1997), and thereafter with France (1998), Russia (2000), Germany (2000), Mauritius (2001), Korea (2010), Malaysia (2015), Singapore (2016) and Saudi Arabia (2016). The country also signed strategic partnership agreements with multilateral organizations such as ASEAN (2012) and the UNDP (2012). Consequently, strategic partnerships were perceived as a more generic term, and differentiation was required so that select strategic partnerships could be classified as more important than others. As a result, prefixes such as “preferred, desired, special and comprehensive” were used.

The strategic partnerships have served India’s interests during the last two decades. They provided a broad paradigm for cooperation, while highlighting the relative importance of the country concerned. Many nations and multilateral organizations have been discussing “strategic partnership” agreements with India, including Venezuela, Greece, Israel, Iraq, Seychelles, Thailand, the UAE, Egypt, Turkey and the Gulf Cooperation Council (GCC). Remarkably, most of the countries with which India has signed strategic partnerships have a strong defence component, with exceptions being the India-UNDP, India-ASEAN, India-South Africa, India-Saudi Arabia agreements, among others. Secondly, energy has emerged as a major propeller for strategic partnerships, clearly visible in the case of Iran, Oman, Nigeria and Saudi Arabia. With the exception of Korea, Singapore, Malaysia and ASEAN, economic agreements with most of the strategic partners (including the EU) are missing. However, most of the strategic partners have been covered under the Bilateral Investment

Protection and Promotion Agreement (BIPPA). In terms of region-wide distribution, as has been discussed in the extended neighborhood discourse, Central Asia (3), West Asia (3) and East Asia (6) amount to more than one-third of the total strategic partnerships of India. Significantly, Africa accounts for more than five strategic partnerships. The countries of the continent have been intensely engaged through the India Africa Forum Summits (IAFS).

Apart from bilateral interactions, India has also kept itself engaged in multilateral forums. Amid the fast-changing geopolitical and strategic scenario, it has been recognized that involvement in multilateral institutions and promotion of cooperative regionalism would promote India's interests. As a result, India has expanded its role in the larger Indo-Pacific region by engaging nations under multilateral informal and formal dialogue forums. This includes participation in regional institutions (both formal and informal) such as ASEAN, Asia- Europe Meeting (ASEM), ASEAN Regional Forum (ARF), the East Asia Summit (EAS), ASEAN Defence Ministers Meeting (ADMM) Plus, and Expanded ASEAN Maritime Forum (AMF), with the aim of remaining actively engaged, and to contribute to building peace and stability in the region. The dissonance between India and Korea has been with regard to the ASEAN+3 formulation, with India preferring the ASEAN+6 mechanism. Multilateral participation has been reinforced by political engagements and bilateral relationships with major countries. Further, it clearly outlines India's priority from South Asia to the larger Indo-Pacific region.

India's Strategic Outlook and the Indo–Pacific Concept

In modern times, geography has been frequently alluded to in strategic discourse. Classical geopolitics (coordinates defining the location in a region) overlaps with critical geopolitics (projecting perceptual aspirations, expectations, and uncertainties in a region) (Scott 2012, pp. 85-86). In modern discourse, the Indo-Pacific has gained much traction and geopolitical attention. However, the Indo-Pacific construct is not a new idea. Karl Haushofer mentioned *Indopazifischen Raum*, or “Indo-Pacific region/space,” in his synthesis of the two regional constructs (Scott 2012, pp. 85-86). This geopolitical imagination was propounded in the late 1920s and early 1930s. He buttressed the fact that “the geographic impact of the dense Indo-Pacific concentration of humanity and cultural empire of India and China, which ... are geographically sheltered behind the protective veil of the offshore island arcs” (Haushofer 2002, p. 141) of the western Pacific and Bay of Bengal, offshore island arcs through which they are now both actively and competitively deploying (Haushofer 2002, p. 141). Furthermore, the trade and cultural routes between the Indian and Pacific Oceans have been reflected in archaeological studies and historical data. In terms of study about marine flora and fauna, the Indo-Pacific has been in existence for long.

In international politics, every major power, in order to demarcate its growing clout, outlines its areas of influence, dominance, and acceptance. India, having graduated from a regional power to an emerging power, has reflected the same

objective in its extended neighbourhood, such as West Asia (Middle East) and East Asia, Africa, and Central Asia. Nehruvian idealism also fostered neo-realist thinking. Engagement with Israel and with Southeast Asian nations was one such transition of foreign policy, and the genesis of a new strategic understanding. As an outcome, Indian foreign policy adopted the concentric circles approach (inner orbit to outer periphery) and foreign policy objectives adhered to the “immediate to extended” neighbourhood paradigm.

The biggest transition, which marked a shift from the Cold War mind-set, was India’s engagement with Israel, and the economic liberalization compelled because of the Balance of Payment (BoP) crisis. At the same time, India tried to match alternative models of development and in this context, the Southeast Asian “tiger economies” provided a successful export-based industrial growth model. However, India was more adapted to import the substitution model since its independence. As a result the need was to change the fundamentals and so India started looking for markets for its exports and understood the need for economic liberalization to achieve fast-paced economic growth. In this context, the Look East Policy (LEP) was acclaimed as a visionary policy, having political, economic and strategic objectives ingrained into it. The LEP [now rechristened and projected as Act East Policy (AEP)] has been expanding to the northeast Asian region since 2005, and South Korea and Japan were the extended horizons of the policy. This approach also reverberated in the Oceania region. With growing attention from major powers in the Asia-Pacific region, particularly that of the US, China and now Russia and Japan, it is likely that

India will amplify its pragmatic and proactive stance to catapult itself as a major stakeholder. Meanwhile, Australia is also reconfiguring its strategic thinking towards the Indian Ocean, opening the way to convergence. Korea has also started seeking to enhance connectivity with its western region and Southeast Asia. India has taken into account the concerns of the regional powers, namely Australia, Japan and Indonesia, while at the same time courting the leading power, the US. This has disturbed, albeit to a partial extent, the precarious balance between India and China. This was reflected during the 2007 Malabar series exercises, joined by Japan, the US, Australia and Singapore, and protested against by China. However, China's concerns were addressed at proper forums and also at the bilateral level meetings. In 2016, along with changing strategic compulsions, the Malabar series of exercises permanently included Japan and was conducted in the south of Japan near the Philippines. The deployment of Indian ships showcased the outreach to the Northeast Asian region.

“John Mearsheimer has argued that in the international theater nations are evolving, seeking and pursuing all potential advantages. This quest for hegemonic power is constant and unending. Therefore, drawing analogies from historical evidence, Professor Mearsheimer argued that the US-China relationship has the potential to become more intense and unpredictable during the twenty-first century. He points to the fact that both countries have critical interests in the Indo-Pacific region. However, in the immediate future, their shared interest will not run analogous to each other. At some juncture, both countries will struggle

to define their hegemonic role in the Indo-Pacific region. It is this deeply intrinsic determination to exercise regional power and create a sphere of influence which is inbuilt in this power configuration. According to Mearsheimer, China might emerge as the key to regional stability in Northeast Asia in the future, if not all of the Indo-Pacific region” (Doyle 2014, p. 22). In the Indo-Pacific, amid increasing piracy and terrorism, the challenge of keeping the Sea Lanes of Communication free for navigation and shipping would be the paramount objective of major powers. In November 2011, US Secretary of State Hillary Rodham Clinton, in her article titled “America’s Pacific Century” in the Foreign Policy magazine, outlined the new US strategic approach towards the Asia-Pacific region. However, the article strongly advocated the necessity to address challenges in the Indian and Pacific Oceans in a composite manner. The two oceans are economically and geopolitically relevant, and are of contiguous strategic importance. Unambiguously, Secretary Clinton’s essay clarifies the reason for the US to refocus its energies toward Asia-Pacific and explains the strategic relevance of the Indo-Pacific region (Doyle 2014, p. 24).

Oceans have been instruments which have facilitated trade and commerce between distant continents and nations. Even today, they make greatly useful contributions to flourishing maritime trade, commerce and energy supply among sovereign nations. However, developing trade, due to its high transactional value, led to security issues related to the protection of cargo and also human lives onboard the ships. The four oceans (Indian, Pacific, Atlantic and Arctic) and adjoining continents and land mass have been catalysts in various security

and cooperative institutions, such as the Indian Ocean Rim-Association (IORA, earlier known as IOR-ARC); collective security and alliance systems such as the North Atlantic Treaty Organisation (NATO); and regional cooperative forums like the Pacific Islands Forum (PIF) and Asia-Pacific Economic Cooperation (APEC), among others. In 2008, the Indian Ocean Naval Symposium (IONS) also came into being to address core traditional security and non-traditional security issues by establishing standard operating procedures and increasing cooperation among navies. The intraregional and interregional character of membership of many of these organizations have been helpful in evolving a strategic and security outlook, while several others have helped magnify the liberal notion of trade and investment as the harbinger of the new economic order.

Along with these regional and transregional institutions, increasing non-traditional security challenges such as migration, piracy, natural calamities and other environmental hazards forced nations to upgrade their naval capabilities. This served their traditional security role. However, the struggle to secure resources and energy supplies triggered debate about alignments and new coalitions such as East Asian Security, Asia-Pacific Security, and Indo-Pacific Security complexes. The more recent construct of the “Indo-Pacific” has generated discussion about the consequence and viability of different security complexes having geopolitical and geostrategic ramifications. In the current context, multilateral organizations have become more inclusive and endeavor to build consensus on regional development, trade and security issues. This triggered

a debate on whether multilateralism would outline security constructs or vice versa. Following the evolution of geopolitical constructs and multilateralism discourse, the conceptualisation, although not articulated as the “Indo-Pacific,” echoed in the works of the well-known strategic thinker K. M. Panikkar. Panikkar has alluded to the strategic significance of Yemen (Socotra Island) and the Straits of Malacca as the two outer arcs for India’s strategic thinking (Jha, October 5, 2016). Later, Indian Prime Minister Jawaharlal Nehru articulated a new objective of Afro-Asian unity as an invective against imperialism and apartheid. This objective resonated during the Afro-Asian conference in 1947. Subsequently, the Non-Aligned Movement (NAM) outlined new thinking to mobilize South-South cooperation, thereby fashioning the third bloc.

In the first half of the 1990s, the Asia-Pacific was a new lexicon which laid the foundation of Asia-Pacific Economic Cooperation (APEC). In more recent times, many strategic thinkers, as well as the policy think tanks of countries such as Australia and Indonesia, have shown preference for the Indo-Pacific concept. Then Indian Prime Minister Manmohan Singh had articulated this ideal strategic stance for India. To enhance cooperation in the region, he outlined the “Indo-Pacific” as a new prototypical concept. With reference to the “quest for stability and peace in the vast region in Asia that is washed by the Pacific and Indian Oceans,” the Indian Prime Minister noted Japan as the preferred partner (Press Information Bureau, May 28, 2013). Also, in 2012 during the India-ASEAN Commemorative Summit, he mentioned the term “Indo-Pacific.” Rory Medcalf stated that the “Indo-Pacific” lexicon was

mentioned in the 1950s to deliberate about decolonisation and was again discussed in the 1960s and 1970s. The term resurged in 2005 in the Michael Richardson paper, which advocated the expansion of the East Asia Summit (EAS) by including Australia, India and New Zealand as members, clearly revisiting the “Indo-Pacific” region (Richardson 2005, pp. 351-365). In Australian foreign policy discourse, the “Indo-Pacific” was later more frequently mentioned, particularly in speeches made by Australian leaders, policy thinkers, and strategic analysts. The concept, which was in its infancy, has gained the necessary momentum and support. The US has also promoted this new lexicon, although it also declared that in the Indo-Pacific region, guaranteeing security will be a challenging task for liberal democratic nations. The US has repeatedly referred to the concept as the pivot for evolving regional security and economic structures. It proposed that the inability to promote this pivot would lead to greater insecurity and instability. With the region’s rapid growth and multiple processes, in terms of both security and the economy, it is anticipated that with its political resilience, sustained economic growth, and military influence, the Indo-Pacific will emerge as the cauldron of world politics. However, different forms of governance and development such as democracy, liberalism, authoritarianism, and even totalitarianism, are struggling for critical space in this region. Moreover, in this geographic construct covering a number of global commons, growing cooperation as well as competition is foreseen. Interestingly, the area accounted for by East Asia Summit member countries and the Indo-Pacific overlap, which may lead to the fusion of the two in

future. In the past, the Asia-Pacific Community proposed by Kevin Rudd, and Hatoyama's East Asian Community proposals, were to a large extent identical in membership with just a few exceptions.

Michael Auslin, in his report "Security in the Indo-Pacific Commons," stressed that the Indo-Pacific region faces regional security challenges, particularly related to the high seas, aerospace, and cyber networks. These global commons link the region, and also possess a trans-regional character. With the increasing weight of the Indo-Pacific commons (which includes the Indian Ocean and Pacific Ocean) in promoting long-term prosperity and stability of the region, the primary objectives of the Indo-Pacific concept have been to:

- Confirm access for all nations to the Indo-Pacific commons;
- Prevent or manage conflict in the Indo-Pacific region;
- Project trustworthy military abilities to promote deterrence to counter the most probable regional coercions and threats;
- Support the liberal-democratic fundamentals which will sustain freedom and endorse cooperative behaviour (Manicom 2014, pp. 111-130).

The overarching goal of these tactics is to substitute a security milieu that supplements stability and development without using the US or any other allied military authority. The United States, along with its NATO allies and strategic partners in Asia, has been aiming to prevent, deter and pre-empt any instability that would activate political tension or conflict, undesirably affecting universal economic movement, or hinder access to the rest of the region and the world for political or defence reasons. However, with China's military modernisation,

the United States and its Asian allies have been anxious about upholding their regional dominance of forces numerically, or qualitatively. The complete build-up of Chinese military control is anticipated as the means for the wider geopolitical growth of Chinese influence, acting as a catalyst necessary to realize Chinese regional acceptance. However, this will be defined subsequently in the future. Security in the Indo-Pacific region cannot be reduced only to prevaricating against China's rise or limited to containing Chinese behavior, but rather must encompass the Indo-Pacific commons as a whole. Therefore, US strategy would comprise of three components: a greater forward-based US existence in the region (US Pivot to Asia Strategy); an advanced new method proposed for allies and partners for burden-sharing; and a political objective creating a more liberal Indo-Pacific region. This plan would outline the framework for existing multilateral arrangements in the region. It is yet to be seen whether the idea will outline new arrangements or be annulled by countries of the Indian and Pacific Oceans.

Outlining the Indo-Pacific construct, India's Maritime Strategy has also developed in the last one and a half decade. "The primary areas of interests include the ten choke points in the periphery of the Indian Ocean, including the Six Degree Channel; Eight/Nine-degree Channels; Straits of Hormuz, Bab-el-Mandeb, Malacca, Singapore, Sunda and Lombok; the Mozambique Channel, and Cape of Good Hope and their littoral regions" (Ensuring Secure Seas 2015, p. 32). "India's secondary areas of maritime interest include the southeast of the Indian Ocean, which connects to the Pacific Ocean. The

expanded areas include the periphery of the Western Pacific Ocean, South and East China Seas, clearly demarcating the Indo-Pacific as a major area for expanding interests and responsibility” (Ensuring Secure Seas 2015, p. 32). From a completely naval point of view, there are interpretations that the Indian Ocean Naval Symposium and Western Pacific Naval Symposium should synchronize to address issues in an all-inclusive manner. Further, the coordinated patrols along the choke points and critical sea lanes might address the issue of piracy, armed robbery and create deterrence for the non-state actors operating at high seas, while India is incrementally subscribing to the Indo-Pacific construct; the articulation from Korea is not clearly projected. It will be necessary to build on a political understanding about this transregional construct.

Political Understanding – A Critical Evaluation

In maritime discourse, there is a term known as maritime domain awareness. Similarly, in the case of the Korean peninsula, there is a term better known as threat awareness. For Indian commentators, the engagement with nuclear Pakistan and China have undermined the urge to understand the complexities of the Korean peninsula. Larger discourse has failed to reflect events such as nuclear tests or missile tests by insulated states such as the Democratic People’s Republic of Korea (DPRK). Further, it has been projected that the Republic of

Korea (ROK) is also not sufficiently sensitized about the complexities of the threats, both traditional and non-traditional, that India faces vis a vis Pakistan and China. The increasing convergences between Pakistan and China, not only on the military front but also in terms of trade, economy, and connectivity projects (the China-Pakistan Economic Corridor), have been a matter of concern for India. The problem between the two theaters is that while in the case of South Asia there is a functional forum known as SAARC, Northeast Asia is devoid of any such arrangement. However, in the recent past, trilateral dialogue between China, Korea and Japan has been reflected in Indian strategic discourse. This is also because of the fact that China and Japan are involved, incidentally the two major countries of concern for India. China is and will remain a challenge as well as an opportunity, while increasing security and strategic cooperation with Japan has defined the extended contours of the Act East Policy. While Japan has been domestically debating its pacifist constitution, Korea has not resonated the same perception in its domestic discourse.

Korea, for Indian commentators, remains a strong beneficiary of US assistance because of its allied status. The gravity of the situation on the Korean peninsula has been undermined in political discourse, as it cannot be worse than India-Pakistan nuclear tension. This is, however, a biased view, as talks between India and Pakistan have been taking place at various levels, while in East Asia, North Korea has remained a reclusive and unpredictable state. Nevertheless, several incidents on the Korean peninsula have been reflected in more recent Indian writings. This includes the Cheonan incident, food scarcity in North Korea,

the hacking of the Sony website, and the eccentricities of the North Korean dictator, particularly regarding the killing of his relatives and severe punishment meted out to a number of the state's senior military officers. In comparison to this, Indian commentators have written much less about North Korean nuclear and missile capability, as it was thought to be germinated because of Chinese support and international political apathy toward the developments. However, the narrative changed in due course when the US became more strategically associated with India. Issues such as South Korea's Sunshine Policy and related developments were clearly understated in India's political discourse, and not properly reflected in the Indian media, as it was considered an antidote to anti-Pakistan thought embedded in strategic discourse. For instance, the projection of Korea's Sunshine Policy in the Indian media was thought to have the potential to induce liberal commentators to pressure the government to explore the possibility of similar initiatives for rapprochement with Pakistan. While any possible reunification with Pakistan is outright rejected among the political elite, promoting connectivity with the neighborhood has been accepted as a means to develop the economy through trade. However, relatively new initiatives such as the Northeast Asia Peace and Cooperation Initiative (NAPCI) have resonated in Indian discussions as of late. China's "One Belt, One Road (OBOR) policy" also played a part in such trends, as India sought to study similar initiatives undertaken by other countries, including Korea.

The Park Geun-hye government's *Trustpolitik* concept incubated NAPCI, which aims to build working trust and confidence between countries of not

only Northeast Asia but also among important players in the geopolitical matrix. It has been sensed that trust is the foundation for facilitating inter-state cooperation and building upon lasting peace. During her political career, Park has stressed the foundation of trust and confidence building, not only among leaders and people but also among nations. NAPCI builds on the foundation of domestic trust among the people, inter-state trust between North and South Korea, which should in turn enhance trust between Korea and other nations in Northeast Asia, as well as promote understanding between Korea and the global community. *Trustpolitik* is an all-encompassing composite concept which professes the trust-building process within the Korean Peninsula, NAPCI, and the Eurasia Initiative. This concept projects Korea as a middle power sustaining its relevance through diplomacy and international networking (Hyun, December 15, 2014). NAPCI, a multilayered initiative, aims to build trust through dialogue while using the common denominator of non-traditional security, as well as capitalizing on such a structure to seek collaboration in traditional security-related matters. The core beliefs of NAPCI included overpowering the Asia Paradox, following East Asia's joint peace and prosperity, creating a liberal international order within East Asia, and fashioning a vision for the Asian community (Hyun, December 15, 2014). First, collaboration and consultation have the potential to advance into a larger initiative within the Korean peninsula and other parts of Northeast Asia, through interaction in building trust. Second, NAPCI proposes to create a liberal international order in East Asia, declining the notion of a zero-sum approach to outlining national interests. Third, NAPCI

is in tune with the idea of a regional community pursuing a regional collective security framework, also mentioned as the “the New Asia” (Hyun, December 15, 2014). This has become the foundation for an edifice for nurturing peace and building collaborative institutions through debate and discussion. Another objective is to manage multiple uncertainties that include North Korea, to enmesh it in the international dialogue, deliberations and resolution of the nuclear problem (Hyun, December 15, 2014). Through NAPCI, the foundation for sustainable peace and cooperation supports the Eurasia Initiative, which seeks to build Eurasia into a “Peaceful Continent.” The strategy’s primary objective is to conceptualize Eurasia as a single homogenous unit (with the help of energy and transportation grids), a composite geopolitical entity (through a synthesis of cultures and technology), and a peaceful geographical landmass (integrating NAPCI and the Korean Peninsula) so that better trade, security and development possibilities can be explored. NAPCI capitalizes on regional stakeholders including the United States, Japan, ROK, China, Russia, Mongolia, and the DPRK (Hyun, December 15, 2014). To avert delays in discussion and cooperation on regional security, the initiative upholds an open attitude so that it can grow into “inclusive regional cooperation.” With regard to the membership, the possibility for involvement and cooperation by other regional organizations is left open, which can highlight the challenges and pitfalls of regional cooperation (Hyun, December 15, 2014). India has been closely following NAPCI and the Eurasia Initiative, and the impression has been in some quarters that the synthesis of India’s Connect Central Asia Policy (initiated in 2012) and Act

East Policy with NAPCI can be fruitful. This would mean the better utilization of resources for economic growth and promote regional security.

With regard to political outreach and understanding, the East Asia division in the Ministry of External Affairs in India, which also covers Japan, China, and Korea, somewhat undermines the importance of Korea, given the relative importance placed on countries such as China and Japan. The strategic understanding developed with regard to Japan and the complex relationship with China keeps the division engaged. Korea has been catered to more appropriately by the Ministry of Commerce, which has a “Korea desk” looking after developments in the Korean economy, as well as related investment and planning processes. The importance of Korea in this arena has been recognized because of the immense potential that Korea has brought about in the Indian consumer market, especially in electronics. The influence and role of Korean companies in generating employment have been even stronger. The Ministry of Commerce, under the Department of Policy Promotion and Planning, established a separate Korea desk. However, there is a lack of updates in terms of data and other relevant information. Meanwhile, the Korea division in the Science and Technology Ministry is being manned by one person. However, regular meetings have been taking place and the promotion of science and technology projects have been actively pursued. This includes the promotion and sponsorship of fellowship programs on a regular basis. One can concur that this aspect of the relationship is subtle, but most productive.

In terms of bilateral engagement with Korea, the 15 years (2000-2015) have

seen remarkable progress in terms of reciprocal visits and interactions at different levels (Lok Sabha 2004). In addition, India-Korea ties resonated in parliamentary debates, being raised during the Question Hour in both the lower and upper houses of the parliament. The questions primarily focused on the state of bilateral ties with ROK and DPRK, while at the same time apprehensions were expressed about the Pakistan-North Korea ties. The maximum questions related to the Korean peninsula were raised about the North Korean missiles and nuclear tests. With regard to terrorism, in one of questions posed in the Lower House (Lok Sabha) of the Parliament, it was stated that India and the Republic of Korea agreed to include cooperation against terrorism and on security issues in the annual Foreign Office Consultations (Lok Sabha 2002).

The political momentum in bilateral ties began in 2004. Former President Roh Moo-hyun, then President of the Republic of Korea, visited India during October 4-6, 2004, and during the visit, the Treaty on Extradition and Treaty on Mutual Legal Assistance in Criminal Matters were signed (Ministry of External Affairs Website, India 2004). Other vital agreements signed earlier included an Agreement on Visa Exemption for Diplomatic and Official Passport Holders in August 2005 (Ministry of External Affairs Website, India 2016), an MoU on Defence Industry and Logistics in September 2005 (Kutty, June 5 2015), and an MoU for Cooperation in the Field of Oil and Natural Gas signed later in November 2005 (Press Information Bureau 2005). The Treaty on Extradition enables the extradition of a person to the other country, undergoing prosecution/trial, or/and enforcement of punishment in that country.

The Treaty on Mutual Assistance in Criminal Matters offers mutual cooperation to fight crime, including taking testimony, corroborating documents, records, information, and, executing requirements for search and seizure, delivering documents and taking persons into custody and facilitating witnesses to assist in the investigations. The MoU on Defence Industry and Logistics was meant to facilitate cooperation in the defence industry between India and ROK, particularly in research and development, fabrication, and the procurement of defence material (Lok Sabha 2005). The Extradition Treaty and Mutual Legal Assistance Pact in Criminal Matters have come into effect from June 8, 2005. The Visa Exemption Agreement (Diplomatic and Official Passports) has been in effect since October 3, 2005. The MoUs on the defence industry and logistics, and on the oil and natural gas sector, came into force immediately after their signing, and are being implemented (Lok Sabha 2005). The objective of the MoU for Cooperation in the Field of Oil and Natural Gas was to create structural edifice for facilitating the institutional relationship, and to promote cooperative ventures in the hydrocarbon sector. During the visit of President Lee Myung-bak to India (January 24-27, 2010), the Foreign Policy and Security Dialogue was raised to the level of Vice Foreign Minister, and the first meeting of the dialogue was held in 2010. Discussions were held on exchanges in the field of defence, backed by regular high-level military exchanges. Possibilities were explored for research and development, and co-production of military equipment, as well as transfer of technology. The augmentation of strategic and defence cooperation was suggested by the Joint Committee on

Defence Logistics and Industry, to expand cooperation between the navies of the two countries and coastal security agencies with the aim of increasing the overall safety and security of global oceanic traffic (Singh 2015; IANS 2016). The Committee proposed that developing long-term cooperative relations will contribute to security and stability in the Asia-Pacific region.

In 2015, the Indian Prime Minister's visit to the three nations (Mongolia, China, and Korea) was widely covered in national media. With regard to India-South Korea ties, the official press release stated that during the visit to the Republic of Korea, discussions were held on issues of mutual interest including in the political, economic and defence and security fields. The India-Korea relationship was upgraded to a "Special Strategic Partnership." The establishment of a 2+2 dialogue between the Ministries of External/Foreign Affairs, as well as between the defence ministries of the two countries (MEA Website, India-Korea Relations, February 2016) was another milestone elevating the relationship, on par with other critical partners such as Japan, Australia and the US. Joint Working Groups were approved in the fields of electronics hardware manufacturing and ship-building. Cooperation is being explored in areas including smart grids, the steel sector, maritime transport, and so forth. The two sides agreed to hold a meeting to discuss issues related to the India-Korea Comprehensive Economic Partnership Agreement (CEPA). It was also decided to hold a meeting to discuss issues related to the expansion of civil aviation links (Rajya Sabha 2015). While political understanding has incrementally developed in the last one and a half decade, convergence related to defence

did not achieve its full potential. This can be attributed to the export control regime by the US and the enlistment of several of the Indian Defence Public Sector Undertakings on that list. However, with the lifting of sanctions against those entities, defence cooperation between the two countries may take a leap forward.

Korea has marked its presence in the Indian Ocean, as well as Southern Asia. Within South Asia, Korea has been involved in a dialogue with SAARC countries, while in the case of the Indian Ocean the country has been prospecting deep seabed mining. However, for both India and Korea, the major challenge in the coming years will be political instability in the nuclear neighborhood. While India is a de facto nuclear power, Korea is under the US security umbrella.

The Nuclear Neighbors – Pakistan and North Korea

One of the prime areas of concern for both countries has been their nuclear-capable neighbors. In response to questions in Indian Parliament about the North Korea-Pakistan nuclear nexus, it was stated that “the report of Pakistan’s links with North Korea in the nuclear field has not come as a surprise to the Government. Pakistan’s missile program has been developed with assistance from other countries, including China and North Korea. Reports that Pakistan has in return aided the North Korean nuclear program need to be investigated

seriously. The problem of clandestine transfers and the acquisition of missile and nuclear technologies involving Pakistan is a matter of deep concern, because Pakistan today is the epicenter of international terrorism” (Lok Sabha 2002). In fact, the North Korean nuclear tests reverberated in the Indian parliamentary debates in 2010.

On the question of North Korean nuclear tests and its impact on trade between India and North Korea, then minister in charge Mr. Pranab Mukherjee said, “Trade between India and DPRK is already minuscule and falling further as a percentage of India’s total trade. As restrictive measures imposed by the United Nations Security Council after the reported nuclear test conducted by DPRK are focused on trade in weapon systems, luxury goods and goods of relevance to weapons of mass destruction and missiles, it is unlikely that there would be any specific effect on India-DPRK trade” (Lok Sabha 2006). It was further added that “in the Government’s assessment the DPRK nuclear test is not likely to affect the India-US understanding on civilian nuclear energy” (Lok Sabha 2006). The North Korean nuclear tests reverberated in the Indian parliament in 2006, 2009 and again in 2013. Incidentally, the only question which was addressed by the Lower House related to India-North Korea ties was in 2015 when a question was posed regarding bilateral ties. The answer to the question stated that “in recent years, India has maintained steady exchanges with the Democratic People’s Republic of Korea (DPRK).” DPRK Foreign Minister, during his first ever visit to India (April 12-14, 2015), met with India’s External Affairs Minister and held meetings with the Indian

business community. “He expressed the desire to have greater economic exchanges between India and DPRK. He conveyed appreciation for the humanitarian assistance by India to DPRK” (Lok Sabha 2015). In comparison to the Lower House, the Upper House of the Parliament was more active in addressing and fielding questions related to the developments on the Korean Peninsula, particularly related to nuclear issues. Global nuclear agencies have reported cooperation between Pakistan and North Korea in terms of nuclear technology, and ballistic missile development. Within Indian academic circles, it is now being increasingly debated. However, with North Korea being a secretive state and one-man dictatorship, the options are rather limited. On the other hand, Pakistan, being a nuclear-capable state, has been spreading its tentacles of terrorism and nuclear proliferation far and wide. There is a need for a unified stance from both countries on nuclear proliferation and identifying rogue states. Both countries have to remain committed to the path of development and growth, for the benefit of their people.

On its part, Korea has been active with regard to nuclear developments in South Asia. The South Asia Task Force (SATF) was set up in 1988 following the nuclear tests in South Asia. Members of the SATF were the Republic of Korea, Japan, Russia, the United Kingdom, Argentina, Australia, Canada, Brazil, France, Germany, Italy, the United States, the European Union, Ukraine and China. The SATF held an official level meeting in Kyiv on June 23, 1999. In addition to the expected calls to both India and Pakistan to adhere to the CTBT, and the expression of concern over the absence of progress in the

implementation of UNSCR 1172, reference was also made to the fighting in Kargil (MEA Annual Report 1999-2000, 2000, pp. 76-77). The need to increase defence cooperation between the two countries was time and again highlighted in the Joint Committee meetings. Regarding nuclear neighbors, there is a need for regular National Security Adviser (NSA) level talks - although an MOU was signed during the visit of Prime Minister Modi - as well as coordination between defence ministries. The two countries must share their respective understanding about nuclear issues, the Nuclear Nonproliferation Treaty (NPT), Comprehensive Test Ban Treaty (CTBT) and global disarmament. This format of dialogue should also focus on regional security and defence cooperation. For India, defence diplomacy is now one of the core components of bilateral relations with select countries, and Korea figures prominently in that matrix.

Defence Diplomacy and Understanding

As part of its Look East policy, India undertook the initiative of defence diplomacy to engage Southeast Asia, Oceania, and East Asian countries. During the period of 1991-2016, India signed MoUs on Defence Cooperation or Defence Cooperation Agreements with more than ten countries across the region including Indonesia, Myanmar, Laos, Singapore, Australia, Japan, Vietnam, Malaysia, and Korea. During this period, under its defence diplomacy, India proactively engaged countries of East and Southeast Asia through high- level

official interaction, liaison visits of naval ships, training of personnel, offering courses in Higher Command, exchanges between officer training academies, and even arms trade at convenient prices. In common parlance, defence exports are not listed as a component of defence diplomacy, but defence equipment/ weapons exports at “friendly prices,” “lines of credit” or “flexible payment” options make it an important aspect of defence diplomacy (Jha 2011, pp. 47-48). India has carefully calibrated its role in major theaters as the benign power, and sought to build relations with its extended neighborhood on need-based and common interests as a priority. There has been debate on whether India should expand its global role and act as an interventionist power in localized conflicts where its interests are getting hampered. This needs to be evaluated in the context of changing dynamics and a flexible response to the rise of China. China is a challenge for a large number of nations in East and Southeast Asia, but none of the countries are willing to jeopardize ties with the country nor are they curtailing its trade and investment relations. Further, Southeast Asian nations are keen on countering assertive China, but are unwilling to disturb the country. As China is marked by numerically large diaspora and relatively extensive trade relations with these countries, the cost of aggravating tension with China is immense. Statecraft takes precedence over rhetoric. There has been increasing reference to India playing a bigger and active role.

With Korea, defence cooperation was relatively delayed. The first India-Korea Defence Committee Meeting was held in Korea. The meeting stressed joint ventures in defence production and subsequent exports of defense

equipment and weapon systems. The meeting was a follow-up to the bilateral meeting held on September 13, 2005, at which an MoU on defence acquisition cooperation was signed. The two countries have been exploring the potential of the production and export of 5000-ton smart frigates, military trucks, armored personnel carriers, ruggedized computers, K-9 howitzers, mine countermeasures and other non-lethal defence equipment (Panda 2011, pp. 24-26; Kim and Singh 2002, p. 17). India has been looking towards Korea for AEGIS class destroyers. India, in order to gain strategic depth through technological capability, has been scouting for cutting-edge defence technologies which include Beyond Visual Range missiles, mine countermeasures, armored personnel vehicles, amphibious ships, and mine detection equipment. Korea has anticipated this resurgence of India, and this provides the necessary momentum to develop synergies and the pooling of scarce scientific resources in the defence domain. In the year 2007, India's Department of Defence Production sent a draft MoU to the Korean side for cooperation on shipbuilding and ship repair, originating from India's Ministry of Shipping. However, Korea was not keen, as most Korean naval shipyards are run by private conglomerates and compete intensely. The ministries and the government of Korea have a rather limited role in promoting cooperation in this sector with other countries. The Chief of Naval Staff Admiral Sureesh Mehta visited the ROK in 2008 and during that visit, the ROK defence ministry expressed interest in meeting India's growing demand for naval ships (Tayal 2014, p. 176). The Maritime India Summit in Mumbai, held in April 2016, in which Korea was the partner country, clearly

showed that India is sincere towards exploring Korean capability in this regard.

The frequency of meetings at the defence level was relatively low. The Indian Defence Minister visited Korea in September 2009 and during the visit, India and South Korea entered into a five-year defence cooperation accord by signing two memorandums of understandings on sharing military expertise and technology. Further collaboration through transfer of technology, joint production and joint research and development were proposed by the two sides. The major defence items India exported to select countries including Korea were “Personal Protective Items, Offshore Patrol Vessels, Spares for Radar, Cheetal Helicopters, Turbo Chargers and Batteries, Electronic Systems (EOPOD ALH System), Light Engineering Mechanical Parts, etc.” (Ministry of Defence Annual Report 2015-2016, p. 58). India enjoys friendly defence ties with the Republic of Korea. Indian Defence Minister Manohar Parrikar visited ROK during April 16-18, 2015. A decision was taken to institutionalize Navy to Navy Staff Talks. The 2+2 Dialogue, co-chaired by the Foreign Secretary and Defence Secretary from both sides, was also established (Ministry of Defence Annual Report 2015-2016, p. 173).

Aside from building understanding on political issues, defence and nuclear proliferation, synergies between the two countries can be explored in multilateral forums given the commonality of interests that have been reflected on these platforms. In the Indian context, strategic and defence interactions highlight the importance of any relationship, as seen in the case of Singapore, Vietnam, Indonesia, Australia, Japan and the US. Defence interactions and defence trade

(export or import of weapons and associated systems) have made that particular nation a priority country. Furthermore, it adds to the diplomatic and political interactions between any two countries, leading to better awareness and more concrete discussions. Interestingly, in most of these bilateral interactions, the regional security and cooperative approach to addressing these challenges gain necessary media space, which garners public attention and thereby positive perception. The one critical area that has not been addressed from both sides is to enhance understanding in multilateral forums.

ASEAN Forum, India, and Korea

Diplomacy as a tool for maintaining international peace and order has been a well-accepted norm. Similarly, protecting national interest by carefully calibrating statecraft is another dimension. In a regional setting, regional organizations such as ASEAN provide the platform for deliberating on regional issues and providing solutions. Over the years, ASEAN has evolved as a multilateral process which has benefited member countries thanks to regular dialogue and economic integration, leading to an incremental reduction in the threat perception, and robust promotion of the ASEAN Community. However, many international critics and scholars have disapproved its non-interference in member's domestic affairs and consensus-building approach. India, Korea, and ASEAN have been discussing issues related to the three core areas of diplomatic cooperation,

internal security, and regional security mechanism, and there have been elements of mutual understanding but also phases of disagreement. The engagement has been at two different levels; India’s interaction with Korea, precedes that with ASEAN and has been more nuanced and collaborative. Further, India’s comprehensive approach both at the bilateral level with ASEAN members and the structural level with ASEAN have provided a multifaceted dimension to the relationships spanning the defence, security, economic and cultural domains. Both Korea and India have different priorities while interacting with ASEAN, and there are different forums to address the concerns. For Korea, ASEAN+3 is the core while India always advocating ASEAN+6 format.

ASEAN-related institutions have been working to devise a common approach towards non-traditional security issues, and have gained significant success in assimilating views and bring consensus on addressing the issues. This has led to multinational exercises, addressing concerns related to non-traditional security issues. In terms of economic engagement also, the ASEAN region has been alluded to as a “noodle or spaghetti” bowl depending on the versions of different economists. These two standards have originated side by side, but have somewhat postponed the critical element of regional security in their discourses. This might be construed as necessary ignorance to build least common multiple understanding. However, developments in the South China and East China Seas have raised the question of important guidelines with regard to global commons and safeguarding the interest of other countries, apart from the contesting nations. As a result, considerable developments have taken shape, but the

question is whether multilateralism as a necessary vehicle for negotiations and compliance of agreements has been effective so far.

The Direct Communications Link (DCL) mechanism is seen as a model which embodies the Indo-Pacific wide framework. However, this multilateral apparatus needs to establish its utility; only then should its membership expansion be considered. The one forum established in 2010 which has the potential to address regional security is the ADMM-Plus. The eight extra- regional powers (ASEAN dialogue partners) in the ADMM framework are Australia, China, India, New Zealand, Japan, Russia, South Korea and the US. The inclusion of the eight dialogue partners led to the formation of the Expanded ASEAN Maritime Forum. This building bloc approach is thus not uncommon (Collin and Baruah, November 19, 2014). This wider arrangement couched within the Indo-Pacific geostrategic construct supports ASEAN's objective in promoting its centrality in a comprehensive regional architecture. ASEAN has always aspired for centrality in an Indo-Pacific crisis management framework. It has worked assiduously through informal and formal dialogue mechanisms among the coastguards and regional security forces through a common regional consultative body. An Indo-Pacific management framework to address air and maritime crisis situations could evolve from the ASEAN dialogue initiative, utilizing the ADMM-Plus forum (Collin and Baruah, November 19, 2014). India has calibrated its ties with the ASEAN institution and individual countries of Southeast Asia through the regular exchange of ideas, ethos, perspectives, knowledge and practices. During the last five decades, since the formation of

ASEAN, this connection progressed to diverse areas. Since India’s “Look East” policy was launched in the early 1990s, the multi-layered partnership has gained momentum and the India-ASEAN relationship is the core component of this policy. Asia is slowly emerging as the epicenter of economic growth and strategic struggle, and has assumed diverse responsibilities proportionate with its capacities. The shifting of the US pivot towards Asia has given a new dimension to the political and strategic discourse, shaping the regional security environment. Chinese military modernization, particularly of its naval power capabilities, has triggered diverse reactions among its neighbors. The institutional structure built around ASEAN have provided a forum for discussion and is now emerging as an annual dialogue process which promotes talks; but how ASEAN caters to flashpoints and contentious issues assimilating varied opinions and interests remains to be seen. India and Korea need to deliberate on the future of ASEAN and its associated institutions, and provide well-designed suggestions to make it more effective.

G–20 and APEC

In international discourse, the critical balance is between security and economics. Security alliances such as NATO are still judged as relevant in select regional theaters, but strategic and defence cooperation agreements which are meant to address traditional security concerns, including maritime

security, and non-traditional security challenges are carefully defining the new flexible cooperative structures. The security alliance has become, to a certain extent, a *passé*, but strategic partnerships and other flexible arrangements have become the preferred choice. This can be attributed to the increasing economic interdependence which has become evident all across the globe. The economic organizations and forums are also getting galvanized along the security lines, with the US hesitantly supporting the Trans-Pacific Partnership, while China advocates the Free Trade Area of the Asia-Pacific (FTAAP) with markets and investment as the dividends of trade and regional economic agreements. Indo-Pacific as a construct still lacks support of any multilateral structure, as was the case of the Asia-Pacific which was supported by APEC, and the closest structures which can incorporate the Indo-Pacific concept are the East Asia Summit (EAS), APEC, and the G-20. However, two (EAS and G-20) of these are rather loose formations in which discussion and collaboration are more of a voluntary nature. The converging forum which emerged for Korea and India at the high table was the G-20. The Group of Twenty (G-20) has evolved as an international forum bringing leading industrialized and emerging economies together under one platform. The G-20 represents more than four-fifths of global GDP and two-thirds of the world population (The Times of India, June 15, 2015). Essential business negotiations are conducted in informal meetings and on the sidelines. In the initial phases of its incorporation, finance ministers and central bank governors of members used to attend the G-20 Summits. Since 1999, eighteen G-20 meetings among finance ministers and

central bank governors, and 10 summit-level meetings of G-20 economies represented by heads of state/government have taken place. The G-20 was meant to address issues related to financial governance, management of fiscal deficit, uniform tax regulation, climate change finance, poverty alleviation, restructuring of international financial institutions and promoting free trade. However, in the last five years, it has started addressing core social challenges such as terrorism, migration, poverty, climate change and selective social issues. The leader's meetings have outlined a future plan of action and the group has made progress. India and Korea are seen as emerging economies and have much to contribute to the forum, because of the financial aspects of international economic and financial institutions as well as regarding uniformity in monetary, exchange and fiscal adjustments. While India is still in the developing phase, Korea in comparison has reached satisfactory levels of manufacturing and tax regulation in conformity with international regulations. The two countries can share possibilities in this regard, and work together under the G-20 framework to bring about synergies. There are other organizations to which India is an aspiring member, but the lack of consensus and initiatives from members has prevented entry to those bodies.

In contemporary discourse, the Washington system is being tested by the new nascent order being constructed around Beijing, posing new demands to post-Cold War trans-regional institutions such as the Asia-Pacific Economic Cooperation forum (APEC). Identical to the Washington System, APEC replicates the perspective that increasing economic interdependence will erode

strains. Scholars, analysts, and thinkers who support APEC are confident that trade and commercial ties will bring about a peaceful new order. Although APEC promotes economic issues it has a relatively small budget, and lacks infrastructure and decision-making or dispute resolution measures. Beyond the classic liberal faith that trade encourages peace, there is anticipation that increased contact and communication among Asian and Pacific nations can serve to create a Pan-Asian identity that will mitigate national and ethnic differences (Pyle 2003, p. 24). Unfortunately, at times, interdependence does not translate into peaceful relations; it may aggravate conflict. The best example has been the US-Japan economic relations related to the TPP negotiations, which have been marked by serious friction and contention, despite significant economic interdependence (Pyle 2003, p. 24). There have been debates about APEC being unable to perform as the regional agenda-setter. This was reinforced when ASEAN and its affiliate institutions gained traction both in terms of political discussion as well as economic integration. APEC, the brainchild of small and medium Asian powers with an aim to forestall great-power domination, has lagged behind in terms of political dialogue. However, in terms of business interactions and trade facilitation, it has been relatively successful. Besides, economic prosperity does not ensure security. Liberal proponents of APEC have anticipated that power politics are over, and the American security guarantee for the region will remain indefinitely. In 1994, the same middle-sized powers structured the ASEAN (Association of South-East Asian Nations) Regional Forum (ARF) to deliberate on traditional

security matters; however, with ARF being a loose and informal organization, it failed to create a comprehensive understanding among regional players. In sum, an order built on APEC and ARF appears to be no less fragile than the Washington System (Pyle 2003, p. 25).

Since APEC's formation India has been eager to join but has been deprived of appropriate entry, on account of the APEC Guidelines on deepening the community rather than expanding it. Going by the dialogue among academics and policymakers, it is important to look for the contours for the expansion of any regional organization. The formal guidelines for the acceptance of new members into regional institutions are important to the process of change and expansion, because they not only establish the rules but are also important signals of the nature and parameters of the organization. The criteria an organization sets up for appraising applications of new members convey important messages about its rationale, its vision of the region and of regionalism, its conception of its role in regional politics as well as more broadly (Wesley, ed. 2003, p. 98). As Robert Keohane perceives, regional organizations differ in goals and intent from universal membership organizations by the very fact of their restricted membership; the restrictions they place on membership are a crucial part of the goods they offer their members. Institutions with restricted membership seek to achieve gains vis-a-vis outsiders (a function for which there must be foreigners for exploitation) or to strengthen bonds of community (Keohane, Autumn 1990, pp. 731–764). The criteria establishing eligibility for membership are determined by and are crucial to selecting the combination of

states thought best to deliver the desired objectives of the regional organization (Wesley 2003, p. 98).

The Trans-Pacific Partnership (TPP) is a projected regional free trade agreement (FTA) among 12 members including its four founding members, New Zealand, Brunei, Chile and Singapore and eight new members, Australia, Canada, Malaysia, Japan, the United States, Mexico, Peru, and Vietnam. The US negotiators and others analysts label and visualize the TPP as a “comprehensive and high-standard” FTA that proposes to liberalize trade in most goods and services. It includes rules-based commitments past those presently established under the World Trade Organization (WTO). It is also known as the WTO-plus forum. The contours of the agreement were defined in November 2011, in Honolulu at the Asia-Pacific Economic Cooperation (APEC) ministerial meeting. The final negotiations for the TPP were recently concluded, and if ratified, despite strong domestic resistance from several member countries including the US, the “TPP potentially could eliminate tariff and non-tariff barriers to trade and investment among the parties and could serve as a template for a future trade pact among APEC members and potentially other countries” (Fergusson, McMinimy and Williams 2015, p. 15). Faced with the predicament of security and economic supportive structures, the choices for India are rather limited. India does hold trade and economic cooperation agreements with a majority of the nations in the Indo-Pacific region, but does not have security alliances with any. In the case of economic cooperation agreements, India is preparing to join the Regional Comprehensive Economic Partnership (RCEP) grouping by the

first half of 2017, with ASEAN at the core alongside five other dialogue partners. In the case of APEC, India is yet to be inducted as a member while in the case of the FTAAP and TPP India has not even acquired observer status. The Indo-Pacific as a geopolitical imagination is becoming increasingly pertinent, but for India to engage in any counter-China strategy is still a very premeditated and calibrated move. India, even while toying with the idea of resurrecting the Quadrilateral Initiative (US, India, Japan and Australia) and engaging countries in China's periphery through strategic partnerships, is avoiding profound declaration against China, as this will certainly give rise to regional and global costs. In addition to the TPP and the RCEP, there are a number of on-going large-scale trade negotiations that include Asia-Pacific economies, including the ASEAN Economic Community (AEC), the Transatlantic Trade and Investment Partnership (TTIP) between the United States and the European Union, the Pacific Alliance which includes South American economies on the Pacific Rim, the China-Japan-Korea (CJK) agreement, and the WTO Doha Round. Of all of these agreements, regional opinion leaders were only positive about the likely conclusion of the AEC and the TPP by 2016 (Fergusson, McMinimy and Williams 2014, pp. 16-19). If India decides to join the TPP, it will have to measure the advantages and disadvantages of the trading bloc. The TPP in its current form is quite dissimilar from its previous version when it comprised of New Zealand, Chile, Peru, Singapore, and Brunei. It has altered from a geo-economic to a geopolitical construct. Further, one of the unspecified purposes of the TPP is to minimize growing economic dependence on China

among the member countries. Since India also pursues the same objective, joining the TPP will serve India's interest in the long run. It will also help integrate its economy with a number of emerging and prosperous APEC economies. However, TPP membership will have its disadvantages for India. Firstly, the TPP is the peak version of the FTAs so far signed, as it intends to eliminate all tariffs on exports and imports to zero. Secondly, since the TPP ratifies very high standards for protecting the environment, labor and human rights worldwide, and international trade, India would have to prepare itself to meet these standards (Fergusson, McMinimy and Williams 2014, pp. 16-19). While the previous version of the TPP sought to harness the complementarities among member countries, the present version is seeking greater integration, not necessarily considering complementation. Advanced and manufacturing economies will benefit the most. India may gain some in the service sector, but in other sectors such as agriculture, it will have to make compromises. Further, on IPR and other related issues, there would be conflict between domestic priorities and international obligations.

The TPP members concluded their negotiations in 2015. Therefore, one of the disadvantages to a new member joining the trading bloc would be to accept the rules already set by existing members. Whether India will in the future subscribe to tough regulations put forward by the 12 TPP members is a matter of conjecture. Korea, meanwhile, is also facing the same predicament. Maybe it is time for the two countries to analyze the advantages and disadvantages of joining such a group. The case of Japan and other ASEAN members joining

the TPP suggests that various domestic lobbies organized large-scale protests urging their governments to safeguard their interests. If India decides to join, it may face similar protests from domestic constituencies. Thus, it should also prepare itself to address and assuage domestic concerns.

Economic Diplomacy and Increasing Convergences

The narrow definition of economic diplomacy is the conduct by government officials/diplomats in the context of negotiations and other relations between nations – the art and science of conducting such relations, skills in managing negotiations, public relations, and so forth so as to ensure little or no ill will. In other words, negotiations must end in a positive sum game. The broader perspective of economic diplomacy rests on the management of international relations through negotiations by government officials/diplomats; the skills required for such management; adroitness in personal relations; tact and engagement with private sector and civil society, etc. (Moitra, Kasturi 2013; Mistry 2003, pp. 2943-2950; IBEF). In other words, “economic diplomacy deals with the articulation of foreign policy in the real world of economic relations between nations to flesh out and implement the principles and objectives set out in the policy. It involves the application of skills and tact in the conduct of official relations, particularly trade and investment, and in engaging the private sector and civil society constructively by governments of

sovereign states” (Mehta 2015). Economics has always been a vital component of India’s foreign policy. However, in the post-Cold war period only those economic interests have become the primary agent of international relations. India’s economic diplomacy, in order to promote and protect trade, investment and commercial interests, has increasingly started posting commercial counsellors in its embassies/missions abroad and instituted high-power economic groups. Greater interaction at the official level, integration with the extended neighbourhood and bilateral FTAs have accelerated economic engagement. The success of the European Union, NAFTA and ASEAN has been testimony to free trade, bringing greater prosperity (Sahoo, Rai and Kumar, December 2009, p. 1).

India has started emulating those economic models which were adopted by the EU, NAFTA and ASEAN. The core objective is to accelerate economic growth through multilateral trade and investment agreements. India entered into comprehensive regional and expanded bilateral trade agreements (including the services sector) with ASEAN, and started projecting Indian businesses abroad through institutions such as the India Brand Equity Foundation (IBEF) and India Investment Centre. Ease of doing business was enhanced through simplified procedures and FDI clearance shortened to less than 90 days, and foreign investment in India was promoted through tax holidays and increasing equity participation, which was increased from less than 50 percent to now more than 75 percent in select sectors. To impart greater knowledge and information about the government’s long-term objectives, different ministries have already

started orienting and training existing bureaucrats and diplomats. A practical attitude is fast substituting the earlier reflexive approach (Sahoo, Rai and Kumar, December 2009, p. 1). South Korea adopted outward-oriented economic policies with the launch of its first five-year economic development plan in 1962, which resulted in high growth and the integration of the Korean economy with the rest of the world. Subsequently, strong and consistent economic growth made South Korea one of the higher-income economies in Asia. Korea is still growing at a faster rate compared to other developed economies (Sahoo, Rai and Kumar, December 2009, p. 1).

India, on the other hand, adopted an import-substitution policy since its independence until the early 1990s. Since 1991, India has introduced wide-ranging economic policy reforms and is moving towards a market-driven economy. This has resulted in consistent high economic growth over the last one and a half decade, making India the 10th-largest economy in the world. In 2016, India is the fastest-growing economy in the world. Both India and Korea have been assimilating into the world economy, and are expected to play a larger role in the future international economic order (Sahoo, Rai and Kumar, December 2009, p. 1). On the back of increasing GDP and economic growth, India started playing the economic card —by way of assuring billions of dollars as aid assistance and soft loans. Further, it entered into trade agreements to assist the twin purpose of market entry and fulfilling strategic commercial interests. Most of these enterprises were meant to bolster, or safeguard, the country's interests in the economically important European, African, and

ASEAN regions. In fact, India has negotiated an FTA in Services and Investment with ASEAN and a CECA with Malaysia; its CECA with Australia is in the final stages; CECAs with Singapore and Korea are under review; an FTA with Thailand is under review; while its FTA with the EU has met a stalemate but still has potential. Given the plethora of new trade agreements that India has embarked upon, the services sector of India also requires foreign support. Therefore, the FTAs must to be complemented with FTAs in Services and Investment. In addition, India made two distinctive attempts in neighboring Bangladesh and Afghanistan to curb anti-India sentiments through economic improvement, and claimed a sturdier grip over regional geopolitics. India had used financial assistance programmes and infrastructure development, particularly in relation to power generation in Bhutan. In the case of Afghanistan, it has supported infrastructure development especially related to the development of the Zaranj-Delaram highway and the construction of the Salma dam.

India has effectively tried to engage itself in larger institutional mechanisms supporting economic integration and in the creation of value added chains. This, in a way, supports South-South cooperation and complements economic processes. Under RCEP, India has been slowly adhering to the general philosophies of high economic ambitions. The ASEAN FTA+1 procedure has been approved, and 11,500 tariff lines are under discussion. With ASEAN, India is ready for an 80 percent drop in its tariffs and as per the MFN agreement under the India-ASEAN FTA, the aim is to reduce tariffs to zero. India has adopted a structured approach so as to cater to differential and

individual strengths. With ASEAN countries, the arrangement would be to seek maximum elasticity because of existing trading arrangements (Jha, Mishra and Khan 2016, ICWA Website). However, with regard to Japan and Korea, India has offered a 62.5 percent reduction, while the two countries peg an 80 percent tariff reduction. With Australia, New Zealand, and China, 80 per cent of tariff lines are under negotiation, but India intends to adopt a variance approach. China has offered a 40-42 percent reduction in tariffs, while Australia has proposed a 55-60 percent reduction and New Zealand has envisaged a 55 percent reduction in tariffs. India had offered a staggered 42.5 percent reduction in products from China, and 52.2 percent with Japan. During discussions with Japan, the country offered to reduce tariffs by up to 72 percent (Interview with Ministry of Commerce Official, June 2016; Jha, Mishra and Khan, 2016, ICWA Website). There have been discussions on raising the threshold levels. In terms of Non-Tariff Barriers (NTB), there are still lingering issues with the ASEAN countries on services, investment, and MFN. Under RCEP, e-commerce is one area which India has been keenly anticipating. India desperately needs investments and to this end, the country must relax procedures, which is being done incrementally. For India, the biggest issue is rules of origin, which has increased the percentage of value addition to 35-40 percent in the manufacturing country to overcome Chinese rerouting. With regard to the Sanitary and Phytosanitary issues, customs and other ministries should consider combined and simplified checking so that countries like Australia and New Zealand can find a market within India; this, however, will require a better approach among

the ministries. While India is preparing itself for RCEP, it is already missing in the frame with regard to the FTAAP and TPP (Jha, Mishra and Khan 2016, ICWA Website).

In 2006, APEC economies agreed to scrutinize the long-term outlook of a Free Trade Area of the Asia-Pacific (FTAAP). APEC Leaders discussed and distributed the “Pathways to FTAAP” document and suggested APEC take tangible steps toward the realization of the FTAAP, which could be developed as a comprehensive free trade agreement catering to ASEAN and its six dialogue partners along with the members of the Trans-Pacific Partnership. This overarching regional economic integration initiative could be steered by APEC, which could motivate members and possible partners in pursuing the FTAAP vision (Annex A-Beijing Roadmap 2014). On the other hand, TPP negotiations were settled in October 2015, and it is projected as the WTO-plus trade group which will include trading norms within the grouping, which would be detrimental to the -members (Jha, Mishra and Khan 2016, ICWA Website). India has met five criteria to reinforce its APEC candidature; firstly, the applicant country/economy must be in the Asia-Pacific region; secondly, enhanced economic ties with APEC members, and APEC’s share in the country’s trade should be of a considerable degree; thirdly, it must be committed to a liberalised economy and relatively free trade policy; fourthly, it should adhere to the objectives promulgated in the APEC statements; and lastly, it should have a specific plan of action for accomplishing these objectives, and participate in collective plans of action under APEC’s programmes of work. New Delhi had committed to

remove all trade barriers by 2010, in order to adhere to APEC's membership criteria (Jha, Mishra and Khan 2016, ICWA Website).

India has already propelled several liberalization initiatives, for example, in the services sector, particularly in telecom, defence, air and rail transport, select infrastructure, insurance, pharmaceuticals, construction services and media. India and APEC can cooperate in government procurement and enhancing fair competition. In this regard, through reforms India has made remarkable progress in this field. The country has simplified customs procedures by cutting down official documentation requirements and non-essential scrutiny mechanisms by introducing more transparency. India's compliance to APEC norms would reduce business transaction costs and create harmonization across sectors, facilitate recognition of standards, expert qualifications, and soft infrastructure. Indian businessmen could enjoy visa-free travel among member economies under the APEC travel card. (Jha, Mishra and Khan 2016, ICWA Website). India would bring energy to, and strengthen economic integration in, the region.

India's enhanced global profile, along with defence and security initiatives, would magnify India's approach towards the region. India has already started interacting with Latin American and Pacific nations. The comprehensive trade and investment approach would make India a credible power in the region. However, to achieve this, it has to expand its trade horizons and also augment its strategic and economic outlook. In which case, the CEPA with Korea becomes very significant.

India–Korea CEPA: Has it reached the limit?

Initial trade between India and ROK was streamlined in 1974 with the signing of the Trade Promotion, Economic and Technical Cooperation agreement. The two countries, under the agreement, *inter alia*, provided each other with Most Favored Nation status. In an interview to the newspaper *Dong-a Ilbo* on September 3, 1993, Prime Minister Rao requested Korean companies to participate in India's developments, and said, "Private foreign investment in India has increased sharply in the last two years to take benefit of the new opportunities emerging alongside the wide-range reforms and liberalization of the Indian economy. We would welcome more Korean businesses to come to India and take part in this process." Prime Minister Rao's visit overlapped with the 12th joint meeting of the Korea-India business council. Korean firms had financed 16 joint ventures in India worth US\$ 4.7 million during the period 1982-1991. After the introduction of radical economic reforms by the Rao government in August 1992, joint investments increased by 31 projects worth US\$ 17.7 million by May 1993, thus bringing the total to 47 projects at a value of US\$ 22.4 million (Tayal 2014, p. 150).

The meetings with Prime Minister Rao triggered the attention of the Samsung and LG groups to invest in India through technical collaborations and joint ventures. The target areas identified were telecommunication equipment, semiconductors, home appliances, and personal computers. During that time, India did not permit 100 percent FDI in any sector, and forming a joint venture

with a local partner was a prerequisite to enter the Indian market. Samsung electronics explored the possibility of a joint venture with L&T to manufacture technologically advanced (with a unit capacity of 200,000 lines) telephone exchanges. However, India's Ministry of Telecommunication did not give approval. In 1993, the Minister of State of Petroleum and Natural Gas, Captain Satish Sharma, visited Korea in April to inspire Korean companies to engage in the exploration of oil and natural gas in India. Jagdish Tytler, Minister of State for Surface Transport, was in Korea in June 1993 and again in October 1994 for discussions with major Korean shipbuilders. Presentations were made to Hyundai, Daewoo, Samsung, Hallu, and Kookdang to attract shop manufacturing to India. Several other delegations from India visited the ROK, including those dealing with de-oiled cakes, plastics, leather exports, jute, cashew, and shellac. In the 1990s, the ROK's participation and presence in Indian offshore oil drilling projects continued to be substantial (Tayal 2014, p. 150). The increasing trade and investment served as a catalyst for the establishment of a Joint Study Group (JSG) in 2005. Its aim was to assess and evaluate the status of economic ties and explore the possibility of a Comprehensive Economic Partnership Agreement (CEPA) between the two countries. Multiple rounds of negotiations ensued, which finally culminated in the signing of the CEPA on August 7, 2009 (Sahoo, Rai and Kumar, December 2009, p. 9). Since the signing of the CEPA, trade has increased, albeit not exponentially. Given the long and successful narrative of the India-Korea trade relations, it was perceived that the FTA between the two countries could have been the first FTA for India which

could have been signed. However, the India- Korea CEPA was signed much later when the FTA with Thailand and CECA with Singapore were already signed in 2003. For India, the India-Korea CEPA is a model example. However, there are still issues related to the mutual recognition of degrees, movement of skilled and semi-skilled personnel, exchange and banking transaction issues and credit for importers. A review is scheduled to take place, but in terms of identifying new areas of cooperation, much negotiation and discussion is required. Otherwise, just like the second review of Singapore's CECA, Korea will have to weather the same stalemate.

R&D – The Critical Connector

For India, the most important technology enhancer has been R&D, both in the civilian sector as well as in the defence sector. One of the primary areas of concern for India is to quickly bridge the technical gap that is persisting in its industry. Many Asian countries, possessing sound R&D expertise and capacity, are therefore on India's radar [Jha (b), January – June 2011, pp. 54-56]. This includes Korea, Japan, and even Chinese Taipei. The average R&D spending for the last five years during 2010-2014 for the above-mentioned countries/territories has been in the range of 3.5-3.8 percent of GDP (see Table 1). In the case of Korea, most R&D has been carried out by private R&D labs. Korea has been the most promising destination for R&D among Asian countries.

Among all OECD countries including the US, UK, France and Germany, Korea spends the largest percentage of GDP (4.292 percent) on R&D.

Table 1. Gross domestic spending on R&D, Total, % of GDP, 2005–2015

Country/Territory	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Canada	1.978	1.949	1.909	1.86	1.922	1.838	1.799	1.794	1.69	1.613
China	1.318	1.38	1.384	1.457	1.679	1.727	1.794	1.928	2.015	2.047
Chinese Taipei	2.324	2.429	2.475	2.676	2.838	2.804	2.896	2.952	3.005	3.004
European Union (28)	1.673	1.695	1.701	1.768	1.843	1.842	1.881	1.921	1.93	1.951
Finland	3.33	3.338	3.346	3.547	3.749	3.726	3.639	3.419	3.287	3.172
France	2.044	2.045	2.02	2.058	2.209	2.175	2.191	2.229	2.243	2.256
Germany	2.423	2.456	2.446	2.597	2.726	2.714	2.796	2.872	2.826	2.897
Japan	3.309	3.409	3.461	3.467	3.357	3.252	3.381	3.342	3.482	3.588
Korea	2.626	2.831	3.0	3.123	3.293	3.466	3.744	4.026	4.149	4.292
OECD - Total	2.155	2.187	2.218	2.291	2.336	2.299	2.33	2.336	2.37	2.377
United Kingdom	1.63	1.65	1.684	1.687	1.741	1.695	1.691	1.622	1.664	1.7
United States	2.506	2.55	2.627	2.767	2.819	2.74	2.763	2.699	2.742	...

Source: Main Science and Technology Indicators, OECD Database.

Also, with regard to public expenditure on R&D, only three countries in Asia are of critical interest to India: Israel, Korea, and Japan, which display higher-than-average performance in fund allocations if the OECD median of 100 is taken as the benchmark (for more details see Appendix-II). In the future, this will drive major Indian investments and joint ventures with these countries. Among these three countries, Korea still has a relative advantage. As most Korean R&D is conducted by private enterprises and industries, synergy between

private sectors can be beneficial in the long run. In this light, the two countries should look to the POSCO case as a lesson, and work towards making amends to the process.

The POSCO Case—An Audit

POSCO, a Korean multinational steelmaking company, invested an estimated total of US\$12 billion of FDI, garnering media attention as well as preference by the government. The POSCO-India Orissa (renamed Odisha) Project proposed to establish an integrated steel plant in the Jagatsinghpur district of Odisha. The aim was to develop a capacity of 12 million tons of steel in three structured phases. However, since the signing of the MoU in June 2005 between POSCO and the Odisha government, the progress was delayed due to the non-acquisition of the proposed land of 4,000 acres as well as the allocation of 2,500 hectares in Khandadhar mines. So far, 2,959 acres of land has been acquired, but resistance posed by local political leaders and dubious non-governmental organizations (NGOs) led by POSCO Pratirodh Sangrak Samiti have opposed all land acquisition. Most of these groups have links to extreme leftist organizations. Such movements have been witnessed during the nuclear plant projects as well as uranium mining initiatives that have been undertaken. With the lingering stalemate on the issue, POSCO has declared that it will scale down operations and only use the available land. Final environmental clearances for

the project have also yet to be granted (Tayal 2014, p. 180). This issue has been highlighted by Korean business and political organizations, and there are several important takeaways. Firstly, the proposed FDI received unnecessary media attention and as a result, galvanized the political and agrarian groups with leftist tendencies. The perception is that this kind of project will hamper Chinese steel production and also benefit the two countries. The second aspect was POSCO's employment of language experts as specialist executives. This created unnecessary ego issues with the state bureaucrats and other agencies. The one important element which was, at that time, not properly addressed was the question of employment generation for locals and the use of local content in iron and steel manufacturing. The coal mining allocation scandal and the Forest Dweller rights also hampered progress in the initiative. Lastly, failure to effectively use local PR firms to sensitize the general public caused irreparable damage, while at the same time the changing environmental guidelines caused unnecessary delays.

Identifying New Sectors and Areas of Cooperation

Given the foundation provided by previous governments, and the current government's increased high level visits to major powers have given geopolitical dividends in the form of India's entry into the Missile Technology Control Regime (MTCR). India has also accelerated engagement with the US,

Japan, Central Asian republics, South Pacific islands, and Latin American and Caribbean countries clearly projecting its global role. The 2+2 meetings with Japan, the US, Korea and Australia are expected to accelerate the pace of engagement in primarily three spheres – strategic, economic, defence and technology cooperation. Korea, which has been a reliable business partner, is being increasingly perceived as a strategic partner, and this is also complemented by new strategic partnerships signed/reinforced with Korea, Singapore, Malaysia, Mongolia and Australia.

In the last five years (2011-2016) Japan has emerged as an important lynchpin of India's approach towards the region. The Japan-India Vision 2025 Special Strategic and Global Partnership outlined new possibilities between the two countries (Joint Statement on India-Japan Vision, December 12, 2015). The two countries also signed agreements on defence equipment and technology transfer, along with the Protection of Classified Military Information. The Joint Declaration on Security Cooperation between Japan and India (2008) and the Joint Declaration on Security Action Plan (2009) (Koh 2016, p. 165) were the building blocks of convergence on security and defense matters. Furthermore, the permanent inclusion of Japan in Malabar exercises clearly showed that Asia and the Pacific, more specifically the two Oceans (Indian and Pacific), can be conjoined together in operational preparedness, both for traditional and non-traditional security threats. Japan, the US, India, and Australia - these four countries have been sharing best practices and have been part of Rim of the Pacific Exercise (RIMPAC) to pursue greater coordination among navies (Jha, Centre for Indian

Studies, Hanoi, October 5, 2016). RIMPAC biennial exercises were held during June and July. In 2014, 22 countries had participated, including India. Another US Air Force exercise held in Nevada, known as the Exercise Red Flag, is an advanced aerial combat training exercise and in 2016 India participated after a hiatus of eight years. In October 2015, India undertook with Australia the first bilateral maritime exercises. There is also a growing possibility that bilateral naval exercise will be held in early 2017 with Japan. However, India's priorities are not defence and military only. India has been seeking a positive role in a larger strategic theater which can build peace and promote economic growth. It also manifested expanding the horizons of India's strategic neighborhood or as the foreign policy fundamentals stated: "Vasudhaiv Kutumbakam" (the whole world is a family) (Jha, Centre for Indian Studies, Hanoi, October 5, 2016).

With the improvement of foreign relations under Modi, a new light has been shed on relations between India and South Korea. South Korea has been a proactive investor since the onset of India's economic liberalization, keen to explore the potential of India's market. The South Korean companies LG, Samsung, and Hyundai are amongst the most respected brands in India, and have a strong market presence. President Park Geun-Hye visited India in January 2014 and explored possibilities related to trade and investment as well as Science and technology cooperation. President Park had congratulated Modi on gaining majority in the general elections in May 2014 and invited him to visit South Korea, which he accepted (Park, August 13, 2014). In the India-Korea Joint Statement (January 2014), the two countries articulated their intent

to broaden and deepen their strategic partnership in economic, political and cultural spheres (India-Korea Joint Statement 2014). There is anticipation for further convergence between the two countries, given the demand for markets for commodities and services trade. While Korea might see India as a growing market, India on its part observes Korea as a launch pad for its services exports in the region. For South Korea, India holds significant economic and geopolitical significance. Further, the two countries can cooperate in the two emerging regions of the global economy-Africa and Latin America. The two regions have a low-developed economic foundation, and with hopes for political stability in the near future, there are multiple options for growth and investment. India is seen as an emerging growth market with skilled manpower, an educated middle class, and relatively high disposable income. With the advent of the General and Services Tax (GST) regime, investment and tax systems will be further integrated and will help foreign trade and investors.

Policy Recommendations

The two countries must develop a long-term strategy to develop understanding and address long-term challenges. This can be dealt with while undertaking political, multilateral, security and economic consultations on a regular basis.

Political

Dialogue between the Parliamentarians of the two countries has been rather slow. There is a need for more interaction during international meetings, and young parliamentarians should visit the country. Secondly, the political parties must engage the country in discussing economic plans. This would also help long-term investment as most Korean companies feel that with the change of regimes there has always been an incremental shift in policy. The Goods and Services Tax (GST) and the Land Acquisition Bill were examples of such a change. While the GST has been cleared in the Indian parliament, the Land Acquisition Bill may also pass, albeit with a few amendments.

Nuclear Issues

The strategic understanding between the two countries needs to be explored, and the two countries should identify areas of convergence. The strategic outlook of both countries is still in the developing phases, and has now expanded to reach the shores of the East China Sea and the Indian Ocean, respectively, for Korea and India. Indian involvement in the Korean peninsula has also been predicated on nuclear and missile cooperation between North Korea and Pakistan. There has been evidence to show that there is a growing understanding between Pakistan and North Korea. This has been documented and debated in the highest bodies within India's policy establishment. However, diplomatic and political sanctions, which India has followed diligently, need to

be further enhanced and even Pakistan must be penalized for its clandestine networks. North Korea, on the other hand, has been maintaining its diplomatic mission in India and has been regularly sending its ministers and high-level officials. From the Indian side, visits have been very infrequent.

Regional Security

The rapidly deteriorating security situation on the Korean Peninsula is a matter of concern for both sides. The tension needs to be diffused and both regional and international efforts are required. The Six Party talks could also be revived. The role of multilateral institutions where North Korea is a member, such as the ARF, can also be explored. The two sides should seek conjunction between India's Act East and Connect Central Asia Policy and Korea's Northeast Asia Peace and Cooperation Initiative (NAPCI) and the Eurasia Initiative. Given the fact that both countries have not been listed in China's One Belt One Road (OBOR) strategy, the two countries, along with Japan, Vietnam, and Indonesia, can work towards Asian Civilization routes to project their interest and build consensus on inclusive growth through trade and development. India's ancient exports have been on two basic items namely spices and cotton. India has been promoting cotton and spice routes in its official documents. Similarly the ancient exports from the countries such as Korea, Japan, and Indonesia have been on select items and have preferred certain routes depending on the navigational prowess of the traders and

merchants. These need to be rediscovered so that the Asian civilization routes can be promoted.

Economic and Trade Interactions

Korea and Japan are seen as crucial partners in India's economic development. The growing understanding between Japan and Korea helps India in terms of formulating policies and developing strategic partnerships in such a way that lays the stepping stones for trilateral cooperation between the three countries. Of course, Japan and Korea have their differences, which will be determined between the two countries on a bilateral level. As a result, India has to formulate its policies in a water-tight formulation as one policy and strategy must not influence the other. Both Korea and Japan are technologically superior Asian countries, compared to India. There exists immense potential to explore in terms of power generation, city planning, urban planning, waste management and developing integrated public transport systems.

Shipbuilding can be one of the major areas for cooperation in defence, as well as the civilian sector. This can be explored under the "Make in India" initiative. The private shipyards in India, managed by companies such as Reliance, L&T, and Adani, can enter into joint ventures with Korean companies to create ships for both civilian use and naval ships for the two countries. L&T has already received orders from Vietnam for the supply of four coastal patrol boats, while Garden Reach Shipbuilders (government public sector undertaking)

has won the tender for supplying naval ships to the Philippine Navy. The potential of shipbuilding of the two countries need to be explored so that joint ventures can be promoted. Also, the market for civilian ships, fast crafts and naval ships need to be assessed so as to identify markets for any such joint venture. However, to facilitate such a partnership, the Indian government would have to offer tax concessions and other incentives to the Korean companies. The two countries can cooperate in infrastructure development. India and Korea could also explore joint enterprises in defence R&D, ship-building (LNG carriers] and the IT Sector. Both countries' strengths in hardware and software can benefit from the IT sector. Given the fact that India now allows FDI of up to 75 percent in the defence sector, many defence contractors will find this to be a lucrative proposition.

The two countries have taken a decision to upgrade the CEPA, but there are issues related to tariffs and market access. In this regard, the domestic constituencies need to be sensitized. Within India, agricultural producers and farmers have raised objections to any relaxation in tariffs or customs procedures.

Bilateral cooperation in the health security area is also recommended. The health infrastructure in India is still in its nascent stages, and requires investment as well as skill development which would help maintain a healthy workforce. India has also been working on the National Health Mission, which when adopted will open new opportunities for the health sector, as well as medical insurance.

Promoting Connectivity

People-to-people connectivity needs to be strengthened. India and Korea should focus on student exchanges and promote tourist inflows. In this regard, flight frequency between India and ROK should be increased. In terms of institutional connectivity, linkages at the think tank level should be strengthened. Interaction between science and technical institutions has been rather subdued. Pilot projects related to specific areas of cooperation such as UAVs, geospatial imagery, micro and nano satellites are some of the areas that require due attention.

Korean companies should assist in filling the missing gaps in the trilateral highway project between India, Myanmar and Thailand. In this context, an India-ROK joint study on physical connectivity is proposed. Korean companies can explore feasibility to help and assist nations in India's connectivity projects with Southeast Asian countries, like Kaladan Multimodal Transit Transport Project and the India-Myanmar-Thailand Trilateral Highway project. India and Korea should also explore the possibility of joint investment in Myanmar. The earlier venture in oil and gas exploration in Rakhine province has met with partial success. Such ventures need to be further explored.

Investment

From India's perspective, the trade balance is not a hurdle as long as it is offset by Korea's direct investment in India. However, Korea should take

measures to promote investment in India and also work towards creating better awareness about investment opportunities in India. To further promote bilateral economic cooperation, both countries must focus on following. First, raise the concession rate and simplify rules of origin (ROO); second, increase the utilization rate; third, concentrate on the global value chain (GVC) rather than trade volume and imbalance; fourth, address the imbalance of merchandise trade through the expansion of service trade. Korean companies must offer qualitative and technologically superior products in India. This would develop brand attachment and help explore the possibility of a better market presence. The Indian middle class has been growing, both in terms of purchasing power parity and luxury goods.

Cultural differences can sometimes lead to miscommunication. With this in mind, it was proposed that investment centers in both Korea and India are established to guide investors especially to small and medium enterprises (SMEs) and give them advice on cultural issues. Korean businessmen should also be provided with information about India's culture, climate, and geography, to help them better understand the country.

Two-way scholarships between the two countries should be promoted. There is a need for extensive and detailed research study, to undertake assessment and feasibility of revitalizing POSCO investment in India. The unfortunate developments in the case of POSCO can be attributed to factors such as demonstration effects and the spotlight cast on the POSCO investment time and again as the largest-ever investment in India.

The LG and Samsung investments, in assembling imported parts in India, are not mutually beneficial for both sides. The Hyundai model of investment, which involves more than 80 percent of value addition in the host country, should be further promoted. In fact, India should not become a conveyor belt of assembly. India does possess the skilled and semi-skilled labor critical in developing the manufacturing sector in India. Furthermore, after-sales service and customer support have established brands, and also helped in developing key sectors. India's taxation laws have been a matter of concern, but the passing of the GST and the possible endorsement of the Land Acquisition Bill may pave way for developing manufacturing capacities. However, it will be necessary to understand that India's large population and increasing costly real estate will make land acquisition a difficult process. However, in terms of Special Economic Zones and related development zones, investment may be facilitated in a better manner.

India and Korea should work together on developing clean water technologies, semiconductors, biomedical devices, chip fabrication and design, renewable energy and low-cost IT products. Possibilities could be explored in nanoscience, in which India is the leader, while Korea is a pioneer in its application. Technology support and development could also be explored between the two sides. India's Ministry of Trade and Commerce along with its Korean counterpart may explore possibilities regarding promoting mutual investment for greater integration with GVCs.

Conclusion

During the last decade, India- Korea interactions have gained momentum. This is amply reflected in the economic, trade and political domains. However, there is a need to drive further acceleration in the political dialogue, defence, regional security and nuclear disarmament areas. As for multilateral structures, the impression within India is that the ASEAN+3 structure was not only supported by Japan and China, but also by Korea. As a result, India's preference for the ASEAN+6 which included Australia, Japan, Korea, China, New Zealand and India was more preferred rather than ASEAN+3 which included only Japan, Korea and China. The RCEP encapsulated the ASEAN+6 into its configuration. Therefore, with the emergence of the RCEP and the possible liberalization of tariffs among the participating countries, economic complementarities are expected to develop between India and Korea. For India, the biggest challenge is to reduce the trade deficit with China while promoting its services industry. In this regard, the markets of both Japan and Korea are of significant importance. India has been rather conservative in terms of its engagement with Korea, and vice versa. However, the quality and quantity of dividends of the bilateral partnership has been very satisfactory. The coalition governments in India have created a policy predicament for successive governments, but with the single-party majority, the steadiness required for policy articulation might be maintained. India and Korea should also explore the possibility of twinning programs in the education and technology fields. As

has been stated, Korea is the best partner for India in the trade and technology field. Tourism might also emerge as a new opportunity in coming years. Regular interaction between leaders and business communities would help further cement the relationship.

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Appendix-I

India's Strategic Partnerships–List

S. No.	Country	Year
1.	India and South Africa Strategic Partnership	1997
2.	India–France Strategic Partnership	1998
3.	India and Russia Strategic Partnership ¹	2000
4.	India- Germany Strategic Partnership	2000
5.	India- Mauritius Strategic Partnership	2001
6.	India- Mongolia Strategic Partnership	2015
7.	India- Iran Strategic Partnership	2003
8.	India and the US - Strategic Partnership	2004
9.	India and the UK- ‘Comprehensive Strategic Partnership’	2004
10.	India- EU Strategic Partnership	2004
11.	India and Indonesia - Strategic Partnership	2005
12.	India and China-“ <i>Strategic and Cooperative Partnership for Peace and Prosperity</i> ”	2005
13.	India and Japan - ‘ <i>Strategic and Global Partnership</i> ’	2006
14.	India- Vietnam Strategic Partnership (Upgraded to Comprehensive in 2016)	2007
15.	India- Nigeria Strategic Partnership	2007
16.	India- Oman Strategic Partnership	2008
17.	India- Senegal Strategic Partnership	2008
18.	India- Australia Strategic Partnership	2009
19.	India- Kazakhstan Strategic Partnership	2009
20.	India–Korea Strategic Partnership	2010
21.	India- Malaysia Strategic Partnership	2015
22.	India- Mozambique Strategic Partnership	2010
23.	India-Uzbekistan Strategic Partnership	2011
24.	India- Afghanistan Strategic partnership	2011
25.	India- Brazil Strategic Partnership	2012
26.	India- ASEAN Strategic Partnership	2012
27.	India- Tajikistan Strategic Partnership	2012
28.	India- Ukraine Strategic Partnership	2012
29.	India and UNDP Strategic Partnership Agreement	2012
30.	India –Singapore Strategic Partnership	2016
31.	India- Saudi Arabia Strategic Partnership	2016

Source: Compiled by author with data from Ministry of External Affairs Website and other sources.

A large number of nations/multilateral organizations are vying for the 'strategic partnership' agreement with India. These include Venezuela, Gulf Cooperation Council (GCC), Iraq, Greece, Israel, Thailand, the UAE, Seychelles, Egypt and Turkey.

Appendix-II

Comparative performance of national science and innovation systems: Science base

Time	2010 or latest year available		
Indicator	Science base		
	Public R&D expenditures (per GDP)	Top 500 universities (per GDP)	Publications in the top-quartile journals (per GDP)
Country			
China	55.097	31.756	22.904
India	60.274 <small>ce)</small>	2.248 <small>e)</small>	10.364
Indonesia	-21.953 <small>ek)</small>	0.000 <small>e)</small>	-12.185
Israel	107.093 <small>dfl)</small>	177.747	176.084
Japan	98.326	48.690	44.544
Korea	136.334	70.771	66.336
South Africa	37.344	51.427	26.119
Turkey	57.021	8.018	24.257
United Kingdom	86.251 <small>l)</small>	121.034	148.366
United States	102.183 <small>gi)</small>	95.643	85.219
European Union (27 countries)	101.436	103.636	..
OECD sample median	100.000	100.000	100.000

Legend:

c	National estimate or projection.
d	Defence excluded (all or mostly).
e	Based on data extracted from national or other international sources.
f	Excluding R&D in the social sciences and humanities (all or mostly).
g	Federal or central government only.
i	Excludes most or all capital expenditure.
k	Underestimated or based on underestimated data.

Source: http://stats.oecd.org/Index.aspx?DataSetCode=GBAORD_NABS2007#.

The Sweet Scent of Development: Korean Pop Culture in Latin America

Hallyu as a driver for economic and cultural cooperation
between Latin America and South Korea

Ricardo Pagliuso Regatieri*

Contents

1. Introduction
2. Literature Review
3. Methodology
4. Case Studies: Argentina, Brazil, Chile, Mexico and Peru
5. Discussion
6. Conclusions and Recommendations

1. Introduction

This book chapter discusses the dissemination of Korean pop culture in Latin

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America with a focus on its fans. It does so by means of five case studies: Argentina, Brazil, Chile, Mexico and Peru. The selection of these countries was due, on the one hand, to their regional relevance, and on the other, to the impact Hallyu has had among young fans in these societies in particular. The Korea Foundation publishes annual estimates of the number of Hallyu fans across the world,¹⁾ which offer an overview of the spread of Hallyu worldwide. These data are not exhaustive and only reflect the major fan clubs and Internet communities dedicated to Korean pop culture. Rather than referring to a broader picture or quantifying the number of fans as the Korea Foundation does with its annual Hallyu report, I set out to discuss how fans specifically relate to Hallyu and, by extension, to South Korea. I will present the results of surveys with fans in these five countries and then interpret them considering deeper social processes taking place in the region. Finally, I will provide suggestions for further cooperation between South Korea and Latin America, taking advantage of the spread of Korean pop culture in the subcontinent.

Despite what one may expect, K-Pop fans and the ethnic Korean communities do not overlap with each other in Latin American countries, even though Koreatowns—such as the ones in São Paulo, Buenos Aires and Mexico City—serve as important hubs for the Korean wave in terms of providing cultural activities, language courses and food for the K-Pop fans. The largest Korean community in Latin America is located in Brazil (50,418), followed by

1) Korea Foundation (2015), 『2015 지구촌 한류현황 I and II』, Seoul: Korea Foundation and Ministry of Foreign Affairs.

Argentina (22,730), Mexico (11,484), Guatemala (5,162), Paraguay (5,090), Chile (2,725) and Peru (1,198).²⁾ The existence of Korean communities or neighborhoods in Latin American metropolises may only reinforce the disposition of fans seeking Korean references, which, as I will argue, has other roots. In this sense, the opening of Korean Cultural Centers in Buenos Aires (2006), Lima (2010) and São Paulo (2013), as well as branches of the King Sejong Institute, has brought Korean culture closer to Latin American fans, and they often take the opportunity to enjoy music and film festivals, and take part in courses or other activities. The relation between the social background from which these fans come, on the one hand, and the very nature of the products of Korean pop culture, on the other, lie at the core of the discussion in this chapter. Sociologically analyzed, the interplay of these two dimensions should provide insight into the consumption of Hallyu by young people in Latin America.

2. Literature Review

2.1. Pop Culture

The beginnings of a form of cultural production connected to the market can

2) Ministry of Foreign Affairs, Republic of Korea (2015), 『재외동포 현황』, Available at <http://www.index.go.kr/potal/main/EachDtlPageDetail.do?idxcd=1682>(accessed August 11, 2016).

be traced back to “about the turn of the seventeenth and the beginning of the eighteenth centuries in England” (Adorno 1991, pp. 159-160). The English novels of that period “marked the beginning of an approach to literary production that consciously created, served, and finally controlled a ‘market.’ Today the commercial production of cultural goods has become streamlined, and the impact of popular culture upon the individual has concomitantly increased” (*op. cit.*, p. 160). In the mid-twentieth century, Horkheimer and Adorno critically addressed mass culture manufactured by large corporations and coined the expression “culture industry” (1987). According to them, the culture industry provides models, clichés and stereotypes, which ensure social domination. Instilling patterns of behavior and attitudes, it contributes to naturalizing the social order and reinforcing obedience.

Aiming to go beyond what he considered to be a one-sided theory of the media—among which he includes Adorno and Horkheimer’s—, Hall proposed the encoding/decoding model, which approaches mass communication “in terms of a structure produced and sustained through the articulation of linked but distinctive moments—production, circulation, distribution/consumption, reproduction” (2006, p. 163). These moments are connected but at the same time retain their distinctiveness, their own specific modality, and their forms and conditions of existence. According to this model, broadcasted contents or messages are not necessarily understood or interpreted according to the original intentions of those who produced them. They are always subject to an interpretative work carried out by the consumers, which translate them into social practices,

articulating meaning. That is to say that, even if encoding constructs some of the limits and parameters within which decodings will operate, their codes may not be perfectly symmetrical. Hall sustains that the correspondence between these two moments is not natural, but constructed. This construction is socially mediated, for sure, but at the same time encompasses individual variants.

Within the field of fan and fandom studies, Hills puts forth the notion of “performative consumption,” according to which people perform “their identities as fans in ways that are simultaneously highly self-reflexive or self-aware and non-reflexive or self-absent, given that they cannot always account for why they became fans in the first place” (2007, p. 1639). Hills argues that the idea of performative consumption moves beyond a “sociological either/or, where fans are either agents whose fan cultural practices can be celebrated, or they are subjects whose fan cultural practices can be accounted for, and critiqued, as effects of structural/capitalist forces” (*op. cit.*, p. 1639). Hills’ goal is mediating structure and agency in order to better grasp fans and fandom culture. This approach takes active performance into account and, at the same time, it seeks to explore aspects of fan identities operating below the level of discursive consciousness.

Also discussing fans and fandom, Sandvoss writes:

... as social and cultural relations continue to be stretched across space, as our lifeworlds become increasingly phantasmagoric, as convergence further advances the presence and availability of communication media in our

everyday life, and as entertainment continues to proliferate in transnational media markets, fandom will become an increasingly important mode of engagement with the world around us—and its study an import tool in understanding of how attachment, belonging and identities are transformed in a mediated, globalizing world (2010, p. 410).

He calls attention to the current role of Facebook in fandom. One can become “friends” with other people, requiring confirmation from those individuals, but one can also follow and become a fan of a “given popular texts or icon” (*op. cit.*, p. 404). Even so, “the latter still results in group memberships in which we are likely to interact with other users who eventually may also become ‘friends’” (*op. cit.*, p. 404). Deterritorialization brought about by contemporary social networks creates imagined communities centering on a given fan object and, when there are connections that forge meaning between the fans, these groups can be named “‘interpretive communities’” (*op. cit.*, p. 404).

Carrying forward Adorno and Horkheimer’s tradition of Critical Theory, Jameson points out the limitations of a “conception of mass culture as sheer manipulation, sheer commercial brainwashing and empty distraction by the multinational corporations who obviously control every feature of the production and distribution of mass culture today” (1992, p. 21). He argues that, besides ideological and conformist features, mass culture products also contain utopian elements. He wants “to grasp mass culture not as empty distraction or ‘mere’ false consciousness, but rather as a transformational work on social and political anxieties and fantasies” (*op. cit.*, p. 25). The “Utopian or transcendent potential”

(*op. cit.*, p. 29) of works of mass culture has to do with offering relief, hope and fantasy that help individuals cope with the anxieties and tensions that everyday life holds.

2.2. Pop Culture (Made) the Korean Way

The position of South Korea in the international order and in terms of development has a unique character: it is not part of the traditional core of countries in the world system that have dominated the international arena since the nineteenth and early twentieth centuries, such as England, France, Japan, Germany and the United States. South Korea's developmental experience took place in the second half of the last century, and in a very compressed manner (Chang 2010; Lie 2012), reaching maturity as late as the 1980s or early 1990s. Though the country is no longer underdeveloped, it has escaped this situation without, on the other hand, becoming equal to countries such as the United States, which serves as the model for South Korean cosmopolitan strivings (Park and Abelman 2004; Chang 2010). Middle-power Korea (Snyder and others 2015) swiftly ascended the developmental ladder and its current social environment greatly reflects the efforts that this deed demanded.

Reviewing literature on Asian popular culture, Fung and others conclude that in countries such as South Korea, Taiwan, Thailand and Singapore, a sort of Asian cosmopolitan is emerging, and that local pop culture produced in these nations manages to absorb and incorporate global cultures in its trajectories of

development (2015, p. 487). In his introduction to the recently edited volume *The Korean Popular Culture Reader*, Kim writes: “To theorize the popular culture of an emergent nation outside the conventional framework of the traditional cultural capital is to disclose the way the discourses of the West construct the center-periphery divide and reassign the values of popular culture studies thus far affordable almost exclusively in the West” (2014, pp. 3-4). He has in view the fact that “South Korea’s prolific economy and regional cultural power do not necessarily remove it from the list of client states to the American popular culture hegemony” (*op. cit.*, p. 2). Korean pop culture emerges in this scenario, as a product of a nation on the rise, geographically and culturally beyond the borders of the West, but at the same time intimately connected – since the end of the Korean War – to its most powerful nation, the United States.

According to Park, “K-pop had a modest beginning on the global stage, first gaining popularity in Taiwan in the mid-1990s, followed by its successful penetration into the Japanese music market in the early 2000s” (2013, p. 6). Nowadays, “K-Pop entails the export of music ‘made in Korea’ to global consumers” (Oh 2013, p. 398). K-Pop encompasses a number of Korean local elements, deployed in order to be attractive to a global audience. Among them, Oh mentions the great number of singers/dancers, their physique, and perfected voice-dance coordination (*op. cit.*, p. 400). It is no coincidence that K-Pop’s worldwide dissemination coincides with the global spread of the Internet, since it is a “new music genre that is based on the invention of new technologies in

digital music recording and online ‘free’ music distribution through YouTube’; by using this channel, Korean entertainment companies were able to bypass conventional music distributors, which control the means of distribution in the United States and Europe (Oh and Lee 2013, pp. 54-55).

Both Oh (2013) and Lie (2012; 2015) argue that the particularities of K-Pop should not be sought in traditional Korean culture or in any Confucian features it supposedly bears. Rather, in order to understand K-Pop, one has to consider the strategies that Korean entertainment companies have adopted within the global culture industry. Thus, instead of arguing for hybridity or the role of traditions, they emphasize the process of production (e.g., glocalization of production, long, hard and disciplined training of the artists, extreme concern with their physical appearance) and distribution (free and online distribution). By arguing that “the K-pop industry, despite being a content-rather than technology-led enterprise, seems to share many of the common South Korean practices of doing business,” that K-Pop “is in a pattern with South Korean export products,” and that “the South Korean state has backed the Korean Wave and K-pop,” Lie (2012, p. 359) suggests that the success of K-Pop has to be traced back to the broader picture of the South Korean model of development. Even though “K-pop is symptomatic of the cultural transformation of South Korea” (*op. cit.*, p. 361), its branding continually stresses its traditional roots.

Lie does not believe that the elements in K-Pop that may appear to embody Asian or Korean values, bound to ancient traditions, actually do. He argues that

a “radical displacement of traditional values” (*op. cit.*, p. 360) took place in South Korea: with colonial rule, the Korean War, rapid industrialization and urbanization, and recent democratization and egalitarianism, Korean culture “was almost always in flux, with radically distinct and contradictory notions at play at any given point in time” (*op. cit.*, p. 361). As opposed to displaying traditional values, Lie contends that K-Pop offers an alternative to urbanized and sexualized American performers who celebrate sex and violence. K-Pop, he writes,

*exemplifies middle-class, urban and suburban values that seek to be acceptable at once to college-aspiring youths and their parents: a world that suggests nothing of inner-city poverty and violence, corporal or sexual radicalism, or social deviance and cultural alienation. K-pop in this sense satisfied the emergent [Asian] regional taste and sensibility, though it would be remiss to stress the region as its appeal could easily extend beyond it. The oft-repeated claims about K-pop singers’ politeness—their clean-cut features as well as their genteel demeanors—is something of a nearly universal appeal, whether to Muslim Indonesians or Catholic Peruvians (*op. cit.*, p. 355).*

2.3. Culture and Social Class

As Bourdieu has convincingly shown, culture always has to be considered in terms of class positions. According to him, taste is deeply rooted in people’s concrete living conditions, so that different lifestyles correspond to different societal positions, symbolically translating objective circumstances (Bourdieu

and de Saint Martin 1976). Bourdieu calls *habitus* the ethical and aesthetical systems of classification that convert social and economic differences into individual or group preferences, which become habitual and are taken for granted as being natural (*op. cit.*, p. 18). Constituted of unconscious dispositions, skills, and practices, *habitus* is tacit and results from the process of socialization within a class and status environment (Lizardo 2010). Interaction in the family, with neighbors, friends and at school produces these enduring though dynamic cognitive structures. This dynamic has to do with social change as well as with changes in the social position of individuals. For example, formal education is a major factor in the achievement of cultural capital, which, according to Bourdieu (1979), refers to educational qualifications and distinction through the disposal of technical, scientific and artistic knowledge. Another example of change is provided by processes of upward social mobility, which normally entail breaks with the past and a search for new identities and values (Singer 2015).

Discussing the interplay of culture and social class, Kracauer stated that the success of a particular cultural product can be explained only by the needs of the consumers, “who greedily devour certain components while decisively rejecting others” (2005b, p. 570). The author stresses that if we look at well-succeeded cultural products, we will see that they satisfy consumers’ needs in one way or another. That means that the fame of cultural products is related to their capacity of functioning as “responses to widespread tendencies in the social environment” (*op. cit.*, p. 570). Thus, according to Kracauer, in order to

achieve success as a commodity, a cultural product has to satisfy the demands of a social stratum of consumers. And these “demands are much too general and constant for their direction to be determined by private inclinations or mere suggestion. They must be based on the social relations of the consumers” (*op. cit.*, p. 571). When Kracauer wrote that in the early 1930s, the middle classes in Germany were “on the verge of dissolution” (*op. cit.*, p. 571) due to high inflation, concentration of capital, increasing rationalization, and the general crisis his country was facing, all of this leading to the impoverishment of these social layers. According to him, the consumption of bestsellers by the decaying middle classes worked as “(mainly unconscious) *measures they are taking for their own protection*; for it can certainly be assumed that books which are hugely successful are precisely those which either represent or support such measures” (*op. cit.*, p. 574).

3. Methodology

I prepared and administered an electronic questionnaire, which was distributed and shared on online fanbases, especially via Facebook. The research then targeted interpretive communities (Sandvoss 2010) of fans of Korean pop culture. Five versions of the same questionnaire were prepared, one for each country and in accordance with the language (Portuguese and linguistic variations of Spanish), currency and education system of each nation. The survey contained 13 questions addressing: gender, age, education level, family income, first

contact with Korean pop, preferences within Korean pop, platforms used to consume Korean pop, appealing aspects of Korean pop, how modern South Korea is perceived compared to their home country, and their likeliness or desire to learn Korean, study, work or live in South Korea. All the questions were multiple-choice and, except for the questions about first contact with Korean pop and on its appealing aspects, they allowed for only a single answer. For the question concerning income, the answers were divided in ranges of US\$ 500 and converted into national currencies. The five questionnaires were available online between June and July 2016 and altogether had 1,706 respondents: 636 from Brazil, 584 from Argentina, 237 from Mexico, 169 from Chile and 80 from Peru. The sections below present the results of the survey, carry out a discussion of these results and finally put forth a series of conclusions and suggestions for enhancing cooperation between Latin America and South Korea based on the dissemination of Hallyu.

4. Case Studies: Argentina, Brazil, Chile, Mexico and Peru

4.1. Argentina

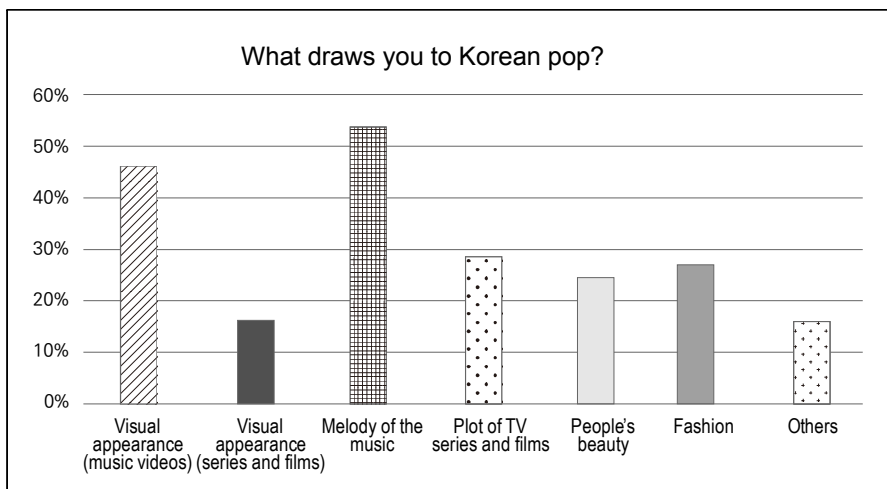
Korean pop culture in Argentina has to be regarded through the prism of its capital, Buenos Aires, which largely concentrates the country's population and its economic and cultural flows (nearly one third of Argentines live in the metro area of Buenos Aires). The South Korean government implemented

policies of cultural promotion during the past decade in the country's most important city by way of the Embassy of the Republic of Korea and the Korean Cultural Center of Latin America. Korean soap operas have never been very popular in Argentina and Korean films have always been more associated with the circuit of art-house movies and enjoyed a specific audience (Iadevito 2014, p. 140). On the other hand, it did not take long for Korean pop music to spread across the country: "The first local appearances of K-pop go back to 2004, though greater visibility and receptiveness has been achieved through the yearly contest that the Korean Cultural Center of Latin America has been doing since 2010" (Iadevito 2014, p. 141). Super Junior's concert in Buenos Aires in 2012 was a landmark event for K-Pop's penetration in the La Plata River Basin (Iadevito 2014, p. 142).

The questionnaire used for this study was posted on the Internet pages of fan groups based in Buenos Aires as well as in the provinces, generating 584 responses. In terms of gender, 90.4% of the respondents reported to be female and 9.6% male. As for age, 43.0% of the Argentine K-Pop fans are between 16 and 20 years old; 28.5% between 21 and 25 years; 11.9% between 26 and 30 years; 8.6% are aged 31 or over; and 7.9% are under the age of 15. Concerning their level of schooling, 44.7% informed they had already concluded or were attending college; 43.5% had already concluded or were attending secondary education; and 11.8% had already concluded or were attending graduate level. None of the respondents had only attended or was attending primary school. In terms of income, 36.4% of the respondents

reported that their families received between US\$ 500 to US\$ 1,000 monthly; 26.9% under US\$ 500; and 20.9% from US\$ 1,000 to US\$ 1,500. With higher levels of income, the portion falls: 9.2% earned between US\$ 1,500 and US\$ 2,000; 4.1% US\$ 2,000 to US\$ 2,500; and only 2.4% reported to make over US\$ 2,500 a month. Up to 71.7% of the Argentine fans had their first contact with Korean pop culture through videos or music on the Internet, whereas 32.6% first heard about Korean pop through friends; to a lesser extent, other sources were news stories on the Internet or on the newspapers (4.7%), hearing about it somewhere else (3.8%) and going to a concert (1.4%). Within Korean pop culture, respondents reported to like music the most (72.3%), followed by TV series (23.2%), others (3.4%) and films (1.0%). YouTube is by far the most popular platform for consuming K-Pop: 85.0% of the fans use it. Streaming websites that show films and TV series (6.7%), apps (4.1%), other media (2.2%), streaming websites for music (1.7%) and podcasts (0.2%) made up the other sources.

Graph 1. Appeal of Korean pop for Argentine fans



Source: Author's survey (2016).

More than half of Argentine fans (53.9%) stated that they are especially drawn by the melody of K-Pop music. The visual appearance of the music videos (in terms of scenery and technology, for example) attracts 46.1% of them; nearly one fourth name the plot of series and films (28.6%), fashion (27.0%) and the beauty of the people in music videos, series or films (24.4%) as an appealing factor. Ranking behind these are the visual appearance of the TV series and films (sceneries, for instance) at 16.4%, and others, at 16.0%. Asked to indicate how “modern” they perceive South Korea is when compared to their home country, 57.8% of the fans pointed out that the old and the new intertwine in South Korea. Those that stated everything is more modern in South Korea than in Argentina amounted to 38.6%, while 1.9% chose others,

1.4% said that everything is as modern in South Korea as in Argentina, and 0.2% believe that everything is more modern in Argentina than in South Korea. Among Hallyu fans, 75.0% would like to learn the Korean language; 21.9% already do so or have done so in the past; and 3.1% have no interest in learning it. 53.8% of Argentine fans are highly interested in studying in South Korea; 35.2% have some interest in doing so; and 11.0% stated no interest. Half of the respondents (50.1%) claim that they are highly interested in working in South Korea; 39.8% have some interest; and 10.2% would not be keen to do so. The idea of living in South Korea also attracts most K-Pop fans: 52.5% would really like to live in the country and 37.9% have some interest in living there, whereas 9.6% do not want to do so.

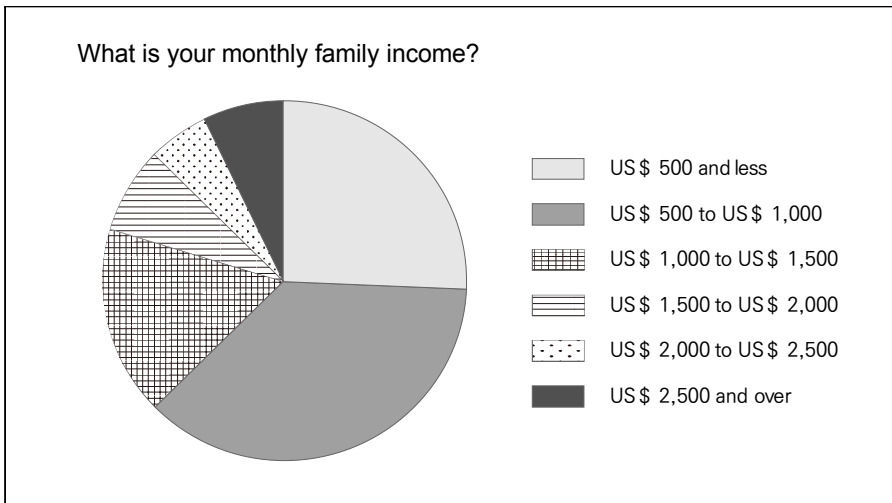
4.2. Brazil

The spread of Hallyu in Brazil follows the same trend as observed in Argentina; it has started to become popular here in the last decade. In 2011, concerts by the K-Pop groups BEAST and 4 Minute were held in the country's largest city, São Paulo (Jang and Kim 2013, p. 87; Canário 2015, p. 3). Additionally, in the past years, the South Korean consulate in São Paulo has been very active in promoting Korean culture through semi-free Korean language courses offered at one of its offices in São Paulo's Koreatown (named Bom Retiro) and, more recently, by means of the newly opened Korean Culture Center of São Paulo.

In Brazil, 636 respondents completed the survey, which was posted on websites and Internet pages of fan groups based in São Paulo, Rio de Janeiro and elsewhere. It was also the case here that the majority of the fans are female (93.9%), with only a minor fraction being male (6.1%). In terms of age, 46.1% of Brazilian Hallyu fans are between the ages of 16 and 20; 26.9 % are between 21 and 25; 9.9% are under 15; 9.3% are aged between 26 and 30 years; and 7.9% are 31 or older. More than half of the Brazilian respondents (52.1%) have already concluded or are attending college; 35.1% have already concluded or are attending secondary education; 7.0% have already concluded or are attending primary education; and 5.9% have concluded or are attending graduate school. Over one third of the fans (36.9%) declare that their monthly family income ranges between US\$ 500 and US\$ 1,000; another fourth (25.7%) say their income is below US\$ 500 a month; 17.1% earn between US\$ 1,000 and US\$ 1,500; 7.5% from US\$ 1,500 to US\$ 2,000; 5.6% from US\$ 2,000 to US\$ 2,500; and 7.2% earn over US\$ 2,500 a month. Up to 71.6% of the Brazilian fans had their first contact with Korean pop culture through videos or music on the Internet, and 37.6% heard about it through friends. Other sources were less important: 8.4% had contact through news stories on the Internet or in newspapers; 5.4% heard about it somewhere else and 1.3% first experienced K-Pop by going to a concert. Music is the favorite aspect of Korean pop culture in Brazil: 81.0% report to like it most of all, whereas 15.3% prefer TV series, 2.5% others and 1.3% films. K-Pop consumption mostly takes place on YouTube (81.1%), followed by streaming websites exhibiting films

and series (10.7%), apps (3.8%), streaming websites for music (3.0%), others (1.3%) and podcasts (0.2%).

Graph 2. Family income of Brazilian fans



Source: Author's survey (2016).

The two most important appealing aspects of Korean pop culture for Brazilian fans are the melody of K-Pop music (64.3%) and the visual appearance of the music videos (56.6%). The fans also mentioned fashion (35.4%), the plots of TV series and films (35.1%), the beauty of the people in music videos, series or films (30.8%), the visual appearance of the series and films (25.2%), and others (20.6%). As to the question of how “modern” they perceive South Korea to be when compared to their home country, 69.3% of the Brazilian fans

see an intertwinement of the old and the new in the East Asian nation; 24.1% answered that everything is more modern in South Korea than in Brazil; 5.5% chose others; and 1.1% stated that everything is as modern in South Korea as in Brazil. No respondent said that Brazil seemed more modern than South Korea. Most of the respondents would like to learn the Korean language (64.7%), but about one third of them already do or have done so (32.8%), and only 2.5% claim to have no interest in the language. Meanwhile, 61.1% of the fans in Brazil are highly interested in studying in South Korea; 29.6% have some interest in doing so; and 9.2% say they are not interested. The idea of working in South Korea seems very appealing to 45.8% of the respondents, whereas 37.6% are somewhat interested and 16.6% do not show any interest at all. The survey also revealed that 51.5% of Brazilian K-Pop fans would really like to live in South Korea; 33.5% have some interest in it, and 15.0% have no interest at all.

4.3. Chile

In Chile, though the Korean TV series “Stairs to Heaven” first aired in 2006, it was not until 2009, when K-Pop cover dance groups began to form, that Korean pop culture actually started to spread across the country, with K-Pop music became its quintessential representative. Concerts were held from 2012 onwards.³⁾

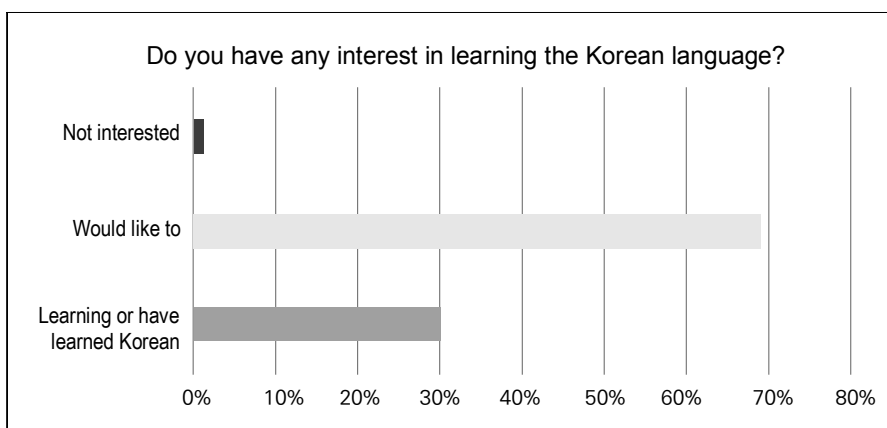
3) Min, Wonjung (2015), Korean Wave in Latin America: K-pop Reception and Participatory Fan

The survey had 169 respondents from Chile, who accessed the questionnaire via the Internet pages of fan bases that shared it. Similar to the figures from Argentina and Brazil, 93.4% of the Chilean fans are female and 6.6% are male. In terms of age, 36.7% are between 16 and 20 years of age; 28.4% are between 21 and 25; 15.4% are aged 31 or older; 10.7% are between 26 and 30; and 8.9% are under 15. Over half (55.6%) of the respondents in Chile have already concluded or are attending post-secondary education; 34.3% have already concluded or are attending secondary education; 5.9% have already concluded or are attending graduate school; and 4.1% have concluded or are attending primary school. The monthly family income of about 80% of the Chilean fans falls under the first three income brackets in the survey: 30.7% of them earn between US\$ 500 and US\$ 1,000; 25.2% from US\$ 1,000 to US\$ 1,500; and 23.9% under US\$ 500. Only 8.0% earn more than US\$ 2,500 a month; 6.7% between US\$ 1,500 and US\$ 2,000; and 5.5% from US\$ 2,000 to US\$ 2,500. In Chile, the majority of the fans had their first contact with Korean pop culture through videos or music on the Internet (59.8%) or through friends (38.5%). Other sources were news stories on the Internet or in newspapers (9.5%), hearing about it somewhere else (6.5%) and going to a concert (3.0%). Music is the favorite element of Korean pop culture for 67.5% of Chilean fans, whereas 24.3% like TV series the most, 5.9% answered others and 2.4% said

Culture, Nam Center for Korean Studies Colloquium Series lecture, University of Michigan. (September 16) Available at <https://www.youtube.com/watch?v=eCOlrqiapdk&feature=youtu.be> (accessed July 25, 2016).

they preferred films. As in other countries in Latin America, YouTube is the most used platform to access K-Pop content in Chile, with 80.5% reporting to use it. Besides YouTube, other platforms mentioned were streaming websites exhibiting films and series (7.7%), apps (6.5%), others (3.6%) and streaming websites for music (1.8%).

Graph 3. Interest for the Korean language among Chilean fans



Source: Author's survey (2016).

When asked about what draws them to Korean pop culture, 48.8% of the Chilean respondents chose the melody of K-Pop music; 41.1% the visual appearance of the music videos, and 29.8% the plot of TV series and films. Both the fashion and the beauty of the people in music videos, TV series or films had the same percentage of responses at 21.4%, whereas 17.9% named others and 14.9% the visual appearance of the series and films. The old and

the new intertwine in South Korea according to 66.7% of the Chilean fans, while 29.2% consider everything to be more modern in South Korea than in Chile. Only 3.6% responded others, 0.6% that everything is as modern in South Korea as in Chile and no one believed that everything is more modern in Chile than in South Korea. As for the Korean language, 69.0% of the respondents would like to learn it, whereas 29.8% of them already do or have done so in the past; 1.2% show no interest in this language. Studying in South Korea is very appealing to 62.1% of the Chilean K-poppers; 32.5% have some interest in doing so; and 5.3% do not have any interest. 60.4% show a strong interest in working in South Korea; 30.8% have some interest; and 8.9% are not interested in it at all. 66.3% of the fans from Chile would really like to live in South Korea; 29.0% have some degree of interest in it; and 4.7% are not attracted by this idea.

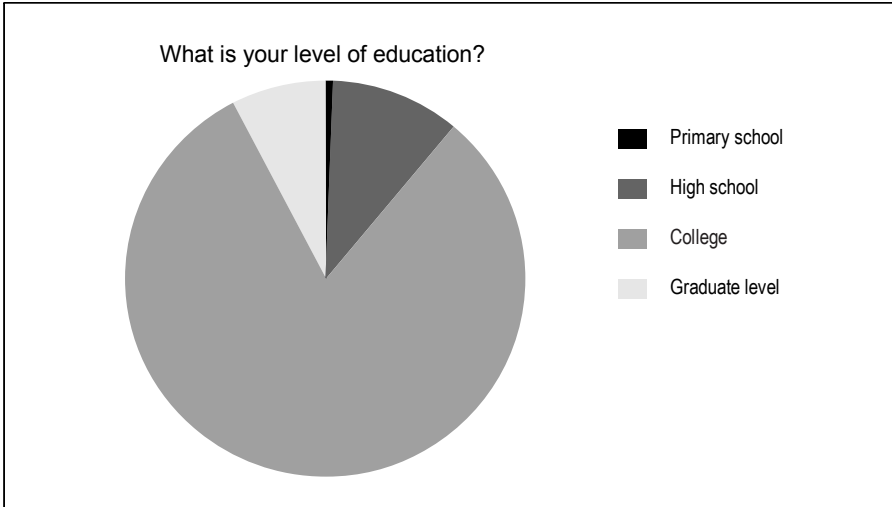
4.4. Mexico

According to Rocha, the origins of Hallyu in Mexico can be sought in the dissemination of Korean soap operas, or “dramas” (드라마), which started to be broadcasted and promoted on Mexican television in 2002; however, it was only years later that Korean pop culture started to accumulate fans, and music has more recently become a vital element of Hallyu in Mexico (Rocha 2012).

Posted on the Internet pages of Mexican fan groups, the survey had 237 respondents, of which 90.2% were female, and 9.8% male—which corresponds

to the results from other countries. More than half (53.4%) are between 16 and 20 years of age; another one fourth (25.0%) are between 21 and 25; 8.9% are under the age of 15; 8.5% are between 26 and 30; and the smallest fraction, 4.2%, is 31 or older. The vast majority of the Mexican fans (81.3%) have already concluded or are attending college; 10.6% of them have already concluded or are attending secondary education; 7.7% have concluded or are attending graduate school; and 0.4% have already concluded or are attending primary education. A little less than half (47.7%) of respondents have family income of under US\$ 500 a month; 30.0% reported family income to range from between US\$ 500 to US\$ 1,000; 8.6% say their monthly income is between US\$ 1,500 and US\$ 2,000; 7.3% between US\$ 1,000 and US\$ 1,500; 3.6% more than US\$ 2,500; and 2.7% from US\$ 2,000 to US\$ 2,500. The percentage of Mexican fans that reported their first contact with Korean pop culture to be through videos or music on the Internet stands at 71.9%, very close to the results in Argentina and in Brazil. Meanwhile, 31.1% heard about it through friends; 4.7% heard about it elsewhere; 3.0% had contact with it through news stories on the Internet or in newspapers; and only 0.4% by attending a concert. The Mexican respondent's favorite part of Korean pop culture is the music on account of its melody (71.6%); another 22.5% like TV series most; 5.5% mentioned others; and 0.4% prefer films. The main platforms for K-Pop consumption are YouTube, at 83.5%, followed by apps (9.3%), streaming websites exhibiting films and series (3.4%), streaming websites for music (2.1%), and others (1.7%).

Graph 4. Education of Mexican fans



Source: Author's survey (2016).

For about half of Mexican fans, the attractiveness of K-Pop rests especially in the melody of its music (47.9%), followed by the visual appearance of the music videos (36.9%), the beauty of the people in music videos, TV series or films (20.3%), the plot of TV series and films (19.1%), the fashion (14.8%), the visual appearance of TV series and films (11.9%), and others (11.0%). According to most of the Mexican respondents (65.3%), the old and the new intertwine in South Korea. 29.7% consider that everything is more modern in South Korea than in Mexico; 3.8% chose others; and 1.3% said that everything is as modern in South Korea as in Mexico. Mexico does not seem to be more modern than South Korea for any of the respondents. The vast majority of

Mexican fans would like to learn the Korean language (82.5%); 16.7% already learn it or have learned it in the past; and only 0.9% do not have any interest in the language. An overwhelming majority of fans in Mexico has some degree of interest in studying in South Korea: 64.4% are highly interested and 30.5% have some interest in it, whereas 5.1% claim to have no interest at all. Working in South Korea is very appealing to 57.2% of the respondents; 33.5% have some interest in doing so; and 9.3% are not interested in working there. Regarding interest in living in South Korea, the results were also overwhelming: 64.6% really wish to live in South Korea; 28.3% have some degree of interest in it; and 7.2% show no desire to live there.

4.5. Peru

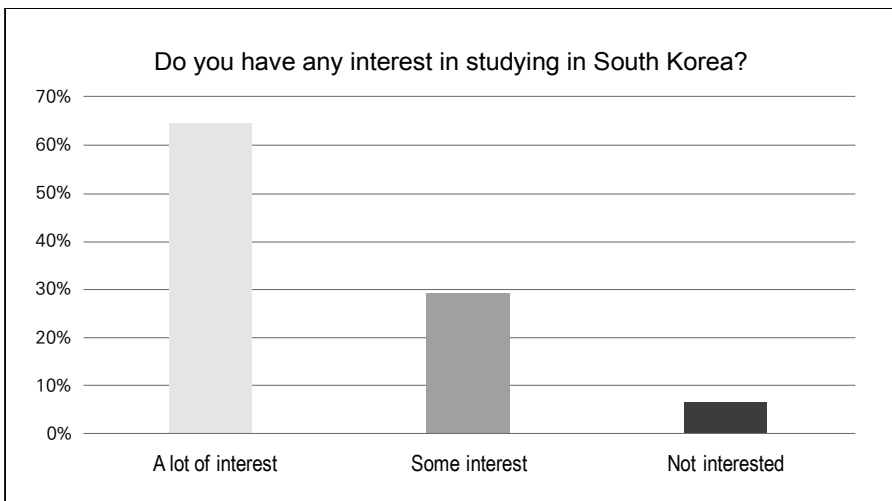
The diffusion of Korean pop culture in Peru dates back to the early 2000s, with the airing of Korean TV series supplied by the South Korean government on various Peruvian television networks—from 2002 to 2011, twenty Korean “dramas” were broadcast (Ko and others 2014a, p. 303). Following that, and as a result of “the growing public interest in Korean culture and media products, on March 11, 2012, Peru hosted the first concert of the Korean idol group JYJ” (*op. cit.*, p. 303).

The Peruvian survey was posted on the Internet pages of fan bases and had 80 respondents. As an equal amount of effort was placed in disseminating the questionnaire among the fan bases from Peru as among K-Pop communities in

the four countries above, Peruvian fans displayed a lesser degree of responsiveness to the poll in comparison with their other Latin American counterparts. Despite this, the number of participants is significant for a fair characterization of the dynamics of Korean pop culture in Peru. Similar to the results from Argentina, Brazil, Chile and Mexico, 91.3% of the Peruvian respondents were female and 8.7% male. About half of them (49.4%) are between 16 and 20 years of age, whereas slightly less than a third (31.6%) are between 21 and 25, 11.4% are under 15, 6.3% are between 26 and 30 and only 1.3% are over 31 years of age. The proportion of Peruvian fans that have already concluded or are attending college, though not as high as in Mexico, is also large at 65.0%. Another 31.3% have already concluded or are attending secondary education; 3.8% have already concluded or are attending graduate school; and none reported to only have concluded primary school. The majority of the respondents from Peru count on a monthly family income that does not exceed US\$ 1,000: 41.6% receive less than US\$ 500 and 37.7% from US\$ 500 to US\$ 1,000 per month; 10.4% earn between US\$ 1,500 and US\$ 2,000, 6.5% from US\$ 1,500 to US\$ 2,000 and 3.9% over US\$ 2,500 a month. No respondent declared an income of US\$ 2,000 to US\$ 2,500. Most Peruvian fans had their first contact with Korean pop culture through videos or music on the Internet (56.3%). Friends are another important source (41.3%), followed by news stories on the Internet or in newspapers (10.0%), hearing about it somewhere else (6.3%) and going to a concert (1.3%). Music is the favorite element of the Korean pop culture for 78.8% of the respondents in Peru, whereas 11.3%

mentioned others, 8.8% TV series and 1.3% films. YouTube is unquestionably the most widely used platform for consuming K-Pop content among the Peruvian fans (85.0%), followed by others (6.3%), streaming websites for music (5.0%), streaming websites exhibiting films and series (2.5%), and apps (1.3%).

Graph 5. Interest in studying in South Korea among Peruvian fans



Source: Author's survey (2016).

The melody of K-Pop music exerts the greatest attraction in Peru (46.3%), followed by the visual appearance of the music videos (36.3%), the beauty of the people in music videos, TV series or films (26.3%), others (20.0%), the fashion (18.8%), the plot of TV series and films (11.3%), and the visual

appearance of the TV series and films (8.8%). Of Peruvian fans, 55.0% perceive an intertwinement of the old and the new in South Korea, whereas 41.3% say that, in the latter, everything is more modern than in Peru and 3.8% chose others. None of the respondents said that Peru seems more modern than South Korea or that both countries are equally modern. While 75.9% of the Peruvian fans would like to learn the Korean language, 20.3% of them already do or have done so, and 3.8% exhibit no interest. Studying in South Korea is of high interest among 64.6% of the K-poppers in Peru; 29.1% have some interest in carrying out their studies there; and 6.3% say they are not interested in it. Working in South Korea seems very appealing to 58.8% of the respondents, whereas 33.8% are somewhat interested and 7.5% do not show interest at all. Finally, the same 58.8% of the Peruvian fans would really like to live in South Korea; 36.3% have some interest, and 5.0% have no interest at all.

4.6. Case Studies in a Comparative Perspective

The questionnaires carried out in the five countries provide a demographic and socio-economic profile of Latin American fans of K-Pop and, at the same time, seek to reflect likes, dislikes and aspirations brought about by the world of Korean pop culture. During the 2000s, K-Pop penetrated the region, but it was not until the 2010s that it gained momentum in the subcontinent, especially through K-Pop music. Nonetheless, as will be discussed below, this has not corresponded to a widespread pop culture phenomenon appealing to all youth

in these countries, but rather succeeds in line with markers of social class. The results of the survey show that Latin American fans of Korean pop culture are, by and large, young females. In each of the five countries, the proportion of female fans was above 90%, their ages ranging mostly from 16 to 25 and the majority attending high school or college. The monthly household income of the fans may be diverse, but they are vastly concentrated among the first three brackets (up to US\$ 1,500). In Argentina and Chile, distribution among the brackets is slightly more even, whereas in Brazil, Mexico and Peru, concentration in the lower brackets is more prominent. Though the cost of life does indeed vary among these countries and their income levels may not immediately be comparable to those of wealthier nations, it is however noteworthy that the fans come from lower-income families in these Latin American societies. Yet this does not imply that the fans' families are poor, but rather that their socioeconomic level indicates that they range from more humble to lower-middle-class families.

Latin American fans had their first contact with Korean pop culture primarily through videos or music on the Internet and, secondly, through friends. They use YouTube as platform to consume K-Pop content, as indicated by more than 80% of the responses in all countries. On YouTube, the majority of fans (from 70% to 80%) searches for K-Pop music, and Korean TV series, in second place, are also sought out by many viewers. It is with this in mind that one should read the results which indicate that the visual appearance of the music videos and the melody of K-Pop songs are the elements that attract fans the most in the realm of Korean pop culture. Along with the former, other visual impressions,

such as the beauty of the people (musicians or actors), fashion and the visual appearance of the series and films, are also frequently mentioned as being attractive. Brazilians, Chileans and Argentines mention the plot of series and films more often than Mexicans and Peruvians.

The last part of the survey deals with the image or representation Latin American fans have of South Korea. This perception must be understood, on the one hand, as arising from the social reality of these societies and the imaginary about East Asia and South Korea that circulates in them, yet, at the same time, as profoundly influenced, impacted or reconstructed by contact with Korean pop culture. By and large, Hallyu fans see the old and the new, or the traditional and modern, as intertwined in South Korea, which is followed by the perception that the country is more modern than their home nations. Arguably due to Korean pop culture, South Korea attracts them greatly, as expressed in their desire for studying, working and living in this country.

5. Discussion

The dynamics of the consumption of Korean pop culture by Latin American fans is related to their social class origin. As the survey shows, the fans in Argentina, Brazil, Chile, Mexico and Peru come from lower-income families. As I could observe in São Paulo, and as Min⁴⁾ points out regarding Santiago,

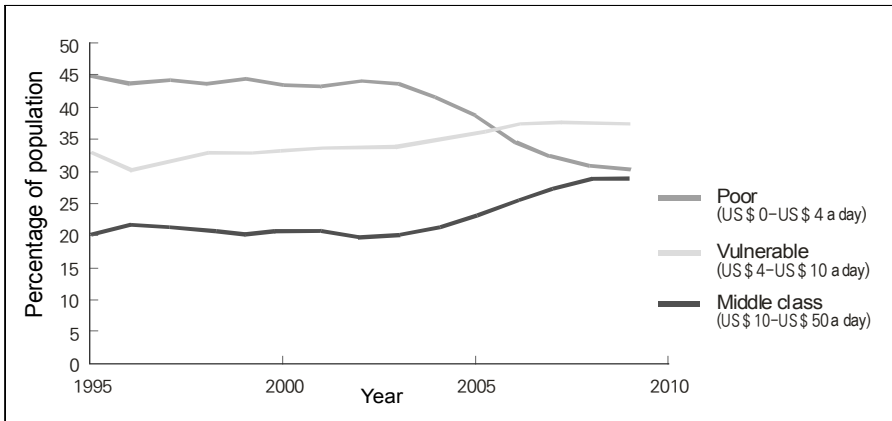
4) Min, *op. cit.*

Brazilian and Chilean upper-middle and upper classes either do not know or seem to ignore K-Pop, the genre rather seeing popularity among young people with lower-income backgrounds, as evidenced by the survey results of fans in five Latin American countries. The findings by Ko and others with regard to fans in São Paulo and Lima (Peru) are in the same vein: having surveyed approximately 300 individuals in these two cities, the authors conclude that the respondents possessed “a high level of education status in addition to a low economic status as determined by their net average annual income and the regions in which they resided” (2014a, p. 321). Hallyu is thus especially disseminated among lower-class and lower-middle-class young people in these Latin American countries. The discussion carried out by Bourdieu illuminates the fact that taste and lifestyle are not “natural,” but rather depend on class belonging. This belonging generates a specific habitus, which, if owing to class position, also possesses a relative autonomy and changes along time as well as due to social transformations. The question now is to inquire about possible reasons for this class-specific taste lower-class and lower-middle-class young Latin Americans have developed for K-Pop. And I believe that the explanation for this must be sought within the processes of social change that took place in the region in the 2000s and continued until the early 2010s.

During the first decade of the 2000s, Latin America did not experience any major economic crises—the important exception is the Argentine crisis of 2001, which, nonetheless, was followed soon afterwards by high rates of growth. On the contrary, improvements of living standards marked the decade in this

region, and this was especially the case with regard to the lower-income population. Argentina recovered from the crisis and displayed high growth rates, concurrently developing state policies to fight poverty. Brazil experienced a massive process of upward social mobility, facilitated by income transfer policies and a dramatic increase in higher education enrolment, be it through the expansion of public (and free) universities or through subsidies to students attending private institutions. Chile has grown steadily over the past decade, eliminating poverty and sustaining high levels of prosperity and human development. Mexico made advances in reducing poverty and improving the situation of lower-income families. And Peru managed to significantly reduce poverty rates through strong growth in employment and income. In the region as a whole, the improvements in the situation of lower-income families led economists and sociologists to speak of the rise of a new middle class, composed by families who moved upward from former poverty (Barozet and Fierro 2011; Pochmann 2012; Singer 2015; Souza 2010; Arellano 2010; Huber and Lamas 2016; Ferreira and others 2013).

Graph 6. Trends in middle class, vulnerability, and poverty in Latin America and the Caribbean, 1995-2009



Source: Ferreira and others (2013).

In terms of the economic realities of the countries, if the family incomes of the Hallyu fans are converted in US dollars using PPP exchange rates, the result of the first two brackets—incomes up to US\$ 1,000—translate to purchasing power of up to US\$ 1,950 for Brazil, US\$ 1,750 for Chile, US\$ 2,000 for Mexico and US\$ 2,100 for Peru. For Argentina, the result is US\$ 5,000, but PPP may have been affected by the over-valuation of the dollar in Argentina in the past few years due to the policy of currency exchange control the Argentine government has adopted. Given the fact that most of the families of K-Pop fans in these five Latin American countries fall into these first two income brackets – in Argentina and Chile, the proportion of fans whose family income falls into the third bracket is higher, from 20% to 25% –, one can conclude that they

compose a lower-middle class within their societies. That being the case, the families that Hallyu fans belong to have been at the core of the substantial process of social upward mobility that the region has experienced. In countries such as Brazil, the massive expansion of public and free college education has helped to boost the process of upward social mobility.

In this context of upward social mobility with changing values and identities, it seems that Korean pop culture has been discovered by lower-middle-class young people in Latin America as a reference and a source of inspiration. As pointed out by Singer (2015), processes of upward social mobility bring about ruptures with the past and a quest for new values and identities. Along with income growth, the region experienced the expansion and availability of higher education. The generation that consumes Hallyu is undergoing these combined processes. Education is a means of acquiring cultural capital (Bourdieu 1979). It provides elements for developing a new youth culture in an age of technology and globalization, in which the other side of the world can instantly be transported onto a screen or a speaker in a bedroom or on a bus in Buenos Aires, Lima or São Paulo. This new youth culture breaks with former social markers and entails a certain view of modernity and society. Maintaining Kracauer's (2005b) insight but inverting his analysis of Germany in the 1930s, one could say that within middle classes on the verge of constitution in Latin America, the consumption of Korean pop culture works as a (mainly unconscious) cultural enhancer supporting social mobility. At the same time that it is a product of the culture industry, Korean pop culture is actively mobilized by the

fans as a cultural enhancer, hence the relevance of the notion of performative consumption (Hills 2007).

Hallyu, and within it especially K-Pop videos, manages to compose powerful images of a new sort of cosmopolitanism that South Korea aspires to. Most Latin American young fans regard South Korea as being more “modern” than their own countries and this perception is arguably informed by the consumption of Korean pop culture. Beyond this, the majority of these fans consider this “modernity” to additionally be intertwined with tradition. An imaginary about East Asia (China, Japan and South Korea) comes into play here, as a place where, despite advancements in terms of technology, traditions have not vanished. Furthermore, East Asia appeals to the Western world as a land of exoticism—in the realm of customs, physical appearances, food, etc. This social imaginary, discussed by Said (1978) under the name of orientalism, stems from Western imperialism and colonial rule, and remains in force today. The appeal of the “traditional” certainly plays a role in K-Pop, as Lie (2012; 2015) has already noted. But the “traditional,” which supposedly co-exists with the “modern” in South Korea, is itself a product and a dimension of Korean compressed modernity. It is the latter, with its traditional-like elements, that sparks the imagination of young fans in Latin America.

Addressing the consumption of Hallyu by Chinese young people, Oh (2009) contends that an important factor is the role played by forward learning. Forward learning refers to acquiring knowledge and culture from a country perceived as more developed, and is closely linked to processes of upward

social mobility. In the same vein, Käng (2014), discussing tastes for K-Pop among young Thais, identifies the growth of the middle class in Thailand and the consumption of Korean pop culture as an expression of the aspirations for development and cosmopolitanism that this new middle class sees embodied in South Korea and in Korean cultural products. In both cases, the image of Korean opulent and “cool” modernity that Hallyu presents seems to be a successful one. Notwithstanding that these two cases refer to other countries belonging to Asian civilizational space, I suggest that this image and imaginary of modernity that K-Pop encompasses has had a similar impact on developing Latin American societies, and this is especially true for lower-class and lower-middle-class young people experiencing processes of social upward mobility. Paraphrasing the idea of the “American Dream,” Jorquera (2016) speaks of the forging of a “Korean Dream” among Latin American fans, meaning that Hallyu consumers in the developing countries of the region seek to emulate and belong to an imaginary ideal society constructed through the images of K-Pop.

The results of the survey show that the appeal of K-Pop is manifold: in a multiple-choice question permitting more than one answer, fans declared liking the melody of the music in first place, but visual appearance, physical beauty and fashion also play an important role. The appeal of K-Pop is indeed related to the “fashion, music, beautiful sceneries, and the pleasures and plights of city life” (Lin and Tong 2008, p. 100) it continuously brings forward. K-Pop pulses with the beat of Seoul, its birthplace and hub. *Bipolar Orders*, a book published by Lynn almost a decade ago, presents the following picture of Seoul metropolitan

life: “Seoul seems to be a city of light and speed. Corporate headquarters gleam above glittering neon billboards, while a cacophonous stream of modern motorized traffic permeates the streets. The capitalist and the consumer can find sanctuary and occasion for joy everywhere” (2007, p. 56).

But the image and imaginary of Korean compressed modernity would not have reached other Asian countries and Latin America were it not for the skillfulness of the K-Pop industry in making its cultural products appealing and disseminating them abroad. On the one hand, the free provision of content on YouTube allowed it to bypass conventional music distributors who control distribution channels in the United States and Europe and to occupy a niche that had been neglected by these two pop music industries, but also by J-Pop (Lie 2012; Oh 2013; Oh and Lee 2013). On the other hand, if the music itself, and its melody, is highly appreciated by Latin American K-Pop fans, this is due in large part to the “dependable quality” of K-Pop’s products, combined with the fact that they are free of charge or cost little (Lie 2012, p. 359).

Analyses of K-Pop in other Asian countries have often argued that Korean pop culture is part of a new Asian cultural cosmopolitanism (Fung and others 2015; Käng 2014; Lin and Tong 2008). However, in the case of Latin American countries, which belong to a different civilizational area of the globe, it is not fitting to speak of such commonalities in order to understand the popularity of Hallyu. In contrast to Korea’s Asian neighbors, K-Pop in Latin America counts on the exoticism that stems exactly from the fact that it comes from the “Orient.” In line with what happens in China and Southeast Asia, Korean

modernity is attractive and functions as a role model for young people experiencing social mobility in Latin America. Moreover, whereas American pop culture has been around and prevailing for decades and is hardly able to offer something novel, K-Pop, on the other hand, provides a “new, colorful and cheerful start” (Messerlin and Shin 2013, p. 31).

This leads us to conclude that the niche that K-Pop occupies in the under-exploited segment of free music distribution combines with another niche: the consumers to whom its contents appeal. As Lie (2012) has suggested, American pop culture is pervaded by violence and the inescapable contradictions of urban life under capitalism. Indeed, American society and its problems resemble those of Latin America, such as urban violence and insecurity, the existence of gangs and drugs, and poverty co-existing with extreme wealth. K-Pop’s aesthetics is void of all such things and its performers invite social conciliation rather than conflict. In conflictive societies such as those in Latin American, Korean pop culture much probably works as a breath of hope pointing to a socially more harmonious and economically wealthier world. That may be understood in connection with Jameson’s (1992) proposition of utopian elements lying within products of the culture industry and allowing people to come to terms with social and political anxieties and fantasies. In the case of Latin American fans, K-Pop consumption functions as a mechanism of sublimation for these tensions and anxieties.

As Hall (2006) has shown, the reception and signification of visual discourses by their consumers compose an intricate process. The appeal of K-Pop cannot

solely be reduced to the messages it conveys, but it is also crucial to address the meanings attributed to it by its audiences. I suggest that the attraction of Latin American fans—who, as we know by means of the survey, stem from lower-income or lower-middle-class families in their countries—to Korean pop culture can be explained by a construction of meanings, whose elements are the valorization of Korean compressed modernity, the country's prosperity, the symbols of its urban life, the exotic appeal of Korean beauty, which is inextricably connected to prudish sexuality, and softness and sweetness as opposed to open conflict and violence. Just to mention one example regarding the last point, even though Korean pop music has been very heavily influenced by American black music (Lie 2012), nothing could be more different from American hip-hop than K-Rap. All of the social and cultural sources of conflict deriving from class and racial differences, which lie at the heart of this music style, not only in the United States, but also in France, Brazil and Mexico, are completely absent in South Korea. K-Rap is clean-cut, naïve, and has no “enemies” that underlie its very existence.

Put it another way: on the one hand, K-Pop itself features diverse elements of Korean compressed modernity; on the other hand, the way in which these elements are decoded, interpreted and transformed in social practices varies according to the context and to the agents. In this, the meanings attributed to Hallyu by European or American young people are different from those given by young people in Latin America, China or Southeast Asia—and the latter three are certainly not alike. The point to be made here is that the Korean Wave

hits Latin American societies in particular ways in accordance to their specific peripheral and semi-peripheral conditions. The class background of the fans and the social and economic situations of their countries translate into a great deal of admiration for South Korea, one that can be summarized within the strong impression made by its development. This could be captured by the last part of the questionnaire that surveyed the perceptions of fans about South Korea as well as their willingness to learn the Korean language, study, work and live in the country. Learning Korean is a declared goal for almost all of the fans, and 80% to 90% of them indicate that they wish to study, work or live in South Korea—I suspect the results would be quite different were these survey questions reproduced among young fans in North America and Europe. Based on these reflections, I now move on to some conclusions and policy-oriented recommendations made with the aim of enhancing cooperation between Latin America and South Korea.

6. Conclusions and Recommendations

Latin American K-Pop fans feel inclined towards South Korea, they are mostly of college age and they are pursuing higher education. They belong to a generation in Latin America that enjoys massive access to such higher education for the first time, which, until the 1990s, was more restricted and elitist. The massification of superior education took place at the same time the

Internet and cell phones spread across the world and the region. While there were 361 million Internet users across the globe in 2000, by 2010, there were nearly 2 billion. Latin America and the Caribbean had 18.1 million Internet users by 2000, a figure that climbed to 204.7 million by 2010: an increase of 1033%. In 2010, Brazil, with 75.9 million users, was in fifth position among the top ten countries in number of Internet users, coming after China, the United States, Japan and India, and ahead of countries such as Germany, the United Kingdom and France.⁵ As Oh states, “technological advancement in the 21st century has allowed for a primitive form of cosmopolitanism at least in the virtual world, where fans from all over the world can enjoy global content from various different countries, including Korea. Without this new digital technology (or real-time streaming and the new social media), the rise of K-Pop as it is recognized today would not have been possible” (2013, p. 404).

Equipped with technological tools and excelling in educational terms, young people from rising middle classes across the subcontinent discovered K-Pop, which has shown itself to be of great appeal to them. Moreover, K-Pop functions as a cultural gateway to South Korea and hence as an important element of new Korean soft power (Nye 1990) or cultural diplomacy (Waller 2008). In an article discussing the rise of South Korean soft power, Nye mentions Hallyu as one of its components, concluding that “South Korea has the resources to produce soft power, and its soft power is not prisoner to the

5) Available at <http://royal.pingdom.com/2010/10/22/incredible-growth-of-the-internet-since-2000> (accessed July 20, 2016).

geographical limitations that have constrained its hard power throughout its history. As a result, South Korea is beginning to design a foreign policy that will allow it to play a larger role in the international institutions and networks that will be essential to global governance.”⁶⁾

South Korea holds a unique position as a global player in the contemporary world order. It seeks to catch up with traditional core capitalist nations, such as the United States, Germany and Japan, and has achieved a great deal in this regard so far. But it remains different from these older powers, and this provides the country with advantages. South Korea is somewhere between rising powers, such as Brazil and Mexico, and, arguably, the only current world superpower, the United States. Pop culture from the United States along with its lifestyles, cities, food, brands and languages, as well as those of Europe and of Japan, have long been appealing to the middle-upper and upper classes of the developing world, and that is markedly the case in regards to Latin America. But Korean pop culture may be satisfying the needs and expectations of a rising Latin American youth, providing them with a fresh and cheerful start.

Hallyu should serve as a means of boosting South Korea’s placement in the new world scenario, contributing to the goals of positioning the country as an influent middle power with worldwide reach. Currently, South Korea possesses

6) Nye, Joseph S. (2009), “South Korea’s Growing Soft Power,” *The Korea Times*, (November 13), Available at http://www.koreatimes.co.kr/www/news/opinion/2009/11/160_55438.html (accessed March 15, 2016).

at least two important sources of soft power, which should be combined: One is its flourishing pop culture; the other its world-renowned technological, scientific and educational prowess. South Korea would greatly benefit and prosper if it turns itself into a hub for students from developing countries. As the survey revealed, currently the fans of K-Pop are highly willing to take part in the social and economic life of South Korea. The declining birth rate and the ageing of the population in South Korea demand policies in the short and medium terms to cope with these challenges. Attracting talented young people—who, in turn, are themselves already attracted by South Korea—to attend Korean universities can guarantee a source of qualified labor to the country, at the same time providing cultural diversity to the society.

In the course of their development, other nations have made similar moves. After the end of World War II, West Germany attracted immigrants from Turkey, Italy, Spain and Portugal—and also from South Korea—who helped rebuild a country devastated by war. More relevant here, however, and that seems to me an inspiring example for South Korea, is the successful experience of the German Academic Exchange Service (DAAD), which, for the past few decades, has managed to bring talented young people, especially from the Global South, to German universities, offering scholarships and providing assistance to individuals and, in some cases, their families. Through this policy carried out by DAAD, Germany seeks to project its name and image worldwide and likewise cope with the foreseen decline of its productive population in the near future—though falling birth rates are not as dramatic as

in South Korea. A portion of the master and Ph.D. scholarship holders financed by DAAD remain in Germany to work and live after they finish their degrees, while most of them return to the university or labor market in their home countries and become lifelong reference people for academic, scientific and economic cooperation with Germany. DAAD alumni usually do not lose contact with the institution, on the contrary, they continue to network, and an online portal guarantees that their personal information is always up to date.

One important difference between Germany and South Korea is that the former's soft power relies on the fact that German literature, humanities and science have a long-standing and good reputation. South Korea, on the other hand, has been building a good reputation in the area of science and technology for the past decades, its brands—such as Samsung, especially by virtue of its cell phones—have become renowned and, decisively, count on the fact of being “new” and having a vigorous export-oriented pop culture. These two last elements represent comparative advantages for South Korea in comparison to countries from Europe and North America. As a new middle power, South Korea is on its way to creating an international image and an international identity, in which Hallyu has come to be at the forefront. My core suggestion is therefore that South Korea focuses on bringing talented young Latin American people to the country's universities both in undergraduate and graduate levels relying on the popularity of Korean pop culture in countries such as Argentina, Brazil, Chile, Mexico and Peru. These countries were selected as case studies, but such a policy should apply to the subcontinent as a whole.

In countries such as Chile, Brazil and Argentina, university courses related to Korea are attended by students whose interest in the Asian country stems from Hallyu. Korean language class offerings in Latin American metropolises have been increasing in number. Among Hallyu fans, an opportunity for experiencing life and education in South Korea is highly valued. Expanding the scope of such opportunities, especially in the field of higher education, would be a sound policy move. I suggest that the National Institute for International Education and Korea Foundation, as well as universities in South Korea, target Latin American universities for partnerships and creating MoUs in order to establish or expand cooperation with them. The popularity of K-Pop among college-aged students provides demand for cooperation based on academic exchange, and represents a window of opportunity in the region. As DAAD's experience has shown, academic cooperation establishes solid and long-lasting ties between countries. Due to the fact that academic cooperation by definition connects people and networks of people, it has potential to entail further sustained cooperation, in the economic, commercial, technical and scientific fields. At the end of the 1990s, or even at the beginning of the 2000s, few would have imagined the scenario we currently have before us, in which Korean pop culture would be a vehicle for cooperation. Now is time to thoroughly explore this opportunity.

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ANNEX 1

Questionnaire

1. What is your gender?

Female

Male

2. How old are you?

15 years old or less

From 16 to 20 years old

From 21 to 25 years old

From 26 to 30 years old

31 years old or over

3. What is your level of schooling?

I concluded or I am attending primary school

I concluded or I am attending high school

I concluded or I am attending college

I concluded or I am attending graduate level

4. What is your family income?

Until US\$ 500 a month

From over US\$ 500 to US\$ 1,000 a month

- From over US\$ 1,000 to US\$ 1,500 a month
- From over US\$ 1,500 to US\$ 2,000 a month
- From over US\$ 2,000 to US\$ 2,500 a month
- More than US\$ 2,500 a month

5. How did you get to know the Korean pop?

- Through videos or music on internet
- Through friends
- I went to a concert
- I read something about it on internet or on the newspaper
- I heard about it

6. What do you like the most within Korean pop?

- Music
- TV series
- Films
- Others

7. Which platform do you use more often to consume Korean pop?

- YouTube
- Streaming websites (music)
- Streaming (TV series / films)
- Apps

Podcasts

Others

8. What draws you to Korean pop?

The visual appearance of the music videos (scenery, technology, etc)

The visual appearance of the series and films (sceneries)

The melody of the music

The plot of TV series and films

The beauty of the people in music videos, series or films

The fashion (clothes, accessories, etc)

Others

9. It seems to you that in South Korea:

Everything is more modern than in [country]

Everything is as modern as in [country]

Everything is older than in [country]

The old and the new are intertwined

Others

10. Do you have any interest in learning the Korean language?

Yes, by the way, I am learning or have learned Korean

Yes, I would like to learn Korean

I do not have interest in learning Korean

11. Do you have any interest in studying in South Korea?

- Yes, I have a lot of interest
- I have some interest
- I do not have interest

12. Do you have any interest in working in South Korea?

- Yes, I have a lot of interest
- I have some interest
- I do not have interest

13. Do you have any interest in living in South Korea?

- Yes, I have a lot of interest
- I have some interest
- I do not have interest

Productive Integration in Mercosur and Its Implications for Korea's Economic Cooperation with the Region

Uallace Moreira Lima*

Contents

1. Introduction
2. Productive Integration in MERCOSUR:
Recent Data and Analysis
3. Korea's Economic Cooperation with
MERCOSUR: an Arena for Great Opportunities?
4. Final Remarks and Policy Recommendations

1. Introduction

International trade is marked by a broad process of productive integration among countries in their regions, so that they engage in competitive participation in international trade following the logic of global value chains. Productive integration is associated with the development of the process of fragmentation

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on a regional and global basis among groups of countries, leading the international division of labor in a given production chain, the counterpart of which is the consolidation of intra-industry trade flows, industrial processing and export of more complex components or final products.

Productive integration is one of the aspects of the globalization process, which is associated with the expansion of foreign direct investment (FDI) and the contractual relationships that contribute to the growth of production in the world economy. These characteristics are part of the new strategies of the internationalization of production, which means that many industries leave their status as entities delimited nationally to the status of fragmented business networks in the world economy. Globally distributed companies will engage in the production of a good or service from its initial design to final consumption. This new strategy which gained strength mainly from the 1990s onwards along with the globalization of production is better known global value chains (GVCs).

With this new international trade dynamics, in 2000, intra-regional trade between Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela was US\$ 71,242 billion. In 2014, intraregional trade between those countries jumped to US\$ 110,773 billion, an increase of 205.5 percent, representing an average growth rate of 13.7 percent a year between 2000 and 2014.¹⁾ Even with this considerable trade growth between member countries of South America, it is notable that behind these highly positive

1) Indexes from the Economic Commission for Latin America and the Caribbean (ECLAC), available at http://estadisticas.cepal.org/cepalstat/WEB_CEPALSTAT/estadisticasIndicadores.asp?idioma=e.

results, it is observed that the production structures of the region's countries point to a low level of integration, most of the time. This results in the low utilization of economies of scale and specialization, as well as difficulties in the process of developing new capabilities and production of goods and/or services or differentiated from higher technology and value, and such facts affecting the international integration of the most competitive South American economies in world trade.

While South America is marked by these weaknesses in the productive integration process into global value chains, Korea is situated in a region marked by a high level of productive integration into global chains of sustained value and by exports of more intensive products and technology to gain market share in the world economy. In fact, Korea is a country that has an admirable track record of development featuring high-quality growth rate and structural transformation, especially through the consolidation of an industrial structure in which the most intensive sectors in technology are prevalent, such as the automotive, electronics and semiconductor industries.

So, on the one hand, South America's productive integration process is still incipient, and is but weakly integrated into global value chains. On the other hand, Korea is in the extensive process of productive integration in Asia, and has an industrial structure dominated by the most intensive sectors represented by technology companies with strong international participation and representation in world trade. From these two different situations, some questions can be raised and researched considering the possibilities of trade relations between

Korea and South America. First, how can Korea expand its trade relations with the countries of South America, and Mercosur in particular? Secondly, can trade relations between South America and Korea contribute to greater productive integration among the countries of the region? Finally, can this process of expanding trade relations between Korea and South American countries contribute to a more competitive integration of the countries of the region into global value chains?

In this scenario, this paper aims to analyze the productive integration process in South America and its dynamics and trends, based on the idea that productive integration is a phenomenon of limited occurrence in the region, despite the existence of fairly diversified industrial structures and the strong presence of large multinational companies in the region, especially when considering the most intensive sectors in technology. Furthermore, I discuss the political opportunities that can promote the growth of trade relations between Korea and South America, and seek to identify how this partnership can contribute to greater productive integration in South America and provide Korea with the opportunity to make a stronger entry into the region.

This paper is divided into two sections. The first section analyzes productive integration in South America, identifying its progress and weaknesses, as well as its prospects. The second section presents the evolution of trade between the countries of South America and Korea, identifying its main features and what strategies can be adopted to expand commercial relations between Korea and South America in the coming years.

2. Productive Integration in MERCOSUR: Recent Data and Analysis

2.1. The economic agenda of Mercosur in review

In the last decade, Mercosur (Southern Common Market)²⁾ showed particular improvement in its institutional capacity, which can contribute to greater integration between the countries of the region. Among the many advancements, it is worth noting the creation of the Permanent Court of Review (2002), the Mercosur Parliament (2005), the Mercosur Social Institute (2007), the Institute for Public Policy on Human Rights (2009), as well as the approval of the Strategic Plan for Mercosur Social Action (2010) and the establishment of the post of High General Representative of Mercosur (2010).

In the political dimension, besides horizontal expansion such as the incorporation of other South American countries on the condition of associate members, as in the case of Venezuela, the bloc also underwent institutional deepening because the Ouro Preto Protocol (1994) endowed international legal personality and strengthened its institutional structure. Another important event is the Olivos Protocol (2002), which established a Permanent Review Court to resolve any

2) Block composition-All countries in South America participate in the Mercosur, whether as a Member State or Associate State. ① State Parties: Argentina, Brazil, Paraguay, Uruguay (since March 26, 1991) and Venezuela (since August 12, 2012). ② State Party under the Accession Process: Bolivia (since December 7, 2012). ③ Associated States: Chile (since 1996), Peru (since 2003), Colombia, Ecuador (since 2004), Guyana and Suriname (both since 2013).

conflicts between member countries, giving more stability and predictability to economic agents. The creation of the Mercosur Parliament (2007) not only strengthened this institutional framework, but conferred greater legitimacy to the bloc, bringing it closer to the citizens of the member countries.

Moreover, it is important to highlight the creation of the Fund for Structural Convergence of Mercosur (FOCEM) in 2005, which aims to finance structural convergence projects and social cohesion by helping to mitigate the asymmetries between parties. In operation since 2007, FOCEM has a portfolio worth over US\$ 1.5 billion in projects, with particular benefit to smaller economies within the bloc. FOCEM is a key element in the deepening of the integration of the region's countries, as it aims to finance programs to improve infrastructure in the region, to increase competitiveness, social cohesion and the institutional strengthening of the regional integration process.

Measures such as the newly established Fund for Small and Microenterprise Financing, Wood Production Chain Supplier Development Program and Mercosur Mobile have also focused on strengthening the links between the production chains of the members of the sub-regional block with particular attention to smaller economies, such as Paraguay and Uruguay.

Regional integration strategies can assume different dimensions and characteristics, according to the area in which the mechanism is operated. In this regard, in recent years, beyond Mercosur with its economic agenda and policies to promote integration of member countries, the South American Nations Union (Unasur) has also contributed to the greater integration of

countries, being a forum which aims toward political coordination and trade integration in the region.

Unasur was established in 2008 and can be seen as a result of the evolution of political relations among the countries of South America. Unasur's primary proposal is to transcend the purely commercial aspect of integration and to boost investments in communications, transport, infrastructure, energy, education, culture, science and technology and defense. Upon signing the Constitutive Treaty of the South American Nations Union, Unasur obtained legal personality and an institutional structure composed by the Council of Heads of State and Government, Council of Foreign Ministers and the Council of Delegates. More recently, the Council of South American Defense was created under the auspices of Unasur.

Two aspects are relevant in Unasur. The first is that Unasur intends to be a structure capable of articulating and integrating the different economic blocs and countries in South America. Mercosur, the Andean Community of Nations, Chile, Guyana and Suriname would form a South American free trade area. The second point is related to its ambitious objectives, recognizing the need to have a flexible approach, respecting the different dynamics within countries, seeking the mitigation of asymmetries, indicating the need for a more equitable, industrial and productive integration.

Infrastructure is also a very relevant issue in promoting integration between the countries of the region. Unasur proposes that there is no regional integration without the integration of physical infrastructure, which is needed to reduce the

distances between people and to increase the competitiveness of the region's economies. The Council of Infrastructure and Planning of Unasur (Cosiplan) is the main forum for the integration of physical infrastructure in South America, aiming to provide high-level political support for project implementation.

Cosiplan incorporated the Initiative for Integration of Regional Infrastructure in South America (IIRSA) as its technical forum, taking advantage of the accumulated work undertaken in IIRSA between 2000 and 2010 with regard to territorial planning and the identification of the most important projects for the integration of regional infrastructure. Among the results already achieved by Cosiplan are the preparation of a Strategic Action Plan for ten years (2012-2022), which establishes a set of actions for each specific Cosiplan objective, and the definition of the Priority Projects Agenda, which comprises 31 strategic high-impact physical integration and regional socioeconomic development initiatives, with investments estimated at more than US\$ 16.7 billion.

Unasur contributes to the quantitative expansion of South American integration and the qualitative expansion of Mercosur. Unasur, to encourage the formation of a free trade area between the Andean Community and Mercosur, intensifies the integrative horizontal aspect, joining different actors. However, the mere formation of a free trade area is still a timid proposal, given the benefits of deeper integration and the challenges of the globalized world.

On the other hand, Mercosur is in fact the main tool to give depth and substance to regional integration through economic integration efforts. It is the element capable of ensuring a higher degree of regional interdependence, which

would prevent its dissolution for junctural reasons. The perspective of a consolidated common market in South America, which would be based on Mercosur, would have a much greater effect in generating greater mutual dependence between countries than a mere free trade area (Oliveira and Salgado 2011, pp. 10-11).

2.2. Current state of productive integration in Mercosur

Fragmentation is associated with the development of complex supply chains in which a portion or a particular component manufactured by a company could supply several product lines in different companies. Moreover, this same supplier can purchase parts and components of an extensive network of subsidiary suppliers which, in turn, have supply contracts with other manufacturers of parts and components. The fragmentation of production not only can cover various links in the production chain but can also reproduce the amount for each of the various stages of the production process.

In this sense, productive integration should be understood as the development of the production fragmentation process on a regional and global basis, which can facilitate the creation of an international division of labor in a given production chain. Here, the consideration is the consolidation of trade flows of intra-industry trade, where there are imported parts and components, industrial processing and export of more complex components or final products. However, it is relevant to note that sometimes there are circumstances where the outsourcing process leads only to the formation of local supplier networks that characterize a process of production without productive integration.

Furthermore, productive integration gives rise to commercial transactions and also to the establishment of partners in building strategic alliances comprising a balance between the principles of cooperation and competition, which can take different institutional forms. Among these forms, three can be highlighted: ① the alliance based on common integration activities, which lies in an evolution towards a more advanced stage of the production chain and marketing of goods, which was difficult to achieve on favorable terms by the members of the arrangement taken in isolation; ② alliances based on an additive configuration, i.e., linking two or more undertakings of a particular industry in order to enable an increase in scale, an enlargement of the internal market to businesses and a dampening of competition between the participating members; ③ alliances based on a complementary configuration, comprising two or more companies in order to allow an agglutination of assets and complementary skills controlled by each of its members, which increases the competitiveness of the same.

These movements, in general, are led by large companies in partnership with small and medium enterprises, generating trade and investment flows between countries, and in general are stimulated by trade liberalization or integration agreements.

According to Estevadeordal, Blyde and Suominen (2012, pp. 4-11) and Baldwin and Robert-Nicoud (2010, pp. 13-19), the fragmentation of production removes the need to acquire competence in all aspects of the production of a good, and allows developing countries to join a network of cross-border cooperation, sharing production and specializing in just one or a few steps of

production activities involved in the making of a final. This type of specialization, according to the authors, allows developing countries to participate in a new strategy of international division of labor.

However, the authors draw attention to the fact that the GVCs distribution process is developed asymmetrically, with some regions making substantial advancements in their participation in world trade via GVCs, as in the case of Asian countries—such as Korea and Europe and North America, while other countries in regions such as Africa and Latin America are still on the margins of this process, as is the case with Brazil, Argentina and other countries in South America.

In the case of Latin America, and Mercosur in particular, productive integration is a phenomenon of limited occurrence, despite the existence of considerably diversified industrial structures and a strong presence of transnational corporations in the region. Recently, in Mercosur the negotiating authorities re-launched initiatives aimed at promoting productive integration, but it seems that from the point of view of economic agents, the remaining obstacles to the functioning of a full customs union significantly reduces incentives for the development of regional productive integration, which undermines and limits greatly the effectiveness of initiatives aimed at this purpose (Machado 2010, pp. 119-120).

One of the tools to examine the productive integration between countries is the input-output matrix.³⁾ Fragmented production can be seen as a particular

3) The matrix is formed by 40 sectors, 35 of goods and services of five. The data refer to 2005, the last year for which it was possible to standardize the data for 10 countries.

form of input-output relations between exports and imports, and tends to increase the import content of exports relative to total value added. This is particularly important for the growth trajectory of countries and regional integration, thus analyzing the synergies and potential that global and regional trade promotes to the growth of national economies, even taking into account the existence of a one-way street. There is a mechanical and automatic determination in the growth of trade and economies. From this perspective, and with the Table 1 indexes on the decomposition of value added, we can see the fragility of productive integration in South America, which makes it difficult to integrate the region into global chains of more competitive value.

It can be seen that all countries display a large concentration of activities within national boundaries, since more than 90 percent of the demand is directed to the domestic economy, pointing to the predominate low demand for inputs in relation to other members of the South America.

Among the most integrated countries in the region are Uruguay and Bolivia. In the case of Uruguay, 4.97 percent of the value added in the country (GDP) corresponds to products from Argentina, and 4.19 percent of products coming from Brazil. Moreover, 88.2 percent of added value comes from domestic production, without the participation of other countries. Regarding Brazil, 97 percent of added value is accounted for by domestic production, which places Brazil at the top of the list of most closed countries in South America. In other words, Brazil appears to be the country with the least significant relationships of complementarity by decomposition of added value.

Tableau 1. Decomposition of Total Value Added, by country (in %)

	Argentina	Brasil	Bolivia	Chile	Colombia	Ecuador	Paraguay	Peru	Uruguay	Venezuela
Argentina	94,903	1,205	2,677	2,879	0,389	1,128	2,986	588,000	4,971	0,242
Brasil	3,929	97,333	3,221	0,832	1,120	1,839	2,708	0,822	4,190	1,167
Bolivia	0,207	0,158	90,137	0,054	0,156	0,188	0,086	0,119	0,018	0,079
Chile	0,362	0,816	0,901	94,719	0,383	0,462	0,100	0,670	1,271	0,211
Colombia	0,036	0,032	0,556	0,109	95,806	2,076	0,006	0,978	0,017	1,369
Ecuador	0,005	0,021	0,318	0,164	0,200	92,266	0,002	1,358	0,037	0,038
Paraguay	0,352	0,053	0,500	0,111	0,008	0,072	93,969	0,064	0,157	0,013
Peru	0,054	0,221	0,960	0,989	0,565	0,703	0,018	94,518	0,170	0,205
Uruguay	0,117	0,079	0,257	0,053	0,030	0,060	0,101	0,009	88,269	0,027
Venezuela	0,035	0,081	0,474	0,090	1,343	1,206	0,024	0,873	0,900	96,647

Source: Institute for Applied Economic Research (IPEA)/Economic Commission for Latin America and the Caribbean (ECLAC).

Besides the low productive integration between South American countries, it is important to note that a very large asymmetry between them predominates in the region, as the main trade relations prevail between Brazil and Argentina, the region's two largest economies.

This internal asymmetry is also associated with an asymmetry in the global economy which carries risks for less-developed countries. According to Medeiros (2010, pp. 256-260), asymmetrical integration and inclusion in global value chains has risks for countries with less economic strength, as in the case of South American countries. For example, extreme asymmetrical integration in terms of production and the region can be accompanied by a decline in the

ability to import from the most fragile economies and generate a growing trade deficit as well as widening balance of payments constraints in the economy, ultimately causing the paralysis of investments required for technological change. Overcoming this impasse requires productive integration accompanied by macroeconomic policies to induce growth, which is essential given how production and trade integration in a given geographical area can be a major stimulus to productive diversification, structural change and the technological progress of the region's integration into the international economy as a whole.

So with the weakness of global export markets for the region, the formation of a customs union in South America featuring the reduction of most intra-bloc tariffs and the adoption of a common external tariff promoted a rapid expansion in trade flows between countries (with stagnation in foreign markets), with particular emphasis on the automotive industry and, in recent years, a significant growth of direct investment coming from the countries.

However, contrary to what is established in Asia, the biggest weakness of inducing structural mechanisms and the prevailing macroeconomic characteristics limited the possibilities for greater economic integration in South America, making Mercosur an "incomplete and imperfect" customs union in which the imposed requirements from the external crisis took precedence over the long-term arrangements aimed towards consolidation.

It is important to mention that the dynamics of the production chain is strongly influenced by major multinational capital companies that are associated with subsidiary companies and their global suppliers. In this sense, to seek

greater integration in South America is to reflect on how to induce these companies to invest more in the region, to expand its production capacity and integrate more countries in regional economic activities. Another aim would be to direct more production to the external sector outside the boundaries of South America, which would require more competitiveness for greater integration in more developed markets for several sectors.

In a recent study of the Organization for Economic Cooperation and Development (OECD) and the World Trade Organization (WTO) (2013, pp. 11-14), the trade indexes are clear in indicating that the countries of South America display a lack of integration in global value chains. Brazil and Latin America in general, excluding Mexico, were practically on the margins of the restructuring of global value chains.

In addition, lightweight chains also show low regional productive integration, unlike North America, Europe and Asia. According to the OECD and WTO reports, Brazil is one of the economies with lower foreign value added, at around 10 percent. It is also an indicator that the Brazilian economy is closed, or that it displays strong domestic production of raw materials and intermediate goods, that it produces relatively few goods that require components coming from abroad, or even that Brazil is simply an extremely protected economy.

Nevertheless, the Brazilian contribution to the value added in exports of other countries, an indicator of forward integration into GVCs, is the second-largest among developing countries, mainly taking into account exports of inputs and raw materials.

Among the main reasons cited for the weakness of South American countries in this process dominates a set of forces acting simultaneously, which highlight the structural weaknesses of the countries that do not contribute to gains in competitiveness. Examples would be the need for greater specialization, lower transportation costs and communications, low transaction costs, insufficient investment in R&D, low efficiency in production scale, and the need for a more liberalized market for goods and services. These variables are the result of the absence of economic policies which are linked to the need to strengthen the external insertion of the economy via GVCs.

Even considering all the weaknesses of the productive integration process in South America and its integration in global chains in low technology products, it is important to take into account that Mercosur has been a powerful arrangement for intra-industrial expansion, particularly in more technology-intensive sectors.

This has been made possible by the fact that regional trade has favored greater sector diversification, especially benefiting the Brazilian industry, but also Argentina. So the possibilities brought about by this regionalization allow a further expansion of industrial markets with differentiation and productive integration, also depending on structural and macroeconomic circumstances that go beyond the regulatory and institutional framework (Medeiros 2010, pp. 294-296).

2.3. Prospects for reforming the agenda to foster deeper regional cooperation: the role of Brazil

Although intraregional trade among the countries of South America has risen from US\$ 71,242 billion in 2000 to US\$ 110,773 billion in 2014 - an increase of 205.5 percent, representing an average growth rate of 13.7 percent between 2000 and 2014 - it is important to note that intraregional trade declined in recent years, since the value transacting between countries in the region fell from US\$ 126,193 billion in 2012 to US\$ 123,526 billion in 2013, and dropped further in 2014 to US\$ 110,773 billion. Considering the value of 2012 and compared to the value of 2014, it can be said that South America witnessed decline in intraregional trade by -12.3 percent.

In addition to this decline in South American intraregional trade, there is also the contraction of foreign direct investment (FDI) to the region. According to the annual report of investment (World Investment Report) 2015 of the United Nations Conference on Trade and Development (UNCTAD 2015, pp. 1-18), Latin America recorded negative growth of direct investment input of -14.4 percent after four consecutive years recording positive growth, due mainly to the almost 80 percent decline in mergers and acquisitions in Central America and the Caribbean. Most Latin American countries experienced a decline in FDI inflow, with the exception of Chile. Mercosur remained with a share of 6 percent of global FDI inflows, but this fell to US\$ 83 billion in 2013 and to US\$ 73 billion in 2014. Specifically, Brazil fell by -2.3 percent

since the reversal in primary sector investments offset the increased flow in the manufacturing and service sectors.⁴⁾ One of the main reasons behind such negative data was the substantial economic crisis in the Brazilian economy. Between 2010 and 2014, Brazil already showed a loss of momentum in its growth by presenting an average economic growth rate of only 2.1 percent, below the average rate of real GDP growth in the world economy which was 3.6 percent for the same period. In fact, this low economic growth has worsened in recent years, given that in 2014 Brazil displayed an economic growth rate of only 0.10 percent, and in 2015 the growth rate was -3.85 percent.

This loss of dynamism in the Brazilian economy has a direct impact on the economy of South America, as Brazil is the main market of production and sales in the region. According to ECLAC (Economic Commission for Latin America), South America's GDP - Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru and Uruguay - was US\$ 3,343,167 trillion in 2015. Brazil is the largest economy in South America with a share of 53.04 percent in the GDP of the region, followed by Argentina with a share of 18.91 percent, third Colombia representing 8.74 percent and in fourth Chile with a share of 7.19 percent.

The economic growth rate in South America has been falling since 2014, just when Brazil begins to show substantial drop in economic growth. In 2013, the average rate of South America growth was 5.1 percent, falling to 1.9

4) UNCTAD (United Nations Conference on Trade and Development). World Investment Report Overview 2015: Reforming International Investment Governance.

percent in 2014 and 1.0 percent in 2015. In 2015, the 10 countries of South America, only Brazil has experienced negative growth rate of -3.85 percent, in addition to Venezuela with a negative growth rate of -5.7 percent. In other words, despite the growth rates of the other South American countries, the region failed to produce a higher growth rate due to the economic crisis now facing Brazil. This data makes it clear that the dynamism of South America depends fundamentally on Brazil. Thus, integration in the region and greater integration in the most competitive form of global value chains also depends on the policy of promoting productive integration and the external insertion of Brazil.

During the Lula administration, one of the objectives of the foreign policy of autonomy and universalism was to promote the maturation and consolidation agenda through the resumption of South-South cooperation. In this strategy, the idea was to abandon the subordinate and alignment positions of the 1990s, especially with the US, and to recover autonomy and development, along with the idea that the country should play a more significant role in the world. This perception has over the years translated into institutional terms and international policy in various international events. This strategy was associated with the strengthening of trade and political relations with the countries of South America, and one of the main goals was to deepen productive integration between the countries of the region and promote their greater integration into global value chains, particularly by improving exporter inclusion agenda through more intensive product technology.

It is relevant to note that so that for stronger productive integration, the macroeconomic dynamics of the region - in particular the Brazilian economy given the fact that it is the region's largest - is an important variable for the integration process to be deepened. Therefore, it is important to consider that for South America to grow again it is necessary for Brazil to recover from the economic crisis that stretches from 2014, to sustain higher and sustainable growth rates. For the country's expansion will have a positive effect on building a more integrated region.

This resumption of growth largely depends on the orientation of macroeconomic policy that has been adopted in Brazil. Macroeconomic policy is pro-cyclical, characterized by restrictive fiscal and monetary policy and strong reduction in public investment and private in the country, which restricts further growth of the domestic market and increases unemployment, deepening the recession in the country. Thus, the short-term prospects for economic recovery in Brazil are not the best. According to the forecast of the International Monetary Fund (IMF), the growth projection for Brazil in 2016 is -3.3 percent, with a slight recovery in 2017 of 0.5 percent. In fact, many analysts hypothesize that the Brazilian economy will only record more robust growth rate from 2018. Looking at the role of the Brazilian economy in South America and especially in Mercosur, the question arises of how Brazil may contribute to a further deepening of the integration process in the region. As mentioned in Section 2.2, a set of structural factors become obstacles to further integration in Mercosur, in particular the following: ① the asymmetry in size between the economies of

Mercosur; ② the different degrees of diversification of national production structures; and ③ the high competitive heterogeneity of productive structures established in different countries.

To overcome these weaknesses and deepen the productive integration process in the region, Brazil led the development of an agenda of actions to deepen productive integration between the countries of the bloc. Among the main measures proposed were: ① cooperation between actors of the production process; ② completion of research, development and technology transfer; ③ training of human resources; ④ coordination with other negotiating bodies of the bloc; ⑤ the generation and processing of information; ⑥ the articulation of trade facilitation measures; and ⑦ the provision of financing, through mechanisms such as the Mercosur Fund of Support to Small and Medium Enterprises.

The problem is that over the last decade, the negotiations of the issues related to the consolidation of the customs union developed with a strongly conflictive component between the Mercosur countries, in which the meager agreements reached in trade policy were progressively eroded by lack of coordination in other plans. This context led to the lack of harmonization of trade policy instruments, the resettlement of barriers to trade and compromised the chances of progress in the formulation of common policies. Brazil can play a key role in overcoming these conflicts and contribute to the propositions and measures for deepening productive integration in the region. For this, the extent to which the expansion of the Brazilian market economy allows the articulation of a set of industrial initiatives and investment in favoring infrastructure to the

diversification of exports from less developed countries makes the expansion of the regional bloc trade chain a way to simultaneously achieve the increased external sustainability of economies.

As Brazil is the largest economy in the region, two measures can contribute to the increase in the productive integration of the region and overcome conflicts. First, it is necessary that the Brazilian economy broaden its trade liberalization with all Mercosur countries, allowing greater input in its products from neighboring countries. Second, the role of Brazil's finance construction infrastructure, which provides for greater integration in the region, is critical. Among Mercosur countries, Brazil is the only country that has a development bank - the National Bank for Economic and Social Development (NBESD)⁵⁾ - with the potential to finance these works of infrastructure that promote greater productive integration in the region.

Another important point that has been underlined in Section 2.2 is that the attempt to identify sectors and industries where the productive integration initiatives can advance depends on establishing the existence of the productive complementarity of intra-industry type. Thus, the identification of high intra-industry trade indicators associated with the stability of trade flows defines industries for which there is complementary supply between the economies, and these should thus be the priority segments for the performance of programs promoting productive integration. Among the four Mercosur countries, only

5) In Brazil known as Banco Nacional de Desenvolvimento Econômico e Social (BNDES).

Argentina and Brazil maintain relevant intra-industrial exchange, which is concentrated mainly in two sectors: (a) chemical, which has high dispersion products; and (b) automobile, which represents the high value of the trade flow.

Whereas the automobile industry is one of the sectors where relative productive integration between Brazil and Argentina already exists, two aspects become relevant to a larger integration strategy in the region with regards to the automotive industry. First, the car industry across Mercosur, and especially between Brazil and Argentina, is characterized by predominant foreign companies producing in the region. Traditionally these are American, European and Asian companies which have only recently entered automobile production activity in Mercosur. Second, as the automotive sector in Mercosur shows greater production integration and at the same time a large consumer market in the region, Korea can contribute to the expansion and deepening of productive integration in the automotive industry in the region, since the country holds competitive advantages in the industry and is home to Hyundai, one of the largest companies in the global economy. Such Korean contribution to greater productive integration in Mercosur is discussed in the next section of this article.

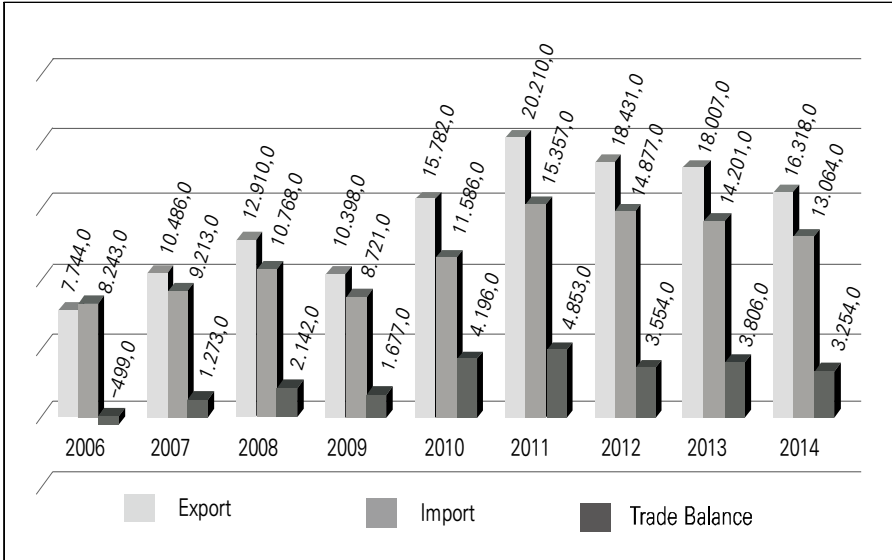
3. Korea's Economic Cooperation with MERCOSUR: an Arena for Great Opportunities?

3.1. Brief history of economic cooperation between Korea and Mercosur

In the 2000s, especially after the 2008 crisis, developing countries began to show a higher growth rate than that of the world economy, as well as those of developing countries. For example, the countries of South America, particularly Brazil, recorded high growth rates associated with substantial expansion of its domestic market with strong potential consumption, especially in relation to consumer durables. This growth scenario and market expansion has attracted many companies and nations to expand trade relations with the countries of South America, either through foreign investment direction, or through exports and imports. Korea was one of the countries that expanded trade relations with South America through foreign trade.

As can be seen in Chart 1, exports from Korea to South America recorded US\$ 7,744 billion in 2006 to US\$ 20,210 billion in 2011, showed a slight drop in 2012 and 2013, and returned to growth in 2014 at US\$ 16,318 billion. Taking into account the value of exports in 2006 and in 2014, the growth rate of Korea's exports to South America was 110.7 percent. The fall in exports from 2011 is not due to a loss of interest in South America in relation to Korean products, but is associated with reduced growth in South America,

Graphic 1. Trade Balance—Korea and South America—in US\$ Millions—2006–2014



Source: United Nations Commodity Trade Statistics Database (UN - COMTRADE).

mainly the Brazilian economy.⁶⁾

On the other hand, Korean imports originating in South America also showed significant growth between 2006 and 2014. In 2006, imports stood at US \$8,243 billion and reached US\$ 15,357 billion in 2011, showing a slight drop in 2012 and 2014, totaling US\$ 13,064 billion in 2014. Comparing the values of imports of 2006 with 2014, it appears that there was an increase of 58.5 percent. With the exception of 2006, Korea had a trade surplus with South America every year which is also displaying a growing trend, mainly driven

6) Indexes from Standard International Trade Classification (SITC) REV. 3 - United Nations Commodity Trade Statistics Database (UN - COMTRADE).

by a higher export growth rate compared to imports, so trade relations between Korea and South America are important for Korea and also for the greater integration of South America into Korea.

Even with the growth of trade between Korea and South America, it can be noted that South America does not hold great commercial representation for Korea, despite the growth between 2006 and 2014. According to the data in Table 1, the share of South America as a destination of Korean exports was 2.38 percent in 2006 and reached 3.64 percent in 2011, falling to 2.85 percent in 2014. This fall was due to the low growth rate of South America in recent years, and not because of restrictions on trade between Korea and South America, which means that there are possibilities of expanding trade relations between Korea and the countries of the region.

Specifically considering Mercosur countries - Argentina, Brazil, Paraguay, Uruguay and Venezuela - the bloc's participation as a destination for Korean exports was 1.39 percent in 2006, and was 1.81 percent in 2014. This growth is more associated with the expansion of trade between Korea and Brazil and Argentina, given that over the period trade between Korea and Paraguay, Uruguay and Venezuela has not changed. This shows that the further integration of Korean into Mercosur was due to the enhancement of relations with Brazil and Argentina, but also leaves evidence that Korea's trade relations with Paraguay, Uruguay and Venezuela were practically stagnant, a situation that can be modified with the growth of trade relations between Korea and Mercosur.

Table 1. Exports–Korean to South America–Participation Share (%), 2006–2014

Year	Argentina	Bolivia	Brazil	Chile	Colombia	Ecuador	Paraguay	Peru	Uruguay	Venezuela	Total
2006	0,10	0,00	0,94	0,48	0,28	0,12	0,02	0,11	0,02	0,31	2,38
2007	0,13	0,00	0,94	0,84	0,30	0,12	0,02	0,13	0,02	0,33	2,82
2008	0,14	0,00	1,40	0,72	0,26	0,15	0,02	0,17	0,02	0,17	3,06
2009	0,14	0,00	1,46	0,61	0,22	0,12	0,02	0,18	0,02	0,10	2,86
2010	0,20	0,00	1,66	0,63	0,30	0,19	0,03	0,20	0,03	0,14	3,38
2011	0,19	0,00	2,13	0,43	0,29	0,16	0,04	0,25	0,04	0,11	3,64
2012	0,18	0,01	1,88	0,45	0,27	0,16	0,03	0,27	0,03	0,10	3,36
2013	0,19	0,01	1,73	0,44	0,24	0,16	0,04	0,26	0,07	0,08	3,22
2014	0,13	0,02	1,56	0,36	0,26	0,14	0,04	0,24	0,04	0,04	2,85

Source: United Nations Commodity Trade Statistics Database (UN - COMTRADE).

Out of the ten countries that comprise South America, the main market for Korean products is Brazil. According to the indexes, the participation of Brazil as a destination of Korean exports was 0.94 percent in 2006 and reached 2.13 percent in 2012, falling to 1.56 percent in 2014. It is important to note that the relationship between Korea and Brazil accounts for more than half of the trade between Korea and South America and this can be explained by the fact that Brazil is the largest economy in the region, both as a producer market and a consumer market, as shown in second section of this paper. This situation highlights the importance of the Brazilian economy for greater Korean integration in the region, as the growth or decline of trade between Korea and South America fundamentally depends on what happens in Brazil, given that the

participation of South America as a destination for exports from Korea begins to fall from 2012 just when there is a drop in exports from Korea to Brazil. The second main destination for exports from Korea is Chile, followed by Peru and Argentina.

Regarding imports, according to Table 2, there is no growth in Korea's share as the destination of exports from South America, as this share was 2.66 percent in 2006, increased to 2.93 percent in 2011 and then fell to 2.49 percent in 2014. This behavior makes it clear that in trade relations between Korea and South America, the most important dynamic would be the greater integration of Korea on the side of exports, than for imports of origin in South America.

Specifically in relation to Mercosur, the share of Korean imports to the block was 1.08 percent in 2006, and in 2014 this figure fell slightly to 1.05 percent. This indicator shows that the growth of trade relations between Korea and Mercosur countries has grown in recent years, more in terms of Korean exports to the region than imports by Korea originating from Mercosur. This points to the fact that to increase trade relations between Korea and Mercosur, it is essential that trade growth occurs not only through exports from Korea to the bloc, but also through Mercosur exports by way of greater insertion in Korea. Given this possibility, Mercosur's foreign trade policy can give priority to Korea in their trade relations.

Table 2. Imports – South America of Korea – Participation Share (%), 2006–2014

Year	Argentina	Bolivia	Brazil	Chile	Colombia	Ecuador	Paraguay	Peru	Uruguay	Venezuela	Total
2006	0,18	0,05	0,87	1,23	0,07	0,00	0,00	0,22	0,01	0,02	2,66
2007	0,21	0,05	0,78	1,17	0,03	0,01	0,00	0,29	0,01	0,03	2,58
2008	0,21	0,05	1,01	0,95	0,03	0,01	0,00	0,21	0,01	0,01	2,47
2009	0,21	0,02	1,16	0,96	0,04	0,00	0,00	0,28	0,01	0,01	2,70
2010	0,19	0,05	1,11	0,99	0,10	0,00	0,00	0,24	0,01	0,03	2,72
2011	0,20	0,09	1,21	0,93	0,07	0,01	0,01	0,37	0,01	0,03	2,93
2012	0,27	0,05	1,17	0,90	0,08	0,01	0,02	0,32	0,02	0,02	2,86
2013	0,23	0,06	1,08	0,90	0,04	0,01	0,01	0,38	0,02	0,01	2,75
2014	0,10	0,06	0,93	0,92	0,12	0,07	0,01	0,27	0,01	0,00	2,49

Source: United Nations Commodity Trade Statistics Database (UN - COMTRADE).

The indicators in Table 2 also make it clear that Brazil is the main market of Korean origin of imports in relation to South America, for Brazil accounted for 0.87 percent in 2006, 0.99 percent in 2010 and 0.92 percent in 2014. In fact, Korean imports from Brazil account for nearly half of Korea's imports from South America. This confirms what has been stated above, that is, the trade relations between Korea and South America mainly depend on the dynamics of the Brazilian economy, as Brazil is the main destination market of exports from Korea as well as the top country origin of imports by Korea within the scope of Korea's relationship with South America. The second-largest market for Korean imports origin in relation to South America is Chile, followed by Peru and then Argentina.

Indexes of exports and imports raise two issues for Korea's foreign policy strategy towards South America. The first is that in terms of both exports and imports, countries in South America that have more relevant trade relations with Korea are Brazil, Chile, Peru and Argentina. This points to the fact that stronger integration into South America from the perspective of Korea could happen through the deepening of Korea's trade relations with these countries, particularly with Brazil. Second, the extremely high concentration of Korea's relations with just a few countries in South America opens the opportunity for Korea to further expand its relations with the region through trade negotiations with other countries, for instance Uruguay and Paraguay, among others.

This does not mean that this strategy involves lesser trade relations with Brazil, Chile, Peru and Argentina. By contrast, a commercial strategy for greater integration in South America should include the deepening of relations with these countries, and stronger relations with other countries in the region.

Another situation that draws attention is that the growth of trade relations between Korea and the countries of South America is supported by exploiting the competitive advantages of both regions. This can be observed in the export list and import tariffs. According to Table 3, exports from Korea to South America is predominately concentrated in machinery and transport equipment, as in 2006 the share of these products was 70.4 percent and in 2014 remained almost at the same level, at 69.8 percent.

The second main export item is chemicals and related products with a share of 11.3 percent in 2014 the third is manufactured goods, classified chiefly as

material, accounting for 11.0 percent in 2014; the fourth is miscellaneous manufactured papers, at a share of 5.8 percent in 2014. All of these exported items displayed similar shares between the years 2006 through 2014. The total of all these items, amounts to a share of 91.1 percent in 2006 and 97.9 percent in 2014, of Korea's export basket to South America.

Table 3. Main Export Products – Korea – South America – Participation Share (%),
2006–2014

Year	5-Chemicals and Related products, n.e.s.	6-Manufactured goods Classified Chiefly by Material	7-Machinery and Transport Equipment	8-Miscellaneous manufactured Articles	Total
2006	10,4	8,2	70,4	2,1	91,1
2007	8,5	8,5	61,0	3,7	81,7
2008	10,1	9,7	56,5	4,6	80,8
2009	7,7	10,4	64,6	4,5	87,2
2010	8,2	11,0	65,7	5,1	90,1
2011	8,7	8,8	70,3	4,3	92,1
2012	9,4	10,1	67,0	5,7	92,2
2013	10,4	10,8	68,3	6,5	96,1
2014	11,3	11,0	69,8	5,8	97,9

Source: United Nations Commodity Trade Statistics Database (UN - COMTRADE).

This Korean export basket to South America, with the main export item being machinery and transport equipment, is clearly focused on more intensive products technology and is part of Korea's competitive advantage, since these products are related to the car and electronics industries. Korea is home to

companies like Hyundai, Samsung and LG that are related to multinational automotive products and consumer electronics, which all hold a strong position in the world economy. Korea's competitive advantage in such intensive technology sectors allow for easier integration in South America for two reasons. The first is that South America possesses a domestic consumer market for these growth products, particularly in Brazil. Even though the region has witnessed a downturn of economic growth in the last three years, that domestic market demand still exists, and the recovery of economic growth is expected to return the growth in demand for these products. The second reason is that combined with growing domestic market demand for these products in South America, the countries lack the domestic companies to meet this demand. For example, when it comes to the automotive industry, large companies located in South America are all multinational and none of these companies are from Latin America. There are national suppliers that offer automobile parts and components, but the car companies are foreign, as in the case of Hyundai, which operates in South America. On the other hand, in the electronics industry, while some companies, mainly in Brazil, can be characterized as national, these companies do not hold the power of product or production competitiveness and diversification displayed by Samsung and LG, facilitating the inclusion of these companies in the region.

When it comes to the main products imported by Korea from South America, Table 4 shows that the main item of import by Korea is crude materials, inedible, except fuels with a 48.0 percent share in 2006 and 51.5 percent in

2014. The second most imported item by Korea is the region's manufactured goods, classified chiefly as materials, at a share of 19 percent in 2014. The third item is food and live animals at a share of 17.4 percent in 2014, and the fourth largest import item is chemicals and related products at a share of 2.5 percent. The combination of these four items is equivalent to 97 percent of imports by Korea originating from South America.

Table 4. Main Import Products – Korea – Brazil – Participation Share (%),
2006–2014

Year	0–Food and Live Animals	2–Crude materials, inedible, except fuels	3–Mineral fuels, lubricants and related materials	5–Chemicals and Related products, n.e.s.	6–Manufactured goods Classified Chiefly by Material	Total
2006	11,0	48,0	3,2	3,7	29,2	95,2
2007	12,2	49,5	1,1	3,6	29,7	96,1
2008	10,5	51,7	0,7	2,3	30,6	95,8
2009	15,5	46,1	2,4	3,3	28,0	95,3
2010	11,8	50,5	3,0	2,7	28,4	96,4
2011	10,4	55,6	4,3	2,0	23,3	95,5
2012	17,5	56,4	2,1	1,8	18,5	96,3
2013	25,9	48,1	5,1	1,9	13,4	94,4
2014	17,4	51,5	6,6	2,5	19,0	97,0

Source: United Nations Commodity Trade Statistics Database (UN - COMTRADE).

Korean import tariffs in terms of the country's trade relationship with South America is clearly focused on products in which the countries of the region

hold competitive advantages, particularly the Brazilian economy, Korea's main trading partner. To must understand this, we must examine South America's process of trade and financial openness that had a low level of integration in GVCs, particularly in the case of Brazil, from the 1990s and 2000s. This resulted in a growth model characterized by increased growth in volatility rates and stimulation by demand - consumption and net exports - with investment taking a subordinate role. One consequence of this was a growth pattern characterized by low levels of differentiation in the productive structure, and a fragile thread without dynamic force to generate economic growth where investment assumes a dominant role. Thus, South America is marked by meager differentiation in the productive structure, asymmetrical internationalization and the insufficient expansion of infrastructure, building a process of re- specialization in intensive sectors in natural resources, with are marked by low dynamism and lower income elasticity of demand, thus leading to the greater vulnerability and fragility of the domestic industry.

This re-specialization is associated with a concentrated productive activity in sectors intensive in natural resources, with low dynamism and lower income elasticity of demand, a fact that becomes clearer when analyzing the export list, because it is evident that the commercial performance in recent years is marked by the low quality of the foreign trade agenda of the region's countries. These are strongly based on products with low value added, intensive hand labor, and natural resources, which makes it very vulnerable to the international scene. Its agenda is too far removed from becoming an exporter of global standards,

which are increasingly concentrated in technology-intensive products.

This situation is confirmed when we analyze the export and import list between South Korea and South America, as Korean exports to South America are concentrated in more technology-intensive products, while Korea's import tariff on products from South America has a high concentration in low technology products. This relationship between South America with Korea is also a reflection of South America's trade relations with the rest of the world, featuring the low and fragile integration of South America into global value chains.

3.2. Korea's potential role as a key player in developing regional/global value chains in South America

The low productive integration of South American countries and its fragile inclusion in global chains, concentrated in low technology products, is in contrast with the process of integration of Asian countries, especially when we consider the Korean experience. East and Southeast Asia have a wide range of economies according to their degree of technological development on a vertical specialization formed between Japan on the one hand, and on the other, the first generation of "Asian tigers" formed by Korea, Taiwan, Hong Kong and Singapore, as well as some southeast Asian countries like Thailand, Malaysia, Indonesia and the Philippines (ASEAN 4) and the especially dynamic mainland China. Asian diversity stems not only from the different degrees of

industrialization and relative sizes of economies, but also from the sophisticated commercial and financial centers of long tradition in city states like Hong Kong and Singapore, along with technologically advanced economies, such as Japan, followed by economies like Korea and Taiwan, and countries with abundant reserves of cheap hand and disciplined work, as in the case of China (Medeiros 2010, pp. 262-265).

Thus, it can be said that the Korean economy's inclusion in global value chains through exports of more technology-intensive products is associated with the fact that East and Southeast Asia constitute par excellence regions. Thus, the process of integration and insertion in global value chains reached higher levels, leading to the formation of a complex and articulated network of trade and investment, which led to an intense stream of intraregional trade. This expansion of trade and investment took place in a context of high economic growth and the shift of industrial specialization among major Asian economies, as in the case of Korea, which along its development path always displayed a high economic growth rate associated with profound structural changes, particularly in terms of the productive structure on account of the deepening of production in technology-intensive sectors. This scenario puts Korea in the lead of integration with South America, especially considering its potential to export more technology-intensive products.

In fact, the high and rapid economic growth displayed by Korea mainly from the 1960s was associated with an upgrading of its industrial park, as well as a strong presence in international trade from the 1970s, on top of advances in

other indexes such as education, the labor market, income distribution, etc. The combination of these transformations promoted significant structural changes, building Korea into a country seen as an economic development model by other developing countries.

According to Kim (2005, pp. 165-166), the automobile industry was part of Korea's development process, as in the 1960s it began to show substantial growth and in the 1980s Korea was already one of the major car manufacturers in the world economy. Lee (1997, pp. 11-16) states that Korean automakers have in recent year been aggressively expanding operations abroad. Korean companies, with the aim of becoming globally leading producers, are now entering a new phase where all efforts are based on global management ideas, with each manufacturer trying different strategies to move abroad for local production and operation. For instance, Hyundai has established a comprehensive local production system.

Korean automobile producers are carrying out the manufacturing of parts and components in countries with large markets, while maintaining independence in their business. Daewoo, under GM Korea, as the most aggressive of all Korean manufacturers in pursuit of its internationalization strategy is advancing in the foreign market, either by building local plants with a production capacity of 200,000 units per year or in joint ventures with local companies. Kia, on the other hand, has focused its globalization strategy on building a set of local plants abroad.

Korea also holds competitive advantage and is a key player in international

trade in the area of electronics. At its core, the electronics industry promotion policy created stimulus for the growth of a small number of large conglomerates, the chaebols, which had sufficient resources to overcome the barriers to entry that exist in the electronics sector. The result of this policy was a concentrated market structure with three major companies dominating the industry: Samsung Electronics, LG Electronics and Daewoo. In fact, in 1994 Korea was already the world's fourth largest producer in the electronics industry, just behind the US, Japan and Germany. Since the 1990s, Korea has become the second-largest manufacturer of electronic consumer products, losing to Japan only. An important fact to be taken into consideration is that unlike what happened in other developing countries, this growth of the electronics sector in Korea was largely the result of performance by Korean *chaebols* and other local companies, with lower performance on the part of subsidiaries of multinationals or joint ventures (Linsu Kim 2005, pp. 199-202).

Another sector that Korea leaped forward in its technological capacity is the semiconductor industry. Korea advanced its sector production structure and transformed a mere assembler of individual devices into one of the main global competitors in the chip area, becoming one of the top three semiconductor manufacturers in the global economy. The sector's main producers are the three largest chaebols: Samsung, Hyundai and LG. Samsung and Hyundai are among the largest memory chip manufacturers and are among the seven largest semiconductor manufacturers in the world. As in the automotive and electronic industries, the semiconductor industry learned a lot from foreign companies,

but maintained their independence in administrative control and investment in learning and marketing strategies, reflecting a national idiosyncrasy.

In all these sectors, one of the main strategies of the companies was to have a large part of its production oriented to foreign trade, giving Korea a concentrated opportunity to gain market share in high-tech products in the international market. It is precisely the products related to these sectors that constitute the main products exported from Korea to South America, as shown in Section 3.1 of this paper.

This confirms the hypothesis that trade between Korea and South America is characterized by the exploitation of competitive advantages from Korea, exporting more technology-intensive products to South America.

This finding points to another issue in trade relations between Korea and South America. As seen in Section 3.1 of this paper, even while exports from Korea to South America recently increased, the share of South America as a destination of exports from Korea is still very low, remaining at around only 3 percent. Historically, there were companies in the US and Europe that dominated the market in South America, mainly in sectors such as the automotive industry, electronics and semiconductors, which exported products to South America or engaged in local production activity in the region. This scenario points to the possibilities for Korea's strong integration in South America, in view of the need to expand the country's participation in production activities in South America and also to expand its trade relations - exports and imports - with the region.

First, as already noted, there is in South America a potential domestic consumer market for automotive products, electronics and semiconductors, which can be served by no national company. Meanwhile, several Korean companies are among the world's leading producers in such areas, and can further explore the market in South America by expanding its exports to the region. Growth in Korea's exports to South America is necessary for the region to resume its economic growth trajectory so as to expand its domestic market, mainly in the Brazilian economy, which is Korea's main trading partner and the main economy of the region. Such resumption of economic growth is expected to take place from 2018, not only in Brazil but also across South America.

In addition to expanding its commercial relations with South America by increasing the volume of exports and making South America a more relevant region as a destination for its exports, Korea also needs to diversify its markets in the region, relaxing its concentration on the Brazilian economy. This high concentration in exports to Brazil gives rise to vulnerability and fragility in trade relations between Korea and South America, as the rise and decline of exports from Korea to South America depends fundamentally on Brazil, and can hamper Korea's further inclusion in the region. It is a fact that Brazil is the largest economy in South America, and it is not necessary to lessen trade relations with Brazil in order to diversify export destination markets. Rather, efforts should be focused on opening up more opportunities for exports to countries like Argentina, Chile, Paraguay, Uruguay, and Colombia, among others.

Second, to expand the possibility of trade facilitation between South America

and Korea it is necessary for Korean companies to differentiate their strategies from those of US and European companies. This is associated with the type of performance carried out by these companies in South America. Generally, US and European multinationals located in South America engage in productive activity almost completely oriented toward meet the domestic market demand in the region, and their exports are bound to South America, with little international presence in other markets. Such tendencies can be observed in the strategies employed by automobile companies located in South America, where the domestic market remains the key variable that drives investment and production in the automotive industry, with weak exports. For example, considering the major producers Brazil and Argentina in 2014, Brazil exported only 10.6 percent of its total production while 89.4 percent was destined for the domestic market. Of the 10.6% exported from cars in Brazil, 65.6 percent was destined for Argentina and the rest was delivered to other countries in South America. Argentina already shows production more focused on the foreign market, as 58.0 percent of its production in 2014 was intended for exports and 42 percent for the domestic market. Of the 58 percent exported in 2014 by Argentina, the main target was Brazil, which accounted for 84.9% percent.

Korean companies can expand FDI in South America by not only exploring the domestic market, but also by directing a part of the production for exports beyond South America, mostly toward North America, but also the European market. This strategy of directing a portion of its production to the foreign

market facilitates and expands business opportunities between the governments South American countries and Korea, breaking barriers in trade negotiations.⁷⁾

Finally, by adopting a foreign investment growth strategy toward South America, expanding the possibility of productive activities in the region, exploring domestic consumer markets in these countries and directing a portion of production to exports, Korea will contribute to greater productive integration in the region and more competitive international inclusion based on more technology-intensive products. That possibility is linked to the interests of the policies implemented by Mercosur and Unasur in recent years, as explained in Sections 2.1 and 2.2 of this paper.

South America sees fragility in its integration and inclusion in GVCs, concentrated in less-competitive products and low value added, and has sought to build foreign policy strategies that promote productive integration in the region. Given that no national companies in South America can serve the automotive, electronics and semiconductor sectors and that these sectors are associated with the long-term strategies of Korean companies to direct related activities South America to harness the domestic market and simultaneously allocate a part of the production to exports, such strategies will be strongly welcomed by the governments of South American countries.

Moreover, the performance of Korean companies in South America will

7) Indexes from the National Association of Manufacturers of Automotive Vehicles (NAMAV) in Brazil. In Brazil, known as the Associação Nacional dos Fabricantes de Veículos Automotores (ANFAVEA). Indexes from Automotive Manufacturers Association (AMA) in Argentina. In Argentina, known as the Asociación de Fábricas de Automotores (ADEFSA).

expand the market for Korean products, and also create more opportunities for exports to nearby markets, such as to the US and Mexico as well as European markets. This will contribute to greater productive integration in the region, and the greater integration of South America in terms of more technology-intensive products in international trade. Such strategies developed by Korean companies should be aligned with changes in the global economic environment and the advantages of South American countries. In this sense, three main factors can be pointed out as reasons/grounds for the expansion of the Korean industry to South America: ① the saturation of existing large markets in the European and North American markets, especially after the 2008 crisis; ② increased competition in domestic markets leading companies to adopt new production strategies in regions that have shown greater dynamism; and ③ the low growth rate of major traditional markets and expectation for accelerated growth of major emerging markets, leading global manufacturers to seek benefit from potential sales expansion in these markets.

From this perspective, and considering Korea's inclusion in Mercosur and its contribution to greater productive integration in the region, the automotive sector deserves special attention and calls for an in-depth case study.

Hyundai's strategy in South America is fundamentally taking into consideration Mercosur as a whole, mainly in Brazil and Argentina. In 2015, 96.8 percent of automotive industry production in South America was concentrated between Brazil and Argentina, with Brazil holding a share of 80.1 percent and Argentina a share of 16.7 percent. At the same time, in terms of the consumer market,

in 2015 Brazil and Argentina accounted for 71.1 percent of the car sales market, with Brazil at 57.5 percent and Argentina at 13.6 percent in 2015. These indicators make it clear that the dynamics of the automobile industry, the possibility for greater productive integration in the region, and growth of productive activity and South America's stronger participation in international trade automotive products will mainly depend on Argentina and especially Brazil. The dynamics of these two countries' economies and their industrial policy strategies and foreign policy are fundamental to promoting the greater productive integration and inclusion of South America in GVCs.

In his brief remarks at the opening ceremony a car plant in Brazil operated by the Caoa Group, Hyundai president Chong Mong Koo mentioned that the HB20 was developed exclusively for the Brazilian market. He said that the new subsidiary will "contribute to the development of the Brazilian automobile industry and the local economy." Asked about the research and design of cars in the country in the future, for example in the form of opening a development center, the president of the branch hinted that it would be too early to talk about this, mentioning that "the HB20 is still a newborn" (Silva 2012, p. 1).

This is where Hyundai needs to differentiate itself from other car companies in Mercosur. In addition to its production platform in Mercosur countries, it is important that the company has a strategy not only to explore the possibilities of the domestic market, but also the advantages of technology transfer to the region. The company should build a strategy to export part of its production, helping Mercosur countries seek greater productive integration and improving

its export portfolio in its external insertion. As mentioned earlier, US and European companies with assembly plants located in Mercosur particularly in Argentina and Brazil, limit the scope of their businesses to local production and a very small volume of exports to Mercosur itself. Moreover, none of these companies promote transfer of technology or create development centers in Brazil or Argentina, which limits the production process of the integration region.

Hyundai is fully equipped to expand its operations in Mercosur, directing production activity not only toward the domestic markets of Mercosur countries, but also directing to exports to the US and European markets. This decision will greatly facilitate trade negotiations between Korea and Mercosur countries, particularly with Brazil and Argentina. Specifically in the case of Brazil, if Hyundai decides to expand its production capacity with a development center within the country, this will enable further integration into the Brazilian market by bringing down barriers, as well as through tax incentives and subsidy policies.

Furthermore, Korean companies should follow the strategies and determinants of the internationalization process, namely the location of subsidiaries, motivations for expansion into foreign markets, entry strategies, degree of internationalization, impacts of international expansion, integration through market approach mechanism and cost reduction, and so forth. In this sense, there are four key reasons that lead companies to seek internationalization: ① resources, ② markets, ③ efficiency gains, and ④ strategic assets. South America presents all of these four factors, which should induce Korea's foreign policy

to place priority on encouraging the inclusion of Korean companies in South America, in order to exploit the advantages of the region.

The first reason, internationalization motivated by the search for resources, involves a reduction strategy in production costs through access to natural resources or cheaper labor, in order to make product prices more competitive in the international market (Dunning e Lundan 2008, pp. 260-287). Resources are one of the reasons that lead many companies to enter South America and seek new markets through partnerships, joint ventures, green field investment, clusters and mergers and acquisitions.

As for the second reason, the search of markets, the main determinants are the possibilities offered by the market size and its growth potential. According to Dunning and Lundan (2008, pp. 260-287), the data stimulus by the governments of recipient countries of foreign companies, such as measures to protect local markets, tax benefits and bilateral investments and markets, are crucial to attract the entry of companies searching for new markets. In this type of strategy, it is important to consider that one of the motivating factors is the prior establishment in part outside of the production chain of which the undertaking industry belongs to, the cultural proximity to consumers and the need for transaction cost reduction. In this sense, the partnership between companies entering this market with established companies, mainly national, is key.

The third reason involves the search for scale efficiency gain. This strategy involves the geographical dispersion of the production chain of companies,

whose main objective is to obtain efficiency gains from economies of scale and scope, resulting in increased international competitiveness. The economies of scale and scope are duped by differences in factor endowments production, as well as the process of expertise and management experience accumulation in different contexts (Dunning e Lundan 2008, pp. 260-287)

The fourth reason pointed out by Dunning and Lundan (2008, pp. 260-287) is the search for strategic assets. This mechanism involves the acquisition or association outside a company owning strategic technology or possessor of a significant portion of the market. Internationalization therefore results in the benefits of an increased global portfolio of fixed assets and human skills than gains related to production or marketing costs.

Finally, it is important to consider that the internationalization of a company can also occur by the need to coordinate activities in certain strategic regions, such as the opening of distribution centers or sales offices in countries considered as regional or global hubs.

Taking into account such factors presented as internationalization strategies, it is understandable that a foreign policy aiming to expand Korea's greater integration possibilities in South America will not be simple, as it involves difficult and lengthy negotiations. However, given the importance that South America has gained in the world economy as a promising domestic consumer market, and the need for the region to achieve greater productive integration and growth in its inclusion in global value chains through more technology-intensive products, Korea serves as a strategic ally and puts the country in a

privileged position in the negotiations, with a view to the Korean development trajectory.

4. Final Remarks and Policy Recommendations

There has been a considerable growth of trade between the countries of South America in recent decades, but the production structures of the countries in the region points to a low level of integration, resulting in a low utilization of economies of scale and specialization, as well as difficulties in the development process of new capacities and production of goods and/or services, especially those that are differentiated by higher technology and value. This affects the international inclusion of South American countries in world trade.

It is clear that the deepening of integration in South America is key for change. In order for this to happen, the attraction of new businesses and stimuli to increase production to meet the demands of the domestic market, and a greater internationalization process, will play an important role. Also, this should be accompanied by a change in companies' strategies towards internalizing R&D development.

Moreover, it was well presented in this paper that Korea is a country placed in a region marked by a high degree of production integration. Korea has a development trajectory underlined by strong economic growth and profound structural transformation, especially in relation to its industrial structure with

a high share of more technology-intensive sectors, such as the automotive, electronics and semiconductor sectors.

Trade relations between Korea and the countries of South America have shown considerable growth in recent years. Exports from Korea to South America displayed a higher growth rate than the growth rate of Korea's imports from South America, resulting in a trade surplus for Korea. However, even with the growth of trade relations between Korea and South America, it became clear that South America still has little representation in Korea's foreign trade, as South America as a destination for Korean exports accounts for approximately 3 percent. Furthermore, Korea's main partner in the region is Brazil, a fact that is explained by the dominance of the Brazilian economy in the region.

Another relevant feature of the trade relations between South America and Korea is that the exports and imports are closely associated with the competitive advantages of countries. The main products exported from Korea are high-technology goods and associated with the most important sectors of the Korean economy, such as the automotive, electronics and semiconductor sectors. On the other hand, the main products imported by the Korean economy from South America are low-technology goods, particularly products related to food, clothing, raw materials, etc.

The indexes and the development of trade relations between Korea and South America point to a potential for greater cooperation and the entry of Korean companies in South America. It is vital to formulate a policy agenda

that aims to intensify the activities of Korean companies in South America towards this goal; reflecting the need to adopt strategies that differ from those employed by US or European economies. In addition to establishing more trade agreements to promote greater growth in exports, diversifying markets and reducing the concentration on the Brazilian economy, it is also important for Korea to implement measures to contribute to economic relations targeting direct investments in South America.

Korean companies should further harness the potential of the domestic consumer market in the region and simultaneously direct its production activities at not only to exploring the domestic market, but also at exporting products to closer regions, like the US and Mexico.

By reinforcing this strategy, Korea will be better positioned to enhance its integration with South American economies, especially through the facilitation of trade negotiations to reduce trade barriers. Thus, Korea should identify the more competitive areas in South America and strive to use them as an exporting platform for coordinating productive integration in the region.

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Russia's Changing Economic and Military Relations with Europe and Asia from Cold War to the Ukraine Conflict: The Impacts of Power Balances, Partnerships, and Economic Warfare*

Christopher Mark Davis**

* Acknowledgements:

I would like to express my gratitude to the Korea Institute for International Economic Policy (Seoul) for its support during my period as a Visiting Scholar in September 2014 and its award to me of a research grant in 2016 for work on this article. Oxford University has assisted generously my research on defense economic issues for 25 years through sabbatical leaves and grants from my two departments (Economics and Area Studies), Wolfson College, and the John Fell Fund. My research during 2013-2016 also has been funded by projects at the Russian Presidential Academy of the National Economy and Public Administration in Moscow and the Higher School of Economics-St. Petersburg. The author appreciates being given opportunities to present his ideas on economic-military power and economic sanctions at the following institutions: Hitotsubashi University, Institute of Economic Research, Tokyo (October 2014); NATO Parliamentary Assembly, Economics and Security Committee, The Hague (November 2014); Elcano Royal Institute for Strategic and International Studies, Madrid (February 2015); University of York, VOX Seminar on "Economic Sanctions," York (April 2015); Wolfson College, Seminar on "The Ukraine Conflict in 2014-15: Political, Economic, Military and International Dimensions" (September 2015); and School of Slavonic and East European Studies-UCL, Seminar on Economics and Business in East Europe (October 2016); and Institute of Europe of the Academy of Sciences RF, Moscow (March 2017). I appreciate the financing of my earlier research on defense economics by grants from the Ford Foundation, Pew Charitable Trusts, and Volkswagen Foundation. I also would like to give thanks to the journal *Post-Communist Economies* for allowing me to use in this article some published material from Davis (2016) *The Ukraine Conflict, Economic-Military Power Balances and Economic Sanctions*. This chapter is based on a draft completed in December 2016, but some minor updating was made during the correction of page proofs in early 2017.

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1. Introduction

The positions of countries in the global system are determined by their ideological-political characteristics, economic-military power balances, and bilateral relationships (as partner, neutral, or adversary) with major nations in relevant regions of the world. These inter-state relationships are influenced in turn by the extent of global economic integration, political changes, economic warfare, and armed conflicts (past, current, potential). All determinants can vary positively or negatively, as can the resultants of the various forces.¹⁾

1) For example, over the past thirty years there have been revolutionary changes in Europe and

This article is focussed on changes in Russia's economic-military balances and in the relationships between Russia and countries in Europe and Asia in the contemporary period, especially with respect to the Ukraine crisis.²⁾ The following questions are addressed: How did the dynamics of economic, technological and military balances influence general developments in security in Europe in the 2000s and the genesis of the Ukraine conflict?; What have been the unique defense economic institutions and policies that have enabled Russia to produce military capabilities that have appeared to be more substantial than warranted by its economic power?; How have Russia's economic and military relationships with countries in the regions of Europe and Asia changed during 2000-2016? Did Ukraine-related economic sanctions directed at Russia over the period 2014-2016 achieve established goals concerning the alteration of economic and military power balances?; and How has Russian strategic thinking concerning its future relationships with Europe and Asia evolved from its *Strategy 2020* document of 2012, which was intended to provide guidance for the policies of President Putin during his new term in office over 2012-18, to post-Ukraine conflict assessments in *Strategy of Russia in 2018-2024*?

Asia in: politics (the collapse of communism in the USSR), GDP growth (transformational recessions in former socialist countries, rapid development of the economy of China), economic integration (East Europe accession to the European Union), attitudes toward globalization and migration (Brexit, election of President Trump), Western anti-USSR/Russia economic warfare, military expenditure and deployment of armed forces (reductions by Russia and NATO, increases by China and India), peace (five 'frozen conflicts', Crimea, East Ukraine), and national borders (31 new states and disputed territories emerging in Europe during 1989-1999).

2) With respect to Asia, this article focusses on China, India, Japan, North Korea and South Korea, but also comments on developments related to Central Asia and Vietnam.

Section 2 reviews relevant concepts (production of economic and military power, economic-military balances and relationships between countries, economic warfare and sanctions) and defense-related economic history (1945-1991 and 1992-1999). Section 3 uses a diagram of international relationships (partnership, neutral, adversary) between countries in world regions as a framework for the analysis of a sequence of 21 steps in four categories that generated changes in Russia's relations with countries and organizations in Europe and Asia from 2000, before and after the start of the Ukraine conflict and the imposition of economic sanctions on Russia. Section 4 assesses likely developments in Russia's economic and military power and its position in the world out to 2020.

Concepts, historical coverage and empirical analyses of contemporary issues that are important for the line of argument of this article have been presented in two other works of the author and this material is cited when appropriate, rather than reproduced: Davis (2002) *The defence sector in the economy of a declining superpower: Soviet Union and Russia, 1965-2001* and Davis (2016) *The Ukraine conflict, economic-military power balances and economic sanctions*. An effort has been made to focus on new topics, such as the nature of relationships between countries and regions and Russia's evolving relationships with Asia.

2. Conceptual and Historical Reviews Concerning Economic-Military Balances, Bilateral and Multilateral Relations in Regions of the World, and Economic Warfare Related to Russia

A. Economic Systems, Defense Sectors, Economic and Military Power

The concept of economic power of relevance to national security concerns what Knorr (1957, 8) called 'economic defense potential,' which is determined by the volume and rate of growth of GDP, the structure and flexibility of output at the sector level (e.g. mobilization capacity), and capabilities in science and technology (Tables 2, 4, 6, 7, 14). Economic power is produced by an economic system (capitalist, transitional market, command) that is governed by its economic features and policies and functions in a multi-dimensional economic environment (Gregory and Stuart 1999) (Table 11).

The inter-relationships between economic power and military developments in Europe and Asia over the centuries have been studied thoroughly (Goodwin ed. 1991; Davis 1991a). Knorr (1957, 7; 1973) argued that 'defense potential' was dependent not only on economic power, but also on the efficiency of the utilization of resources devoted to defense and on the 'will to provide for military power' (e.g. share of GDP devoted to defense) (Tables 3, 8, 10).³⁾

3) The article argues that over the period of 1992-2013 NATO Europe countries did not demonstrate

Military capabilities and defense burdens are determined by the general conversion of economic power to defense potential, the priority status of the military sector, and the functioning of defense institutions (armed forces, defense industry, defense supply, military R&D, military foreign trade, central defense bureaucracy) (Davis 1990b, 2002).

A national security strategy takes into account external and domestic threats (military, economic, political) and includes programs to reduce threats (diplomatic, propaganda (including *dezinformatsiya*, or disinformation), arms control, espionage (now including computer hacking)) and develop appropriate military capabilities (Davis 1986, 1992). In the USSR, the strategy of the Brezhnev regime placed heavy emphasis on military power, whereas the Gorbachev government shifted it to threat reduction. In Russia, the government of President Yeltsin placed less emphasis on military power than has that of President Putin.

B. Political, Economic and Military Relationships of a Country, Economic–Military Balances, and Shifts in Strategies and Policies Concerning Regions of the World

A country's ideology and political system can affect its relationships with other states. For example, adherence to liberal democratic values helps to

this 'will' because of their sustained reductions in defense expenditures/burdens, whereas major countries of Asia did, as evidenced by their increases in defense shares of GDP.

solidify partnerships with the USA and EU. Economic systems and policies are of considerable importance. If a country has an open market economy, then it has good prospects for the establishment of beneficial global integration and trade. However, the relatively closed socialist countries with their shortage economies had more limited possibilities for foreign economic links. Military relationships can be bilateral in nature and involve arms trade, military training, cooperation in military R&D and defense industry production, and combat services of military personnel. Countries also can rely on various types of multilateral military alliances (e.g. NATO and the Warsaw Pact in the Cold War period).

This article makes use of the arguments of Kennedy (1988) that the rises and declines of major countries, empires and alliances in Europe and Asia in the 20th century were strongly influenced by the dynamics of economic, technological and military balances (Tables 2, 3, 4, 6, 8, 10, 14).⁴⁾ The adverse impacts on the USSR of distorted balances (relatively low economic power, heavy defense burden) are evaluated in Davis (1990a).

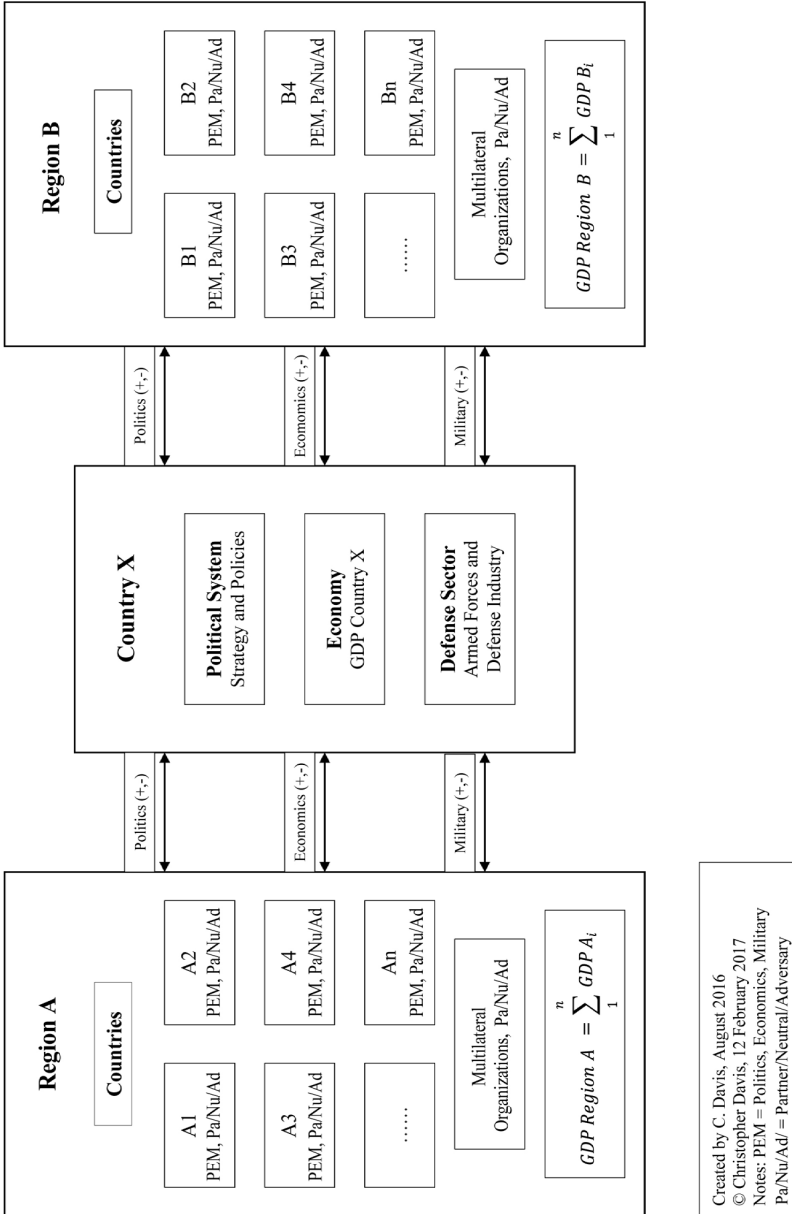
The multi-dimensional relationships between a country and regions of the world are illustrated in Diagram 1. Country X possesses Political (P), Economic (E) and Military (M) characteristics and has links with countries in Region A (A1...An) and Region B (B1...Bn) in the three dimensions (P, E, M). The

4) Kennedy (1988) evaluates the general dynamics of the Russian Empire and the USSR, as well as specific issues related to Ukraine, such as Russia's annexation of Crimea in 1783 and its relations with Ukraine and Poland (see map on page 109).

relationships between Country X and the others can be a Partnership (Pa), Neutral (Nu) or Adversarial (Ad).

Regions possess different multilateral organizations (e.g. EU, ASEAN) and have varying degrees of economic and military power (e.g. the magnitude and rate of growth of GDP). Decisions by a country about engagements in regions depend on characteristics of political relationships (adversary, neutral, partner) and economic-military balances. Country X (e.g. Russia) is likely to shift its involvement from Region A (e.g. Europe) to Region B (e.g. Asia) if the former becomes more adversarial or if the latter expands its economic power more rapidly and thereby provides better commercial opportunities.

Diagram 1. Interrelationships between Country X and Regions A and B of the World



The countries, territories and multilateral organizations of concern to Russia in 2017 in world regions are shown in Diagram 2.⁵⁾ In Europe the main countries are the UK, EU members, and Ukraine (the disputed territories are the Luhansk and Donetsk regions and Crimea). The key multilateral organizations are NATO and the EU. In the Middle East the most important states for Russia are Turkey, Iran, Iraq, Syria and Saudi Arabia. The significant countries in Asia are China, India, Japan, North Korea, South Korea, Vietnam and the five in Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan).

C. Goals and Features of Economic Warfare and Sanctions

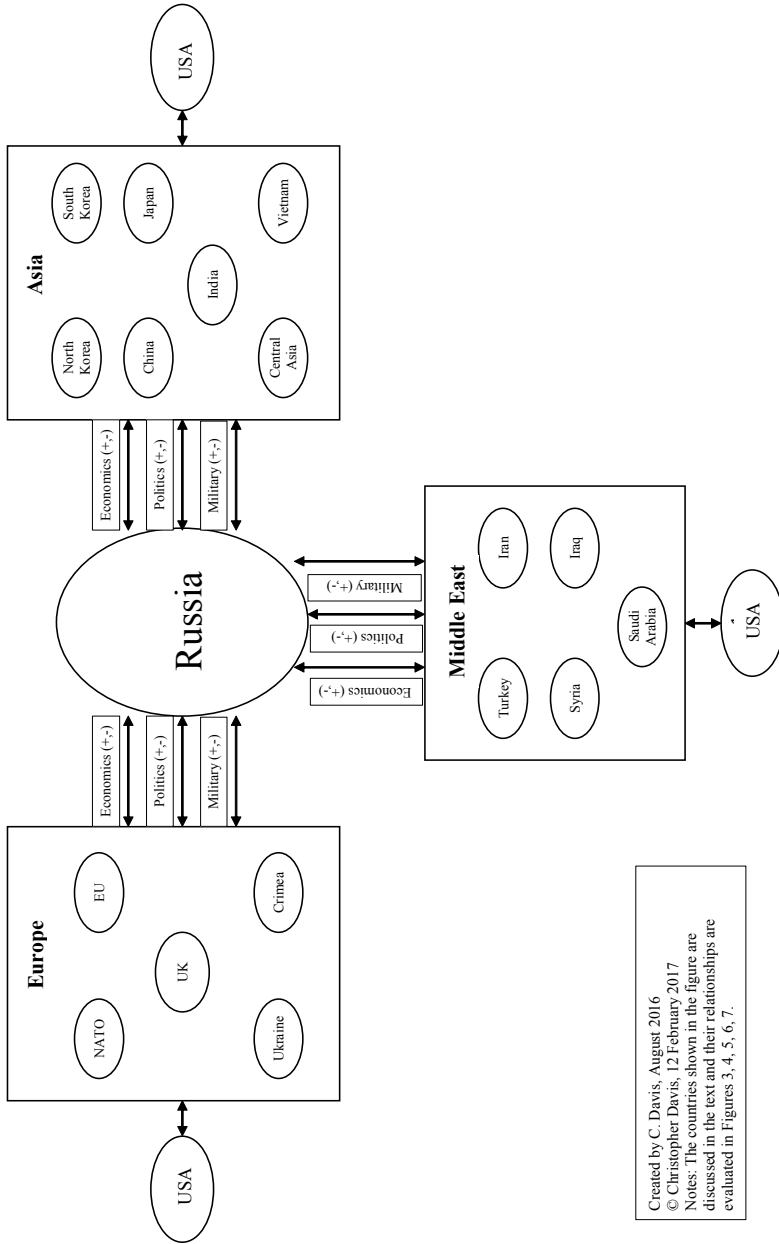
Economic warfare (including specific economic sanctions) has a dual relationship with economic and military power. First, it is intended primarily to influence economic, technological, and military balances to the advantage of the country/alliance conducting it. Second, the capability to conduct effective economic warfare is dependent on economic strength. Punitive measures can relate to trade in commodities (embargo, refusal of export licenses, preclusive buying) and finance (freezing of assets, restrictions on lending, expropriation of property) (Baldwin 1985, 41).

Economic warfare (including sanctions) is a politico-economic process with

5) The nature of the relationships between countries in the three regions are depicted for the USSR in 1985 in Diagram 3 and for Russia during 2000-2017 in Diagrams 4-7.

the following features: EWF (Economic Warfare Feature) 1 trigger (cause); EWF 2 establishment of objectives (economic, military, political); EWF 3 agreement on conditions for termination; EWF 4 decisions on specific measures (e.g. restrictions on trade and finance); EWF 5 comprehensiveness of participation; EWF 6 commitment to implementation (e.g. rigorous or symbolic); EWF 7 effectiveness of counter-measures; EWF 8 evaluation of impacts; and EWF 9 removal of restrictions/sanctions. Davis (2016) evaluates economic warfare directed against the USSR and Russia over the period 1917-2013 and presents summaries of results in Tables 6 (1917-1945), 7 (1945-1991) and 8 (1992-2013). An assessment of anti-Russia sanctions during 2014-2016 related to the Ukraine conflict is presented in Table 13ab of this new article.

Diagram 2. Organizations and Countries/Territories in Regions of the World of Importance to Russia in 2017



Created by C. Davis, August 2016
 © Christopher Davis, 12 February 2017
 Notes: The countries shown in the figure are discussed in the text and their relationships are evaluated in Figures 3, 4, 5, 6, 7.

D. USSR Economic and Military Relationships with Europe and Asia: 1965–1991

1) Features and Performance of the Economy of the USSR

The USSR/CMEA (Council for Mutual Economic Assistance) countries had non-market economies characterized by centralization, state-ownership, compulsory plans, and autarky. The command economic system also had six important 'Hidden Processes' (HP) that influenced economic performance and have been carried over into the contemporary market economies of Russia and Ukraine: HP1 shortage economy features (quantity processes and signals, indirect bureaucratic control, soft budget constraints) (Kornai 1980; Davis and Charemza 1989; Kornai 1992); HP2 pervasive second economies with related corruption networks (Davis 1988); HP3 negative value added in industry (McKinnon 1991); HP4 a 'Rent Management System' (RMS) that involves the state re-distributing the value obtained from energy exports through formal and informal channels (Gaddy and Ickes 2005, 2010); HP5 'implicit' subsidisation of allied East European and Asian states (e.g. low oil prices in trade with CMEA countries) (Marrese and Vanous 1983); and HP6 illegal acquisition of restricted foreign technologies (CIA 1985).

The USSR emerged victorious from World War II and converted its highly centralized war economy back to a civilian one (Harrison 1985). From the mid-fifties the Soviet Union was able to achieve rapid extensive growth with rising living standards. The index of USSR industrial production (1970=100.0)

increased from 22.2 in 1950 to a peak of 189.1 in 1988 (Davis 1999). The Soviet planned economy was integrated across fifteen Republics, including the five in Central Asia. Several efforts to reform the command economic system failed, so it remained a shortage economy (Davis and Charemza 1989; Davis 1999, 2014).

Soviet centrally planned hard-currency trade expanded dramatically in the 1970s because of détente policies related to arms control, increases in world market prices for energy, and greater production of oil and gas: USSR energy earnings rose from \$388 million in 1970 to \$18,865 million in 1984. The government made use of its evolving RMS (HP 4) to redistribute the growing energy 'rent' to finance imports, support the defense effort, and subsidize inefficient enterprises (HP 3) and East European countries (HP 5) (Marrese and Vanous 1983; Gaddy and Ickes 2005; Davis 2014).

2) National Security Strategy and Defense Sector Performance in the USSR

From the mid-1960s the Soviet leadership pursued an ambitious strategy to enhance national security that placed emphasis on the generation of military power (Sapir 1991). The performance of the defense sector was greatly assisted by its high priority status, which meant that it benefited from the preferential allocation of scarce resources and protection by special organizations (e.g. the Military-Industrial Commission) (Davis 1990b, 1992, 2002). The allocation of

resources to the defense sector rose substantially and by the 1980s the defense burden was around 15% of GDP. A large share of the military equipment produced by the Soviet defense industry was exported to countries in the Warsaw Pact and Third World. The total value of Soviet arms exports rose from \$700 million in 1965 to \$17.3 billion in 1985 (34% of world arms exports) (Davis 2002). By the 1970s the USSR had become the second military superpower (DOD 1981...1990). The increases in the armed forces, deployed weapons and arms exports are shown in Table 1.

During the Gorbachev era (1985-1991) the Soviet leadership adopted a different strategy of 'defense sufficiency' and cut defense expenditures and deployed forces. However, these policies were not successful in significantly lowering the defense burden or in closing the economic power gap, so the USSR continued to decline in the international system (Davis 1990a, 1991b). The communist regimes in Eastern Europe collapsed in 1989 and in the USSR in 1991.

Table 1. Developments in the Soviet Defence Sector, 1965–91

Indicator	Units	1965	1985	1991
Armed Forces Manpower				
Total Armed Forces	Thousands	3885	3980	2910
Strategic Rocket Forces	Thousands	110	300	165
Ground Forces	Thousands	1460	1995	1400
Air Forces	Thousands	510	570	420
Air Defence Forces	Thousands	440	635	475
Navy	Thousands	390	480	450

Table 1. Continued

Indicator	Units	1965	1985	1991
Armed Forces Military Equipment				
Tanks	Number	28000	52600	54400
Total Artillery, Mortars, MLR	Number	19000	50200	64200
GF Helicopters	Number	300	4300	4500
AF Fighter/Attack Aircraft	Number	2300	5900	4905
Tactical Submarines (SS/SSN)	Number	190	203	221
Strategic Bombers	Number	118	160	100
ICBMs	Number	281	1371	1006
ICBM Warheads	Number	281	6813	6106
SSB/SSBN	Number	25	78	55
SLBMs	Number	75	980	832
SLBM Warheads	Number	72	2264	2792
Total Warheads	Number	882	9997	10164
Military Exports				
Total Arms Exports	\$ millions	700	17300	6600
Share of World Arms Exports	%	10	34	26
Non-Socialist Arms Exports	\$ millions	300	7500	4300

Sources: Davis (2002) provides information about references. The main source was IISS *Military Balance*.

3) NATO Economic Warfare and Soviet Countermeasures ·

Throughout the postwar period NATO countries waged economic warfare against the USSR with the objectives of restraining the development of Soviet military and economic power (EWF 2). The *Coordinating Committee for*

Multilateral Export Control (CoCom) supervised the NATO containment policies (Adler-Karlsson 1968; Davis 2016). All important industrialized countries participated in these restrictions on trade and finance (EWF 5). Supplemental economic sanctions were introduced in response to unacceptable actions by the Soviet Union (e.g. 1956 suppression of the uprising in Hungary, 1968 Warsaw Pact invasion of Czechoslovakia).

The USSR developed economic warfare counter-measures (EWF 7) against the capitalist countries that involved hidden cooperation, trade diversion, and technological espionage (HP 6) (Andrew and Gordievsky 1990). By the 1960s the USSR had a well-organized counter-sanctions *Spetsinformatsiya* (special information) system that involved the intelligence services (*KGB (Komitet Gosudarstvennoi Bezopastnosti)*, *GRU (Glavnoe Razvedyvatel'noe Upravlenie)*) in covertly collecting restricted Western technologies on a large scale in accordance with detailed plans produced by the *Military-Industrial Commission* and *KGB Directorate T* (HP 6) (CIA 1985; Hanson 1987; Kostin and Raynaud 2011).

The efforts of NATO and OECD countries to use economic warfare to restrain the USSR were undermined by divisions between participants (e.g. West Europe cooperating with the USSR in the early 1980s in building a 4,000 kilometer gas pipeline from Siberia) and moderately effective counter-measures by the Soviet *Spetsinformatsiya* system (CIA 1981). Overall, Western economic warfare neither prevented the Soviet Union from becoming a superpower nor played a significant role in bringing about the collapse of the communist regimes in the late 1980s.

4) The USSR's Economic–Military Power Balances in Europe

OECD economies grew at healthy rates during 1950-73, experienced 'stagflation' in 1974-80 due to oil price shocks, and then entered a period of sustained growth. Table 3 shows that by 1980 the RSFSR (Russia) component of the USSR economy (55% of the total) was only 20% of the size of the USA economy. It was smaller than that of Germany, but larger than the economies of France, Italy, UK and Spain. From 1980 to 1990 the GDP of Russia remained around 25% of the combined GDP of the five European countries in Table 3. Furthermore, the shortage economy of the USSR was less efficient than the market economies and lagged behind in technological innovation (Ellman and Kontorovich 1992; Gregory and Stuart 2001).

During the late Cold War period NATO built up its conventional and strategic nuclear forces and achieved deterrence in Europe. This required substantial military expenditures and heavy defense burdens: USA 6% of GDP, UK 5%, France 4%, and Germany 3%. Although there were tensions in Europe during 1945-1989, there were no armed conflicts or changes in international borders.⁶⁾

6) The USA did not recognize the 1940 annexations of Estonia, Latvia and Lithuania by the USSR, but it treated this as a side-issue in order to manage its relations with the Soviet Union for the sake of global stability. This low-key but eventually successful USA policy contrasts with its more robust current policies toward Russia in connection with the annexation of Crimea.

Table 2. Comparison of GDP of Russia, USA and Countries of Europe and Asia, 1980 and 1990

Country	GDP Geary-Khamis \$ 1990				Ratio 1990 Country to Russia
	1980		1990		
	GK\$ Billions	% USA	GK\$ Billions	% USA	
USA	4,231	100.0	5,803	100.0	5.0
Russia	940	22.2	1,151	19.8	1.0
EU Top 5	3,734	88.3	4,634	79.9	4.0
Germany	1,105	26.1	1,264	21.8	1.1
France	814	19.2	1,026	17.7	0.9
Italy	742	17.5	925	15.9	0.8
UK	728	17.2	945	16.3	0.8
Spain	345	8.2	474	8.2	0.4
Asia Next 5	3,444	81.4	5,985	103.1	5.2
Japan	1,568	37.1	2,321	40.0	2.0
China	1,041	24.6	2,124	36.6	1.8
India	637	15.1	1,098	18.9	1.0
South Korea	157	3.7	373	6.4	0.3
Vietnam	41	1.0	69	1.2	0.1
Ratio Asia 5 to Europe 5	0.9		1.3		
North Korea	49	1.2	57	1.0	0.1

Notes: 1) According to Wikipedia (2016a): “The Geary-Khamis dollar, known as the international dollar, is a hypothetical unit of currency that has the same purchasing power parity that the U.S. dollar had in the United States at a given point in time. It is based on the twin concepts of purchasing power parities (PPP) of currencies and the international average prices of commodities. It shows how much a local currency unit is worth within the country’s borders. It is used to make comparisons both between countries and over time.”

2) Russia GDP for 1980 and 1990 was estimated to be 55% of the USSR GDP figures provided in Maddison (2016).

Sources: Prepared by C. Davis in 2016 from material in Maddison (2016), <http://www.worldeconomics.com/Data/MadisonHistoricalGDP/Madison%20Historical%20GDP%20Data.efp#>.

5) USSR Economic and Military Relationships and Power Balances in Asia

In the post-war period the USSR exerted significant influences on the economies of several major underdeveloped Asian countries. The Soviet economic model initially was adopted by North Korea in 1948, China in 1949, and Vietnam (in the North in the 1950s and in the whole country after 1975). This meant that the three countries had variants of the shortage economy and the hidden processes identified in Section 2.d (Ellman 1988, Kornai 1992). China had a turbulent politico-economic history with the *Great Leap Forward* in 1956 and the destructive *Cultural Revolution* during 1966-1976. This was followed by a restoration of political order by Deng Xiaoping and sustained economic reforms from 1979. North Korea began to deviate from Marxism-Leninism in the late 1950s in favor of the indigenous philosophy of *Juche*, which emphasized Korean self-reliance and patriotism. Vietnam retained an orthodox socialist economy until major reforms were introduced in 1986 to establish a 'socialist-oriented market economy.' Table 2 shows that in 1980 the GDP of China was smaller than that of the USSR, but marginally larger than that of the RSFSR. Over the next decade the ratio of China to Russia GDP rose from 1.1 to 1.8, although per capita GDP in Russia remained much higher.

India maintained a market economy after its independence in 1951, but it was influenced by the socialist model of the USSR to establish government ownership of strategic assets, to use central planning, and to place an emphasis

of the rapid growth of heavy industry (in accordance with the 1953 Mahalanobis model). By 1980 the GDP of India was 68% of that of Russia, but this increased to 95% by 1990. The per capita GDP of India also was much lower than that of Russia.

After World War II heavily industrialized Japan re-established a capitalist economy that had strong government institutions (e.g. MITI), partnerships of banks, corporations and trading companies (*Kieretsu*), and largely liberal economic policies. The economic output of Japan recovered rapidly and by 1980 it was the second largest economy in the world. The GDP of Russia compared to that of Japan fell from 60% in 1980 to 49% in 1990. South Korea had a low level of industrialization in the early post-war period and developed its capitalist economy slowly and unstably. It relied on government intervention and the *Chaebol* model of partnerships between banks, businesses and trading companies. However, in the 1980s the growth of the economy of South Korea accelerated and its GDP as a share of Russian output rose from 17% to 32%. Rapid technological development in South Korea was reflected in increasing success in the export of manufactures.

Russia's economic power balance with Asia in the late Cold War period shifted in favor of the latter. Table 2 shows that the Russia share of the GDP of the five identified Asian economies (excluding North Korea) dropped from 27% in 1980 to 19% in 1990. The USSR had substantial foreign trade links with India, Vietnam and North Korea throughout the Cold War period. Trade with China was severely disrupted by political turmoil in that country, but it

recovered in the 1980s. Soviet trade with Japan and South Korea was not significant due to adversarial political relationships. Financial markets in Asia in the 1980s were not important for the USSR.

The concept of ‘hysteresis’ is useful in evaluating Russia’s military inter-relationships in Asia, because shocks and events in the past (notably wars) have exerted strong influences on the present.⁷⁾ In the Soviet period Russians were encouraged to remember that Tsarist Russia suffered a humiliating defeat by Japan in the war of 1905 and that Japanese armed forces occupied territory of Soviet Russia during the Civil War of 1918-21. Tense relations existed between the USSR and Japan during 1939-45. The USSR declared war on Japan on 8 August 1945, rapidly defeated weakened Japanese armies in Manchuria and Korea, and occupied the Kurile Islands (Northern Territories). As a result of these experiences, the USSR had an adversarial relationship with Japan throughout the Cold War period. The bilateral military power balance was strongly in favor of the USSR given its military strength discussed above and Japan’s low defense burden (1% of GDP) linked to its peace constitution.

In the case of China, the USSR provided military and intelligence support to the communist forces in that country in their struggles against the Japanese

7) According to Wikipedia: “The term hysteresis is derived from ... an ancient Greek word meaning deficiency or lagging behind. It was coined around 1890 by Sir James Alfred Ewing to describe the behaviour of magnetic materials...for instance when magnetic induction lags behind the magnetizing force.” A formal mathematical theory of systems with hysteresis has been developed. In the social sciences, the concept of hysteresis has been influential in labor economics, with the insight that a negative shock leading to higher unemployment leads to a reaction that embeds a higher unemployment rate in an economic system in subsequent periods.

occupiers during World War II and the *Kuomintang* in the civil war. Following the establishment of a communist regime in 1949, the USSR supplied China with substantial quantities of weapons, military advisors, and assistance in developing its defense industry. However, USSR-China relations deteriorated in the post-Stalin period. In 1969 Soviet armed forces fought several battles against Chinese troops in disputed border territory near the Ussuri River. Relations between the two countries were adversarial for the next two decades. Although the USSR remained the dominant military power, the capabilities of the Chinese armed forces improved in the 1980s.

In August 1945 invading Soviet armies occupied the northern part of the Korean peninsula and gave the new communist state of North Korea large stocks of weapons and military training. The USSR strongly supported North Korea in its 1950-53 war with South Korea and UN (primarily American) armed forces and some of its military personnel (especially jet fighter pilots) engaged in combat operations. Due to the traumatic wartime experiences of the South Korean population and the strong anti-communism of successive governments, relations between the USSR and the Republic of Korea remained adversarial during the Cold War.

The USSR supported militarily the communist forces in Vietnam in their revolutionary struggles against French colonial forces and subsequently the government of South Vietnam and its foreign allies (USA, Australia, South Korea). During 1965-75 the USSR supplied North Vietnam with sophisticated weapons, large quantities of munitions and military technology, and numerous military

advisors. The USSR remained a loyal ally to communist Vietnam and signed a 25-year mutual defense treaty with it in 1978. When China launched a limited invasion of Vietnam in 1979 in response to the latter's military intervention in Cambodia, the Soviet Union provided Vietnam with intelligence, air transport services, weapons and military advisors.

Although India remained a democratic state with a market economy, the USSR developed a strong military relationship with that country and was its main supplier of weapons throughout the Cold War period. It gave India military support during its wars with Pakistan in 1965 and 1971 and China in 1962 and 1967.

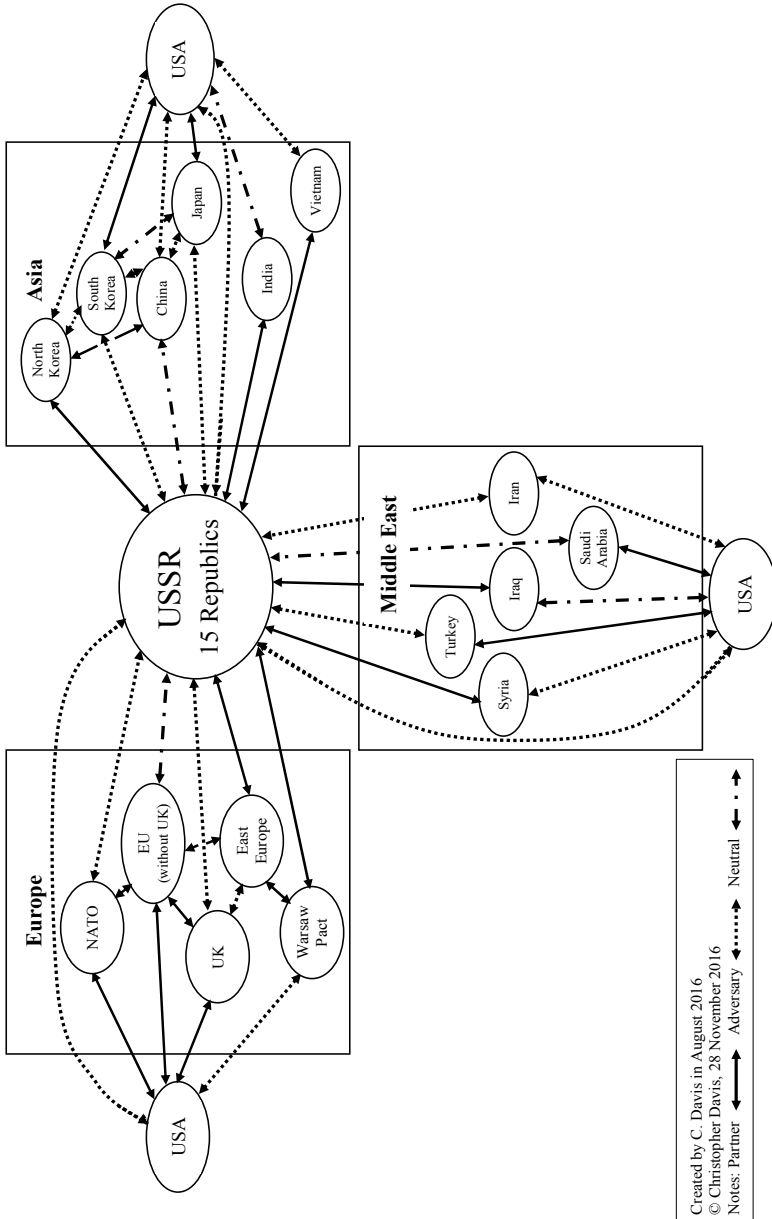
6) USSR Relationships with Countries and Regions of the World

The most important relationships of the USSR with countries and organizations in Europe, the Middle East, and Asia are shown in Diagram 3. The USA was the main adversary of the Soviet Union. Europe was the major economic region of the world and it became the leading capitalist trading partner of the USSR from the mid-1970s onwards. However, due to ideological and political differences the USSR had adversarial relations with NATO Europe countries. The diagram shows that the USSR had partnerships with the European socialist countries that were members of the CMEA and Warsaw Pact, but these were coercive in nature.

In Asia the Soviet Union had partnerships with India, Vietnam and North

Korea and, by 1985, a neutral relationship with China. Adversarial relations existed between the USSR and the USA (as a Pacific power), Japan, and South Korea. The balance of military power in Asia (excluding the USA) remained strongly in favor of the USSR. However, by 1990 the economic power balance in Asia had shifted away from the Soviet Union.

Diagram 3. USSR Relationships in 1985 with Countries in Regions of the World: Partners and Adversaries in Europe, Middle East



E. Russia's Economic and Military Relationships with Europe and Asia: 1992–1999

1) Collapse of the Soviet System, Russia's Transition Economy, and Economic Power Balances with the USA and Europe, 1992–1999

From 1989 anti-communist revolutions resulted in the collapse of regimes in socialist East Europe and the disintegration of the USSR. During the 1990s there were 31 alterations in the borders of Europe (after zero from 1945 to 1988). There were peaceful changes in 23 cases: reunification of Germany; fragmentation of the USSR into 15 successor states; division of Czechoslovakia; independence of Slovenia and FRY Macedonia; and Serbia and Montenegro splitting. Three states achieved independence following wars: Serbia-Montenegro, Bosnia-Herzegovina, and Croatia. In five other cases regions of a state with an aggrieved ethnic minority achieved autonomy through armed conflict with the support of a foreign power, and thereafter entered the category of 'frozen conflict': Transdnestrria (1992), South Ossetia (1992), Abkhazia (1993), Nagorno-Karabakh (1994), and Kosovo (1999).

All of the newly independent countries attempted to establish democratic political systems and market economies, but their early efforts at transition were characterized by economic disorganization, 'transformational recession' (output decline), corrupt and ineffective privatizations, and drops in living standards (Kornai 1994; Ellman 2000). However, the three former Soviet

Baltics states and countries of central East Europe were successful in carrying out market-oriented reforms and becoming members of the EU.

Russia inherited a weak state and a malfunctioning economy. Initial macroeconomic stabilization efforts failed, which resulted in a 40% decline in GDP and high inflation (EBRD 1994...1999). Microeconomic processes were dominated by barter between firms afflicted by negative value added (HP 3), build-ups of informal inter-enterprise debt, pervasive second economy activity and corruption (HP 2), ineffective privatization, and limited industrial restructuring. By the mid-1990s Russia had a 'virtual economy' in which the state pretended to promote market-oriented reform while using the RMS to distribute rent from the energy sector (less available due a low oil price of \$22 per barrel) to negative value-added industries (HP 1, 3) in order to avoid mass bankruptcies and political unrest (Gaddy and Ickes 1998, 2005). In 1998 Russia experienced a new financial crisis due to its large budget deficits and high debt (GKO) levels and the combination of a financial crisis in Asia with a 50% drop in the price of oil to \$11 per barrel.

2) Russia's Defense Sector, National Security Strategy and NATO's Military Power

In 1991 the military-industrial complex of the USSR fragmented into fifteen components, with the largest being inherited by Russia and Ukraine. Due to democratizing changes in the political system and tightening constraints in a collapsing economy the Russian government lowered the priority of the defense

sector and drastically reduced military expenditures (IISS 1992...2000; Davis 2002). Their armed forces and defense industries operated in difficult circumstances and their capabilities deteriorated (Allison 1996; Gaddy 1996; Odom 1998). Total arms exports to all regions of the world dropped from a peak of \$30.4 billion (constant 1996) for the USSR in 1987 to a low of \$1.5 billion for Russia in 1994 (WMEAT 1997, Table II). Negligible progress was achieved in defense-related reforms. Ukraine experienced similar defense-economic problems and in 1993 agreed to give up its nuclear weapons and to lease military bases in Crimea to Russia in return for energy subsidies and guarantees of its territorial integrity.

The effectiveness of NATO armies remained high in general and new military technologies were introduced (stealth design, smart bombs, drones). However, the NATO countries pursued an economic “peace dividend” by reducing defense expenditures, military personnel and weapon systems (see Table 3). The number of UK Main Battle (MB) tanks dropped from 1,330 in 1990 to 363 in 2000. In a somewhat contradictory move in economic terms, in 1999 the membership of NATO was expanded to include Czech Republic, Hungary and Poland. Due to this and cut-backs in defense budgets, per capita defense spending in NATO Europe dropped from \$715 (constant) in 1990 to \$515 in 2000.

3) Western Economic Sanctions, Russian Counter-measures, and Their Impacts in the Transition Period, 1992–1999

Economic warfare and sanctions directed at Russia diminished markedly

following the collapse of the USSR (Davis 2016). The rationale for maintaining *CoCom* was undermined and the organization was disestablished in 1994 (Joyner ed. 2006). However, the USA, UK and other technology leaders maintained national *Export Control Lists* concerning military and dual-use technologies, which limited some exports to Russia. That country attempted to circumvent foreign controls on technologies of relevance to its defense efforts by using a re-organized *Spetsinformatsiya* system (HP 6). The main agencies involved were the Ministry of Defense *GRU* and the successor to the foreign arm of the *KGB*, the *SVR (Sluzhba Vneshnei Razvedki)*, notably its *Directorate X: Scientific and Technical Intelligence*.

4) Russia Economic and Military Power Balances and Relationships in Europe

Table 4 shows that the size of the economy of Russia relative to that of the USA fell from 19.8% in 1990 to 9.6% in 2000, and in the latter year it was smaller than the economies of Germany, France, Italy and the UK. In sum, gaps in economic power widened between Russia and important countries in Europe and the USA.

With respect to the military balance in Europe, both Russia and NATO countries reduced defense expenditures and force levels (Table 3). For example, the number of tanks fell from 61,500 in 1990 for the USSR (including all 15 Republics) to 21,820 for Russia in 2000, while the quantity of tanks deployed

in Europe by the USA, UK and Germany fell from 12,294 to 3,835. However, although the quantitative balance remained in favor of Russia, the quality-adjusted one shifted significantly to the advantage of NATO because of its superior technological capabilities.

Russia's relationships with countries in Europe in the 1990s were transformed from adversarial to partnership or neutral. This reflected the pro-West foreign policies of Russia, as well as diminished NATO perceptions of political and military threats. Russia's relationship with the USA became less adversarial and approached the status of neutrality, but wariness remained on both sides because of the continued existence of large stockpiles of strategic nuclear weapons.

Table 3. Armed Forces of USSR, Russia, Ukraine, UK, USA in Europe, Germany: 1990, 2000, 2013

Indicator	Years		
	1990	2000	2013
	USSR		
Military Personnel	3,988,000	NA	NA
Tanks	61,500		
Artillery	66,880		
Combat Aircraft	4,335		
Helicopters	4,500		
Defense % GDP	15.0		
		Russia	
Military Personnel	NA	1,004,100	845,000
Tanks		21,820	2,550
Artillery		20,746	5,436
Combat Aircraft		1,455	1,389
Helicopters		2,108	392
Defense % GDP		2.8	3.1

Table 3. Continued

Indicator	Years		
	1990	2000	2013
		Ukraine	
Military Personnel	NA	303,800	129,950
Tanks		3,937	1,110
Artillery		3,704	1,952
Combat Aircraft		543	139
Helicopters		247	221
Defense % GDP		3.4	1.3
			UK
Military Personnel	306,000	210,940	169,150
Tanks	1,330	363	227
Artillery	705	418	610
Combat Aircraft	823	504	283
Helicopters	107	228	176
Defense % GDP	5.2	2.4	2.3
		USA in Europe	
Military Personnel	299,200	99,382	67,463
Tanks	5,917	657	53
Artillery	2,685	326	123
Combat Aircraft	660	237	179
Helicopters	210	134	48
Defense % GDP	6.5	3.4	3.7
		Germany	
Military Personnel	469,000	321,000	186,450
Tanks	5,045	2,815	322
Artillery	2,492	2,115	272
Combat Aircraft	697	457	205
Helicopters	210	102	22
Defense % GDP	3.2	1.6	1.2

Sources: Prepared by C. Davis in 2015 using material from IISS Military Balance (1991, 2001, 2014) and published in Davis (2016).

Table 4. Comparison of GDP of Russia, USA and Countries of Europe and Asia, 1990 and 2000

Country					Ratio 2000 Country to Russia
	1990		2000		
	GK\$ Billions	% USA	GK\$ Billions	% USA	
USA	5,803	100.0	8,032	100.0	10.4
Russia	1,151	19.8	774	9.6	1.0
EU Top 5	4,634	79.9	5,726	71.3	7.4
Germany	1,264	21.8	1,557	19.4	2.0
France	1,026	17.7	1,249	15.6	1.6
Italy	925	15.9	1,084	13.5	1.4
UK	945	16.3	1,211	15.1	1.6
Spain	474	8.2	625	7.8	0.8
Asia 5	5,985	103.1	9,663	120.3	12.5
Japan	2,321	40.0	2,628	32.7	3.4
China	2,124	36.6	4,319	53.8	5.6
India	1,098	18.9	1,900	23.7	2.5
South Korea	373	6.4	673	8.4	0.9
Vietnam	69	1.2	143	1.8	0.2
Ratio Asia 5 to Europe 5	1.3		1.7		
North Korea	57	1.0	25	0.3	0.0

Notes: 1) According to Wikipedia (2016a): “The Geary-Khamis dollar, known as the international dollar, is a hypothetical unit of currency that has the same purchasing power parity that the U.S. dollar had in the United States at a given point in time. It is based on the twin concepts of purchasing power parities (PPP) of currencies and the international average prices of commodities. It shows how much a local currency unit is worth within the country’s borders. It is used to make comparisons both between countries and over time.”

2) Russia GDP for 1990 was estimated to be 55% of the USSR GDP figure provided in Maddison (2016).

Sources: Prepared by C. Davis in 2016 from material in Maddison (2016), <http://www.worldeconomics.com/Data/MadisonHistoricalGDP/Madison%20Historical%20GDP%20Data.efp#>.

5) Russia's Economic and Military Power Balances and Relationships with Asia

The emergence of democracy in Russia contributed to improvements in its relations with countries in Asia, notably Japan and South Korea. Russia managed to improve its ties with China and to maintain positive relations with India, North Korea and Vietnam. Russia's economic power balances with Asian countries worsened considerably due to differentials in growth. Table 4 shows that the ratios of the economies of China and India rose from, respectively, 1.8 and 1.0 in 1990 to 5.6 and 2.5 in 2000. With respect to military power, Russia reduced its defense spending and conventional military capabilities, whereas China and India raised theirs.

Overall, economic and military power balances shifted in favor of Asia. However, due to the improvements in Russia's political relationships in Asia, these changes were not viewed by Russia as threatening to its national security in the short-term.

3. Russia's Economic–Military Power Balances, the Ukraine Conflict, Economic Sanctions, and Russia's Re–Orientation from Europe to Asia: 2000–2016

This section makes use of concepts concerning economic-military power

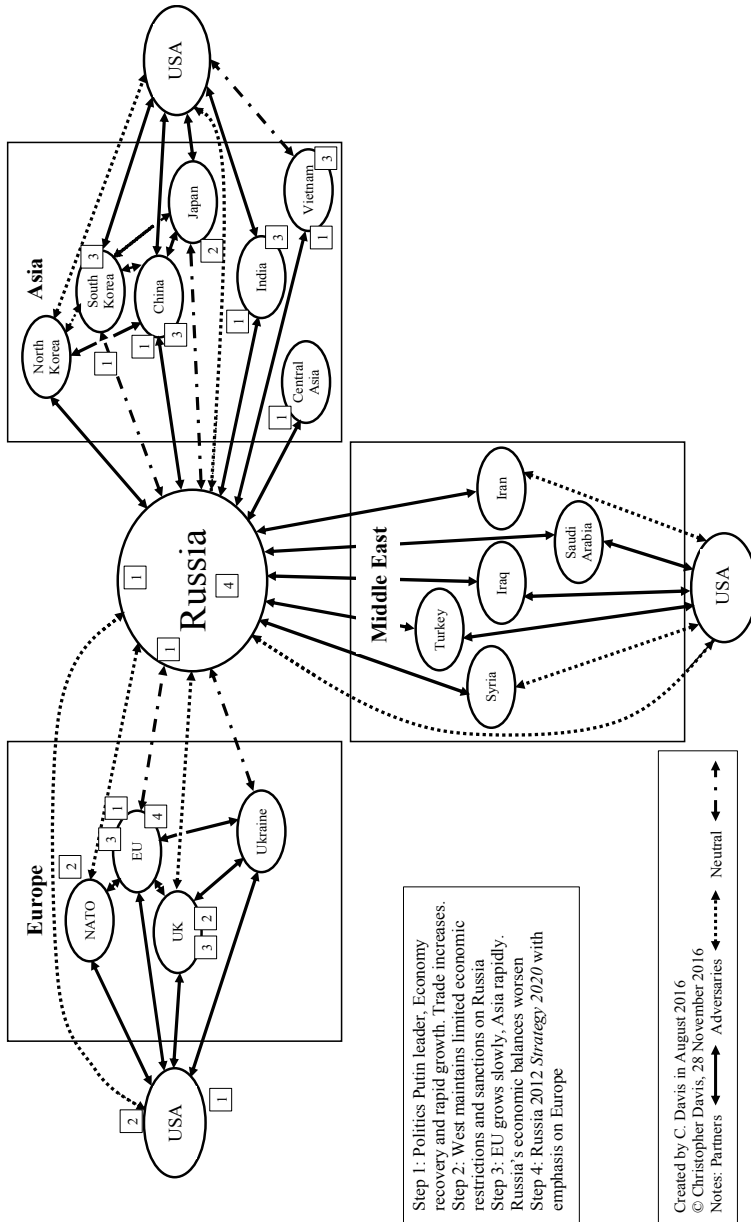
balances and relationships between Russia and countries in regions of the world, summarized in Diagrams 1 and 2, to evaluate the 21 Steps in the complex sequence (process) generating the Ukraine conflict, economic sanctions, and Russia's reorientation to Asia, which involved countries in Europe, the Middle East, and Asia. The 21 Steps are clustered into four sub-sections related to the years 2000-2016: a. economic power balances (Diagram 4 and Steps 1-4); b. military developments (Diagram 5 and Steps 5-10); c. conflict in Ukraine and economic sanctions (Diagram 6 and Steps 11-15); and d. the Russian economy, the effectiveness of sanctions, and shifts in regional relationships (Diagram 7 and Steps 16-21).

A. Russian Economic Performance and Economic Power Balances, 2000–2013 (Diagram 4)

1) Step 1: Russia Politics and Economy

Vladimir Putin was elected President in 2000 and has been a dominant and effective leader throughout the period to 2017. The recovery of the Russian economy began with a boost to domestic manufacturing as a result of forced import substitution and was maintained by the rise in the world market price of oil from \$11 per barrel in 1998 to a peak of \$145 in 2008. The stronger Russian government was able to impose high taxes on energy exporters and to divert a substantial share of the revenue into a Stabilization Fund.

Diagram 4. Russia Relationships During 2000–2013 with Countries in Regions of the World and the Ukraine Crisis (Steps 1, 2, 3, 4)



The Russian government used the RMS (HP 4) to distribute the greater resource rents to support welfare programs, subsidize negative-value added industries (HP 3), reduce domestic and international debt, and increase defense spending (Gaddy and Ickes 2010; Connolly 2015a). However, the RMS facilitated substantial informal siphoning of rents and the second economy (HP 2), with its related corruption networks, remained an important component of the Russian economy (Kim and Kang 2009). Despite slow progress with economic reforms (e.g. the Gref program), GDP grew by an average of 7% during 2000-08.

In foreign trade Russia's exports increased from \$99.9 billion in 2001 to a historic peak of \$527.3 billion in 2013 (Table 5). The EU was Russia's most important partner, accounting for 47% of trade turnover. The USA was a modest trade partner, receiving Russian exports worth \$11.2 billion in 2013. Exports to China grew from \$5.6 billion in 2001 to \$35.6 billion in 2013, and to India from \$1.1 billion to \$7.0 billion. China became a larger purchaser of Russian goods than Germany. Exports from Russia to the five Asian economies increased from \$10.4 billion to \$78.5 billion. The ratio of Russian exports to the five European countries in Table 5 to the five Asian countries reflected these developments and dropped from 2.7 to 1.8. Russia became involved in large scale infrastructure investment projects related to roads, railways, electrical power and fiber-optic cables that would cross CIS territories and link Asia and Europe markets.

The Global Financial Crisis (GFC) caused temporary negative growth in

Russia, but the population and economy were protected by the Stabilization Fund. During 2010-13 GDP growth was a healthy 3.4%, inflation remained low, and surpluses were achieved in the state budget and current account (Table 11 for 2009-2016).

Russia pursued integration both by deepening cooperation within the CIS and by joining the World Trade Organization (WTO) in 2012. It also developed plans for the establishment of a Eurasian Economic Union (EEU) with a target start date of 2015 that would involve as initial members Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia and Ukraine. But this proposed economic integration was not supported by many citizens in Ukraine.

2) Step 2: Western Economic Warfare and Russian Countermeasures

The USA intensified its controls on exports of military and dual-use technologies post-9/11 2001.⁸⁾ This increasingly inhibited high-technology trade with Russia, which countered by imposing restrictions on its own exports to and imports from the West (Davis 2016). Russian intelligence agencies (*GRU*, *SVR*) made efforts to obtain controlled military and dual-use technologies in the OECD countries and achieved some successes (HP 6).

8) By 2013 the following USA government organizations were involved in export control efforts: U.S. Department of State, Directorate of Defense Trade Controls and Bureau of International Security and Non-proliferation; U.S. Department of Commerce, Bureau of Industry and Security; U.S. Department of Homeland Security, Project Shield America and Export Enforcement Coordination Center; U.S. Department of Treasury, Office of Foreign Assets Controls; and U.S. Department of Defense, Defense Threat Reduction Agency (US SD 2015).

3) Step 3: Russia's Economic Power Balances

Global processes of economic integration intensified in the 2000s. The Baltic and Central East European countries completed their accessions to the EU in 2004 and 2007 and benefited from substantial inflows of foreign direct investment that on a cumulative per capita basis over 1989-2008 were \$4,492 for Central Europe and the Baltic States (EBRD 2009, 27). The equivalent FDI figures for the partially reformed and poorly integrated countries of Ukraine and Russia were, respectively, \$899 and \$304.

The GFC caused recessions in most European countries, with average growth in the 2010-13 recovery period of only 0.9%. The poor economic performances increased pressures on European governments to reduce public expenditures, including on defense. Table 6 shows that the economy of Russia reduced its economic power gaps in Europe from 2000 to 2008.

Table 5. Russian Federation Exports of All Products to USA, Europe and Asia, 2001–2015

Destination	Exports in US Dollars millions								Ratio 2015 to 2013
	2001	2005	2008	2009	2010	2013	2014	2015	
World	99,868	241,452	467,994	301,796	397,068	527,266	497,834	343,908	0.65
USA	4,199	6,366	13,753	9,286	11,933	11,177	9,553	8,393	0.75
EU 5	27,824	77,814	159,280	97,885	112,497	139,670	132,967	79,899	0.57
Germany	9,194	19,736	33,187	18,708	15,862	22,962	24,950	15,906	0.69
Italy	7,402	19,056	41,962	25,063	24,376	29,165	28,991	16,204	0.56
Netherlands	4,695	24,614	56,944	36,290	53,241	69,260	66,683	40,198	0.58

Table 5. Continued

Destination	Exports in US Dollars millions								Ratio 2015 to 2013
	2001	2005	2008	2009	2010	2013	2014	2015	
UK	4,283	8,280	14,905	9,073	9,696	12,355	7,504	4,524	0.37
France	2,250	6,128	12,282	8,751	9,322	5,928	4,839	3,067	0.52
Ukraine	5,282	12,402	23,568	13,780	13,609	15,215	11,346	7,163	0.47
Asia 5	10,414	22,199	45,175	36,427	49,212	78,516	80,369	61,331	0.78
China	5,596	13,048	21,147	16,669	19,783	35,625	37,415	28,335	0.80
Japan	2,427	3,740	10,429	7,263	12,494	19,668	19,831	14,426	0.73
India	1,120	2,314	5,231	5,937	5,406	6,983	4,396	4,550	0.65
South Korea	1,108	2,359	7,787	5,689	10,408	14,867	18,082	13,196	0.89
Viet Nam	163	738	581	869	1,121	1,373	645	824	0.60
North Korea	62	226	97	42	45,797	103	82	78	0.70

Sources: Prepared by C. Davis in 2016 using material from UN COMTRADE Database 2016.

Table 6. Comparison of GDP of Russia, USA and Countries of Europe and Asia, 2000 and 2008

Country	GDP Geary-Khamis \$ 1990				Ratio 2008 Country to Russia
	2000		2008		
	GK\$ Billions	% USA	GK\$ Billions	% USA	
USA	8,032	100.0	9,485	100.0	7.4
Russia	774	9.6	1,282	13.5	1.0
EU Top 5	5,726	71.3	6,539	68.9	5.1
Germany	1,557	19.4	1,713	18.1	1.3
France	1,249	15.6	1,423	15.0	1.1
Italy	1,084	13.5	1,158	12.2	0.9
UK	1,211	15.1	1,447	15.3	1.1

Table 6. Continued

Country	GDP Geary-Khamis \$ 1990				Ratio 2008 Country to Russia
	2000		2008		
	GK\$ Billions	% USA	GK\$ Billions	% USA	
Spain	625	7.8	798	8.4	0.6
Asia 5	9,663	120.3	16,433	173.3	12.8
Japan	2,628	32.7	2,904	30.6	2.3
China	4,319	53.8	8,909	93.9	6.9
India	1,900	23.7	3,415	36.0	2.7
South Korea	673	8.4	949	10.0	0.7
Vietnam	143	1.8	256	2.7	0.2
Ratio Asia 5 to Europe 5	1.7		2.5		
North Korea	25	0.3	25	0.3	0.0

Notes: 1) According to Wikipedia (2016a): “The Geary-Khamis dollar, known as the international dollar, is a hypothetical unit of currency that has the same purchasing power parity that the U.S. dollar had in the United States at a given point in time. It is based on the twin concepts of purchasing power parities (PPP) of currencies and the international average prices of commodities. It shows how much a local currency unit is worth within the country’s borders. It is used to make comparisons both between countries and over time.”

Sources: Prepared by C. Davis in 2016 from material in Maddison (2016), <http://www.worldeconomics.com/Data/MadisonHistoricalGDP/Madison%20Historical%20GDP%20Data.efp#>.

Despite Russia’s robust economic growth over the years 2000-2008, the economies of Asia expanded more rapidly (Table 6). The ratios of the GDP of China, India and the Asia 5 to that of Russia increased respectively from 5.6, 2.5 and 12.5 in 2000 to 6.9, 2.7 and 12.8 in 2008. The GFC had a more disruptive influence on the Russian economy (negative growth in 2009) than on the Asian economies. From 2008 to 2012 the GDP of Russia increased by

13%, whereas the increments to the economies of China and India were, respectively, 41% and 34%.

4) Step 4: Russia Strategy 2020 and the Planned Relationships with Europe and Asia

The Global Economic Crisis of 2008–2009 demonstrated to the leadership of Russia that the country remained vulnerable to external shocks. During 2011–12 the government prepared a detailed *Strategy 2020* to provide guidance for President Putin during his new term in office (Strategiya 2020). The document recommended that Russia adopt a model of growth based on improvement of labour productivity, innovation, a re-oriented social policy, diversification, and international integration. It identified the fundamental international factors to be the continuation of globalization, acceleration of technological innovation, slow growth in the developed economies, and a shift of investment to the more rapidly growing developing markets (BRICs). The main risks for Russia would be the rise of China as an economic competitor, a radical shift in the global energy paradigm (e.g. the growing importance of shale oil production), and a deterioration of the competitiveness of industry in Russia.

Strategy 2020 argued that the EU would remain the largest market for Russia and the main goals should be to promote closer European integration and proceed with WTO accession and market-oriented economic reforms. The prospects of closer cooperation with the USA were poor and there was a risk

of a future G-2 made up of the USA and China. Asia would be key to future global economic development. The baseline macroeconomic projections of the Russian economy in *Strategy 2020* and actual developments are shown in Table 7. The world market price for oil (Urals) was projected to rise from \$97 per barrel in 2013 to \$122 in 2020. As a result, the annual GDP growth rate was expected to be around 4%.

Table 7. Strategy 2020 Forecasts of the Russian Economy to 2020

		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
GDP Annual Growth (%)	Strategy 2020	4.1	3.7	4.0	4.6	4.9	4.4	3.3	3.5	3.5	5.2
	Actual	4.3	3.4	1.3	0.6	-3.8	-0.6				
	Forecast 2019						-0.2	0.8	1.8	2.2	
World Market Price of Urals Oil (\$/barrel)	Strategy 2020	109	100	97	101	105	107	111	115	118	122
	Actual	109	110	111	106	52	40				
	Forecast 2019						40	40	40	40	40
Inflation (%)	Strategy 2020	7.0	6.0	5.5	5.0	5.0	5.0	4.5	4.7	4.0	3.3
	Actual	6.1	5.1	6.8	7.8	15.5	7.5				
	Forecast 2019					12.9	6.5	4.9	4.5	4.0	

Sources: Prepared by C. Davis in 2016 using material from: Strategy 2020; EBRD 2015; RF MER 2016; and Neste website, <https://www.neste.com/en/corporate-info/investors/market-data/crude-oil-prices>.

In 2013 the *Ministry for Economic Development RF* produced an elaborate forecast of the Russian and global economies out to 2030 (RF MER 2013). As with *Strategy 2020*, the world oil price was expected to hover around \$100 per barrel. The baseline forecast projected the USA and EU shares of the world economy to decline from 19.3% and 15.3% in 2010 to 15.1% and 10.4% in 2030, whereas the China share would increase from 13.6% to 21.1%.

B. Russia, NATO and Asia Armed Forces and Defense Expenditures, Intelligence Capabilities, and Military Power Balances, 2000–2013 (Diagram 5)

1) Step 5: Russia's National Security Strategy, Defense Expenditure, Military Reform, and Capabilities of the Armed Forces

Russia changed its national security strategy in the 2000s to place more emphasis on military power. It raised the priority of the defense sector, increased defense spending and adopted ambitious plans for weapons procurement and reforms of the armed forces (IISS 2000...2014; SIPRI *SIPRI Yearbook* 2000...2015; FOI 2010; Davis 2002, 2011; Monaghan 2014). Real (\$2011) defense spending increased from \$31.1 billion in 2000 to \$84.8 billion in 2013 (SIPRI Milex Online Database 2015). The defense share of GDP rose from 3.6% of GDP to 4.2% (compared to 15% for the USSR in 1985). The size of the armed forces was reduced from 1,004,100 to 845,000, but defense expenditure per member of the military increased substantially. The number of MB tanks was

reduced from 21,820 to 2,550 as part of a planned modernization program (lower quantity, higher quality), which meant that the average capabilities of active tanks improved. Limited progress was made in military reforms in the 2000s. However, efforts were intensified after a short, victorious, but inefficient war against Georgia over South Ossetia in 2008. The Russian military engaged in counter-insurgency operations in the Caucasus (Chechnya, Dagestan) and Central Asia, especially Tajikistan.

2) Step 6: NATO Europe Reduces Its Armed Forces and Defense Expenditures, While Expanding Membership to the East

In the 2000s NATO continued to withdraw conventional forces from forward-operating bases in Europe. By 2013 the USA had only 53 MB tanks and 48 helicopters in the Conventional Forces in Europe (CFE) zone. Germany cut the size of its armed forces from 321,000 in 2000 to 186,450 in 2013 and the number of its MB tanks from 2,815 to 322 (Table 3). NATO defense spending rose after 9/11 2001, but most the increment was devoted to War on Terror operations in Iraq and Afghanistan. Defense expenditure was reduced significantly in most European countries after the GFC and by 2013 their average defense share of GDP was 1.6% (IISS 2014). In 2011-12 the USA announced that it would be making a major shift in its strategic focus away from the apparently peaceful Europe to the Asia-Pacific region to deal with new threats.

Despite the cutbacks in armed forces and defense expenditures, NATO expanded its membership by including the Baltic and East Europe countries in 2004 (Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia, Slovenia) and 2009 (Croatia) and developed closer relations with some FSU states (Georgia, Ukraine, Moldova). NATO Europe per capita defense expenditure in real terms (\$2005) dropped from \$715 in 1990 to \$515 in 2000 to \$401 in 2013 (Table 8).

Table 8. NATO Europe Defense Expenditure: 1990, 2000, 2013

		1990	2000	2013
Total Defense Expenditures	\$ 2005 Million	274,923	247,363	225,767
Defense Expenditures as Share of GDP	%	2.7	2.0	1.6
Defense Expenditures per Capita	\$ 2005	715	515	401

Note: The defense expenditure share of GDP in the 1990 column is the average of 1990-1994. Sources: Prepared by C. Davis in 2015 using material from NATO (2014) and published in Davis (2016), which provides information about sources.

These estimates should be reduced after 2001 to take into account the significant ‘out-of-area’ components, which were not relevant to the defense of Europe. NATO also proceeded with the development of a ballistic missile defense system in Europe, supposedly to counter-act rogue states in the Middle East. This was strongly opposed by Russia, which withdrew from the *Conventional Forces in Europe Treaty* in 2007 in retaliation.

With respect to the military balance in Europe in 2013, both NATO and Russia had reduced numbers of personnel and weapons compared to 2000. NATO military equipment remained superior technologically to that of Russia and potentially provided a deterrent to conflict involving members of the alliance. However, the numbers of operational NATO conventional weapons in Europe were at such low levels (Table 4) that Russia did not need to worry about account actual NATO capabilities when making national security decisions related to the Ukraine conflict.⁹⁾

9) Although in the period before the Ukraine crisis NATO would not accept the argument that the

3) Step 7: Reduction in NATO Intelligence Capabilities Concerning Russia

Over the period 2000-2013 NATO countries significantly scaled back intelligence efforts focussed on Russia (CIA/DIA in the USA and MI6/Ministry of Defence in the UK) because the conventional wisdom was that Russia no longer posed serious ideological, political or conventional force threats to security in Europe. After 9/11 the main focus of NATO intelligence efforts was on the threats posed by Islamic terrorists in the Taliban, al Qaida, and local groups (this was pre-ISIS). Intelligence agencies reduced the priority of Russia, cut resource allocations to this mission, did not develop a successor generation of intelligence officers with language capabilities, and redeployed experienced analysts with Russia/Ukraine area knowledge to the War on Terror. This downgrading was accompanied by the physical disposal of unique hard copies (prepared in the pre-electronic era) of intelligence reports and analyses of obscure places that appeared to the NATO elite to have no further significance, such as heavy and defense industry factories in East Ukraine. As a result of these policies, NATO countries were not in a strong position to analyse the likely evolution of the Ukraine conflict or the covert responses to it by Russia during 2013-14.¹⁰⁾

actions of its European member countries in reducing defense expenditures and military capabilities were undermining conventional deterrence, since 2014 NATO has justified its redeployments of troops and weapon systems to East Europe and Baltic states and calls for increased defense spending by claiming that these measures will deter future aggressive military moves by Russia.

4) Step 8: Russia's Military Power Balances and Relationships with Asia

Russia intensified its military links with Central Asia and Asia countries in the 2000s. In the case of the Central Asian states, this was carried out through the CIS and the Collective Security Treaty Organization. India and Vietnam remained historic military allies and cooperation in the military sphere with China improved. Russia remained supportive of North Korea, but was careful to develop a more positive relationship with South Korea. There was little military cooperation with Japan, which remained critical of Russia and aggrieved over its lost territories.

The dynamics of Russia's military links with Asia are reflected in arms exports to the region, which increased from \$3.1 billion (67.9% of total Russian arms exports) in 2000 to a peak of \$5.5 billion (65.3%) in 2012 (see Table 9). China was the major customer for Russian weapons in the early 2000s, but it was overtaken by India after 2006.

The conventional military balances between Russia and Asian countries shifted in favor of the latter in the 2000s (Table 10). By 2013 Russia had fewer military personnel (845,000) than China (2.2 million), India (1.3 million) or

10) The Directors of Central Intelligence/CIA who were responsible for the USA's intelligence capabilities related to Russia in this period were: 1997-2004 George Tenet; 2004-2006 Porter Gross; 2006-2009 Michael Hayden; 2009-2011 Leon Panetta; 2011 and 2012-2013 Michael Morell; 2011-2012 David Petraeus; 2013-2017 John Brennan. Due to space constraints it is not possible to call attention to the equivalent treatment of Russia by the USA Director of the DIA, UK Head of MI6, and Chief of Defence Intelligence, UK Ministry of Defence.

North Korea (1.2 million). Russian military expenditure increased 2.7 times in real terms from 2000 (\$28.8 billion 2014) to 2013 (\$79.0 billion), but defense expenditures of China remained substantially higher throughout this period (\$182.9 billion in 2013). In that year India spent \$48.4 billion on defense and Japan \$46.4 billion.

With respect to conventional weapons, in 2000 Russia had overwhelming superiority with, for example, 21,820 main battle tanks compared with 7,060 for China, 3,414 for India and 3,500 for North Korea. But by 2013 the Russian modernization program had reduced its active tank stock to 2,800 (about 18,000 older models had been moved to storage), whereas China, India and North Korea maintained previous levels of ready tanks. However, Russia was more advanced than Asian countries in military R&D and the defense industry, which enabled it to maintain a technological lead.

Table 9. Russia Arms Exports in Total and to Asia Countries, 2000–2015

Countries	Millions of US\$ at Constant (1990) Prices													Total 2000–15	2015 as % of 2013
	2000	2005	2008	2009	2010	2011	2012	2013	2014	2015	Average 2000–15				
China	2,231	3,107	1,529	1,102	744	811	741	870	714	824	1,652.7	26,443	94.7		
India	655	653	1,555	1,464	2,391	2,593	3,953	3,782	1,871	1,964	1,873.8	29,981	51.9		
North Korea	18	5	5	4	1						6.6	106			
South Korea	29	86									16.2	259			
Vietnam	2	233	153	55	151	987	713	313	983	812	304.4	4,870	259.4		
Central Asia	121	41	8	87	64	180	131	67	45	412	92.8	1,485	614.9		
Kazakhstan	121	38	8	19	50	45	75	54	28	412	70.8	1,133	763.0		
Kyrgyzstan		3									0.8	12			
Tajikistan				32							3.3	52			
Turkmenistan				36	14	135	56	13	17		16.9	271	0.0		
Uzbekistan											1.1	17			
Total to Asia	3,056	4,125	3,250	2,712	3,351	4,571	5,538	5,032	3,613	4,012	3,946.5	63,144	79.7		
Total to World	4,503	5,210	6,265	5,070	6,172	8,695	8,480	8,107	5,468	5,483	6,047.7	96,763	67.6		
Asia Share (%)	67.9	79.2	51.9	53.5	54.3	52.6	65.3	62.1	66.1	73.2	65.3				

Note: The export figures in the table are SIPRI Trend Indicator Values (TIVs).

Source: Prepared by C. Davis in 2016 using material from SIPRI (2016) Arms Transfers Database <http://www.sipri.org/databases/armstransfers/background>.

Table 10. Military Power Balances of Russia and Countries of Asia, 2000–2015

Year	2000	2005	2008	2010	2012	2013	2014	2015	2015 as % of 2000	2015 Ratio Asia to Russia
	Armed Forces Personnel (Thousands)									
Russia	1,004	1,037	1,027	1,027	956	845	845	798	79	1.00
China	2,470	2,255	2,105	2,285	2,285	2,285	2,333	2,333	94	2.92
India	1,303	1,325	1,288	1,325	1,325	1,325	1,325	1,346	103	1.69
Japan	237	240	240	230	248	247	247	247	104	0.31
North Korea	1,082	1,106	1,106	1,106	1,190	1,190	1,190	1,190	110	1.49
South Korea	683	688	687	687	655	655	655	628	92	0.79
Vietnam	484	484	455	455	482	482	482	482	100	0.60
	Military Expenditure in Constant 2014 PPP Dollars, SIPRI (Millions)									
Russia	28,838	43,010	56,933	60,940	75,364	79,030	84,697	91,081	316	1.00
China	43,230	79,809	113,527	144,383	169,321	182,930	199,651	214,485	496	2.35
India	27,266	35,548	41,003	48,470	48,766	48,406	50,914	51,116	187	0.56
Japan	46,315	47,155	45,515	46,527	46,584	46,380	45,867	46,346	100	0.51
North Korea	8,181	8,135	7,959	7,092	7,006	7,235	7,457	7,728	94	0.08
South Korea	22,111	27,283	31,479	33,730	35,070	36,175	37,286	38,640	175	0.42
Vietnam	1,500	1,845	2,759	3,378	3,672	3,840	4,256	4,581	305	0.05
	Main Battle Tanks (Number)									
Russia	21,820	22,800	23,000	23,000	2,800	2,800	2,550	2,700	12	1.00
China	7,060	7,580	7,660	6,550	7,400	7,430	6,840	6,540	93	2.42
India	3,414	3,978	4,059	4,047	3,233	3,274	2,874	2,974	87	1.10
Japan	1,050	980	900	880	806	777	777	688	66	0.25
North Korea	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	100	1.30
South Korea	2,330	2,330	2,330	2,750	2,414	2,414	2,414	2,418	104	0.90
Vietnam	1,315	1,315	1,315	1,315	1,315	1,315	1,270	1,270	97	0.47

Note: The large drop in the number of Russian tanks from 2010 to 2012 was due the processes of military reform and modernization of equipment, which resulted in around 18,000 older tanks being moved into storage.

Sources: Prepared by C. Davis in 2016 using material from SIPRI Military Expenditure Database Online version and IISS *Military Balance* 2000...2015.

The main relationships between Russia and Asian countries in 2013 are shown in Diagram 5. In contrast to Europe, all them (not counting the USA as a Pacific power) either were partnerships (Central Asia, China, India, North Korea, Vietnam) or neutral (Japan, South Korea). This meant that the shifting of economic and military balances to the advantage of Asian countries were not as threatening to Russia as they would have been in a more adversarial situation.

5) Step 9: Russia–Ukraine Military Balance

The economic and military balances in 2013 between Russia and Ukraine were strongly in favor of the former (see Table 5 in Davis 2016). Russia had three times the population and GDP Per Capita of Ukraine and nine times the GDP (PPP). In the military sphere Russia had substantially greater numbers of armed forces personnel and weapons, had raised the priority of its defense sector, and had been devoting more resources to defense both in absolute terms and as a share of GDP. Its armed forces had acquired combat experience in the Caucasus and operated at a higher state of readiness. In contrast, the Ukrainian government had maintained a low priority ranking for its armed forces throughout the 2000s, which resulted in low wages, technologically backward equipment, and poor operational capabilities.

6) Step 10: Syria Civil War, Russia's Support of the Syrian Government, and the Growing Importance of the Black Sea and Crimea to Russia

The USSR in the Cold War period and Russia over more recent decades viewed Syria as a close partner in the Middle East and was its main supplier of weapons and military equipment. The unrest in the Middle East associated with the 'Arab Spring' of 2010-2012 resulted in the overthrow of governments in Tunisia, Egypt (later reversed) and Libya (supported militarily by France, UK, and the USA). It also provoked street demonstration in many countries and civil wars in Iraq, Syria and Yemen.

From 2011 Russia provided weapons, munitions and military advice to Syria related to the intensification of the civil war as the result of the increasing involvement of foreign powers that supported either the government (Iran, Russia) or the opposition (France, Gulf States, Saudi Arabia, Turkey, UK, USA). Most deliveries of armaments and other supplies by Russia to Syria originated in Black Sea ports in the Russian Federation and Crimea. This made reliability of sea-based supply lines, including the ports of Crimea, an important national security issue for Russia.

C. Defense–Economic Power Balances and the Conflict in Ukraine 2013–2016 (Diagram 6)

1) Step 11: Malfunctioning of the Ukraine Economy, Failure of the Orange Revolution, Continuing Corruption, and the Election of President Yanukovich

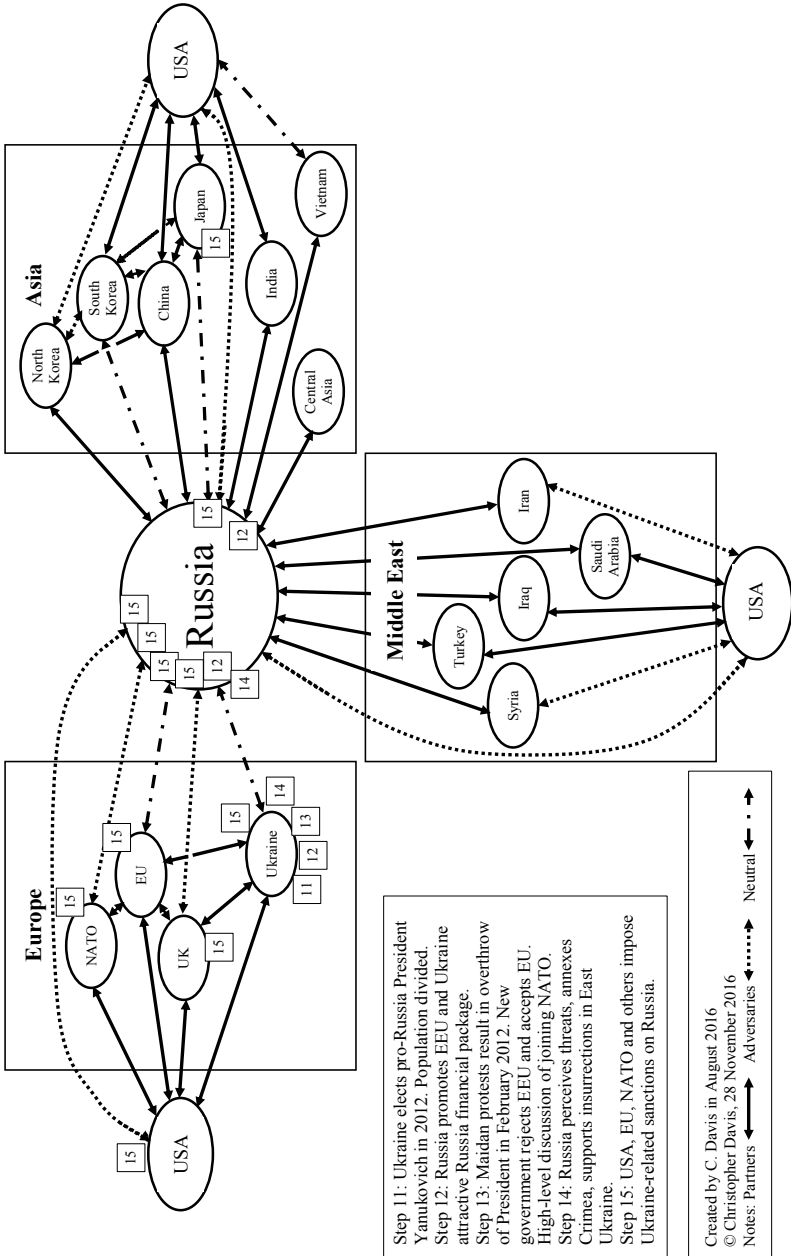
Ukraine has had a democratic political system, but one with instability due to the division of the population between pro-Europe segments in the West and pro-Russia ones in the East (Huntington 1996).¹¹⁾ During the 2000s most early-phase transition problems remained in the economy of Ukraine: weak institutions, indirect bureaucratic control (HP 1), corruption of the state (HP 2), negative value added in industry (HP 3), low productivity, and inadequate investment.

The peaceful ‘Orange Revolution’ in 2004-2005 brought to power a pro-West government that promised political and economic reforms. But it proved to be ineffectual in improving productivity and in eradicating hidden corrupt practices that severely distorted economic processes. Although growth of GDP in Ukraine averaged 7% over 2000-2008 (from a low base), it contracted by 15% in 2009. In 2010 the population elected the more pro-Russian President Yanukovich.

11) Huntington (1996, 165) claimed that Ukraine is a ‘cleft country’ that contains a ‘civilizational fault line’ between areas with backgrounds in Western empires and those rooted in Russian Orthodoxy and suggested that this could lead to the fragmentation of the country. See related maps on pages 159 and 166.

Russia's Changing Economic and Military Relations with Europe and Asia from Cold War to the Ukraine Conflict: The Impacts of Power Balances, Partnerships, and Economic Warfare

Diagram 6. Russia Relationships During 2012–2016 with Countries in Regions of the World and the Ukraine Crisis (Steps 11, 12, 13, 14, 15)



2) Step 12: Continuing Economic Problems in Ukraine, Russia's Plans for the EEU, and the Ukraine Government's Decision to Join the EEU Rather than Pursue Integration with the EU

Economic difficulties intensified in Ukraine in the aftermath of the GFC because it did not possess a natural resources-based Stabilization Fund like Russia and was unable to attract risk-averse foreign investors or to benefit from most EU assistance programs because it was not a member state. During 2010-13 Ukraine had a low average growth rate of 2.4% (zero in 2013), chronic budget and current account deficits, and high foreign debt to GDP burdens (79% in 2013). Ukraine remained dependent on Russia as an energy supplier and a market for exports of uncompetitive industrial commodities (HP 5) (Gaddy and Ickes 2014a).

By 2013 it was evident that Ukraine needed to obtain substantial external help for its faltering economy either from the EU/IMF or from Russia. To simplify, the EU offered Ukraine a modestly-scaled package with tough conditions (wide-ranging reforms and a Greece-style austerity program) and no guarantee of EU membership, whereas Russia offered generous subsidies and financial support for joining the new EEU. In autumn 2013 the government of President Yanukovich took the decision to pursue the latter course.

3) Step 13: Public Protest over the Decision to Join the EEU, Revolutionary Overthrow of President Yanukovich

The Maidan protest movement evolved into an increasingly violent civil

conflict that eventually resulted in the overthrow of the President in February 2014 (Gaddy and Ickes 2014a, UK House of Lords 2015). The successor interim government reversed foreign economic policies to favour the EU and important elements of it expressed an interest in joining NATO (Gaddy and Ickes 2014c). Since then the IMF, European Commission and USA have been providing Ukraine with financial assistance that is linked to economic reform and austerity.¹²⁾

4) Step 14: Russia's Threat Perceptions, Annexation of Crimea, and Support of Insurrections in East Ukraine

Russia was most displeased by the withdrawal of Ukraine from the EEU near to its launch date (January 2015), disapproved of the revolutionary change of government in Ukraine, and perceived a risk that it would lose its important military bases in Crimea (perhaps to NATO), which give it access through the Black Sea to the Mediterranean Sea (e.g. for naval transport of weapons systems and ammunition to Syria). Since the bilateral economic and military balances with Ukraine were in Russia's favor and conventional deterrence in Europe of NATO had degraded to a negligible level (Table 3), it implemented

12) IMF (2014) announced a \$17 billion support package in April 2014, and subsequently dispersed \$4.5 billion of it. In February 2015 a new \$17.5 billion conditional loan was approved to replace the initial one (IMF 2015). The EC provided Ukraine with Macro-Financial Assistance loans of (in millions) € 100 (May 2014), € 500 (June 2014), € 260 (November 2014), € 500 (December 2014) and € 250 in (April 2015). It has approved an additional € 1.5 billion in assistance for Ukraine (EC 2015).

a covert military operation to take control of Crimea and followed that by annexing the territory to the Russian Federation.

During Spring 2014 insurrections by pro-Russian forces developed in the East Ukraine regions of Luhansk and Donetsk that received hidden assistance from Russia (Allison 2014; IISS 2014, 2015). In June 2014 the Ukraine government attempted to re-establish control in the East by sending in its poorly prepared armed forces (supplemented by nationalist militias), which resulted in an intense armed conflict that ended in stalemate and the Minsk II peace agreement. During the active phase of the conflict a civilian airliner (Malaysia Airlines Flight 17) was shot down.¹³⁾

5) Step 15: Western Economic Sanctions Related to the Ukraine Conflict

In Summer 2014 economic sanctions were imposed on Russia by the EU, USA, Canada, Japan, and several other countries in response to the annexation of Crimea, the war in the eastern regions of Ukraine, and the shooting down of Malaysia Airlines Flight 17 (EWF 1). The official measures included: ① actions against individuals who played roles in the Crimea/Ukraine conflicts; ② trade embargoes; and ③ restrictions on finance. In addition, the Ukraine

13) On 28 September 2016 a Dutch-led Joint Investigation Team published a preliminary report on the incident that concluded that the airliner had been shot down by a Series 9M83 Buk missile in East Ukraine that had been transferred to the insurgents from the weapons inventory of the Russian Federation (BBC 2016). The Russian government has disputed these findings.

government subjected Russia to wide-ranging political and economic sanctions (e.g. banning Russian planes from flying through Ukrainian airspace) (EWF 4). NATO has supplemented these sanctions with military ones, notably by re-deploying troops, tanks and aircraft to 'front-line states' (notably the Baltic countries) for military exercises and border patrols and by providing the Ukrainian armed forces with military trainers and non-lethal military supplies.

D. The Deterioration of the Economy of Russia During 2014–2016, Impacts of Oil Prices and Sanctions, and Russia's Re-orientation to Asia (Diagram 7)

1) Step 16: Deterioration of the Economy of Russia

Developments in the economy of Russia in 2014-2016 were predominantly unfavorable, especially in 2015 (Table 11): negative GDP growth (-3.7%); acceleration of inflation to 15.5%; increase in the budget deficit to 3.5% of GDP and wide-ranging budget cuts of 10%; rises in interest rates to a peak of 17%; a 40% depreciation of the ruble-dollar exchange rate; large outflows of capital; higher risk premiums on bonds; and increases in unemployment and poverty (World Bank 2015abc; EBRD 2015, 2016; RF MER 2015). In the positive category in 2016 were the substantial surplus in the current account (5.2% of GDP), increases of import substitution production in Russian industry and agriculture, and reduction of external debt (to 27% of GDP).

Table 11. Performances of Economy of the Russian Federation, 2009–2016

	2009	2010	2011	2012	2013	2014	2015	2016	Average 2009–2016
GDP growth (%)	-7.8	4.3	4.3	3.5	1.3	0.7	-3.7	-0.6	0.3
Inflation (average annual %)	8.8	8.8	6.1	5.1	6.8	7.8	15.5	7.0	8.2
Government balance/ GDP (%)	-5.9	-4.0	0.8	0.4	-1.2	-1.1	-3.5	-4.0	-2.3
Current account balance/ GDP (%)	4.0	4.7	5.3	3.3	1.5	2.8	5.2	3.1	3.7
External debt/GDP (%)	38.2	32.9	27.6	29.3	32.7	29.5	39.1	27.0	32.0

Source: Prepared by C. Davis in 2016 using material from EBRD *Transition Report* 2013 ... 2016.

In order to assess the causes of the worsening economic situation in Russia it is necessary to evaluate not only the impacts of economic sanctions, but also the large drop in oil prices and strains on a weak economic system caused by new commitments of Russia in Ukraine. These explanatory factors are considered in the following sub-sections.

2) Step 17: The Impacts on Russia of the Fall in the World Market Price of Oil

A global development that adversely affected the economy of Russia from summer of 2014 was the drop in the world market price of oil (OPEC crude oil basket) from \$115 per barrel in June 2014 to \$50 in January 2015 and around \$31 in January 2016.¹⁴⁾ This external shock lowered Russia's dollar

14) A full explanation of the decline in the oil price is beyond the scope of this article. In brief,

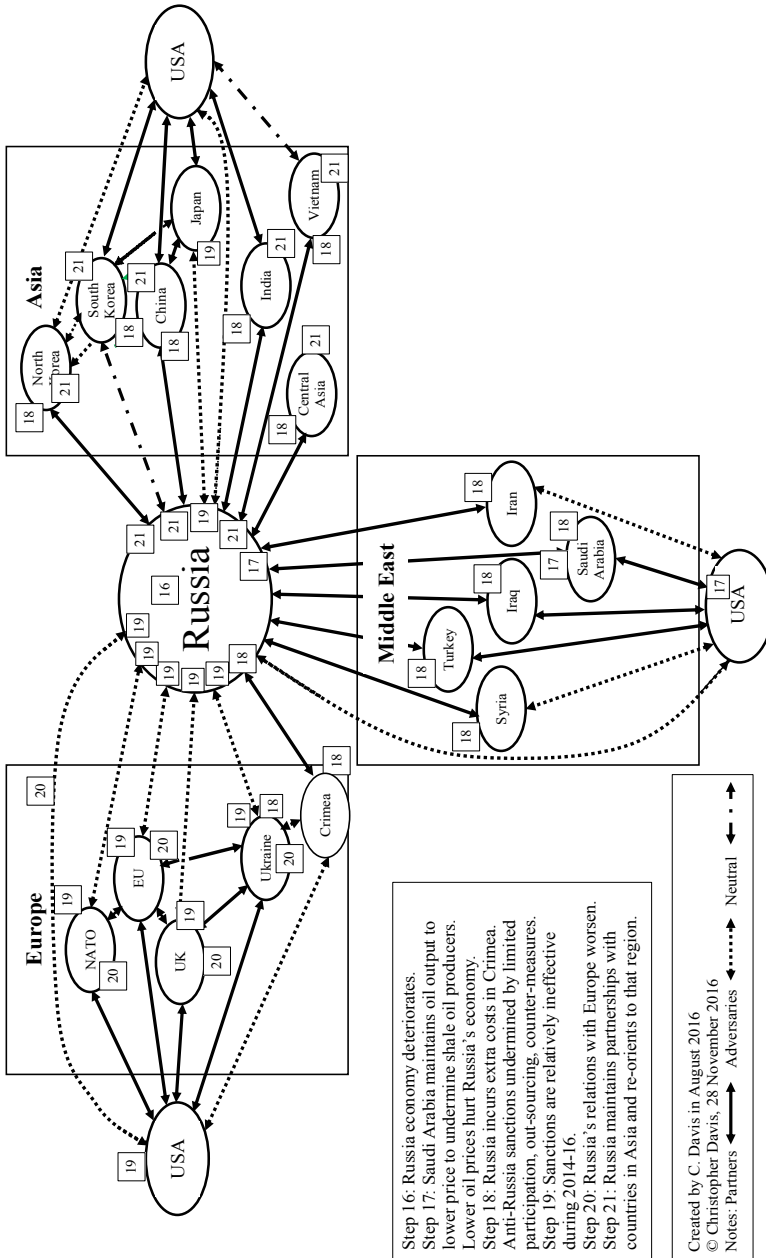
earnings from energy exports, which weakened the financial positions of its banks, businesses and government.

During 2014-16 Russia was able to use its RMS (HP 4) and its substantial Reserve Fund and Sovereign Wealth Fund to buffer partially the population, corporations and the financial sector from the adverse impacts of the sanctions. But the lower oil price reduced revenue flows through the RMS and prevented the replenishment of the stabilization funds, which are expected to be depleted in 2017.

At this stage it is appropriate to consider the counter-factual of the oil price not falling. If Russia had continued to receive payments of \$115 per barrel from June 2014 through 2016, it is likely that many of the negative phenomena in the Russian economy would not have developed. But since the oil price did drop, it is necessary to try to evaluate the impacts on the economy of non-energy factors, such as additional costs of the Ukraine intervention and economic sanctions.

by 2014 the oil market had entered a disequilibrium state of supply exceeding demand at the prevailing price due to sluggish growth of the global economy and rising production by traditional suppliers (e.g. Russia), countries whose output had been disrupted by wars and sanctions (Iraq, Iran), and the USA through the high-technology extraction of oil from shale deposits. In order to maintain its market share and undermine competitors Saudi Arabia decided to keep up its production of low cost oil, with the goals of driving down the world price and bankrupting high cost producers in North America and elsewhere.

Diagram 7. Russia Relationships During 2000–2016 with Countries in Regions of the World and the Ukraine Crisis (Steps 16, 17, 18, 19, 20, 21)



3) Step 18: Non-Energy Factors Affecting the Russian Economy Related to the Ukraine onflict and Sanctions

The annexation of Crimea and activities of Russia in East Ukraine have resulted in additional expenditures from the state budget: infrastructure and social investment (e.g. a new bridge to Crimea from Russia); wage and pension payments; military operations and maintenance costs; and subsidies of energy and raw materials for enterprises and cities. In March 2015 former Russia Finance Minister Kudrin estimated that the costs to Russia to that date of the support of Crimea to have been about \$7 billion and that the combination of direct and indirect costs (some generated by sanctions) over three years would amount to around \$150 billion (TASS 2015).

Two features of anti-Russia economic sanctions have undermined their effectiveness: participation and outsourcing. The sanctions have had the support of important countries with a collective GDP of US \$42.5 trillion. However, Table 12 shows that seven major industrial countries (Brazil, China, India, Indonesia, Iran, South Korea, Turkey) with collective GDP of US \$31.5 trillion have declined to participate (EWF 5 Comprehensiveness). Most goods and services restricted by USA/EU sanctions can be legally acquired in the well-developed and diverse non-participating countries.¹⁵⁾ This suggests that the

15) It appears that the USA believes in the extra-territorial applicability of its laws and administrative decrees (Ukraine sanctions are decrees of the President, not laws approved by Congress). It therefore applies direct and indirect pressure on foreign companies and banks to comply with US sanctions, even if their country is not participating. These secondary sanctions usually take the form of threatening difficulties in the US market for banks and companies that would like

current sanctions are much leakier than the marginally effective ones of the Cold War *CoCom* period.

Table 12. GDP of Participant and Non-Participant Countries in Anti-Russia Sanctions in 2013

Country	GDP PPP US \$ Billions, Current 2013
Participants in Sanctions	
EU Countries	17,578
USA	16,768
Japan	4,668
Canada	1,518
Australia	1,053
Switzerland	432
Norway	328
New Zealand	151
Total	42,496
Non-Participants in Sanctions	
China	16,149
India	6,776
Brazil	3,013
Indonesia	2,389
South Korea	1,697
Turkey	1,444
Iran	1,244
Total	31,467

Source: Prepared by C. Davis in 2016 using material from IMF (2015b) and published in Davis (2016).

to deal with Russia. These US actions can have short-term positive effects in enforcing economic sanctions, but usually have long-term negative effects because the foreigners resent US government interference in their business operations. This factor was evident in the decisions taken in the early 1980s by European banks and companies (with the support of their governments) to ignore tough sanctions imposed by the USA on the USSR and, instead, to help the Soviet Union build its 4,000 kilometer West Siberia to Europe gas pipelines (CIA 1981).

Another problem related to the enforceability of sanctions is that NATO countries have transferred much of their electronic and high-technology production to lower wage non-participating countries, unlike in the more restricted Cold War period.¹⁶⁾ As a result, significant production that is sensitive to national security is no longer controlled by national authorities in countries like the UK and USA.¹⁷⁾

Third, the Russian government has responded to foreign sanctions by adopting numerous counter-measures (EWF 7) (Davis 2016). With respect to Ukraine, it imposed restrictions on that country's exports of agricultural and industrial goods to Russia, cut energy subsidies, and demanded pre-payment of gas supplies.¹⁸⁾ It banned imports of food from the countries imposing sanctions (notably those in the EU) and imposed restrictions on Western firms operating

16) Vernon and Kapstein (1991) edited a special issue of *Daedalus* that examined the break-down of the Cold War practice of maintaining national capabilities in defense industries as a result of the seemingly inexorable trend toward globalization. Over the past 25 years no NATO defense sector has been able to sustain autonomous military R&D and production capabilities. Instead, many critical components of weapons/sensor production have been out-sourced to low-cost high-tech countries, such as the People's Republic of China. Russia and China have established close links in the technological espionage and weapons production spheres.

17) President-elect Trump has focussed on the problem of previously successful industrial regions in the USA losing out to low-cost foreign producers due to free trade agreement, without adequate compensation of the losers (the USA elite has done extremely well). He has not yet mentioned the detrimental impacts on US national security of globalization as practiced by US conglomerates.

18) Gaddy and Ickes (2014a) point out that Russia is the sole market for many Ukrainian industrial goods because of historically-determined technological compatibilities and their uncompetitive characteristics. So Ukraine's embargo on exports of industrial products to Russia is likely to mean that its firms will not find alternative customers. Some Russian industrial firms face similar difficulties due to Ukrainian restrictions on imports.

in Russia. The Russian government has supported numerous import-substitution programs (Hanson and Connolly 2016). In response to the embargo on exports of military equipment (e.g. helicopter carriers from France), Russia has been moving back toward self-sufficiency in defense and has revived aspects of the priority protection system in the economy. Russia also has intensified the activities of its large and capable *Spetsinformatsiya* system (EWF 7, HP 6). Russian intelligence missions of technological espionage and trade diversion have been facilitated by the decentralized business decisions in profit-oriented NATO countries to move sensitive defense production abroad (e.g. cutting jobs at home) to less controllable environments (e.g. the communist People's Republic of China).

4) Step 19: Effectiveness of Anti–Russia Sanctions

Davis (2016) presents assessments (not reproduced fully in this article) of four types of Ukraine-related economic sanctions: actions against individuals; restrictions on trade; restrictions on finance; and actions against Russia as a state. Table 13ab summarizes findings concerning goals of sanctions and their impacts (economic, military, political), which have been, in sum, modest.

Restrictions on exports to Russia of military and energy extraction technologies have had some detrimental effects, but the sanctions have been offset by moves to self-sufficiency and import-substitution, black market activities, technological espionage, and reduced demand for investment in energy projects (a global phenomenon). The financial sanctions have had negative impacts on the specified

banks and firms (difficulties in obtaining new loans and rolling over existing ones) and indirect adverse consequences for other Russian companies because of uncertainty in global markets about USA informal secondary sanctions. However, the Russian government has assisted targets of sanctions and, in any event, most Russian external debt obligations in 2014 were with Russian entities and have been re-scheduled (Connolly 2015b). Furthermore, informal channels (HP 2) have been used to obtain financing in the complicated and ineffectively regulated global financial system.¹⁹⁾ The most important effect of these Western financial sanctions probably has been to make the most market-oriented Russian businesses and banks become more dependent on the Russian state (Gaddy and Ickes 2014b).

19) The Global Financial Crisis provided ample evidence about the ineffectiveness of financial regulators in the UK and USA. The UK relied on the risk-averse Crown Prosecution Service to bring charges against violators of rules in the financial sector and, unsurprisingly, it found virtually no evidence of criminal activity in the UK. The USA engaged the FBI and the U.S. Attorney's Office for the Southern District of New York in the investigation into the inter-connections between the GFC and Wall Street and, unsurprisingly, they found significant evidence of criminal activity in the USA financial sector.

Table 13a. Impacts of Ukraine-Related Foreign Sanctions on Russia During 2014-16

Type of Sanction	Goals	Economic Impacts	Military Impacts	Political Impacts
Actions against Individuals				
Bans on travel (no visas)	Punish participants in Ukraine conflict and put pressure on Russian government to change policies.	Negligible from travel ban. But asset freezes and bans on business have micro impacts.	Negligible. Russia bans officials from foreign travel and accounts.	Negligible. Russians would boast not complain about sanctions.
Freezing of assets				
Bans on business dealings				
Restrictions on Trade				
Bans on exports to or imports from Crimea	Disrupt economy of Crimea and force Russia to increase subsidies to it.	Sanctions disruptive and Russia forced to increase support.	Negligible.	Popular support for annexation, but complaints about subsidies could grow.
Bans on transactions by foreign businesses in Crimea	Constrain Russian military power, discomfort national security elite	Cuts in spending on foreign arms/equipment, funding of import substitution	Disruption of defense supply and industry	Pushes Russia back to self-sufficiency in defense
Embargoes on exports to Russia of weapons and military equipment	Constrain Russian economic and military power	Limited due to trade diversion and espionage	Limited due to trade diversion and espionage	Russia tries for self-sufficiency and searches for new partners
Embargoes on exports to Russia of dual-use technologies	Constrain development of new oil fields to limit export earnings	Limited in medium-term due to stock-piling, trade diversion and espionage	Negligible.	Russia tries for self-sufficiency and searches for new partners

Table 13b. Impacts of Ukraine-Related Foreign Sanctions on Russia: 2014-2016

Type of Sanction	Goal	Economic Impacts	Military Impacts	Political Impacts
Restrictions on Finance				
Bans on loans to and transactions in Crimea	Disrupt economy of Crimea and force Russia to increase investment there.	Sanctions disruptive and Russia forced to increase financial support.	Negligible.	Leaders committed to covering costs of annexation, but public support could waver.
Restricted access by Russian state-owned/influenced banks and enterprises to West capital markets	Limit new credit and complicate re-financing to increase vulnerability and limit investment in Russia	Sanctions have adverse direct effects on targets and indirect impacts on other Russian companies	Some defense-related firms cannot pursue foreign projects Foreign operations of some firms impeded	Sanctions make banks and firms more vulnerable and therefore dependent on state. Helps consolidate regime.
Reduction in the period of loans in capital markets to 30 days	Increase vulnerability of specified banks/companies			
Freezing of the assets of specified Russian firms of individuals	Complicate international transactions of target firms/banks (individuals)	Some impacts until counter-measures in place	Negligible	Firms use sanctions as a plus to obtain state support
Actions Against Russia as a Country				
Expulsion of Russia from G8	Undermine status of leaders, exclude for important discussions	Negligible	Negligible	Viewed as insulting by Russian elite, but minor impacts

Sources: Prepared by C. Davis in 2015 using the materials identified in Table 10 of Davis (2016), as well as new information obtained in 2016.

5) Step 20: Russia's Relationships and Economic Balances with USA and Europe

Russia's political, economic and military relationships with NATO/EU countries deteriorated significantly after the annexation of Crimea and the imposition of anti-Russia sanctions (see Diagrams 6 and 7). Few government leaders or organizations in the West have maintained more than basic, strained relations with their Russian counter-parts. The worsening of economic relations was reflected in large reductions in investment in Russia by entities in the sanction-imposing countries. The value of Russia's total exports dropped from \$527 billion in 2013 to \$344 billion in 2015, or by 35%. This was driven by a 43% drop in exports to EU countries and a 53% decline in sales to Ukraine, previously one of Russia's largest customers. Russia's economic power balances with the USA and leading countries in Europe became more unfavorable after 2014. This was due to the fact that Russia's energy-dependent economy experienced recession because of the drop in oil prices, whereas the economies of the USA and the main countries in the EU achieved positive growth and increased their competitiveness.

Russia's strategic nuclear balance with the USA/UK/France remained unchanged during 2014-2016, while the conventional force balance in Europe remained in favor of Russia. The Russian military received substantial quantities of new equipment, carried out large scale military exercises, deployed new weapons in Kaliningrad and border regions, and acquired additional combat experience in

counter-insurgency operations and in sophisticated all-arms warfare in Syria. NATO conventional forces in Europe remained insufficient to re-establish credible direct deterrence, even though some efforts were made to improve combat readiness and to deploy forces to the Baltic states and East Europe. However, it was understood on both sides that NATO possessed substantial reserves and had a higher technological standard than the Russian military, so there was credible indirect (e.g. mobilization-related) conventional deterrence.

The subject of Russia's military threat to European countries is related to issues discussed above, so it is addressed briefly below. By 2016 Russia was facing adverse shifts in economic and military balances in Asia, engaged in challenging counter-insurgency operations in Central Asia (e.g. Tajikistan) and the Caucasus, dealing with five 'frozen conflicts' (Transnistria, Abkhazia, South Ossetia, Nogorno-Karabakh, and East Ukraine), heavily involved in a military campaign in Syria against ISIS and other enemies of the Syria government and experiencing strains in maintaining ready reserves of high-quality troops. Given this situation, it is unlikely that Russia has had recently or will have intentions to become involved in armed conflicts with countries in the Baltic area, Scandinavia (Finland, Sweden, Norway), or East Central Europe (Poland), which probably would result in engagements with technologically-superior NATO forces. Although some national security officials in these countries have been warning of a Russian military threat, government fiscal policies (e.g. continued low defense expenditure) demonstrate lack of the 'will to provide for military power' (see the concept in Section 2). This may reflect the reluctance

of parliaments and voting citizens to cut social welfare, education and health spending to support a military build-up to counter a threat that they perceive to have a low probability.

6) Step 21: Russia's Re-orientation to the Middle East and Asia During 2014–2016

Although Russia's relationships with European countries became and remained adversarial during 2014–2016, it maintained or developed partnership relationships with all major countries in the Middle East (Iran, Iraq, Saudi Arabia, Syria, Turkey) and with most in Asia (Central Asian states, China, India, North Korea, Vietnam) (Diagrams 6 and 7). It had a neutral relationship with South Korea and an adversarial one with Japan.

In the economic sphere, Russia made energetic efforts to improve trade, finance and investment linkages with the economies of Asia, which continued to grow rapidly. However, Table 5 shows that exports to the five selected Asian countries (China, India, Japan, South Korea and Vietnam) fell by 22% from 2013 to 2015. Since this decline was significantly lower than the reduction in trade with Europe, the Asia share of Russia's world exports increased. Russia achieved limited success in obtaining loans through the growing Asian financial markets, but it reached agreements to start numerous large scale infrastructure (rail transport, roads, energy pipelines) projects in Asia. Another potentially positive development was that the EEU was established in January 2015 and by 2016

included Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia. Overall, there was a limited economic re-orientation of Russia to Asia during the period 2013-2016.

In response to the Ukraine-related deterioration of relationships with NATO, Russia has intensified its military cooperation (e.g. joint military exercises) with Central Asian countries, China, India and Vietnam. Due to economic and geo-political factors Russian arms exports to Asia decreased from an annual average of \$5.3 billion over 2012-13 to \$3.8 billion over 2014-15, or by 28% (Table 9). However, total arms exports dropped by 34%, so the Asia share of the total increased. China, India, Japan, North Korea and South Korea continued to spend heavily on defense and to enhance capabilities. Given these developments, it can be concluded that Russia's military balances with Asia worsened, despite the improving capabilities of the Russian armed forces.

4. Changes in Russia's Long-Term Plans for Economic Relations with Asia: From *Strategy 2020* in 2012 to *Strategy of Russia in 2018–2024* in 2017

A. Russian Post-Ukraine Conflict Scenarios of the Economic Future

Russia's baseline scenario of the future expressed in *Strategy 2020* (see

Table 7) was optimistic (oil prices over \$100 per barrel and GDP growth of 3-4% per annum) and anticipated further integration with the EU zone (Strategiya 2020). Russian thinking about the future has changed markedly over the past five years. This was reflected in the May 2016 medium-term projections out to 2019 of the *Ministry for Economic Development RF* and is being incorporated into the ongoing work on *Strategy of Russia in 2018-2024*, which will be unveiled in 2017 (RF MER 2016; Strategiya Rossii 2017).²⁰⁾ The revised baseline scenario anticipates continuation of low energy prices and economic sanctions and calls for closer economic integration within the EEU and with the economies of Asia.

B. Prospects for the Economy of Russia out to 2020

The baseline Russian government projection out to 2019 assumes an oil price of \$40 per barrel over the next three years, while a worst-case scenario has been included with an oil price of \$25. Russia GDP growth is forecast to be 0.8% in 2017, 1.8% in 2018, and 2.2% in 2019 (Table 7). Low positive growth is likely to continue to 2020. This modest upward trend appears to be plausible given other likely determining factors.²¹⁾

20) The forthcoming *Strategy of Russia in 2018-2024* document will outline a new economic strategy for Russia that will include more market-oriented reforms and will focus on four priority areas: investment, import substitution, state governance, and budgetary issues (such as pensions).

21) By February 2017 the OPEC Crude Oil Basket price had risen to \$54 because OPEC reached an agreement among its members (and with other countries) to constrain production in the

Table 14 shows that the Russian government anticipates that world GDP will grow by an average of 3.4% during 2016-19. There will be lower than average growth rates for the USA (2.5%), Russia (1.2%), the EU (1.5%), the UK (2.2%), and Japan (0.8%). In contrast, average growth will be 6.2% for China and 7.0% for India. Russia's share of global GDP will decrease from 3.3% in 2015 to 2.9% in 2019, which is a decline of 12%. There will be increases in the shares of China (16.6% to 18.6%) and India (6.8% to 7.9%). Given these global trends, Russia plans to increase its integration with Asia through trade, financial activities and large infrastructure projects.

C. Changes in Russia's National Security Strategy out to 2020

Since the start of the armed conflict in Ukraine in 2014 Russia has produced two important documents related to future military balances. A revised *Military Doctrine* was adopted in December 2014, which clearly identified NATO as the main military threat as a result of the expansion of its membership to include East European and Baltic states, deployment of more conventional forces with high-precision weapons in East Europe, military involvement in the former USSR countries of Georgia and Ukraine, construction of an advanced anti-missile system in East Europe, and encouragement of domestic dissent and unrest in Russia (Voennaya 2014). The second document is the new *National*

future. So the assumptions of the forecasts may be on the pessimistic side.

Security Strategy, which was approved in December 2015 (O Strategii 2015). Both of these documents make it clear that Russia intends to make strenuous efforts to develop the military capabilities necessary to cope with external and internal threats by continuing military reform, upgrading its defense industry and military R&D, and acquiring more advanced weapons and military equipment through the approved *State Armaments Program 2011-2020* (Gorenberg 2010, Nichol 2011).

Table 14. Russian Government Forecast in 2016 of World Economy Out to 2019

Country	2015		2016		2017		2018		2019		Average GDP Growth 2016–19(%)	Ratio 2019 GDP to 2015
	Growth of GDP (%)	Share Global GDP (%)	Growth of GDP (%)	Share Global GDP (%)	Growth of GDP (%)	Share Global GDP (%)	Growth of GDP (%)	Share Global GDP (%)	Growth of GDP (%)	Share Global GDP (%)		
World	3.1	100.0	3.2	100.0	3.4	100.0	3.4	100.0	3.4	100.0	3.4	1.00
USA	2.4	15.9	2.2	15.8	2.4	15.6	2.6	15.5	2.7	15.3	2.5	0.96
Russia	-3.7	3.3	-0.2	3.1	0.8	3.0	1.8	2.9	2.2	2.9	1.2	0.88
EU	1.5	12.0	1.5	11.8	1.4	11.6	1.6	11.4	1.6	11.2	1.5	0.93
UK	2.2	2.4	2.1	2.3	2.0	2.3	2.2	2.3	2.3	2.3	2.2	0.96
Japan	0.4	4.4	0.8	4.3	0.6	4.2	0.8	4.0	1.0	3.9	0.8	0.89
China	6.9	16.6	6.5	17.2	6.2	17.7	6.0	18.2	5.9	18.6	6.2	1.12
India	7.4	6.8	7.4	7.1	7.3	7.4	7.0	7.6	6.3	7.9	7.0	1.16

Source: Prepared by C. Davis in 2016 using material from RF MER 2016.

Although Russia has demonstrated that it has the ‘will to provide’ for military capabilities through higher defense spending, the problems in its domestic economy (flawed economic system) and difficulties in the foreign economic sphere (low oil prices, economic sanctions) have disrupted its ‘economic defense

potential' in general and the ambitious armaments program in particular. Over the next four years it can be anticipated that Russia will improve its military capabilities at a modest pace, but this will not be sufficient to prevent its military balances with both NATO Europe and Asia from deteriorating.

D. Prospects for Russia's Economic and Military Relationships with Asia out to 2020

It is likely that Russia will continue to reorient its economic strategy to Asia and will make efforts to improve political and military relationships in that region. This reorientation reflects both Russia's existing adversarial relationships with countries in Europe, and with the EU and NATO as organizations, and the positive partnerships that the country has developed in the relatively peaceful and rapidly growing Asia region.

It should be recognized, though, that there will be unanticipated developments in the years ahead. In summer 2016 the UK made the decision to leave the EU and the start of the multi-year Brexit process will be in 2017. This economic dis-integration by the UK will prove to be disruptive to both the withdrawing country and to those countries remaining in the unreformed EU zone. A second major recent event that will contribute to uncertainty was the election of Donald Trump as President in the USA, with the Republican Party keeping control of the Senate and House of Representatives. These two politico-economic developments in core OECD countries reflected the wide-spread

dissatisfaction of majorities of populations with stagnant standards of living, poor job prospects and insecurity of employment, concerns over immigration, and perceptions that their real-life concerns were being neglected by insulated and affluent elites.²²⁾ Since those in charge in Europe appear to be resistant to criticism from below and reluctant to change, dissent and electoral insurgencies are spreading throughout Europe. In late 2016 a large minority of the population of Austria voted for a Far Right candidate for President, while in Italy a populist dominated majority rejected the government reform package of Prime Minister Renzi, resulting in his resignation. During 2017 it is likely that these social forces will influence national elections for parliaments and leaders in France, Germany, Italy and The Netherlands. A third factor that will contribute to future instability is the continuing developments of nuclear weapons and ballistic missiles in North Korea, which will complicate the situations of China, Japan, Russia, South Korea, and the USA.

5. Conclusions

The findings of this paper support the general concept that the position of a country in the global system is strongly influenced by the dynamics of its

22) According to *The Guardian* (2016) the UK Prime Minister recently said in a speech that voters 'see the emergence of a new global elite who sometimes seem to play by a different set of rules and whose lives are far removed from their everyday existence.'

economic and military power. However, the conversion of economic capacity into military strength depends on both a government's commitment to national security goals and institutional arrangements to help ensure that they are achieved.

During 2000-13 Russia significantly augmented its economic power, with substantial assistance provided by rising world energy prices. In this period the Russian Federation also was successful at improving its military power despite its relative (to NATO countries) economic weakness due to the effective organization of the defense sector, a raised priority of the military, and increased defense spending (Davis 2002, 2011; IISS 2001...2015).

In Europe the conventional military balance shifted in favor of Russia because NATO Europe countries demonstrated a lack of 'will to provide for military power' (see Section 2.a) by continuing to cut back deployments of conventional forces, reduce defense expenditures, and degrade intelligence capabilities related to Russia well beyond the point when it was clear to anyone who could read IISS *Military Balance* that Russia was enhancing its capabilities. The rapid expansion Eastward of NATO in combination with cuts in NATO defense budgets generated more responsibilities in a period of reduced resource allocations to the military alliance.

Over the 2000s Russia's relationships with the USA and leading European countries became more adversarial for a variety of reasons. In contrast, Russia established partnerships with most of the leading Asian countries, which continued to achieve high economic growth and substantially improved their

military capabilities. Although the power balances in Asia shifted away from Russia, its positive relationships in that region meant that these developments were not perceived as threatening in the short to medium term.

The domestic conflict in Ukraine resulted from the sustained poor performance of the Ukrainian economy, pervasive corruption that resisted eradication, political divisions, and disputes over the future path toward economic integration (EU versus EEU) and the sources of external financial assistance. Russia considered the revolutionary overthrow of the elected pro-Russia government and the re-orientation of its replacement to the EU and NATO to be serious threats to its economic and national security interests and made an assessment that military power balances were in its favor with respect to both Ukraine and NATO Europe. It therefore intervened to annex Crimea and covertly supported the insurgencies in Eastern regions of Ukraine, which caused instability in that country.

Davis (2016) has evaluated the 100 years of economic warfare that the West has waged against Russia from 1917 in attempts to undermine its economic and military power or to influence its international policies and has concluded that these efforts have achieved little success. The recent political, economic and military sanctions imposed on Russia by NATO/EU have coincided with the dramatic fall in world market price of oil since summer 2014 and rising costs to Russia related to Crimea and East Ukraine. These external factors have combined with weaknesses in Russia's economic system to generate poor economic performance and weaken Russia's economic power. But it should be

recognized that sanctions have been undermined by the lack of comprehensiveness of the anti-Russia economic measures, the global diversification of industrial production and financial markets, and counter-vailing actions of the Russian government. As a result, the sanctions on their own have been of limited effectiveness in achieving objectives, especially with respect to alteration of Russian behavior in the national security domain.

The Ukraine conflict and the resulting economic sanctions have transformed Russia's relationships with North American and European countries into openly adversarial ones, whereas it has maintained partnerships with most leading Asian countries (Central Asian states in the EEU, China, India, South Korea, Vietnam). These political circumstances combined with the continued rapid economic growth in Asia have resulted in intensified efforts by Russia to shift its strategy from one of more integration in Europe (expressed in the 2012 Strategy 2020) to one of greater political, economic and military engagement in Asia. The changes in strategy and policies have not yet (as of December 2016) generated significant economic advantages for Russia, but they could prove to be beneficial to that country and its Asian partners in the longer term future.

From the perspective of Russia, the changes in the international environment out to 2020 could be positive if they result in the weakening and/or re-orientation of the EU and NATO bureaucracies, leading to negotiated reductions in economic sanctions and compromises concerning security in Europe. This in turn could result in an unexpected re-engagement of Russia with an EU no longer

containing the strongly adversarial UK. In a similar manner, a less hostile USA could involve Russia more in security arrangements in the Middle East and Asia, notably the management of the Syria crisis and the North Korea challenge. The USA under President Trump could insist that NATO Europe, South Korea and Japan make more substantial contributions to their defense, which could constrain their social welfare programs and economic growth. In sum, it is likely that Russia will continue its shift to Asia out to 2020, but this is not a certain outcome given impending, but rather opaque, developments in the world.

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Russia and ASEAN in Eurasia: Value-Added for Russia-ROK Cooperation

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I. Introduction

Since the establishment of the ASEAN-Russia full dialogue partnership in 1996, its most conspicuous feature has been lack of ability to fulfill its true

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potential.¹⁾ This assessment is not ungrounded. Economic cooperation between Russia and the ten ASEAN states pales in comparison with corresponding figures related to trade, investment and technological exchanges ASEAN enjoys with its other dialogue partners. Projects with Russia's participation, for instance, its contribution to the railway construction in Indonesia or the nuclear power plant Ninh Thuan 1 in Vietnam, are noticeably stagnating. Contacts between business communities increase before a landmark political event only to decrease again. A classical vicious circle.

“If a problem cannot be solved, enlarge it.” This famous quote by Dwight D. Eisenhower can be useful for properly re-assessing the relationship between Russia and ASEAN. If the parties truly wish to foster mutual cooperation, as they probably do, the context of their relationship should be enlarged. The more so since ASEAN and Russia are ready for their relationship to respond to the alarmingly weak foundations of the global order.

Capturing the essence of this context, its substantial and institutional pillars should be elaborated on. As for the former, the Eurasian area broadens possibilities for Russia-ASEAN cooperation, while the nascent format of the ASEAN-SCO-EAEU would be an example of the latter. Although outlined only recently, this format took on immense significance during the preparations for the Russia-ASEAN Commemorative Summit and became the focal point in

1) The ASEAN Secretariat (2000), “ASEAN and Russia: The Potential for Business,” (April 13), Available at <http://asean.org/> (accessed: October 19, 2016); ASEAN-Russia Summit (2016), “Press Conference after the Russia-ASEAN Summit (in Russian),” (May 20), Available at <http://russia-asean20.ru/> (accessed: October 19, 2016).

its key documents. To trace this emerging trend in Russia-ASEAN relations in an anticipatory ahead-of-time way, and make a forward-looking assessment of its repercussions for cooperation between Russia and ASEAN, as well as for the Republic of Korea as an influential Asia-Pacific actor, is a timely exercise.

Presenting the specificity of the contemporary global milieu as a factor shaping Russia-ASEAN relations, the analysis proceeds to the current ASEAN prospective plans and obstacles to their realization. Then it gives insights into the places Russia and ASEAN occupy in each other's priorities to offer assessments of the upcoming format ASEAN-SCO-EAEU as the new focal direction in Russia-ASEAN cooperation. Repercussions for the relationship between Russia and the Republic of Korea are assessed in the ahead-of-time format to arrive at the main conclusions.

II . Entropy in Global Affairs and Eurasian Response

The present world order is in a state of flux. The global politics appears to have entered a new – revolutionary – phase whose essence at its very dawn was shrewdly described by Randall L. Schweller, professor of the political science at the Ohio State University: an age of entropy. “International politics is transforming from a system anchored in predictable, and relatively constant, principles to a system that is, if not inherently unknowable, far more erratic, unsettled, and devoid of behavioral regularities. In terms of geopolitics, we

have moved from an age of order to an age of entropy.”²⁾

Evidence for this state of entropy is numerous. Around the world, the dissatisfaction with the outcomes of globalization is rising. As Jeffrey Sachs put it, “... The current version, once called the Washington Consensus, has delivered economic growth but at enormous cost: rising inequalities of income, massive environmental destruction and growing lawlessness.”³⁾ These factors alone undermine the foundations for sustainable global economic development for many years ahead. The problem is further exacerbated by lack of resources to keep it on track. Previous growth factors based on information and energy sectors are depleted while new ones, mainly bio-engineering and “clever” informational networks, are just emerging. In these circumstances, global actors, be they states or trans-national business, come into an increasing conflict over sources of growth and income.

Traditional global regulatory mechanisms have turned out to be unable to effectively respond to the present realities. The WTO is a key example. Encountering the slowdown of the global economic growth rates and rising protectionism in the priorities of many global actors, the WTO approach based upon consensus decision-making has not been revised. The WTO links with the private sector, banks and sector-specific regulators are largely absent. The

2) Schweller R. (2014), “The Age of Entropy. Why the New World Order Won’t Be Orderly,” *Foreign Affairs*. (June 16), Available at <https://www.foreignaffairs.com/> (accessed: October 8, 2016).

3) Sachs J. (2016), “Sustainable Development: a New Kind of Globalization,” *The Boston Globe*, (July 19), Available at <https://www.bostonglobe.com/> (accessed: October 8, 2016).

practice of a single package or “one-size-fits-all,” especially concerning the treatment of emerging and developing economies, continues to hamper the efficiency of the WTO negotiating process. The WTO, as exemplified by the outcomes of its Ministerial Meeting in Nairobi, is unable to respond to the interests of many of its participants in linking their priorities in global trade agenda with the participation in regional and macro-regional trade initiatives.⁴⁾

As a response, new global formats of economic cooperation are being developed. The decision of BRICS countries to initiate stabilizing financial mechanisms exemplifies their decision to lessen dependence upon the traditional global financial institutions. The key role in this process might be delegated to the Asian Infrastructure Investment Bank (AIIB) tasked to finance large-scale infrastructure facilities in Asia and facilitate the implementation of China’s strategy “One Belt, One Road.” Therefore, a large geo-economic area with China as its core, aimed to promote China’s technologically-advanced production, services, know-how and personnel, internationalize renminbi and create a China-friendly zone of standards and conformances stretching all over Eurasia, will probably appear.

The political dimension of the AIIB also matters. Recycling Asian savings within Asia and financing infrastructure at a lower cost will allow Asian countries to become largely independent from the World Bank, the International Monetary Fund and the Asian Development Bank. Through the AIIB, China,

4) The World Trade Organization (2015), *Nairobi Ministerial Declaration*, (December 19), Available at <https://www.wto.org/> (accessed: October 16, 2016).

frustrated with the slow progress in reforms of global governance instruments, offers the world its own version of globalization – the project One Belt, One Road (OBOR) which has no time and space limits, links security and development and is underpinned by the idea of shared prosperity and the community of common destiny.⁵⁾

A roll-back of the “Washington Consensus” version of globalization is also portrayed by the shift of global trade and investment regulation to the regional and macro-regional level. The Trans-Atlantic Trade and Investment Partnership and the Trans-Pacific Partnership are cases in point. The crux of the problem lies not only with the slow progress at the WTO; strategic considerations matter no less. As demonstrated by the TPP, its super-task was more than clearly explained by the US President B. Obama: “We can’t let countries like China write the rules of the global economy.”⁶⁾ If this is not an attempt to divert the processes of Asia-Pacific economic regionalism from China to the US, separate China from Asia and therefore undermine the very foundations for the “Asian century,” then what is?

In sum, the global economy is encountering an imbalance between increasing interdependence and its lessening manageability. Global regulatory institutions

5) See, for instance: Ministry of Foreign Affairs of the People’s Republic of China (2015), *China’s Role in the Global and Regional Order: Participant, Facilitator and Contributor. Speech at the luncheon of the Fourth World Peace Forum by H.E. Foreign Minister Wang Yi*. (June 27), Available at <http://www.fmprc.gov.cn/> (accessed: October 9, 2016).

6) Obama B. (2015), “Statement on the Trans-Pacific Partnership,” *The White House*, (October 5), Available at <https://www.whitehouse.gov/> (accessed: October 18, 2016).

fail to provide participants with conditions for sustainable economic growth and development. New economic formats and initiatives are just appearing, but their potential and institutional capacities remain uncertain.

The rise of turbulence in global politics adds to the overall complexity. Apart from the confrontational trends in relations between Russia and the US, the simultaneous escalation of traditional and non-traditional security challenges further diminishes prospects for a stable and secured world. Among the former, the North Korean nuclear issue presenting a blatant challenge to the global nuclear non-proliferation regime is especially noteworthy. Practice has demonstrated that the North Korean nuclear problem long ago outgrew its sub-regional and regional dimensions, and its global component is rising commensurably with Pyongyang's increasing nuclear capabilities. Among the latter, the policy of the Islamic State of the Iraq and al-Sham (ISIS) questions the efficiency of global security institutions. International efforts to combat the ISIS threat have not been successful so far.

The military force quickly returns in the global politics. As D. Suslov, a Russian foreign policy expert, argues: "... military force is necessary not only to protect from terrorist threats and regional instability. It comes back as a factor of great power rivalry and distribution of forces — even despite the low probability of "hot war" between them because of nuclear weapons. This is a natural reaction to the revival of great power rivalry as such. The latter is unthinkable without arms race."⁷⁾ Assuming that this line of argument is correct, as it seems, a rising militarization of international relations is in the offing.

Finally, the emancipation of regional actors, which challenge the grandees on issues secondary to their priorities, is conspicuous. The example of Turkey shooting down the Russian military aircraft in Syria in order to provide NATO with an excuse to consolidate its members on the anti-Russian basis is a case in point. As seen by the Russian expert community, “...this step means open violation by Turkey of unwritten yet important rules of the game regulating relations between countries. Not being in a state of war and not having territorial and other vital conflicts the regional power threw down a direct and arrogant challenge to the global player — the second nuclear superpower and a permanent member of the UN Security Council — doing it in a cowardly manner, sheltering itself behind its NATO membership.”⁸⁾ If this trend continues, the global concert of big powers will remain just wishful thinking.

As a response to these developments, the reset of the global system is taking place. The new bipolar world order – with the first global center concentrating around the US and its allies, while the second focuses upon the Eurasian area – is emerging. Arguably, this is a welcoming development as the bipolar system is more stable and secure than the unipolar world. As S. Karaganov, a prominent Russian scholar, argues, the establishment of Greater Eurasia can contribute to

7) Suslov D. (2016), “Regionalisation and Chaos in Interdependent World. Global Context by the Beginning of 2016,” *Global Affairs*, (January 29), Available at <http://eng.globalaffairs.ru/> (accessed: October 1, 2016).

8) Suslov D. (2016), “Regionalisation and Chaos in Interdependent World. Global Context by the Beginning of 2016,” *Global Affairs*, (January 29), Available at <http://eng.globalaffairs.ru/> (accessed: October 1, 2016).

the return of the cooperative paradigm in global affairs.⁹⁾ This is substantiated by the rise of the Eurasian dimension in the priorities of many international actors. China's project One Belt, One Road, Russia's Eurasian Economic Union, Korea's Eurasian Initiative, India's Connect Central Asia Policy and Japan's Dialogue with Central Asian States are the most noteworthy examples. ASEM's focus upon connectivity between Europe and Asia adds to the nascent bid for Greater Eurasia.

Although the EU's intentions to become involved in Eurasian cooperation remains not well-articulated, objective factors account for the likely rise of Europe's interest. To rejuvenate its stagnating economy, the EU needs new markets. Also, it is interested in participating in the establishment of the pan-continental security system stretching from Lisbon to Singapore in which its present security problems will be placed in a context conducive to cooperation rather than confrontation.

Arguing that time will play for the Greater Eurasia scenario, it should be kept in mind that its realization to a considerable extent will be performed by two Eurasian actors – Russia and the Association of Southeast Asian Nations (ASEAN). While Russia has traditionally seen itself as an established Eurasian actor, the Association started to identify its interests with Eurasia only recently. A timely exercise will be to trace the main reasons behind this emerging trend.

9) Karaganov S. (2016), "From East to West, or Greater Eurasia," *Global Affairs*, (October, 25), Available at <http://eng.globalaffairs.ru/> (accessed: October 25, 2016).

III. ASEAN in the New World

The bid for Eurasia in ASEAN priorities is predetermined by the challenges ASEAN has to deal with at the present stage of its evolution. As things currently are, the association has to adapt to the new – revolutionary – paradigm of global development. In the previous – evolutionary – system, ASEAN was able to shape the international milieu in Southeast Asia in a way capable to satisfy the priorities of its external partners. The only ASEAN expectation from these partners was to give it the *carte blanche* to act as a collective entity. This strategy worked well during the Cold War era, when ASEAN's key diplomatic success, the resolution of the Cambodian issue being the key, stemmed from the association's ability to offer the US and China diplomatic and political options which satisfied them both. It also turned out effective after the Cold War, when Asia-Pacific actors delegated ASEAN the initiative to establish pan-regional multilateral dialogue formats on economic and security issues.

The present – revolutionary – phase of world politics, based upon “the game without rules” is not what ASEAN has been preparing itself for. The challenges which the association is currently encountering are numerous.

The afore-discussed shift of global regulatory mechanisms to the regional level is making ASEAN adapt its policy to the TPP project. After the TPP becomes operational, ASEAN will find it difficult to maintain intra-ASEAN unity on issues related to economic cooperation. Only four of ten ASEAN countries – Brunei, Singapore, Malaysia and Vietnam – are TPP members.

A new reality for ASEAN is the price and investment uncertainty within the global energy market. The period of 2014-2015 witnessed a decrease in investment and a new wave of M&As in the oil sector. If this trend continues, the repercussions for ASEAN relations with its dialogue partners will be significant. On the one hand, in relations with China, somewhat decreased tensions over the South China Sea issue, which to a large extent are based upon energy resources, are likely. On the other hand, the whole course of ASEAN dialogue with its external partners on energy issues will have to be modified, adding uncertainty in the realization of the trans-ASEAN energy infrastructure projects.

Another challenge for the association is the simultaneous escalation of traditional and non-traditional security threats. ASEAN cannot but think that the Western policy of regime change in Russia, if successful, will create a zone of instability to the north of China, which will logically shift Beijing's attention from economic to security priorities. In line with the domino effect, this will influence relations between China and Southeast Asia in the frameworks of CAFTA (China-ASEAN Free Trade Area) and the upcoming 21st Century Maritime Silk Road. The escalation of the North Korean nuclear and missile issue in 2015-2016 once again tasks ASEAN to revise the readiness of the nuclear states to accede to the Southeast Asia Nuclear Weapons Free Zone Treaty.

The policies of the Islamic State of Iraq and al-Sham destabilizes the Muslim countries of Southeast Asia. In the view of Southeast Asian militants,

ISIS has become a de-facto existing state which should be visited to gain “combat experience.” Another aspect of the problem is that Southeast Asian radicals, seeking approval from the ISIS leaders, commit acts of terrorism in their countries. As a result, a new advent of terrorism in Southeast Asia may become the “new normal.”

But the key challenge for ASEAN is the crisis of the Euro-Atlantic model of globalization. Along with the reputational damage caused by the global financial and economic crisis of 2008-2009, the US and global regulatory institutions did not offer the world, including Southeast Asia, a new model of economic growth. Coupled with the failure of immigration policy and practice of multiculturalism in the EU, desperately low rates of Europe’s economic growth, this did not pass by unnoticed in Southeast Asia. As a result, ASEAN leaders point to the inapplicability of many components of the European experience to Southeast Asian realities.¹⁰⁾

In the afore-discussed circumstances, the present international realities might have been the worst for the association since its inception. The more so as they coincided with the final stage of ASEAN’s key prospective project – the establishment of an ASEAN Community.

The ASEAN Community came into existence on 31 December 2015.¹¹⁾ It

10) The Malay Mail Online (2015), *Malaysia: ASEAN Will Have a Unified Market, but Rejects Eurozone Model*, (January 24), Available at <http://www.themalaymailonline.com/> (accessed: June 5, 2016).

11) The ASEAN Secretariat (2015), *Kuala Lumpur Declaration on the Establishment of the ASEAN Community*, (December 31), Available at <http://www.asean.org/> (accessed: October 11, 2016).

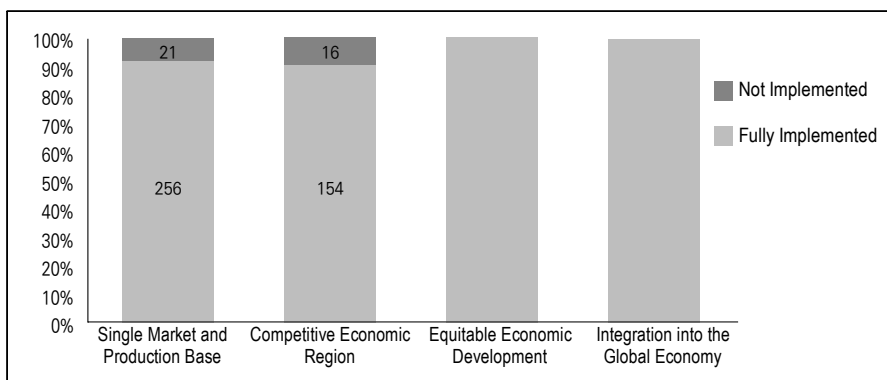
consists of three interrelated components – the ASEAN Economic Community, ASEAN Political-Security Community and ASEAN Socio-Cultural Community. The project presupposes the simultaneous development of three interrelated directions – deepening intra-ASEAN integration, strengthening ASEAN positions in multilateral dialogue platforms and initiatives, and developing relations with external partners according to ASEAN priorities.¹²⁾

The presumable aim of these three directions is to increase the competitiveness of ASEAN as a unified geo-political and geo-economic entity given that the ideal – in ASEAN understanding – world order will be established without its contribution. ASEAN sees its task in creating a mini-projection of the ideal global order in Southeast Asia by intertwining the potential of the three pillars of its Community. The ASEAN Economic Community aims to elevate the investment attractiveness of Southeast Asia by stimulating big companies to invest in the trans-ASEAN infrastructure projects. The super-task of the ASEAN Political-Security Community is to create a peaceful and stable regional milieu conducive to economic development. The ASEAN Socio-Cultural Community is responsible for forging a common identity between Southeast Asian countries at the elite and the grassroots level.

12) The ASEAN Secretariat (2008), *ASEAN Economic Community Blueprint*, (January), Available at <http://www.asean.org/> (accessed: October 7, 2016); The ASEAN Secretariat (2009), *ASEAN Political-Security Community Blueprint*, (June), Available at <http://www.asean.org/> (accessed: October 7, 2016); The ASEAN Secretariat (2009), *ASEAN Socio-Cultural Community Blueprint*, (June), Available at <http://www.asean.org/> (accessed: October 7, 2016).

The extent to which ASEAN has succeeded in implementing this task has both quantitative and qualitative dimensions. The ASEAN Economic Community exemplifies the first. As outlined in the four pillars of the ASEAN Economic Community Blueprint 2015 – the establishment of a single market and single production base in Southeast Asia, making Southeast Asia a highly competitive economic region, a region of equitable economic development and a region fully integrated into the global economy¹³⁾ – the association considers that it has completely implemented the two latest directions. The first two ones have been realized up to 92.4% and 90.5%, respectively.¹⁴⁾

Figure 1. AEC Scorecard Measures, Fully Implemented ASEAN-wide and high-priority measures, by AEC Pillar, 2008–2015 Number of Measures (as at 31 October 2015)



Source: The ASEAN Secretariat (2015).¹⁵⁾

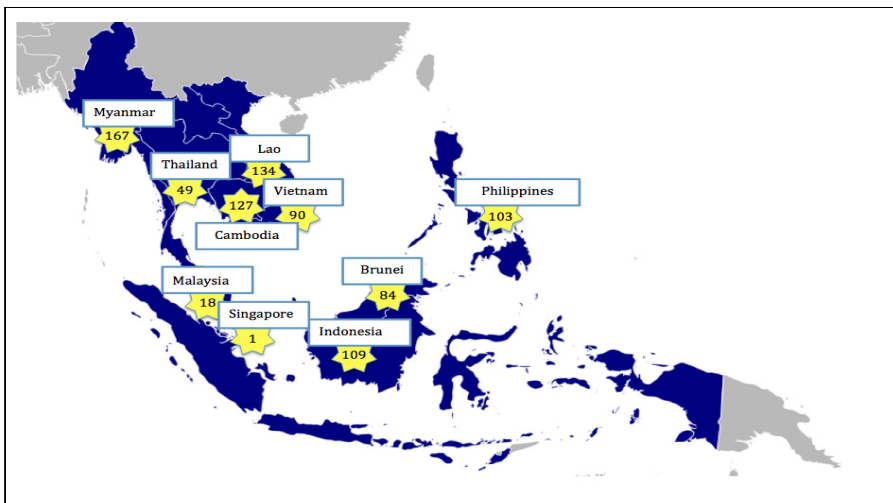
13) The ASEAN Secretariat (2008), *ASEAN Economic Community Blueprint*, (January), Available at <http://www.asean.org/> (accessed: October 7, 2016).

14) The ASEAN Secretariat (2015), *A Blueprint for Growth ASEAN Economic Community 2015: Progress and Key Achievements*, (November), Available at <http://www.asean.org/> (accessed: October 12, 2016).

Numerous multilateral initiatives under the ASEAN auspices were launched and gained momentum. Among them, the key initiatives are the ASEAN Free Trade Area, ASEAN Investment Area, the Initiative for ASEAN Integration, and ASEAN Surveillance Process. Large-scale infrastructure focusing upon land, maritime and air connectivity in Southeast Asia, exemplified by the ASEAN Power Grid, Trans-ASEAN Gas Pipeline, the ASEAN Highway Network, the railway Kunming-Singapore, are being implemented.

Nevertheless, the success of the intra-ASEAN cooperation is hampered by the lack of uniformity in doing business.

Figure 2. ASEAN Countries in Ease of Doing Business List (2015, out of 189 economies)



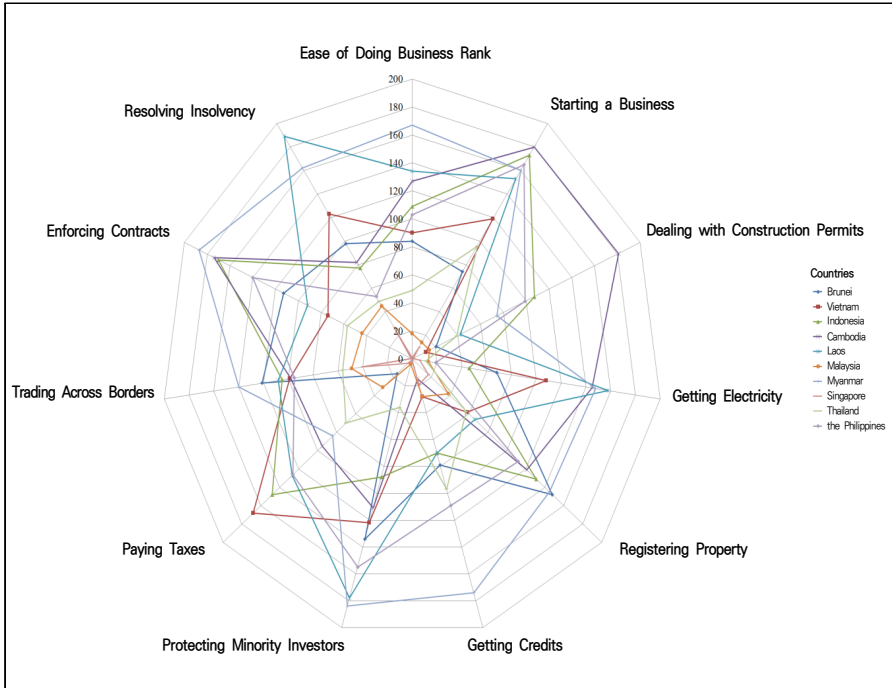
Source: World Bank (2016).¹⁶⁾

15) *Ibid.*

16) World Bank (2016), *Doing Business 2016: Measuring Regulatory Quality and Efficiency*,

In specific terms, the imbalances are presented in the picture below.¹⁷⁾

Figure 3. ASEAN Countries in Ease of Doing Business List (2015, Specific Positions)



Source: World Bank (2016).¹⁸⁾

Although in economic terms this picture is likely to remain largely unchanged,

Available at <http://www.doingbusiness.org/> (accessed: October 7, 2016).

17) The ASEAN Secretariat (2015), *A Blueprint for Growth ASEAN Economic Community 2015: Progress and Key Achievements*, (November), Available at <http://www.asean.org/> (accessed: October 12, 2016).

18) World Bank (2016), *Doing Business 2016: Measuring Regulatory Quality and Efficiency*, Available at <http://www.doingbusiness.org/> (accessed: October 7, 2016).

the strategic significance of ASEAN Community is obvious. The positioning of Southeast Asia as an area interconnected in infrastructural and institutional respects raises the interest of multinationals to invest there. ASEAN drives the establishment of the Regional Comprehensive Economic Partnership, whose participants exert considerable influence upon the global development. Even the formal establishment of the ASEAN Economic Community is an important precondition for the RCEP's success. The cumulative effect of these factors suggests that the interim results of ASEAN Economic Community are generally positive for ASEAN.

A balanced assessment of interim results of ASEAN Political-Security Community, on the contrary, gives reasons for skepticism.

The ASEAN Political-Security Community Blueprint 2015 envisaged three directions: a rules-based Community of shared values and norms, a cohesive, peaceful, stable and resilient region with shared responsibility for comprehensive security, and a dynamic and outward-looking region in an increasingly integrated and interdependent world.¹⁹⁾ In practical terms, this meant fostering “good governance” based upon law and order in Southeast Asian states, upgrading ASEAN's leading role in regional multilateral dialogue platforms and improving relations between ASEAN and its dialogue partners. At all these directions, the obtained results are hardly encouraging.

With respect to “good governance,” the root cause lies in the problems

19) The ASEAN Secretariat (2009), *ASEAN Political-Security Community Blueprint*, (June), Available at <http://www.asean.org/> (accessed: October 7, 2016).

which Southeast Asian countries have to tackle at the present stage of their modernization. In many Southeast Asian states, political reforms coincided with the upsurge of nationalism, including on ethnic issues. At the grassroots level, the prevailing sentiments are that “good governance,” i.e. combating corruption and human rights protection, remain too far from practical realities to be taken seriously. In the government circles, due to the worldwide regime change in practices Southeast Asian elites discuss the expediency to strengthen components of constructive authoritarianism in internal politics as one of the prerequisites for raising economic competitiveness and improving state manageability.

Summing up the key problems that ASEAN as the “driving force” of Asia-Pacific multilateral dialogue platforms faced in the “evolutionary” phase of international relations, the following are noteworthy. Regional dialogue platforms turned out not to be ready to deal with rapidly globalizing Asia-Pacific issues. The rise in number of these dialogue formats did not entail their qualitative and conceptual upgrade. Attempts to resolve regional security challenges suffered severe setbacks. The association failed to offer its extra-regional partners a consolidating agenda of cooperation to establish the cooperative security system. This generated criticism of these formats and ASEAN as their “driving force” (Kanaev 2007, pp. 86-100).

The criticism was all the more substantiated since ASEAN contribution in joint initiatives with Northeast Asian countries was apparently modest. ASEAN’s share in the Chiang Mai Multilateral Initiative and the East Asia Emergency Rice Reserve accounted for 20% and less than 15% respectively.

In 2014-2016, new problems arose. The simultaneous increase of attention to Asia-Pacific in the priorities of the US, China, Russia and India places a too heavy burden on ASEAN in terms of harmonizing their interests in multilateral cooperation along with rising interdependence of regional economy, politics and security. The problem is exacerbated by the absence of Russia and the US among the parties negotiating the Regional Comprehensive Economic Partnership (RCEP). These factors combined demonstrate that even at the regional level ASEAN is unable to integrate in the ideal – in its understanding – model of multipolarity.

In relations between ASEAN and its dialogue partners, the “three-tier” model of cooperation has ended in failure. Previously, the highest tier was occupied by the US. With all reservations, ASEAN saw Washington as the regional and global security guarantor, given that the stable international milieu is the key precondition for economic development of Southeast Asian states. The middle tier was occupied by China. In dialogue with Beijing, the association was seeking an optimum balance between economic cooperation and concessions on security issues, primarily relating to the South China Sea. The lowest level was given to ASEAN relations with Japan, India, Australia, South Korea, EU and Russia. Until recently, the association regarded these relations through the prism of balancing China’s and the US’ policies in Southeast Asia and preparing the project RCEP.

In the post-evolutionary era of global politics, ASEAN has to amend this model in the “big rush regime” in order to adjust it to its globalizing interests.

Developing dialogue with the US, ASEAN understands that Washington has no strong reasons to support the globalization of its policy simply because the ASEAN bid for multipolarity does not correspond to American interests. In Asia-Pacific, Washington has rocketed the South China Sea issue and develops the project Trans-Pacific Partnership with the afore-mentioned anti-Chinese component. This both questions the realization of the “Asian century” and undermines ASEAN prospective plans. ASEAN’s response came in the form of the Joint Statement of the US-ASEAN Strategic Partnership, the main idea of which is reaffirming the US’ positions as the regional security guarantor.²⁰⁾ But an imbalance between these expectations and the practice of American policy is evident.

In relations with China, the globalizing ASEAN prioritizes the project “One Belt, One Road” and expects an inflow of Chinese investment for infrastructure projects in Southeast Asia. This would be ideal for ASEAN if China did not offer it to develop relations on the principle of reciprocity. In practical terms, this means that the association might be deprived of a possibility to appeal to the assistance from its external partners in resolving the South China Sea issue. Beijing insists on a bilateral approach to the problem and prefers not to raise it at the Asia-Pacific multilateral dialogue platforms on security issues. China’s adherence to the principle of reciprocity (“We provide you with an opportunity to achieve economic prosperity but instead demand you to respect our position

20) White House (2015), *Joint Statement on the ASEAN-U.S. Strategic Partnership*, (November 21), Available at <https://www.whitehouse.gov/> (accessed: October 11, 2016).

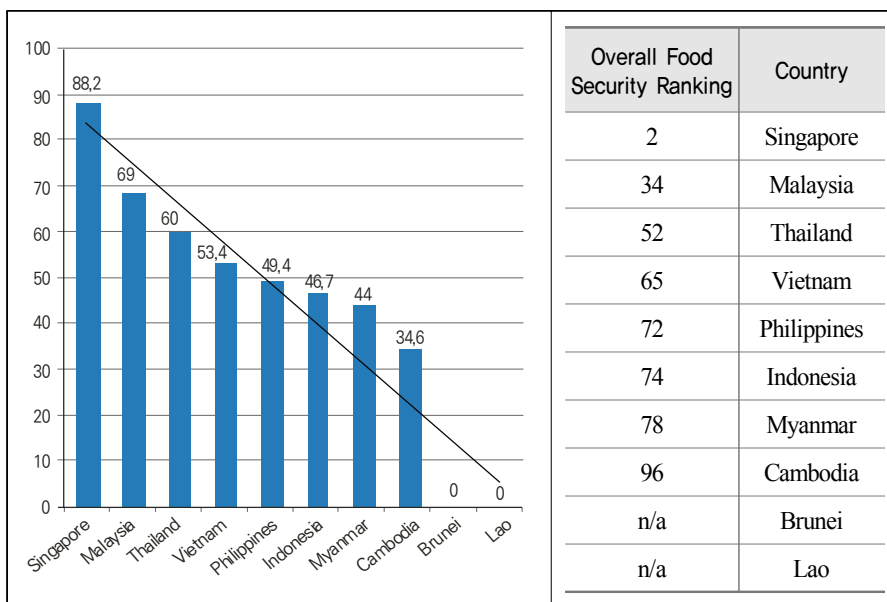
on our national core issues”) can make ASEAN resolve the South China Sea contradictions vis-à-vis China. As a result, the Code on Conduct of Parties in the South China Sea, when adopted, will have little substantial difference from the Declaration on Conduct of Parties in the South China Sea signed by China and ASEAN in 2002, which outlines pro-Chinese terms of conflict resolution.

Through the prism of ASEAN globalizing priorities, its relations with the “third-tier” actors are shaped by the development of trans-Eurasian cooperation projects. Among them, the Indo-Pacific region and the Eurasian Initiative are particularly noteworthy. The former, being developed by the United States, might well place ASEAN at the epicenter of a new China-US confrontation on maritime security issues. The latter, which is driven by the Republic of Korea and presupposes strengthening Eurasian connectivity, coincides well with ASEAN international priorities. The Russian vector of current ASEAN policy will be discussed separately.

In establishing the ASEAN Socio-Cultural Community, the association did not encounter new problems in 2014-2015. But not because of their successful resolution in the preventive way: the existing challenges fully captured ASEAN attention. New escalations of conflicts between the donor and the recipient countries of migrant workers have taken place. Calls for strengthening a common identity among Southeast Asian nations have not been successful so far: the grassroots people identify themselves with their countries of residence rather than with ASEAN as a whole. The feeling of a pan-ASEAN identity exists, at best, at the elite level. While positioning Southeast Asia as a “mini-projection”

of the contemporary world in which social, economic and “perceptual” gaps between countries are minimized, the Association cannot but realize that this is just wishful thinking rather than the existing reality. This is well exemplified by the resources possessed by different ASEAN countries to tackle the food insecurity issue. Although the ASEAN Socio-Cultural Community Blueprint 2015 identified measures to strengthen food security and safety,²¹⁾ the Southeast Asian countries differ substantially in readiness to perform this task.

Figure 4. ASEAN members by the Global Food Security Score 2015



Source: The ASEAN Focus (2016).²²⁾

21) The ASEAN Secretariat (2009), *ASEAN Socio-Cultural Community Blueprint*, (June), Available at <http://www.asean.org/> (accessed: October 7, 2016).

As seen from this evidence, the Association itself satisfies only partially its ideal standards of the global order. In the future, the problem may be further aggravated as a result of the imbalance between the goal of the ASEAN Community Blueprint 2025 to broaden ASEAN participation in shaping the global agenda²³⁾ and the real possibilities the Association possesses.

In sum, the main ASEAN deficiency is that the strategy, which the Association previously considered uncontested – to please all of its partners and simultaneously realize its own benefit – has suffered a systemic failure. Now the Association understands only the general direction of efforts that need to be taken – to strengthen the global dimension of its policy and integrate into the multi-polar world. This world should be created by other international actors that will support ASEAN in the implementation of its global plans. From this perspective, for the Association, relations with Russia loom all the larger.

IV. Russia and ASEAN: Distant Partners That Are Getting Closer

Summing up the results of the two decades of relations between ASEAN and

22) The Institute of Southeast Asian Studies (2016), *The ASEAN Focus 2016*, <https://www.iseas.edu.sg/> (accessed: October 1, 2016).

23) The ASEAN Secretariat (2015), *ASEAN 2025: Forging Ahead Together*, (November), Available at <http://www.asean.org/> (accessed: October 2, 2016).

Russia since the establishment of the Full-Dialogue Partnership in 1996, the imbalance between politics and economy is evident. On the one hand, the parties continually stress similarities in their approaches to global and regional issues and the shared preference for the primacy of international law and polycentrism in global affairs. On the other hand, economic exchanges have been and remain very insignificant. This is exemplified primarily by Russia-ASEAN trade that is negligible when compared with corresponding figures between ASEAN and its main economic partners.

Figure 5. ASEAN Trade with Its Key Extra-Regional Partners
(2015, Percentage and Volumes In billion US Dollars)

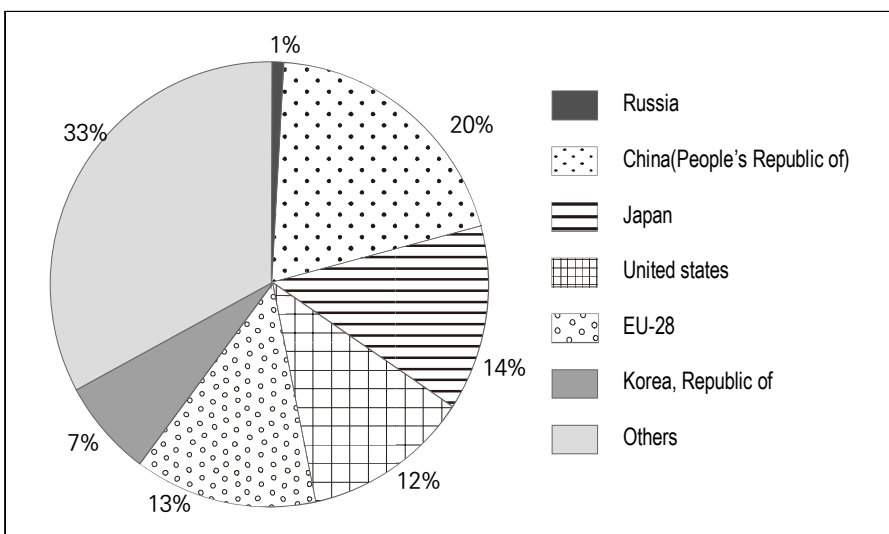
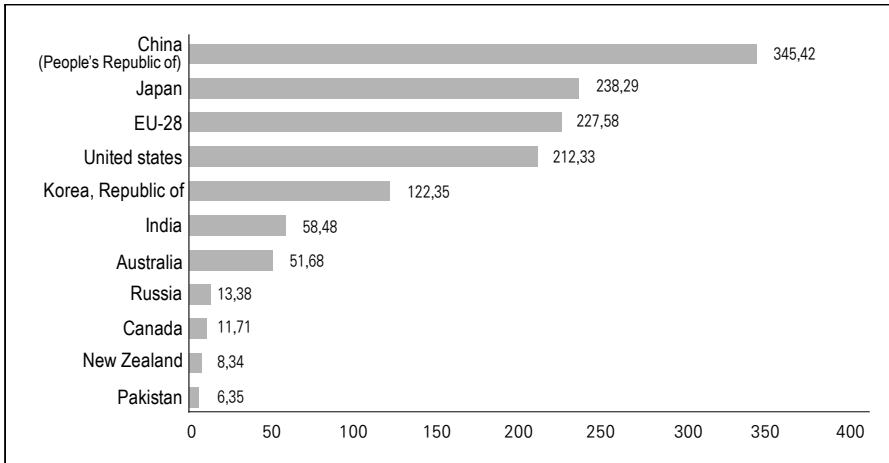


Figure 5. Continued



Source: The ASEAN Secretariat (2016).²⁴⁾

As a result, the main problem in the ASEAN-Russia relationship is the abysmal lack of self-reproducing ties. The root cause lies in numerous systemic weaknesses.

Russia does not have ethnic diasporas in Southeast Asia. As China's experience demonstrates, diasporas, especially involved in retail, banking and administrative decision-making, play a pivotal role in fostering economic exchanges. In ASEAN-Russia relations, this strategically important resource is missing and unlikely to appear.

Russia has no recognizable brands in Southeast Asian countries. Russia's TNCs, except for several operating in the energy sector, are not present in

24) The ASEAN Secretariat (2016), *ASEAN Trade by Partner Countries/Regions in 2015*, Available at <http://asean.org/> (accessed: October 17, 2016).

Southeast Asia's markets. Russia is not involved in supply-production chains of technologically-advanced and mass consumption goods, which is in contrast to China, Japan, Korea or the European Union.

ASEAN-Russia trade exchanges are hampered by underdeveloped transport and logistics infrastructure in the Russian Far East. Limited capabilities of Far Eastern ports and the Trans-Siberian railway, the underdevelopment of the "dry ports" and the cargo monitoring system, lack of direct flights between Russian cities, mainly located in Siberia and the Far East, and Southeast Asian capitals are typical constraints.

The top management of Russian big companies remains largely uninformed of the business legislation in Southeast Asian countries and, more broadly, the business milieu within the framework of the ASEAN Economic Community. Russian businessmen are not aware of either the priorities of individual ASEAN countries or how the mechanisms of ASEAN integration can be used for entering the Southeast Asian market. The underdevelopment of the banking support for implementing economic projects further aggravates the problem.

The mechanisms of the Russia-ASEAN dialogue partnership – the ASEAN-Russia Joint Cooperation Committee, ASEAN-Russia Joint Planning and Management Committee, ASEAN-Russia Dialogue Partnership Financial Fund – are not always efficient in implementing the agreed projects owing, primarily, to the financial constraints.

Participating in ASEAN-centric multilateral dialogue platforms – the ASEAN Regional Forum, ASEAN Defense Ministers Meeting Plus Eight and East Asia

Summit – Russia strives to develop permanent channels of communication with its Asia-Pacific partners, obtain reputational bonuses and strengthen its global positions. However, few practical results have been achieved so far. The primary reason stems from negligent volumes of economic exchanges as the ASEAN vision of security has a clear economic dimension. From this perspective, ASEAN does not regard Russia as an actor that can make a really substantial contribution to strengthening Asia-Pacific security. The problem is exacerbated by the absence of Russia's top leaders at the three sessions of the East Asia Summit after Russia became its member.

If each of these factors undermines cooperation between ASEAN and Russia, what to say about their cumulative effect? Nevertheless, since early 2014, mutual interest between ASEAN and Russia has been growing.

Seen from the ASEAN perspective, this is predetermined by the globalization of ASEAN priorities and its rising interest to increase its influence upon the global development. Southeast Asia is a locus of economic activity in the Asia-Pacific region, whose influence on the global economy and security is increasing. Leading global multinationals consider Southeast Asia as an obligatory direction of their Asia-Pacific strategy.²⁵⁾ The project Regional Comprehensive Economic Partnership, which includes the largest Asian economies – China and India – has good chances to rejuvenate the global economy by overcoming its capacity constraints.

25) Baker & McKenzie (2014), "Re-Drawing the ASEAN Map. How Companies Are Crafting New Strategies in Southeast Asia," *The Economist Intelligence Unit*, (November), Available at <http://www.bakermckenzie.com/> (accessed: October 8, 2016).

Most importantly, ASEAN realizes that to motivate its extra-regional partners to invest in Southeast Asia will be easier if it is part of a wider geo-economic area interconnected in infrastructural, institutional and people-to-people respects. Owing to geographical reasons, for the Association the Eurasian continent matters the most.

Convincing reasons question the utility of the US-ASEAN Connect Initiative launched at the ASEAN-US Summit in February 2016. The initiative has four directions – Business Connect, Energy Connect, Innovation Connect and Policy Connect.²⁶⁾ Ostensibly, this is aimed at strengthening US-ASEAN economic relations by compensating the missing points in the US-ASEAN Expanded Economic Engagement Initiative and enticing those Southeast Asian countries which are not TPP members to join it. The overall cumulative effect of this initiative might be moderately positive but hardly long-lasting owing to several factors.

In theory, the US-ASEAN Connect Initiative aims to facilitate the business milieu for American companies operating all over the ASEAN geo-economic area, but in practice, American business largely focuses upon Singapore, Malaysia and Thailand. To invest in the less developed ASEAN countries hardly corresponds to their long-term planning, owing to under-developed investment regulations. For these countries, to quickly undertake necessary reforms is too

26) For details, see: United States Agency for International Development (2016), *U.S.-ASEAN Connect. Strategic Partners for Sustainable and Innovative Economic Growth*, (September 8), Available at <https://www.usaid.gov/> (accessed: October 13, 2016).

politically burdensome and financially costly. The US lacks institutional resources to finance the trans-ASEAN infrastructure projects like China and Japan possess, as exemplified by the AIIB and ADB. But most importantly, the US concentrates upon selective sectors like energy or ICT while ASEAN partners from Eurasia focus upon a broad strategy with the emphasis upon upgraded transport links. Coupled with the afore-mentioned geography factor, this makes ASEAN more receptive to the trans-Eurasian rather than the trans-Pacific vector of cooperation.

Beyond economic motives, geopolitical considerations are no less important. In the ASEAN perspective, Eurasia may become part of the multiplex world which includes states, multilateral dialogue formats, FTAs, loci of industrial and technological cooperation. Taken together, these centers may create the global system of security, cooperation and co-development. In this world order, ASEAN will be able to successfully continue its policy of balancing big actors, appealing to one of them if problems with another arise, and create an international milieu conducive to the successful political, economic and social development of its members.

For this scenario to materialize, ASEAN needs an established global partner whose priorities correspond to those of ASEAN. Russia amply fulfills these expectations.

For Russia, relations with ASEAN are also growing in significance. Russia has to diversify its Asia-Pacific policy, not allowing its “pivot to Asia” to de-facto become its pivot to China. The more so since mechanisms for integrating

the Silk Road Economic Belt and the Eurasian Economic Union are still not clearly specified. More than that, for Russia many of ASEAN states can serve as an example to follow in upgrading Territories of Advanced Development in the Far East. The Singaporean and Malaysian experiences of increasing investment attractiveness and establishing technological and industrial clusters of value-added production should be adapted to the Far Eastern development. For Russia, ASEAN is one of the anchors of international stability as ASEAN principles with their emphasis on non-interference and respect for sovereignty and territorial integrity are consonant with international law. Lastly but importantly, upgraded ties with ASEAN allow Russia to forge an institutional link between the Asia-Pacific and the Eurasian direction of its foreign policy.

A confluence of these factors suggests that the ASEAN-Russia relationship has outgrown its “one-by-one” dimension. As things currently are, their priorities embrace a broad geopolitical and geo-economic spectrum. If so, ASEAN-Russia cooperation can achieve a breakthrough if developed at a geographical domain wider than Russia and Southeast Asia. The integrated Eurasia discussed above seems to fit these shared perceptions.

V. ASEAN–SCO–EAEU: Emerging Framework for Russia–ASEAN Cooperation

Defining the key long-term task in ASEAN-Russia relationship, a logical

step is to outline the instruments to best approach it. In the institutional realm, the format ASEAN-SCO-EAEU seems to be the most appropriate.

This idea was first mentioned by the President of Russia in December 2015.²⁷⁾ During the preparation for the ASEAN-Russia Commemorative Summit held in Sochi in May 2016, it was further developed by the ASEAN-Russia Eminent Persons Group, and became one of the key issues during the summit. The main results of the Sochi meeting strongly suggest that this format of cooperation has high chances to grow in prominence.

As exemplified by the results of the Sochi summit, at Russia's and ASEAN's highest political level there is a clear understanding that a "reset" of the relationship is impossible without going beyond the present Russian-ASEAN framework.²⁸⁾ Russian and ASEAN business communities share this perception.²⁹⁾ As seen from the key documents of the Sochi summit, the ASEAN-Russia strategic partnership will be increasingly premised upon the cooperation in the format of ASEAN-SCO-EAEU embracing not only economic issues, but also security, educational, academic and cultural exchanges.³⁰⁾

27) Official Internet Resource of the President of Russia (2015), *The President's Message to the Federal Assembly*, (December 3), Available at <http://kremlin.ru/> (accessed: October 15, 2016).

28) ASEAN - Russia Summit (2016), *Press conference on the results of the Russia - ASEAN Summit*, (May 20), Available at <http://russia-asean20.ru/> (accessed: October 15, 2016).

29) ASEAN - Russia Summit (2016), *Russia-ASEAN Business Forum members' consultation meeting*, (May 20), Available at <http://russia-asean20.ru/> (accessed: October 15, 2016).

30) ASEAN - Russia Summit (2016), *The Sochi Declaration of the ASEAN - Russia Commemorative Summit "Towards a mutually beneficial strategic partnership,"* (May 20), Available at <http://russia-asean20.ru/> (accessed: October 19, 2016); ASEAN - Russia Summit (2016), *The ASEAN-Russia Eminent Persons Group Report "Russia-ASEAN: a multi-faceted strategic partnership*

The ASEAN-SCO-EAEU format opens up new opportunities for Russia and ASEAN. From the ASEAN perspective, ASEAN-SCO-EAEU might make it possible for the Association to increasingly integrate in probable cooperation in strengthening pan-Eurasian connectivity. This involves the implementation of trans-continental infrastructure projects including ASEAN, China and Russia. Together with the central pillar (the EAEU and the Silk Road Economic Belt), the southern (the ASEAN Port Network and China's 21st Century Maritime Silk Road) and the northern (the Northern Sea Route) areas can be simultaneously developed. This will result in the creation of the pan-Eurasian connectivity arc with Southeast Asia as its part.

By means of the ASEAN-SCO-EAEU format, the task to keep Southeast Asian security challenges manageable may be facilitated. Arguably, the development of transport corridors through Eurasia will shift the centre of economic activity from Asia-Pacific to Eurasia, which would make contradictions over the South China Sea, largely focusing upon differences between China and the US over the freedom of navigation issue, somewhat less intensive than they currently are. The development of energy infrastructure and logistics chains between producers and consumers of agricultural goods will strengthen energy and food security in Southeast Asia. The experience of the ASEAN, the SCO and the EAEU in combating international terrorism will be effectively used to face the ISIS threat (as experience demonstrates, at the global level the

facing the future," (May 20), Available at <http://russia-asean20.ru/> (accessed: October 19, 2016).

anti-ISIS cooperation leaves much to be desired).

The interconnected Eurasian area will logically lead to the establishment of a new – continental – security system with the EU as its part. This will place the current European problems in a markedly different international context making them somewhat less serious. As predicted by Russia’s leading foreign policy analysts, the rejuvenation of economic cooperation between the EU and Russia can be expected.³¹⁾ By its very nature, the cumulative economic effect will be positive for many international actors including ASEAN.

What is absolutely essential for the Association, in the format of ASEAN-SCO-EAEU, is that it be delegated the status of its driving force. The reasons for this are convincing as in the Asia-Pacific region ASEAN has been performing this function for more than two decades. By means of this, the Association will strengthen its global positions and at the same time receive a new super task with a strong intra-ASEAN consolidating effect.

The aggregate effect of the cooperation in the ASEAN-SCO-EAEU format will result in integrating the Russian Far East and the logistically linked Siberia in the Asia-Pacific economic exchanges including in the Southeast Asian supply-production networks.

From Russia’s perspective, likely benefits from the ASEAN-SCO-EAEU format appear no less significant. Russian companies will find it easier to gain a foothold in the Southeast Asian markets if they are integrated with those that

31) Karaganov S. (2015), “Eurasian Way Out of the European Crisis,” *Global Affairs*, (June 8), Available at <http://eng.globalaffairs.ru> (accessed: October 7, 2016).

are closer and already developed (e.g., the members of the EAEU). The ASEAN-SCO-EAEU format has high chances to facilitate the establishment of an FTA between the EAEU and ASEAN, which has become a major priority in the Russia-ASEAN relationship.³²⁾ ASEAN efforts to develop the Global Movement of Moderates meet Russia's determination to combat international terrorism and for sure will be developed in the ASEAN-SCO-EAEU agenda. As long as the anti-Russian ideological campaign in Western mass-media continues, Moscow will only welcome cooperation based upon the ASEAN approach.

The idea of Eurasian cooperation has a practical and intellectual background. Possibilities to intensify dialogue between ASEAN and the SCO have been discussed since 2005. In May 2015, a Free Trade Agreement between the EAEU and Vietnam was signed. Now an FTA between ASEAN and EAEU is being prepared. The decision to synchronize the Silk Road Economic Belt and the Eurasian Economic Union made by China and Russia can be extended to the cooperation between the EAEU and the SCO after which institutional links with ASEAN can be forged. The latter seems perfectly logical since the 21st Century Maritime Silk Road will run through Southeast Asia.

At the expert level, possibilities to foster the Eurasian cooperation have already been explored. During the First and the Second Asia-Pacific Forums

32) ASEAN - Russia Summit (2016), *Sochi Declaration of the ASEAN-Russian Federation Commemorative Summit to Mark the 20th Anniversary of ASEAN-Russian Federation Dialogue Partnership "Moving Towards a Strategic Partnership for Mutual Benefit,"* (May 20), Available at <http://en.russia-asean20.ru/> (accessed: October 8, 2016).

held in Moscow in 2011 and 2012 respectively, Russian experts endorsed and substantiated the Eurasian-Pacific Connectivity Initiative.³³⁾ Its core idea is to integrate Russia into the Asia-Pacific economic cooperation by means of developing a mega-project which, on the one hand, would stimulate economic dynamism in the Asia-Pacific region and, by instigation, in Russia as its part, and on the other, incorporate this cooperation into the pan-Eurasian cooperation. Global, continental and the “Russian” components of Eurasia’s development have been in the spotlight of experts of the “Valdai” International Discussion Club, a dialogue venue linking international intellectual elites, for many years.³⁴⁾

Assessing the presumable effect of the American factor upon the launch and the further development of the format ASEAN-SCO-EAEU, the following points are worthy of note. Ample evidence suggests that Washington, although not favouring this process, will have to grin and bear it.

Starting to implement the New Silk Road project primarily tasked to counter-balance Chinese and Russian influence in Central Eurasia, the US realized that it lacks necessary resources, finances being the key, to keep the

33) Sumsky V., E. Kanaev, E. Koldunova (2012), “Russia’s Interests in the Context of Asia-Pacific Region Security and Development,” *Russian International Affairs Council*, Available at <http://russiancouncil.ru/> (accessed: October 14, 2016); Sumsky V., E. Kanaev, E. Koldunova, M. Zavadsky, E. Zinovyeva, V. Iontsev, A. Kireeva, V. Likhachev, S. Lukonin, G. Menzhulin, A. Novikov, Y. Prokhorova, S. Sevastyanov, and N. Stapan (2013), “Russia’s Guiding Landmarks in the Asia-Pacific after the APEC Summit in Vladivostok,” *Russian International Affairs Council*, Available at <http://russiancouncil.ru/> (accessed: October 14, 2016).

34) Karaganov S. (2015), “Toward the Great Ocean – 3. The Silk Road Economic Belt and the priorities of the Eurasian States joint development,” *Valdai International Discussion Club*. (June), Available at <http://ru.valdaiclub.com/> (accessed: October 11, 2016).

project on track. As things are, American business is not eager to invest money in infrastructure projects with unclear state support and commercial feedback. In these circumstances, as Jeffrey Mankoff ironically pointed out, “As Washington’s own Eurasian ambitions contracted in line with the planned drawdown of US forces from Afghanistan, the United States began … seeking to leverage Beijing’s deep pockets to build major new infrastructure projects that the United States itself could not afford.”³⁵⁾ Mainly for this reason, the US attitude to the projects SREB and EAEU has changed from very critical to generally conciliatory.

More importantly, Washington may want it or not, but the Eurasian integration is a natural and objective process. At the institutional level, the United States has no mechanisms to influence it, while in the substantial realm, American possibilities to offer the Eurasian states an attractive alternative are quite faint. The Eurasian integration has no hegemony while in the US-led projects, the TPP and the TTIP being the most representative examples, the situation is strikingly different. The “Washington consensus” prioritizing democracy within states succumbs in attractiveness to the upcoming “Eurasian consensus” advocating democracy between states (emphasis added in both cases – E.K.). The US policy of double standards towards Syria and ISIS, with repercussions stretching from Western Europe to Southeast Asia, further solidifies

35) Mankoff J. (2016), “How Washington Learned to Stop Worrying and Love Eurasian Integration,” *PONARS Eurasia*, (April 20), Available at <http://www.ponarseurasia.org/> (accessed: October 3, 2016).

the intention of Eurasian states to be masters of their own destiny.

Based upon all the factors combined, the interim assessment of the ASEAN-SCO-EAEU format suggests that it has generally good prospects. Stating that in this format Russia and ASEAN can broaden and diversify possibilities to cooperate, it seems reasonable to expect the self-reproduction of Russia-ASEAN ties with a positive multiplier effect upon other Eurasian actors.

VI. Implications for Russia-ROK Relations

The repercussions stemming from the afore-analyzed scenario for relations between Russia and the Republic of Korea are likely to be overly positive. Cooperation between ASEAN and Russia, within the format of integrated Eurasia institutionalized by ASEAN-SCO-EEU, fits well to the Korean key prospective project – the Eurasian Initiative. Although at the present stage all assessments cannot but be preliminary, this congruence is seen along the three dimensions outlined in the Eurasian Initiative.³⁶⁾

Starting with *connectivity*, the ASEAN-SCO-EAEU format can facilitate cooperation between Russia and ROK in developing the Arctic.

The reasons behind ROK interest in the Arctic are numerous. According to Korean experts, the Northern Sea Route can shorten the distance from Korean

36) South Korean Ministry of Foreign Affairs (2013), *EurAsia Initiative*, Available at <http://www.mofa.go.kr/> (accessed: October 12, 2016).

to European ports by 40%, while fuel expenses might be reduced by 25%.³⁷⁾ Korea's geographical proximity to China, Japan and Russia makes it a natural hub for the Arctic oil transportation. By using the NSR, Korea can diversify its energy import basket as the Arctic oil substitutes up to 10 percent of the overall oil volume imported by the ROK from the Middle East, which will generate transportation savings accounting for 1 billion dollars.³⁸⁾ Increase in the cargo turnover via NSR might well stimulate the development of Korean ports. The Republic of Korea expects new orders for its shipbuilding companies as the Arctic navigation requires many types of vessels produced in ROK: icebreakers, container ships with icebreaking capability, icebreaking tankers etc.

The confluence of these factors generate the convergence of interests in Northern Sea Route in Korean government and business community. This is exemplified by, for instance, the statement made by Yun Byung-se, ROK Minister of Foreign Affairs in July 2015: "It is my dream to see the day when East Asia and Europe are connected both through the trans-continental railways and the Arctic waterways."³⁹⁾ Or the presentation made by President Park Geun-hye at the Eastern Economic Forum in September 2016: "... the Northern

37) Young Kil Park (2013), "Arctic Prospects and Challenges from a Korean Perspective. East Asia - Arctic Relations: Boundary, Security and International Politics," *Centre for International Governance Innovation*, Available at <https://www.cigionline.org/> (accessed: October 19, 2016).

38) Young Kil Park (2013), "Arctic Prospects and Challenges from a Korean Perspective. East Asia - Arctic Relations: Boundary, Security and International Politics," *Centre for International Governance Innovation*. Available at <https://www.cigionline.org/> (accessed: October 19, 2016).

39) Yun Byung-se H.E. (2015), "Dinner Remarks at the Commemorative Event to Mark 2nd Anniversary of ROK's Accession to Arctic Council," *South Korean Ministry of Foreign Affairs*, (July 7), Available at <http://www.mofa.go.kr/> (accessed October 21, 2016).

Sea Route would provide opportunities for new cooperative activities for the sustainable development of resources in the Arctic.”⁴⁰⁾ This demonstrates the sustainable demand for using the potential of the NSR at the ROK top political level.

In the Korean business community, this interest is no less intense. In October 2013, Korea used NSR for the first time: the ship belonging to the company Hyundai Glovis Co. arrived from the Baltic port Ust-Luga to Korean port Gwangyang. In July 2016, ROK used NSR for the first time to transport high-tech equipment – the reactors produced by Hyundai Heavy Industries for the Pavlodar Oil Chemistry Refinery were delivered from the Korean port Ulsan to Pavlodar in Kazakhstan.⁴¹⁾ At present, in business planning of Korean major industrial giants, among which there are Samsung Heavy Industries and Daewoo Shipbuilding and Marine Engineering, the Arctic direction is gaining in prominence.⁴²⁾

At the same time, Korean business lacks confidence in the commercial feedback from NSR. As a result, cooperation between the Republic of Korea

40) Park Geun-hye (2016), “Keynote Address by President of the Republic of Korea at the Eastern Economic Forum in Russia,” *The Foreign Affairs*, (September 25), Available at <http://foreignaffairs.co.nz/> (accessed: October 21, 2016).

41) The Arctic (2016), *South Korea will use the Northern Sea Route for the first time to deliver chemical reactors to Kazakhstan*, (July 18), Available at <http://arctic.ru/> (accessed: October 22, 2016).

42) Tanker Shipping and Trade (2015), *Charter Rates for Shuttle Tankers Are Holding Up*, (December 11), Available at <http://www.tankershipping.com/> (accessed: October 22, 2016); LNG World Shipping (2016), *Daewoo Readies Prototype Yamal Icebreaking LNGC for Action*, (June 20), Available at <http://www.lngworldshipping.com/> (accessed: October 22, 2016).

and Russia remains at its initial stage.

Stimulating the trans-Eurasian connectivity, the format ASEAN-SCO-EAEU might give a fresh impetus to this cooperation. China, Singapore and India, observers in the Arctic Council, will support it with Singapore acting as a bridge between the Arctic Council and ASEAN. At the present stage, it seems hardly possible and necessary to reflect upon concrete policy steps. What is really important is the political will shared by ROK and the members of the upcoming format ASEAN-SCO-EAEU to foster this cooperation and institutional mechanisms to translate it into reality.

In the *creativity* realm, the ICT dimension of the Eurasian Initiative seen through the prism of Russia-ASEAN cooperation and the presumable format ASEAN-SCO-EAEU is worthy of note.

At the conceptual level, Russia and ASEAN consider cooperation in technologically advanced sectors as their top priority. In the main documents produced by the Sochi summit, exchanges in innovative and technologically advanced production gained profound significance.⁴³⁾ This is not a diplomatic “slogan of the day” aimed at pleasing the partner as Russian ICT companies are active in Southeast Asia. Among them, the flagman is Kaspersky Lab. The

43) ASEAN-Russia Summit (2016), *Sochi Declaration of the ASEAN-Russian Federation Commemorative Summit to Mark the 20th Anniversary of ASEAN-Russian Federation Dialogue Partnership “Moving Towards a Strategic Partnership for Mutual Benefit”*; *Comprehensive Plan of Action to Promote Cooperation between the Association of Southeast Asian Nations and the Russian Federation (2016-2020)*, (May 20), Available at <http://en.russia-asean20.ru/> (accessed: October 23, 2016).

company specializes in computer security software and has headquarters in Malaysia, Singapore, Indonesia, Thailand and the Philippines. Among its clients, there are government agencies, including Malaysian Ministry of Education and Ministry of Defense, and large corporations. A high rank the company occupies in the priorities of its partners is reflected in its participation in International Multilateral Partnership against Cyber Threats under the auspices of Malaysia's government. In Singapore, Kaspersky Lab cooperates with INTERPOL Global Complex for Innovation in identifying and preventing cyber threats, and Singapore Economic Development Board.

Other Russian IT companies operating in Southeast Asia are Infowatch, SPB TV, CDN Video, Parallels, GS Group and Ruvento. Their activity focuses upon the mobile TV and video broadcasting, virtual applications and automated hosting services, manufacturing digital television equipment as well as upon cyber-security issues.⁴⁴⁾

Given that the ICT component in cooperation between Russia and ASEAN tends to gain further prominence, its incorporation in the transport projects in the format ASEAN-SCO-EAEU seems perfectly logical. Seen through the Arctic dimension, this cooperation might entail the digitalization of the NSR contributing to Korean plans to develop the Arctic and to the overall Russian-Korean cooperation.

44) Kanaev, E., A. Pyatachkova, A. Korolev, A. Averina, R. Fainschmidt, E. Prokopchuk, A. Matveeva, and M. Rodoskaya (2016), "Russia and ASEAN. Key Cooperation Projects," *Russian International Affairs Council*, (May 18), Available at <http://russiancouncil.ru/> (accessed: October 23, 2016).

An assessment of the stimuli for the *trust-building* generated by the format ASEAN-SCO-EAEU is also positive. The globalization of ASEAN interests makes the association focus upon global issues, among which North Korean nuclear problem looms all the larger. The establishment of Southeast Asian Nuclear Weapons Free Zone is hampered by constant escalations of North Korean nuclear issue. Assuming that any progress on keeping it manageable, however small it may be, should initially be welcomed, the format ASEAN-SCO-EAEU can, although modestly, contribute to engaging Pyongyang in dialogue. The North Korean nuclear issue will be placed in a radically different international context as compared to the present. If the association is delegated the status of the “driving force” of the ASEAN-SCO-EAEU dialogue, this will make the international milieu around North Korea more conducive to cooperation and co-development rather than to confrontation and hostility.

Lastly but importantly, the format ASEAN-SCO-EAEU has high chances to eliminate the present lack of congruence in terms of coordinating Russia’s pivot to Asia and ROK Eurasian Initiative. Actually, Russia and Korea differ in what Eurasia stands for. As Duckoon Chang, professor of Kookmin University, observes, “today Russians mostly identify the geographical scope of Eurasia with Russia and other former Soviet Republics – for the most part, the target area of the Eurasian Union, Caucasus, and Central Asia. In contrast, for Seoul the geographical scope of Eurasia mostly coincided with Eurasian landmass... for Koreans literally the European continent combined with the Asian continent on the whole – from the coast of the Atlantic to the coast of

the Pacific – is the target of “the Eurasia Initiative” (Duckjoon 2015, pp. 1-17). Arguably, if Eurasian cooperation is institutionalized by the format ASEAN-SCO-EAEU, Russia and Korea will come to the common vision of the geographical and – more importantly – conceptual dimensions of Eurasia.

While many problems in Russia-ROK relations remain in place, and the prospects for cooperation might be unclear owing to both international factors and depleted endogenous potential, new resources to foster dialogue are a sheer necessity. The format ASEAN-SCO-EAEU, which is congruent with the ROK Eurasian Initiative in the key practical directions and the conceptual respect, has good changes to give a second wind to Russia-ROK cooperation broadening and diversifying its spheres.

VII. Conclusion

The intention shared by ASEAN and Russia to expand their cooperation into the Eurasian area and institutionalize it by the format ASEAN-SCO-EAEU clearly reflects three interrelated macro-tendencies in current international relations. With the alarmingly weak foundation of the present global order, prospects for “a war of all against all” and “the global economy of mistrust” to last for years (if not decades), the world clearly needs a cooperative developmental paradigm. This is coupled with the rise of non-West and the growing demand for democracy not within, but between states resulting in fracturing the global order.

As a response to this strategic unease, the re-shuffling on the geopolitical deck of cards is on the way. A new kind of bipolarity is taking shape with Eurasia emerging as second global center. In this process, cooperation between Russia and ASEAN is predestined to play one of the pivotal roles.

In this emerging paradigm, ASEAN and Russia are not just partners of consequence. They enjoy a high level of strategic compatibility. The whole history of Russia is “looking beyond the limits” in crises. The whole history of ASEAN is an example of how to bring the interests of all its partners to the common denominator. This confluence of Russia’s and ASEAN experience and possibilities is the basic premise of the likely upward trends in their future relationship giving it the scale, depth and quality it has lacked so far. In the pan-Eurasian area, the scope for common vision and actions in Russia-ASEAN relationship will be further broadening.

As a much more important outcome of this cooperation in Eurasia, the advent of a new global order premised upon enhanced security, win-win cooperation and genuinely democratic relations between states will be gradually steering its path through the present state of international entropy. Our friends, among which the Republic of Korea holds a superior rank, will welcome this.

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Social and Political Transformation of the Russian Society in New Geopolitical Conditions

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- V. Electoral Processes of 2014–2016 and Federal Elections of September 2016
- VI. Civil Activity in Russia
- VII. Social tensions and protests in the Russian society
- VIII. Conclusion

I. Introduction

The Russian economy grew at 6-7 percent per year in the 2000s. High oil prices in the 2000s gave Russia the opportunity to play an active part in

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international relations. Even the conception of an energy superpower was created to characterize the new conditions of Russian activity. The Russian government had the resources for solving social problems, and to create conditions for the growth of citizens' welfare. The economic crisis of 2008-2009 was successfully overcome.

The beginning of 2014 was characterized by favorable conditions for Russia. Oil prices were high (US\$100 per barrel). The Russian economy demonstrated positive dynamics of development. Russia's GDP in 2014 reached the level of 2008 (the most successful year for the Russian economy before the previous economic crisis).

The Olympic Games were organized in Sochi, and Russian athletes successfully took part in the games, with Russia occupying first place in the medal standings.

Russia engaged in intensive cooperation with many countries across the world. Even cooperation with NATO was relaunched after the Georgia conflict in 2008.

However, early 2014 witnessed a changed in the situation in many aspects. Changes began from the Ukrainian crisis (beginning in 2013). Ukrainian President V. Yanukovich was overthrown during the civic revolution. Meanwhile, Russia supported President V. Yanukovich. The crisis provoked an armed conflict on the East of Ukraine and Crimea was included in the Russian Federation.

The EU, the US and other countries imposed political and economic

sanctions against Russia and senior officials. The countries strengthened the sanctions after the Donetsk aircraft disaster in 2014.

Significant Russian-Ukraine cooperation in the commercial, financial, industrial, military-industrial, cultural, and humanitarian areas was destroyed in many aspects. Previously, Ukraine had been one of Russia's main partners.

The Syrian crisis became a new factor determining the formation of new geopolitical conditions. Russia has taken an active part in trying to resolve the crisis. Russia played an active role in the destruction of Syria's chemical weapons in 2013-2014. However, this failed to build close and trusting cooperation among Russia and western countries. Moreover, Russia's actions in Syria provoke new escalation in the relationships with western countries. New sanctions against Russia were discussed.

This situation also determined Russia's isolation in international relationships. Russia was deprived of the right to vote in the Parliamentary Assembly of the Council of Europe. The G8 returned to the G7 format.

To react against western sanctions, the Russian government introduced countersanctions. Countersanctions imply the prohibition of imports of certain types of agricultural products, raw materials and foodstuffs to Russia; the country of origin of which were the states imposing economic sanctions on Russian individuals and legal entities in 2014.

Sanctions and the country's position in the Ukrainian crisis, Crimea and the Syrian crisis put Russia into a state of isolation by Western countries. This obstructed the economic development of Russian companies, in terms of

cooperation with foreign partners.

As a result, Russia began intensifying cooperation with Eastern countries.

Falling oil prices also complicated Russia's political, economic and geopolitical situation. The decline in oil prices has also reduced Russia's ability to influence other countries (to which it supplies oil and gas). On the other hand, Russia has become increasingly dependent on foreign financial resources due to the large debt of its financial and industrial companies.

New geopolitical conditions influenced Russia's domestic political and economic situation. This paper aims to demonstrate the changes in the economic conditions of the country's development, government reforms, public sentiment and civic activity, brought about by new geopolitical conditions.

To this end, the following topics will be dealt with:

- to reveal the dynamics of the economic indicators of the country's development;
- to determine the course of action for the reform of public administration;
- to reveal the dynamics of the public opinion of Russian citizens on key events and indicators;
- to reveal the dynamics of the electoral processes in Russia in the years 2014-2016 and the implementation of new electoral rules;
- to determine the specificity of civil activity development in the Russian Federation;
- to identify the dynamics of social tension and protests in the Russian society.

The following methods will be used:

- analysis of socio-economic statistics, dynamics of the economic indicators of 2014-2016, key economic decisions in order to stabilize the situation in the country;
- systematic analysis of decisions of the authorities to maintain control over domestic political process and changes in the structure of public administration;
- analysis of legal acts and decisions of the authorities;
- method of case studies to analyze civic engagement, protests, decisions of the authorities and their consequences;
- analysis of the outcomes of the electoral processes, the dynamics of voting citizens, changes in the electoral system;
- analysis of public opinion surveys to determine the dynamics of and changes in public perception of the situation in the country, readiness to protest, key protest actions in the country;
- comparative method to identify the dynamics of changes in the indicators of public sentiment;
- event analysis of civic activism and protest campaigns.

The main sources of information for the paper were:

- official economic statistics;
- outcomes of elections;
- media publications connected to the paper's topic;
- results of public opinion surveys by the Russian Public Opinion

Research Center (VTsIOM) and Levada Center;

- results of survey of experts conducted by author in May-July 2015, to analyze civil activity in the Russian Federation.

This approach provided the opportunity to present the social and political transformation of the Russian society amid the new geopolitical conditions formed from 2014 through 2016.

II. Economic conditions of the country's development

The current socio-economic situation in Russia is largely determined by three factors listed below:

- Decline in oil prices;
- Western sanctions in connection with the Ukrainian crisis;
- Structural economy disproportions.

Oil and gas revenues generate approximately half of the country's federal budget revenue. However, energy prices in the world market have declined significantly: from US\$ 100 to about US\$ 40 per barrel during the period of 2014 through 2016. As a result, the state budget income declined. Russia's budget deficit amounted to more than half a trillion rubles since the beginning of 2016 (or 4 percent of GDP), which is 35 percent higher compared to the same period last year (Russia's budget deficit amounted..., 2016). Experts of the Higher School of Economics predict that in 2016, the federal budget may

receive lower revenues by up to RUB 1.8 trillion (about 12 percent of total revenues) (Analysts predict the exhaustion..., 2016). This is why funds, which were accumulated over a decade, have become critically important. The Reserve Fund stood at RUB 2.46 trillion, and the National Welfare Fund at RUB 4.48 trillion as of July 1, 2016. Both funds are part of the international reserves of the state, of which the volume as of July 22 stands at over RUB 26 trillion (Seleznev and Kogan 2016).

The Reserve Fund was used to balance the 2015-2016 federal budget. During the first eight months of 2016, RUB 1.17 trillion (US\$ 18 billion) from the Fund was used (Visloguzov 2016).

Reuters reports that in order to cover the federal budget deficit in 2017, all Reserve Fund savings need to be spent, and about RUB 783 billion from the National Welfare Fund (from the total of RUB 4.72 trillion, or US\$ 72.7 billion) (Mogilev 2016). RUB 83 billion and RUB 87 billion were the amounts suggested would need to be used from the National Welfare Fund to cover the deficits in 2018 and 2019, respectively. However, if the budget deficit cannot be reduced and requires the balancing of the same amounts of money as in the past two years, the National Welfare Fund will be completely spent by the end of 2018.

Such a complex situation will require, in 2018, a radical reduction in the federal budget, which will lead to potential difficulties regarding the payment of salaries to state employees.

Due to the events in Ukraine, Russia's economy is facing a new challenge.

Although the sanctions imposed by Western countries (as a response to the accession of Crimea) did not have a rapid and devastating impact on the country's economy, their role is not limited to financial impact. Without the fundamental restructuring of the industrial and economic strategy of the country will be able to survive, but there remain long-term risks in being outsider to the international community (Not afraid of sanctions..., 2016).

As a result of the sanctions, the Russian leadership decided to reorient economic and political priorities to Asia-Pacific countries and, above all, China.

The sanctions and closing of external financial markets have significantly increased the role of the government in the economy. The Russian government (and its economic institutions such as Vneshekonombank, Sberbank, reserve funds) became the main origin of resources for major domestic campaigns to refinance their debt and investment programs.

The closure of external financial markets forced the Russian government and domestic campaigns to rely on domestic resources. As a result, over the past two years, external debt has been reduced by more than US\$ 200 billion (30 percent) to US\$ 522 billion, returning to 2008 levels (Krivoshapko 2016). Prior to this, external debt was constantly growing and peaked at US\$ 732.7 billion in July 2014.

However, only 10 percent of this amount constitutes government bonds (about 15 percent of GDP). The rest are obligations on the part of economic agents (banks and corporations).

The need for foreign debt payment caused considerable volatility in the

foreign exchange market of the country, when the ruble had the potential to decline sharply against the dollar during the period of significant payments.

At the same time, the limitation of domestic resources for investment in and replenishment of the state budget is forcing the state to enter the international market for financial loans. In May 2016, Russia placed Eurobonds in the amount of US\$ 1.75 billion. This was the first external borrowing of the Russian state since 2013 (Mogilev 2016). Plans approved by the Russian Ministry of Finance aim to make borrowings from foreign markets of US\$ 3 billion. There are plans to establish a similar amount of external borrowing during the 2017-2019 period.

At the same time, the Ministry of Finance plans to borrow on the domestic market. It is expected that net domestic borrowing will rise to RUB 300 billion in 2016 and RUB 1.29 trillion in 2017. In the years 2018 and 2019, this will increase to RUB 1.47 trillion and RUB 1.44 trillion, respectively (Mogilev 2016).

The Russian government plans were to minimize the impact of the decline in oil prices and external sanctions on the economy. However, Russia's GDP declined in 2014 and 2015. There is a high probability that it will also fall in 2016. At the same time, the Ministry of Economy formulates positive forecasts, predicting economic growth, which has not yet been confirmed by statistics. Getting economic growth is transferred each reporting period. On average, in recent years, GDP declined by 1.5-3 percent per year. At the same time, there are industries that have displayed significant growth (military-industrial complex

and agriculture), and significant downturns (construction and retail).

The complexity of economic conditions is clear from the perspectives of the country's enterprises. According to a survey by the Russian Union of Industrialists and Entrepreneurs (RSPP), a lack of funds in 2016 was mentioned as a problem by 41 percent of business representatives (Nikolaev 2016). In 2015, the figure stood at 58 percent. In general, enterprises are undergoing a process of adaptation to the new conditions of business activity. This is accompanied by the growth of non-payment of counterparties, and investment declines. The large capital outflows compound the situation: Russia has been losing from 4 to 8 percent of GDP per year due to the outflow of capital since 2011 (Guriev 2016).

The key to the development of the national economy is structural imbalances. They are evident in the large role played by the state in the economy, the weak protection of entrepreneurs' and investors' rights, the development of informal institutions, etc.

An example would be the need of the country's pension reform. The envisaged system of the Pension Fund revenues formation does not provide the necessary income. As a result, transfers from the federal budget to the Pension Fund cover the shortfall. In 2015, it amounted to around RUB 1.7 trillion (Dokuchaev 2016). In 2016, this could increase by almost 1.5 times.

However, the federal budget is partially balanced by the pension funds. The authorities froze citizens' pension savings for the funded part of pensions, for three years. These funds are used for balancing the current Pension Fund expenses (payment of pensions to pensioners), as well as the development of the Crimea

program. According to the Chairman of the Board of the Association of Private Pension Funds (ANPF), former Deputy Economic Development Minister Sergei Belyakov, it enabled the attraction of RUB 1.5 trillion to the budget (Seleznev and Kogan 2016).

The decline of the Ruble (approximately twice), significant inflation and economic problems in general led to a decline in real wages (adjusted for inflation) by 9.5 percent, and real income by 4 percent (Guriev 2016). Moreover, an increase in the income gap between poor and wealthy citizens is growing (Petrova 2016). This creates additional conditions for the accumulation of social tension, a basis for protests, and dissatisfaction with the authorities' actions. However, official statistics do not capture the sharp decline in incomes of the population. They are manifested in the reduction of effective demand for consumer goods, and the fall in retail trade turnover.

An important outcome of the economic unit of the country was inflation reduction. Its rapid growth in 2014 through the first half of 2015 gave way for decline during the second half of 2015 through 2016. It is projected to decline by the end of the year by 6-7 percent on an annualized basis. As a result, the central bank lowered the rate from 17 percent to 10.5 percent.

Significant contribution to the stabilization of the economy in the face of falling oil prices caused the devaluation of the ruble. The devaluation helped balance the Russian budget and stimulate demand for internal goods.

Another important mechanism for the stabilization of the country's budget could be pension reform. Raising the retirement age has been actively discussed.

As a first step, a law on raising the retirement age for civil servants was adopted.

Various options for raising taxes were also discussed. In part, they have begun being implemented: property taxes were increased. The introduction of a progressive tax scale on individual income is also on the agenda.

An important replenishment mechanism and possible structural reform in the economy will be in the form of the large-scale privatization of state property. The state, in 2016, sold shares of “Alrosa” (10.9 percent of the shares were sold for RUB 52 billion). The main buyers in the large-scale privatization could be campaigns from Asia and Middle East, as well as large private Russian companies. This will confirm the reorientation of the country’s priorities toward the East, and will attract significant funds in the currency. However, the announced privatization of state stakes of “Rosneft,” “Bashneft,” “Sovcomflot” will not take place in 2016, instead having been moved to 2017.

In general, the socio-economic situation in the country does not form grounds for a positive outlook. Optimistic forecasts are stagnation or minimum growth of GDP rates (up to 1 percent per year). Such a situation does not allow the reproduction of principles for maintaining the legitimacy of the political regime.

The complexity of the economic situation requires the implementation of major reforms. However, many experts (S.Guriev, V. Inozemtsev) are skeptical about the possibility, and the authorities’ desire to implement them. The problem is the lack of large-scale and comprehensive measures to support the economy and the population. If during the crisis of 2008-2009, the state economy support program was estimated at 13.9 percent of GDP, now such large-scale

measures have not even been developed (Inozemtsev 2016). Furthermore, budget cuts are taking place. As a result, the crisis recovery process is extremely slow and unstable.

Therefore, the main state measures are aimed at stabilizing the socio-economic situation in the country. Here, there are two critical time points—September 2017 and March 2018: the election of the deputies of the Russian State Duma, and the presidential elections. Stability during these periods will maintain a sustainable political system and Russian elite. This is why major changes in the socio-economic sphere are expected in 2018, after the presidential elections (raising the retirement age, increasing taxes, etc.). However, the economic reserves may not be enough to maintain stability, so early presidential elections may take place.

Thus, to ensure budget balance and economic development, the following measures are required:

- Pension reform and raising the retirement age;
- Internal state debt growth to finance budget expenditures;
- State property privatization;
- Increasing tax burdens on the economy;
- Reducing non-priority budget expenditures;
- Structural reforms aimed at reducing corruption, property rights guarantee, reducing the role of government in the economy, development of competition, and investment climate improvement, etc.

III. Government reform and transformation

The difficult economic situation demands aggressive action from the authorities to save gain control over the social and political situation in the country. People could lose confidence in the government and begin to protest. The Russian leadership has chosen a course of political mobilization and consolidation in connection with the complication of the domestic economic and foreign policy situation.

This trend determines the priority of spending on national security in the federal budget: the Russian authorities have spent about RUB 2.5 trillion on “social policy,” the same amount on “national defense” and “national security and law enforcement.” (Russia budget deficit..., 2016¹). At the same time, RUB 350 billion has been allocated to education, and RUB 260 billion to health care.

The elite began talking about strengthening the “hawks” in the beginning of Putin’s rule. During Putin’s third term as president, this trend was clearly manifested since 2014. At this time, the commander of the internal troops N. Rogozhkin was appointed as plenipotentiary representative in the Siberian Federal District, and the commander of the joint group of internal troops in the North Caucasus C. Melikov in the North Caucasus Federal District. A.

1) Radio Svoboda (2016), “Russia budget deficit amounted to 1.5 trillion since the beginning of 2016,” Available at <http://www.svoboda.org/content/article/27908890.html> (accessed September 20, 2016).

Kolpakov was appointed as head of Administrative department of the Presidential Administration (who oversaw the economic issues in the Federal Guard Service of Russia till this appointment).

The trend of increasing senior appointments of representatives of militarized agencies continued in 2016. This is most clearly manifested in the reshuffle in July 2016. The Acting Governor of the Kaliningrad Region was appointed as Eugene Zinich, who as Major-General served as the chief of the FSB department for the region. Under the leadership of V.Ustinova (former General Attorney and Minister of Justice of Russia), the South and Crimean Federal Districts were merged. This decision was motivated by the end of the transitional integration stage of the Crimea and Sevastopol to legal Russian territory. Dmitry Mironov was appointed as acting Governor of the Yaroslavl region; he had previously served as Deputy Minister of Internal Affairs, and also had worked in the Federal Guard Service.

Representatives of the FSB and FSO became a talent pool for appointment to senior positions, not only in the power unit of the executive power, but also in the President Administration of the country, as well as at the head of the country's regions (Petrov 2016).

An important reform focused on national security, changing the balance of power between the security forces, was the creation of the National Guard and the internal troops, riot police and SWAT transfer under its management.

Changes in the power unit, and in a number of other key structures, leads to discussions on increasing the value of the security agencies (Petrov 2016).

At the same time, we cannot talk about the dominance of any of the law enforcement agencies. Each has its own specialization, its tools and activities that balance their capabilities, including mutual confrontation.

Permutations of recent years suggest that there has been a replacement of political “heavyweights” (V. Yakunin, Vladimir Kozhin, etc.). In place of Putin’s colleagues and peers came a new wave of young managers (many of them with experience in the power structures). The major part of their career had already taken place during Putin’s leadership. They had V.V. Putin to thank for their careers. Therefore, they become an important element in preserving his supreme position in the country’s political system.

The need for political mobilization determined the scope of regulation on citizens’ and civic engagement rights. Regulations governing the prosecution of activists on charges of extremism, separatism, incitement to hatred and hostility were developed and adopted.

Also, laws establishing the legal status of information dissemination organizers on the Internet, as well as legal status for bloggers, was developed (Federal Service for Supervision..., 2016²). The law defines an “information dissemination organizer” on the Internet as a person who carries out activities to ensure the information systems functioning and (or) programs for electronic computers, which are designed and (or) used for the reception, transmission,

2) Federal Service for Supervision of Communications, Information Technology and Mass Communications: Federal Law of May 5, 2014 No 97-FZ, Available at <http://97-fz.rkn.gov.ru/> (accessed September 20, 2016).

delivery and (or) processing of electronic messaging by users of the Internet. In accordance with Part 1 of Article 10.2 of the Federal Law No. 149-FZ, a blogger is the owner of the site and (or) the site on the Internet network, that hosts public information and access to which during the day is more than three thousand Internet users (Federal Service for Supervision..., 2016³). Several authority departments have the power to block Internet resources: Federal Drug Control Service, Rospotrebnadzor, Roskomnadzor, the Moscow City Court, Prosecutor General's Office, and the Federal Tax Service.

According to the "law on bloggers," the owners of such status must:

1. List information about themselves;
2. Comply with the RF legislation when placing public information;
3. Avoid false information;
4. Do not interfere in the private lives of citizens;
5. Do not allow concealment or falsification of publicly important information;
6. Do not defame the honor and dignity of citizens.

The blogger has several rights: "free access to information," "freedom to express themselves," "publish quotes and opinion," and to "advertise" (The legal status..., 2016⁴).

3) Federal Service for Supervision of Communications, Information Technology and Mass Communications: Federal Law of May 5, 2014 No. 97-FZ, Available at <http://97-fz.rkn.gov.ru/> (accessed September 20, 2016).

4) Roskomnadzor (2016), "The legal status of a blogger." Roskomnadzor Website, Available at https://vk.com/wall-76229642_30585 (accessed September 20, 2016).

As of May 2016, 1348 web pages were on the bloggers register of Roskomnadzor, mainly from the social network “Vkontakte” (Bloggers register 2016). The register of banned sites contains 28,070 entries about blocking different resources. According to “RosKomSvobody” experts, 96 percent of resources were blocked illegally in Russia (Blocking sites distribution..., 2016⁵).

Legislation that regulates the dissemination of information on the Internet is effective in Russia. For example, the number of cases that brought Internet users to criminal responsibility increased from 132 to 203 (compared with 2014) in 2015; the actual terms of imprisonment were imposed on at least 18 people (Gaynutdinov and Chikov 2016). During the same period, experts registered at least 5,071 facts of users’ administrative responsibility, including 4,500 cases with requirements to remove extremist information. Judicial practice is based mainly on cases of dissemination of such information and not its publications: the majority of sentences handed down for reposts (because the technology falls under the concept of “distribution”) are contrary to the laws of information, whereas the organizers of the communities in which this information was initially published were not brought against charges.

Experts mention the high level of violence against online activists and journalists. In 2015, “at least 28 bloggers and online journalists were attacked or threatened” (compared to 27 in 2014) (Gaynutdinov and Chikov 2016). In addition, the increase in the number of regions where such methods were used

5) Roskomnadzor (2016), “Blocking sites distribution by agencies,” Roskomnadzor Website, Available at <http://reestr.rublacklist.net/visual> (accessed September 20, 2016).

increased from 12 to 19. In just five years, at least 90 cases of violence were recorded in connection with online activity.

Countering internet activism in Russia is complicated by the fact that many Russian users use foreign social networks - Twitter and Facebook, which denied authorities' requests to remove information; the closure of access to these platforms will cause a mass protest. "Agora" reported that "from July 1, 2014, to June 30, 2015, Russian state authorities requested user information 152 times from Twitter and were rejected on every incident. In the first half of 2015, Google satisfied only 5 percent of the 207 Russian requests.

However, as international human rights group "Agora" reported in its report "Russia under supervision," "for the last nine years, no less than nine million people (about 6 percent of the population) were subjected to listening to the court's decision" (Russia under supervision 2016). A comprehensive control system over political, civil and human rights activists' activities includes the monitoring of movements within the Russian Federation and border crossing, wiretapping, covert audio and video recording, interception of e-mail accounts and hacking in online services, biometric information collection and analysis. Until now, "there was no single case of hacking e-mail and social networks, interception of correspondence, telephone conversations, covert audio and video fixation, and external surveillance that led to litigation and punishment without legal reason" (Russia under supervision 2016).

Despite the fact that Russian authorities' activities on Internet restriction is often the subject of criticism, their measures are an effective way to address

the problem of the proliferation of so-called “negative information” - “drug propaganda, pornography, violence and cruelty.” (Implementation of the Russian Federation..., 2016⁶).

A landmark in the establishment of state control over various spheres was the approval of amendments to the Russian legislative acts, which received the generic name of the “Yarovaya law” (named after the main author - Chairman of the State Duma Committee of the Russian Federation of the Federal Assembly of VI convocation for Security and Anti-Corruption, I. Yarovaya). Officially, these changes were associated with the need to ensure national security and the fight against terrorism. However, these changes could materially affect the rights and freedom of ordinary citizens. The main amendments embodied by the “Yarovaya law” are as follows:

- Mobile providers have an obligation to collect data (including correspondence) within six months since July 1, 2018;
- Organizers of information dissemination are required to transmit the traffic encryption keys to the authorities to ensure the safety of the country;
- The use of non-certified coding tools (encryption) is prohibited;
- Media are required to control the hosted content, and are not allowed to publish classified information;

6) Russian Ministry of Communications (2016), “Implementation of the Russian Federation state program “Information Society 2011-2020,”” Available at http://minsvyaz.ru/uploaded/presentations/brochure11_tcohUgw.pdf (accessed September 20, 2016).

- Reticence about the impending terrorist attack constitutes a crime;
- Criminal liability is provided for posting calls for terrorism, extremism or materials justifying them on social networks and blog posts;
- Mail correspondence should be inspected for the presence of weapons, drugs and other illegal items;
- The introduction of additional reasons for bans on exit and entry.

In parallel with the “Yarovaya law,” another law was approved. It gives the right of law enforcement structures to collect preventive accounting lists of unreliable citizens (the federal law “On the basis of crime prevention in the Russian Federation”). Enforcement authorities (including the Ministry of Internal Affairs), as prevention agents, have the right to make warnings in the form and order they establish (Tumanov and Rybina 2016).

An important element of the new political discourse of the country’s leadership has become an active fight against corruption. The high-ranking officials of the Interior Ministry, the Investigative Committee, a number of other law enforcement agencies were accused of corruption. Heads of the Sakhalin Region, Komi Republic, and Kirov region were dismissed from their positions due to corruption.

The anti-corruption campaign has become a significant element of the political campaign to mobilize citizens, demonstrating a new management vector. It is designed to demonstrate the readiness of the authorities to “cleanse,” the fight against the pervasive abuse of senior officials.

Government reforms and transformation helped maintain Russian elite control

under social, political and economic processes in the country (ensure the victory of “United Russia” in the State Duma elections, minimize protest activity, minimize the negative social and economic consequences of the sanctions of Western countries, etc.).

IV. Public sentiment of Russian citizens and its transformation

The stabilization of the economic situation in Russia in 2015, and in the beginning of 2016, positively influenced public sentiment. People positively evaluated the decrease in inflation, the strengthening of the ruble, the consistently low unemployment rate, and the implementation of the state’s social obligations. As a result, Russians began to more positively evaluate the government’s economic, political and social policy as well as authorities’ activities.

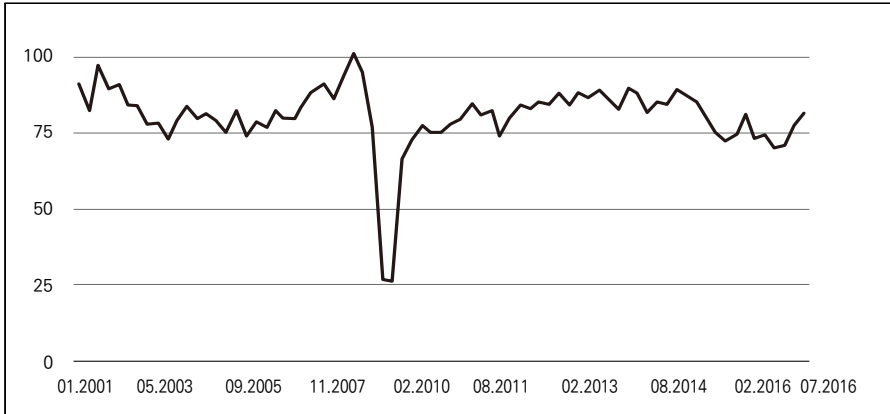
The Russian government’s reform and transformation also positively influenced the public sentiment. Policies on political mobilization and consolidation presented the opportunity to build a consensus on the Crimea situation, and on supporting governmental policy on the part of most Russians. Russians have continued to support the anti-corruption policy of the authorities.

According to VTsIOM and the Levada Center, as of July 2016, after a long decline, the subjective assessment of Russians’ personal life is quite stable (The indices of social well-being, 2016). The overall trend during the last months

shows a slight growth in indicators such as the social well-being of citizens, and optimism in society.

VTsIOM and Levada Center sociologists revealed that from April 2016 to June 2016, pessimism and negative views of the existing state of affairs grew in the society. However, in July 2016, residents began to positively assess their financial situations, their life as a whole and the prospects for their families. Thus, in July 2016, the index that reflects the subjective perception of citizens of their financial situation was 62 points, which is above the June value by 9 points. Moreover, in July 2016, respondents were significantly more optimistic about the situation in their personal life than in June. The value of the corresponding index for the month rose from 45 points to 52 points. The index of social expectations, which shows how Russians positively evaluate the future of their family, also displayed a slight increase. In July 2016, the corresponding figure was recorded at around 52. From January 1, 2016, fear of unemployment reduced in the society (Diagram 1).

Diagram 1. Index of unemployment expectations by Levada Center
(The index of consumer sentiment, 2016)



The positive sentiment and optimism across society markedly improved values of indicators that reflect social assessment of the situation in Russia. In July 2016, the index of social sentiment about the economic situation in the country rose (from 28 percent to 34 percent). Thus, it is safe to say that citizens' satisfaction with the economic situation of the country has grown. However, the value of the indicator is still very far from the same period last year.

In July 2016, Russians saw the political situation in the country as more stable. The index on the assessment of political situations rose again, and reached 53 percent in July 2016, after a decline in May (49 percent). This figure is also noticeably inferior to the values of similar periods in recent years (The indices of social well-being, 2016).

Speaking in general about the country development vector, the data presented

by VTsIOM and Levada Center differed. According to VTsIOM, the index of the country's general vector development shows a growing number of people who approve the overall direction. This is in contrast to analysis by the Levada Center (Assessment of the current..., 2016⁷).

According to VTsIOM and Levada Center polls since the beginning of 2016, until March-April 2016, dissatisfaction with the country's main government institutions grew. There was a growing number of those who disagree with the domestic economic and social policy. However, in April-May 2016, the situation displayed by a number of indices and indicators began to change. In general, citizens' attitudes toward the decisions of the authorities in various spheres of life had improved.

In July 2016, there was a significant decline in the proportion of those who disagree with Putin's activity, resulting in 12.4 percent (which is 3 percent lower than in April). Assessment of the social and domestic policy also improved. There was a slight increase in the number of Russians satisfied with the internal policy of the authorities as a whole (1 percent) and at the same time, the proportion that was dissatisfied declined. In addition, public assessments of economic policy are growing at a slow pace. Since March 2016, there has been an increase in the proportion of those who are partly satisfied with the economic policies - from 25 percent in March to 29 percent in July. At the same time,

7) Levada center (2016), "Assessment of the current situation in the country," Levada center Website, Available at <http://www.levada.ru/indikatory/polozhenie-del-v-strane/> (accessed September 20, 2016).

the number dissatisfied with the economic policy of the authorities decreased by 4 percent and in July was 41 percent. It should be noted that the percentage of citizens that generally support the authorities' economic policy prevails.

As for the social policy of the authorities, in July 2016, they fully or partially satisfied 54 percent of the population, which is 5 percent below the January measurement, and 1 percent above the June value of the indicator. In general, since April 2016 the number of people dissatisfied with the social policy of the authorities has fallen (Table 1).

Table 1. Dynamics of weekly assessments of approval and disapproval of the activity of state institutions over the past month, in % (according to VTsIOM) (Approval of the activities..., 2016)

You generally approve or disapprove of the activity: (closed question, one answer).	27.12. 2015.	31.01. 2016.	28.02. 2016.	27.03. 2016.	24.04. 2016.	29.05. 2016.	26.06. 2016.	24.07. 2016.
Approve								
Russian President	86,6	84,2	81,5	81,8	80,1	81,1	80,7	81,8
Russian prime minister	68,4	61,7	60,8	59,1	58,8	58,3	58,3	56,2
Russian government	64,1	58,3	56,7	57,3	55,9	55,7	55,6	55,6
Disapprove								
Russian President	9,5	12,0	13,1	13,0	15,5	14,0	13,4	12,4
Russian prime minister	21,4	28,2	27,6	28,6	30,7	31,0	30,8	29,9
Russian government	26,8	31,3	31,5	31,5	34,4	33,5	33,2	32,1

According to Internet (News on the Internet 2016) survey results of the Public Opinion Foundation from January 2016, the majority of Russians see

television as the main source of information. To the question, “What sources do you use to find news and information?” (at least three sources), 78 percent of users answered “television,” 60 percent, “Internet news sites,” 22 percent “conversation with relatives and friends,” 18 percent “forums, blogs, social networking sites,” 12 percent “Radio,” 10 percent “print media,” while 1 percent chose “others” or “hard to say.” To the question “What forums, blogs, social networking sites do you usually use?”, the majority of respondents - 26 percent - chose “Vkontakte,” 20 percent chose “Classmates,” while only 7 percent answered “Facebook,” 6 percent “My World” and 5 percent “Twitter.”

As the results of the study shows, 48 percent of respondents trust the information posted on the Internet. Data on the confidence in such information are presented below.

Interestingly, in response to the question “If the messages on television and on the Internet contradict, what source do you tend to trust more: TV or the Internet?” To this, 32 percent answered “television” and 30 percent “the Internet.” At the same time, confidence in television is traditionally higher among older men, and in the Internet, higher among the young. It can be expected that in a few years the level of public confidence in the Internet will be higher than in the traditional media.

Positive trends in public sentiment changes in 2016 helped support the success of the «United Russia» election campaign of the Russian State Duma.

V. Electoral Processes of 2014–2016 and Federal Elections of September 2016

The liberalization of the electoral and party laws was one of the outcomes of a large-scale protest campaign during 2011-2012:

- the direct elections of governors were reinstated;
- the admission to elections without collecting voter's signatures of those political parties which are provided in the State Duma of Russia and regional parliaments (all other political parties must collect 200,000 voter's signatures to nominate a list of candidates for the State Duma);
- the number of members of political parties or the minimum admissible for registration was reduced (from 40,000 to 500 people).

The victory of the candidate of the Communist Party of the Russian Federation, S. Levchenko, in the elections of the governor of the Irkutsk region in 2015, became a clear example of liberalization of election procedures. It was the first election campaign from the moment of return of governor's elections (from the end of 2005 – beginning of 2012 governors appointed by regional parliaments) and during which the oppositional candidate won.

A new federal electoral law was opened in the election of deputies of the State Duma of Russia of the VII convocation. The election was organized based on a new mixed system: the first half (225 deputies) of the Duma was elected according to the candidate lists supported by political parties, the second half in single-candidate districts on the majority system. Such a system for the

Duma's election was used in 1993-2003. It is considered that single-candidate districts helped «United Russia» maintain the majority in the Duma (as it's candidates have more chances to win in these districts).

In anticipation of the election of deputies of the State Duma of the Russian Federation, new changes were made, including the cancellation of early voting and the introduction of absentee ballots for voting outside the voter's territory of legal registration.

Before the election was adopted, some changes were made to electoral law. The changes are as follows:

- cancellation of early voting during the election procedure;
- the introduction of absentee ballots for voting outside the place of their legal registration;
- transfer of elections since December for September (that complicated the work of political parties with voters during during the holiday season);
- mixed system of cutting the election's single-candidate districts (districts include both the city and rural territories, which adds to the confusion).

In 2016, more than 70 political parties were registered in Russia. However, only 25 political parties sought to take part in the elections and only 14 were included in the election ballot. This is twice more than the elections of 2011. It should be noted that the registered lists of candidates were only from that political parties which had preferences according to the legislation. They were exempted from the collection of voter's signatures (based on representation in

regional legislatures). Candidates mostly from the political parties were registered in single-candidate districts. This significantly reduced electoral competition.

The agreement of United Russia with the Communist Party of the Russian Federation, Just Russia and the Liberal Democratic Party of Russia became the feature of a campaign. United Russia didn't nominate its candidates in 18 single-candidate districts, guaranteeing the election of representatives of other parliamentary parties (one district from them was for the loyal independent candidate). United Russia nominated candidates in 207 districts. As a result, United Russia won practically all the other districts (having received 203 mandates in addition to mandates according to the party's list of candidates). Candidates of the political party lost only in 4 districts.

In anticipation of the elections of the deputies of the State Duma, the deputy chief of the Russian President Administration, Vyacheslav Volodin, declared the necessity to respect three principles: competition, openness, legitimacy.

The appointment of E.Pamfilova in spring as the new chairman of the Russian Central Election Commission became one of the core elements of this new political vector. She held the position of Commissioner for Human Rights in the Russian Federation, and enjoyed considerable influence in the human rights environment.

She cancelled the election of deputies in Barvikha, and removed two chairmen from regional commissions, which became one of her first actions as the new chairman of the Russian Central Election Commission. Thereby, she demonstrated the need to observe democratic election procedures. The Central

Election Commission sped up work on claims about violations of the electoral laws.

The opposition tried to use protest rhetoric during the election campaign. However, this did not gain broad support among the population as in 2011. It was connected with the formation of the wide coalition in society which was named “Putin’s majority.”

Political parties did not seek to cause active agitation among voters.

Lack of a keen competition, public sentiment, the agreement of parliamentary parties on single-candidate districts, and the growth of apathy among the population became factors which predetermined the essential decrease in the voter turnout at the elections on September 18. Only 48 percent of voters came to the polling stations (and only 24 percent in Saint-Petersburg). The Committee of Civil Initiatives noted in its report that the decline in the voter turnout was largely due to purposeful actions (Member of the Committee..., 2016⁸). However, supporters of «United Russia» mostly took part in the elections. In general, this strategy was effective. «United Russia» received 54 percent of votes, which is 5 percent higher than in 2011. In total, it secured 343 deputies in the Duma (considering the victory of the candidates proposed by it in single-candidate districts). The political party never before had such a large number of deputies in the Duma; as a result, it gained constitutional majority.

8) Committee of Civil Initiatives (2016), “Member of the Committee of Civil Initiatives Alexander Kynev: Elections-2015: not a rehearsal, but first part of a campaign of 2016,” Committee of Civil Initiatives Website, Available at <https://komitetgi.ru/publications/2484/> (accessed September 20, 2016).

The considerable increase in the ratings supporting the Liberal Democratic Party of Russia was unexpected for many people and experts. In fact, the political party (which received 13 percent of votes) could attract protest electorate.

All the major political parties recognized the election's results. No significant protest activities were organized after elections.

Elections for 9 regional governors and deputies of 39 regional parliaments were held on September 18. The acting heads of regions won in all regions in the first round of the elections. United Russia won all elections for regional parliaments.

Election results indicate the creation of the "Crimean consensus," not only among parliamentary parties, but also in society in general. The supermajority of «United Russia» in the federal parliament is the result of the consensus. The results also demonstrate the support toward Putin's policy in foreign affairs and his position in the Ukrainian crisis and the Syrian crisis.

VI. Civil Activity in Russia

At the same time, new spheres of civil activity are currently forming in Russia. They aren't controlled by the authorities, and induce people to realize and protect their interests. However, such developments are not observed in all directions, and are frequently contradictory. Despite the stimulation of public organizations at the state level, this doesn't lead to significant growth, but only

to incidentally visible results.

The activity of civic activists focused on the solution of socially important questions of local value; “everyday” problems became significant (questions of condominium, housing and public utilities, quality of a roadbed, building, ecology and others belong). Such localization of activity involves the lives and interests of specific people and small communities. People began to seek to resolve more and more issues which concerned them directly. In this regard, there is an isolated local agenda that is not connected to responses to the actions of federal authorities. Today, it is possible to observe the growth of adaptive civil activity (individual and collective participation) and some decline in non-adaptive public activity (so-called civil action).

The informal public often defends parks and yards, participates in public hearings, talks on social networks about the condition of the streets where they live, initiates social and charitable projects, ever more compared to NGOs. Mechanisms used for the implementation of social projects, and for recruitment and partnership became more available and clear for the population. Using the Internet, crowdsourcing, exchanging resources, knowledge, skills of simple users of network all constituted part of the solution of local questions.

Important structural and high-quality changes in the public environment are being observed: civil activity becomes more organized and less spontaneous. The algorithms of actions, including technologies of effective communication, attraction of resources, and strategic planning are being gradually created. Such awareness leads public activists to use all these chances for the implementation

of initiatives provided by the Internet. Informal movement is capable of existing and working, supporting the activity by means of the resources of non-state support. However, and in this virtual space are noted some delay of its growth in comparison with the significant growth several years before.

In Russia, considerably high growth increments in the Internet penetration rate have been observed so far; these are commensurable with world indicators. According to the Public Opinion Fund (FOM) (*The Internet in Russia...*, 2016⁹⁾), as of April 2016, the Internet penetration rate in the country was 57 percent (more than 10 percent higher than the universal indicator). This means that in Russia, 66.5 million people over 18 years of age use the Internet at least once a day. The annual increment of Internet users connecting to the web at least once a month constituted 9.2 percent, and for the daily audience this indicator is equal to 9.3 percent. The share of users going online at least once a month is much higher, at 69 percent. The Internet penetration rate, since 2013-2014, has been steadily growing in Russia at 2 percent; the greatest “jump,” at 11 percent, took place in 2008-2009.

Thus, the situation in Russia in the context of the digital inequality issue corresponds to that of the world.

According to Yandex, Russian users leave, in a month, an average of 588 million messages, while 37 million users are active (publishing information)

9) Fund “Public opinion” (2016), “The Internet in Russia: dynamics of penetration. Winter of 2015 – 2016,” Fund “Public opinion” Website, Available at <http://fom.ru/SMI-i-internet/12610> (accessed September 20, 2016).

authors. The overwhelming number of these messages is published on social networks (90.3 percent) while only 1.9 percent on forums, 1.7 percent on review websites, and 1.5 percent on personal blogs. Comments on media news feeds account for only 0.5 percent of all published messages. This means social and political actors have to concentrate their main efforts on audiences of social networks which, aside from size, possess such important properties as openness (users of forums and the feedback websites often do not use current data) and scope (social networks, unlike forums which are tied to a location, or to representatives of certain social or professional groups). Internet activity and its efficiency directly depend on conditions in which it is implemented. Such conditions do not only indicate “technological” circumstances (Internet penetration rates, high communication costs), but also the legislative and political circle, and the development level of the civil society.

The report by the International Human Rights Agora Group “Freedom of the Internet in Russia: censorship celebration,” in 2015, touches upon the restriction of Internet freedom in Russia (Gaynutdinov and Chikov 2016). The report states that in Russia in 2015, 15,022 cases of restriction of freedom on the Internet were recorded.

Experts note that control of the Internet in Russia reached a “peak” in 2013-2014 when the government took initiative on 162 cases of regulation of information, which is 57 percent of the total. In total, since 2008 the authorities have taken initiative on 286 cases.

Experts analyzing the restrictions of Internet activity in Russia for the last

five years note the increase in control of web space. The types of restrictions are presented in Table 2.

Table 2. Dynamics of application of different types of restrictions of Internet freedom in Russia, 2011–2015, according to Agora Human Rights Organization (Gaynutdinov and Chikov 2016)

Types of restriction		2011	2012	2013	2014	2015
Murder		1	-	1	1	-
Use of violence		10	3	23	26	28
Offers on regulation		5	49	75	87	48
Criminal prosecution, including real imprisonment		38	103	226	132	203 (18)
Administrative pressure		173	208	514	1448	5071
Censorship	Access Restriction	231	609	236	947	1722
	Prohibitory injunction of information	-	124	624	72	7300
Cyber attacks		31	47	63	10	30
Civil claims		11	26	37	60	49
Other		-	28	34	168	571
TOTAL		500	1197	1832	2951	15022

The table shows that in Russia, restrictions connected to Internet activity are growing. This occurred in connection with the following reasons:

- development of the technological capabilities of monitoring which became available to experts;
- the desire of the federal authorities to avoid the increase in protest activity on the eve of the State Duma elections and the Russian

President in 2016 and 2017 (after the events of 2012)

- and also attempts of the regional authorities to take control of regional activists against the background of “a federal trend.”

The analysis of these various human rights groups, despite the availability in their reports of a subjective information component, helps draw a conclusion on the annual reinforcement of control on the activities of Internet activists in Russia. This becomes possible thanks to other important aspects of the environment for the development of digital activism - legislation regulating the distribution of information to networks.

Associations which aren't arranged in conventional non-profit organizations at the forefront consist of people who want to take part in civil activity and contribute to social problems and who to a lesser extent want to register the organization legally. They seek adherents and use opportunities presented by the Internet, which enables the mobilization of supporters, the accumulation of resources and the ideas and the provision of information maintenance. Crowdsourcing and crowd funding technologies allow activists to cope with the tasks they set.

New civic activists are activists who did not grow from traditional NPOs. These people grew up in a social environment amid social networks. Such processes happen for the reason that today, it is not obligatory to unite to receive state support. Financing in most cases can be found in social networks and adherents among the population. In this format, it is possible to attain the public objectives without spending on the preparation of reports and other

bureaucratic procedures.

Due to the appearance of certain civic activists, there are also new leaders who earlier, perhaps, were not so noticeable. The increase in the level of organizational and professional knowledge among civic activists brings them to gradually begin work within organizations and institutes.

Non-profit organizations are undergoing changes of their essence. It is clear that the professional level of NPOs that render social services has developed. Many non-profit organizations that work on the protection of specific interests have also begun to work with the state more professionally. Already, they do not just receive grants or state support, but come to regular work. Such phenomena have become more evident under the influence of organized federal and regional state support from NPOs. Further development of this tendency can lead to an increase in the competitiveness of non-profit organizations.

Of course, it is impossible to state that all public organizations are undergoing similar processes. Often, public organizations direct many efforts toward the reporting and submission of new requests, and interaction with the authorities. This can cause damage to the quality of work in the case of direct project implementation, and interaction with beneficiaries will distract resources from authorized (project) activities. Therefore, it is important to maintain a balance between self-authorized (project) activities and interaction with the state (assistance in achieving the target indicators delivered to them and the solution of designated tasks).

The institutionalization and professionalizing of the third sector, which

includes informal leaders, activists and registered organizations, is possible thanks to previously accumulated knowledge and the capabilities of resource-seeking for the implementation of activities for the solution of social tasks, to the attraction of state and non-state support, mechanism already in place and the model of organizational action.

At the same time, a number of risks are observed in the development of civil society. Passivity, oppositional moods, unwillingness to interact with representatives of authorities apply to separate social groups. The mistrust in authorities and disappointment in the existing mechanisms and institutes of civil society generates conviction in the impossibility of achieving an effective objective through civic activists for the good of all society and in resolving problems of local importance. It can be said that a part of society stands apart from the power and the state today, and does not want to be involved in processes connected with these institutes of management. These social groups, characterizing actions of the state, note the lack of their influence on civil society. The formation of isolated associations has been witnessed among citizens who are poorly connected with other groups, subjects and institutes.

It is also possible to state the activation of volunteer movement, the emergence of a new impulse of veteran communities and military patriotic movement. Sports social movements have also become popular. These tendencies are evident not only in the territory of the Yaroslavl region, but are connected under a general federal social and political context.

Unconditional impact is exerted by the institutional framework, limiting and

setting rules of the game in the form of new regulatory legal acts. A wave reaction swept across all public sectors of the country as a result of the Federal law of the Russian Federation on “the modification of separate legal acts of the Russian Federation regarding the regulation of activities of non-profit organizations performing functions of foreign agents.” Adoption of the law predetermined the reinforcement of legislation concerning activities of non-profit organizations and civil activism. However, in general, this law mentioned separate organizations, without having a significant effect on the entire sector. At the same time, this law strengthened the tendency of NPOs’ reorientation to internal financial resources of the state, private businesses, and domestic companies. The federal law “About Meetings, Demonstrations, Processions and Pickets” prescribed a limit on the number of civil activities (such as participation in meetings and demonstrations).

Direct impact is also exerted by the federal law on the activities of socially oriented non-profit organizations and their changes.

In the context of an institutional framework, there have been attempts to involve civic activists in the decision-making process through the creation of public councils, and through the discussion of large purchases of the state. However, the legal context (changes in the legislation) stimulates civil activity as the audience of perception and knowledge of this sphere, narrower in a smaller measure.

The social and political context to which the ideological component belongs has a greater influence. Citizens are more inclined to react to the mass

communicative messages broadcast at the federal level. The events connected with Ukraine and the Crimea, a general state and patriotic orientation through the support of initiatives in this sphere belong here.

Besides, it is worthy to note today's tendencies created as a result of the Presidential Decree of Russia on the transfer of 10 percent of the rendered social services to the population to non-profit organizations. As a result, NPO can play an active role in the social sphere.

Here, we can discuss the growth of interest of non-profit organizations in the receipt of grants by the President. The structure of federal grants creates the priority areas of non-profit organizations, changing requests for public work and regulating the possibilities of non-profit organizations regarding the receipt of financing. There is an opinion that presidential grants do have a considerable influence on civil activity. However, the grants can be intended for the creation of a loyal audience of supporters of the President's policy. The positive phenomena of civil activity are connected with the fact that the state tries to improve financial trusting relationships with the parts of civil society that work in the range of priorities designated by it. Other associations of citizens face the problem of the search for resources and tough regulation on activities, and often make decisions on the transition to informal kinds of work.

The federal context shows regional social and political activists examples of civil participation, and around what issues it is possible and necessary to unite. They also show the sanctions that can be imposed by the state on protesters and activists. After the evident option of a succession of events, it is much

simpler to maneuver in the existing field, to plan actions, understanding all pros and cons, results and consequences. Looking at such federal initiatives, it is possible to fight against the prohibition of stalls, or to fight against the cutting down of groves downtown. The federal context presents the tools, but, activists in regions use the local algorithm of actions.

In May-July 2015, the author conducted a survey on experts from 14 regions of Russia, for the purpose of analyzing civil activity. From 10 to 14 experts took part in each of subjects. The sample number for the research was 165 experts (Table 3). Results were compared with previous similar research by the author.

Table 3. Distribution of a sample of expert polls in studying protest activity (2015)

	Frequency	Percent
Republic of Dagestan	13	7.9
Republic of Adygea	11	6.7
Voronezh region	12	7.3
Kirov region	12	7.3
Kostroma region	11	6.7
Krasnodar krai	10	6.1
Novosibirsk region	15	9.1
Samara region	13	7.9
Saratov region	14	8.5
Ulyanovsk region	10	6.1
Republic of Bashkortostan	11	6.7
Irkutsk region	11	6.7
Yaroslavl region	12	7.3
Republic of Tatarstan	10	6.1
TOTAL	165	100.0

The representativeness of the selected regions was provided, based on the principle of heterogeneity on the following selection criteria:

- geographical location;
- economic development of the region;
- political system of the territorial subject of the federation;
- social and demographic structure;
- ethnic and religious structure of the region;
- regional political and administrative mode;
- territory belonging to a certain federal district.

Competence was the central selection criterion of experts:

- knowledge of protest activity in the region;
- knowledge of the main mechanisms of functioning of the region's political system; - entry into a certain regional political elite group;
- work experience in the sphere of public policy and/or in public authorities and local self-government;
- knowledge of the main actors of the regional political process;
- knowledge of the political environment of the region.

Awareness of the studied problem was the main criterion for entering the list of experts. The experts were from the following social groups:

- staff of governing bodies on the regional level (executive and legislative)
- staff of public institutions and organizations (in particular election commissions);
- staff of local governments and municipal authorities and organizations

(in particular election commissions);

- heads of regional and local offices of political parties;
- heads of non-profit and public organizations;
- members of the media;
- representatives of academic institutions.

The total of respondents for the experts polls on each subject of the Russian Federation was no less than 10 people. This enabled the acquirement of representative data on the region's situation (Table 4).

Table 4. Characteristic of admissible indicators of a sample

1. Representatives of authorities	
<ul style="list-style-type: none"> - staff of governing bodies on the regional level (executive and legislative) - staff of public institutions and organizations (in particular election commissions) - staff of local governments and municipal authorities and organizations (in particular election commissions) 	3-7 respondents
2. Representatives of social and political elite do not hold posts in authorities	
<ul style="list-style-type: none"> - heads of regional and local offices of political parties - heads of non-profit and public organizations - members of the media 	2-5 respondents
3. Expert community	
<ul style="list-style-type: none"> - representatives of academic institutions - political experts who are not part of the above-stated structures. 	2-5 respondents

In general, the respondent independently filled in a questionnaire (sent by e-mail). In exceptional cases, the survey was conducted by phone.

For the expert poll, a semi-formalized questionnaire was used.

The statistical analysis of the data in the SPSS software product was applied. This provided for the generalized assessment of one phenomenon, information on which arrives from several independent experts. The first stage compared different opinions, the second analyzed the data by means of mathematico-statistical procedures, and the third stage drew conclusions.

The arithmetic-mean value of the expert evaluation characterizing dynamics of civil activity of the population for the last two years shows the growth of public activity in Russia. At the same time, judging by the results of the expert poll, this tendency is followed by the acceleration of growth rates in the number of socially active people. More and more experts mentioned the growth of public activity (initiative) in regions. An exception was the representatives of regional General Courts (deputies, employees of the device). If in 2014 this tendency was 54.6 percent of experts, in 2015 the figure was 57.5 percent, while the average value of an expert evaluation of the dynamics of civil activity in 2014 was fixed at 0.58 points (on a scale from -5 to 5 where “-5” indicates an essential decrease in civil activity, “0” means changes are absent, and “5” indicates growth of civil activity), and in 2015 was 0.80 points.

A rise in the public initiative of people, according to experts, was especially strongly evident in political activity (22.2 percent) and protest actions (21.2 percent), the activation of citizens in the solution of issues of local relevance (19.2 percent), and also an increase in the number of participants in public associations and NPOs (18.2 percent).

The changes observed in the specifics of the manifestation of social and political activity (initiative) of citizens leads to the conclusion that high-quality changes in social behavior took place in 2015, as well as a stronger understanding by people of the rights and personal liabilities of public processes. In 2014, protest activity (actions and sentiment) was the main manifestation of civil participation. In 2015, according to experts, more and more citizens preferred to express their points of view concerning any social, political and economic events, not by means of protest actions, but via standard, fixed, legislatively established “levers” (expression of opinions through voting in elections, the creation of formal and informal associations, etc.).

The main “challenges” to the development of civil participation were allocated relying on answers of experts. The main problems of the development of civil activity, according to experts, in 2015 were connected, as in 2014, first of all to the low initiative of citizens (reported by 59.8 percent of experts), and also to the dissociation of institutes of civil society and civic activists (50.6 percent). Both problems are specified directly by the low level of motivation, i.e. the readiness of the population for action. We note that the relevance of the first problem remained at 2014 levels, while the relevance of the second increased considerably (for 6.5 percent). This causes a number of questions about the reasons for the deterioration in relations between the institutes of civil society and social activists and the severity of the crisis in the relations between them.

Among other significant problems in the development of civil activity experts, there was the limitation of resources (39.0 percent), the discrepancy of actions

of authorities concerning institutes of civil society (37.2 percent), difficulties of communication in civil movements (28.0 percent) and counteraction from the state (17.7 percent): institutional problems and those related to the lack of experience in collective action. According to the data provided by experts, counteraction to the development of civil activity from the state decreased in 2014-2015.

Experts noted that unregistered public associations of people became leading forms of the civil activity. Civil activity in the regions of the Russian Federation is directed, first of all, to the forming of public opinion (76.5 percent), to the decision-making process by authorities (74.5 percent) and to the solution of urgent social problems (71.8 percent), to the increase in openness and transparency of activities of authorities (61.1 percent), the stimulation of activity of citizens (55.7 percent) and the “education” of new leaders (46.3 percent). Experts did not highly appreciate the extent of the influence of social activists and socially active citizens on the directions stated above in 2015; the average assessment is fixed at the level of 4.02 points (on a scale of 10, where “0” means influence is absent, and “10” indicates the maximum influence). However, in 2014, the average value of this indicator stood at 3 points. The positive dynamics of this indicator demonstrates the strengthening of the influence of the role of public initiative on the institutional structure of society, and also, the organizational development and accumulation of experience of civil participation in the society. Estimates of the extent of the influence of the non-commercial sector and the active public on social, political and economic atmospheres, and also, on

decision-making in different spheres, are interesting. According to experts, in 2015 the activities of social and active citizens (ready for social action) and public organizations were the most effective in forming public opinion (5.23 points), and the least effective in the decision-making process of authorities (3.52 points).

Change in the structure of public relations, and also in the development of new communication channels, promotes the formation of new forms of civil participation (initiative) in the social, political and economic spheres of life of society. Data from expert polls reveal new types of civil activity, and also, determine their popularity in various regions of the Russian Federation. According to the expert polls, in 2015, as well as in 2014, Internet activity became the most “fashionable” of new forms of the manifestation of civil initiatives in regions of the Russian Federation.

In 2015, the average expert evaluation of the development of civil activity on the Internet constituted 5.94 points (on a 10-point scale where “0” indicates the lack of civil activity on the Internet, and “10” indicates large-scale civil activity on the Internet), whereas in 2014 this indicator recorded 5.30 points.

Regarding the dynamics of civil activity on the Internet in the last two years, all experts declared a growth in social activist interest in Internet resources in their region; the average was 2.67 points (where “-5” indicates an essential decrease in civil activity, “0” means changes are absent, and “5” indicates growth in civil activity). The growth in the development of civil activity on the Internet in the Russian Federation in 2015 was anticipated, since every year

in Russia civil activity through mass media, in particular the Internet, draws more and more attention from both the public and the authorities. The Internet newly gave rise to crowdsourcing and crowdfunding platforms.

On the role and value of the social activity of citizens and public organizations on the Internet, the vast majority of experts came to the conclusion that it exerts an impact on goal achievement by civic activists; 53.7 percent declared that the influence is insignificant, while another 40.7 percent mentioned considerable impact. The share of those who adhere to the opposite view constituted 5.6 percent. Other representatives of regional administrations (9.5 percent), deputies and workers in the offices of Legislative Assemblies (16.7 percent), and the experts living in the Kirov region (16.7 percent) denied the usefulness of Internet activity in public life.

According to most experts, the Internet is an important instrument that improves openness and transparency of the activities of public associations for citizens and activists (63.2 percent).

The research leads to the conclusion that in the next decades, the Internet penetration rate in Russia will grow at the expense of the resolving the problem of digital inequality (for example, between urban and rural areas;). Social networks held a firm place in the life of Internet users: they are the most accessed on websites. Such phenomena testify the growing role of Internet communication in the world, and also, the tendency toward the formation of groups around user interests that, on the one hand, simplifies search and impact on target audience, but on the other, moves the trust problem between

participants of communication to the forefront.

The main features of the development of civil activity in the country are connected first of all to the development of institutes of civil society and non-profit organizations. Instruments of civil and protest network campaigns on the Internet attracted huge interest in Russia, both from citizens and the authorities. The activity of citizens was expressed not in the use of institutional channels, but of the implementation of civil shares and protest actions. The state in turn began to work toward cooperating with institutes of civil society.

At the moment, the development of civil society proceeds in close cooperation with institutes of power. The institutionalization of civil activity is evident in many directions, beginning with the financing of NPOs and ending with the creation of new movements based on the network structure of the organization. The state pays more and more attention to the non-commercial sector every year. Efforts are being made to change and improve the legislation for public organizations, in subjects in which the regional regulatory bases regulating mechanisms of inter-sectoral interaction are actively developed. Annually, more and more money is allocated to finance NPOs from the country's budget, and the number of tenders and grants grows in socially important activities. In terms of subjects, the number of dialogue platforms for the communication of citizens and authorities increases. People took more active part in the different activities of public councils and public chambers.

Internet technologies, which are in many respects connected with the development of mobile devices, are also advancing civil activity. The development

of civil activity is connected to the creation of new Internet platforms, such as various civil applications, and crowdsourcing and crowdfunding platforms. These resources enable the receipt of financings of projects, irrespective of state support, and on large scales. Social networks help quickly organize actions to solve different problems.

The growth of civic activity helped form different successful practices and instruments of peoples' rights protection. It also helped create different communities that may take active part in protest actions. This connection was shown in the 2011-2012 protest movement.

Civic activity also helped Russian authorities solve certain social problems in everyday life, to decrease social tensions and conditions for protest activity amid difficult economic situations.

VII. Social tensions and protests in the Russian society

Crisis in the economy creates additional conditions for building social tension in Russia. Opposition leaders expected a new wave of protests against hostilities in Ukraine, sanctions and countersanctions, the decline in living standards and high inflation, and the infringement of civil rights (shown in the previous chapters of this paper). However, these expectations were not met. According to VTsIOM, there was a stabilization of dissent in the country.

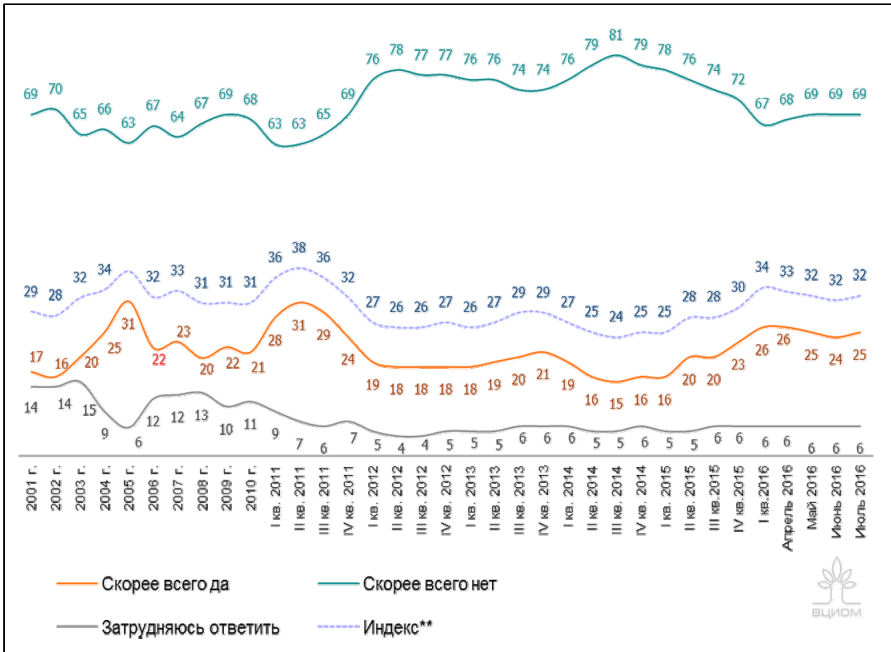
Citizens strongly responded to changes in the economic, social and political

situation in the country. This is evidenced by VTsIOM data. An exception was 2014, after the Crimea incorporation into the Russian Federation. Throughout the year, there was a rapid growth of indicators characterizing socio-economic sentiment and expectations on the part of citizens, and the level of support for authorities' actions and decisions.

The number of people that were personally ready to take part in mass protests grew with each passing month, due to lower social attitudes and expectations in 2015. In addition, respondents were talking about a high probability of mass demonstrations in their city/settlement population against declining living standards, the unjust actions of the authorities, and in defense of their rights.

The situation changed in 2016, when the growth of public and private protests by Russians halted, and stabilized against the backdrop of overall positive dynamics of the country's situation (Diagram 2). As of July 2016, according to the survey, 25 percent of the respondents were potentially ready to take a personal part in the protests, while 69 percent were not ready. Similar figures were recorded in the 1st quarter of 2016.

Diagram 2. Personal inclination to participate in protests according to VTsIOM (Question: “If in our town/rural district, mass protests are held against falling living standards, the unjust actions of the authorities, and to protect their rights, will you personally take part in them or not?”) (Inclination to Protest 2016)



Data on protest activity in the regions obtained in the course of the author’s research in 2015 were controversial. On the one hand, raising the average expert assessment of protest activity in regions from 2.44 points in 2014 (a 10-point scale, where “0” indicates the lack of protest action and “10” indicates protest activity) to 3, 20 points in 2015 signals a possible increase in protest activity in Russia’s regions. On the other hand, the average score of the expert evaluation

on protest activity changes in the past year amounted to -0.12; this indicates a decrease in protest activity in 2015.

Based on the data obtained from the experts, in general, it can be said that the composition of the protest action organizers was static. Of the experts, 80.7 percent mentioned a constant circle of protest organizers during the interview, another 5.5 percent said that there were changes in the composition of protest activity coordinators, but were not significant. Only 13.8 percent of respondents pointed significant changes in the composition of protests organizers.

The main subjects of protest activity are oppositional political pariahs (primarily the Communist Party), as well as “non-systemic” opposition (“The Other Russia,” Russian Civil Forum, “Solidarity” and others). These organizations are seeking to initiate large-scale nationwide protests and protest campaigns. The topics of such protests are quite generalized: protests against the poor state of housing and communal services, tariff increases, inflation, etc. As for protest campaigns on narrow subjects, they are either suspended, or participation is very sluggish.

However, in most cases these protests do not receive population support. Only the supporters of these organizations attend such events. This creates the impression that the protests are not aimed at solving existing problems, but are used purely for political purposes - the struggle for power. This undermines the credibility of the protests, and gradually reduces the number of those that are ready to participate.

There is, however, another group of protest initiators. These are local

organizations. Often, they are not legal entities and are related to specific difficult situations: parks felling, fraud in the construction sector, ethnic conflicts, etc.

In recent studies of protest activity cases, such groups have demonstrated their effectiveness.

When identifying who, or what guided the protests organizers, the experts were not unanimous in their opinions. This is understandable, for each region has its own characteristics. On average, the prevailing opinion is that protest coordinators find a balance between personal goals and public interest (the average score was 0.49 on a scale from -5 to +5, where “-5” indicates a focus only on personal, selfish goals, “0” indicates finding a balance between personal goals and public interests; and “5” indicates an act in the public interest). Protest organizers reached a relative balance in interests over the past three years (this indicator was not previously measured). It should be noted that the municipal representative body and representatives of the regional Duma (deputy aide) tend to witness gains in the actions of the protest organizers.

According to most experts, protest activity in regions has no effect on the socio-political situation in the regions of the Russian Federation (41.6 percent) or stabilizes it (39.2 percent). The average expert assessment of the impact of protest activity on the socio-political situation in the region, in 2015, amounted to 0.42 points (on a scale from -5 to +5, where “-5” indicates a significant destabilizing effect, “0” indicates no impact, and “5” indicates a significant stabilizing effect). The research states that there has been serial and growing

influence of protest activity on the socio-political situation in the region (in 2013 the value of indicators were fixed at the level of 0.18; 0.23 in 2014; 0.42 in 2015). Stabilization is in the nature of this influence.

Despite the positive effect that protest activity has on the regions of Russia, the authorities resist the organization and carrying out of protest actions. The average expert assessment in 2015 was -0.18 points (on a scale of -5 to 5, where “-5” indicates a resistance against protest activity, “0” the absence of any influence, and “5” an orientation toward cooperation). In 2013, this figure was -0.26 points. The dynamics of this index indicates a decline in authorities’ resistance. This could possibly be due to the change (revision) in the concept of the authorities’ work at different levels with the active population (mentioned above). However, this does not mean that the government has a better relationship (loyalty) with protesters, as tactics of the authorities at various protests are different, and in many respects depends on who is organizing the protest, what the protest is about, etc.

According to the 2015 expert poll, authorities’ resistance was mostly due to the establishment of administrative barriers (74.8 percent), pressure on the protests organizers (38.8 percent), using the media for self-advantage (38.8 percent) and the persecution of the protests organizers/participants on the part of law enforcement agencies (27.2 percent). The latter form significantly lost its popularity, in comparison with 2014 and 2013, in 2015. Experts believe that when the power is ready to co-operate with the protesters, this is done without fear of destabilizing the situation in the region. If the authorities choose to

ignore, this indicates the small number of protest participants. If the government resists, this is considered as opposition leaders attempting to speculate on public issues without seeking to solve them.

Research by leading sociological institutions demonstrates high levels of protests, and readiness to be included in protest activity. This suggests that, despite the outward calm and stability, social tension and dissatisfaction is accumulating in the Russian society.

Opinion polls are only useful in terms of fixing the level of dissent. However, the subjective assessment of readiness to participate in protests did not reflect the real situation, because participation or non-participation depends on completely different factors: the specific infringement of the citizens' vital interests, the subjects of imperious behavior in situations of conflict, the nature and content of background information, and the membership of a particular social group.

Due to the nature of protest occurrences, a manifestation of protests and protest activity occurs very quickly, is unpredictable and difficult to control. This has been convincingly evidenced in recent years: the overlap of the football fans motorway and events at the Manege Square, spontaneous protests after the election of the Astrakhan mayor in 2009, the natural overlap of the Youth Street (Khimki district) road, and the protest against the felling of the park in July 2011.

We can say that protest activity is determined by actual problems which affect the interests of citizens. As a result, in most cases, there are no "external"

coordination centers of protest activity. Protest groups themselves are poorly organized. On the one hand, this is a negative characteristic of the protest movement, as there are significant challenges for resource mobilization and implementation of protest actions. However, on the other hand, it allows the formation of radically different partnerships between the protest campaign subjects. This creates trust and cooperation between them. Moreover, the withdrawal or reduction of the activity of any coalition is hardly reflected at the protest campaign itself through the ongoing activity of other subjects. The existence of a protest arising from internal resources allows the protest movement to not be dependent on external forces and factors. Protest movements cannot be stopped by simply overlapping funding, since there is no single source.

Unemployed population categories, as well as low income brackets, are the first to maintain protest activity. These categories of people have nothing to lose, and, therefore, inclusion in protest activities will be for them either neutral or positive. Therefore, tense situations tend to form in regions with high unemployment. At the same time, accumulating protests can be expressed not only through standard protest actions (meetings, demonstrations, etc.), but also through others such as social apathy, migration, etc.

An important feature of protest campaigns in recent years has been the integrated approach to protest methods. Today's protests are not limited to one or two forms of protest activity, but include street actions, litigation, appeals to the leadership of the country, and campaign information. A striking example of this is the protest campaign against the construction of the "Ohta Center"

in St. Petersburg.

The most active and massive protest campaigns were carried out in cases where the authorities took no action to identify and protect citizens' interests - real estate investors, miners dismissed in crisis, lacking incentives, etc. Their interests were not imposed on the public agenda until they began to protest. Social and political institutions are not seeking to aggregate and articulate the interests of these groups. They were forced to organize themselves and began to act in defense of their own interests and overcoming existing barriers.

However, we can say that the new geopolitical conditions contributed to the consolidation of Russians and reduced protest activity. Only local protest actions were organized in 2014-2016, which did not gain significant support among the people.

VIII. Conclusion

External factors (sanctions, a fall in oil prices) exert a significant negative impact on the economic situation in Russia. An additional negative impact is exerted by domestic crisis elements in the national economy. As a result, in recent years, economic downturn has been observed, the country's reserve funds have been spent, state-owned property has been privatized and taxes raised, and a retirement age is being prepared.

At the same time, the economic situation in the country has not become critical. A significant role was played by the accumulated reserve funds. The measures implemented by the government to stabilize the economic and social situation were another important factor. As a result, the government gradually rebuilt the economy, developing the agricultural sector (which enables an increase in food security). Another important factor is the growing economic and political orientation to the East.

The Russian government saw a gradually rising need for a new wave of economic and social reforms, in the form of tax reform, pension reform, and so forth.

At the same time, security and law enforcement bodies were restructured to ensure the security and stability of the political system. The bodies have gained more power. Putin carried out personnel changes in the country's top management. Young technocrats are taking the place of political "heavyweights." They are personally loyal to the president, and are ready to faithfully carry out his instructions.

However, such factors had no significant effect on public sentiment. At the end of 2014 and the beginning of 2015, deterioration in social well-being was observed. However, based on social research data provided by two large research companies, VCIOM and the Levada Center, it can be inferred that there were high-quality changes in citizens' sentiment in 2016. At the beginning of the second half of 2016, the Russian society witnessed improvements in the social well-being and optimistic views of the population. In addition, Russians

acquired a more positive perception of the social, economic and internal political decisions of the authorities. Also, thanks to a general improvement in public sentiment, the potential for protests has declined, while apathy towards events is on the rise. This is connected to the surplus of political subjects. At the same time, interest in social and economic problems is on the rise.

The civil activity of the population is characterized by the active use of Internet tools, such as increases in electronic petitions or digital-crowdsourcing. For political actors, the Internet has become a property, plant and equipment of communication with the population.

Among the Russian elite and the Russian society “the Crimean consensus” - support toward the actions of the Russian President - was formed. This predetermined the victory of «United Russia» in the 2018 elections to the State Duma.

Economic and social reforms (oriented toward the stimulation of economic development and the reduction of budgets spending at all levels) became necessary for preserving social, economic and political stability in the country.

Preserving political stability requires the implementation of actions through mobilization of citizens, the building of trust in the political system.

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Economic Cooperation between the Republic of Korea and Republic of Uzbekistan: Actual Problems and their Solution Course

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Introduction

Uzbekistan is one of the few countries with which Korea has signed a mutual declaration of strategic partnership. Such a status of state-to-state relations exhibits a high level of multifaceted cooperation between the two countries and their mutual obligations accordingly, based on a wide area of complementary national interests.

While working on this monograph, there often arose a question: why does the Korean experience of economic development hold high value for Uzbekistan? The answers are as follow:

1. The quick development of the Korean economy;
2. How Korea showed vigorous industrial growth despite the lack of mineral resources, political instability and military conflict; and
3. How the Korean economy of 20-30 years ago was close to the present Uzbek economy in terms of many structural and quality indicators. As it is in present Uzbekistan, the Korean government played an important role in setting development priorities, resources allocation, and gave direct support to some economic sectors.¹⁾

For the last three decades Korea has managed to realize fundamental progress in improvement of production efficiency, development of high-technology economic sectors, and growth of its competitive power.

1) Li, B.S. and S.V. Chepel (2008), "Economic relation of Uzbekistan and Korea," *Uzbekistan National Encyclopedia*, p. 88.

The critical experience of creating a modern Korean economy, and development of its relations with the national economy of Uzbekistan, is considered to be of high value for the acceleration of economic development in Uzbekistan under the conditions of world economy globalization.

Analyses of scientific literature show a dark area in problems of development in the trade-economic relationships between the Republic of Korea and the Republic of Uzbekistan. Available publications by both Uzbek and foreign researchers are attempting a systematic coverage of international activities in Uzbekistan under new conditions and its entry into the world community and consider mainly the various aspects of foreign economic activity in Uzbekistan.²⁾

Certain contributions to the development of some issues of trade-economic relations development between the Republic of Korea and the Republic of Uzbekistan was made by the Korean scholar Kim Kyong Ho.³⁾ Also the thesis work by the researcher Oh Se Quang considered the role of information-communication technologies in the economy of the Republic of Korea and

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- 2) Ubaydullayev, Z.S. (1995), "Formation of system of legal regulation of Uzbekistan foreign economic activity," ONU, #9-10; Salihov, S.S. (1995), "Enter a foreign market," *Economic and statistics*, #5-6; Korneyev, A. (1996), "International technologic cooperation of Uzbekistan," *Economic and statistics*, #6; Hodjimuratova, G. (1997), "Development principles of foreign economic relations," *Economic bulletin of Uzbekistan*, Tashkent, #9; Muhamedjanov, G. (1997), "Foreign investments as the regional cooperation factor," *Economic bulletin of Uzbekistan*, Tashkent, #10.
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Uzbekistan.⁴⁾ The study by S.A. Zakirova, “Diversification and increase of efficiency of economic cooperation between Uzbekistan and the Republic of Korea,” analyzed the practical experience and related topical issues of bilateral Uzbek-South Korean economic cooperation.

Great value for the study of this issue is provided in the works of South Korean specialists among which the works of scholars such as Ko Jae Nam, Lee Dong-Hyun, Kang Won Sik, Kim Myong Ho, Lee Hyun-Up⁵⁾ stand out.

Also in scientific studies there are highlighted some aspects of cooperation between the Republic of Korea and the Republic of Uzbekistan, which mainly affect economic relations, as shown by S. Zakirova, B. Li, S. Csepel, Marzalieva S., W. Feng, J. Eltazarov.⁶⁾ Some aspects of economic cooperation are disclosed in the studies of A. Abduganiev, A. Isazhonov, F. Maksudov, Nazarova, B. Hodzhaev, R. Shadiev, N. Tuhlieva and other economists of

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- 4) Oh, Se Kwang (2011), *Role of information and communication technologies in the economics of Republic of Korea and Republic of Uzbekistan*, Dissertation for the degree of Ph.D. in Economics. Tashkent.
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- 6) Zakirova, S. (2004), *Diversification and increase of efficiency of economic cooperation between Uzbekistan and the Republic of Korea*, Dissertation for the degree of Ph.D. in Economics. Tashkent; Li, B. and S. Chepel (2008), “Economic relations of Uzbekistan and Korea,” Tashkent; Chepel, S. (2009), “Experience of innovation development of Korea and its availability for Uzbekistan economic,” *Problems of Korean studies in Uzbekistan*, Tashkent; Mirzaliyeva, S. (2000), “Analysis of FEA creation and development in the Republic of Korea,” *Economic bulletin of Uzbekistan*, # 6; Eltazarov, J and In Te Kim (2000), *South Korea: past and today*, Samarqand.

Uzbekistan. the study by K. S. Asirbabaeva, “Republic of Uzbekistan and the Republic of Korea: the processes of modernization and cooperation prospects,” highlights the ROK modernization issues and its impact on the social economic processes.

Meanwhile, the problem of the Uzbek-Korean trade and economic cooperation has not yet been considered as self-contained. Its insufficient exploration as well as the need to identify promising areas of trade and economic relations between the Republic of Korea and the Republic of Uzbekistan led to further examination of this issue on a large scale.

As practice shows, the strategic partnership is used both by Korea and Uzbekistan, not only for coordinated actions on the external, international issues, but first of all for the implementation of the internal transformation of the highest order for the purpose of removing their national economics to a higher level of development. The characteristic features of a special partnership between the two countries include: a high degree of active cooperation and trust; transparency of mutual relations; close cooperation in international affairs not directed against third countries; coordination of foreign policy actions in key areas of global and bilateral development, excluding the influence of short-term factors.

The constructive spirit in mutual relations of Korea and Uzbekistan is supported by intensive dialogue on different levels, a constant exchange of official visits, delegations, close contacts established between states, ministries, departments, business circles, scientific, artistic, creative and sports community

and youth groups.

A trust partnership has been established in many areas of political, economic, social and spiritual development of the two countries with a long-term perspective. It goes without saying that this agreement of strategic guidance originates from equal and mutually beneficial cooperation, and by itself excludes the dominance of one partner over the other.

The practical significance of the study lies in the fact that it offers approaches, theoretical and practical conclusions which allow a deeper understanding of the nature of international relations between Uzbekistan and the Republic of Korea as a whole, their political content, to identify their general patterns and features. Materials research can serve as a basis for further study of the theoretical and practical problems of international relations between the Republic of Korea and Uzbekistan.

1. Trade–Economic Cooperation between the Republic of Korea and the Republic of Uzbekistan

1.1. History of development and the current state of foreign trade between the Republic of Korea and Uzbekistan

The Republic of Korea and the Republic of Uzbekistan have been considered

reliable strategic partners for many years. Following Uzbekistan's establishment, throughout the process of realizing national programs on economic and social development, as well as step-by-step integration into the world community, Korea provided Uzbekistan with a great deal of support. In the difficult years of development, South Korea became a priority partner possessing advanced technologies, capital, technical resources and vast experience in the creation of infrastructure, construction of roads and railways.

The basis for development of bilateral relations between the two countries was laid on the December 30, 1991, when the Republic of Korea recognized the independence of Uzbekistan. Since that moment an active political dialogue has been held between the Republic of Korea and the Republic of Uzbekistan, which is evidenced by the summit meetings held during this period.⁷⁾

The period of 1991-2006 can be divided into three stages. During the first stage (1991-1993), Korea and Uzbekistan considered each other as friendly countries. In the second stage (1994-1999), a relationship of constructive partnership was formed between the Republic of Korea and Uzbekistan. The third stage (1999-2006) was characterized by establishment of the strategic partnership.⁸⁾ The principle and spirit of the strategic partnership stimulated the

7) *Uzbekistan - Republic of Korea: new horizons of strategic partnership*/, <http://blog.naver.com/seoheeing/220457078760>.

8) In May 2006 following the results of the state visit of the President of the Republic of Uzbekistan Islam Karimov to the Republic of Korea there was signed "Mutual declaration on strategic partnership between the Republic of Korea and the Republic of Uzbekistan" which contributed to expansion and deepening of multilateral Uzbek-Korean relations and marked their entry to a new level.

development of bilateral relations in many fields. Uzbekistan carried out modernization and diversification of the industry with the use of rich energy and mineral resources, showed great interest in the development of rural regions, the creation of small and medium enterprises, infrastructure development, and expressed hope for active participation by Korea in the solution of these problems.

In May 2009 Tashkent hosted the Uzbek-South Korean summit, as a result of which a joint declaration was adopted consisting of 12 points, identifying new areas of cooperation, and there were signed 16 protocols of intent and intergovernmental agreements. Out of these 16 protocols, seven agreements and memorandums of understanding were signed in Tashkent and touched on the fields of energy sector and development of natural resources, while three were concerned with production and financing, and six with transport and logistics. Detailed plans were developed in mining operations and construction of industrial enterprises. In particular, the memorandum of understanding on reconnaissance of oil reserves in Namangan region, signed between the Korean national oil corporation and Uzbekneftegas is of high importance. Owing to this agreement, South Korean company will be the first foreign nation to realize an energy project in Central Asia which owns 100% of shares. The Republic of Korea will obtain all the necessary energy resources, and Uzbekistan will obtain modern technologies and support in economic development.

Presidents Lee Myung Bak and Islam Karimov signified their satisfaction with the achieved level of bilateral economic and political cooperation by

agreeing to work toward expanding relations between Seoul and Tashkent into a strategic partnership.

The main reason behind such active development of relations between the Republic of Korea and the region's leading countries such as Kazakhstan and Uzbekistan lies in the favorable economic model of cooperation. Furthermore, if it will be possible to unite the experience of economic development, technologies and capital of the Republic of Korea with rich natural and human resources of the region, the cooperation potential can be realized with maximum effectiveness.⁹⁾

A demonstrative example of the productive cooperation between the parties can be the signing of a bilateral investment agreement in February 2010 on the construction of a chemical plant and the joint development of the Surgil gas fields in western Uzbekistan. Within the framework of the project amounting to 4 billion US dollars, there was built a large gas-chemical complex. The arrangement was reached during the South Korean-Uzbek summit held in Seoul, where the two presidents Lee Myung Bak and Islam Karimov expressed satisfaction with the achieved level of bilateral economic and political cooperation, and agreed to make further efforts to move the relations between Seoul and Tashkent on the level of a strategic partnership.¹⁰⁾

9) KBS Global: information resource, http://english.kbs.co.kr/News/News/News_view.html?id=In&No=70005 (reference date: May 21, 2009).

10) KBS Global: information resource, http://english.kbs.co.kr/News/News/News_view.html?id=In&No=72134(reference date: November 2, 2010).

Currently, 439 enterprises with the participation of Korean investments operate in the country; 75 of them hold one hundred percent of Korean capital; 72 representations of South Korean companies are accredited. They operate in such areas as trade, textile, light industry, mining and metallurgy, chemical and food industries, machine building, metalworking, tourism, health and transport services.¹¹⁾ Nearly 80 representations of South Korean companies were established in Uzbekistan.

The scope of cooperation in the field of education is significantly expanding. Realization of the project of opening a training center in Tashkent should be included within the number of important achievements in the field of education.

At the present time in modern society, the growth of the objects of cooperation between the two countries is not the only thing to be interested in; we should also pay attention to the improvement and deepening of cooperation.

Cooperation between the Republic of Korea and Uzbekistan holds large potential in the banking and financial fields. Korea's banking sector has been represented in Uzbekistan since the middle of 1990s, with the opening of the joint Uzbek-Korean bank UzDaewoo Bank. It was founded in 1997 in the form of a joint-stock company of closed type for servicing the branches of Daewoo Co. and other Korean companies working in Uzbekistan. Later on this

11) 「우즈베키스탄과 한국 24억 달러 가치 계약 (Uzbekistan and South Korea sign agreements worth \$2.4 billion)」 (June 18, 2014).

organization was reorganized to representation of the Korean Development Bank (KDB).

On February 2006 KDB entered as a shareholder of the Uzbek-Korean UzDaewoo Bank, having bought the shares held by Daewoo Securities amounting to 61%. In connection with this entering of the new shareholder, the bank was renamed as UzKDB Bank.

The special role in development of mutually beneficial relations between two countries was played by the visit of the President of the Republic of Korea Lee Myung Bak in August 2011, within the framework of which there were signed important documents, including a loan agreement between Uzbekistan and Korean Eximbank which allowed the former to obtain concessional loans amounting to 10 million US dollars from the development fund of economic cooperation for the project on “Equipping of the Center of concessional loan in the name of V. Vahidov with modern medical equipment,” etc.

A number of strategic projects in various sectors of the economy with active participation of Korean business are being realized in Uzbekistan. One of them is the recently completed construction of Ustyurt Gas Chemical Complex at Surgil deposit amounting about to \$4 billion, carried out jointly with a consortium of leading Korean companies, including Korea Gas Corporation (KOGAS) and Lotte Chemical.

Large projects with South-Korean investors are being pursued in the Navoi FIEZ, including joint operation of this city’s airport together with Korean Air. At the present time they are working on the second stage of construction of

the Navoi airport to cope with increasing freight traffic.

Together with such trade and economic cooperation, it is necessary to note that projects in such areas as politics, economy, culture, education are being carried out as well. Korean scientists assign an important role to solution of environmental problems. Thus, in the arid climate of Central Asia where water resources are a key factor in maintaining a sustainable ecological balance between natural ecosystems and social economic development, it was decided to develop technologies for reducing the salinity of drainage water. In addition, the South Korean Economic Development Cooperation Fund (EDCF) has provided the Uzbek government with a loan of 80 million US dollars to improve the drinking water supply in three regions of the country.

The main reason of active relations development between these two countries is a favorable economic model of interaction. If it is possible to consolidate further the experience of economic development, technologies and capital of the Republic of Korea with the rich natural and human resources of Uzbekistan, the cooperation potential of the two countries can be realized maximized efficiently.¹²⁾

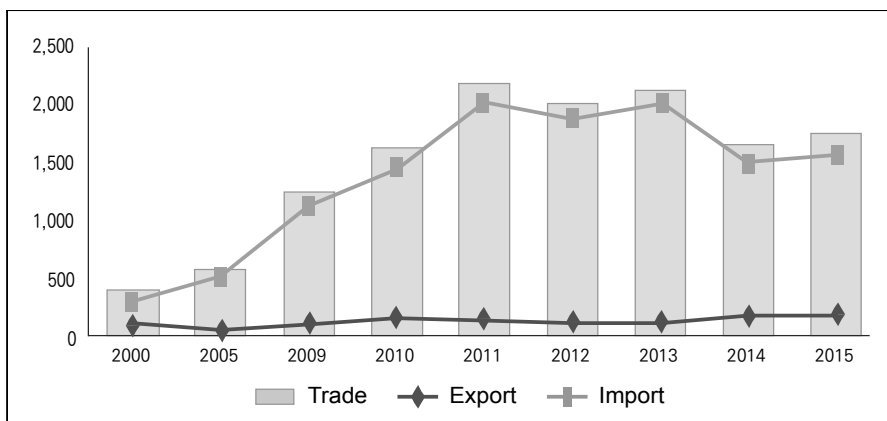
12) “«21 century Silk road» Korea-Uzbekistan will open Gyeon Jemin the Korean Ambassador to Uzbekistan” *The Financial News*, (February 7, 2010), p. 1.

1.2. Foreign trade tendency between the Republic of Korea and Uzbekistan.

An analysis of details and main tendency of import and export development in the Republic of Uzbekistan reveals the following.

There has been favorable treatment in trade between the Republic of Korea and Uzbekistan since 1992. The trade turnover between the Republic of Korea and Uzbekistan began to grow steadily since the establishment of diplomatic relations in 1992. Since 2008, the trade turnover has continued to exceed 1 billion US dollars. In 2015 alone, it amounted to more than 2 billion US dollars (Figure 1.1).

Figure 1.1. Foreign trade turnover of the Republic of Korea and Uzbekistan for 2000–2015 (million US dollars)¹³⁾

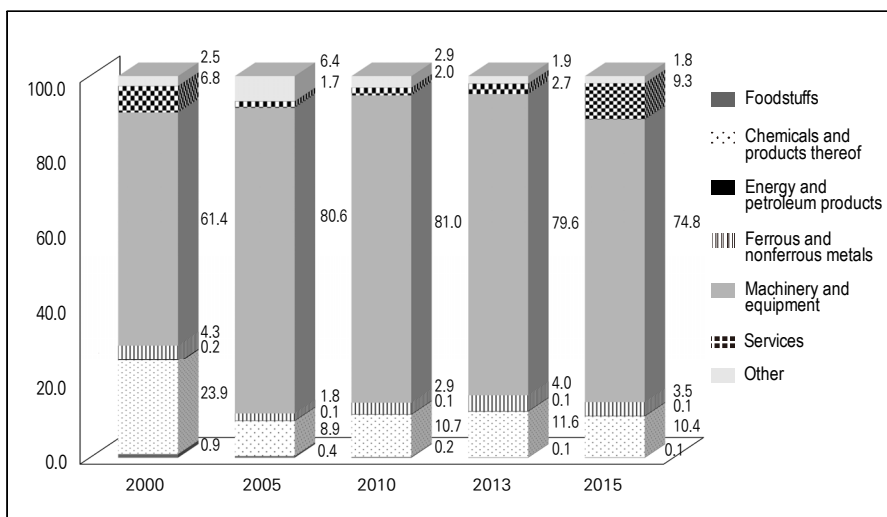


13) Author's calculations on data of the State Committee of the Republic of Uzbekistan according to the statistics of 2000-2015.

The list of major goods being exported from the Republic of Korea to Uzbekistan includes: parts for automobiles, engines, passenger cars, plastic materials, fabric, computers, furniture, molded steel, different plastic and metal profile products, engineering equipment, scrap tires, etc. (Figure 1.2).

Automobiles are the following item in the list of exporting goods from the Republic of Korea to Uzbekistan. GM-Uz produced 224 thousand motor cars and exported 103 thousand ones, with the rest of the volume being directed to the repletion of wants in the domestic market. In the near future it is planned to increase export by 70%.

Figure 1.2. Import of Uzbekistan from South Korea (in %)¹⁴⁾



14) Author's calculations on data of the State Committee of the Republic of Uzbekistan according to the statistics of 2000-2015.

The special significance of Korea as a trade partner of Uzbekistan is stipulated by the fact that Uzbekistan obtains primarily high-technology products from its partner. In such a way, there are created conditions for process acceleration of modernization of national economy, output of the new competitive product.

The base of Korean export to Uzbekistan is manufacturing industry products including investment goods, components for motor-car industry, home electronics, telecommunications equipment, and sewing products. Analysis of the dynamics of the trade structure of Korean exports to Uzbekistan proves that for the last years there have dominated the products of automobiles and equipment sectors for which the ratio in total volume of Korean exports to Uzbekistan grew from approximately 62% in 2000 to 75% in 2015.

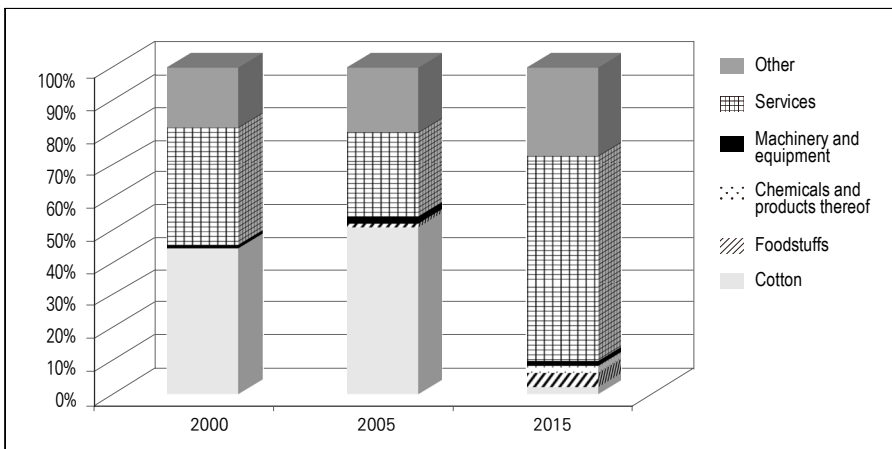
From the viewpoint of stable balanced economic development, an unfavorable factor is the high import ratio as well, which contradicts the principle of independence. The higher the value of this indicator, the more dependent the country is on foreign trade. But in whole, such a high rate of export operation is possible for Uzbekistan's economics, and furthermore, they are necessary for successful integration of the national economy into the world economy. In this situation, it is important to consider that the main indicator, thanks to which imports from the Republic of Korea have increased, is machines and equipment – up to 80%, which allows Uzbekistan to increase its industry potential.

South Korea is a reliable strategic partner of Uzbekistan. Both countries have great economic potential and opportunities and their relations are in a most

favorable condition. There were signed agreements on cooperation in such fields as trade, investment, oil and gas, mechanical engineering, mining, textile, chemical industry, logistics, construction, information and communication technologies, education, public health.

Uzbekistan exports to South Korea food products, chemical products, machinery and equipment, mineral fertilizers, and provides transport, communication and tourism services. From South Korea to Uzbekistan there are imported vehicles, mechanical and electronic equipment, plastic materials and products thereof. In 2015, the trade turnover amounted to more than 2.1 billion US dollars.

Figure 1.3 Exports of Uzbekistan to South Korea (in %)¹⁵⁾



15) Author's calculations on data from the State Committee of the Republic of Uzbekistan according to 2000-2015 statistics.

The structure of Uzbek products exported to Korea is similar to the typical structure of products exported from developing countries to developed ones. Its base is services import (logistics, communication, tourism – 63%), agricultural products including ginned cotton, food products, etc. In recent years, a large value is being obtained by the import of some kinds of chemical industry as well as raw materials for pharmaceutical products.

Uzbekistan cuts the export of ginned cotton systematically by means of increasing the volumes of domestic processing.¹⁶⁾ Though the export of cotton has been reduced, the main purchasers of Uzbek cotton remain Bangladesh (29%), China (26%), South Korea (7%) and Iran (5), as before.

It has been mentioned several times in bilateral and multilateral visits of heads and government delegations between our countries that the Republic of Korea is considered to be one of the largest economic partners of Uzbekistan. Many trade-economic agreements have been concluded following independence of the nation, with most of these agreements referring to the development of cooperation in such areas as finance, trade and investment, industry, oil & gas, energy power.

For the purpose of regular discussion of current issues referring to trade economic relations, Uzbek-Korean and Korean-Uzbek committees on economic cooperation and trade have been created.

16) The founding of modern textile enterprises has begun to produce cyclical turnaround. In particular, the new enterprises are able to process up to 8 thousand tons of cotton hair per a year.

Humanitarian cooperation is also developing gradually. A Korean education center is operating in Tashkent. Centers of Korean language and culture have been opened in the Uzbek State World Languages University and the Samarqand State Foreign Languages Institute, and a center of information technologies has been opened in the Tashkent University of Information Technologies. The foundation of the “Uzbekistan-Korea” center of professional training in Tashkent was another achievement in the education field. Every year 360 students study here in the fields of computers, graphic arts, electrical technologies, agricultural equipment repair and automobile service and maintenance.

It is very important that reformations pursued in Uzbekistan are based on real possibilities, a step-by-step strategy and the potential of our countries. This is the key term of effectiveness. Achieved agreements and signed documents meet fully the interests of our two countries and they will contribute toward the successful realization of the present potential of the cooperation. Uzbekistan and South Korea continue to demonstrate their readiness to actively pursue a strategic partnership, with political dialogue widening and relations deepening in all the fields on the basis of mutual benefit.

In cooperation with South Korea, Uzbekistan has mastered complex productions of high technology where finished products are distinguished by high value added. Korean scientists have made a large contribution to the development of agriculture, medicine, pharmaceuticals, and environment and information technologies of Uzbekistan during the period of joint cooperation.

From its previous status as a supplier of agricultural raw materials, Uzbekistan has become a country that produces finished food products and light industry products which are in demand in the world market. To develop the field in practice, the nation uses the achievements of national and foreign scientists to integrate itself into the world of science.

Thus, in the arid climate of Central Asia where water resources are a key factor in maintaining a sustainable ecological balance between natural ecosystems and social economic development, it was decided to develop technologies for reducing the salinity of drainage water. This project was realized with Korean specialists arranging for the delivery of necessary equipment and materials, also providing technical training and consultation on equipment operation, and supervising the project and conducting joint laboratory research on technologies to lower the salinity of drainage water for reuse.

The South Korean Economic Development Cooperation Fund (EDCF) has provided the Uzbek government with a loan of 80 million US dollars to improve drinking water supply conditions in three regions of the country.

It is still very important to create new joint productions in the regions purely developed. The most important driver for the successful operation of enterprises with foreign investments is the condition of market infrastructure, as investors attach much importance to the region's infrastructure, and they usually prefer regions where it is developed properly.

All of the abovementioned demonstrates the continuous development and strengthening of the mutually beneficial bilateral cooperation between our countries.

2. Investment Policy of The Republic of Korea in Uzbekistan

2.1. Investment climate in Uzbekistan

For the continuous development of Uzbekistan's economic potential, an important aspect will be the attraction of foreign investments. Uzbekistan has pursued economic reforms aimed at promoting fund attraction since 1992. The economic reforms primarily consider the basic conditions which are applied for Uzbekistan – conditions which in the end identify features of investment policy. These conditions are:

- A variety of natural and climatic zones productive for wide development of agriculture. The condition of irrigation systems and their performance conditions are of important value.¹⁷⁾
- The complicated demographic situation, with a high rate of birth and natural population increase (up to 2-3 percent per a year). This creates another difficulty in the unemployment area.
- National mentality which takes a suspicious attitude toward innovations and radical changes, changes in the value system and indurated customs, rules, manners of behavior.
- Traditional lifestyle, preference of local people to be closer to the ground, ethnic traditions, Islam as the religion of the major local

17) KIEP (2008), *Feasibility Study on Establishing Special Economic Zones*, §4, p. 116.

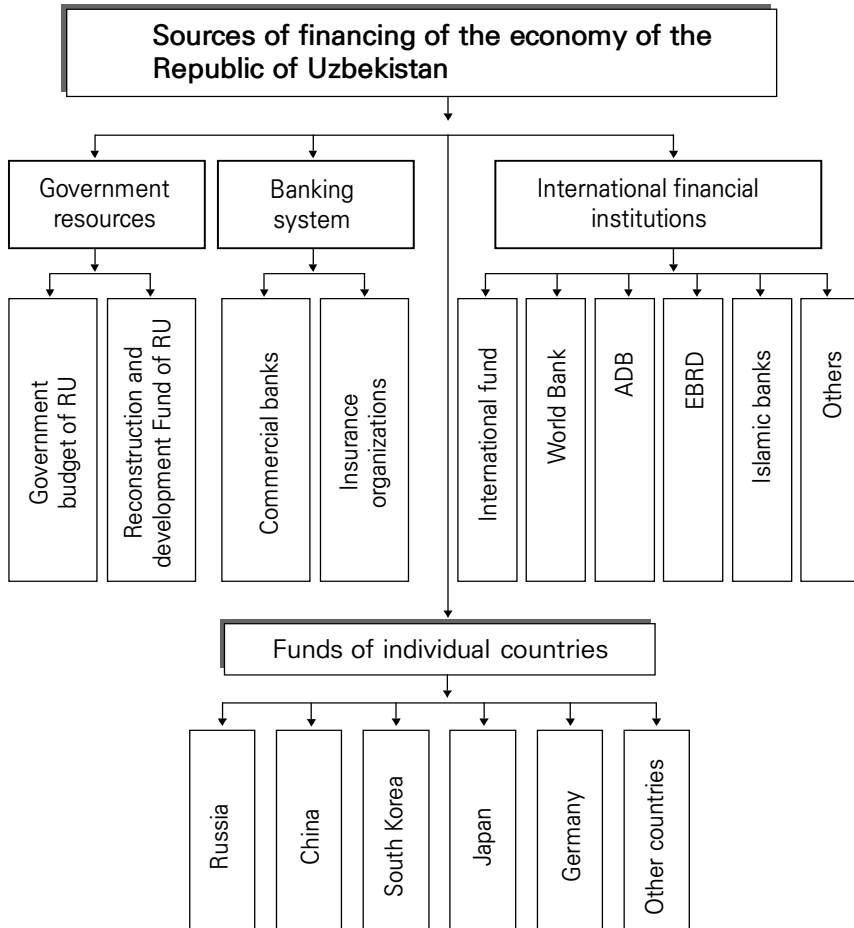
population (Uzbeks).

Thus far, the republic has worked to achieve economic stability, formed a base for exchange relations relying on specific conditions and country features, accomplished privatization of state property, achieved financial stability and strengthened the national currency, made fundamental changes in the economic structure and changed orientation from raw materials export to finished goods production, with the goal of encompassing both domestic and foreign economic reforms.

Modernization and progressive structural changes in Uzbekistan's economy require large financial resources. These resources come from the government's budget, the Reconstruction and Development Fund established under the Ministry of Finance of the Republic of Uzbekistan, as well as funds gained from international financial institutions (the IMF, World Bank, ADB, etc.), and financial assistance provided by developed countries. The whole structure of financial sources for the Uzbekistan economy is shown below in Figure 2.1.

As seen, an essential role is played by funds borrowed from foreign sources, alongside with domestic financial sources for the economic development of Uzbekistan. Within the present conditions of globalization throughout the world economy, countries with a transitional economy not only have the option to draw upon uncommitted resources in international capital markets, but have an objective need for these funds.

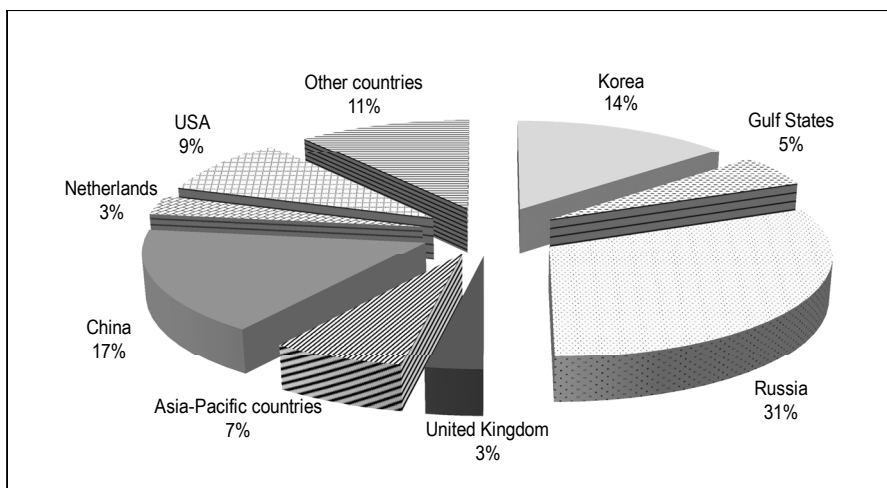
Figure 2.1. Financial sources of structural modernization of the economics of the Republic of Uzbekistan¹⁸⁾



18) Ziyadullayev (2015), "U.S. Liminal values of economic safeguard of developing countries under attraction of foreign borrowings," Regional problems of economic transformation, # 8, pp. 17-26.

Stable growth in the volume of direct foreign investments in Uzbekistan's economics has been seen for 2005-2015. This trend will continue in the mid-term with a trend of increase for South Korea's role (Figure 2.2).

Figure 2.2. Structure of direct foreign investments in Uzbekistan in 2015 ¹⁹⁾



Creation of a favorable business environment and guarantees for investment development are necessary not only for the rise of economic growth but also to drive important quality changes in the economic structure of a nation. Thus, the structure of the country's gross domestic product (GDP) shows that the share of agriculture has decreased from 30.1% to 16.5% in recent years, the

19) Author's calculations on data by the State Committee of the Republic of Uzbekistan according to 2015 statistics.

share of industry has increased from 14.2% to 26.3%, and the share of services from 37% to 56%. Investment activity has grown as well. Thus, the volume of used capital investments has increased 13 times between the years of 1990 to 2015. The ratio between foreign trade turnover and GDP in 1990 was 6%, in 2000 – 45.4%, in 2010 – 56.1%, and in 2015 – 58%.

Nowadays, potential foreign investors are offered many forms of investment:

- Establishment of joint ventures;
- Establishment of a company with 100 percent foreign share holding;
- Purchase of a partial or full equity stake of privatized companies;
- Establishment of new companies based on a preference system through the opening of free trade zones.

The Republic of Uzbekistan has set a regime providing foreign investors with conditions as favorable as proper conditions for investments made by legal and individual persons of the Republic of Uzbekistan.

The government guarantees and protects the rights of foreign investors who perform investment activity in the territory of the Republic of Uzbekistan. In cases where revised legislation of the Republic of Uzbekistan aggravates investment conditions, the legislation which was in effect on the date of investment will be applied to foreign investors within 10 years from the moment of investment. Foreign investors also have the right to apply new law provisions which improve their investment conditions at their own convenience.

The legislation provides for a notification procedure of 10 years guaranteed usage. Thus, after aggravation of investment conditions, the foreign investor

issues notification to a proper authorized body concerning guarantee of application.

Authorized bodies notified about this guarantee for foreign investors are considered to be a state organization performing official registration of legal persons – the Ministry of Foreign Affairs, Ministry of Internal Affairs, Ministry of Foreign Economic Relations, Investments and Trade, State Tax Committee of the Republic of Uzbekistan and servicing banks.²⁰⁾

Notification of a foreign investor is considered to be a reason for an authorized body to apply the law to a foreign investor which was in effect as of the date of investment. The notification is regarded as being in effect from the moment of the act entering into force, regardless of its being sent to an authorized body.

Together with general guarantees and protection measures for foreign investors, the legislation can also offer additional guarantees and protection measures including those providing for absolute performance of obligations by partners to foreign investors.

In some cases where investment contracts are concluded by foreign investors, additional guarantees and rights protection measures can be allowed for investing in:

- Priority-oriented areas which provide for stable economic growth, progressive structural alterations in the country's economy;

20) Construction Materials Sector in Uzbekistan. Ansher Investments (2012), p. 15.

- Priority-oriented projects which provide for strengthening and widening the Republic's potential, its integration into world economic relations;
- Projects in micro-entrepreneurship where realization is directed to raw and other materials processing, production of consumer goods and provision of services to secure employment of population.

2.2. Realization of investment projects of some South Korean companies in Uzbekistan

The Republic of Korea started active support of market reforms and democratic reorganizations in Uzbekistan as well as wide assistance in financial-economic and technical areas to realize the most important programs for the country's socio-economic development. Agreement of opinion between heads of state, mutual aspirations between both countries to strengthen collaboration, spiritual affinity of our nations became a determinative in the development of partnership relations.

South Korea is a key investment and technological partner of Uzbekistan. Such leading South Korean companies as Hyundai, Samsung, LG, GM-Korea, Korea Gas Corporation, Lotte Chemical, GS, Posco Daewoo, Korean Air, Shingdong, Kolon are the traditional long-term partners of Uzbekistan for realization of joint investment projects. As a result, the volume of direct investments by South Korea to Uzbekistan's economy has exceeded 7 billion US dollars (Table 2.1). Currently there are 449 Uzbek companies with

participation by South Korean investment and 79 accredited representative companies.

Table 2.1. The main joint investment projects of the Republic of Korea in Uzbekistan²¹⁾

Main projects	Investments
Construction of automobile plant	1.5 billion US dollars
Project on environmental development in some of Uzbekistan's regions in water supply, canalization and management of solid domestic wastes (SDW)	750 million US ollars
Construction of textile complex	230 million US dollars
Korea Economic Development Cooperation Fund (EDCF) – improvement of domestic water supply in three regions of the Republic	80 million US dollars
Realization of the project on “Development of technologies of collector drain water salt content reduction for recycling in the Republic of Uzbekistan”	12 million US dollars
Natural gas extraction	4 billion US dollars
Free Industrial Economic Zone Navoi	500 million US dollars
Free Economic Zone Angren	500 million US dollars
Construction of wind energy station	20 million US dollars
Investment in oil and gas industry	3.12 billion US dollars

In order to form a new investment climate and conditions for the attraction of direct foreign investments it was decided to establish the Republic's first free industrial economic zone in the centre of Uzbekistan, and the entire

21) Based on data by the State Committee of the Republic of Uzbekistan on Statistics.

Central Asian region, in close vicinity to transportation lanes of international importance.

On the basis of a long-term agreement with Korean Air, Navoi Airport was modernized and an international intermodal logistics center was established. The main task is to transform Navoi Airport into a road junction of international importance, with the target of transporting more than 1 million tons of goods per year.

It is necessary to underline that, through its cooperation with South Korea, Uzbekistan has mastered product output in the highest technologies offering high value added, and has become an automobile-producing country.

Cooperation with the Korea Gas Corporation (KOGAZ) has led not only to geologic explorations of gas fields and their development, but also the production of 445 thousand tons of polyethylene and polypropylene a year. In other words, processing of gas raw material makes it possible to produce products with high value added. Within the framework of the project it is planned to attract investments from South Korea to the amount of 3.12 billion US dollars.

Nowadays, the Republic of Korea has become one of the biggest investors and trade partners of Uzbekistan. Following the results of 2015, goods turnover exceeded 1.7 billion US dollars. Uzbekistan is also a main trade partner of South Korea among the countries of Central Asia – over a half of the turnover of the Republic of Korea with regional governments belongs to our country. Thanks to these investments, it has become possible for Uzbekistan to establish

and realize dynamic development in the areas of automobiles production, telecommunication, textile, electronic and others. Under the active assistance of the Republic of Korea, Uzbekistan has mastered complex science absorbing industries in which final output is distinguished by high added value. Thanks to collaboration with Korean companies, Uzbekistan has become one of the few world empires which has its own automobile production sector – which is fast growing and progressing.

Our countries accumulated a large body of experience in the area of effective economic cooperation. Thus, the Usturt Gas Chemical Complex raised on the basis of the Surgil gas field is recognized by its scale as an international mega-project. This complex was built through participation by the Korea Gas Corporation, Lotte Group and STX Energy, and will be able to process 4.5 billion cubic meters of gas per year, thus allowing the production of 3.7 billion cubic meters of sales quality gas, 387 thousand tons of polyethylene, 83 thousand tons of polypropylene, 102 thousand tons of pyrolyzed gasoline and other valued products. South Korean companies also participate in geologic exploration of advanced hydrocarbon reserves and their development in different regions of Uzbekistan.

Automobile production is the most visible high-technology production developed in our country together with South Korean partners. As of present, automobile production companies operate in the Tashkent, Andijan and Khoresm regions. 20 South Korean companies are participating in this branch of industry and 17 joint ventures have been created in Uzbekistan.

The textile industry is another priority area of cooperation. 10 projects for 231.17 million US dollars have been realized together with South Korean partners in this direction. The South Korean company Textile Technologies Group founded a modern textile enterprise with cyclical turnaround in the Tashkent region. In particular, the new enterprise is able to process up to 8 thousand tons of cotton hair per year.

In order to form a brand new investment climate and conditions for the attraction of direct foreign investments, it was decided to establish the Republic's first free industrial economic zone in the centre of Uzbekistan, and all the Central Asian region, in close vicinity to transportation lanes of international importance.

A logistics center has been ordered to perform the functions of a full system of cargo distribution along region by land transport which comes through Navoi Airport, as well as redistribution of air cargo traffic in North-South and East-West lines.

Korean Air is participating actively in the development of the Navoi international center of intermodal logistics. Its present capacity has reached a maximum of 1,000 tons per day, and its freight terminal is able to handle and store 300 tons of freight and serve 20 airplanes.

Within the framework of cooperation in the field of ICT with involvement of South Korean parties providing technical assistance, the project to install an Electronic Government system in the Republic of Uzbekistan was advanced, with education organization and professional advanced training in this field. In

accordance with a memorandum of cooperation with the Korean company LG CNS, signed on June 2014, the project commenced and a joint venture on information system development and software products for the e-government system and real economy sector in the Republic of Uzbekistan was established under the name of “LG CNS Uzbekistan.”

Cooperation with the Korea International Cooperation Agency (KOICA) and EDCF of Eximbank Korea made it possible to strengthen financial technical partnership. The main partnership lines with KOICA are providing equipment on a grant basis, preparing and advance training of skilled workers, attracting South Korean engineers to Uzbekistan. By joint efforts from 1995 to 2015, 26 projects have been realized for a total amount exceeding 78.75 million US dollars in such fields as health care service, education, information technologies, communal services, agriculture and water economy, and energy development projects.

Together with the EDCF there were realized four investment projects to the amount of 114.1 million US dollars. Another four projects to the amount of 207.6 million US dollars are proceeding in the fields of health care service, professional education and geographic information system and are at the realization stage.

Another joint project with South Korea to the amount of about 100 million US dollars provides for modernization and construction of water supply lines of 516.4 km in six villages in the Samarqand region located in the republic’s central part.

The main strategic approach to the cooperation development between Uzbekistan and the Republic of Korea includes the following:

- Modernization and technical retooling of priority export-oriented economic sectors, wide integration of achievements of scientific-and-technological advance;
- Effective usage of rich potential and advantages, expansion of export of competitive and high-technology products (services);
- Optimization of export structure and import activity in order to lower the risks and hazards connected with their raw materials trend, high dependency on one country market, and widening of product output high value-added;
- Orientation of foreign trade policy to the solution of social problems and improvement of the quality of life for the population.²²⁾

The biggest competitive advantage of the Republic of Korea is that Uzbekistan considers it as a sort of role model and a strategic cooperation partner without any political shades. To strengthen friendly cooperation with Uzbekistan at the civil level, the Republic of Korea is interested in friendly beneficial relations, including providing Uzbekistan with its Korean model of development in such diverse fields as medicine, education and culture.

22) Talipova N.T. (2011), *Influence of external risks and hazards on stable development of the economics of Uzbekistan in conditions of crisis*, University of World Economy and Diplomacy, Tashkent, §4.2, p. 116.

3. Cooperation in Energy Industry and Oil & Gas

3.1. Uzbekistan's oil & gas sector

The Uzbekistan oil & gas sector is considered to be the largest economic segment with the most important value for development throughout the whole republic's economy. In spite of the fact that there is a situation of instability in the world market of energy products, which impacts conditions in the oil & gas sector of the Republic, the activity of oil & gas companies is marked by predictability. At the same time, aggravation of geological conditions of mining, and the increase of costs for mining energy and mineral resources, intensifies the risks of industry growth slowdown and lowering of export earnings.²³⁾

Having rich energy and natural resources, Uzbekistan ranks fifth for gold mining, tenth for uranium mining in the world; it also has bronze, zinc, silver, molybdenum, wolframite reserves. There are 243 deposits of hydrocarbon on the territory of Uzbekistan, 111 of which have been found in the last 20 years, 15 of these by foreign investors.²⁴⁾ Among 243 found deposits of hydrocarbon, 194 contain free gas, 121 – oil and 157 – condensate. Out of the total amount

23) Chepel S.V. (2014), Alternative scenario of development and activation of new factors of economic growth for long-term outlook, "Materials of Forum VI of young scientists-economists." T.1 under general editorship of PhD of economics Sadikov A.M. Tashkent, IFMR, pp. 3-12.

24) Fayzullayev Sh. (2012), "The basic economic sector of the country for 20 years: formation and dynamic development," *Oil and Gas Journal*, Tashkent, pp. 2-3.

of deposits, 104 are under development, 60 are prepared for development and 69 are under examination.²⁵⁾ The Republic's initial oil in-place amounts to 5 billion tons, and proved oil reserves amount to 530 million tons. Following the results of 2013 and 2014, the proved oil reserves in Uzbekistan amounted to 0.1 milliard tons (0.6 billion barrels), and natural gas – 1.1 trillion cubic meters. The Republic ranks second for gas production in CIS, and ranks 50th for oil production among world countries.²⁶⁾

At year end of 2015, proved oil resources of Uzbekistan came to 100 million tons, and 1.1 trillion cubic meters of natural gas resources, which is equivalent to 2014 levels.²⁷⁾

Uzbekistan has reduced oil production by 3.1%, or about 3 million tons (Figure 3.1).²⁸⁾ On average, Uzbekistan produces 64 thousand barrels of oil per day (3.1% lower compared with 2014).

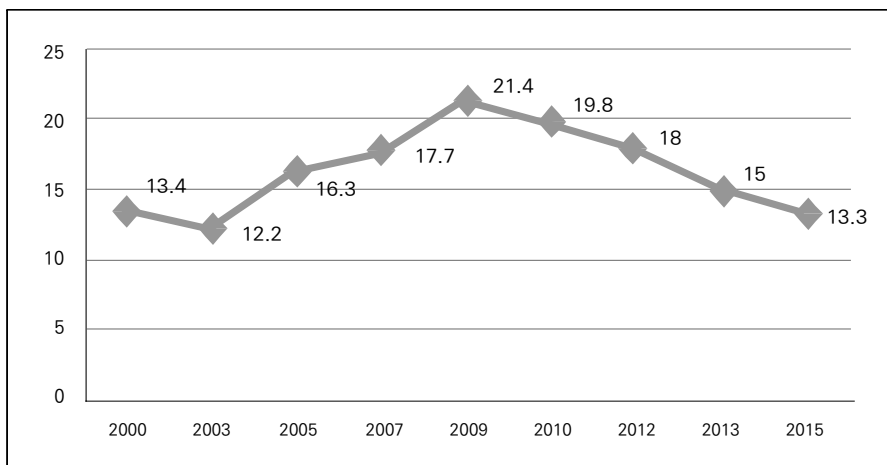
25) Oil and gas industry, agency portal on information support and promotion of foreign investments Uzbekinvest, <http://uzinfoinvest.uz/>.

26) Bobokhujaev Sh. I. (2014), "Possibilities of Uzbekistan oil and gas companies to attract investments resources through Capital market," International conference, Saint-Petersburg, pp. 31-37.

27) BP report (British Petroleum – British oil and gas company, the second largest publicly trading oil and gas company in the world) on world energy sector for 2015.

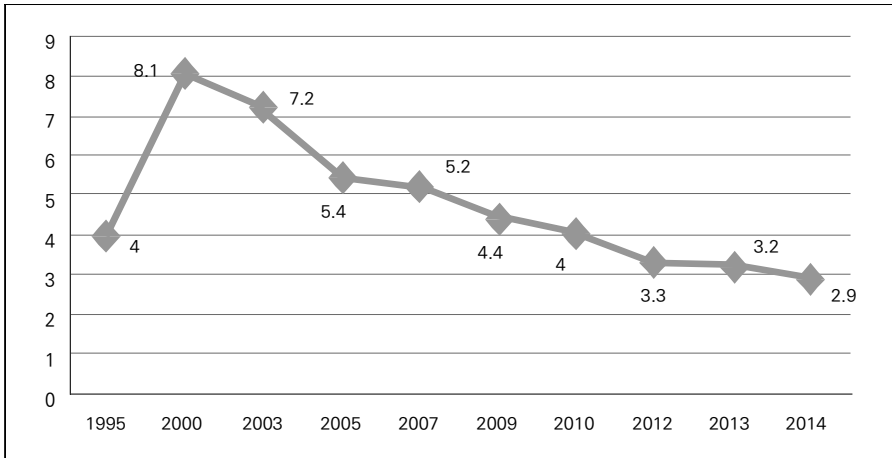
28) Bobokhujaev Sh. I. (2016), "Scientific review: post-independent period of development of oil and gas sector in Uzbekistan: success, problems and perspectives," *Scientific survey. Economics*, # 2, pp. 35-50.

Figure 3.1. Relative weight of fuel industry products in structure of industrial production, %



In 2015 the Republic's oil consumption was reduced by 0.1% compared with 2014 levels (about 2.9 million tons). Daily average oil consumption for 2015 in Uzbekistan came to 59 billion cubic meters (0.1% less than in 2014). The Republic's 2015 gas consumption came to 57.7 billion cubic meters, which is 0.8% higher than 2014 levels. Consumption of gas in 2015 came to 50.3 milliard cubic meters (plus 3.1%), as shown in Figure 3.2.

Figure. 3.2. Oil production including Добыча нефти, включая gas condensate for 2000–2014, million ton



According to expert opinions, the objective reason for the continuous decrease in oil and gas condensate mining is reserve depletion of producing fields, with the current volume of mining reserves of liquid hydrocarbons not exceeding 0.1 billion tons. Another reason is the limitation of raw materials base and unsuccessful exploitation of available reserves in the first years of independence.

Taking into account that all the processes in the oil and gas sector are interrelated, the decrease of mining of oil and gas condensate produced a lack of floating financial resources which had been directed primarily to the import of raw materials. The lack of financial resources became the limitation for

providing current needs in geologic exploration – drilling and mining. And lack of financing is considered to be the reason for such lowering of volume of reserves and natural gas mining. Also, the high level of specific outlay factor per the unit of made products can be referred to as problems in the oil and gas sector as well.

Currently, the mechanism of investment attraction in the oil and gas sector consists of the following directions:

- production sharing agreements (PSA);
- foundation of joint ventures (JV).

After adoption of the statute on PSA, the Republic contented itself with only small profits from production sharing, but beginning from 2004 it has asserted its share in PSA projects from 20% to 50%, and in JV projects – not less than 50% (PSA Shakhpakhta, PSA Aral, JV UzCNPC Petroleum, JV Gissar oil and gas). As for now, running PSAs have been concluded with two Russian companies – the national companies Lukoil and OJSC Gasprom – as well as with Korea's KNOC and China's CNPC.

Hydrocarbon production is developed in the Ustyurt region and Gissar investment block. Besides production sharing agreements Uzbekistan has also concluded agreements on geologic exploration. Among foreign partners who cooperate in the area of geologic exploration are such countries as Korea, P.R.C. and Vietnam.

The biggest Korean companies such as the Korea National Oil Corporation (KNOC), Korea Gas Corporation (KOGAS), and Daewoo International are

operating in Uzbekistan's market and take participation in the explorations.

Currently eight joint projects have commenced, including geoexploration projects in the district of Western Fergana and Hanabad, development of the Surgil gas field, establishment of a gas chemical complex, etc.

The Ustyurt gas chemical complex is one of the biggest projects in the world. This complex has gained high acceptance in international class publications. In particular, the international publication Project Finance International has recognized the agreement on project financing of complex construction project as the best 2012 project in the oil & gas and gas chemical sectors. The project has been awarded the international prize of "Best Deal-2012" according to Trade Finance Magazine and Global Trade Review.

The Surgil gas project is based on the possibility of KOGAS and Uzbekneftegaz to jointly develop the Surgil gas field located near the Aral Sea. The project aims to use and sell extracted resources as well as to construct a gas chemical plant for further export sales. According to the investment program, the investment volume came to 4 billion US dollars.

Generally speaking, thanks to integrating efforts by Uzbekistan and the Republic of Korea, the Surgil project is proceeding on schedule. Successful completion of the project will open a new stage of Korean-Uzbek economic relations.

In general, during their summit meeting in 2015 the two presidents signed an unprecedented package of documents: 60 contracts and agreements, 55 of which were in the sphere of trade and economic, investment and financial-

technical cooperation. In the investment cooperation area 34 agreements were signed, including five projects in the gas, oil and chemical area, nine projects in the automobile industry, and five projects in the electric area. These projects also include perspective projects on deep hydrocarbon processing, adoption of new technologies for processing of natural gas to methanol and olefin, production modernization of azotic acid, organization of total cycle production for three new global models of automobiles, mastering production of automobile engines, transmission and components of new generation, production of modern major appliances.

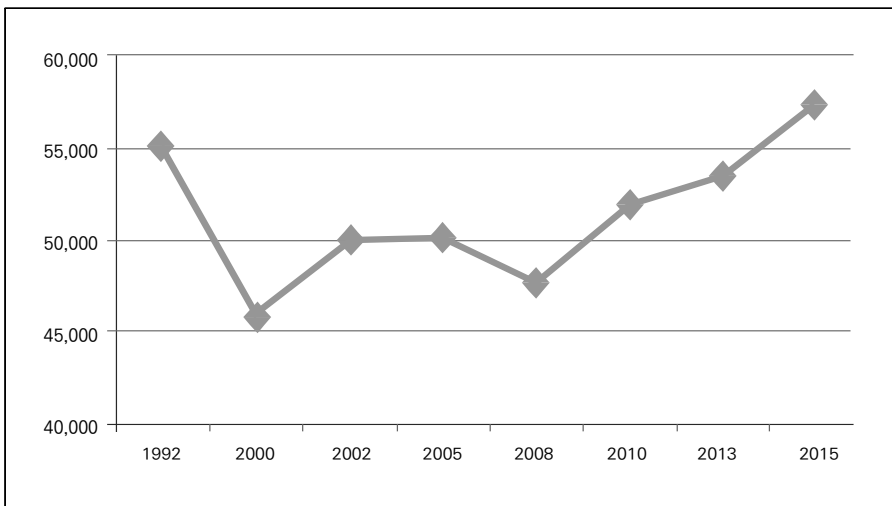
3.2. Cooperation in energy industry between the Republic of Korea and Uzbekistan

Currently, 45 power plants with the total capacity of 12.4 thousand MW operate in the energy system of the Republic of Uzbekistan; among them, the total capacity of the 16 power plants of the state joint-stock company Uzbekenergo exceeds 12 thousand MW. The energy production potentiality is 56-57 billion kWh.

The installed capacity of Uzbekistan's power plants is about 50% of generating capacities of the whole consolidated power system of Central Asia. Energy production for the year 2015 in Uzbekistan amounted to 56925.52 billion kWh (Figure 3.3), where 51.54 billion kWh had been produced by the companies of the state joint-stock company Uzbekenergo, and the rest of

electric power produced by independent heat power plants of industrial companies and midget power plants.

Figure 3.3. Uzbekistan electric power production in 1992–2015



The biggest power plant in Uzbekistan and all over Central Asia is considered to be the Sirdarya heat power plant, with an installed capacity of 3000 MW (put into operation in 1966). The hydroelectric power stations of Uzbekistan are: Hissar hydroelectric power station (capacity 45 MW), Farkhad hydroelectric power station (capacity 126 MW), Andizhan hydroelectric power station (capacity 190 MW), Charvaq hydroelectric power station (capacity 600 MW), Chirchiq-Bozsu chain of power plants (capacity 1200 MW).

Currently, in the structure of the country's primary fuel and power resources,

97% is for oil and gas, 2.3% is for coal, and 0.7% is for hydraulic power development.

Electric power produced in our country is able to cover the increasing domestic need in full, and its cost is 4.5 times lower than the average price at which industrial customers usually consume in developed countries. The price of one kilowatt of electric power costs about four cents.

Additional possibilities are created by the unlimited potential of alternative energy sources, including the solar, wind energy which are obtained after processing solid domestic wastes. This makes it possible to generate energy to the amount of more than 51 billion tons of oil equivalent per year.

Proximity to wide market outlets and developed transport infrastructure of Uzbekistan, integrated to multimodal communication system of Eurasia also determine the perspective of investment and trade economic cooperation.

Investing in Uzbekistan, foreign companies gain the opportunity to approach the five biggest and the most dynamically growing markets - CIS countries with markets of more than 300 million people, Central and Eastern Europe, Southern and Southeast Asia, Middle East.

After gaining independence in 1991, the energy sector of Uzbekistan became a net exporter of energy products owing to oil and gas production increase.

Currently, Uzbekenergo is conducting a policy of full-scale modernization and construction of generating capacities, electric mains and electric power substations for stability increase and national power system stability. The company constantly explores the issues of timely realization of investment

projects, and it is working with international financial institutions and partners from abroad so to attract additional foreign investments, advanced foreign experience in the area, and installation of high-technology equipment.

In turn, it ensures the stability of the energy system and the reliability of power supply to consumers, increasing the export potential of the area. Thus, in accordance with the current investment program, 28 major investment projects for the establishment of new facilities or modernization and reconstruction of functioning productions are being realized. In total, the projects have utilized 247.8 million US dollars for the first half of the year.

Having noticed the high potential in Uzbekistan's energy sector, South Korean specialists are striving to widen the development of bilateral cooperation in the area of electric lines. As of yet, no cooperation projects have been established between Uzbekenergo and South Korea's KEPCO in the Navoi region. At the moment they are exploring the production of photovoltaic panels in the Namangan region. Taking into account that Uzbekistan is working to construct a photovoltaic facility with the capacity of 100 megawatts in the Samarqand region, the startup of this production is currently receiving interest.

The South Korean government will allow a concessional loan of up to 75 million US dollars²⁹⁾ for the construction of heliostations in the Samarqand region.

The governments of the two countries have signed a memorandum of

29) Agency of economic information RIA News, <http://1prime.ru/energy/20131220/773542712.html>.

understanding which provides for the technical and financial participation of South Korea in the area of solar energy development of Uzbekistan. The loan will be financed through the resources of the Economic Development and Cooperation Fund (EDCF).

Uzbekistan and South Korea have many opportunities in cooperation development in the area of alternative energy. One demonstrative example is the successful realization of the pilot project to construct a 130 kW-capacity solar photovoltaic power plant in the Namangan region.

The construction of the first photovoltaic power plant in Central Asia provides for the installation of generating capacities of 100 megawatts which will generate up to 200 million kWh of electric power per year. They plan to complete the project in May 2019.

Financing of construction at the cost of 317 million US dollars will also be realized out of the proceeds of the credit of the Asian Development Bank (110 million US dollars), the credit of the Reconstruction and Development Fund (122 million US dollars) and company funds of the state joint stock company Uzbekenergo (10 million US dollars).

Uzbekistan is currently planning to build several solar power plants of a capacity of more than 2 GW. The projects will be financed using funds provided by Uzbekenergo and loans from international financial organizations. The potential of Uzbekistan's solar energy is valued at 50.9 billion tons of oil equivalent, which is 99.7% of all the explored and renewable energy sources up to now in the Republic.

4. Research and Technology and Innovation Cooperation

4.1. Innovation cooperation between the Republic of Korea and Uzbekistan.

An important line of cooperation between the Republic of Uzbekistan and the Republic of Korea is the realization of perspective projects, connected with the attraction of high innovation technologies to Uzbekistan, with the aim to found new facilities and modernize existing operating productions. The Republic of Korea has been a strategic partner throughout the entire period of Uzbekistan's independence – a partner who provides step-by-step support in the realization of large-scale national programs on basic reformation and extensive modernization of the economy and social services.

The Republic of Korea is one the leading countries in the world in the area of information and communication technologies. Our country gives special attention to development of this area as well. In accordance with the Complex Program of National Information and Communication Technology Systems Development of Uzbekistan for 2013-2020, step-by-step progress has been planned for wide integration of modern information technologies into all spheres of life.

Analysis of the previous chapters showed how South Korea has steered a course of trade economic cooperation with Central Asian countries, providing

itself with minerals, fuel and power resources and cash flow from its exports. At the same time, being a technological leader, Korea needs continuous innovations and new ideas as other countries do.

For the last years many developed countries have expressed their apprehension about further development due to personnel problems.

- The world lacks not only engineers and researchers but also qualified workers, whose total deficit amounts to about 10 million people.³⁰⁾
- The largest deficit is seen in India, which lacks more than 5 million of qualified working population, and China, which lacks about 4 million. The problem is true for developed countries as well.

Korea has this problem as well. It is forecasting the lack of scientists and engineers as follows:

- in the field of bioengineering – 7 thousand people by 2020;
- in the field of nano-technologies – 10 thousand people by 2025;
- in the field of intellectual professional equipment and robotics the number of occupied personnel is already five times lower (2 thousand people) than is actually needed.³¹⁾

This problem is typical both for ecological technologies and all the more for interdisciplinary research and convergent branches of industry on their basis.

The next problem is a deficit of intellectual capital in the regions of Korea.

30) Neyaskin G. Industrial wars of near future, <https://slon.ru/economics/za>.

31) Abdurasulova D. (2013), “Innovation cooperation can be more beneficial than raw material one,” *Economic review*, #07, pp. 50-55.

The most parts of high schools, research institutes and R&D centers are located in the capital of this country, Seoul. At the local level there is a shortage of scientists and engineers, particularly in the last decade, with the beginning of implementation of the national strategy of geographically balanced development. Within the framework of special national programs the following have been organized at the local level:

- 7 innovation allocation units,
- 6 free market zones,
- 6 free economic zones (FEZs),
- chains of environmental industrial parks,
- Innopolis Daeduk,
- International Science and Business Belt in Daejeon
- Biotechnopolis Osong,
- Wonju Medical Industry Techno Valley,
- Aerospace Valley in Yong-cheon,
- 5 R&D centers for nanotechnology.

The above make it becomes obvious where the advantages of cooperation of Korea will be for Uzbekistan, especially as resource-based economies can be innovative. For example, Qatar is a small country which is the third in gas reserves in the world after Russia and Iran. And it is now a leader in gas liquefaction technology with a huge production capacity. In Qatar, 100 million tons of liquid gas are produced a year, and as a result of innovative technologies they plan to double these figures in 5 years.³²⁾

The Coordination Committee of Science and Technologies Development under the Cabinet of Ministers of the Republic of Uzbekistan and Korea Institute of Science and Technology Information (KISTI) have signed a memorandum of cooperation.

This document has provided Uzbekistan with an opportunity to engage in cooperation with Korea on the one hand, for:

- intensification of the pace of development of domestic science,
- increase of the level of commercialization and technology transfer,
- modernization of the infrastructure of R & D,
- involvement of personnel and prevention of so-called “brain drain.”³³⁾

On the other hand, it will be necessary to use the field of science as a platform for the discovery of new horizons in Uzbek-Korean relations, strengthening of Uzbekistan’s status as a leading partner of Korea not only among the countries of Central Asia, but also in the CIS.

Major projects funded by Korea in Uzbekistan can include the following.

- Opening a branch of the Korea Academic Institute of Science and Technology in Uzbekistan. The Uzbek scientists and specialists will lead elaborations on the order and at the expense of the Korean party. Funds for the construction and equipping of relevant structures are given by Korea, and they themselves are under 100% submission and

32) Shmal G. Raw material economy can be innovation, [http://www.gosrf.ru/news/6019/\\$link\\$/](http://www.gosrf.ru/news/6019/$link$/).

33) Abdurasulova D. (2013), “Innovation cooperation can be more beneficial than raw material one,” *Economic review*, #07, pp. 50-55.

management by the Korean party, acting in the organizational form of foreign enterprise.

- Establishment of research centers and testing laboratories together with Korea, specialized in the research field of:
 1. multi-disciplinary R&D
 2. biomedicine,
 3. nanotechnologies,
 4. nuclear physics,
 5. renewable energy source,
 6. intellectual professional equipment and robotics,
 7. residue utilization.
- The implementation of targeted research programs commissioned by the Korean side in the domestic universities, research institutes, SPA (scientific-production associations) without forming a legal entity, which will significantly expand the scope of Kazakhstan attracted funding. SPA participation would strengthen cooperation in the basic triangle of the national innovation system (academic science institutes - research institutes – companies).

Organization of production made through Uzbek-Korean R&D under a Korean brand in the Navoi Free Industrial Economic Zone. Subsequent delivery to the parent companies-customers in Korea, or their affiliates in other countries through the logistics hub at Navoi airport will create in Uzbekistan a finished scientific and technological cycle that leads from the development of ideas and

all the way to materialization in the product using local raw materials and further export.

To deepen scientific and technological cooperation the following measures can be offered:

- conducting development and clinical testing of new methods of diagnosis and treatment by order of the Korean side by medical institutions of Uzbekistan;
- informing the research units of Korean transnational corporations about the developments of domestic scientists;
- forming strategic alliances with Korean transnational corporations on commercialization of finished developments of domestic scientists;
- attracting Korean venture capital companies to finance research and development of R&D projects through partnerships with the Korean Venture Capital Association;
- expansion of areas of cooperation in Uzbekistan with KOICA to attract grants, technical assistance and concessional loans for the implementation of innovative projects of resource and ecological character, through the Export-Import Bank of Korea through “green financing.”

4.2. Interregional cooperation in the fields of science and technology

The Ministry of Information Technologies and Communications Development of the Republic of Uzbekistan and the Ministry of Science, Information and Communication Technologies and Future Planning of the Republic of Korea are cooperating effectively. South Korean specialists are helping Uzbekistan to develop an E-government system in Uzbekistan and train personnel.

Starting from 2013 to 2016, Uzbekistan and South Korea have signed a number of memoranda of cooperation between UNICON.UZ, the scientific-engineering and marketing research center, and the Research Institute of Electronics and Telecommunications of the Republic of Korea (ETRI). Other noteworthy memoranda include the following:

- Memorandum on cooperation between the Center of Information Security and the Korea Internet Security Agency (KISA), Tashkent University of Information Technologies, UZINFOCOM and the National Information Society Agency of the Republic of Korea (NIA),
- Memorandum of understanding between the Tashkent University of Information Technology, Seoul National University (SNU) and Korea's leading Institute of Science and Technology (KAIST); memorandum of understanding between the Tashkent Medical Academy and the Korea Institute of Oriental Medicine (KIOM).

The establishment of an Uzbek branch of Inha University in October 2014

was an important event in the development of bilateral relations. It became a spectacular example of the scale and perceptiveness of cooperation in this line. The students of the university study the areas of software production, operation of information systems and networking, and these programs are at high international-level standards. A training center for the E-government program operated by the South Korea IT center is functioning under the Tashkent University of information technologies.

Faculties of the Uzbek language have been founded in South Korean universities of foreign languages in Daegu and Pusan. In Uzbekistan, the Korean language is taught at the Uzbek State World Languages University, Tashkent State Institute of Oriental Studies and Samarqand State World Languages Institute. Institutions of higher education in our country cooperate with more than 30 scientific organizations of the Republic of Korea.

Cooperation has developed actively within the framework of technical assistance by the government of the Republic of Korea through the Korean International Cooperation Agency (KOICA),³⁴⁾ whose activities contributed essentially in the development of human resources and technical cooperation. KOICA has been operating in Uzbekistan since 1995 and it makes efforts to realize necessary works for the social economic development of Uzbekistan with a focus on education, public health and state administration (E-government). The various projects on free aid are valued at a total of 80 million US dollars.³⁵⁾

34) Uzbekistan - Republic of Korea: new horizons of strategic partnership (2015), <http://blog.naver.com/seoheeing/220457078760>.

More than 1,240 representatives of ministries and authorities of Uzbekistan have received training under programs within the Republic of Korea. Together with the Uzbek government, KOICA has conducted 24 projects over 22 years, an amount which exceeds a total of 80 million US dollars (the first place in countries of Central Asia). More than 1,350 specialists from Uzbekistan have been trained in Korea from 1992 till 2013, and more than 600 volunteers have been sent from Korea to Uzbekistan from 1995 till 2015 within the framework of KOICA projects.³⁶⁾

Volunteers are sent to all the regions of Uzbekistan every year to hold various events in such fields as the study of Korean language, public health, industrial energy, electronics, agriculture; they also work on specialized programs for Uzbekistan and create effective study systems and provide people with modern skills.

The key projects commenced under this line of agency include:

- Construction of the Center of Professional Study in Tashkent (2007-2010, 4 million US dollars);
- Informational support of three central state archives of the Republic of Uzbekistan (2008-2009, 3 million US dollars); creation of a complex system of electronic library of scientific and technical literature (2008-2010, 2 million US dollars);
- Assistance for potential development of virulent disease control (2009-

35) www.Uz A/International cooperation: Uzbekistan – the Republic of Korea.

36) www.sputniknews/uz.

2010, 3 million US dollars); modernization of heating system for the Khorezm region (2009-2010, 3.5 US dollars);

- Modernization of water supply system in Urgench (2009-2010, 1.5 million US dollars);
- Development and integration of technologies of collector drainage waters cleaning with the aim of their recycling (pilot project, 2009-2010, 650 thousand US dollars);
- The project of planting an Uzbek-Korean friendship forest of about 0.5 ha has been approved jointly by city halls within the Navoi region, with the aim of improving the environment and housing conditions of local population within the framework of planting of the territory near to the free industrial economic zone. The lining-out nursery was built with Korean high technologies and equipment.³⁷⁾

Uzbekistan and South Korea signed a program with KOICA for 2015-2017 in which KOICA will provide Uzbekistan with grants to the amount of about 60 million US dollars within 3 years to organize personnel professional technical training centers in Urgench and Kokand. A project to found an electronic library is being planned, uniting 220 libraries in one website.

Under the two projects begun in 2012, advances were made in structure systematization and teaching modernization in the field of professional translators training together with the Uzbek State World Languages University

37) <https://www.gazeta.uz/2014/>.

and University of International Economy and Diplomacy. In total, the Korean agency directed 1.3 million US dollars to these projects.³⁸⁾

KOICA and the Uzbek State World Languages University (USWLU) opened a classroom of professional training for translators in Tashkent. The redesigned classroom equipped with the newest equipment will help teachers to train professional translators. This program on teachers and students exchange was conducted within the framework of cooperation between KOICA and USWLU.

In December 2014, within the framework of a joint project with the National library of the Republic of Korea, the reference room “Window to Korea” was opened in the National Library of Uzbekistan, equipped with information resources on linguistics, culture, tourism and Korea’s history, which had been provided by South Korea.

In 2015, with the participation of KOICA, the Center of Computer Testing and Professional Translators Training was opened in the University of World Economy and Diplomacy

Scientific, technological and innovation cooperation with Republic of Korea has brought fruitful results in the development of science and innovation ideas in Uzbekistan.

In conclusion, we should note that globalization, increasing international competition, and an increase in the scale and dynamism of the changes has resulted in the transformation of the education sector. Scientific-technical and

38) [www.sputnik news.uz](http://www.sputnik-news.uz).

innovation cooperation with the Republic of Korea have yielded fruitful results in the development of science and innovative ideas in Uzbekistan. One of the fundamental principles of education in the Republic of Korea is that the development of education is an essential condition for economic development and, consequently, the development of the entire state. Proclaiming one of the main directions of economic policy to overcome raw material orientation of the economic structure, the new industrial policy involves intense assimilation of modern knowledge of the latest technologies, achievements of science and technology. That is why cooperation with the Republic of Korea as one of the leaders in the industry will greatly help competent reform of the system and further integration of Uzbekistan into the global educational community.

5. Cooperation Problems and New Approach in Small Business Area

5.1. Specific features of development of small business sector in Uzbekistan

Small business and private enterprises are considered an important source of GDP growth and population employment. On average, small and medium businesses account for more than 50% out of the total employment and 50-60% of the total GDP volume.

Small business and private enterprises play a big role in the economic development of any country.

First, small business, being the most important structure-forming sector of economy, serves as the main source of filling in a domestic market with goods and services.

Second, being communicative in its form, being mobile and operative in taking decisions, and being adoptive to innovations, small businesses can adapt easier to changes in demand, world market conditions, and respond to these in time.

Third, establishment and operation of small business does not require large expenses and capital investments, thus allowing faster and easier modernization, technical and technological re-equipment of production, and continuous updates of nomenclature to guarantee competitive ability.

Fourth, stability in this field is higher when compared with the major companies to calls and consequences of world financial economic crisis.

Fifth, small business is not only the source of income but the means of discovery of human's creativity and intellectual abilities.

The development tendency of small business in 2015 was marked by the high dynamics of development shown by small business in their main factors. As a result, the share of small business reached more than 56% of the GDP (Table 5.1).

The main contribution to this economic sector was made mainly by micro-firms and individual entrepreneurs. A considerable role in special weight

growth small business in GDP was played by farm enterprises. In spite of these achievements, small business does not primarily play a leading role in the area of real economy.

Table 5.1. Dynamics of development of small business and private enterprise for 2000–2015 (%)³⁹⁾

The shares of small business and private enterprise (%)	2000	2015 г.
GDP	31,0	56,4
Industry	11,3	24,2
Construction	37,0	70,7
Retail sales	45,3	45,3
Total employment	49,7	76,5
Export	1,2	26

The main problems which hinder development of small business in industry are connected with:

- relatively low share of small enterprises in production volume of new innovation, competitive products which have demand in domestic and foreign markets;
- lack of quality staff in small enterprises of industrial field, particularly lack of specialists – managers, marketing specialists, etc.;

39) Calculations are made by the author in accordance with materials from the State Statistic Committee of the Republic of Uzbekistan.

- low efficiency in usage of inventory of inspiring mechanisms and tools of investment policy for small business directed to improvement of technical and technological structure of small business;
- complex access to credit lines of bank system, limited possibilities of widening the activity of small business by means of investment.⁴⁰⁾

Tax preferences which are being revised for this field play an inspiring role in the accelerated development of small business and private enterprises in our country. Following the independence of the nation, the total tax burden has been lowered more than three times; however, the government has given additional preferences to exporting enterprises, subjects of small business and enterprises making investments and developing new types of products (Table 5.2).⁴¹⁾

Table 5.2. Tax burden

Kind of tax	Maximum tax rates in 1992–2015	2015
Tax in income of legal body	45%	7.5%
Tax on income of physical persons	13%-60%	7.5% ⁴²⁾
Value-added tax	30%	20%
Single social transfers	40%	15-25%
Single social transfers for small enterprises	15.2%	5%

40) Talipova N.T., “Small business development - a form of further deepening of democratic market reforms in Uzbekistan,” University of world economy and diplomacy, International Relations, #1, 63-67.

41) http://www.norma.uz/novoe_v_zakonodatelstve/.

42) The second rate of tax scales on income of physical persons was lowered by 1%. Beginning

The share of growth shown by small business in GDP resulted not only from the fact that the government had given significant preferences to small business, but thanks to the lowering of tax assessment, increase of quantitative indexes, and owing to gradual transition to quality changes, such as:

- rise of cooperation level with major production companies;
- active involvement of subjects of small enterprises to realization of special state programs, particularly ones on modernization, technical and technological reconstruction of industrial companies, and on production of localized products;
- adaptation of small business to new science technical requirements in conditions of market and competition.

Of course, the development of business and its infrastructure are considered to be one of the priority tasks of any government as the business environment is the engine which serves for prosperity of economy and the society in whole. Thus, the government provides mechanisms of regulation and influence to stimulate the development of large, medium and small businesses.

Small business became the main factor of population employment and increasing of their income. 394 thousand new working places (more than 40%) out of 987.5 thousands created in Uzbekistan were accounted for in small business and private enterprises.

from the 1st of January 2016, the rate was fixed at 7.5% in accordance with the Resolution of the President on “Forecast of the major macroeconomic factors and parameters of Government budget of the Republic of Uzbekistan for 2016.” (dated December 22, 2015 г. #PP-2455).

It has become apparent that acceleration of the development of small business and private enterprises in the face of deeper democratic market reforms and economy liberalization serve as the main factor of economic growth, creation of new working places, increase of income and level of welfare of the population.

Certainly, all the above mentioned measures signify a new stage in the development of enterprise in Uzbekistan. They will promote the security of reliable rights and legitimate interests of entrepreneurs, which will also serve to further increase people's welfare in whole.

But the results up to now are still far from realizing the potential which small businesses possess in Uzbekistan. We talk primarily about the fact that small business is not represented significantly in industrial production, foreign trade and in the sphere of high technologies.

On this occasion, study and generalization of world experience and, primarily, the development experience of small business of Korea can provide an impetus in the right direction when forming measures and mechanisms of reform deepening in this sector of the national economy.

5.2. Small business outlooks of South Korea in Uzbekistan

In order to support the small businesses of Uzbek to promote their own products to enter foreign markets, it is important to have the support of foreign partners in concluding export contracts. In this context, mutually beneficial

cooperation between Uzbek and Korean companies is performed in industry, providing for the growth of products value added in such areas as the chemical industry, oil and gas and oil and chemical industry, motor car construction and metal working, industry of building materials, pharmaceuticals industry, light and food industry, etc.

Small and medium-sized Korean enterprises contribute to the dynamic development of Uzbekistan's national economy. In Uzbekistan they give a key role to small business in the development of the country's economy. In connection with this, Korea is a reliable partner in cooperation for new joint productions in Uzbekistan.

In Uzbekistan a favorable investment climate has been created, including a wide system of legal safeguards and preferences for investors. Also developed was an entire system of measures to stimulate enterprise activity with foreign investment. Cooperation between the small business sectors of Uzbekistan and Korea is yielding fruitful results.

The funds to support exports of small business and private enterprise (EPF) and the Korea International Trade Association (KITA) signed a memorandum of understanding which stipulates assistance in establishment of business cooperation between entrepreneurs of Uzbekistan and South Korea.

The Fund of Export Support of Small Business and Private Enterprise of Uzbekistan was founded in August 2013, attached to the National Bank of Foreign Economic Affairs (FEA) of Uzbekistan.

The initial fund amount totals 5 billion dollars, with 2.5 billion formed

through the state budget and the rest is optional contribution by small business and private enterprises, the National Bank FEA, Chamber of Commerce and Industry as well as another commercial banks, financial institutions and contributors.

The main task of the fund is to provide free financial assistance to small businesses and private enterprises, farming for the development of national export-oriented products, promotion of export deliveries including payment of license, admittance, certificates as well as registration dues and other payments connected with participation of small business and private enterprise in international tenders.

Small businesses have the right to export goods and services through the fund for foreign exchange without advance payment, issuance of the letter of credit or guarantees with a period of income or back import within 180 days under presence of export contract insurance policy issued in due order.

The Korean textile industry is another priority area of cooperation. In this line there were realized 10 joint projects together with South Korean partners to the amount of 212 million US dollars. Especially, in coordination with Daewoo International, startup textile enterprises were founded in the Fergana and Bukhara regions, and together with Shindong Enercom and Textile Technologies – in the Surkhandarya region. Another project is currently in development, regarding the foundation of the Innovation Center of Textile Technologies at the Tashkent Institute of Textile and Light Industry.

Foreign enterprise LLC Daewoo Textile Fergana is a modern and dynamic

company which deals with the output of textile products: cotton factory clothes and thread using the best quality cotton cultivated in Uzbekistan as raw material. The company was founded in April 1996 by South Korean corporation Daewoo International, which invested about 100 million US dollars toward the development of textile production. The products are compliant with international quality standards and made of 100% cotton.

Active work is progressing with the joint venture OAZIS, an official brand of the company DTF beginning from 2003, with which the company has proved itself to be a reliable supplier of quality products. Nowadays owing to competent policy and coordinated work, the company has achieved high results in development and modernization of weaving and spinning production, improvement of its management system and organization of the company's economic activity.

The Uzbek-Korean joint venture Uz-Koram Co. was founded in May 1995 to localize the production of big-sized component parts made from plastic mass, thus establishing an automobile industry in the Republic of Uzbekistan. JV Uz-Koram Co. is a part of the Uzavtosanoat Association, which encompasses more than 70 enterprises in the automobile industry with different forms of ownership and activity. The production was first put into operation in May 1997 when JV Uz-Koram Co. mastered the output of bumpers for Nexia, Tico, Damas as well as the toolpad for Tico and Damas models, which are produced at the automobile plant JSC GM Uzbekistan.

The products were manufactured on two automatic molding machines. At the

second stage of enterprise development in November 2001, painting production had already begun to output the abovementioned products painted the same color as automobiles. During this period they also mastered production of bumpers, tool pads and door trimming for Matiz models.

Production continued to increase owing to operations commencing at another four automatic molding machines during the following years from 2003 to 2009. The next stage of enterprise development was opening the second painting shop in 2008, which was of higher production capacity, allowing the painting of more quantity of products. In 2010 there was put into operation a facility to produce bumper inners and other products made of expandable polypropylene, which is considered to be a significant step toward mastering modern high technology equipment. Currently, the annual plant capacity of LLC Uz-Koram Co. is more than 230,000 bumper kits, toolpads and door trimmings made in JSC GM Uzbekistan. The list of outputs includes bumpers for Nexia, Matiz, Damas, Tico, Lacetti, Spark, Cobalt; toolpads for Nexia, Matiz, Damas, Tico; door trimming for Matiz; bumper inners for Nexia, Lacetti, Spark, Cobalt.

LLC Uz-Koram Co. carries out its business while lowering negative impacts on the natural environment. This is achieved by integration of both the newest and most effective and soft technologies into production, construction of new environmental facilities, and closing of non-operated production. LLC Uz-Koram Co. implements a social policy directed to improve work and living conditions and the living level of the workers in the Andijan region. The activity program of LLC Uz-Koram Co. is timed for many years. Its recipe for

success is high production and workforce potential.

One of the most successful Uzbek-Korean JVs is LLC UzChasis, founded in 2008 in Namangan together with South Korea's AMS Co., Ltd. whose authorized capital for the moment of its foundation was 5.95 million US dollars, where the share of AMS Co., Ltd was 30% and JSC Uzavtosanoat 70%. JV UzChasis deals with the production of automobile headlights and lamps of polymer materials for Nexia, Matiz, Spark, Cobalt and Lacetti models made by JSC GM Uzbekistan. The company's capacity is now 270 thousand units per a year. The company has automated 90% of production processes through the use of robotics. Its pride is the high technology injection-molding machine Meiki, unique in the territory of CIS countries, which allows simultaneous molding of three colors. A modern water cooling system was also installed to provide the for plant's uninterrupted operation.

JV LLC UzChasis is the first among the companies of JSC Uzavtosanoat to export rear lamps of the automobile model Cobalt to General Motors do Brasil Ltd.

In 2015 an important result of cooperation between small and middle-sized businesses was the negotiations between national joint-stock company Uzfarm sanoat and the Korean manufacturers association of pharmaceuticals, which resulted in the signing of an agreement.

This agreement is based on closer cooperation in the area of pharmaceuticals, exchange of experiences, foundation of joint-production pharmaceutical companies and wider localization of importing finished drugs and substances

in Uzbekistan. In particular, a memorandum was signed with the South Korean pharmaceutical company New World Med.

New World Med is an exclusive distributor of drugs and medical products from South Korea. The aim of the company's activity is to provide to Uzbekistan's population high quality innovation medicines from South Korea. Towards this goal, a project on the production of medicines and medical products was started, using a plant the size of 2 ha, and preparation has begun for production startup. The companies plan to produce protectives, infusion solutions and drugs.

The governments of the Republic of Uzbekistan and the Republic of Korea continue to create favorable conditions and to cooperate in realization of mutually beneficial and attractive international projects on the development of additional mechanisms with the aim of supporting small business and private enterprises.

All joint efforts made during these years within the framework of the strategic partnership on cooperation activation, based on large production technological, scientific personnel, mineral and raw material potentials of Uzbekistan by means of secure and motivated development of its energy resources, are bearing positive results, and they are promoting a new level of economic cooperation between the two countries.

6. Upcoming Trend Analysis of Mutually Beneficial Cooperation

Recent research has examined the main development lines and present condition of economic relations between the Republic of Korea and the Republic of Uzbekistan. Achievements in the economic development of Uzbekistan are broadly determined by its open foreign economic policy and expansion of cooperation with foreign countries. Among these, the Republic of Korea is one of the leading foreign trade partners of Uzbekistan.

The Republic of Korea actively supports the process of market and democratic reforms in Uzbekistan as well as providing financial economic and technical assistance toward realizing important programs for the social and economic development of the country. The undivided consensus between the states' heads, mutuality of strivings by both countries to strengthen cooperation, as well as spiritual affinity of the nations, have become the resulting factors in development of partnership relations.

The Republic of Korea became one of the biggest investors and trade partners of Uzbekistan. Under the active assistance of the Republic of Korea, Uzbekistan is mastering complex science and high technology production, for which finished output is distinguished by high value added, and has become one of the few world empires with its own automobile production field, which continues to develop quickly.

The Korean government places special emphasis on the following five fields regarding programs of development in Uzbekistan: education, public health, information and communication technologies, administrative ensemble, and industrial energy.

The Republic of Korea for the period of 25 years of cooperation has been moving forward the strategic partnership with Uzbekistan on the basis of its most important values by means of market development, expansion of trade turnover and investment volume.

Joint efforts with the framework of strategic partnership on acceleration of cooperation based on large-scale production of the technological, scientifically skilled, mineral resource potentials of Uzbekistan by means of its safe development, are returning results in entering into a new level of economic cooperation between the two countries.

On the basis of analysis of terms and outlooks of the Uzbek-Korean trade economic relation, we can summarize the following:

- ① Business promotion of the Republic of Korea in the Republic of Uzbekistan is based on three major directions:

First – automobile and textile companies;

Second – the Korea National Oil Corporation and Korea Gas Corporation, consolidated into a syndicate, have concentrated their activity in the petrochemical industry;

Third – foundation of the international intermodal centre of air logistics as a transcontinental traffic junction uniting Southeast Asia with Europe,

and a telecommunication branch as well as the electronic industry of the Navoi region.⁴³⁾

Fourth – development of E-government.

- ② Breakthrough in bilateral economic relations between the Republic of Korea and the Republic of Uzbekistan was realized through the automobile industry, thanks to which they produce 240 thousand automobiles per year. Recently, Uzbekistan has transformed into an exporter of automobiles.
- ③ The Republic of Korea and the Republic of Uzbekistan share a sense of mutual history and common cultural heritage within the community of Ural-Altai culture, and it is necessary to further narrow the psychological distance between them.
- ④ Korean companies should strive to obtain income in the longer term; however, the most important goal is to widen trust among the local population. Knowing the model of the Republic of Uzbekistan for future growth will help the Republic of Korea to heighten its image.
- ⑤ Currently, the level of relations between the Republic of Korea and the Republic of Uzbekistan requires the establishment of an ongoing and stable system of partnership relations.
- ⑥ The Republic of Korea intends to help in the realization of confirmed projects, in particular, the Surgil and Navoi projects. For stable and

43) Chon Dae Wan (2011), “Economical cooperation between Korea and Uzbekistan: tendencies and perspectives (part 1)” *Economy and finance*, Tashkent, #3, pp. 9-17.

continuous economic growth and for the development of a market-oriented economy structure, it will be necessary to found universal trade centers, health care facilities, hotel chains and international schools. These are conditions which are required for a successful strategy of gradual localization.

- ⑦ Development of relations between the Republic of Korea and the Republic of Uzbekistan should be complementary and have an all-around binding effect between the private and public sectors.

The main strategic approaches to cooperation development of Uzbekistan with trade partners can be summed up as follows:

- modernization and technical re-equipment of priority export-oriented branches of economy, the wide integration of achievements of scientific technical progress;
- effective usage of rich potentials and advantages, widening of export of competitive and high technology products (services);
- orientation of foreign trade policy to solve social problems and improve the quality of the population's life.

Realization of programs of modernization and technical re-equipment of various branches of industry (fuel, iron and nonferrous-metals industry, chemical, textile, fat-and-oil, motor-car, industrial building materials, etc.)

Modernization and capacities widening into the oil and gas sector, electrical energy and coal industry play a significant role. Realization of new joint projects on modernization and technical re-equipment of production, especially,

and organization of production of spare parts, assembly units and components of mine transport and ore mining equipment are very important factors in the coal industry.

It is necessary to develop joint cooperation in realization of scaled and high-technology investment projects on airplane construction, vehicle, radio and electronic industries and professional equipment.

Purchase of high technology and technologies for areas processing agricultural raw materials and richest mineral resources can return large effects. It is necessary to lay stress not so much on widening of equipment imports as on improvement of its structure towards increasing the special weight average of new high-powered kinds of machines and equipment.

7. Regional Cooperation of Central Asian Countries and Development Perspectives of Eurasian Economic Union of Interests of the Republic of Korea

7.1. Economics of Central Asia countries

Central Asia played an important role in the joining of two great civilizations – the West and East – being a unique guide for the two sides. Moreover, the Silk Road helped broadly in the region's economic and cultural growth.

Central Asia is a region of contradictions. On the one side, it owns rich

natural resources formed by manpower, cultural variety and strategic location, which are considered to be a powerful springboard for the economic development of the region's countries. On the other side, the region's countries have no direct access to seaports, they are located far apart from many global economic centers, they have comparatively small local markets and their infrastructure is not sufficiently developed.

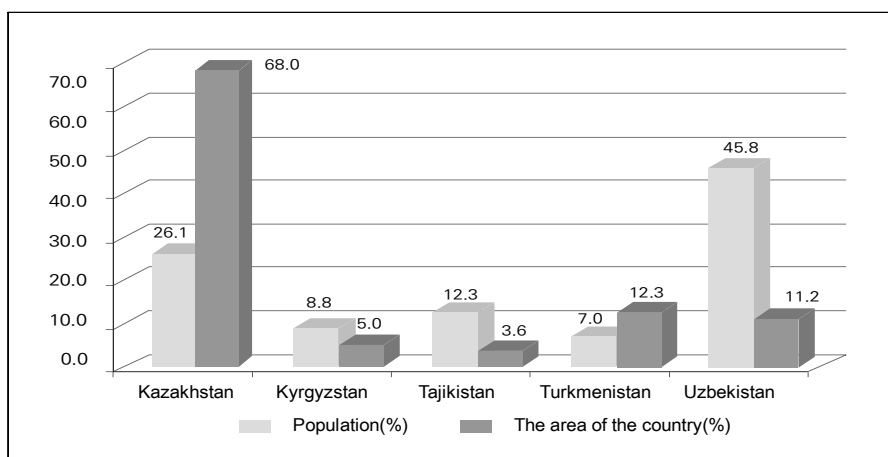
In the post-Soviet period, the five former Soviet republics of Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) jointly composed a new international region – Central Asia (Figure 7.1).

Figure 7.1. Central Asia countries (www.catalog.flatworldknowledge.com)



Nowadays, countries of Central Asia differ from each other in population size, territory (Figure 7.2), natural resources, and level of human development, political orientation and relative readiness to cooperation and integration with the rest of the world.

Figure 7.2. Population size and territories of the Central Asian countries (in % to the whole region)



Central Asia is one of the richest regions in energy resources in the world. It is ranked eighth in coal mining, nineteenth in electricity production in the world, and it is a leading nation in ferrous and nonferrous metal and rare element reserves. More than 30 of mining products from the region are ranked within the top twentieth in the world. The region is ranked ninth (Table 7.1) in joint gold production (Uzbekistan – 90 tons, Kyrgyzstan – 24 tons, Kazakhstan – 18.9 tons). Central Asia owns large land resources which are ranked tenth

in field territory (Table 1). It is ranked sixteenth in vegetable and melon production in world economy, fifth in cotton production, and twentieth in number of cattle.

As shown in the table, the countries differ in resource and production capabilities. Kazakhstan, Uzbekistan and Turkmenistan own considerable reserves of hydrocarbons and metals while Kyrgyzstan and Tajikistan do not own such a volume of strategic reserves – their main reserves are water resources. Tajikistan and Kyrgyzstan lie on the headwaters of the main rivers of Central Asia, Amu-Darya and Syr-Darya, and thus are able to control the flowing and watering of agricultural lands all over the region.⁴⁴⁾

The economies of Central Asian countries differ in their volume (Figure 7.3).

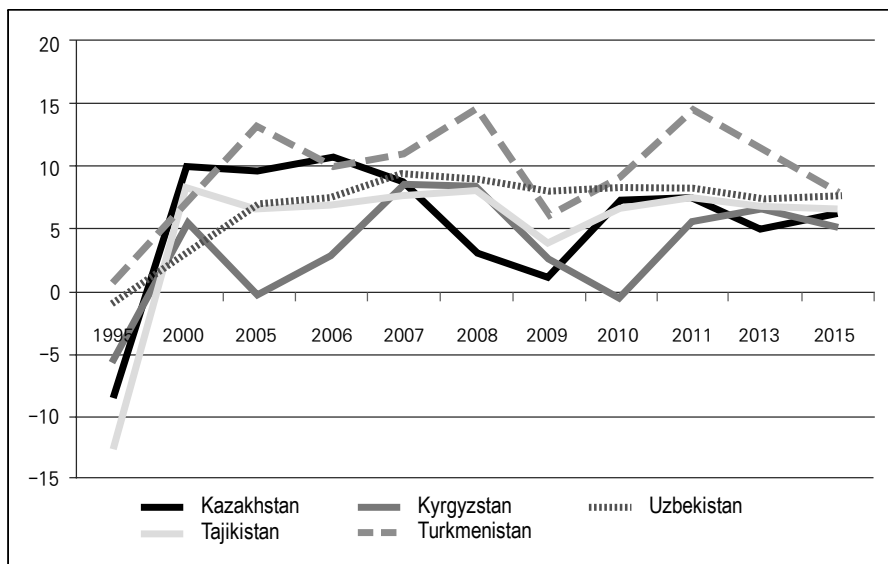
Table 7.1 Resource potential of Central Asian countries ⁴⁵⁾

	Oil (million tons)	Gas (billion cubic meters)	Gold (tons)	Coal (billion tons)	Uranium (tons)	Hydraulic power (billion kWh per a year)
Kazakhstan	4,000	6,800	18.9	35.8	1,690,000	40.2
Kyrgyzstan	5	6	24	-	-	142.5
Tajikistan	2	-	-	-	460,000	527
Turkmenistan	300	23,000	-	-	-	-
Uzbekistan	250	5,900	90	4	185,800	-
Total in Central Asia	4,557	35,706		40	645,800	710
Position in the world	11	2	9	8	2	6-8
Место в мире	11	2	9	8	2	6-8

44) Kim, G. and N. Talipova (2013), “Economic interest in Central Asia of South Korean Investment,” International conference «The strategic economic cooperation among Korea, Mongolia, East and Central Asia Countries», pp. 1-14.

45) Calculations on statistical key figures of CIS countries – www.cisstat.com.

Figure 7.3. GDP of Central Asia countries (B %)46)



As seen in Figure 7.3, the region's countries all experienced some problems during the global financial crisis. The growth of economies in the post-crisis period was promoted by financial motivations and price increase for the major export goods. Economic stabilization programs were carried out in Kazakhstan, Turkmenistan and Uzbekistan, which were modernized from the moment of the crisis beginning, and these programs were financed mainly by national stabilization funds. Kyrgyzstan and Tajikistan were able to carry out activities on economic recovery thanks to financial aid provided from international communities.

46) Calculations are made on the basis of data of the countries' statistical offices of Central Asia.

Throughout the period of cooperation between Korea and the countries of Central Asia, the total turnover has reached \$25.5 billion. The direct foreign investment in countries of Central Asia attracted from Korea exceed more than twice that of investment volume made in Russia. At the same time, owing to resources import, the trade balance of South Korea has increased by more than 57% in total for the period of 24 years of cooperation.⁴⁷⁾

The single exception to the rule in all respects is considered to be Uzbekistan. Here Korean capital is based in the production sector (54.2%, against 9.4% for Kazakhstan and 9.9% for Kyrgyzstan), and not in the raw materials sector. The index of investment in raw materials sector amounts to 4.1%, which is the lowest among all countries of Central Asia.

In the area of trade as well, Uzbekistan is not considered to be the losing party, despite the fact that Uzbekistan accounts for 76.6% of Korea's exports to the region and 73% of the total amount of debit balance of Korea's turnover with the countries of Central Asia.⁴⁸⁾

The priority for Uzbekistan remains inspiring from the perspective of investment demand. Over 70% of imports from Korea to Uzbekistan are machines and equipment needed for modernization and technological re-equipment of industrial complexes.

47) Abdurasulova D. (2013), "Innovation cooperation can be more beneficial than raw materials one," *Economic review*, #7, pp. 50-55.

48) Data of Statistic Committee of the Republic of Korea (KOSTAT) and Eximbank of Korea, 2014.

Foreign investments for the countries of Central Asia are becoming a link to overcome every difficulty. Import of capital brings high technologies, modern management methods, and wide business world-level contacts. All of this both advances the development of the capital importing country and amplifies its export potential, and advances its integration into the world economy.

Attraction of foreign capital provides a set of advantages to all sectors, such as usage of high technologies, higher paying labor, output of finished goods competitive in the world market, etc.

Attraction of foreign investments and joint establishment of companies with foreign capital remain one of the top-priority tasks of economic policy for Central Asian countries. The investments of the Republic of Korea are of great importance.

7.2. Opportunity and priority

Korea is a unique country which transitioned from a recipient of aid into a contributor in a short period of time. After enacting legislation on international cooperation in development efforts, Korea concentrated on granting aids to developing and undeveloped countries all over the world. In order to increase aid effectiveness it established a set of standards based on deep analysis of the advantages and disadvantages of Korean aid programs.

Cooperation is mutually profitable. Korea is ranked fourth in energy

consumption in the world; it imports such goods as energy, metal, farm products from the region's countries. In turn, Korea's experience in reaching high-level integration into the world's political and economic developments are of great interest to us as it is a priority partner who possesses high technologies, capital, facilities and great experience in infrastructure creation, construction of roads and railway, stimulation of private investments and work creation, human resources development, global trade process simplification, effective financial service for small and medium-sized enterprises, food security and professional management.

Relations between the Republic of Korea and countries of Central Asia have progressed greatly. It is necessary to point out that the process of rapprochement between our countries did not stem from economic or political reasons, but rather from deep historical roots. In the words of a Korean representative, "Korea and Central Asia developed historically their mutual exchange and cooperation through the Silk Road, which had signified the basilar artery connecting Asia and Europe, and provided for humanitarian communication between civilizations."⁴⁹⁾ The important factor for cooperation between the Republic of Korea and the region's countries is that more than 300 thousand Central Asian Koreans live there. The main partners among the region's countries with the largest economy are Kazakhstan, Uzbekistan and Turkmenistan.

49) Public speech by the deputy head of the MFA of the Republic of Korea, Park Sok Hwan, in 2012 for the 20 years of establishment of diplomatic relations of the Republic of Korea with the countries of Central Asia, <https://www.gazeta.uz/ru/2011/11/15/forum/>.

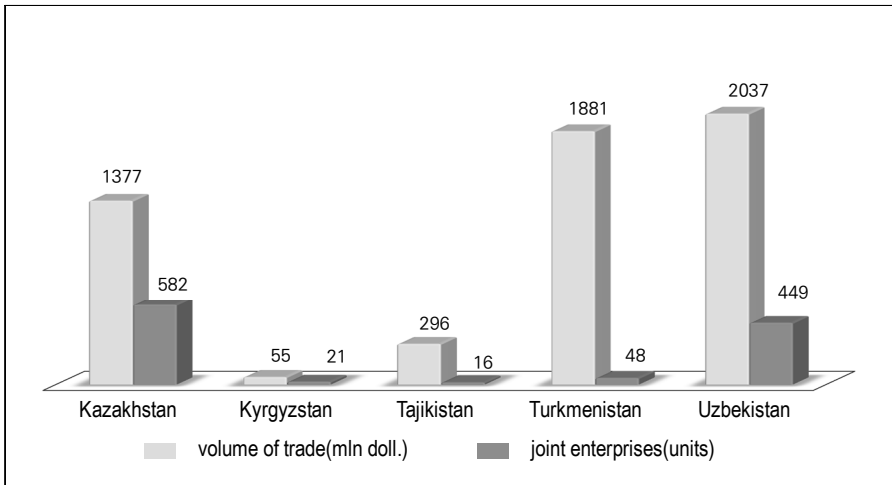
Their share of 2015 accounts for the biggest sales volume, quantity of established joint ventures and Korean companies' representations (Figure 7.4).

However, the orientation of cooperation between Korea and Uzbekistan differs highly from that with Kazakhstan through all lines. The main goods being exported to the Republic of Korea are gold for Kyrgyzstan, cotton for Turkmenistan, aluminum for Tajikistan, copper, zinc, iron for Kazakhstan, while Uzbekistan exports leather and farm produce together with ginned cotton and agricultural goods.

A real achievement between the nations of Korea and Central Asia is the fact that they took steps towards dialogue, mutual understanding and cooperation. If we generalize our achievements of this period, significant results even aside of business relations have been achieved as well.

The results of cooperation achieved throughout the period of 25 years between the Republic of Korea and Central Asian countries tell of new joint integration projects in the future. The economic area is the fundamental factor of this cooperation.

Figure 7.4. Indicators of cooperation of Central Asian countries and the Republic of Korea for 2015



Korea's success in entering the economy of some countries of the world is seen by the continuous increase of education level in their country. That is why the countries of Central Asia should turn their attention to the following perspectives:

- Attraction of the biggest transnational corporations of Korea and their operating units for organization of research centers in such areas as automobiles production, production of building technologies, electronics, automatics and production of semiconductors;
- Development of sea ports, modernization of airports, conducting projects in logistics business;
- Creation and development of "E-Government";⁵⁰⁾

- Attraction of Korean ventures companies to finance R&D projects in the countries of Central Asia;
- Organization of joint projects in the area of public health, medicine, development of TV medicine and E-Health service;⁵¹⁾
- Energy sector, production of oil and gas, oil and gas chemical transports⁵²⁾;
- Foundation of free agricultural zones in the regions oriented to processing and finished product output.

Collaboration between the Republic of Korea and the countries of Central Asia is considered to be an effective mechanism in strengthening multi-vector cooperation both on bilateral and multilateral basis, cooperating closely to provide for stable development which helps to extend the horizon of collaboration between the Republic of Korea and the countries of Central Asia.

50) The UNO officially named the “E-Government” system of the Republic of Korea the best in the world.

51) Projects in Kazakhstan at the realization stage include five hospitals, including hospitals in Dong-San, Sedjong-Eurasia work

52) The project on “Construction of Ustyurt gas chemical complex on Surgil gas field” having been developed by Uzbekistan and the Republic of Korea and being supported directly by the governments of both countries, was awarded the prize in the category “The deal of the year in the area of oil and gas chemistry.”

Conclusion

The above analysis of trade economic cooperation showed that South Korea is considered to be a key economic, investment and technological partner for Uzbekistan. The development of cooperation between our countries has created a large number of new working opportunities in the fields of production, trade and service, while Korean capital has familiarized both Uzbekistan and the countries of Central Asia with high technologies, modern methods of management and wide connections at the world level.

The main results of the research are as follows:

- Korean investments greatly contributed to the development of high-technology branches and sectors of economy newly introduced to Uzbekistan, such as automobiles, electronics, telecommunication, which allowed it to realize great progress in the textile and banking sectors;
- Joint ventures established in Uzbekistan contributed to the development of the national economy by increasing the number of specialists and managers mastering high technology and the experience of promoting domestic goods and services in world markets;
- Effective usage of investments made by the Republic of Korea and rich potentials and advantages of Uzbekistan allowed the diversifying of exports of competitive and high-technological products;
- Korea has engaged in a number of programs on the rendering of essential help to its compatriots living in the countries of Central Asia.

These programs have promoted the exchange of experience between the education and scientific organizations of our countries.

In this prospect,

- Joint cooperation must continue to realize scaled and high-technology investment projects in the fields of airplane construction, vehicle, radio and electronic industries and professional equipment;
- The purchase of high technology and technologies for the areas of processing agricultural raw materials and richest mineral resources can provide significant effects;
- It will be necessary to focus not so much on diversifying the import of equipment as improving its structure towards increasing the special weight average of new high-powered kinds of machines and equipment.

Despite their respective economic leaps forward, Central Asian countries are still facing many problems which must be solved in a radically new way. For instance:

- the region's countries are still keeping their export extremely limited to raw materials (Figure 7.4);
- an important barrier to develop the region's trade is a weak and purely served infrastructure⁵³);
- conditions of informal trade in various countries are different; trading

53) To describe the type of a trade barrier, the logistics performance index drafted by World Bank is used. Refer to World Bank, «Connecting to Compete. Trade Logistics in the Global Economy. The Logistics Performance Index and Its Indicators» (Washington DC: World Bank).

operations which are legal in a certain country are not allowed in another one;

- high levels of poverty and unemployment;
- sectors of public health and education are purely developed in some countries;
- many environmental problems remain unresolved.

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「우즈베키스탄과 한국 24억 달러 가치 계약(Uzbekistan and South Korea sign agreements worth \$ 2.4 billion)」 (18 June 2014)

Data of Statistic committee of the Republic of Korea (KOSTAT) and Eximbank of Korea. 2014.

Whither Turkey's Integration to the European Union? Economic and Political Challenges in Turkey–EU Relations

Mahmut Tekçe*

Contents

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2. A Brief History of Turkey–EU Relations
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4. Criticism of the Customs Union
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6. Conclusion: Whither Turkey–EU Relations?

1. Introduction

Turkey, not only as a geographical, but also as a political, cultural and economic bridge between Europe and Asia, has been a very interesting case

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in terms of its economic and political transformation. In particular, Turkey's economic and political relations with the European Union (EU) has attracted the attention of scholars for a long period, as the investigation of its background, current situation and prospective future sheds light on a unique case of economic integration. This paper will include a thorough literature survey and analysis of the available macroeconomic data on several aspects such as the evolution of EU-Turkey trade relations after the formation of the Customs Union, the situation of Turkey's EU membership process after the European debt crisis and Brexit, and policy recommendations on how the current situation may be turned into more healthy bilateral relations given the current situations of Turkey and the EU.

This study aims to explain the current situation of Turkey's EU accession process and discuss possible future scenarios for Turkey-EU relations. The expected outcomes of the paper are meaningful in that they have implications for the economic policies of not only Turkey and the EU, but also third parties, especially their Free Trade Agreement (FTA) partners (including Korea).

2. A Brief History of Turkey–EU Relations

Turkey's focus on Europe has deep historical roots, dating back to the Ottoman Empire times, where Ottomans ruled large parts of Eastern Europe starting from the 16th century and created a significant heritage in the area. After the

collapse of the Ottoman Empire and the foundation of the Turkish Republic in the 1920s, Turkey clearly made its choice by turning to the West, and political and economic ties with European countries significantly increased starting from the 1930s. Since becoming a member of the United Nations in 1945, of the Council of Europe in 1949 and NATO in 1952, Turkey aimed to reinforce its political and economic ties with Europe and officially applied for associate membership to the European Economic Community (EEC) in July 1959.

2.1. From Association Agreement to the Customs Union

Turkey and the EEC signed the Ankara Association Agreement in September 1963, which was “*determined to establish ever closer bonds between the Turkish people and the people brought together in the European Economic Community*” (European Communities 1973, p. 2). The agreement was signed under Article 238 of the Treaty of Rome, which defined a stage-by-stage integration process concluding eventually with full membership of the Customs Union following the successful completion of the preparatory and transitional stages, and a movement towards free mobility of labor between Turkey and the EEC at some future date.

Turkey had both political and economic motivations for applying to EEC membership. Politically, Turkey aimed to prevent Greece from taking unfair advantage in its subsequent bilateral relations with Turkey.¹⁾ Economically,

1) Greece had applied for associate membership in June 1959 and signed the association agreement

Turkey was expecting medium and long-term benefits from becoming a part of such a powerful union. But above all, becoming a part of the EEC was strongly consistent with the identity of the Republic, where closer relations with the EEC was in line with the fundamental goals of building and maintaining a secular, democratic and Western-oriented state.

The next important step was the signing of the Additional Protocol on November 13, 1970, which was approved in 1973. This Protocol paved the way for further financial support to Turkey, determined the conditions of full membership and arranged the formation of a Customs Union between Turkey and the EEC. The Protocol defined a transitional stage that was scheduled to last for 22 years and was designed to allow adequate time for Turkey to gradually remove its tariff protection vis-à-vis the EEC and become a part of the Customs Union.

In order to become a part of the Customs Union, Turkey had to eliminate its custom duties and quantitative restrictions on its imports of industrial goods from the EEC over a period of 22 years. In return, the EEC agreed to withdraw all its restrictions on Turkish industrial goods, except textile and petroleum products, and grant preferential custom duties on the majority of Turkish agricultural exports to the EEC. Turkey also had to adopt the EEC's common external tariff (CET) for most industrial products and industrial components of agricultural products.²⁾ During the transitional period, Turkey was expected to

in November 1962.

2) <http://avrupa.info.tr/eu-trade-and-economy/customs-union.html>.

take the necessary steps for the unification of policies in preparation for the prospect of full membership.

On the road leading to the Customs Union, Turkey-EU relations were not very bright; Turkey attempted to begin the application process for full membership in 1981, at a time when the country was ruled by a military regime after the 1980 coup, but the EC's response was to freeze relations with Turkey in 1982. In April 1987, Turkey applied for full membership again, but in December 1989, the application was rejected due to the argument that Turkey had failed to satisfy both basic economic and political criteria for full membership. It was also stressed that the European Community was in the process of becoming an even (politically and economically) tighter European Union, and in any event, another round of enlargement would not take place until 1993 at the earliest. In fact, by "another round of enlargement," the EC meant the enlargement of the EU to the former Eastern bloc countries, and the membership of Turkey was not in the agenda. Neither European policymakers nor the general public of Europe had positive views about Turkey's inclusion in the Union; according to the Economist (1991), *"the Community, not wishing to be accused of racial and religious bias, mumbles that it will think about it later. But the sentiment of most Europeans is plain: those Turks do not belong with us."*

Despite all these negative developments, Turkey managed to adapt its economic institutions, and the Customs Union became effective in 1996. After that date, all industrial goods complying with EU norms and standards could circulate freely between Turkey and the EU. Traditional agricultural goods and

the products of the European Coal and Steel Community (ECSC) were left out of the Customs Union agreement. As for processed agricultural products, Turkey and the EU agreed on a system in which Turkey would differentiate between industrial and agricultural components of the duties applied on those products, and as for the ECSC products, Turkey signed an FTA with the EU in July 1996, and as a result, those products have received duty-free treatment between the parties since 1999 (Togan 2012, p. 2). Furthermore, since then, Turkey has signed FTAs with several countries (see Table 7) covering industrial goods, in order to align itself with the signed FTAs of the EU. Finally, under Turkey's Generalized System of Preferences (GSP), which is based on the EU's, preferences are granted to select non-agricultural goods, including raw materials and semi-finished goods.³ According to Decision No. 1/95 of the Turkey-EC Association Council, (European Communities 1996), free movement would be valid for goods either wholly produced in either parts of the agreement or put in free circulation after their importation from third countries in either Turkey or the EC. The proof of this customs status of "goods in free circulation" is established by an ATR.1 (*Admission Temporaire Roulette*) movement certificate.⁴ The Customs Union also required the approximation of customs law, intellectual property rights, competition and taxation regimes.⁵ Services and public procurement issues were left out of the coverage of the Customs Union. The economic impacts of the Customs Union are analyzed below in Section 3.

3) EU-Turkey Association Council Decision 1/95: European Communities (1996).

4) European Communities (1996).

5) European Communities (1996).

2.2. After the Customs Union: From Exclusion to Candidacy

Despite the fact that the Customs Union was regarded as an important step towards Turkey's full membership to the EU, and the optimistic expectations from Turkish policymakers about a prospective EU membership at the time of the adoption of the Customs Union,⁶⁾ Turkey's prospect of becoming a full member of the EU was very dim in the 1990s. Just after the launch of the Customs Union, in the EU's Luxembourg Summit of December 1997, Turkey was excluded from candidate status. Recognition of the candidacy of the post-Communist CEECs, which had largely similar economic structures to Turkey and far more limited experience of democratic governments, was seen as proof that the EU considered Turkey as an "outsider." This political divergence between Turkey's expectations and the EU's attitudes created huge disappointment on the side of Turkey.

Another factor dampening hopes for Turkey becoming a member in a short period of time was the change in the EU's enlargement criteria. Before the eastern enlargement of the CEECs, the criteria for becoming a full member were as defined by the Treaty of Rome, but in the Copenhagen Summit of 1993, the European Council identified new economic and political criteria for the candidate countries; accession could take place only after they were capable

6) Then Prime Minister of Turkey, Tansu Ciller expressed in an interview to the *Hurriyet Daily* newspaper that "*Turkey was expected to be a full member of the EU by 1998 the latest*" and "*it would be unfair for the EU to accept the memberships of the former Eastern bloc countries before Turkey*" *Hurriyet*, May 7, 1995.

of fulfilling those criteria.

As the European Commission⁷⁾ expresses, the economic criteria were defined as “*the existence of a functioning market economy as well as the capacity to cope with competitive pressures and market forces within the Union.*” The European Commission defines a functioning market economy as “*the existence of a broad consensus about essentials of economic policy, macroeconomic stability (including price stability, sustainable public finances and external accounts), a free interplay of market forces (including liberalized prices and trade), free market entry and exit (including issues of establishment/bankruptcies of firms), and an adequate legal system (including a system of property rights, enforceability of laws/contracts) and a sufficiently developed financial sector.*”⁸⁾

On the other hand, being competitive in the EU requires “*the existence of a functioning market economy, sufficient human and physical capital (including issues of education, research and infrastructure), adequate sectoral and enterprise structures (including issues of enterprise restructuring, sectoral shift, role of small and medium-sized enterprises), limited state influence on competitiveness (including issues of trade policy, competition policy, state aids, support for small and medium-sized enterprises, etc.), and sufficient trade and investment integration with the EU.*”⁹⁾

In addition to the economic criteria to become a member, all membership

7) http://ec.europa.eu/economy_finance/international/enlargement/criteria/index_en.htm.

8) http://ec.europa.eu/economy_finance/international/enlargement/criteria/index_en.htm.

9) http://ec.europa.eu/economy_finance/international/enlargement/criteria/index_en.htm.

admissions to the EU had to be in line with the political criteria that were agreed upon at the Copenhagen Summit of 1993. According to the Copenhagen Criteria, it was required that the applicant state “*has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities, the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union.*”¹⁰⁾ In addition, the candidate states must accept the EU's Common Foreign and Security Policy, subscribe to the long-term objectives of the EU, and be able to implement EU policies through a compatible legal and administrative system.

Finally, the institutional criteria were set as “*the ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union. It includes the policies and measures that constitute the *acquis* of the EU that candidate countries must adopt, implement and enforce.*”¹¹⁾

The EU's objections against Turkey's full membership were based on Turkey's noncompliance with both political and economic criteria. During the 1990s, the performance of the Turkish economy was far from being in line with the Maastricht criteria, with an average inflation of around 80 percent and a very high budget deficit. The Copenhagen political criteria were considered harder for Turkey to comply with in the foreseeable future; Turkey's human rights violations during the 1990s had strong negative reflections and there was growing

10) http://www.europarl.europa.eu/enlargement/ec/cop_en.htm.

11) http://ec.europa.eu/economy_finance/international/enlargement/criteria/index_en.htm.

opposition to the approach of the Turkish military and the state against the Kurdish separatist movement and the terrorist activities of this movement. This made it almost impossible for the EU policymakers to take concrete steps towards Turkey's full membership.

However, things started to change at the Helsinki Summit of the EU in 1999, where the EU agreed that "*Turkey was a candidate State destined to join the Union on the basis of the same criteria as applied to the other candidate States*" (European Council 1999). Economically, Turkey's candidacy contributed towards the creation of a favorable environment for the implementation of a major program of stabilization and public sector restructuring. On December 17, 2004, the European Council agreed on opening full-membership negotiations with Turkey. However, due to strong public opposition in the EU countries towards Turkey's membership, the European Council emphasized that the "*negotiations are an open-ended process, the outcome of which cannot be guaranteed beforehand,*" but "*while having full regard to all Copenhagen criteria, including the absorption capacity of the Union, if Turkey is not in a position to assume in full all the obligations of membership it must be ensured that Turkey is fully anchored in the European structures through the strongest possible bond*" (European Council 2005, p. 11). The accession talks officially opened after the completion of the screening meetings in October 2005.

2.3. Negotiating the Chapters

After the negotiations were launched, Turkey had to successfully complete negotiations with the European Commission on each of the 35 chapters of the *acquis communautaire* in order to accede to the EU. The first chapter to be successfully opened and provisionally closed in June 2006 was Chapter 25, Science and Research. However, in December 2006, the continued dispute over the official recognition of the Republic of Cyprus by Turkey¹²⁾ prompted the EU to freeze talks on eight chapters (Free Movement of Goods, Right of Establishment and Freedom to Provide Services, Financial Services, Agriculture and Rural Development,¹³⁾ Fisheries, Transport Policy, Customs Union, External Relations) and stated that no chapters would be closed until a resolution is reached. In June 2007, France vetoed three more chapters (Economic and Monetary Policy, Regional Policy and Coordination of Structural Instruments, Financial and Budgetary Provisions) from proceeding to the next stage. In January 2007, the negotiations were back on track on the chapters that were not suspended. Between 2013 and 2015, France officially removed its veto over the chapters it blocked in 2007. However, this time negotiations of six chapters (Freedom of Movement for Workers, Energy, Judiciary and Fundamental Rights, Justice, Freedom and Security, Education and Culture) faced a veto from

12) Turkey refuses to recognize the Republic of Cyprus, represented by the Greek Cypriot government in the south of the island, which has international recognition.

13) Also vetoed by France.

Cyprus in December 2009. To date, 16 chapters have been under negotiation, as seen in Table 1 below.

Table 1. Turkey's Progress on Negotiating the Chapters of the Acquis

Chapter No	Chapter Name	Negotiations Closed	Additional Information
1	Free Movement of Goods		EU Council Suspension since 2006
2	Freedom of Movement of Workers		Veto by Cyprus in 2009
3	Right of Est. and Freedom to Provide Services		EU Council Suspension since 2006
4	Free Movement of Capital		
5	Public Procurement		
6	Company Law		
7	Intellectual Property Rights		
8	Competition Policy		
9	Financial Services		EU Council Suspension since 2006
10	Information Society and Media		
11	Agriculture and Rural Development		EU Council Suspension since 2006
12	Food Safety, Vet. and Phytosanitary Policy		
13	Fisheries		EU Council Suspension since 2006
14	Transport Policy		EU Council Suspension since 2006
15	Energy		Veto by Cyprus in 2009
16	Taxation		
17	Economic and Monetary Policy		
18	Statistics		
19	Social Policy And Employment		

Table 1. Continued

Chapter No	Chapter Name	Negotiations Closed	Additional Information
20	Enterprise And Industrial Policy		
21	Trans		
22	Regional Pol. and Coord. of Structural Instr.		
23	Judiciary and Fundamental Rights		Veto by Cyprus in 2009
24	Justice, Freedom and Security		Veto by Cyprus in 2009
25	Science and Research	June 12, 2006	
26	Education and Culture		Veto by Cyprus in 2009
27	Environment		
28	Consumer and Health Protection		
29	Customs Union		EU Council Suspension since 2006
30	External Relations		EU Council Suspension since 2006
31	Foreign, Security and Defense Policy		Veto by Cyprus in 2009
32	Financial Control		
33	Financial and Budgetary Provisions		
34	Institutions		
35	Other Issues		

Note: As of November 2016.

Source: http://ec.europa.eu/enlargement/countries/detailed-country-information/turkey/index_en.htm.

3. Impacts of the Customs Union on the Turkish Economy

Despite taking place in a political environment where full membership is a blurry dream for Turkey, the Customs Union with the EU has become an effective tool for the transformation of the Turkish economy after its launch

in 1996. The Customs Union agreement was not only a simple reduction of bilateral trade restrictions and the adoption of a common external tariff, but also a tool for the reform of various regulatory border and behind-the-border policies, including investment and competition policies, industrial property rights, administrative procedures and public procurement regimes. This section summarizes the impacts of the Customs Union on Turkey's trade structures, trade policies and regulatory border and behind-the-border policies.

3.1. Tariff concessions

With the formation of the Customs Union, Turkey's tariff protection significantly diminished both against the EU and the third countries. Prior to the formation of the Customs Union, Turkey's economy-wide nominal protection rate (NPR) in trade with the EU amounted to 10.2 percent, and in trade with third countries, 22.1 percent (Togan 1997). After the formation of the Customs Union, NPRs decreased further in almost all sectors. In 2001, the economy-wide NPR in trade with the EU had amounted to 1.3 percent, and in the case of trade with third countries, the average NPR had amounted to 6.9 percent. For example, the average NPR decreased from 22.1 percent to 1.3 percent for Israel and Central and Eastern European countries that the EU had FTAs with. For developing countries that are granted Generalized System of Preferences (GSP) treatment, the average NPR decreased from 22.1 percent in 1994 to 2.7 percent in 2001. Finally, for countries like the US, Japan, and Canada, for which

the EU applies most favored nation (MFN) tariffs, average NPR decreased from 22.1 percent in 1994 to 6.9 percent in 2001 (Togan 2012, p. 2).

Table 4 below shows Turkey's NPRs before and after the Customs Union with the EU. Tariff concessions in the agricultural sectors, fishery and meat products were minimal, but other sectors, such as textiles and clothing, wood, paper, rubber and plastic products, cement, machineries and motor vehicles, have seen substantial decreases in NPRs.

Table 4. Turkey's Nominal Protection Rates before and after the Customs Union with the EU

I-O CODE	SECTOR NAME	NPR with EU in 1994 (%)	NPR with EU After CU (%)	NPR with Third Countries in 1994 (%)	Average MFN Tariff Rates after CU (%)	Average Tariff Rates for GSP Beneficiaries after CU(%)
1	Agriculture	41.27	41.26	41.65	41.26	41.26
2	Animal husbandry	3.48	1.37	4.18	1.37	1.37
3	Forestry	0.01	0.01	0.10	0.01	0.01
4	Fishery	47.92	47.84	54.08	47.84	47.84
5	Coal mining	3.33	0.00	3.33	4.00	0.00
6	Crude petroleum	0.00	0.00	0.00	0.00	0.00
7	Iron ore mining	0.00	0.00	2.22	0.00	0.00
8	Other metallic ore mining	0.13	0.00	2.22	0.00	0.00
9	Non-metallic mining	9.09	0.00	11.02	0.95	0.95
10	Stone quarrying	1.95	0.00	2.18	0.02	0.00
11	Slaughtering and meat	10.21	10.21	10.21	10.21	10.21
12	Fruits and vegetables	72.49	68.01	72.62	68.01	68.01
13	Vegetable and animal oil	16.31	16.31	16.38	16.29	16.29
14	Grain mill products	41.33	41.02	41.33	41.02	41.02
15	Sugar refining	28.79	28.79	28.79	28.79	28.79
16	Other food processing	26.47	18.31	28.99	18.31	18.31
17	Alcoholic beverages	72.10	5.25	94.28	11.28	7.35
18	Non-alcoholic beverages	56.92	0.00	69.81	14.83	0.00

Table 4. Continued

I-O CODE	SECTOR NAME	NPR with EU in 1994 (%)	NPR with EU After CU (%)	NPR with Third Countries in 1994 (%)	Average MFN Tariff Rates after CU (%)	Average Tariff Rates for GSP Beneficiaries after CU(%)
19	Processed tobacco	44.40	0.00	99.91	9.40	0.00
20	Ginning	0.00	0.00	2.22	0.72	0.72
21	Textiles	21.19	0.00	27.10	17.30	7.60
22	Clothing	14.75	0.00	20.65	19.90	9.30
23	Leather and fur products	7.85	0.00	12.57	10.20	2.80
24	Footwear	24.40	0.00	35.70	22.50	9.10
25	Wood products	15.25	0.00	18.97	2.00	0.05
26	Wood furniture	26.22	0.00	32.64	5.50	0.00
27	Paper and paper products	13.59	0.00	17.58	2.70	0.00
28	Printing and publishing	8.23	0.00	10.79	4.52	0.00
29	Fertilizers	8.22	0.00	16.38	8.10	0.00
30	Pharmaceutical production	3.33	0.00	8.99	5.30	0.00
31	Other chemical production	10.79	0.00	17.62	8.71	0.04
32	Petroleum refining	22.54	0.00	24.35	2.70	0.00
33	Petroleum and coal products	5.62	0.00	7.52	2.15	0.00
34	Rubber products	19.57	0.00	23.91	5.60	0.03
35	Plastic products	24.61	0.00	31.68	9.90	0.00
36	Glass and glass products	16.85	0.00	21.94	5.76	0.00
37	Cement	30.45	0.00	32.88	3.14	0.00
38	Non-metallic mineral	18.33	0.00	23.21	5.47	0.00
39	Iron and steel	8.00	0.00	10.70	5.50	3.30
40	Non-ferrous metals	4.52	0.00	8.43	3.20	0.50
41	Fabricated metal products	18.36	0.00	25.29	6.00	0.11
42	Non-electrical machinery	7.36	0.00	12.50	4.40	0.00
43	Agricultural machinery	6.98	0.00	12.18	3.50	0.00
44	Electrical machinery	9.69	0.00	16.64	8.30	0.00
45	Shipbuilding and repairing	6.13	0.00	12.89	0.50	0.00
46	Railroad equipment	0.00	0.00	4.61	4.04	0.00
47	Motor vehicles	27.33	0.00	33.10	9.40	0.00
48	Other transport equipment	0.01	0.00	1.76	1.60	0.00
49	Other manufacturing industries	2.92	0.00	8.19	2.95	0.00
	Mean	10.22	1.34	22.14	6.92	2.71
	Standard Deviation	17.68	14.48	15.36	13.79	14.51

Source: Togan (1997).

3.2. Trade between Turkey and the EU

The EU has been a major partner for investment and trade for Turkey ever since the EEC was established in 1957, and the value of bilateral trade between the two parties has increased considerably since then. During the 1970s and 1980s, more than 40 percent of Turkey's total trade was associated with EU countries. This close partnership continued after the establishment of the Customs Union, but did not change radically in terms of trade share. Table 5 shows Turkey's exports and imports vis-à-vis the world and the EU since 1990. Between 1996 and 2015, Turkey's exports to the EU increased fivefold while Turkey's exports to the world grew by more than six times. On the other hand, Turkey's imports from the EU increased threefold over the period, but imports from the rest of the world increased by 4.75 times. It is evident that Turkey's trade with the EU continued on an upward trend after the formation of the Customs Union; however, the EU's share in Turkey's total trade has declined after 2007, at a record low share of 39 percent of exports in 2012 and 36.6 percent of imports in 2014. Turkey's trade with the Middle East and North African countries began to rise after that period. The decline in the EU's trade share is more evident in Turkey's exports, rather than imports, and led to an increase in Turkey's trade deficit against the EU.

Table 5. Turkey's Foreign Trade with the World and the EU

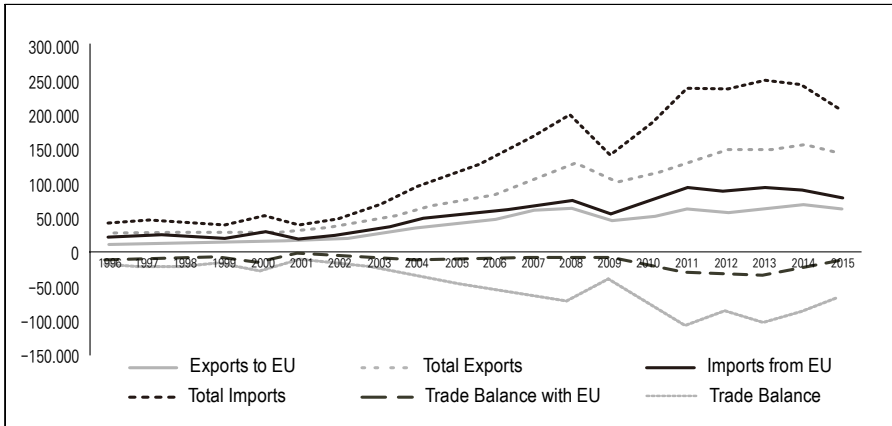
Year	Partner	EXPORTS		IMPORTS		Turkey's Trade Deficit (million USD)
		Value (million USD)	Share (%)	Value (million USD)	Share (%)	
1990	World	12,959		22,302		9,343
	EU-28	7,468	57.63	10,595	47.51	3,127
1991	World	13,593		21,047		7,454
	EU-28	7,769	57.15	10,676	50.73	2,907
1992	World	14,715		22,871		8,156
	EU-28	8,446	57.40	11,511	50.33	3,065
1993	World	15,345		29,428		14,083
	EU-28	8,237	53.68	14,922	50.71	6,685
1994	World	18,106		23,270		5,164
	EU-28	9,376	51.79	11,643	50.04	2,267
1995	World	21,637		35,709		14,072
	EU-28	12,188	56.33	18,006	50.43	5,818
1996	World	23,224		43,627		20,403
	EU-28	12,590	54.21	24,349	55.81	11,759
1997	World	26,261		48,559		22,298
	EU-28	13,471	51.30	26,128	53.81	12,657
1998	World	26,974		45,921		18,947
	EU-28	14,837	55.01	25,297	55.09	10,460
1999	World	26,587		40,671		14,084
	EU-28	15,454	58.13	22,538	55.41	7,084
2000	World	27,775		54,503		26,728
	EU-28	15,688	56.48	28,552	52.39	12,864
2001	World	31,334		41,399		10,065
	EU-28	17,576	56.09	19,841	47.93	2,265
2002	World	36,059		51,554		15,495
	EU-28	20,458	56.73	25,698	49.85	5,240

Table 5. Continued

Year	Partner	EXPORTS		IMPORTS		Turkey's Trade Deficit (million USD)
		Value (million USD)	Share (%)	Value (million USD)	Share (%)	
2003	World	47,253		69,340		22,087
	EU-28	27,479	58.15	35,157	50.70	7,678
2004	World	63,167		97,540		34,373
	EU-28	36,699	58.10	48,131	49.34	11,432
2005	World	73,476		116,774		43,298
	EU-28	41,533	56.53	52,781	45.20	11,248
2006	World	85,535		139,576		54,041
	EU-28	48,149	56.29	59,448	42.59	11,299
2007	World	107,272		170,063		62,791
	EU-28	60,754	56.64	68,472	40.26	7,718
2008	World	132,027		201,964		69,937
	EU-28	63,719	48.26	74,513	36.89	10,794
2009	World	102,143		140,928		38,785
	EU-28	47,228	46.24	56,616	40.17	9,388
2010	World	113,883		185,544		71,661
	EU-28	52,934	46.48	72,391	39.02	19,457
2011	World	134,907		240,842		105,935
	EU-28	62,589	46.39	91,439	37.97	28,850
2012	World	152,462		236,545		84,083
	EU-28	59,398	38.96	87,657	37.06	28,259
2013	World	151,803		251,661		99,858
	EU-28	63,040	41.53	92,458	36.74	29,418
2014	World	157,610		242,177		84,567
	EU-28	68,514	43.47	88,784	36.66	20,270
2015	World	143,839		207,234		63,395
	EU-28	63,998	44.49	78,681	37.97	14,683

Source: Turkish Statistical Institute and World Development Indicators.

Figure 1. Turkey's Trade with the World and the EU



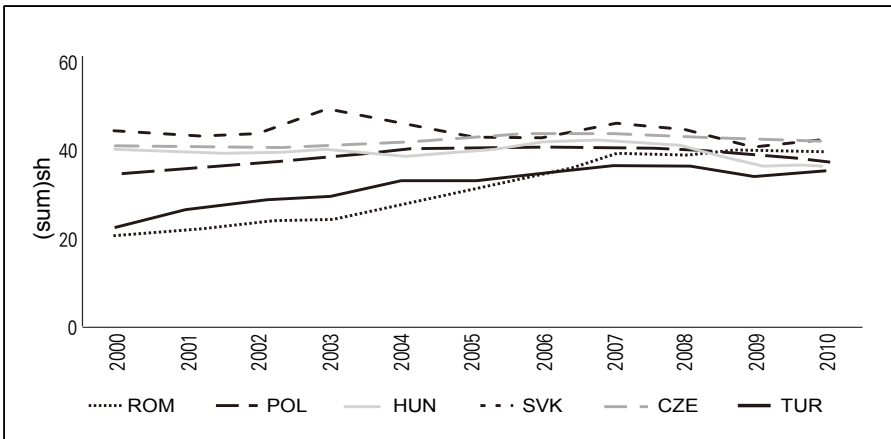
3.3. Sophistication of Turkish Exports

Another impact of the Customs Union on the Turkish economy has been the deep integration of production networks between Turkish and European firms, with the exposure of Turkish producers to competition from European importers, and the opportunity for Turkish exporters to operate in one of the largest free trade areas in the world (Togan 2012, p. 23). This has been particularly apparent in sectors such as automobiles and clothing, which are the main products exported from Turkey to the EU (World Bank 2014, p. 21). Kaminski and Ng (2007) assessed the effects of the Customs Union on the Turkish economy in terms of the technological content of Turkish exports, and revealed that although low-technology products still outweigh in share, there has been a dramatic shift to medium and high-technology exports thanks to the orientation to the European

markets. Adam and Moutos (2008) argued that, as the Customs Union between EU and Turkey allows Turkey only limited access to the EU's internal market, the larger part of the positive effects of goods market integration is expected to materialize only after the full membership of Turkey to the EU.

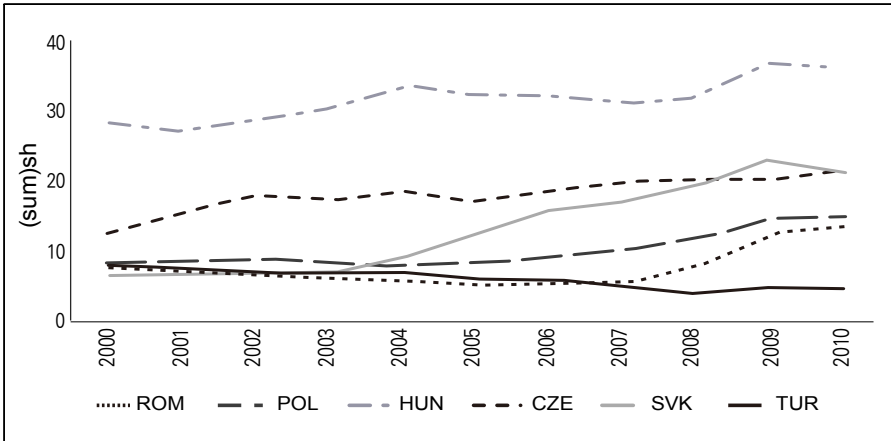
According to a recent study by the World Bank (2014), the Customs Union coincided with more deeply integrated production networks between Turkish and European firms. Duty-free access to the EU has also helped to increase the sophistication and quality of Turkey's exports to some markets. In terms of sophistication, Turkey has grown its medium technology exports (e.g. automobiles, textiles, iron and steel) dramatically over the past decade, from 20 percent of total exports to 32 percent (Figure 2), while high-technology exports have not yet gained a foothold in its export basket (Figure 3).

Figure 2. Share of Medium-Technology Products in Turkey's Exports



Source: World Bank (2014).

Figure 3. Share of High–Technology Products in Turkey’s Exports



Source: World Bank (2014).

3.4. Reforms in Economic Institutions

The Customs Union with the EU went beyond being a tariff elimination agreement for Turkey. It was a stepping stone for the integration of the Turkish economy into the world economy, and for the formation of the export-oriented growth strategy that Turkey had been trying to develop since the early 1980s. This transformation has mostly been in the form of the modernization of major institutions of the Turkish economy. As stated in the EU’s official documents, the Customs Union agreement includes “*the EU Customs Code and its implementing provisions, the combined nomenclature, common customs tariff and provisions on tariff classification, customs duty relief, duty suspensions and certain tariff quotas, and other provisions such as those on customs control of*

counterfeit and pirated goods, drugs precursors, export of cultural goods as well as on mutual administrative assistance in customs matters and transit.”¹⁴⁾ Therefore, with the Customs Union agreement, Turkey had to adopt the EU's customs provisions in the fields of (i) *origin of goods*, (ii) *customs value of goods*, (iii) *introduction of goods into the territory of the Customs Union*, (iv) *customs declarations*, (v) *release for free circulation* (vi) *suspensive arrangements and customs procedures with economic impact*, (vii) *movement of goods*, (viii) *customs debt* and (ix) *right of appeal* (Togan 2012, p. 4).

The adoption of new codes and provisions required a vast change in the face of the Turkish economy. In addition to the adoption of the EU's customs tariffs, Turkey also applied customs rules similar in substance to those contained in the EU's Customs Code. Turkey also made reforms regarding technical barriers to trade, and harmonized its standards to a very large extent with European and international standards and its technical legislation with that of the EU. To ensure a well-functioning quality certification system, the Turkish Accreditation Agency (TÜRKAK) was founded in 1999, and existing bodies, the Turkish Standards Institution (TSE) and National Metrology Institute (UME), were modernized.

The Customs Union also required that Turkey adopt the EU competition rules, including measures regarding public aid, where Turkey had to ensure that

14) These are required for all candidates for EU accession. See, for example, Screening Report for Turkey, http://ec.europa.eu/enlargement/pdf/turkey/screening_reports/screening_report_29_tr_internet_en.pdf.

“its legislation in the field of competition rules is made comparable with that of the acquis, which covers both antitrust and state aid control policies” (Togan 2012, p. 13). To this aim, The Competition Authority (Rekabet Kurumu), became active after 1999. The Competition Authority was based on the “Law on the Protection of Competition,” which was accepted in 1994, but had not been activated since then.

In order to be in harmony with the Customs Union agreement, a significant modernization process was required in the field of intellectual property rights (IPRs) in industries, including the harmonization of rules for the legal protection of patents trademarks and designs. Turkey had to participate in the European Patent Convention and European Patent Organization and get in line with the EU’s rules for the protection of industrial designs, patents and trademarks. In order to satisfy these requirements, the Turkish Patent Institute (TPI) was established in 1994 to act as the administrative body responsible for granting patents, utility models, registering designs, dealing with trademarks, circuits’ topographies and geographical indications. In addition, the new Turkish Patent Law became effective in 1995, and in 2003 the Legislation on the Establishment and the Functions of TPI was announced (Togan 2012, p. 15). Turkey also became a party to the major organizations and conventions in the field of IPRs, including the World Intellectual Property Organization (WIPO), Paris Convention for the Protection of Industrial Property, European Patent Convention, Hague Agreement concerning the International Deposit of Industrial Design, and International Union for the Protection of New Varieties of Plants.

4. Criticism of the Customs Union

As explained above, the Customs Union has significantly contributed to the transformation of the Turkish economy, mainly through the modernization of the institutions of the Turkish economy and increased competition from European firms. The main positive impact of the Customs Union on the Turkish economy was that it helped the transformation of medium-tech export-oriented industries, strengthened the alignment of Turkey's technical legislation and its quality infrastructure with that of the EU, streamlined customs procedures and eliminated the need for rules of origin on its trade with the EU (World Bank 2014, p. 19). However, the Customs Union came with some disadvantages for the Turkish economy and most of these disadvantages still remain as unresolved issues in Turkey's trade policy and its relations with the EU.

According to Akman (2010), the main problems are:

- ① The EU has its own priorities reflected in its FTAs that are concluded, and these agreements do not take into account Turkey's special interests.
- ② Turkey suffers tariff revenue losses. In particular, imports from third countries by way of trade deflection via the EU induce tariff revenue losses for Turkey. Import tariff revenues fell from 2.8 percent of total tax revenues in 1995 to an average of 1.1 percent over the period 2001–05 (Taymaz and Yılmaz 2007).
- ③ Turkey cannot enter into FTAs with third countries with which the

EU has not accorded a deal.

- ④ There are latecomer effects. In particular, Turkey can conclude FTAs only after the EU has concluded the FTAs. This puts Turkish exporters in a disadvantageous position with regards to EU exporters, who can obtain preferential status by penetrating into third country markets several years earlier.
- ⑤ Some of the EU's trade partners that have concluded FTAs with the EU or continue to negotiate FTAs with the EU refrain from concluding FTAs with Turkey despite the 'Turkey Clause' included in FTAs concluded by the EU.

In this study, the criticisms of the Customs Union will be examined under two subheadings; the disadvantages due to the shallow coverage of the agreement, and the disadvantages stemming from the EU's trade policy shift.

4.1. Coverage of the Customs Union as a Challenge

As explained above, the Customs Union covers only industrial goods and processed agricultural goods, which comprises only 20 percent of the national economy. This shallow coverage prevents Turkey from taking advantage of several aspects of the Customs Union, and makes it more difficult to harmonize its economy in line with the standards of the EU economies, which is crucial for Turkey's prospective membership to the EU. In particular, Turkey's private sector has been demanding the expansion of the Customs Union agreement

since its launch.

The private sector faces challenges not only from the shallow coverage of the Customs Union, but also from the exceptions in the liberalization of trade in goods; in other words, the scope of the Customs Union has been narrower than its official coverage, and this has been caused by both Turkey and the EU. Although the Customs Union includes industrial goods and processed agricultural goods, in principle it has a few exceptions; among the most important are Turkey's ban on used machinery imports including used vehicles, and the non-application of the principle of the exhaustion of intellectual property rights for the pharmaceutical sector. Furthermore, in order to protect its automobile industry, Turkey continued the application of trade defense instruments such as anti-dumping and anti-subsidy measures by both parties, which are contradictory to the principles of the Single Market and not utilized in intra-EU trade, and these have proved significant obstacles for Turkish private sector¹⁵).

Another challenge faced by the private sector is that the Customs Union does not cover the services sector. Up to 70 percent of the Turkish economy is composed of the services sector and the sector has the potential to successfully integrate into the European markets in the event of liberalization. According to a study by the World Bank (2014), liberalization of the services sector between Turkey and the EU is expected to increase Turkey's GDP by 0.2

15) See the TUSIAD (Turkish Industry and Business Association) report by Ülgen and Yenigün-Dilek (2015).

percent, which is around USD 1.5 billion in 2014 figures. Turkish private sector actors are expecting an expansion of the Customs Union to cover the services sector, through legal harmonization between the two parties.

Finally, Turkish private sectors are expecting the Customs Union to be modernized so that it covers the liberalization of public procurement markets. The opening of the Turkish public procurement market to European firms would introduce a more competitive environment for Turkish companies, but on the other hand, certain Turkish companies, especially in the construction and transportation sectors, would enter the EU public procurement markets with a competitive edge and expect to benefit from this environment. In addition, the removal of visa obstacles for the temporary movement of workers would be particularly important for the construction and contracting industries in which Turkey is highly competitive (Ülgen and Yenigün-Dilek 2015).

4.2. New Trade Policy of the EU as a Challenge to the Customs Union

The biggest challenge for the sustainability of the Customs Union is related to the FTAs of the EU. Article 13 of the Customs Union agreement requires Turkey to align itself with the EU's common commercial policy in relation to countries that are not EU members. Articles 16 and 54 reinforce this by explicitly requiring Turkey to progressively align itself with the preferential customs regime of the EU (World Bank 2014, p. 24). Furthermore, according to Article

14 of the Customs Union agreement, Turkey should not apply an import tariff lower than the CET for any products. Consequently, as expressed by World Bank (2014, p. 24), *“the EU sets the CET in line with its priorities and in many cases applies lower duties in the framework of FTAs. This has led to a progressive liberalization of Turkish tariffs on most industrial products, and selective liberalization of agricultural ones, from third countries with which the EU has negotiated FTAs.”*

This fact became a significant challenge for the Turkish economy after the EU announced its new trade policy in 2006. The EU had been keeping a multilateralist position in global trade policy after the formation of the World Trade Organization (WTO). At the time when the WTO Doha round was launched, the trade policy of the EU was *“pursu[ing] all existing mandates for regional negotiations with vigor and fairness, but not to begin any new negotiations”* (Lamy 2002, p. 1412). However, this multilateralist position became unsustainable when the Doha round was officially suspended in July 2006. As stressed by Acar and Tekçe (2008, p. 275), *“regarding the fact that the biggest competitor, the US, has been pursuing FTAs with several countries, especially with the developed and emerging markets in East Asia, the EU had to act as soon as possible to avoid trade diversion and a shift in the EU's trade strategy had already become inevitable.”*

The European Commission revealed a new trade policy strategy, Global Europe,¹⁶⁾ in October 2006, under which the EU would *“pursue bilateral FTAs with major economies in order to secure the market access and competitiveness*

of European companies in important markets” (Guerin *et al.* 2006, p. 58). The core of the new trade strategy of the EU has been summarized by the Commission as; “*rejection of protectionism at home, accompanied by activism in creating open markets and fair conditions for trade abroad*” (European Commission 2006, p. 6). The FTA strategy constitutes a very important part of this trade policy. By that time, the EU already had quite a significant number of bilateral trade agreements; the agreements with the EFTA countries, the Customs Union with Turkey, the goods agreements with Euromed countries and the preferential arrangements offered to the sub-Saharan African, Caribbean and Pacific countries (Guerin *et al.* 2006, p. 58). Before the Global Europe strategy, the EU had also signed FTAs with Chile, Mexico and South Africa. In the EU’s new trade policy, the European Commission defined the key economic criteria for new FTA partners as “market potential (economic size and growth) and the level of protection against EU export interests (tariffs and non tariff barriers),” and set the priority targets as ASEAN, Korea and Mercosur. India, Russia and the Gulf Cooperation Council were defined as “the countries of direct interest to the EU,” and significant importance has been attached to an empowered Transatlantic trade partnership (European Commission 2006, p. 11, p. 12).

The EU quickly took action in the context of its new trade policy and started FTA negotiations with Korea and ASEAN in 2007, and with Mercosur in 2010. The first results of this FTA-oriented trade strategy of the EU were achieved

16) Full text available at: http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc_130376.pdf.

by the signature of the EU-Korea FTA in 2010, which has been in effect since July 2011. The negotiations with ASEAN were paused in 2009 and re-launched in 2010, but only with Singapore and Malaysia. Moreover, the EU began FTA negotiations with Canada in 2009 and last, but absolutely not the least, the US and the EU started negotiations on the Transatlantic Trade and Investment Partnership (TTIP) in July 2013.

The shift in the trade policy of the EU has been alarming news for Turkey. As explained above, the Customs Union was negotiated with the expectation that it would be a transitional arrangement to be made before Turkey's eventual full membership in the EU. However, full membership has not taken place and the transitional agreement became a permanent situation for both parties. According to Article 16 of the Customs Union agreement,¹⁷⁾ *“Turkey has to align itself progressively with the preferential customs regime of the EC within five years from the date of entry into force of the Customs Union. This alignment will concern both the autonomous regimes and preferential agreements with third countries. To this end, Turkey committed itself to taking the necessary measures and negotiating agreements on a mutually advantageous basis with the countries concerned.”*

While the EU stepped up efforts to sign FTAs with larger countries, Turkey faced the serious problem of ‘trade deflection.’ According to Krueger (1997), when transport costs are assumed as zero, any FTA would become a customs

17) EU-Turkey Association Council Decision 1/95.

union, where importers would import goods through the country with the lowest tariff and then transship (or deflect) them to the country where they were in demand. In order to avoid such negative consequences of a Customs Union, rules of origin become a central feature of both Customs Unions and FTAs. As Francois *et al.* (2005, p. 1554) stress, all preferential trade agreements require rules of origin to prevent trade deflection, and “*the EU insists on its own rules of origin being applied in all of its preferential trade agreements, and determining the origins becomes complex when processing or manufacturing uses imported intermediate material in production, since both parties will wish to exclude from preferences, third country goods which have undergone only superficial working or processing in the partner country*” (Francois *et al.* 2005, p. 1555).

As mentioned above, the ATR.1 movement certificate is sufficient for the free circulation of goods within the Customs Union area. The ATR.1 is not a certificate of origin, but rather certifies that the exported goods are manufactured in or have free circulation status within the EU, which means that the product has gone through the importation procedure in either country. Once the EU signs an FTA, the partner country gains automatic unrestricted access to Turkish markets without any customs duties as long as it receives an ATR.1 certificate in one of the member countries. Turkey, on the other hand, unable to take part in the formation of the EU’s common commercial policy, “*finds itself in a position of opening its markets to countries that it did not even negotiate with, and under the conditions determined by the interests of the EU and the partner*

country” (Tekçe 2010, p. 68). Furthermore, it faces trade barriers in the markets of that country, where Turkish firms do not receive automatic reciprocal access to those markets. This situation *“not only puts Turkey in an uneven position in its bilateral trade with the partner country by weakening Turkey’s trade negotiating position, but also leads to a serious fall in its customs revenues”* (Tekçe 2010, p. 68) and risks the imposition of origin controls that could undermine the benefits of the Customs Union.

Before the announcement of the new ‘Global Europe’ trade policy strategy of the EU, Turkey also faced the risk of trade deflection, but the EU’s FTA partners were either relatively small in economic size or had a relatively insignificant trade volume with Turkey. As stated in the Customs Union agreement, Turkey aimed to take the necessary measures and negotiate agreements with the EU’s FTA partners, but some of these countries, like Algeria, South Africa and Mexico, have been reluctant to start trade talks with Turkey. As stated by Tekçe (2010, p. 69), *“as Turkey fails to come to an agreement with the country that signed an FTA with the EU, and the time lag between the FTAs of two parties expands, Turkey’s loss from trade deflection rises.”* Table 6 below shows the FTAs concluded by the EU after 2000, and their comparison with Turkey.

Table 6. Comparison of the FTAs of Turkey and the EU

Country	Year the FTA Came into Force	
	EU	Turkey
Mexico	2000	Negotiations did not start
Morocco	2000	2006
South Africa	2000	Negotiations did not start
Jordan	2002	2011
Lebanon	2003	Signed, not in force
Egypt	2004	2007
Algeria	2005	Negotiations did not start
Chile	2005	2011
Korea	2011	2013

Source: Republic of Turkey Ministry of Economy FTA portal (2016).

As seen in Table 6, with the exception of the FTA with Korea, there is a time lag between the partner countries' FTAs with the EU and Turkey, which increases the costs of trade deflection for Turkey. Furthermore, currently, the EU has completed or is negotiating FTAs with larger economies and with a deeper coverage. Turkey faces serious challenges in this process: *“First of all, there is no binding clause for these countries to sign an agreement with Turkey; they may want to enjoy the tariff-free access to Turkey if they have concerns about opening their own markets to Turkey. Second, it is the first time for Turkey to negotiate an FTA with country groups (except for the Turkey-EFTA FTA in 1992) instead of single countries, and also to negotiate deep FTAs instead of agreements with only tariff and quota removal”* (Tekçe 2015, p. 401). As seen in Table 7, Turkey has completed 23 FTAs (18 in force) and is negotiating 13 FTAs¹⁸⁾ at the moment.

Table 7. Free Trade Agreements of Turkey

Party	Year of Signature	Entry into Force
EFTA	1991	1992
Israel	1996	1997
Macedonia	1999	2000
Bosnia Herzegovina	2002	2003
Palestine	2004	2005
Tunisia	2004	2005
Morocco	2004	2006
Syria	2004	2007*
Egypt	2005	2007
Albania	2006	2008
Georgia	2007	2008
Montenegro	2008	2010
Serbia	2009	2010
Chile	2009	2011
Jordan	2009	2011
S. Korea	2010	2013
Mauritus	2011	2013
Malaysia	2014	2015
Lebanon	2012	Pending
Kosovo	2013	Pending
Moldova	2013	2016
Faroe Islands	2014	Pending
Singapore	2015	Pending

Note: *Suspended by Turkey in 2011

Source: Republic of Turkey Ministry of Economy FTA portal (2016).

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- 18) Peru, Ukraine, Colombia, Ecuador, Mexico, Japan, DR Congo, Cameroon, Seychelles, Gulf Cooperation Council, Libya, MERCOSUR and Chad. (The FTA negotiations with Ghana has been completed in 2013, but the agreement has not been signed yet).

It is obvious that negotiating these FTAs with broad coverage like the EU would be a challenge for Turkey's foreign trade policy in the forthcoming years. The challenge stems from Turkey's current position in FTA talks, which is as follows; *“as a result of the Customs Union with the EU, Turkey is unable to select its FTA partners in line with its economic interests, it has to pursue the EU's FTA partners for an agreement, and it faces trade deflection especially as the EU plans FTAs with large economies (like Canada and US) unless it signs FTAs with these countries immediately after the EU signs”* (Tekçe 2015, p. 403).

Turkish policymakers expressed their complaints to the European Commission, and demanded that the EU give Turkey a role in the FTA negotiations or bind the partner to pursue simultaneous FTA negotiations with Turkey; however, these attempts have been fruitless. The European Commission states that it negotiates its FTAs on behalf of its 28 member states only, and the inclusion of Turkey is, legally and practically, not plausible. Turkey, unable to become a direct party to the EU's FTAs, tried to take some measures to overcome the trade deflection problem. For example, Turkey has introduced a protection measure based on the rules of origin for the imports of cars from Mexico in order to reduce trade deflection, but the use of such measures led to further costs in customs due to origin requirements. Turkey has also decided to apply additional customs duties for some textiles products originating from some countries outside the EU and the EU's FTA partners. In order to apply these differentiated duties, origin controls are being conducted based on customs

declarations, but no physical check is yet being conducted, which largely undermines the success of these measures (World Bank 2014, p. 25).

The EU added a 'Turkey Clause' to its FTAs, signaling the intention for the EU's FTA partners to start negotiating an agreement with Turkey on the basis of the findings of a joint feasibility study. However, this clause was non-binding. For example, South Africa refused to add the Turkey Clause to the FTA text. In the FTA between the EU and Korea, the Turkey Clause was diluted to a declaration¹⁹⁾. While the Commission has also been actively writing to Mexico and Algeria, urging them to start negotiating FTAs with Turkey, these attempts have been unsuccessful (World Bank 2014, p. 29). So far, the Turkey Clause has been a far reach from being a solution to Turkey's trade deflection problem.

The only feasible option left for Turkey is signing an FTA with the FTA partner of the EU immediately after the EU signs the agreement, which largely depends on the negotiation abilities of Turkish policymakers and the political connectedness of the two parties, as the other country has no obligation to sign the agreement. Turkey failed to even start a negotiation process with Mexico and South Africa, but managed to come to an agreement with Morocco, Jordan, Egypt and Chile. However, all these FTAs were signed three to nine years after they concluded an FTA with the EU. The most successful case for Turkey was its FTA with Korea; the FTA was concluded in less than a year after Korea's

19) Although this Turkey Clause still provided impetus to the process as within less than a year Korea also agreed to an FTA with Turkey.

FTA with the EU, and the agreement came into force in 2013.

4.3. The Turkey–Korea FTA

The FTA between Korea and Turkey, which was signed in November 2011 and entered into force in May 2013, has been set up as an agreement that would go far beyond a simple FTA²⁰). The agreement is composed of two agreements; the Framework Agreement and Trade in Goods Agreement, which cover areas beyond tariff elimination, and focus on areas like intellectual property rights, competition policy, consultations and dispute settlement, sustainable development, transparency and institutional framework for policy dialogues.

The position of Turkey and Korea before the FTA was that, thanks to its FTA with the EU, Korea had a chance to export their products initially to the EU, and then enter Turkey tariff-free by taking advantage of the Customs Union, if the transportation and commission costs of these transactions are below the costs arising from paying customs duties in Turkey (Tekçe 2010). *“Even if the product in question is subject to customs duties when entering the EU, which has not been completely removed but has been lowered by the FTA, Korean exporters to Turkish markets would again choose to enter Turkey via the EU if the sum of the transportation and commission costs and the duties paid to the EU is lower than the duties paid to Turkey”* (Tekçe 2010, p. 72).

20) http://www.customs.go.kr/download/engportal/han_turkey_02_01.pdf for the full text of the agreement.

This would lead to the shift of an important part of Turkey's customs revenues to the EU countries. Despite these unfavorable conditions, Turkey and Korea managed to sign a successful FTA.

At the end of the negotiations, Turkey and Korea agreed to eliminate tariffs of:

- Around 90 percent of all their tariff lines in a schedule of a maximum of 10 years.
- 100 percent of tariff lines pertaining to industrial goods in 7 years.
- 52 percent of tariff lines pertaining to agricultural goods in 10 years (This ratio corresponds to more than 90 percent of the goods actually traded among Parties).²¹⁾

In order to evaluate the effectiveness of this tariff elimination schedule, we need to go further into the details of the goods in question and make a comparison with the EU-Korea case. Table 8 shows the product groups where Korea is a net importer and Turkey is a net exporter. The table shows the average, minimum and maximum tariff rates applied to Turkey and the EU before the FTAs, and their post-FTA levels both applied to Turkey and the EU.

21) Korea Customs Service FTA Portal (2016).

Table 8. Comparison of Korea's Tariff Concessions for Turkey and the EU after the FTA

HS CODE	Description	Korean Tariffs before the FTA (%)			Timing for the elimination of Korean Tariffs after the FTA with:	
		Min	Max	Avg	Turkey	EU
02	Meat and edible meat offal	3	40	23	No change, very few 10 yrs	mostly immediate
03	Fish and crustaceans, molluscs	0	50	16.4	No change	mostly 3 & 7, very few immediate
04	Dairy produce, eggs; natural honey	8	176	58	same, very few 5&10 yrs	mostly 10 yrs, very few immediate
05	Products of animal origins	0	27	9	mostly immediate & 5 yrs, very few same	mostly immediate
07	Edible vegetables	0	887.4	114.7	No change	mostly immediate & 10 yrs
08	Edible fruit and nuts	8	611.5	65	Mostly no change, very few 5 and 10 yrs	mostly immediate & 10 yrs
14	Vegetable plating materials	3	8	5	mostly 10 yrs, very few 5&7 yrs	mostly immediate & 5 yrs, very few 10 yrs
16	Preparations of meat, of fish or of crustaceans	18	72	23.6	mostly 10 yrs	mostly 3 & 5 yrs
17	Sugars and sugar confectionery	3	243	18.8	mostly same& 10 yrs	mostly 0 & 5 yrs, very few 10 yrs
18	Cocoa and cocoa preparations	2	40	11	mostly 5 & 10 yrs	mostly immediate, a few 12 yrs
20	Preparations of vegetables, fruit, nuts or other parts of plants	5	63.9	34	mostly same, very few 5 & 7 yrs	mostly 5 yrs, very few 10 yrs
21	Miscellaneous edible preparations	8	754.3	35	mostly 10 yrs, very few immediate	mostly immediate & 5 yrs, very few 7 & 10 yrs
22	Beverages, spirits and vinegar	8	270	21	mostly 10 yrs, very few immediate and same	mostly immediate & 5 yrs
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	0	8	3.3	mostly immediate, very few 5 & 7 yrs	mostly immediate, very few 3 yrs
26	Ores, slag and ash	0	2	0.6	immediate	immediate
34	Soap, organic surface-active agents, washing preparations	2	8	6.5	immediate	mostly immediate, very few 7 yrs
43	Furskins and artificial fur	3	16	9.1	mostly 0, very few 5 yrs	immediate
57	Carpets and other textile floor coverings	10	10	10	immediate	immediate
61	Articles of apparel and clothing accessories, knitted	8	13	12.8	immediate	immediate
62	Articles of apparel and clothing accessories, not knitted	8	13	12.6	immediate	immediate
68	Articles of stone, plaster, cement, asbestos, mica	8	8	8	mostly immediate, very few 5 yrs	mostly immediate, very few 3&5 yrs
70	Glass and glassware	0	8	7.4	immediate	mostly immediate, very few 3&5 yrs

Source: Author's calculation from Korea Customs Service FTA Portal (2016).

As seen in Table 8, tariff reductions in product groups where there is a potential market in Korea for Turkish exporters is either very limited, or the time required for tariff-free trade is very long. Tariff removal schemes under the Korea-EU FTA for most of the products examined above show that Korea does not follow an effective policy to protect those markets against foreign competition. For products that have very high average pre-FTA tariff levels like meat (23%), dairy products (58%) vegetables (114.7%) and fruits (65%), Korea agreed on immediate tariff removal under a gradual reduction scheme between 3 to 10 years. On the other hand, tariff rates are mostly kept the same for the same product groups with Korea's FTA with Turkey. It can be assumed that the Korean products in Table 8 would pose little threat for Turkish producers, but the tariff removal schedules have been planned in a less advantageous position compared to the Korea-EU FTA.

This case clearly reveals that Turkey has achieved sub-optimal results from its FTA with Korea due to its weak negotiation power vis-à-vis the EU's FTA partners, as the other party is aware that it already has an advantageous position due to its FTA with the EU. Still, being the first deep and comprehensive FTA for Turkey, the agreement with Korea was a very important step in its struggle against the trade deflection disadvantages of the Customs Union.

4.4. TTIP and the Customs Union

In this regard, the biggest challenge for Turkey in terms of the Customs

Union is the possibility of the Transatlantic Trade and Investment Partnership (TTIP) between the EU and the US. Provided that it succeeds, TTIP is expected to be the largest and most comprehensive FTA the EU has ever signed, and is expected to create a free trade zone comprising nearly half of global economic output and 30 percent of world trade. TTIP is expected to include all aspects of trade (both goods and services), tariff and non-tariff barriers (especially regulations) and FDI. The negotiations will also include discussions on government procurement, trade facilitation, environmental and labor policies, competition policy, state-owned enterprises and intellectual property rights.²²⁾ According to Francois (2013, p. 47), the gains from a comprehensive liberalization of trade would be EUR 119 billion for the US and EUR 95 billion for the EU per year.

While the parties of TTIP are expecting substantial gains from the agreement, according to the study conducted by the Ifo Institute (2013), the countries with which either the EU or the US already has free trade agreements are expected to be the main losers. The study estimates that real income losses for Canada and Mexico, both with preferential trade agreements with the US and EU, would be 9.48 and 7.24 percent respectively, while Turkey's potential loss is put at around 2.5 percent (Ifo Institute 2013, p. 6). The report by the Bertelsmann Stiftung (2013) estimates that Turkey could lose close to 95,000 jobs as a result of TTIP.

22) Pelkmans *et al.* (2014) for a comprehensive survey.

Not being a party of TTIP leaves Turkey with the biggest risk of trade deflection it has ever faced. This issue has been a subject of discussion between the authorities of Turkey and the EU on several occasions. However, no concrete step has been taken in order to alleviate Turkey's concerns. This leaves Turkey with two options; negotiate and sign a TTIP-like FTA with the US, or reform the Customs Union with the EU and transform it into a comprehensive FTA in order to minimize the effects of trade deflection. The first option is not easy, but feasible and strategic. If Turkey manages to sign an FTA with the US, with conditions similar to those of TTIP, the agreement, covering several areas mentioned above, would have a deeper coverage than the Customs Union with the EU. Such an agreement and growing economic relations between Turkey and the US would be a natural impetus for the expansion of the Customs Union between Turkey and the EU, in which case the EU would not take the risk of the diversion of Turkish trade to the US.

Under the current state of affairs, trade deflection resulting from the EU's current or prospective FTAs, especially from TTIP, seem to be one of the biggest challenges for the relations between Turkey and the EU. Neither party managed to solve or suggest a feasible solution for this issue. As mentioned above, a joint FTA negotiation is institutionally impossible, even though that would be the best option for Turkey. The 'Turkey Clause' attached to TTIP may be a sign of good will, but has no binding power and is practically ineffective. The only feasible and plausible option left is the revision of the Customs Union in line with the changing economic environment. Although this

is not an easy task to complete, some important steps have been taken. For example, in May 2015, the EU's Trade Commissioner Ms. Malmström and the Minister of Economy of Turkey Mr. Zeybekci agreed to modernize the Customs Union.²³⁾ In this meeting, Mr. Zeybekci stressed that if Turkey is not a party to TTIP, then the Customs Union agreement cannot be maintained, and Ms. Malmström said they are willing to inform Turkey about the progress of TTIP between the EU and the US, and to support Turkey in becoming part of the final agreement. The parties agreed on launching the modernization negotiations in early 2017, and declared their good will. A revision of the Customs Union is not an easy task to perform, but it is crucial and urgent for both parties in order to continue a healthy bilateral economic relation.

The same risk for Turkey applies for the EU's other FTAs with giant economies, such as the FTA and Economic Partnership Agreement (EPA) with Japan and the Comprehensive Economic and Trade Agreement (CETA) with Canada. The negotiations of the EU-Japan FTA/EPA were launched in March 2013 and have shown significant progress since then. The FTA/EPA is considered one of the world's most ambitious trade deals, and is expected to increase EU exports to Japan by 32.7 percent, while Japanese exports to the EU would increase by 23.5 percent (European Commission 2012, p. 37). Similarly, the CETA between the EU and Canada, which was signed on October 30, 2016, aims to remove around 9,000 tariffs in many industrial and agricultural goods,

23) <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1307>.

mostly at the moment the agreement enters into force. A complete tariff elimination between the EU and Canada in industrial goods is foreseen in seven years. CETA also promises to open up competition in the services sector, including financial services, telecommunications, energy and maritime transport. In terms of the effects of the EU-Japan FTA/EPA and EU-Canada CETA, the scenario would be very similar to the effects of TTIP. Japan is a significant trade partner for Turkey, albeit displaying relatively low levels of exports (around USD 335 million in 2015), and Japan was Turkey's 14th largest import partner in 2015 at a value of more than USD 4 billion. Trade between Canada and Turkey, on the other hand, has been below potential regarding the economic size of both parties, at around USD 670 million of Turkish exports and USD 950 million of Turkish imports in 2015. After the FTAs of these two countries with the EU enter into force, Turkey faces a significant risk of trade deflection and it is very likely that Turkey will experience a serious fall in its customs duties from Japan and Canada.

5. The Impact of Current Developments on Turkey–EU Relations

As explained so far, Turkey's 'long and winding road' leading to EU membership has been full of hurdles and cul-de-sacs. Despite showing some progress in the last decade, Turkey's EU membership prospects seem to have

been fading very rapidly in recent years. There are internal and external factors affecting the current situation and future of Turkey-EU relations. This section examines how various current economic and political developments influence the relationship between Turkey and the EU, and to what extent do economic, social and political developments push Turkey away from its path to EU membership. These developments include the enlargement fatigue of the EU, economic situations of EU member countries especially after the 2008 global crisis, the rising far right and nationalism in some EU countries, and the migrant crisis.

5.1. Enlargement Fatigue

One of the issues behind the opposition against Turkey's EU membership is the 'enlargement fatigue' of the EU, which has been widely discussed since the EU's 'Big Bang' Eastern enlargement in 2004. Following the initial burdens of this large-scale enlargement and the failures of the French and Dutch referendums on the Constitutional Treaty in 2005, the concepts of 'absorption capacity' and 'enlargement fatigue' began to be widely discussed in the EU. According to the European Commission (1993, p. 14), absorption capacity was simply *"the EU's ability to absorb new members, while maintaining the momentum of European integration, is an important consideration in the general interest of both the Union and the candidate countries,"* and the concept began to feature regularly in the debate about future expansion, especially after the

European Council requested the Commission to re-visit the Copenhagen Criteria and re-evaluate the Union's 'absorption capacity' against future commitments (Emerson *et al.* 2006). The perception that the EU has reached its absorption capacity with its Eastern enlargement gradually created a so-called 'enlargement fatigue' and a "*hesitance or unwillingness to grant EU membership to new states*" (Szolucha 2010, p. 6), which was also triggered by the severe impacts of the 2008 economic crisis on the EU. This enlargement fatigue is still one of the key elements affecting not only the actions of EU policymakers, but also the perceptions of the European public about enlargement. For example, the most recent Eurobarometer survey about public opinion in the EU reveals that only 39 percent of EU citizens support the 'further enlargement of the EU to include other countries in future years' (Eurobarometer 2015, p. 161).

5.2. Economic Crisis and the Rise of the European Far Right

European opposition against Turkey's membership to the EU has also been affected by the global 'Great Recession' of the late 2000s, which had serious ramifications on the EU, progressing from a financial crisis to sovereign debt crises in many member countries. Five countries, Greece, Portugal, Ireland, Spain and Cyprus, were affected the most. Despite the fact that the number of Eurozone countries in crisis was low, and their economic significance in the Eurozone was not that large, the risk of insolvency of these countries, the risk of the contagion of the crisis to the other Eurozone members, and the lack of

provisions for such risks in the European Monetary Union's set of regulations turned the crises of a few euro countries into a crisis for the Euro, which had the potential of mushrooming into a crisis for the political future of the entire EU and its cohesion.²⁴⁾ From mid-2012, thanks to fiscal consolidation policies and the implementation of structural reforms in the countries at risk, the contagion risk for other Eurozone countries has diminished, financial stability has significantly improved and interest rates have steadily fallen.

Nevertheless, although the negative effects of the crisis on the economies of the EU countries have diminished in time, the political effects have persisted. The study by Funke, Schularick and Trebesch (2015) examines around 800 elections in more than 20 countries since 1870, and concludes that extreme and populist right-wing parties have always been the biggest political beneficiaries of financial crises. The latest crisis was no exception; one of the most visible political effects of the European debt crisis has been the rise of xenophobic, Islamophobic and populist far-right political parties. The French National Front won 28 percent of the votes in the 2015 elections; in Austria, the nationalist and anti-immigration Freedom Party received 49.7 percent of the votes in the elections in May 2016; UKIP (UK Independence Party) of the UK received 13 percent of the votes in the 2015 elections, and their aggressive campaign against the UK membership of the EU resulted with Brexit in the June 2016 referendum. The Alternative for Germany (AFD) party, Sweden Democrats,

24) Der Spiegel (2011), about a survey on how the crisis was expected to evolve in the year 2011.

Belgium's Flemish Interest (Vlaams Belang) and Greece's Golden Dawn surged in the polls and became significant actors in domestic politics in recent years. One of the common features of these political parties is their clear opposition against Turkey's membership to the EU. For example, during the campaigns before the Brexit referendum, the 'Vote Leave' campaigners not only claimed that Turkey was about to join the EU by 2020, but that its citizens posed a threat to national security, as well as to public services; it was argued that "*the growing Turkish population in the UK would cost National Health Service (NHS) an extra £400 million within 10 years of the country joining the EU.*"²⁵⁾ Using the opposition to Turkey's EU membership in political campaigns was not limited to far-right parties; Jean-Claude Juncker, the leader of the center-right European political party used the rhetoric against Turkish membership during his campaign for the presidency of the European Commission. After he was elected president, Mr. Juncker declared his priorities for his presidency period about the membership of Turkey to the EU as; "*no further enlargement will take place over the next five years. As regards Turkey, the country is clearly far away from EU membership. A government that blocks Twitter is certainly not ready for accession.*"²⁶⁾ Likewise, before the Brexit referendum, David Cameron claimed that Turkey "*would probably not be ready to join the bloc until the year 3000 on its current rate of progress.*"²⁷⁾

25) <http://www.theguardian.com/politics/2016/may/21/vote-leave-prejudice-turkey-eu-security-threat>.

26) <http://juncker.epp.eu/my-priorities>.

27) www.ft.com/cms/s/0/de1efd42-2001-11e6-aa98-db1e01fab0c.html.

5.3. Refugee Crisis

Economic crisis was not the only factor leading to the rise of far-right political parties and anti-Turkish movements in EU countries. The civil war in Syria and the resulting inflow of a large number of asylum-seeking refugees also triggered far-right and nationalist movements in Europe. All problems directly or indirectly caused by the migrants from Syria or Iraq fueled Islamophobia in the eyes of the European public. A recent survey by the Pew Research Center (2016) illustrates that the refugee crisis and the threat of terrorism are very much related to one another in the minds of many Europeans. In eight²⁸⁾ of the ten European nations surveyed, more than 50 percent of the public believe incoming refugees increase the likelihood of terrorism in their country. This fear, coupled with economic concerns²⁹⁾ led to an even more negative perception of Muslims. Especially in eastern and southern Europe, a significant part of the public express their unfavorable opinions of Muslims. In this context, Turkey, a country with a dominantly Muslim population and a per-capita GDP much lower than that of Western Europe, has been considered a potential source of immigrants to the EU countries and possibly a source of such problems.

The refugee crisis had another impact on the Turkey-EU relations; as the war in Syria forced millions of people out of their homelands, Turkey suddenly

28) Hungary, Poland, Netherlands, Germany, Italy, Sweden, Greece and the UK.

29) In Hungary, Poland, Italy, Greece and France, more than half of the public claim that “Refugees are a burden on our country because they take our jobs and social benefits.”

found itself the first destination of millions of refugees trying to find themselves new destinations in Europe. Only in 2015, over one million refugees and migrants fled to Europe across the Mediterranean, mainly to Greece and Italy.³⁰⁾ As of 2016, Turkey hosts more than 2.7 million registered Syrian refugees, and a significant number of them see Turkey as a temporary station before entering European countries. The EU, alarmed with this situation, had to cooperate with Turkey in dealing with this challenge, mainly in order to keep these migrants in Turkey before they try to enter Europe. For this assistance, the European Commission and EU Member States set up the 'Facility for Refugees in Turkey,' a EUR 3 billion fund which will support humanitarian aid and development projects for refugees residing in Turkey in 2016 and 2017. Also, on March 18, 2016, the EU and Turkey signed an agreement to end the irregular migration from Turkey to the EU and replace it instead with legal channels of resettlement of refugees in the European Union. With the 'EU-Turkey refugee deal,' the EU and Turkey agreed on several issues related to the refugee crisis, including the return of new irregular migrants or asylum seekers whose applications have been declared inadmissible crossing from Turkey to the Greek islands, and the activation of a Voluntary Humanitarian Admission Scheme (European Commission 2016). The agreement also covered other elements about Turkey's relations with the EU, such as the acceleration of the visa liberalization roadmap, opening of Chapter 33 and accelerating the

30) <http://www.unhcr.org/news/latest/2015/12/5683d0b56/million-sea-arrivals-reach-europe-2015.html>.

work on the upgrading of the Customs Union (European Commission 2016).

Although this refugee deal promises the re-energizing of the accession process, upgrading of the Customs Union and visa liberalization, it can also be concluded that giving Turkey a ‘safe third country’ status for the refugees means that Turkey is, and will be, considered to be outside the borders of Europe, and its new role is to guard Europe from refugees.

6. Conclusion: Whither Turkey–EU Relations?

The Turkey-EU relationship has followed a very volatile path since the 1960s. This sometimes bright, sometimes murky relationship has so far been affected by several factors, including military coups and human rights problems in Turkey, economic crisis in Europe, religious and cultural challenges, and recently the refugee crisis. As discussed above, Turkey’s EU membership faces political, economic and social obstacles, and with the current economic and political situation of the EU, even if Turkey complies with the *acquis* and successfully closes all negotiation chapters (which seems very unlikely considering the current economic and political situation of Turkey), approval of Turkey’s accession by all member countries of the EU seems almost impossible.

However, political and demographic factors and security issues make Turkey an indispensable partner for the EU. In this relationship with sharp ups and downs, it is imperative for both parties to stay on track. The EU, even if it

cannot promise full membership to Turkey due to its current economic, social and political situation, should always keep in mind that burning the bridges and pushing Turkey away from the future of the EU is not an option; the EU needs Turkey with its young and dynamic population, large market, geographical position and political context. Turkey, on the other hand, should 'play it long and cool' even if the EU membership has been turning into a distant goal, and "*continue alignment on the EU acquis unilaterally, with priority for those elements that are clearly useful for Turkey's own economic and political system*" as Emerson (2006, p. 3) suggested. Turkey is destined to become a part of Europe, with its economic, social and political identity. All these combined, it is inevitable for both parties to start rethinking the scope of the bilateral relations, as the current situation has long been showing signs of coming to a dead end.

One of the most crucial and urgent issues in this regard is the modernization of the Customs Union, which was designed as a transitional phase before Turkey's full membership to the EU, but is seriously affected as the volatile bilateral relations has made Turkey's membership prospects blurrier, and is also outdated, with its shallow coverage. One feasible and tangible option would be to complement the Customs Union with a deep and comprehensive trade agreement with chapters not only covering industrial goods but also agriculture, services, non-tariff barriers, IPR issues, food safety, investment, competition, public procurement, labor standards, and environmental issues, which should be enforced through dispute settlement provisions. Such an agreement would align

the breadth of the EU's economic relations with Turkey with the EU's current FTA partners, such as Korea and Canada, and future FTA partners such as the US and Japan; so that by meeting the requirements of the EU Turkey will find it easier to fulfill the requirements of TTIP.

The decades-long relationship between Turkey and the EU has seen positive and negative moments, and several governments with different views on this relationship on both sides, but it is still on track. Neither historical affairs nor future challenges will allow for a Turkey without strong ties with the EU, and vice versa. However, the biggest current challenge in the Turkey-EU relations is the urgent need for the modernization of the Customs Union. Immune from all political and social developments, deeper economic integration between the EU and Turkey would be an invaluable opportunity for both parties.

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Turkey's Perspective on Enhancing Connectivity in Eurasia: Searching for Compatibility between Turkey's Middle Corridor and Korea's Eurasia Initiative

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I. Introduction

In order to integrate former Soviet markets Turkey has been working on developing its own Silk Road project since the early 1990s. However, problems

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such as the lack of intra-regional cooperation, Turkey's own limited economic capacity, and the inadequacy of the transportation infrastructure throughout the region have made it difficult for Ankara to further enhance collaboration with the regional countries. Recently, Ankara put forward a new Silk Road initiative named the "Middle Corridor." This initiative aims to increase the connectivity of Turkey with the Southern Caucasus, Central Asia, and East Asia.

South Korea has also developed its own project, the "Eurasia Initiative." This initiative aims to stretch a combined system of transportation, energy projects, and trade networks in the Eurasian continent (Fumagalli 2016, p. 43). Thus, though initiating at opposite ends of the continent, the Turkish Middle Corridor and the Korean Eurasia Initiative share common ground in both geography and intent. This research firstly aims to clarify potential compatibility between the Turkish and Korean connectivity projects and to elucidate the possibilities of integration of the two initiatives.

General analysis of the Middle Corridor and the Eurasia Initiative including all assessments and shortcomings will be made. Possibilities of implementation of these projects with Turkey and Korea acting as middle powers will be clarified. How similar initiatives developed by China, Russia, the US, Japan and the EU may have effect on the Turkish and Korean projects will also be elucidated. The compatibility of Turkish and Korean initiatives will be analyzed by this paper. If there is a possibility of compatibility, potential benefits for both sides will be presented.

II. Silk Road Projects in the Post–Cold War Period

Since the dissolution of the Soviet Union, many projects have been put forward with the aim of integrating Central Asia into the global community. Most of these projects have been introduced with initiatives referring in some way or another to the historic Silk Road. In this sense, different actors have developed their own initiatives under different names, whether it be Turkey's the "Middle Corridor," the United States' "New Silk Road," or the European Union's "Silk Wind." Russia, who wants to maintain its influence in Central Asia in the post-Soviet era, has come to successfully develop and implement the "Eurasian Union," while South Korea and Japan have proposed their own projects under the respective headings of the "Eurasia Initiative" and the "C5 Plus 1" (Viehe 2015, p. 35).

Turkey, the EU, South Korea, and Japan have all developed their projects around the route of the historic Silk Road, in short, targeting the Caspian and Black Sea basins. The US's project seeks to integrate Central Asia and South Asia via Afghanistan, thus opening the group to the world, while Russia's Eurasian Union can be seen as being based on the conservation of the former Soviet bloc. China's project, on the other hand, spans almost the entire Asian continent, even extending as far as East Africa and Europe.

1. China's One Belt One Road

One of the most acclaimed Silk Road projects is the “One Belt, One Road” (OBOR) initiative put forward by China. This project, which was first formulated by Chinese President Xi Jinping in 2013 during a trip to Central Asia, has resonated with both the region and the wider globe. In addition, both in terms of its financing and the geographical area that it covers, this project has increasingly become the object intense discussion. In this sense, it may be useful to elaborate on two fundamental points of the Chinese project that differentiate it from those initiatives led by other countries (Shin 2015, p. 1).

First of all, China's project spans a much wider geographic area. Here, China's Silk Road project encompasses two major geographical expanses: the first follows the historical overland Silk Road through Central Asia, north to Russia, and eventually to Europe, while the other passes through Iran and Turkey to the south. China's overland Silk Road is called as the ‘Silk Road Economic Belt’ (SREB).

Unlike other countries' initiatives, China's project also includes a “Maritime Silk Road,” covering Southeast Asia, South Asia, East Africa, and Europe. The route of the projects begins in the South China Sea, passing through the Malacca Strait, the Indian Ocean, and the Red Sea before eventually ending in the Mediterranean Sea to the south of Europe (Alden and Sidiropoulos 2015, p. 3).

China's OBOR initiative, beyond being a simple transport corridor, envisages economic integration of the countries along its path. The first of the five basic

areas of cooperation envisioned in the project is based on the integration of transportation systems. To this purpose, railways, highways, airways, and ports will be developed and integrated with one another, and if necessary, new railways, highways, airports and seaports will be constructed. Second, the capacity of involved countries to develop urban infrastructure will be increased by developing their domestic markets and working towards their further economic integration.

Third, the project also maintains the purpose of promoting cooperation on energy sector and natural resources as well as their extraction operations. The development of oil, natural gas, rubber, and metal resources, the operation of industrial plants, such as those processing cotton, and the construction of oil and natural gas pipelines will be key areas of investment and cooperation with the framework of the "One Belt, One Road." The fourth area of cooperation is the institution of organized industrial zones as well as the establishment of agricultural production and farm operations. Fifthly, the project will focus on the facilitation of appropriate development initiatives that work to fulfill the needs of countries along the Silk Road. Accordingly, as a country that has implemented its own successful model of development, China is seeking to export its own experience while also providing material support for relevant projects (Colakoglu and Sakaoglu 2015).

As can be seen, China's OBOR initiative foresees the installment of wide-range cooperative efforts, from infrastructure to developmental aid. Such is quite significant when considering that the Silk Road projects put forward by

other countries have just been satisfied with developing their targeted country's transportation infrastructures and integration into the world market by way of trade liberalization.

The biggest difference between China's Silk Road initiative and those of other countries is its generous budget. So far, Beijing has committed to allocate \$40 billion of resources to the project from its Silk Road Fund. This is the highest figure for any Silk Road project. Also, in 2015 the China-led Asia Infrastructure and Investment Bank (AIIB) was established, and here, China plans to use the Bank's \$50 billion fund primarily for the Silk Road project. The possibility that the AIIB's funds can be used in such a way seems quite likely, especially when taking into account that the initiative covers nearly the entirety of the Asian continent. A third source of revenue for the project will be a total sum of \$62 billion that Beijing is considering transferring to the coffers of the "One Belt, One Road" initiative from the China Development Bank, China Exim bank, and the Agricultural Development Bank of China. Taken in total these contributions amount to around \$152 billion, thus making the sheer size of the project's budget an object of greater attention than the content of the project itself (Viehe 2015, p. 37).

China's OBOR initiative has also received the support of countries throughout the region. In particular, countries like Myanmar, Bangladesh, and Pakistan which face development problems and challenges in integrating into foreign markets are very interested in the project. Likewise, developed countries such as those of the EU see this project as a new opportunity to revive their own

economies and to provide for new initiatives. On the other hand, some important players consider the project as an attempt by China to snatch regional and global hegemony. As China continues its path towards regional leadership, Russia is concerned for Central Asia, Japan for East Asia, and India for South Asia. The basis for such concerns stems from worries that Beijing wishes to increase its political influence by using its economic power (Colakoglu and Sakaoglu 2015).

It is obvious that if the project becomes successful, the Chinese economy will be the first to benefit. From those engaged in construction to various other industries, Chinese companies will enter the region. In addition, China wants to upgrade its low value-added export items to high value-added export items in third countries by investing in high-technologies such as high-speed trains and nuclear power plants. Beijing also wants to use the Yuan as the circulation currency of its Silk Road project, supporting its use in exchange reserves forth initiative. As may be naturally deduced, if the OBOR initiative is implemented successfully, then not only the economic but also the political power of China will increase. Thus, Beijing will become a more decisive power in the future in a wide geography extending from Asia through Africa to Europe (Colakoglu 2016a, p. 1).

However, the initiative is still in the planning and promotion stage. It is not yet clear what resources will be used in the projects and investments that will fall under the OBOR umbrella. Here, the countries interested and included in the project continue to wonder how the funds allocated to the initiative will

be used, and more importantly, what will be their share. The greatest risk facing Beijing at this point is its potential inability to live up to the high expectations revolving around the initiative. In other words, if the project falls flat in the face of high expectations on the part of the international community, China's credibility may be damaged in the medium term.

2. United States' New Silk Road Initiative

The New Silk Road Initiative (NSR) was launched by the U.S. Secretary of State Hillary Clinton in July 2011 during a state visit to India, three years before the announcement of OBOR by China. Its main objective was declared as to develop an intermodal network of transport, logistics, and energy links that connect Central Asian countries to Indian and Pakistani cities and ports via Afghanistan. For that purpose, the U.S. pledged to assist the modernization of border-crossings, improvement of soft infrastructure, upgrading of physical facilities, and gradual elimination of any other impediments to people-to-people interaction between Central and South Asia (Sumar 2014, p. 1).

The U.S. initiative aims to boost the volume of inter-regional trade and investment flows between Central and South Asia in terms of quantity as well as value, while fostering regional development and integration. It further serves the integration of Central Asia – a landlocked region largely impermeable to Western capital until recently – with the rest of the globalized world economy by linking it directly to the Indian Ocean. In this regard, the NSR shines out

as the first major initiative to lay out a vision of improved land transport and logistical connections along the north-south axis among a plethora of countries in this part of Asia (Sumar 2014, p. 1).

With the announcement of the NSR, the U.S. was indeed expressing a desire to maintain its stake in Afghanistan after the scheduled withdrawal of its troops from the country. In theory, instead of a military/security role, Washington can play a mainly economic one in the larger region's future. In this respect, the NSR is envisioned to fuel sustainable growth in Afghanistan, thus generating decent jobs and allowing the country to capitalize on its vast resources. Breaking the country's isolation, the initiative is expected to help lift the life standards of the general population, in turn generating hope and ensuring stability in post-2014 Afghanistan (Waissi 2014, p. 1).

Apart from trade liberalization and infrastructure development, the initiative also has a stated goal of promoting the rule of law, transition to democracy, and human rights across the entire Central Asian region. In this case, financial aid and technical assistance for the advancement of projects within the framework of the NSR come with a political baggage.

As clearly demonstrated by the expansion of the initiative to cover the Caucasus region as well following its initial stage, the political strings attached to the American initiative are shaped by strategic calculations. For that matter, the NSR is being promoted as a democratic and pro-Western alternative to East-West routes that are still largely dominated by Russia due to Soviet legacy. The NSR is regarded by the U.S. government as a complementary tool

for breaking Russia's institutional monopoly in the field of regional economic integration and "a method to counter Russian [political] influence on Central Asian countries" (Fedorenko 2013, p. 16). The geopolitically-motivated mindset that underlies Washington's Silk Road opening is further revealed by the fact that the U.S., geographically located all the way across the Atlantic Ocean, can be expected to draw no tangible economic benefits at all from the realization of related projects.

Within the framework of the NSR, the U.S. focuses on 40 specific infrastructure projects. To date, several major projects were carried into effect. The most salient endeavor that has been carried out since the announcement of the NSR is the CASA-1000. Projected to cost a total sum of \$1 billion; the CASA-1000 connects the electricity grids of upstream countries in Central Asia (i.e. Kyrgyzstan and Tajikistan) with those of Pakistan through Afghanistan. Its main financier and supervisor is the World Bank. When completed, the project is expected to deliver 1300 MW of electricity and cover a range of 1200 km, matching unfulfilled demand for electricity in Afghanistan and Pakistan on the one hand with an oversupply of hydropower in Kyrgyzstan and Tajikistan during the summer season on the other (Fedorenko 2013, p. 6).

Also as part of the NSR vision were several intra-regional railways either constructed or renovated, effectively connecting Kazakhstan, Uzbekistan, and Turkmenistan with Afghanistan. As concerns regional energy infrastructure, the NSR pioneered efforts to build a natural gas pipeline connecting Caspian reserves with Indian and Pakistani centers of demand via Afghanistan with the

so-called TAPI (Turkmenistan-Afghanistan-Pakistan-India) initiative. Stalled for almost two decades, TAPI is once again on the negotiating table thanks to concerted bilateral and multilateral endeavors by Washington. Within this framework, the U.S. has facilitated coordination and a series of deals between leading private sector representatives, both manufacturers and traders, from the various regional parties involved. The Asian Development Bank agreed to provide the necessary funding (estimated at \$7.6 billion) for TAPI with an agreement signed in May 2012. The 1800-km pipeline is anticipated to carry 90 million cubic meters of natural gas on a daily basis in the initial stage right after its anticipated inauguration in 2017-2018. This volume will be gradually increased to an ultimate level of 33 billion cubic meters (Viehe 2015, p. 38).

Despite its visionary outlook, the NSR suffers from various shortcomings. First and foremost the U.S. State Department, which is responsible for advancing relevant projects, is granted a highly insufficient budget for that purpose. Furthermore, the NSR lacks direct presidential guidance, and it has not been mentioned in any public speech by top U.S. officials after its initial announcement in 2011. From this perspective, the Initiative is perceived to be more declarative than real (Tolipov 2015, p. 1).

3. Russia's Eurasian Economic Union

The Eurasian Union (a.k.a. the Eurasian Economic Union, or the EEU) was founded on the basis of a comprehensive treaty that was signed by Russia,

Belarus, and Kazakhstan in May 2014. It came into effect by January 1, 2015. Kyrgyzstan and Armenia became full members in 2015. The main objective of the Eurasian Union is “to establish a common economic area based on the (eventual) free circulation of goods, capital, and labor.” The Union envisions a single market, particularly in the key field of energy, while also aiming to upgrade and unify the transportation, communications, energy, and power-transmission infrastructure of the member states. As for soft infrastructure; the lifting of bureaucratic barriers, elimination of tariffs, and easing of custom and visa procedures rank high on its agenda along with the standardization and harmonization of national legislations, legal regulations, and taxation among member states. Within this framework, the Eurasian Union works to streamline the manufacturing, monetary, and economic policies, as well as financial institutions of its members. It also provides a multilateral arbitration mechanism to resolve trade disputes, and efficient cross-border banking services (Duchatel and others 2016, p. 2).

The conceptual roots of this latest Russian initiative can be traced back to the Customs Union (CU) Treaty of January 1995, which was signed between the three founding members (Russia, Belarus, and Kazakhstan) within the institutional framework of the Commonwealth of Independent States (CIS) and later expanded to incorporate Kyrgyzstan and Tajikistan, in 1996 and 1997 respectively. Similar to the case with the Customs Union, Kyrgyzstan and Tajikistan followed suit in the ensuing years. Uzbekistan was also a member of the group for a brief period between 2005 and 2008. Moreover, the Eurasian

Economic Community (EurAsEc) came into force by October 10, 2000, as stipulated by an agreement signed between Russia, Kazakhstan, and Belarus in March 1996. An effective Russia-Central Asia CU has been in existence since January 1, 2010. The regional re-integration process in the former Soviet space, which has been pursued by Moscow for a while with the ultimate goal of establishing a single market in Central Asia, was further reinforced thanks the realization of a Single Economic Space (SES) by the beginning of 2012 (Starr, Cornell and Norling 2015, p. 16).

Today, the Eurasian Union stands forth as the most sophisticated platform that facilitates economic integration and coordination across Eurasia, with its vision to become a supranational bloc bearing resemblance to that of the EU. The EEU has a permanent executive office under the name of the Eurasian Economic Commission as well as a court of arbitration in the Belarussian capital of Minsk that is entrusted the tasks of supervising member states' compliance with jointly-decided rules and dispute resolution. On the other hand, the organization lacks a legislative branch and requires unanimity of votes among member states to proceed. According to World Bank figures from 2014, the cumulative GDP (PPP) of the member states amounts to approximately \$4 trillion. The organization's overall trade turnover was recorded at \$932.9 billion and industrial production at \$1.5 trillion for the same year (Starr, Cornell and Norling 2015, p. 19).

However, there is a salient mismatch between the organization's actual economic capacity and its far-fetched ambitions, particularly as a result of the

steep depreciation of the Russian ruble. Western-sponsored sanctions that have been imposed on Russia since the breakout of the Ukrainian Crisis in spring 2014 and the ensuing global oil glut only compounded the structural distortions and inherent economic hardships that Russia needed to deal with in the first place. Moscow also faces trouble in covering the cost of all the subsidies and low-interest loans it offers to secure the allegiance of smaller member states. The enabling of further access to Russia's labor market, which is especially alluring in the case of remittance-dependent economies like those of Tajikistan or Kyrgyzstan, is another issue that endangers the organization's long-term viability from a political viewpoint.

Against such a backdrop, the EEU can be regarded as an essentially political endeavor by Russia to maintain its influence over the former Soviet space. Russia constitutes the EEU's unrivaled economic and demographic core. Ever since its inception, the Union has been fervently promoted as a symbol of Russia's regional hegemony and global resurgence as a major power to be reckoned with, in the face of increasing Western penetration into its "near abroad." The organization's reactionary character is further laid bare when one takes a look at the shift in regional trade patterns in the past two decades. In 1996, 31% of the trade that Central Asian countries carried out in total was with Russia despite the latter's economic collapse and the swift penetration of Europe along with various other external actors into regional markets. In contrast, Russia's prominence significantly diminished in the following period, with its relative share of regional trade accounting for a mere 14.4% by 2013

(Fedorenko 2013, pp. 15-16).

Comparative figures reveal that China and the EU grabbed a growing slice of regional trade in the same period. It was particularly over Kazakhstan that Russia has steadily lost its economic grip to the EU and China, while its relative trade position has largely been flat since the early 1990s in the case of the four remaining Central Asian countries. In this respect, the common tariff regime that has been adopted by the EEU vis-à-vis any third parties should be regarded as a regained privilege for Russian enterprises operating in Kazakhstan.

Despite its various economic shortcomings, Russia is still able to capitalize on the “single-hub-and-spoke transport system” in Central Asia which it has inherited from the Soviet era. Although neglected and malfunctioning for the most part, the main transit arteries and logistical networks that link Central Asia to Europe are still oriented towards Russia. Another Soviet legacy in the field of transportation was a developed yet outmoded railroad and highway infrastructure that is concentrated in Kazakhstan and Uzbekistan. This “extension” of the Trans-Siberian Railway (TSR) continues to form the backbone of overland freight and trade between Europe and Central Asia, particularly because it offers a route with “the fewest number of border crossings and trans-shipments” (Duchatel and others 2016, p. 7).

4. European Union's Silk Wind Initiative

The EU was the first to coin the term “New Silk Road” in 1998 during an international conference on logistics and transportation that was held in Baku. The origins of the idea in the case of the EU can be traced back to a previous conference that convened in 1993, again in Baku, where the transport ministers of the newly-independent republics in Southern Caucasus and Central Asia announced the launching of the “Transport Corridor Europe-Caucasus-Asia” Initiative (TRACECA) with a stated objective “to promote regional economy by providing reliable and efficient transport links between Europe and Asia.” A permanent secretariat for the Initiative was founded in Baku in 2001, and the organization boasts a diverse membership portfolio that incorporates 14 non-EU states from Eastern Europe, the Caucasus, and Central Asia along with the EU (Fedorenko 2013, p. 17).

The main commercial rationale behind the EU's push for the reinvigoration of the ancient Silk Road has been the exponential growth in its trade volume with China in the last two decades. Today, China ranks second among the EU's largest trade partners following the U.S. while the EU tops the list of China's largest trade partners. Against such a backdrop, the EU wants to curtail the cost as well as the time that is needed to ship cargoes across the Suez Canal by boosting the competitiveness of overland transit routes such as railways and highways crisscrossing Central Asia. Despite their huge potential, overland routes across Eurasia are much neglected as opposed to sea lines of

communication through which 90% of the EU-China trade continues to be transported (Starr, Cornell and Norling 2015, p. 19).

The first concrete steps to restore the historical Silk Road by way of establishing a modern network of multimodal transport, energy, logistics, and ICT facilities traversing Central Asia also came from the EU. In this respect, TRACECA was reconfigured in 2007 by the European Commission in accordance with the changing geo-economic landscape. Its upgraded version is known as "The Reorganization of Transport Network by Advanced Rail Freight Concepts" (RETRACK), which aims to link cargo terminals in Western China to Black Sea ports, and from there to open a new block trade route that stretches all the way through Eastern Europe to the North Sea coast. Funding for related projects have been provided by individual EU members since 2009.

Since its inception, around 60 projects involving technical and financial cooperation as well as investments in logistic nodes were carried out within the framework of TRACECA, with a total cost of approximately \$120 million. This sum was mainly spent for the purposes of upgrading border-crossing points, comprehensive training programs (pertaining to freight forwarding, storage, maintenance etc.), and the implementation of a series of complementary intergovernmental agreements foreseeing the harmonization of customs procedures. But the single most significant step to revitalize TRACECA after years of stagnation has been the launch of the Silk Wind Initiative with the aim of speeding overland transportation between Europe and Central Asia. The Silk Wind Initiative involves the construction of a regional network of railways,

ports, and highways backed by high-tech ICT facilities for the efficient transit of containers between China and Europe via Central Asia, the Caucasus, and Turkey. It further aims to reduce red-tape and streamline taxation procedures among participant countries. Within this framework, the first freight shipment was carried out in August 2015, in line with a MoU that was reached in the Turkish city of İzmir in November 2012 (Fedorenko 2013, p. 17).

The new route that has been opened by the Silk Wind Initiative allows the shipment of containers from the Kazakh-Chinese border in the east (i.e. the Dostyk-Alashankou border crossing) to Turkey in the west through a multimodal transport link. Ferries that are loaded at the Caspian Sea ports of Aqtau (Kazakhstan) and Alat (Azerbaijan) facilitate two-way block trade, opening a new route that allows the shipment of containers from Western China to Baku in no longer than six days. It will take a mere 14 days to transport Chinese goods to Europe via Azerbaijan-Georgia-Turkey when the Baku-Tbilisi-Kars railroad becomes fully operational. A route from Western China to Turkmenistan's Caspian Sea port of Turkmenbashi, which has been upgraded in recent years, can serve as a future alternative to the Kazakh port of Aqtau within the framework of the Silk Wind Initiative. It is also being discussed to transport goods via ships from Georgia's Black Sea ports of Poti and Batum to Eastern Europe, thus bypassing the portion of the overland route that traverses Turkey (Starr, Cornell and Norling 2015, p. 49).

In addition, there are several block trains that currently operate along existing lines between Europe and the Central Asian core of the ancient Silk

Road. They all use the main Eurasian transportation artery – that is, the Trans-Siberian Railway (TSR) – although some also pass through Kazakhstan and other Central Asian countries. The overland trade of goods between Europe and China takes between 10-23 days, depending on which route is selected. Alternative routes include the Trans-Eurasia Express, the DB Schenker-China Express, the Baltic-Transit Container train, and the Duisburg-Chongqing container train (Duchatel and others 2016, p. 8).

5. Japan's C5 Plus 1

In May 2015, Japanese Prime Minister Shinzo Abe made public his government's plans to funnel \$110 billion into infrastructure projects across Asia as part of an initiative entitled the "Partnership for Quality Infrastructure: Investment for Asia's Future" until 2020. Although this initiative has no specific blueprint for the Central Asian region that is on par with the comprehensive Silk Road visions of China, Russia, the U.S., or the EU in terms of depth or breadth; it nevertheless sketches a viable roadmap to address the infrastructure bottlenecks in Central, South, and Southeast Asia in the forthcoming years (Pollmann 2015, p. 1).

According to an estimate by the Japan-led Asian Development Bank, Asia will altogether need infrastructure investment worth \$8 trillion in total until 2020 in order to sustain economic growth. This sum includes new construction as well as the maintenance and upgrading of the existing infrastructure. The

Partnership for Quality Infrastructure is designed to fulfill part of this huge demand in order to catalyze the free flow of goods, capital, and people across borders. Relevant projects will concentrate on the development of an intermodal and integrated network of high-quality physical infrastructure that is supported by telecommunication and information systems as well as a host of other logistics-related services. In this way, Japan aims to find new markets for its high-tech firms to invest in, tap into the cheaper labor markets of developing Asian economies, generate new jobs for the people of these countries, and bring know-how to its prospective investment partners in order to gain political and diplomatic leverage (Pollmann 2015, p. 1).

There are various motivations behind Japan's rather abrupt appearance as an ambitious actor on the Central Asian stage after maintaining a low profile for the last two decades or so, when successive multilateral projects encompassing the Eurasian landmass seemed to have already shared all the prospective spoils of trans-continental integration in between them. Tokyo's recent move seems to be partially driven by economic concerns pertaining to the Japanese society's rapidly ageing demographic structure. The country has a contracting domestic market, which pulls down the prospect of domestic consumption while also squeezing the labor supply. Whereas Japan's excess production capacity and technological prowess renders it a perfect candidate to export investments and outsource production, with an eye to reinvigorating its economy.

However, the fundamental reason for Japan's recent push to capture the spotlight derives from a fear of being completely overshadowed by China's

across-the-board Silk Road “assault.” In this respect, Prime Minister Abe’s announcement is widely regarded as a direct reaction to the extravagant pledges made by the Chinese-promoted Asian Infrastructure Investment Bank (AIIB), the initial capitalization of which has been declared as \$100 billion in 2015. Here, Japan apparently aims to carve out a niche for itself by emphasizing the “quality” of its prospective investments in Central Asia vis-à-vis respective Chinese pledges which are rather skewed towards the “quantity” end of the spectrum (Pollmann 2015, p. 1).

With its high value-added offers, Japan wants to set the new standard of overland energy and transport infrastructure across Central, South, and Southeast Asia. Such would entail “environmentally friendly, disaster resilient projects that are cost-effective in the long run.” In contrast to the usual Chinese model, the Japanese model further promises local procurement and employment along with the sharing of advanced managerial and technical know-how that China most probably lacks. For that purpose, private investors will be on the driving seat of the Japanese initiative in contrast to the case with Chinese projects which are almost completely funded and supervised by gargantuan government-run bodies. The main tools that Japan plans to utilize here are genuine public-private partnership (PPP) schemes, a multitude of market-related services by large Japanese conglomerates, targeted overseas development assistance (ODA) programs, and industry-specific, low-interest loans.

Projects that are to be implemented in the context of the Partnership for Quality Infrastructure will be funded mainly through the Asian Development

Bank (ADB). Japan has already embarked on an overhaul of the ADB's lending policies to render the institution more flexible and its loans more accessible for its prospective partners in Asia. As the ADB's main stakeholder, Japan is leading efforts to ease relevant procedures. Within this framework, some new lending schemes lack the usual requirement for comprehensive state guarantees, or any other strict preconditions, in order to approve the funding of major infrastructure projects that are deemed risky. They are also easier to comprehend, more practical in their outlook, and promise faster implementation (Dundar 2011, p. 25).

In addition to the ADB, the Japan International Cooperation Agency (JICA) and the Japan Bank for International Cooperation (JBIC) are envisaged to play a complementary role in this respect. Tokyo has also set up a new state agency with the name "Japan Overseas Infrastructure Investment Corporation for Transport and Urban Development" to back the Initiative (Dundar 2011, p. 25).

III. Turkey's Silk Road Project and the Middle Corridor

1. Turkish Foreign Policy towards Central Asia

After the dissolution of the Soviet Union in 1991, Turkey started to seek a closer relationship with the newly independent republics. Turkey's ties with Central Asian countries, rooted in its historical, cultural, and linguistic affinity

with the region, made Central Asia a primary target for Turkish diplomacy. Therefore, declaring independence of Azerbaijan, Kazakhstan, Kyrgyzstan, Turkmenistan, and Uzbekistan in 1991 was also an emotional development for Turkey. Newly emerging Turkic states, which have a great deal of economic and strategic potentials, were offering new opportunities for Turkish foreign policy and Turkey had played a facilitator role to integrate the Turkic republics to the international community.

In general, Central Asia and the Caucasus were important for all regional as well as global actors. The region is located in central Eurasia, neighbouring important countries, such as China, India, Iran, Pakistan, Turkey and Russia. Especially China, Russia and India are major powers, important for regional as well as global politics, owing nuclear capabilities, huge military power, and economic and demographic potentials. The most important and influential players have been the Western countries, particularly the US and multilateral financial and security organizations dominated by the West – notably the World Bank, the IMF, the OSCE and NATO. Turkey, as a NATO member and as a candidate for EU membership, was certainly a beneficiary of the post-Soviet systemic changes (Weitz 2006, p. 155).

Besides, a number of soft security threats for both regional and global powers such as drug trafficking, terrorism and religious fundamentalism emanate from Central Asia and neighbouring regions. The region has also great potential of conflict due to the ethnic and religious mixture. The Soviet republican borders were not depending on its ethnic and linguistic borders. Soviet

authorities, following an imperial policy of divide and rule, made sure that different ethnic groups were placed within various republics. Central Asia & Caucasus is rich in energy resources as well. Apart from the strategic importance of the region, newly discovered oil and gas resources in the Caspian Sea basin are enough to make the region still important for the global economy (Aydin 2004, p. 3).

1.1. Turkey's Relations with Central Asia in the Early 1990s and the 'Turkish Model'

Turkey had begun to believe that it could become the political leader of the newly independent Central Asian and Caucasian republics in the aftermath of the dissolution of the Soviet Union. Many analysts considered that Turkey possessed certain characteristics that might appeal to the leaders of the new Turkic societies. These characteristics included a relatively dynamic free market economy, secular government, a respect for Islamic traditions, and a democratic system. The 'Turkish Model' was eagerly welcomed by all three parts, Turkey, the West, and Turkic republics.

The West, including the US and the EU, supported and promoted the Turkish Model to the Turkic Republics, which made Turkey extremely satisfied. After a meeting with the Turkish Prime Minister Suleyman Demirel in Washington on 13 February 1992, President George Bush referred to Turkey "as the model of a secular democracy which could be emulated by Central Asian nations."

President Turgut Ozal frequently stressed the idea that the twenty-first century would be a “Turkic century,” while Prime Minister Demirel pointed out the Turkic world that extended from the “Chinese Wall to the Adriatic Sea” (Murinson 2006, p. 946).

President Ozal clearly stated Turkey's position toward Turkic Republics *“Fantasies of pan-Turkism are totally out of the question, especially in today's world. These republics are all separate states. They are equal and brotherly states. We can form a community with them. For example, we can work as a group at the United Nations, and we are together in ECO (Economic Cooperation Organization). In time, we can become a community of Turkic states, just like the Arabs, but we must regard all of them as independent states. Let no one even think of a big brother role”* (Hunter 2001, p. 9).

The US eagerly supported the Turkish model because of several reasons. First, it was assumed that with the end of the Soviet Union, a power vacuum had been created in Central Asia, as it was believed that Russia was not able to control former Soviet territory. The candidates to fill this power vacuum in Central Asia were Iran and Turkey. Many Western analysts saw the competition as between the secular, progressive model represented by Turkey and extremist, reactionary model represented by Iran. The Turkish Model was accepted as an important instrument by the West to fill the power vacuum in the Caucasus and Central Asia. At the economic pace, the ex-communist Turkic Republics needed to reform their centrally controlled economies, but they had no experience of free trade and the requirements of a market economy did not exist in the

republics. Therefore, Turkey represented a fresh and helpful example for their transformation. Turkey's success in economic transformation was another factor, which encouraged the West to support the Turkish Model (Candar and Fuller 2001, p. 33).

The leaders of the newly independent Turkic states also appeared to be interested in developing links with Turkey. There were also several reasons for Turkic leaders to pay attention to the Turkish model. First of all, the Turkish experience had made a transition to a more market-oriented economy from an economy in which the state was the major actor. Second, the Turkish experience differed from Islamic formulas that were being proposed by Iran and Saudi Arabia. Third, Turkey was thought to have better connections to the Western world.

Within a year, all parties gradually became aware of the limitations and constraints of Turkey. Central Asian countries had gained experience in conducting their own foreign policies and had become integrated into the international arena. Turkic leaders had travelled throughout the world and discovered various models of socio-economic development, especially of East Asia. These alternative connections made them realize that there were other choices available to them besides the Turkish or Iranian models (Hunter 2001, p. 4).

Although the Turkic republics initially regarded the Turkish Model as a social and economic miracle, when visiting Turkey they found a country with huge structural economic and social problems. The Turkic republics understood

that the Turkish living standard could not be a long-term final goal, as the Turkish Model was not a social and economic miracle. Turkic republics also realized Turkey's serious domestic political issues, including the Kurdish problem and PKK-led terrorism that raged throughout the 1990s and the destabilised political environment (Oguzlu 2007, p. 88).

Another factor was Russia's continued dominance and its opposition to the creation of a Turkic group. Russia has clearly declared its intention of regaining control over the former Soviet territory known as the "near abroad doctrine" since 1993. There were economic reasons for the former Soviet economies depended on other republics. The high degree of regional specialization that had been achieved during the Soviet era had resulted in a high level of intra-regional trade (Yanik 2007, p. 351).

In the security field, Russia did not want to see a competitor settled in the former Soviet territory. Each of the Turkic republics has different security concerns and, therefore, has different ideas about how it should conduct its relations with Russia. About 25 million ethnic Russians living in the Caucasian and Central Asian states also encouraged Russia to control the region in order to guarantee their civil rights.

The most important cause of Turkey's setbacks was the fall of Azerbaijan's Ebulfezl Elcibey's pro-Turkish government in June 1993. As Haydar Aliyev succeeded his position, he was widely believed to be backed by Moscow. Aliyev's initial statements to the effect that he wanted to restore a balance in Azerbaijan's foreign policy by improving ties with Iran and Russia seemed to

feed these concerns. Thus, Turkey's initial positive image as a sister strong state was badly undermined after the fall of Elcibey. So then, the Turkic Republics did not want to have a new big brother after just getting rid of the old one. The Karimov government called most of the students who were sent to Turkey for education back to Uzbekistan in the mid-1990s, as the Karimov government believed that these students were recruited by the Uzbek opposition led by Mohammed Salih in Turkey (Akturk 2006, p. 343).

There were also other important reasons behind the decline in Western support for the Turkish Model. Firstly, after a certain period of time, the West realized that although Iran had some geo-strategic advantages in the region, it had significant limitations as well. Iran was an Islamic state; however, the Iranian influence over the Turkic Republics was very limited because of sectarian differences. Iran is a Shiite state; on the other hand, most the population of the Turkic states is Sunni, except for Azerbaijan. Iran's influence even over Azerbaijan is very limited, as Azerbaijani people are Turkic and their nationalistic feelings are stronger than religious motivation. Also, Iran has a large Azerbaijani minority living in the northern part of the country. Mostly because of these shortcomings, Iran began to pursue a more pragmatic policy toward Muslim republics. Therefore, because of Iran's shortcomings in the region, the main reason behind Western support for the Turkish model diminished (Aydin 2004, p. 7).

So, since the Turkish Model had played its part, there was no longer any need for further support of the Turkish Model. Besides, there was a danger of

revival of pan-Turkism for the West, Russia and China. Therefore support for the Turkish Model suddenly declined (Colakoglu 2010, p. 435).

1.2. More Pragmatic Turkish Policy to Central Asia Since 1995

It has been shown that Turkey-Turkic Republics relations have reached a degree of equilibrium in the mid-1990s. Turkey has not emerged as the main influence in the Caucasus and Central Asia, either politically, economically or even culturally. However, Turkey has succeeded in establishing extensive political, economic and cultural relations with Central Asian and Caucasian countries. Turkey is particularly influential in Azerbaijan and Georgia and has a considerable presence in Turkmenistan, Kazakhstan, and Kyrgyzstan (Hill 2003, pp. 62-63). Turkey avoided direct involvement to any issue such as Chechnya, South Ossetia and Abkhazia. Beyond regional conflicts, Turkey's desire to become a regional hub for Caspian energy resources comes true.

The fear of Turkey generated by Aliyev's coming to power proved unfounded. Aliyev discovered that Russia was not willing to force the withdrawal of Armenian troops from occupied Azerbaijani territory and return the Karabakh region to Azerbaijani control. Moreover, Aliyev soon understood that Azerbaijan's economic future, and especially the development of its energy infrastructure, depended on its maintaining good relations with the West. This had led the new leadership to resume a policy of close relations with Turkey in all areas of activity. Turkey signed a declaration on Deepened Strategic

Cooperation with Azerbaijan in 1997. Turkey trains Azerbaijani military personnel, Turkish military advisors are active in Azerbaijan and there were the Azerbaijani troops serving in the peacekeeping force in Kosovo as part of the Turkish contingent (Uslu 2003, p. 172).

Georgia's foreign policy also become closer in a pro-Western direction to the point that President Eduard Shevardnadze expressed his country's desire to one day become a member of NATO. This shift in Georgia's foreign policy has had a positive impact on relations with Turkey. Finally, Turkey signed military assistance and cooperation agreements with Georgia in 1999 (Kiniklioglu and Morkva 2007, p. 542).

Turkey found itself in a strong competition with Russia in Central Asia. Although the Central Asian countries' relations with Turkey have improved, Kazakhstan, Kyrgyzstan and Tajikistan developed closer ties with Russia. The principal reasons for this development were Russia's proximity, the presence of large Russian minorities in these countries, especially in Kazakhstan, and their security needs. In the earlier stage, Uzbekistan joined a pro-Western grouping of members of the Commonwealth of Independent States (CIS) that includes Georgia, Azerbaijan, Ukraine and Moldova (GUUAM). Turkey and Uzbekistan became to have tense relations since 1999 following the incursion of Uzbek Islamists into Kyrgyzstan. According to Uzbek officials, the Uzbek nationalist leader Muhammad Salih was also involved in this incursion. After this incident, the Uzbek government ordered the closure of the Turkish schools operating in Uzbekistan and relations between the two countries were strained

considerably (Tuncer 2000, pp. 105-106).

Radical religious movements around the world and ongoing conflicts especially in the Middle East, Caucasus and Balkans encouraged people to talk about Turkey again as a balance of regional conflicts. During his trip to Turkey in November in 1999, US President Bill Clinton stressed that Turkey had a significant role to play in the volatile regions. Clinton focused on the need for a facilitator between Europe and the Islamic world and implied that Turkey was a bridge between the Christian and Islamic cultures. The United States has begun to regard Turkey as a strategic ally to help it tackle the problems in the region from the Balkans to Central Asia and Middle East. Besides, the West has still some doubts whether Russia gave up its historic ambitions of penetrating south (Karim 2005, p. 445).

1.3. Turkey's Political, Economic, and Cultural Cooperation with the Turkic Republics

Turkey was the first state to extend diplomatic recognition to Uzbekistan, Kazakhstan, Kyrgyzstan, Turkmenistan and Azerbaijan. Shortly afterward, all of the presidents of the Turkic Republics paid visits to Ankara. Nursultan Nazarbayev of Kazakhstan in September 1991, Saparmurad Turkmenbasi of Turkmenistan, Islam Kerimov of Uzbekistan and Askar Akayev of Kyrgyzstan visited Ankara in December 1991, while Ayaz Muttalibov of Azerbaijan came in January 1992. Ankara soon became aware that some institutional capability

was needed to promote multidimensional relations between the Turkic states. One of the important instruments was the introduction of regular Turkic summits. The first Turkic Summit was held in the Turkish capital, Ankara, in October 1992 (Hunter 2001, p. 7).

Turkey had served as a guide in promoting the participation of Central Asian & Caucasian states in international forums such as the United Nations (UN), the Organization on Security and Cooperation in Europe (OSCE), and the Organization of the Islamic Conference (OIC). Through Turkish efforts, Azerbaijan joined to the Black Sea Economic Cooperation (BSEC), which came into existence in 1992. Similarly, Turkey was helpful in getting the five Turkic states to join the Economic Cooperation Organization (ECO), which was originally established to promote political, economic, and cultural cooperation between Turkey, Iran, and Pakistan in 1985 as the successor Organization of Regional Cooperation for Development (RCD) which had survived from 1964 to 1979. Turkey also helps Turkic republics in the TACIS Committee of the European Union, the European Bank of Reconstruction and Development (EBRD) and the United Nations Development Program (UNDP) (Turan, Turan and Bal 2004, p. 325).

In the field of economy between Turkey and the Turkic republics, there is currently more intense activity than others. Entry to the markets of the Turkic Republics seems to have followed an identifiable pattern in the first years of their independence. The Turkic states have also had a great difficulty in paying for their trade with Turkey. To overcome these difficulties, Turkey founded the

Turkish International Cooperation Agency (TICA). TICA helped promote the Turkish private sector doing business in the former Soviet republics. In addition to TICA and Turkish Eximbank, foundation of non-governmental bilateral business councils such as the Foreign Economic Relations Board (DEIK), have promoted economic and cultural relations with the Turkic states (Hunter 2001, p. 11).

Turkey also played a very pivotal role to improve the communication and transportation facilities of Turkic Republics. Turkey donated digital telecommunication exchanges to each of the five Turkic republics. When Turkic republics became independent, there was no way to reach them by air except through Moscow. The Turkish Airlines initiated direct flights to Baku, Tashkent, Almaty, Ashgabat, and Bishkek in 1992. As these states have developed their own national air carriers, all have started to offer frequent flights to Istanbul. Land transport, in contrast to air transport, could not be improved easily. First of all, Turkey opened a border crossing at the Turkish border town -Sarp into Batumi of Georgia. This made it possible for trucks to go through Georgia into Azerbaijan, where they would then take the truck ferry from Baku to Turkmenbashi port in Turkmenistan. From there, all cities in Central Asian could be reached (Turan, Turan and Bal 2004, p. 300).

Turkey also helped Turkic Republics develop human resources. Well-trained individuals in the fields of economics, banking, management, accounting, diplomacy, and other similar fields were needed in the newly-born countries in order to develop a reliable public service system.

Turkey has tried to get the Turkic Republics to make a commitment to support the construction of a pipeline that would carry Caspian oil to the Mediterranean. Most importantly, the presidents of Azerbaijan, Georgia, Kazakhstan, and Turkey signed the Ankara Declaration in 1998, confirming the Baku-Tbilisi-Ceyhan (BTC) pipeline as the main pipeline project. The pipeline construction began in early 2002 and was completed in 2005. Another parallel project between Turkey, Azerbaijan and Georgia was the South Caucasus Pipeline (SCP) project to bring natural gas from the Shah Deniz (Azerbaijan) through Georgia to Turkey. Construction of the SCP project was started in 2003 and finished in 2006. Completion and starting of operation of BTC and SCP have made Turkey an energy terminal for Caspian basin energy resources (Hunter 2001, p. 12).

Table 1. Turkey's Trade with Central Asia and Southern Caucasus

(Unit: millions of USD)

Countries	Export		Import		Total	
	1992	2015	1992	2015	1992	2015
Armenia	3	202	0	1	3	203
Azerbaijan	103	1,900	35	232	138	2,132
Georgia	12	1,109	6	223	18	1,332
Kazakhstan	19	750	11	1,110	30	1,860
Kyrgyzstan	2	295	1	77	3	372
Tajikistan	1	163	8	204	9	367
Turkmenistan	7	1,859	21	557	28	2,416
Uzbekistan	54	489	21	712	75	1,201
Total	201	6,767	103	3,116	304	9,883

Source: Turkish Ministry of Economy.

The republics of Central Asia and the Caucasus have gradually become important trade partners for Turkey. While the cumulative volume of Turkey's trade with regional countries was a mere \$304 million in 1992 – i.e. the first year of their independence – it has skyrocketed to \$9.9 billion by 2015. It is particularly those regional countries with vast endowments of oil and natural gas deposits that today rank among Turkey's top trading partners. In that regard, Turkmenistan, Azerbaijan, and Kazakhstan are the largest trade partners of Turkey in the region. Uzbekistan has also gained prominence in the list of Turkey's regional trade partners despite wild fluctuations in Ankara's political relations with Tashkent throughout the 2000s. The volume of bilateral trade between the two countries amounted to \$1.2 billion according to 2015 figures. Notwithstanding its lack of any energy reserves, Georgia as well has managed to make its way into Turkey's largest trade partners in the region, with the volume of bilateral trade between the two neighbours reaching the level of \$1.3 billion by 2015. On the other hand, the volume of Turkey's bilateral trade with Kyrgyzstan and Tajikistan was no more than \$372 million and \$367 million respectively in the same year despite its close political ties. Not having an embassy in Armenia – with which diplomatic relations are yet to be normalized due to the conflict in Karabakh – Turkey nevertheless carried out \$203 million-worth of trade with this country during the same year. Another important feature of this region for Turkey is its role as an export market. Turkish exports accounted for \$6.8 billion out of a total trade volume of \$9.9 billion between Turkey and the entire region in 2015 (See Table 1).

Another important instrument was the expansion of the Turkish language and culture. Turkey also opened schools in each of the republics, a commitment that has already been achieved. These public or private Turkish schools were aiming at the regional countries to constitute Turkish speaking elite that will replace the Russian-speaking elite. These schools, including universities, have been welcomed by the Turkic Republics since they offered education above regional standards. Turkey initiated a program through which a total of 10,000 students, two thousand from each of the five republics, provided scholarships to study at Turkish universities. By 1997, 7,545 students from Turkic states had enrolled at Turkish universities and colleges. The Turkish Police Academy and the War Academy have also invited students from Turkic Republics (Aras 2000, p. 45).

The possibility of developing a standard alphabet for Turkic languages was one of the important purposes of Turkey. A meeting for common alphabet was organized by the Turkish Ministries of Culture and Education in 1992 and the Ministry of Foreign Affairs in 1993. So far, all Turkic Republics except Kazakhstan and Kyrgyzstan have adopted the Latin alphabet. The presence of a large Russian population appears to have kept Kazakhstan away from considering changing their alphabets at that time. However, there some difficulties reaching on a common Turkic language, because it is true that there are enough differences among Turkic languages. For example, a Turk and an Azeri cannot understand a Kyrgyz or a Kazakh. Russian remains the principal language of the ex-Soviet zone (Hunter 2001, p. 10).

In a different arena of cultural interaction, Turkey has started television broadcasts to the Turkic Republics via satellite since 1992. The programs, which reflect the life and society in Turkey, would also be designed to convey a sense of community among the Turkic peoples. The Turkish state channel, TRT and Turkish private TV channels started to broadcast to the region and they have gained an audience in the region and are widely watched (Turan, Turan and Bal 2004, p. 306).

The Turkish Ministry of Foreign Affairs established the Turkish Culture and Arts Joint Administration (TURKSOY) in 1994 to serve as an organization for officials from the Turkic Republics and representatives from Turkic-populated areas of the Russian Federation. The main goal of the TURKSOY organization is to promote cultural interactions among the Turkic republics. Turkish help was also important in the field of religion, as Ankara wanted to export its model of moderate Islam, the Turkish Presidency of Religious Affairs (Diyamet) sent books and religious servicemen, Imams, to the Turkic Republics. Besides, students from the Turkic world also came to Turkey for religious education. Turkic Muslims needed books on religion, and mosques in the region needed repairing. Turkish businessmen have also supported construction of mosques, and provided books on religion and Turkish culture. With the initiative of TPRA, the Eurasian Islamic Council was established and it meets periodically to discuss cultural and religious problems of former communist states. TPRA helped to open theology faculties in Azerbaijan, Kyrgyzstan, and Turkmenistan (Aras 2000, p. 46).

There are also major projects brought forward by Turkey that have not been realized yet. Problems such as the lack of intra-regional cooperation in Central Asia, the limited economic capacity of Turkey, and the inadequacy of the transportation infrastructure throughout the region have made it difficult for Ankara to enhance collaboration with the regional countries further. From this perspective, projects which will enhance regional economic integration and create a zone of prosperity covering the whole region are urgently needed.

2. The Middle Corridor

2.1. Iron Silk Road Projects and Alternatives Corridors

The main reason why Ankara receives Silk Road projects favorably, and leans toward the idea of actively taking part in the “Iron Silk Road” project is the firm belief that commercial relations between Turkey and Central Asian & Caucasian countries will be amplified through the actualization of such prospective projects as soon as possible. Ankara is also looking forward to capitalize on its geostrategic advantage that essentially derives from lying at the intersection of traditional transport routes connecting Europe and Asia. With this project, Turkey wishes to place itself once again at the center of inter-continental transport routes, this time by way of harboring a major railway corridor between Europe and Asia that will facilitate trade in energy resources and manufactured goods, alongside agricultural products and other raw materials. For the improvement of the Middle Corridor, Turkey aims to

complete missing links on the route with mega projects, promote intermodal transport opportunities, enhance logistics and corridor management capacities, and remove bottlenecks especially on border crossings (Colakoglu and Sakaoglu 2015, p. 1).

Furthermore, Turkey believes the project will set the scene for closer bilateral relations with regional countries based on mutual trust and substantial economic cooperation as new railway lines envisaged by the project will carry a significant quantity of passengers and freight on both directions between the regional countries concerned. Moreover, bilateral economic relations will be protected from the potentially disturbing effects of fluctuations in the value of the dollar thanks to two-way trade in national currencies instead. In sum, the Iron Silk Road project is a potential leverage that can allow Ankara to become the ultimate playmaker in the Eurasian arena while increasing its economic and political influence (Atli 2015, p. 1).

As to the prerequisite for the realization of all the Silk Road projects, reinforcing transportation infrastructures and improving intra-regional logistic links come to the fore. In that regard, the Iron Silk Road project is expected to form the backbone of a greater vision of multi-dimensional integration among Turkey and the rest of the region concerned; and raise the level of relations between these countries to the highest level (Colakoglu and Sakaoglu 2015, p. 1).

There are three possible alternative corridors basically for the "Iron Silk Road" in East-West direction and Turkey promotes one of these – the Middle

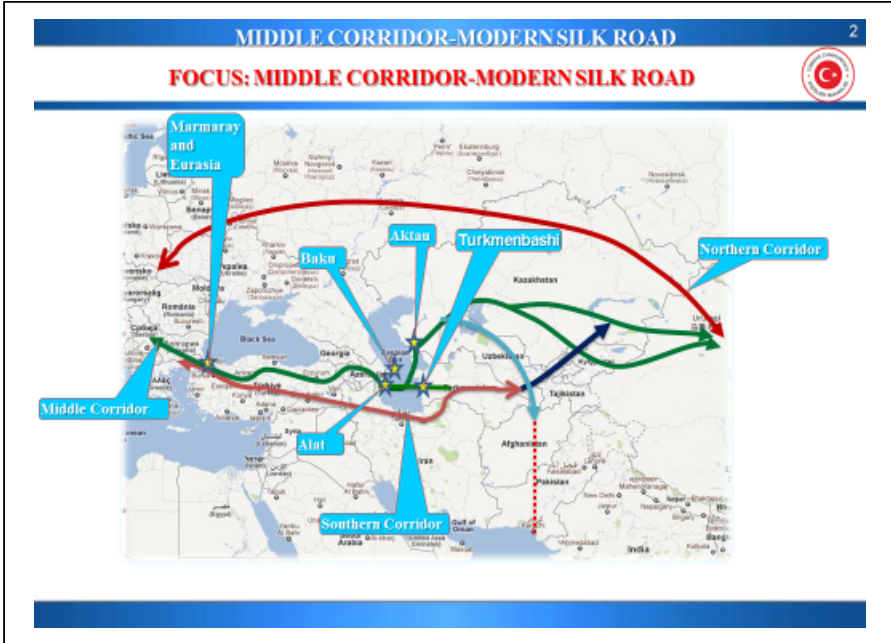
Corridor (Sahbaz 2014, p. 4).

The Northern Corridor: The Northern Railway Route, which is approximately 10,000 km long, enables the transportation of goods from China to Germany via Kazakhstan, Russia, and Belarus in parallel with the Trans-Siberian railway. The Northern Corridor crosses through the least number of countries amongst the three alternative lines. Harsh climate conditions are the biggest disadvantages of the line.

The Southern Corridor: The Southern Railway Route starts from Kazakhstan, Turkmenistan, Iran to Turkey. The Southern Corridor includes India, Pakistan, Iran, and Turkey connection too. Through Turkey, the line connects Europe. The high number of border crossings are the main disadvantages.

The Middle Corridor: It crosses Kazakhstan to reach the Caspian port of Aktau or Turkmenistan port of Turkmenbashi. Using a sea connection, the Middle corridor reaches the Azerbaijani port of Alat. It then passes through the Southern Caucasus via the Baku-Tbilisi-Kars railway and reaches to Turkey and Europe. The Middle Corridor is a politically viable alternative with the countries en route having Western-friendly governments. The Caspian crossing and the frozen conflicts in Southern Caucasus are the main disadvantages.

Map 1. Middle Corridor and Modern Silk Road



Source: SAM (2016).

2.2. Assessments of the Middle Corridor

Turkey's main objectives with the Middle Corridor are to create a belt of prosperity in the region, encourage people to people contacts, reinforce the sense of regional ownership, connect Europe and Turkey to Asia, notably the Caucasus, Central Asia, East Asia, and South Asia, create connectivity between the East-West corridor and the North-South corridor, expand markets and create large economic scales, and provide a concrete contribution to the development of regional cooperation in Eurasia.

Map 2. Baku–Tbilisi–Kars Project



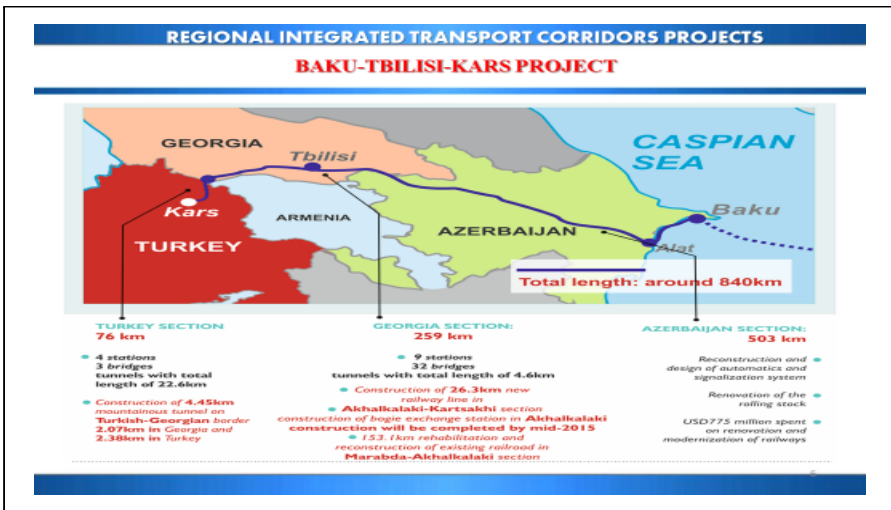
Source: SAM (2016).

The Middle Corridor has several advantages. It brings a complementary route to the Northern and Southern Corridor with big market potential with a sizeable population. The Middle Corridor is shorter by around 2,000 km than the Northern Corridor with favorable climatic conditions during winters. It provides connection between the North-South Corridor and East-West Corridor and will gain faster and shorter connection to the West and Northern Europe through Aktau/Turkmenbashi-Baku/Alat-Baku-Tbilisi-Kars-Marmaray link (Acar, Bentyan and Kocaoglu 2015, p. 106).

The Caspian Connect on works are underway to increase the capacity of Baku, Aktau and Turkmenbashi ports and to construct the Alat port in order

to maximize the number of Ro-Ro ferries between these ports. The first part of the first stage of Alat port has been put into operation. Establishing logistic centers and free trade areas in the region will be instrumental not only in enhancing the central position of the region, but will also help to attract more foreign investors. Since December 1, 2015, two regular round Ro-Ro trips between Baku and Aktau Ports per week. 1,900 vehicles used the Ro-Ro line between Baku and Aktau Port in 2015. New regulations at customs have been accepted in two countries providing 1.180 USD discount in Azerbaijan and 850 USD price decrease in Kazakhstan for trucks (SAM 2016).

Map 3. Baku–Tbilisi–Kars Project in Details

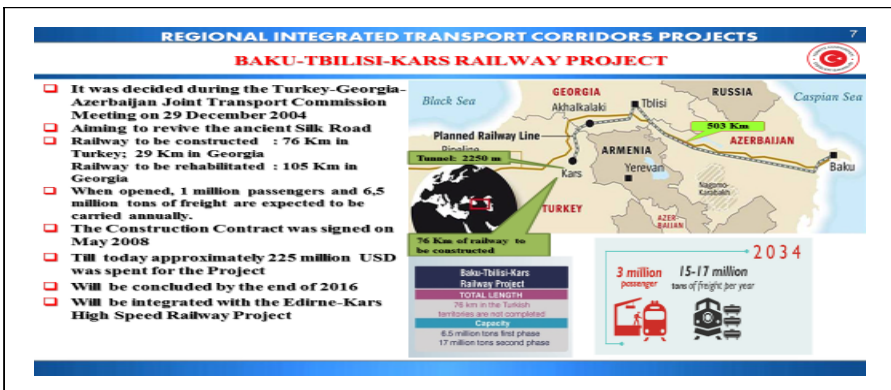


Source: SAM (2016).

The completion of the Baku-Tbilisi-Kars railway (BTK) and the subsequent

modernization of all the railway systems between Edirne and Kars to allow for high-speed freight transit is a prerequisite for the realization of the entire project. According to estimates, the BTK will have a capacity to carry one million passengers and 6.5 million tons of freight per year at the initial stage right after it becomes operational. Within several years, it is expected to transport 3 million passengers and 17 million tons of goods per year. And in 20 years, the railway will attain the sufficient capacity that would allow it to haul 30 million tons of goods per year. The construction of 20 km of railways out of the 76 km-long section of the BTK that lies within Turkish territories is yet to be completed. Furthermore, a 4.5 km-long tunnel is still under construction on the border between Turkey and Georgia. Indeed, the governments concerned laid the foundations of the BTK in 2008 but the planned finished date has been repeatedly postponed. It was lastly announced that the project will come into operation by 2018 (Acar, Bentyn and Kocaoglu 2015, p. 107).

Map 4. Cooperation with Azerbaijan, Kazakhstan and Turkmenistan for Caspian Transit



Source: SAM (2016).

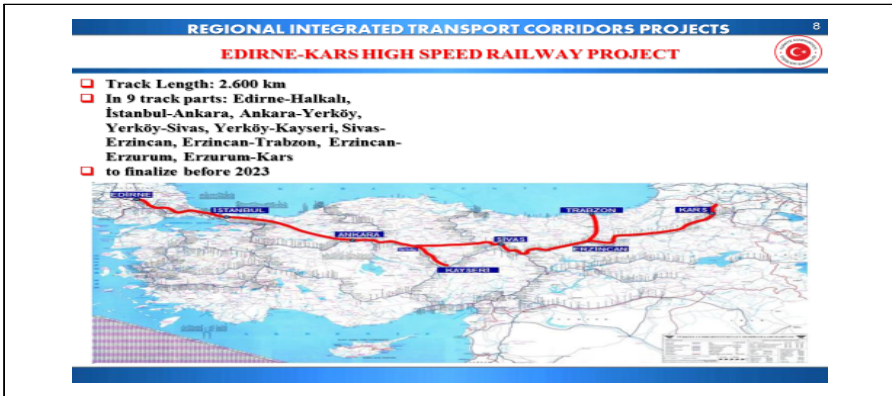
The East-West High-Speed Railway Project, i.e. the phase of the Iron Silk Road project that is to be undertaken by Turkey, will link the eastern Turkish city of Kars with the country's westernmost city of Edirne. The railway line within Turkey's borders will reach approximately 200 km and cost around \$30 million in total (SAM 2016).

Even though Ankara pins all its hopes on Marmaray, the Turkish version of the Iron Silk Road project is probably going to follow another route instead. The railway's destination in Turkey can be the Gulf of Iskenderun in the southern part of the country, the Gulf of Izmit to the country's northwest, or the Port of Izmir on the country's western coast. That is essentially because there are technical incompatibilities between the railways that link European cities with each other and Marmaray. Furthermore, trains that will shuttle between China and Europe via Turkey will be able to follow only a single line if they pass through Marmaray (Sahbaz 2014, p. 6).

Through Marmaray and the Eurasia Tunnel, which are introduced as sister projects, it is claimed that passengers arriving from East Asia will be able to travel from Istanbul to London without any interruption. Marmaray is expected to carry 1 million passengers per day soon. And if all goes to plan, freight trains will operate non-stop between Asia and Europe by crossing the Third Bosphorus Bridge (Yavuz Sultan Selim) that has been in service since August 2016. However, the construction of an additional 63 km-long high-speed railway will be required for trains that will operate between China's Western cities and Istanbul's European side to traverse the rest of Turkish territories on

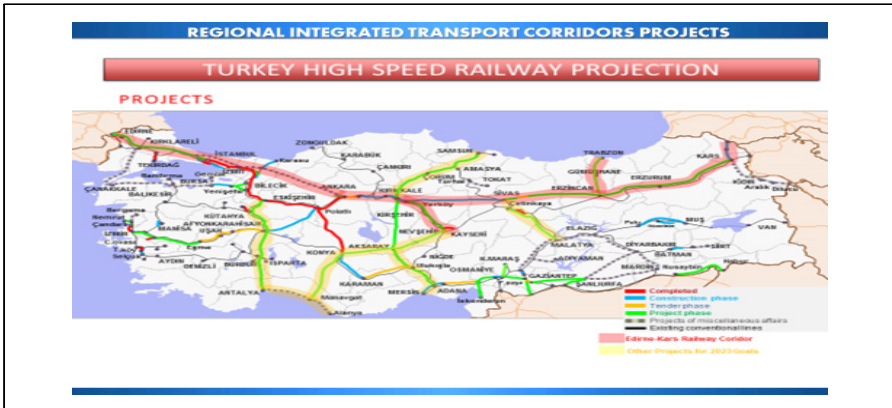
the European continent before reaching border gates. Among the high-speed railways currently operating in Turkey, only the Ankara-Eskisehir-Istanbul line (533 km) will be integrated into the Iron Silk Road project (SAM 2016).

Map 5. Edirne–Kars High Speed Train



Source: SAM (2016).

Map 6. Turkey's High Speed Railway Projection



Source: SAM (2016).

Turkey has been developing links between the Silk Road and Turkish seaports in the last four years. 16 international Ro-Ro lines were recently launched. These are Mersin-Iskenderiye, Samsun-Kavkaz, Samsun-Tuapse and Zonguldak-Yevpatoria ro-ro lines in 2010, Ambarlı-Toulen, Samsun-Gelincik, Taşucu- Tripoli, Istanbul-Ilyichevsky, Zonguldak-Sevastapol, Tuzla-Köstence lines in 2011, Tasucu-Tartous, Iskenderun-Port Said and Iskenderun-Haifa lines in 2012, Mersin-Damietta, K.Ereğli-Ilyichevsky and Derince-Poti lines became operational in 2013 (SAM 2016).

It is expected that Candarli Port would play a very crucial role for the Middle Corridor as follows: the transshipment of cargo from Gibraltar to Gioia Tauro covers a distance of 11,500 knots to reach the other mercantile ports. A ship that brings the cargo to Port Said hub through the Suez Canal will have to cover 8,500 knots. A ship that brings their cargo to the port of Piraeus by passing through both canals will have to cover 7,000 knots. If the same cargo comes to Çandarlı Port, that number will be 6,500 knots. The difference in distance during the Cargo handling process in the closest port of transshipment is 500 knots (Koru and Kaymaz 2016, p. 6).

Map 7. Asia–Europe Highway Routes over Turkey



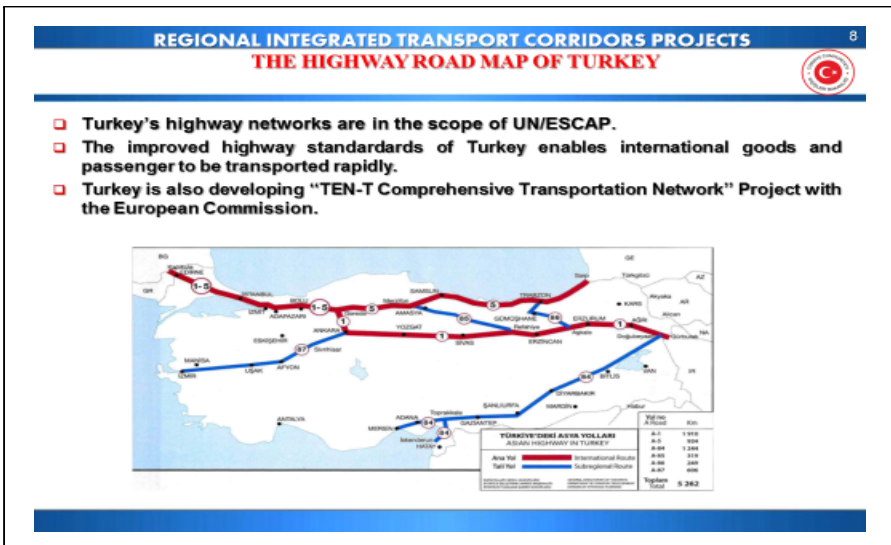
Source. SAM (2016).

There are four main routes for highway transportation between Asia-Europe over Turkey. The first one is the Turkey-Iran-Turkmenistan-Uzbekistan-Tajikistan-Kyrgyzstan route. The second passes through Turkey-Georgia-Azerbaijan-Caspian Sea (Ro-Ro)-Turkmenistan/Kazakhstan route. The third one is Turkey-Black Sea (Ro-Ro)-Georgia-Russia-Kazakhstan route. The fourth lies on the Turkey-Iran-Pakistan route. The highway transportation is considered as a supportive line to the Iron Silk Road. Turkey has rapidly developed its highway connection at the countryside (see Map 7).

Turkey is working on three new projects which will provide additional motorways and railways connecting the East to the West. These projects will further contribute to the efforts for integration as well as for development and

economic welfare from increasing intra- and inter-regional trade. The Yavuz Sultan Selim Bridge, which has become the third bridge over the Bosphorus, has been operational since August 2016. The bridge is now the longest combined motorway/railway bridge of the World. The Eurasia Tunnel is a road tunnel crossing the İstanbul Strait under the sea and is foreseen to be completed by October 2016. With the Eurasia Tunnel, the journey time between Kazlıcesme and Goztepe will be shortened from 100 minutes to 15 minutes. The three-level Big Istanbul Tunnel Project will connect the two sides of Istanbul by a 3-story tunnel and will be constructed after the Eurasia Tunnel. The middle story will be used by metro, and others will be used by cars (SAM 2016).

Map 8. Highway Road Map of Turkey



Source: SAM (2016).

One of the ambitious highway projects of Turkey is the Gebze-Izmir Motorway. The under-construction Gebze-Izmir Motorway is the largest ever infrastructure project in Turkey's history. The most notable feature of the project is the 3.3km Izmit Bay suspension bridge (Osman Gazi). The \$6.5 billion road project will connect Gebze and the city of Izmir in the Aegean region of Turkey with a 377 km six-lane motorway. The bridge has become operational as of July 2016 (SAM 2016).

2.3. Difficulties and Challenges to the Middle Corridor

The Iron Silk Road project is still faced with numerous financial, bureaucratic, and technical obstacles. Major challenges include differences in rail gauge between neighboring countries, disconnections within national railway infrastructures, and restrictions placed on the movement of goods and people between borders. For instance, due to differences in track gauge, trains are required to stop at bogie changing stations before crossing the border between Turkey and Georgia and those between several other countries on the projected Silk Road route, which causes a considerable loss of time. Moreover, the level of logistic cooperation between Central Asian & Caucasian countries is still low, which makes it utterly difficult to undertake large cross-border projects as such (Colakoglu and Sakaoglu 2015, p. 1).

Last but not least, large swathes of the territory through which the Iron Silk Road will be required to pass are covered with steep and isolated mountains

and subject to high security risks. It is a troublesome task to construct and sustain railroads that would pass through these territories, parts of which harbor notorious criminal and terrorist groups. Apart from that, the Iron Silk Road project will completely exclude Russia and Armenia in any case. Moreover, an alternative route proposed for the project that is envisaged to pass through the Caspian Sea will circumvent Iran as well (Colakoglu and Sakaoglu 2015, p. 1).

IV. Korea's Opening Policies for Central Asia and the Eurasia Initiative

1. Background to Korea's Central Asian Policy

As the Soviet Union suddenly collapsed in 1992, five newly independent states had found themselves “catapulted into independence” at the heart of Eurasia. These were the former Soviet Socialist Republics of Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan, and Kyrgyzstan. South Korea has acted quickly to establish diplomatic relations with each of these states, completely replacing North Korea's traditional diplomatic primacy – owing to the latter's status as a communist Soviet ally – in Central Asian capitals in only a few years.¹⁾ Such was possible thanks to Seoul's unmatched promise as a prospective

1) Today, the only Central Asian country that hosts a North Korean embassy is Uzbekistan; although Kazakhstan, Tajikistan, Turkmenistan, and Kyrgyzstan also maintain formal diplomatic

economic and commercial partner, in stark contrast to the bankrupt and underdeveloped economy of Pyongyang which had found itself enmeshed in a dire food and energy crisis in the 1990s shortly after its lifeline from Moscow was cut as Russia was itself overwhelmed by a cocktail of deep economic troubles.

Another factor which played a complementary role in facilitating Korea's multi-dimensional engagement with Central Asian countries after decades of politically-imposed insulation from the rest of Asia as well as all other adjacent sub-regions bar European Russia (i.e. the part of Russia that lies to the west of Ural Mountains) has been the historical presence of a significant ethnic Korean community in this region. Known as *Koryo-saram* or *Koryoin*, these people are the descendants of Korean peasants who once fled Korea proper for the northeastern coasts of Manchuria and Khabarovsk before the region was annexed by Tsarist Russia in the 1860s and 1870s. The Korean population that was largely concentrated in the two maritime provinces of Russian Far East (Preamur and Primor'e) back then was subjected to relocation twice in the first half of the 20th century, in early 1900s and once again in 1937 respectively. The latter incident was one of the first examples of mass deportation of an entire ethnic minority in history, when 171,781 Koreans residing in the Russian Far East were forced out of their homes and shipped to desolate areas in Central Asia by Joseph Stalin. Today, there are around 173,000 ethnic Koreans

relations with the communist regime in Pyongyang. See Fumagalli (2012), p. 81.

living in Uzbekistan and another 107,000 in Kazakhstan, with the rest of the Korean diaspora in the region spread between Russia, Kyrgyzstan, and Tajikistan (Hwang 2012, p. 5).

Although well-integrated to the economic and social life of their host countries as a highly industrious community of urban dwellers today, the Korean diaspora in Central Asia is largely assimilated into Russian language and culture, having no relatives, memories, or possessions in the Korean Peninsula. Still, some of these people have moved to South Korea after the Cold War, comprising a solid source of remittances for their cash-stripped home countries as well as a reliable business link – if not a main pillar of commercial and people-to-people exchanges – between Korea and Central Asia.

That said, Korea's long-term commitment to and intimate relations with individual Central Asian countries has essentially been driven by a different, two-fold rationale. Seoul's consistent attempts at making diplomatic, political, and economic inroads into this region that remained largely untouched by the emerging center of gravity in the 21st century economy – i.e. East Asia – and the dynamism of Korean conglomerates (chaebols) until recently have been fueled by a set of mutually intertwined concerns pertaining to energy security and strategic viability in the mid-run as well as an overall quest for substantial economic gains with a transformative power in the short-run (Fumagalli 2016, p. 45).

As to the latter, relatively minor aspect of Korea's Central Asia policy since the demise of the Soviet Union, countries in this region qualify as new markets

with considerable potential to absorb a wide variety of finished goods and some of the excess capital that is being generated by the highly-industrialized Korean economy. The newly independent states of Central Asia served as a resource and agricultural base for the Soviet economy for the most part of the 20th century, with their industrial development either ignored or concentrated in a few sectors to address the exhaustive needs of the capital-intensive command-economy of the Soviet Union. Therefore, in the aftermath of the Cold War, countries in the region had to grapple with widespread poverty, high unemployment rates in urban areas, and low standards of life despite harboring vast reserves of natural resources. Having no direct access to seas or sufficient infrastructure to sustain trade and investment flows even among themselves, these landlocked countries were further denied access to foreign markets due to their geographical distance from the Atlantic and East Asia – i.e. the two economic hubs where global industrial production and capital accumulation is concentrated at (Hwang 2012, p. 6).

On the other hand, the Korean economy's swift recovery from the Asian Financial Crisis of 1997 and its subsequent maturation has compelled Korean firms to seek new markets, in other words a larger "hinterland" of complementary economies to sustain the country's technology-intensive, export-led growth pattern particularly since early 2000s. Against such a backdrop, a "marriage" between the economies of Central Asia on the one hand with their labor-intensive potential, highly favorable natural resource endowment, dire need of infrastructure investment, and growing consumer markets; and the Korean

economy – considering its steep rise to become a developed one in search of higher productivity through innovation – on the other seemed like a perfect match (Fumagalli 2016, p. 45).

In addition to its commercially-induced drive to engage with the region, there lies behind the surface a rather more deep-seated urge on the part of Seoul to boost its national security as well as strategic status amid the rapid alteration of the global geopolitical landscape in the early 21st century. The security dimension here concerns not only traditional (hard) security issues – the most salient one being the seemingly-endless row of tensions with a rampant, nuclear-armed North Korea – but also those related to the material foundations of the economy, with the task of ensuring the undisturbed supply of enormous amounts of hydrocarbon resources alongside other minerals that sustain the very basis of Korean power topping the list (Lee, Chun, Suh, and Thomsen 2015, p. 16).

As the global economy continues to revolve around the exploitation of oil, coal, and natural gas, a resource-deprived country like South Korea has no other options than rely on imports of fossil fuels for its economic well-being, political stability, and even military deterrence while trying to diversify its energy production through alternative sources and technologies.²⁾ Moreover,

2) South Korea ranks ninth among the largest energy consumers in the world and is counted among the top five importers of crude oil, liquefied natural gas, coal, and refined products. While relying on imported fuels for 97% of its primary energy consumption, including uranium for nuclear power generation which addresses around 13% of the country's primary energy needs, there are no existing pipelines that transport energy resources to the country – hence its

the need to ensure the uninterrupted supply of other necessary minerals like rare-earth metals that sustain key high-tech industries like semiconductors, integrated circuits, LCDs, automobiles, electronics, defense, and information and communication technologies (ICT) constitutes a further vulnerability for the highly industrialized Korean economy (U.S. Department of Energy 2010, p. 1).

However, apart from a couple of highly unstable countries in the Middle East, those in Central Asia (along with Russia) comprise the only major viable alternative to allow Korea diversify its trade partners – hence spread the risk of an unexpected shortfall in supply – in a vital sector like energy. According to 2015 figures; Kazakhstan ranks right before Qatar as the country with the 12th largest proven reserves of oil in the world while ranking after the United Arab Emirates as the country with the 17th largest proven reserves of natural gas. Likewise; Turkmenistan ranks fourth (following Russia, Iran, and Qatar) on the list of countries with the largest proven reserves of natural gas, while Uzbekistan ranks 18th on the same list (BP 2015, p. 1). Kyrgyzstan and Tajikistan are similarly known to harbor vast reserves of rare earth elements along with other precious minerals like uranium (OPEC 2015, p. 1).

complete reliance on shipping by tankers. Moreover, South Korea's oil consumption heavily relied on imports from the Middle East (over 84%) by 2014, exposing the country to various risks associated with chronic political instability, occasional sanctions, and naval piracy that inflict large parts of the troubled region. See EIA (2015).

2. Seoul's Increasing Involvement in the Region

As the aura of the Asian Financial Crisis of 1997 faded, both Seoul and other Asian capitals – Beijing first and foremost – had once again turned their eyes towards Central Asia to expand their economic and diplomatic outreach. In terms of Korea's broadening horizons in the realm of foreign policy, first tangible steps towards what has later evolved into a full-fledged redefinition of Seoul's role on the global chessboard were taken under the Roh Moo-hyun administration (2003-2008). Traditionally preoccupied with the East Asian region where China, Russia, and the U.S. continue to predominate every aspect of international interaction, Seoul's area of operation began to encompass the relatively “virgin” space of Central Asia most saliently in this period.

Following his official visits to Kazakhstan in 2004 and to Uzbekistan the year after, President Roh pioneered the launch of the Comprehensive Central Asia Initiative in 2006, which gave shape and substance to the country's overall strategy towards the region for the first time. The Initiative was aimed at the strengthened bilateral relations through summit-level diplomacy, while proposing the adoption of “differentiated approaches to individual states” and calling for the promotion of “more synergy effects through closer collaboration between interrelated businesses and advancement of industries with relative advantage” (Fumagalli 2016, p. 42).

Another purpose of the parliamentary bill that was proposed by the Korean government in relation to this new vision was to set the legal and institutional

framework for the introduction of joint infrastructure projects between public and private enterprises in Central Asia. Through this bill, Korea was also offering “strategic partnership” by sharing its technical-managerial know-how as well as decades of developmental experience as an “Asian Tiger” that turned from an aid-recipient and underdeveloped economy to a net donor with a highly advanced industrial foundation (Fumagalli 2016, pp. 40-44). What it was essentially asking in return was rights of access to the vast energy and mineral resources of the region.

Korea’s engagement with the region has since been based on the principles of ① singling out key sectors and industries; ② tailoring country-specific policies in line with the different features of individual countries; ③ gradualism and prudence as far as the progress and consolidation of diplomatic relations is concerned; and ④ building trust through regular high-level meetings, consultation mechanisms, and summit diplomacy. Central Asian countries also tended to regard Korea as an ideal model that can be emulated for their state-led economic development, as well as a crucial partner that can offer unique services and know-how thanks to its robust private sector and decades of experience with a capitalist market economy (Hwang 2012, p. 2).

Besides, Korea has consistently refrained from attaching extravagant conditions – if any – to its continued assistance and investment towards the region, which culminated in the formulation of a pragmatic, transparent, and multi-pronged approach. Such factors helped get Seoul one step ahead of its heavyweight economic rivals in the region such as American, Chinese, or

Russian firms – dealings with which are usually accompanied by an either explicit or implicit “political baggage” in the eyes of Central Asian capitals. In its bilateral economic and cultural exchanges with regional countries; Seoul has – rather ironically – managed to advertise its geographic distance from the region, lack of geopolitical ambitions, and the small size of its domestic market as advantages vis-à-vis its rivals, despite the fact that such would otherwise count as major shortcomings.

Nevertheless, exchanges at the bilateral level based on these principles had to be complemented by an overall multilateral scheme if Korea really wanted to qualify as an international hub and geo-economic bridge between the energy-consuming industrial centers of the Asia-Pacific and the developing energy-producers in continental Asia. Therefore, in a “milestone” move, the Roh administration came up with the Korea-Central Asia Cooperation Forum in 2007 which laid the institutional groundwork for the advancement of Korea-Central Asia relations, holding annual meetings between representatives from the five Central Asian republics (i.e. Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan) and Korea since its foundation. Established with the aim of systematically building on the already-present network of bilateral commercial agreements between Korea and Central Asian countries via “multilateral cooperative projects,” the Korea-Central Asia Cooperation Forum continues to work towards the materialization of mutual coordination efforts and the promotion of reciprocal exchanges “in the educational, economic, and cultural fields.” Another goal of the Forum is to forge and consolidate a

web of formal and intimate links “between governments, business, and academia across the region” (Fumagalli 2016, p. 44).

Efforts to add depth and breadth to Korea-Central Asia relations gained full steam under the subsequent administration of President Lee Myung-bak (2009-2013), whose policies of overseas economic penetration were even more “decisive and assertive” than his predecessors’ concerted push towards the institutionalization of mutual cooperation on a regional scale (Fumagalli 2012, p.44). Indeed, Lee’s inauguration marked the beginning of a “new-found international activism” on the part of Seoul, capped by the announcement in March 2009 of the New Asia Initiative (NAI) with a stated objective to “*enhance substantial cooperation with all the countries of Asia,*” Southeast Asia and Central Asia first and foremost. It was under President Lee that South Korea embarked on a comprehensive effort to redefine its role not only in relation to other sub-regions of Asia but also at the global level. What Lee had seen fit for his country was a versatile role – that of a strategically-located “*intermediary*” facilitating multi-dimensional interactions between developed and developing economies (Hwang 2012, p. 2).

In response to the high level of global commodity prices at the time, several leading Korean companies were encouraged to get involved in partnerships with public enterprises to acquire new energy assets in Central Asia following Lee’s state visits to Kazakhstan and Uzbekistan in 2009. Widely regarded as Seoul’s “resource diplomacy,” this renewed push for public-private partnerships was only to be followed by a variety of other investments by officially-backed

private consortiums in the fields of mineral extraction and exploitation, infrastructure development, logistics, petrochemicals, and electricity generation within the span of a few years (Fumagalli 2016, pp. 45-46).

Peaking pro-activism on the part of Korean diplomacy and companies induced President Lee to pay another round of state visits to Kazakhstan and Uzbekistan in 2011, during which he once again emphasized the resonance of South Korea's unique historical experience as a small country "at the nexus of great powers" with the developmental trajectory that Central Asian countries pursue in early 21st century (Hwang 2012, p. 2). As usual, President Lee promised further developmental assistance and socio-economic projects in the fields of public health, agriculture, environmental protection, fishing, education, and textiles as lucrative business deals were sealed one after another by the chaebols.

Korea's economic interest in the region was initially concentrated on Uzbekistan; although trade and investment figures for Kazakhstan gradually came to surpass those pertaining to Uzbekistan in Korea's official statistical records by the latter half of the 2000s. Starting from the late Roh era, Kazakhstan has received the lion's share of Korean FDI in the entire Central Asian region. While the cumulative amount of Korean investment in Kazakhstan has reached US\$ 3.4 billion between the years 1992 and 2015, Uzbekistan followed Kazakhstan with the total inflow of Korean FDI to the country amounting to 976 million USD for the same period (Fumagalli 2016, p. 45).

In Uzbekistan's case, the 400-plus Korean firms operating in the country are

mainly interested in the exploitation of mineral reserves like natural gas and oil as well as uranium, gold, tungsten, and coal. Still, Korean firms have also penetrated deeply into Uzbekistan's electronics and automobile industries. To date, several trade and investment-related MOUs have been signed between Tashkent and Seoul, granting public and private firms from Korea exclusive rights of joint exploration and procession as far as the exploitation of some of the largest oil and natural gas deposits in Uzbekistan are concerned. In return, Seoul has made and fulfilled successive pledges to assist Tashkent in industries like power generation, metallurgy, and telecommunications. Knowledge sharing and technical training programs that are tailored for the specific needs of Uzbek bureaucrats responsible for the state-led development of several industries like food processing, automobiles, medicine, and tourism have also been commonplace since early 2000s (Peyrouse 2010, p. 1).

An MOU that was signed between the two countries in 2008 has led to the establishment of a free industrial economic zone in 2010 in Navoi, which is a town located in southwestern Uzbekistan. The logistics and transport hub that was constructed here is today being operated by the parent company of Korean Air, and boasts the largest capacity of air cargo freight as well as land transport in the entire Central Asian region. Moreover, this key logistics hub is known to be centrally located next to mining facilities which process and treat gold and uranium (Hwang 2012, p. 3). The preference for this location reflects Korea's long-term vision to curtail the cost of transportation and advance further with transcontinental cooperation in the mining industry.

Likewise, Korea's economic ties with Kazakhstan have been cemented through successive MOUs, particularly since the Roh Moo-hyun administrations. Agreements that ensued were mainly designed to facilitate the formation of joint ventures between Kazakh state-owned companies and Korean consortiums to tap into offshore gas and oil reserves in the Caspian Sea, where large blocks are being jointly developed. Some Korean firms that have managed to tap into Kazakhstan's lucrative markets are also involved in major construction projects and hefty uranium purchases. Other industries in which Korean investments concentrate are petrochemicals, power generation, and banking (Fumagalli 2012, pp. 84-87).

Although lagging far behind Kazakhstan and Uzbekistan in terms of its capacity to attract Korean investment, Turkmenistan nevertheless shines out as a relatively favorable destination for Korean firms interested in the acquisition of large stakes in the energy sector. Known to harbor immense deposits of natural gas, Turkmenistan has been in dire need of foreign capital and technology to modernize its petrochemical industry – a glaring opportunity which entrepreneurial Korean firms eager to operate in faraway regions have lost no time to seize upon (Blank 2010, p. 1).

All in all, the total volume of annual trade that was carried out in 2010 between Seoul on the one hand and Tashkent, Astana, Ashgabat, Bishkek, and Dushanbe on the other was over 180 times larger than its initial level right after the establishment of formal diplomatic links between Korea and Central Asian countries in 1992. As of today, trade with Uzbekistan accounts for 54%

of Korea's cumulative trade with the Central Asian region; while that with Kazakhstan accounts for another 38%. The same figures for Turkmenistan, Kyrgyzstan, and Tajikistan are merely 5%, 2%, and 1% respectively. In the cases of Uzbekistan, Kyrgyzstan, and Tajikistan; official development assistance (ODA) in the form of the allocation of grants and loans through the Korean International Cooperation Agency (KOICA), or otherwise the Economic Development Cooperation Fund (EDCF), figures prominently as far as the weight of such transactions in overall economic exchanges is concerned (Fumagalli 2016, pp. 43-45).

What these otherwise diverse trade figures have in common is a significant deficit on the part of Central Asian countries that continues to widen due to the large proportion of high value-added finished goods in the composition of their imports from Korea. According to data provided by the Korea Customs Service and Korea International Trade Association, annual trade turnover between Korea and Kazakhstan has doubled between 2010 and 2014 to almost 1.5 billion USD, while the total volume of bilateral trade between Korea and Uzbekistan was recorded at over 2 billion USD for the latter year. In contrast, Turkmenistan, Kyrgyzstan, and Tajikistan ranked far behind these two countries in the list of Korea's largest trade partners. The volume of bilateral trade between these individual countries on the one hand and Korea on the other was approximately 193 million, 164 million, and 51 million USD respectively (KITA 2016, p. 1).

Table 2. Korea's Trade with Central Asia and Southern Caucasus

(Unit: millions of USD)

Countries	Export		Import		Total	
	1995	2015	1995	2015	1995	2015
Armenia	2	8	0	3	2	11
Azerbaijan	4	123	3	3	7	126
Georgia	1	73	79	14	80	87
Kazakhstan	53	455	74	305	127	760
Kyrgyzstan	2	80	1	1	3	81
Tajikistan	13	20	2	4	15	24
Turkmenistan	1	182	3	0	4	182
Uzbekistan	244	1,284	135	16	379	1,300
Total	320	2,225	297	346	617	2,571

Source: Korea Customs Service (2016).

3. Launching and Vision of the Eurasia Initiative

As is explained thoroughly in the above paragraphs, a middle power like Seoul has every reason to seize upon the rare chance of competing in favorable terms with “heavyweights” like Beijing, Moscow, Tokyo, and even Washington in the race to secure access to Central Asia’s vast resources and prospective markets. For that purpose, one of the fundamental motivations behind Seoul’s strategic push towards multi-faceted cooperation with countries in the region has been to “overcome trade and investment bottlenecks” since the initiation of commercial relations in the 1990s (Szczudlik 2016, p. 4). In that regard; the facilitation of unimpeded trade and investment flows between Korean and Central Asian centers of economic attraction necessitates the synergetic mobilization of

all its diverse resources – economic, diplomatic, and cultural alike – on the part of Seoul in a manner that would ensure infrastructural inter-connectivity and logistical coordination on a multilateral basis.

For over half a century, South Korea has been suffering from geopolitically-imposed isolation which effectively “reduces its status” to that of an “artificial island” on the eastern fringe of the Eurasian landmass. That is the case because the overland transport and communication channel connecting it to the rest of Asia – through its border with North Korea – has been almost completely blocked since the end of WWII. Whereas the reestablishment of economic and political linkages along continental lines across Eurasia will once again enable the southern, maritime half of the Korean Peninsula, where the population is densely concentrated, to recover at least some of its geographic and historical hinterland. Thereby South Korea will be able to leverage its strategic location and economic dynamism for the ultimate purpose of boosting its geo-economic standing as a natural “bridge” connecting the Pacific with mainland Asia. Such would further endow Korea with a stronger negotiating position vis-à-vis the U.S. and China – its main military ally and economic partner respectively – as a “pivot state” that can freely maneuver between two rival blocs amidst a deeply-transformed geopolitical landscape in the long-run (Kim 2015b, pp. 251-252).

Against such backdrop, the Eurasia Initiative was unveiled by Korean President Park Geun-hye with considerable fanfare during her opening speech at the “International Conference on Global Cooperation in the Era of Eurasia”

in Seoul on October 18, 2013. The Initiative was introduced to the wider public under the catchphrases of “*one continent*,” “*peaceful continent*,” and “*creative continent*”; corresponding to its three respective objectives of ① creating a unified infrastructural and institutional network across Eurasia, ② promoting peaceful exchanges, the opening of borders, and mutual gains in order to counter confrontational and isolationist tendencies at the inter-state level; and ③ injecting new momentum into the Korean and wider Asian economy through sustained productivity increases (Asmolov 2014, p. 2).

The program for the initial stage of the Initiative, as encapsulated by the catchphrase “one continent,” expresses Korea's willingness to spearhead the construction and operation of an intermodal network of transcontinental infrastructure. Such entails a vast network of energy pipelines, railways, highways, harbors, airports, and electricity grids, along with other facilities related to international logistics and ICT. A transport and energy corridor that is envisaged to connect South Korea with Europe via North Korea, the Russian Far East, Northeast China, Siberia, and Central Asian countries thus forms the backbone of the Eurasia Initiative. Progress on a transcontinental transit network of this scale is expected to not only reduce logistics costs and save time, but also stabilize the price of key commodities in international markets, helping revitalize the sluggish world economy. The ultimate goal here is to connect Central Asian markets with the industrial hubs and advanced port infrastructure of Korea in East Asia, while capitalizing on the competitive advantages of individual countries on the route (Kim 2015a, p. 14).

Having set its eyes on horizons that apparently exceed far beyond the regional scope of relevant projects as envisaged for the initial stage of its “grand national strategy,” Seoul’s comprehensive Eurasian vision for the 21st century is as realistic as it reflects an unprecedented degree of fervor on its part (Szczudlik 2016, p. 3). The Initiative’s all-encompassing nature is most visible in its political and security-related pillar. As a matter of fact, increased inter-connectivity and interdependence in the economic field means the free circulation of businessman, workers, and tourists who bring with them new ideas and knowledge. What Seoul aims through the Eurasia Initiative is to leverage such an inevitable boost in people-to-people contacts and cultural interaction for the sake of its overall vision of Korean reunification. For when frequent cross-border exchanges are institutionalized, the accumulated trust and irresistible attraction of mutual gains is expected to pave the way for diplomatic and political convergence between the two Koreas.

Moreover, the “wave of prosperity” that continent-wide integration will generate for the Northeast Asian region is expected to convince Russia and China as well in the necessity of inter-Korean reconciliation at some level. In that regard, Russia’s “New East Policy,” which is aimed at tapping into the lucrative energy markets of and attracting capital investments from the dynamic industrial hubs in East Asia for the development of its economically-backward provinces in eastern Siberia (Toloraya 2013, p. 4), as well as China’s “Northeast China Revitalization Plan” and “Changjitu (Changchun-Jilin-Tumen River) Development and Opening Plan” are in sync with South Korea’s planned

projects for the economic integration of Northeast Asia (Shin 2015, p. 15).

Against such a backdrop, Pyongyang will probably be unable to resist concerted pressure on the part of Beijing and Moscow as well as other Eurasian capitals that are to share the vast spoils of a historic shift in the regional economic and security landscape, with Seoul's Eurasia Initiative as the "locomotive" of such groundbreaking transformation. It is mainly through trilateral cooperation between Seoul-Moscow-Pyongyang and Seoul-Beijing-Pyongyang that South Korea aims to force the North's hand into further marketization and international collaboration – tasks at which bilateral efforts have consistently failed. Therefore, the fate of denuclearization efforts in Northeast Asia, as embodied in various diplomatic undertakings by Seoul such as the "Korean Peninsula Trust-Building Process" and the "Northeast Asia Peace and Cooperation Initiative," is directly linked to that of the Eurasia Initiative (Vorontsov 2016, p. 2).

Finally, the "creative continent" component of the three-pronged strategy that is put forth by the Eurasia Initiative signifies Korea's urge to transform its economy into an innovation-driven one. As a matter of fact, productivity increases through innovation shine out as the only viable way to sustain economic growth in the long term since the marginal product of labor and capital gradually decrease. And with weakening demand for its capital-intensive exports and increasing unemployment rates at home, Seoul is in search of new markets to upgrade the Korean economy. On the other hand, excess capital in some of Korea's "outdated" industries are seeking new markets for outward

investment (MOFA 2015, p. 1). Against such a backdrop, Seoul has realized that it can reap considerable economic gains from regional integration with the help of generous knowledge-sharing programs, technology transfers, developmental assistance, and capital investment in cross-border infrastructure.

Moreover, just like the case with Central Asia, the Russian Far East and North Korea also harbor large deposits of natural resources (e.g. rare earth metals, natural gas, uranium, coal, gold, and titanium) which the South direly needs. From this perspective, the complementary nature of the extractive economies of North Korea, Russia, and Central Asia on the one hand and the high-tech consumer economy of Korea on the other is particularly striking. Furthermore, by adding depth and breadth to its continental supply chains, Korea aims to place itself in a central position of coordinating and steering a renewed multilateral push toward sustained growth on a regional scale. In the mid-run, Seoul expects such initial cooperation to evolve into a single market through the gradual elimination of trade barriers. And in the long run, Seoul desires to pioneer the formation of a full-fledged economic bloc with a political integration agenda, similar to that of the European Union (Yun, Byung-se 2014, p. 1).

Map 9. Eurasia Friendship Express 2015



Source: Paik (2015).

Several major projects are either already concluded or currently underway within the framework of the Eurasia Initiative. The most significant one yet has been the commissioning in September 2013 of a 54 km-long freight rail link between the port of Rajin in North Korea's Rason Special Economic Zone and the city Khasan in the Russian Far East. The so-called Rajin-Khasan Logistics Project is aimed at reconnecting the Trans-Korean Railway (TKR) with the Trans-Siberian Railway (TSR), thereby carrying South Korean goods to Russia, Central Asia, and Europe via North Korea and vice versa. Railroad tracks and cargo facilities in the third pier of the harbor in Rajin were reconstructed by the Russian-North Korean joint venture RasonKonTrans, but South Korea also

decided to join in later. A consortium of South Korean companies (consisting of Hyundai Merchant Marine Co., Posco, and Korea Railroad Corporation) bought a 34% stake in RasonKonTrans following a MOU signed during Russian President Putin's momentous visit to Seoul in November that year. To date, two rounds of pilot shipments were carried out, for the first time in December 2014 and a second time in April 2015, with Chinese-flagged ships unloading Russian coal in the South Korean city of Busan (Contessi 2016, p. 6).

Additional transit projects that are also in the agenda include electricity transmission from Eastern Siberia and the Russian Far East to South Korea via North Korea, as well as the construction of a natural gas pipeline along the same route to address rising energy demand on the part of South Korea and the rest of the region (Toloraya 2013, p. 4). Although these projects have been halted for years due to recurrent inter-Korean tensions, Moscow and Seoul are keen to deepen trilateral cooperation on the Korean Peninsula, particularly in the field of energy, through overland projects that would firmly link Russia's "New East Policy" to the Eurasia Initiative.

In the mid-run, the Eurasia Initiative is expected to revolve around another ambitious transportation project which will be much larger in terms of the area it is envisaged to cover. Known as the Silk Road Express (SRX), this project is aimed to connect the Trans-Korea Railway with the Trans-Siberian Railway as well as with the Trans-China Railway (TCR), the Trans-Mongolia Railway (TMR), and a future railway network across Central Asia. The ultimate destination of SRX, which will start at Busan in South Korea, is projected to

be London. A test run of SRX was carried out between July 14 and August 2, 2015. Named the "Eurasia Express," this pilot project successfully demonstrated the viability and desirability of the Eurasia vision for all parties involved. As for the maritime leg of the Eurasia Initiative; it is envisioned to encompass the newly-opening Arctic route that straddles Russia's northern coasts all the way to the North Sea. Also, part of this vision is the gradual conversion of the Busan Port into "the main maritime crossroads on the east-west route and the north-south maritime lane" for trade, communication, and transportation around the northern half of the Eurasian landmass in the future (Contessi 2016, p. 6).

Apart from such projects that essentially concern the construction, connectivity, and operation of physical infrastructure, the Eurasia Initiative addresses yet another vital need: the one for institutional and regular consultative mechanisms to coordinate the diverse commercial and developmental policies of numerous individual countries. During her state visits to Uzbekistan, Kazakhstan, and Turkmenistan in June 2014, President Park Geun-hye not only signed multi-billion dollar contracts with her Central Asian counterparts but also agreed on deepening multilateral cooperation through the further institutionalization of relations among them (Vorontsov 2015, p. 2).

As a result, work has already begun on the introduction of a permanent secretariat to the Korea-Central Asia Cooperation Forum, which was originally established in 2007 by the Roh Moo-hyun administration and has continued to hold annual meetings ever since. Exactly a year after Park's landmark Central Asia tour, a preparatory committee was created to give shape to the future

secretariat. In accordance with this objective, the 10th Korea-Central Asia Cooperation Forum meeting is planned to convene later this year, for the first time at the ministerial level (Park 2016, p. 2). A decision on establishing a secretariat by the end of 2016 will be the most likely result of the upcoming meeting.

The institutional framework of the Eurasia Initiative further incorporates a Korea-Central Asia Caravan event and the Greater Tumen Initiative (GTI), the membership of which is currently comprised of South Korea, China, Russia, and Mongolia. The latter platform, initially founded with the purpose of harmonizing the economic and developmental policies of member states, will hopefully be converted into a full-fledged multilateral organization in the forthcoming period (MOFA 2015, p. 1). Likewise, Seoul has also pioneered the creation of several multilateral mechanisms to boost ICT connectivity. First and foremost among these is the Trans-Eurasia Information Network (TEIN), established as a “data communications network” in 2001. With its fourth phase completed in 2016, TEIN facilitates data and knowledge exchanges among a group of 23 Asian and 34 European countries. Seoul has taken over the sponsorship of TEIN after the Network’s Cooperation Center (TEIN*CC) was established in Korea in 2012 (TEIN*CC 2016, p. 1).

Today, TEIN is involved in mutual collaboration with the Central Asia Research and Education Network (CAREN). Added to this mechanism is the Eurasia Geospatial Information; which is a similar ICT network comprising South Korea, Kazakhstan, Kyrgyzstan, Mongolia, and Uzbekistan. Taken together,

these platforms lay the ICT groundwork for infrastructure development as well as the design and implementation of knowledge-sharing programs (KSPs) in various sectors and sub-regions. Several KSPs that are promoted by Korea have already brought significant benefits to Central Asian countries, as embodied in a number of agricultural and industrial clusters that were built in various Central Asian localities. Another beneficial outcome has been the materialization of joint projects in a variety of sectors from transportation, petrochemicals, logistics, and manufacturing to forestry, fisheries, textiles, and even e-procurement (TEIN 2016, p. 1).

There are two main challenges to implement the Eurasia Initiative. The first one is to increase a cooperation agenda between different connectivity initiatives for Eurasia, particularly those developed by Russia and China. The United States, Japan, the EU, and other countries have their own Silk Road initiatives which are conflicting aspects sometimes. Seoul should refrain itself any zone of conflict with other countries' initiatives. Otherwise, it has become very diffuse to implement the Eurasia Initiative and created a trouble between Seoul and other capitals.

Secondly, South Korea's major dilemma here concerns North Korea's response. How to secure the cooperation of North Korea, which is subject to UN-imposed sanctions due to its uncompromising push with an aggressive nuclear weapons and ballistic missile development program, remains a mystery.

V. Searching for Compatibility between Turkish and Korean Eurasia Strategies

Turkey and Korea are both making constant endeavors to extend their reach to Central Asia with an eye to attaining strategic depth. The geographical distance of both countries from the region necessitates cooperation with third parties in order to reach out to regional countries. For Turkey, Russia and Iran constitute the gateway to Central Asia. As for Korea, a similarly crucial role is played by Russia and China. Therefore, owing to their middle power status and common disadvantage of not sharing borders with Central Asian republics, Ankara and Seoul can cooperate in order to access the region. In this respect, harmonization of the Middle Corridor and the Eurasia Initiative which are put forth in a concrete manner by the two countries can provide a unique opportunity.

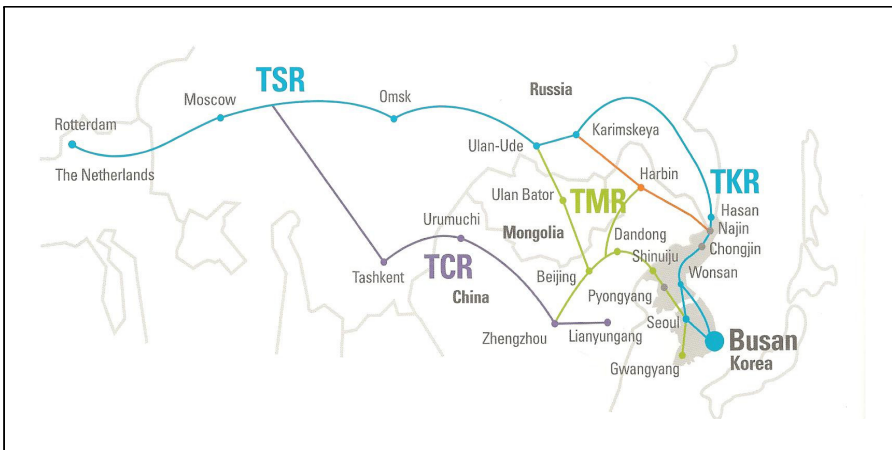
1. Compatibility of the Middle Corridor and Eurasia Initiative

While representing Turkey's own version of a Silk Road initiative, the Middle Corridor is essentially based on the idea of establishing a region-wide railroad network. The core objective here is to extend the railway line that originates from Turkish territory to Central Asia (Kazakhstan, Turkmenistan, and others) via Transcaucasia (Georgia and Azerbaijan). A long-term objective that is associated with the Middle Corridor is the establishment of a direct and

uninterrupted railway link stretching all the way from Turkey to China.

Likewise, the Eurasia Initiative represents Korea's ambitions pertaining to the reinvigoration of the ancient Silk Road. It also revolves around a railroad project that is envisaged to form a direct link between Korea and European markets through an integrated railroad network traversing Central Asia. For that matter, Korea wants to connect the TKR with the TSR, the TCR, the TMR, and ultimately the Central Asian railway network within the scope of its Silk Road Express (SRX) project.

Map 10. Trans-Korean Railway Connectivity to Eurasia



Source: <https://www.nknews.org/2015/05/s-koreas-attempt-to-join-osjd-hosting-meeting-in-seoul/>.

Looking at the various projects that have been fleshed out till date as part of the Eurasia Initiative and the Middle Corridor, three main routes shine out for their relative viability in terms of facilitating the trans-continental integration

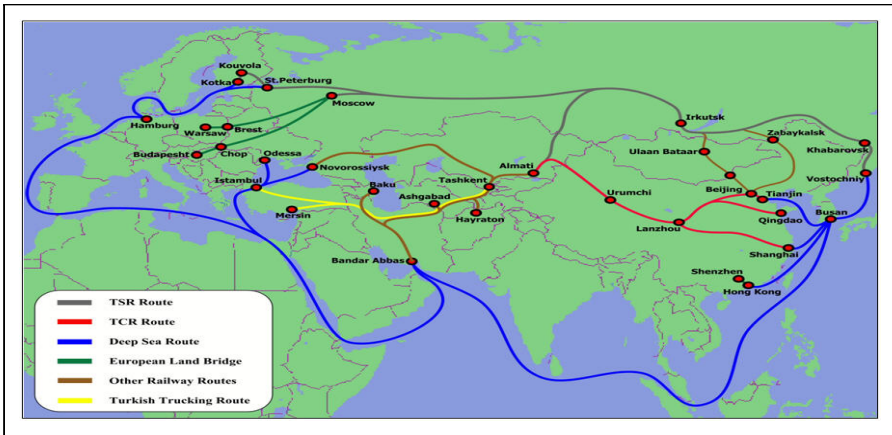
of railway networks. The first route envisions to connect South Korea to TSR through North Korea. This option would allow a further connection to the Middle Corridor via the Northern Corridor. It can be integrated with Turkey's national railway network through a southerly link that stems from the TSR, stretching along the North Caucasus and Georgia before entering Turkey. However, this route would need to cover a huge distance to reach Turkey, hence rendering the Middle Corridor rather unattractive and reducing its status to that of a peripheral, time-consuming alternative. Moreover, harsh winter conditions would undermine the Northern Corridor's feasibility for Turkey as an alternative route to reach China and Korea. North Korea's political situation would constitute yet another obstacle should Ankara and Seoul nevertheless insist on integrating their Silk Road projects via the Northern Corridor.

Seoul would need to prioritize a maritime link to the TSR in case Pyongyang continues to block the operation of the Rajin-Khasan route. Such would entail a ro-ro link between the South Korean ports of Pohang or Busan and the Russian port of Vladivostok, where containers shipped from Korea will be loaded to freight trains operating along the TSR. That would further complicate the matter, and make a railway link between the SRX and the Middle Corridor by way of a southerly branch of the TSR even more time-consuming and costly.

A second alternative would be connecting the Eurasia Initiative with the Middle Corridor through China. For that matter, the SREB pillar of the OBOR Initiative that China has announced is designed to facilitate China's economic and logistic integration with the rest of the Eurasian landmass, particularly its

Western end, through railroads and highways traversing Central Asia and the Middle East in the first place. China further plans to integrate other Asian countries including South Korea to its all-encompassing OBOR vision via the Maritime Silk Road. A connection between the Middle Corridor and the SRX via the Trans-China Railway (TCR) would mean faster transportation and reduced logistics cost vis-à-vis the first alternative involving the TSR.

Map 11. Eurasian Connectivity



Source: <http://logistics.antony.pe.kr/35>.

North Korea's political situation will retain its uncertainty also in the case of a future connection between the TKR and the TCR. The Shinuiju-Dandong railway route cannot be utilized should Pyongyang insist on its uncompromising attitude and maintain its closed-door policy. That would compel South Korea to consider a maritime connection with the TCR, hence longer transportation

time and higher costs. Establishing a block trade route for the shipping of containers between the South Korean ports of Incheon and Mokpo on the one hand and Chinese ports like Tianjin and Qingdao on the other would open a relatively feasible maritime channel between the TKR and the TCR. The SRX can be integrated to Kazakhstan's railway network via the TCR, and from there it can reach out to Azerbaijan through a trans-Caspian ro-ro link. The Baku-Tbilisi-Kars railway would then connect this route to Turkey. A link between the SRX and the Middle Corridor via the TCR would be shorter and less costly than any alternative involving the TSR. Furthermore, integration of the Middle Corridor with the SRX within the larger framework that is provided by OBOR should contribute to the more efficient resolution of any problems that may arise in the process, such as difficulties in infrastructure investment or financing.

Map 12. Eurasia Initiative Connectivity to the Northern and Southern Corridors



Source: http://www.lk-logistics.co.kr/bbs/board.php?bo_table=e01&wr_id=14.

Finally, a third alternative would be using the TCR and the Southern Corridor to establish a link between the Turkish and Korean Silk Road projects. In that scenario, South Korea's railway network would be connected to the TCR via either an overland route across North Korea or sea lanes for container shipping. This route would then connect TCR to Kazakhstan. Whereas this time the rest of the route would not involve a trans-Caspian connection but instead follow a southwesterly direction; passing through Kyrgyzstan, Uzbekistan, Turkmenistan, and Iran before reaching Turkey. The Eurasia Initiative can reach out to Turkey by using the existing railroad infrastructure in case the parties opt for the Southern Corridor.

However, this route covers a longer distance than the trans-Caspian alternative that involves Azerbaijan and the BTK, in addition to harboring risks associated with Iran's international isolation. Even though the P5+1 negotiations pertaining to Iran's nuclear program have resulted in a consensus in the first half of 2016, the parties are yet to reach an ultimate deal. On top of that, U.S.-Iran relations remain to be tense. In this respect, a choice in favor of the Southern Corridor can bring about political risks for Turkey and South Korea, both of which are close allies of the U.S. Therefore, while the Southern Corridor can still serve as a complementary route between Turkey and South Korea, its functioning as the main artery along the Silk Road between the two ends of Asia does not seem geopolitically viable. Besides, Ankara does not want to completely rely on Moscow or Tehran when it comes to strategic transport corridors that would serve as a gateway to the entire Asian continent. As a matter of fact, both Tehran

and Moscow have played an inhibiting rather than facilitating role as far as Turkey's opening to Central Asia in the post-Cold War period is concerned.

Table 3. Comparison of cooperation level of the Middle Corridor and the Eurasia Initiative

	Turkey Middle Corridor	Korea Eurasia Initiative
Relation with ODA	partial	partial
Political linkage	strong	strong
How much is it concrete?	initial stage	sophisticated as a project
Possibility	high	high
Type of cooperation between MC and EI	none	none
Compatibility between MC and EI	possible	possible

2. Areas of Cooperation under Various Silk Road Projects

Cooperation in transportation and infrastructure development:

The largest obstacle to enhanced regional trade and in-depth economic cooperation is the inadequacy of the infrastructure. Building new railroads and highways, establishing efficient airline connections, and setting up a regionally integrated transportation network will be very important steps in that regard. The improvement of the transport infrastructure will not only promote intra-regional trade, but also accelerate the pace of development for the Silk Road countries. Rapid development and decreasing unemployment rates will facilitate the creation of a common regional zone of prosperity.

Cooperation in the energy sector and the mining industry:

Korea has already reached a high stage of technological expertise as far as nuclear power plant construction is concerned. Therefore Seoul can improve collaboration with both Turkey and other regional countries in the construction of new nuclear power plants in those countries.

The Akkuyu nuclear power plant will be built by a Russian company, Rosatom, and the Sinop nuclear power plant will be built by a Japanese-French consortium (Mitsubishi-Areva). Still, in order to cope with its growing energy needs, Turkey is planning to build a 3rd and a 4th nuclear power plant in the future. And there is no doubt that Korea, which lost the Sinop nuclear power plant tender, will be one of the strongest candidates in the upcoming tenders for the new projects in question (Colakoglu 2015, p. 1). Korea is among the world's leading countries in renewable energy generation. And it can provide significant support in terms of establishing renewable energy facilities in both Turkey and other regional countries.

Educational and cultural cooperation:

It is extremely important to increase collaboration among universities, and the first step should be establishing the Silk Road exchange program for the creation of adequate human resources that will enable true integration in the region. A common exchange program among regional countries, rather than bilateral agreements, is deemed more preferable. For instance, the Erasmus

program in the case of European universities can be taken as a model for a Silk Road exchange program.

People-to-people exchanges between the Silk Road countries are still at an insufficient level. It is necessary to facilitate the free movement of people who wish to travel between Silk Road countries to conduct business, receive education, or for touristic purposes. Again, cooperation in the field of cultural industry – television, music, arts, cinema, and sports – can be promoted. In order to increase public awareness concerning the Silk Road vision, a mutual fund can be created to support movies and documentaries with relevant themes.

Security cooperation:

The border and territorial disputes between the countries of the region can be categorized as the traditional security issues. Distrust between neighboring countries also makes it particularly difficult to improve security cooperation between regional countries. Moreover, the lack of an organizational framework covering the whole region undermines regional countries' ability to settle disputes among them. Each regional organization like CICA, SCO, the Eurasian Union, ECO, the Turkic Council, etc. has its own particular agenda which makes it harder to discuss and resolve regional issues in a comprehensive and consistent manner.

The stability of Afghanistan is of great importance for the security of the Silk Road region. Turkey will continue to play a key role in Afghanistan in

the post-2014 period. The bilateral security agreement that was signed in September 2014 between Afghanistan and the United States is of great importance, as the "Resolute Support Mission," consisting of non-combatant troops primarily from NATO countries. After the deployment of 1,000 soldiers within the scope of such an international force, Turkey has become provider of the second largest number of foreign troops to Afghanistan. The continuation of Turkey's support for sustained stability, at least to a certain extent, in Afghanistan as a responsible partner in the country's future is very important, even if the total number of foreign forces deployed in the country is limited (Colakoglu and Yegin 2014, p. 9).

The preservation of Afghanistan as a fully sovereign state which can maintain stability within and along its borders is of vital importance for the development of transit routes and the successful establishment of a common regional economic zone within the framework of various project aimed at rejuvenating the Silk Road (Waissi 2014, p. 1).

Non-traditional security challenges are also on the rise throughout the region. International terrorist groups, illicit networks, human trafficking, arms smuggling, and narcotics all constitute a serious threat to countries in the region. A joint roadmap to fight against terrorism and trans-border crimes should be determined by regional countries and intra-regional solidarity should become the new norm if such threats are to be countered effectively.

VI. Conclusion

Turkey and Korea have upgraded their relationship to a highly intense level. At this stage, the two countries need to develop common strategies on a regional as well as global scale in order to add further depth and breadth to their mutual ties. Ankara and Seoul actively participate in global governance together with the rest of the leading economies in the world, and coordinate their efforts in relation to various issues of global concern within the framework of the G20. MIKTA, which is a conglomeration of five middle powers (namely Mexico, Indonesia, Korea, Turkey, and Australia) provides Ankara and Seoul an ideal platform to align their work under the G20's roof, while boosting their capacity to advance a joint agenda for the future of global governance (Colakoglu 2016b, p. 284).

Another channel for closer cooperation between Ankara and Seoul is available in the field of developing shared regional strategies. In that regard, the most salient window of opportunity rests with the prospect of multilateral integration with Central Asia, which spans a vast territorial space lying in between the two countries. Turkey's Middle Corridor and Korea's Eurasia Initiative shine out as two grand schemes that envisage trans-continental integration across Central Asia. However, the two initiatives have been developed independently, without paying regard to their mutual compatibility. The strategic objective that lies at the core of Ankara's endeavors within the framework of the Middle Corridor is to extend its reach to Central Asia and from there to the Chinese market

via an integrated overland channel of transportation and logistics. Any serious study is yet to be carried out pertaining to the task of linking the Middle Corridor to the Korean Peninsula, or South Korea in particular. As a matter of fact, even those studies that concentrate on how to render the Middle Corridor compatible with the OBOR are at their initial stage.

From an economic viewpoint, Seoul's push for the Eurasia Initiative has been essentially driven by an urge to ensure effective access to the markets of Russia, China, Mongolia, and Central Asia. South Korea further wishes to reach out to Northern Europe via Russia. The Northern Corridor apparently shapes the spine of this vision. In this respect, the idea of connecting the Eurasia Initiative to Turkey's Middle Corridor has been ignored by those studies that were carried out in Korea on how to make progress with the former. Nevertheless, it would represent a novel and feasible effort to mull over ways to integrate these two visionary initiatives by way of an efficient overland railroad link. This study can hopefully encourage further ones that concentrate on this momentous task.

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ISBN 978-89-322-2435-0
978-89-322-2064-2 (set)

Price USD 20

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