

2013 Knowledge Sharing Program with Russia Primorsky Territory

# 2013 Knowledge Sharing Program with Russia Primorsky Territory: Policy consultation to strengthen Russian economy's capacity

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Russia Primorsky Territory

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# Preface

This report contains the recommendations and guidelines for policies to strengthen Russian economy's capacity in the Primorsky Territory where has been selected as one of the partnership regions for the 2013 Knowledge Sharing Program (KSP). The report was prepared with the financial support of the Ministry of Strategy and Finance of the Republic of Korea.

Notwithstanding President Putin's tough-minded willingness and focused attention for socioeconomic development in the Primorsky Territory, the region undergoes difficulties in establishing the mid- and long-term economic development strategies. In the past eight months, research team for the 2013 KSP with Russia, Primorsky Territory, attempted providing customized development direction while exploring new growth opportunities for economies in the region. 2013 KSP with Russia, Primorsky Territory, entitled 'Policy Consultation to Strengthen Russian Economy's Capacity' focused on the following three topics: Reorganization of the Administrative System to Improve the Investment Promotion Climate in the Primorsky Territory, Capacity Building for Primorye Investment Promotion Agency (PIPA), Review and Detailed Planning on the "Socio-Economic Development Program (Draft) of the Primorsky Territory in 2013-2017"

I would like to take this opportunity to express my sincere gratitude to Senior Advisor of 2013 KSP with Russia, Dong-kyu Shin, for his support throughout this Program. Also, I would like to extend my deepest appreciation to Sangwon Kim, Jaeshin Park, Gongpil Choi, Sangjoon Lee, Hyejeung Ryu, Jincheol Jo for their efforts to conduct in-depth research for this report. I appreciate the Ministry of Strategy and Finance (MOSF), the Ministry of Foreign Affairs (MOFA), Korea Development Institute (KDI), Department of Economics in Primorsky Territory, and Primorye Investment Promotion Agency for their active cooperation and great support. I am grateful for the helpful comments and discussion provided by referees and our consultants. Last but not least, special thanks go to Program Officer Yunhee Choi and all of the members of the Institute of Eurasian Studies (IES) for their hard work and dedication to the Program.

I believe that knowledge and experience shared through the Program would be a valuable asset in policy making process in the Primorsky Territory. Also, I hope the final research results including policy recommendations would be reflected to accelerate economic development in the region.

Finally, policy recommendations, statements of fact, or analysis expressed in this report are the responsibilities of the authors alone and therefore do not reflect the official positions or views of the IES, MOSF, KDI or their respective institutions.

Yoonhee Kang  
Director/ Professor  
Institute of Eurasian Studies  
Kookmin University



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## **2013 KSP with Russia Primorsky Territory**

*Yunhee Choi (Program Officer, Institute of Eurasian Studies)*

The Ministry of Strategy and Finance (MOSF) of the Republic of Korea, in collaboration with the Korea Development Institute (KDI), has been implementing the Knowledge Sharing Program (KSP) with selected development partnership countries since 2004 with the overarching goal to assist in enhancing national competitiveness and the institutional restructuring efforts of partnership countries by sharing Korea's development experience.

The 2013 KSP with Russia, Primorsky Territory, has been entrusted to the Institute of Eurasian Studies (IES) at Kookmin University (KMU). The IES has conducted the Program in close cooperation with the Department of Economics in the Primorsky Territory and Primorye Investment Promotion Agency (PIPA).

The KSP with Russia, Primorsky Territory, has been initiated in 2013 as the Primorsky Territory government applied proposal for the 2013 KSP with a list of requested project titles for consideration. The main topics have been selected after careful consideration of the Primorsky Territory government's request and close consultation between the IES and the Primorsky Territory government. Selected three consultation topics and Korean researchers for each topic are as below:

〈Table 1〉 The 2013 KSP with Russia Primorsky Territory

	Consultation Topics	Korean Researchers	Russian Researchers
1	Reorganization of the Administrative System to Improve the Investment Promotion Climate in the Primorsky Territory	Dr. Sangwon Kim	Kuznetsov V.S.
		Dr. Jaeshin Park	
2	Capacity Building for Primorye Investment Promotion Agency (PIPA)	Dr. Gongpil Choi	Erohin A.V
		Dr. Sangjoon Lee	
3	Review and Detailed Planning on the "Socio-Economic Development Program(Draft) of the Primorsky Territory in 2013-2017"	Dr. Hyejung Ryu	Abramov A.L
		Dr. Jincheol Jo	
	Role	Name	
	Program Manager	Dr. Yoonhee Kang	
	Program Officer	Ms. Yunhee Choi	

As the first stage of the KSP, the Demand Survey and Pilot Survey Study were carried out from 21 to 24 August, 2013 (13-16 October for the 3rd topic, Review and Detailed Planning on the "Socio-Economic Development Program(Draft) of the Primorsky Territory in 2013-2017"). The Korean expert group headed by Mr. Dong-oh Nam, Director of the Team KSP, MOSF, visited Vladivostok, Russia to meet high-level government officials and specialists, and to identify policy priorities of the Primorsky Territory government.

As the next stage, the Interim Reporting & Policy Practitioner's Workshop was held in Korea from 12 to 15 November, 2013 for the purpose of presenting interim findings and sharing comments. The Russian delegation headed by Mr. Nikolay Dubinin, the Director of the Department of Economics in Primorsky Territory, travelled to Seoul. A total of 5 representatives from both the government and business sector actively participated in seminars at KDI, KOTRA and IFEZ and the Interim Reporting during their visit.

As the final stage of the KSP, the Korean delegation headed by Mr. Ho Geun Lee, Director of the Team KSP, MOSF, visited Vladivostok, Russia for the Senior Policy Dialogue and the Final Reporting Workshop to share final findings with the Russian senior policy-makers and other stakeholders related to the topics. The researchers of each topic successfully presented their research findings and suggestions to around 40 audience members, which include Russian government officials. For the Senior Policy Dialogue, Dr. Dong-kyu Shin, Senior Advisor of the 2013 KSP with Russia, Primorsky Territory, and Korean experts had a meeting with

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Mr. Aleksandar Kostenko, First vice-governor of the Primorsky Territory, to discuss its research findings and possibilities to apply suggestions from the final report to decision-making in the Primorsky Territory government.

# Executive Summary

*Yoonhee Kang (Kookmin University)*

## 1. Overview

Vladimir Putin, who was inaugurated as president of Russia on May 7, 2012, is actively promoting political stability and economic development to solidify his power during his third presidential term. As evidenced by the large-scale protests immediately before and after the 2011 general election and the 2012 presidential election, Putin has lost the support of the public. Much concerned about the current situation, Putin has decided to take political and economic measures to rally the citizens.

First of all, Putin has accepted some of the requests of political reform. He amended the Political Party Law making it easier for people to establish a party and for the party to participate in the election. Also, here instated the direct election system for the governors and the heads of the 83states, which was abolished in 2004. Lastly, Putin has required that half of the parliamentary seats of the State Duma, which is 225seats, are filled by the representative from each constituency. On the other hand, Putin set out to oppress opposition forces critical towards the Putin administration. The conviction of Alexei Navalny, a leader of the anti-Putin and anti-corruption movement, for embezzlement is a good example of the oppression effort. Consequently, social turmoil and resistance in the beginning of Putin's third term have visibly decreased.

United Russia, the ruling party that filled a majority of the parliamentary seats

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during the 2011 presidential election, strongly supports the Putin administration. United Russia has held a majority of the seats in most of the elections at local assemblies since 2012. Elections for heads of local governments have had similar results: for example, Sergey Sobyenin was elected mayor of Russia in September 2013. On top of that, Putin formed the People's Front for Russia to rally his supporters and is exercising his power through the organization. At this moment, it is very hard for opposition forces to show their political power as the Putin administration is firmly backed by United Russia, a pro-Putin party, and by organizations such as the People's Front for Russia.

Furthermore, the Putin administration launched an anti-corruption campaign in 2013 to gather the public together and unite the nation. Insisting on eradicating corruption, the president has prohibited Russian state officials from holding foreign bank accounts and has made property disclosure mandatory for them. He also prohibited congressmen from holding additional positions. All of this can be considered an effort to clean up the administration, but the effect will be very limited if politics and business in Russia continue to have cozy relations. Nevertheless, such gestures from the government could bring minor results such as tightening discipline among the government officials.

Another noteworthy change of the third Putin administration is the willingness to develop the Russian Far East and Siberia. Putin has announced that the economic development of the Russian Far East is Russia's most important geopolitical challenge, and he is visibly exerting more effort than the previous administration: Putin created the Ministry for the Development of the Russian Far East when he formed his first Cabinet after his inauguration. The Asia-Pacific Economic Cooperation (APEC) Leaders' Summit was hosted in Vladivostok in September 2012 with the topic of "Unity for Development, Innovation for Prosperity," and Vladivostok has been the center of development since then. In addition, the Ministry for the Development of the Russian Far East announced the "State Program of the Russian Federation on Socio-Economic Development of the Russian Far East and the Baikal Region by 2025" on March 29, 2013.

These measures came from the desire to gain momentum for the economic growth of Russia and to achieve balanced development between regions by improving the Russian Far East and Siberia, which is comparatively lagging behind. What is important here is that Russia is looking to reinforce economic cooperation with Asia-Pacific for the development of the Russian Far East and Siberia. In July 2012, Putin emphasized the relationship between Asia-Pacific economic cooperation and the Russian Far East development by stating, "Russia's participation in Asia-Pacific integration will bring positive effects on the socio-economic development of the Russian Far East and Siberia." The Russian government, in fact, designated

Vladivostok, the capital city of the Primorsky Territory, as the hub for Asia-Pacific, and created an industrial complex. Also, it is promoting large-scale investment as well as foreign capital inflow and seeking the active participation of Asia-Pacific nations.

As already stated, the development of the Russian Far East means more than just regional development: it is a bridge for Russia into Asia. The Valdai International Discussion Club, a forum for Russian intellectuals, has submitted a proposal that Russia should make Vladivostok the capital city of the East just as Peter the Great established Saint Petersburg to modernize Russia through westernization. This suggestion underlines the fact that the economy of Asia-Pacific is growing faster than the economy of Europe, which has been the conventional economic partner of Russia. As a matter of common knowledge, Asia-Pacific has the most rapid economic growth in the world. Therefore, Russia, which borders Northeast Asia, is naturally interested in being associated with Asia-Pacific to gain momentum for its own growth. In this regard, the Putin administration cannot help but make the development of the Russian Far East and Siberia the highest priority.

## 2. Economy

Russia is full of potential: it boasts the largest territory in the world, abundant natural resources, world-class technology, and an educated workforce. Although economic conditions suffered greatly after the collapse of Soviet Union in 1991, Russia maintained a 7% year-round economic growth rate in the 2000s due to its political stability and the rise of international oil price. The economy, however, suffered again after the global economic crisis in the latter half of 2008. Russia took the biggest hit among all the BRICS nations, and the economy recovery has been slowly underway since the late 2009. While its economic growth was 3.4% in 2012, its annual GDP growth rate for 2013 was expected to be around 1.8%. Russia's financial gap, however, decreased by 3.8% of GDP in 2013, and the reserve fund of the Central Bank of Russia exceeded USD 500 billion, which indicates quite good fiscal health.

Due to a decreasing and aging population, high dependency on resources, and lack of innovation, there is a concern that growth will be slow in the long run. For that reason, Russia is focusing on resolving challenges such as population decrease, balanced local development, and job creation; establishing a new economic system; and improving cooperation in Eurasia.

Internally, the government is pursuing privatization of public enterprise, improvement of the investment climate, tax reform, R&D reinforcement, and



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improvement of regional distribution differences. Externally, the government is putting efforts into maximizing the benefits of World Trade Organization (WTO) membership; establishing the Eurasian Economic Union, which would unify the Commonwealth of Independent States (CIS) economic bloc based on the customs union between Russia, Belarus, and Kazakhstan; strengthening cooperation with BRICS nations; signing a free trade agreement with, for example, the CIS, Serbia, New Zealand, Vietnam, and Chile.

Along those lines, the Russian government is also trying to come up with policies that would shift the focus from natural resources such as petroleum and natural gas to foreign investment. The Putin administration is very proactive about improving the foreign investment climate, and the Ministry of Regional Development, the Ministry for the Development of the Russian Far East, and other regional governments are actively hosting investment briefings overseas and trying to resolve the bureaucratic ills related to foreign investment.

〈Table 1-1〉 The Leading Economic Indicators of Russia, 2010-2014

	Economic Indicators	Unit	2010	2011	2012	2013	2014
Domestic Economy	GDP	USD 100 Million	6,855	8,302	9,217	10,099	11,040
	GDP per Capita	USD	1,105	1,320	1,446	1,490	1,597
	Growth Rate of Real GDP	%	8.1	8.0	7.9	8.3	8.0
	Industrial Production Growth Rate	%	16.8	13.0			
	Gross Domestic Investment/GDP	%	33.6	39.0			
	Unemployment Rate	%	2.4				
	Financial Earnings and Expenditure / GDP	%	-4.7	-2.1	-2.6	-4.5	-4.7
	Consumer Price Growth Rate	%	6.0	7.6	4.3	7.3	9.4
Foreign Transactions	Exchange Rate (Per Dollar, Year-round)	CR	8,259	8,030	8,013	7,876	7,818
	Current Account	Million (USD)	29	-206	-314	-484	-493
	Goods Balance	Million (USD)	-314	-700	-800	-900	-1,000
	Export	Million (USD)	1,746	1,700	1,900	2,300	2,700
	Import	Million (USD)	2,060	2,400	2,700	3,200	3,700
	Service Balance	Million (USD)	248				
	Capital Balance	Million (USD)					
	FDI Net Inflow	Million (USD)	279	301	294		
	Foreign Exchange Reserve	Million (USD)	703	741	781		
Foreign Debt	Total Foreign Debt Balance	Million (USD)	6,039	6,882	8,110	9,674	11,424
	Short-Term Foreign Debt	Million (USD)	54	57	85		
	Total Foreign Debt Balance/GDP	%	88.1	82.9	87.5	94.2	102.0
	Foreign Debt Redemption/Gross Export	%	12.2	8.1	9.1	8.4	9.3

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### 3. Development Plans for the Russian Far East, Siberia, and the Primorsky Territory

The development plan for the Russian Far East and Siberia started before Putin's third term. In 2009, the government adopted the "State Program of the Russian Federation on Socio-Economic Development of the Russian Far East and the Baikal Region by 2025" and suggested an outline for regional development. It also adopted the special federal programs: the "Socio-Economic Development of the Russian Far East and Transbaikalian Region by 2018" and the "Socio-Economic Development of the Kuril Islands 2007-2015." Furthermore, the Russian government has established the "Development Funds for the Russian Far East and Baikal Region" in November 2011.

The development of the Russian Far East has never been more active than since Putin's return to the presidency in 2012. Currently, the Ministry for the Development of the Russian Far East, which was launched in May 2012, is responsible for the main tasks for Russian Far East and Siberian development. In November 2012, the Ministry for the Development of the Russian Far East submitted 92 projects to Vnesheconombank (Bank for Development and Foreign Economic Affairs), which include modernizing and repairing the Baikal-Amur Mainline (BAM) and the Trans-Siberian Railway (TSR), connecting the Trans-Kalahari Railway and the Russian railroad network, building a bridge between Sakhalin and the mainland, and building airports and ports in the Russian Far East. The projects would cost RUB 5 trillion (approx. USD 159 billion) in total. Finally in March 2013, the "State Program of the Russian Federation on Socio-Economic Development of the Russian Far East and the Baikal Region by 2025" was chosen among the projects. To support this project, the Russian government is examining to establish public enterprises, give tax exemptions to enterprises, mine and process based on clustering obligation, and construct transportation infrastructure and energy supply infrastructure.

Developing Eastern Siberia has its fundamental challenges: First, an economically advantageous environment should be established based on the potential of the region. Second, a system for reliable population inflow is needed around the economically-advanced areas. Third, competitiveness should be increased through socio-economic unification with other areas and governmental policies. Fourth, sufficient manpower should be secured and the quality of labor should be improved. Fifth, the traditional lifestyle of the natives should be maintained and supported.

The development strategies can be divided into three phases: exceeding Russia's current investment rate by 2015; launching a large-scale energy project to overcome the infrastructure barrier and increasing highly-processed-products exports between

2016 and 2020; and completing socio-economic development of the Russian Far East to integrate into the world economy in the last phase from 2021 to 2025.

The Primorsky Territory is being developed in focus as the hub of the development of the Russian Far East and Siberia. Following the APEC Leaders' Summit, a special program "Vladivostok, Hub for the International Cooperation with Asia-Pacific Region," was implemented. As a result, a total of RUB 679.3 billion (approx. USD 21.3 billion, KRW 24 trillion) was invested in the Vladivostok area, and major construction and upgrades of transportation, urban environment infrastructure, and development facilities were performed. The Primorsky Territory government adopted the Primorsky economy development program as a follow-up measure to the APEC Leaders' Summit, and it has been active since 2013. The goal of this program is to increase economic effectiveness in the Primorsky Territory and to improve the investment climate in order to enable economic growth without dependence on governmental support.

When Putin visited Sakhalin in July 2013, he strongly supported development in the Russian Far East. Putin also encouraged the Minister for the Development of the Russian Far East to be more active on development when he was visiting Vladivostok on August 31, 2013. Therefore, it is expected that the development of the Russian Far East will be accelerated in the future.

## 4. 2013 Knowledge Sharing Program with Russia, Primorsky Territory

The 2013 Knowledge Sharing Program (KSP) with Russia, Primorsky Territory is the first project between Korea and Russia. The target of the KSP was the Department of Economics in Primorsky Territory and the Primorye Investment Promotion Agency (PIPA). The Russian federal government is currently actively promoting foreign investment as a way to boost economic growth, and it is urging regional governments to follow the lead. Most of the projects suggested by the Ministry for the Development of the Russian Far East and local governments are based on a private-public joint investment. The difficulty in raising funds domestically means that attracting foreign investment is almost required. The Primorsky Territory government needs significant foreign capital to implement all the projects at both the federal and local levels.

The Primorsky Territory government needs to improve the investment promotion climate in the Primorsky Territory and strengthen the capability of PIPA; based on which capability it can implement the strategies for the socio-economic development of the Primorsky Territory. These concerns are reflected in the three

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tasks chosen by the KSP Research Team and the Primorsky Territory government: reorganizing the administrative system to improve the investment promotion climate of the Primorsky Territory, strengthening the capability of PIPA, and assessing and creating detailed implementation plans for the “Socio-Economic Development Program(Draft) of the Primorsky Territory in 2013-2017.” The KSP Research Team covered the three tasks from a foreign investor’s point of view and tried to come up with appropriate and realistic policy proposals for Russia based on the experience of Korea. In other words, efforts were made to provide feasible solutions to improve the investment climate of the Primorsky Territory, accounting for its socio-economic conditions. The KSP is significant in that it provided a great opportunity to share Korea’s experience and strengthen the cooperation with the regional and federal governments. The researchers had this significance in mind and tried to reflect the demand of Russia as much as possible. The main policies by task are as follows:

## 4.1 Reorganization of the Administrative System to Improve the Investment Promotion Climate of the Primorsky Territory

Despite its abundant resources and advantageous geographical location, the Primorsky Territory has its own issues, such as a decreasing population, and a lack of social and economic infrastructure. It also depends heavily on the federal government. The Primorsky Territory, however, still has significant potential to grow into a hub of Northeast Asia with the attention of and support from the federal government. The major areas for investment on which the Primorsky Territory government has decided are the fuel industry, the energy industry, transportation and logistics clustering, a tourism and resort complex, a highly efficient manufacturing industry and innovation, the foods industry, and the fishery processing industry. There has not, however, been significant investment yet.

The Primorsky Territory government is planning to reform the administrative system to increase foreign investment in the Primorsky Territory. The current administrative system of the Primorsky Territory is as follows:

PIPA was established to take charge of investment promotion for the region. The strategies and policies for their promotion activities come from the Agency for Strategic Initiatives (ASI), which was established by the federal government. In December 2013, the federal government established the Russian Investment Promotion Agency (RIPA) under the Ministry of Regional Development to integrate similar functions. Also, the Ministry for the Development of the Russian Far East announced to set up another base for the Ministry in Vladivostok in addition to the existing ones in Moscow and Khabarovsk. The Ministry for the Development of the

Russian Far East has expanded its capacity and solidified its position for promoting development of the Russian Far East including the Primorsky Territory, which expansion resulted in a power transfer from the Ministry of Regional Development and the Ministry of Economic Development to the Ministry for the Development of the Russian Far East. Likewise, investment promotion in the Primorsky Territory has a very complicated administrative system: responsibility is divided between federal government organizations, such as the Ministry for the Development of the Russian Far East and RIPA under the Ministry of Regional Development, and regional government organizations, such as PIPA. This complexity is perhaps inevitable since Russia is a federation, but is also caused by, for example, overlapping and redundant tasks among administrative institutions. From the point of view of potential investors, understanding the complex administrative system and obtaining help once they decide to invest is difficult.

To make policy proposals to the Primorsky Territory government, Korea's reformed administrative system was studied. In the case of Korea, the investment promotion tasks are handled by the central government (Foreign Investment Commission), the national investment promotion agency (Invest KOREA, "IK"), the Foreign Investment Ombudsman, local government bodies, and free economic zones (FEZs), either independently or cooperatively. Among them, the actual support tasks for foreign investors and investment companies are handled by IK. In addition, foreign investment promotion offices are established at the Foreign Investment Ombudsman and local governments. Also, the Korean government has designated FEZs to actively attract foreign investment.

Here are the administrative system reformation plans for the Primorsky Territory government. First, as there are only few laws and regulations under the jurisdiction of the Primorsky Territory government, efforts to change and improve the investment climate should happen at the federal level. This may require a proactive approach, and when necessary, negotiations with the federal government. Achieving a single window service for investors is practically impossible without the administrative and financial support from the Primorsky Territory government, and a shift in the mindset of the government officials who are in charge of foreign investment.

Second, organizing a foreign investment policy committee with the federal government and holding investment promotion strategy meetings are recommended. The goal of the committee should be to reduce the disparities between federally-regulated foreign investment policies and locally-regulated foreign investment policies. Also, the committee should guide organizations and agencies to set policy and tasks that go beyond departmentalism to fully promote regional economy. In other words, the committee should conduct promotion



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activities at the pan-governmental level to help the Primorsky Territory government overcome its limit as a regional government.

Third, the Primorsky Territory government needs to benchmark its progress against external standards such as the World Bank Group's DoingBusinessreport and the Organisation for Economic Co-operation and Development's (OECD) product market regulation index on the competition environment and New Business Density indicators on business activities to advertise its achievements. That is, the Primorsky Territory is still evaluated as risky in terms of guaranteed economic activity rather than as hopeful based on the economic potential. To overcome this challenge, it should continuously publicize and announce current market changes, legal protection, and administrative changes regarding economic activity. Also, the Primorsky Territory government needs to let investors know that the regional and federal governments are proactively utilizing a self-improving system based on the regional investment standard administered by the Agency for Strategic Initiatives (ASI).

Fourth, it needs to build an investor-centric investment information system and to constantly provide current information about the general investment process. One of the main goals of foreign investment promotion is attracting high-quality investors. In other words, customer management is the key. Therefore, it should advertise the market value of the Primorsky Territory to current and potential investors. A system that constantly feeds investment-related administrative and other relevant information and conveniently provides the data that the investors need would be a great tool for that purpose.

## 4.2 Strengthening of the Capability of PIPA

The Primorsky Territory government established PIPA in November 2012 to attract investment to the region, remove any administrative barriers, and create an investment-friendly image. Although it is still in its early stages, its service has greatly improved. Its services, however, are limited to some consulting and other basic services because there is no legal and systematic foundation regarding foreign investment. Overall, it seems that PIPA is lacking comprehensive services that potential investors need, such as information access, information processing, and dispute resolution.

The investment promotion-related experience in Korea could be very helpful to strengthen the capability of PIPA. The IK and Incheon FEZ cases provide both positive direction and precautions. IK provides information services, foreign investment support, follow-up services, and consulting services. Information services include materials for investment feasibility studies; materials on the investment

process; expert advice on law, tax, and accounting; and proposals focusing on the key information that investors want to acquire. Foreign investment support includes target enterprise discovery, investment review, investment planning, making investments, consulting, and follow-up management for potential investors and investment projects. Also, IK passes on investor feedback to the authorities to constantly improve the investment climate. It operates an investment ombudsman system for follow-up management, such as allowing the ombudsman to help investors obtain the necessary permissions for foreign investors and waiving enforcement embargoes. It also has a foreign grievance settlement body to track all the cases and to provide one-on-one service until the case is resolved. This is also known as the “Home Doctor” service.

On the other hand, the Incheon Free Economic Zone Authority is focusing on foreign investment promotion through capacity-building. First, it hired investment promotion experts to resolve the foreign investors’ challenges in a timely manner. The external experts provide systematic and professional consulting about the entire investment process required to invest in Korea. Second, it offers consistent information by consolidating different communication channels. The seconded government officials from the Ministry of Justice, National Tax Service, Korea Customs Service, courts, and other government bodies provide consistent and uniform messages through the Investment Consulting Center to avoid any confusion that foreign investors might have about the investment process. Third, the Authority provides more comprehensive consulting by providing single window service. Through the Authority, investors can receive free consulting services for the entire investment process, including preliminary investment consulting, administrative processing during the investment, and settling in Korea.

Based on the experiences in Korea, the policy advice for PIPA is divided into two areas: structural capability strengthening and functional capability strengthening. First, strengthening the legal and systematic base for foreign investment promotion is an example of structural capability strengthening. PIPA needs to be legally recognized as the dedicated foreign investment promotion agency in the Primorsky Territory in order to support investment-related activities such as targeting foreign investment companies, supporting investment projects, and providing follow-up services for foreign investment companies.

Second, a multilateral investment cooperation system is needed. PIPA needs to strengthen its cooperation with the World Bank, the Asian Development Bank (ADB), and the International Finance Corporation (IFC) to have a risk-sharing system. Also, PIPA needs to know the type of investment in advance so that it can turn the investment into a long-term investment.

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Third, PIPA needs to strengthen its organizational structure and human capability. PIPA needs to adopt an open structure for human resources by bringing in experts from the private sector who understands the market, such as overseas experts. Also, PIPA should designate an official consultant for each project to provide reliable investment-related services. To maximize the capability of the organization, a merit-based incentives program is needed. A good example of a merit-based system can be found in the case of Korea. Also, considering that the countries interested in investing in the Primorsky Territory are South Korea, China, and Japan, PIPA needs to have dedicated contact points to promote investment by these countries.

To strengthen PIPA's working level capacity, PIPA should arrange training programs targeting PIPA employees. It is recommended that PIPA enter a memorandum of understanding with related organizations in Korea, such as the Korea Development Institute (KDI).

Next are some policy proposals on strengthening the functional capabilities of PIPA. First, it needs to strengthen its target-oriented investment promotion support. In order to do so, it must have clear targets per socio-economic development program, country, investment scale, and industry. Then, the goals should be categorized by period: short-term (one year), mid-term (three years), and long-term (five years or longer). Achievements should be evaluated annually to modify goals and to compensate for defects. PIPA needs to adopt a management by objectives (MBO) process in its evaluation.

Second, close foreign investment support services should be strengthened. PIPA needs to provide consulting services, such as an information service and consultations on the investment process, legal issues, tax, and accounting, to support feasibility studies for foreign investors. Here, they should create a systematic support manual to provide more comprehensive single window service with follow-up support like targeting companies, reviewing investments, planning investments, and making investments. Furthermore, PIPA should regularly get feedback from investors and try to respond to feedback.

Third, information services should be strengthened. PIPA needs to collect and manage investment information and statistics regularly and strengthen its information-sharing capacity. To further promote investment by neighbor countries, its Russian database should also be available in English, Korean, Chinese, and Japanese, and also make translation and interpretation services available.

Lastly, promotion needs to be strengthened. PIPA should systemize investment promotion marketing activities to attract investments in nearby areas. To expose

itself to promising overseas investment companies, PIPA should strengthen promotion by utilizing measures such as investment briefings and commercials. Partnering with economic organizations in neighbor countries like the Federation of Korean Industries, China Enterprise Confederation, and Japan Business Federation would be especially helpful with promotion activities like investment briefings.

### 4.3 Assessment and Creation of Detailed Implementation Plans for the “Socio-Economic Development Program(Draft) of the Primorsky Territory in 2013-2017”

The final report of the “Socio-Economic Development Program(Draft) of the Primorsky Territory in 2013-2017” (“2013-2017 Development Program(Draft)”), reviewed by the Primorsky Territory government, consists of the report and two appendices. The main text consists of eight chapters about status evaluation, outlook, goals, challenges, priority of the policy, the program implementation system and structure, resources, evaluation of effectiveness, and the socio-economic development status of the Primorsky Territory. More than three-quarters of the report are dedicated to analyzing the current status and setting strategic goals. Appendix 1 describes key investment projects by region, and Appendix 2 describes the 117 key investment projects by industry. There are a total of 117 projects.

In addition to the “2013-2017 Development Program(Draft),” the Investment Portal of Russian Regions, the Investment Portal of the Primorsky Territory (PIPA), the Ministry of Regional Development, the Ministry of Foreign Affairs, and the Primorsky Territory government each has a list of main investment projects that are slightly different from one another, causing confusion. Each list has different developers, project sizes, and project statuses, and a number of errors. In addition, these investment project lists are created to focus on the socio-economic effects at the time of implementation rather than the implementation methods, making it hard for investors to collect enough information to make their decisions.

Therefore, for detailed implementation plans of the “2013-2017 Development Program(Draft),” there should first be a distinction between budget items and non-budget items. Second, infrastructure projects should be classified as a budget item and they should be the first investment. Third, sectors that can further secure the industrial predominance of agriculture and fisheries, such as the processing industry, derivative industries, and the construction of the related distribution infrastructure, should be the next investment. Fourth, long-standing energy-projects and other idle projects, labor-intensive projects, and high-tech and other industrial projects with weak industrial predominance should be designated as a long-term task.

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Meanwhile, to enhance the feasibility of investment projects in the Primorsky Territory, the following short- to mid-term measures should be taken. To promote foreign investment, increase Public-Private Partnership-based (PPP) investments; classify infrastructure and construction projects as budget projects; provide more policy funds to the investors of the Primorsky Territory; introduce specific and active promotion strategies, such as joint partners; and educate and train civilian expert groups.

With regard to projects attracting foreign investment, the suitability of foreign investments and project statuses have been assessed by analyzing the 10 projects often mentioned for foreign investment promotion and the seven projects which the Primorsky Territory government proposed for a review. In particular, the Russky Island Technopark Project is analyzed in view of a need for growth poles through the fostering of the manufacturing industry and through the clustering of different sectors within the manufacturing industry; the "Zelenye Listya" Innovative Agrocomplex (Green Leaves) Project is analyzed from a view of development strategies for agricultural regions as part of balanced regional development; and the Fisheries Cluster Formation Project is analyzed in view of developing a fisheries cluster. Furthermore, the effects and prospect of the visa waiver agreement between Korea and Russia and the Primorye Tourism & Recreation Zone are analyzed in view of increasing cooperation for the tourism industry. The results revealed that most of the projects did not clearly indicate, for example, project developers or the project structure, not to mention their validity. A conclusion can be drawn here that without addressing these issues, attracting foreign investment for these projects will likely be impossible.

As for mid- to long-term strategies, the potential of the regional clustering of the Primorsky Territory is examined, and the development direction of the Primorsky territory is provided.

The review on the "2013-2017 Development Program(Draft)" showed that the growth poles were being poorly treated. By strategically promoting the fostering of the poorly-performing manufacturing and services industries through regional clustering, the Primorsky Territory needs to form an organic relationship between industries, as well as set long-term develop strategies through agglomeration economies that will contribute to the vitalization of the market economy.

The policy recommendation with regard to the clustering of the Primorsky Territory is based on Korea's past development. Korea's development is an effective display of growth poles through the development policy of the manufacturing industry in the 60s and the 70s, as well as clustering from the 70s to the 80s. The promotion policy of the service industry in the 2000s and beyond also played a

role in the vitalization of FEZs. In other words, the socio-economic development of a region and clustering are closely interlinked in terms of space. Each regional cluster has been recommended in reference to Korea's clustering practices, such as the formation of the Masan Free Trade Zone, which took advantage of the manpower and logistics transportation along the border and coast; the creation of the agroprocessing industrial complex to promote the manufacturing industry of agriculture; the designation of the Incheon Free Economic Zone to promote the logistics and service industry; and the creation of heavy and chemical industry of Ulsan.

The projects under the "2013-2017 Development Program(Draft)" were clustered by district into four major regions. First, the Troitsa Bay district centered on Khasan, Posyet, and Zarubino is a border area to countries such as North Korea and China, and shows a high possibility to develop into a distribution base and a free trade zone in the future. The Ussuriysk district is recommended to become an agroprocessing industrial cluster for the agricultural industry; the area around the Nakhodka port is suggested to be used as a cluster for the heavy and chemical industry; and the Vladivostok district is found to be fit to become a cluster for the tourism and service industries.



# Reorganization of the Administrative System to Improve the Investment Promotion Climate in the Primorsky Territory

1. The Investment Climate of the Primorsky Territory and Needs for Improvement
2. The Current Situation of the Primorsky Territory's Administrative System for Investment Promotion
3. Korea's Reformation on the Administrative System for Investment Promotion
4. Restructuring Measures of the Administrative System for Investment Promotion in the Primorsky Territory



# Reorganization of the Administrative System to Improve the Investment Promotion Climate in the Primorsky Territory

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## Summary

The influence of foreign investment goes far beyond just contributing to the economic growth of a country; it directly affects regional development. When the industries based in regions meet the investment and employment generated by FDI, industrial clusters are created, increasing the degree of integration for the regional economy. For this reason, more and more countries are taking active administrative measures through the federal and local governments to promote foreign investment. Korea had also gone through a period of transition in the late 90s, and shifted its policy from regulation-based to a policy that reflects market principles. In the Primorsky Territory in Russia, the local government approved "The Socio-Economic Development Program(draft) of the Primorsky Territory in 2013-2017" and is building an active administrative system for support. This policy consultation has been carried out, based on the experience of developing and operating an administrative system for foreign investment promotion in Korea, to identify policy recommendations that would benefit the Primorsky Territory government of Russia.

The Primorsky Territory government has recently established its dedicated Investment Promotion Agency, and is supporting the activities of the agency by forming a high-level commission within the local government. Furthermore, the Primorsky Territory government recognizes the importance of cooperation with foreign investment-related federal government bodies, such as the Ministry of

Economic Development, the Ministry of Regional Development, and the Ministry for the Development of the Russian Far East, and is seeking ways to further strengthen its relations. There are, however, limitations for a regional government when it comes to the authority of policy-making, and the Investment Promotion Agency being at its early stage, the cooperation level between the federal and the regional government shows room for development.

As a result of reviews on the administrative system to promote foreign investment in the Primorsky Territory, this policy consultation recommends to improve the local government's operation to better communicate with the federal government. While establishing a new department or a new agency could be a step forward, this report emphasizes that making the most out of the existing administrative system is more important and, in order to do so, it is indispensable to enhance and upgrade the competency of its manpower.

Specifically, this report suggests that the roles and functions of the Primorye Investment Promotion Agency needs to be re-established, and multi-dimensional governance structure with the federal government needs be implemented for the promotion of foreign investment. For continuous capacity-building, it is recommended to develop a performance-based incentive system, and use globally recognized indicators as benchmarks for objective performance evaluation. From a long-term point of view, any success or failure of the foreign investment promotion shall be determined by how much market-oriented incentives can be provided to foreign investors. Therefore, this report concludes that the Primorsky Territory government's strengthening the close cooperation system with the federal government, who holds the key to such policy-making, is most important.

## 1. The Investment Climate of the Primorsky Territory and Needs for Improvement

### 1.1 The Investment Climate of Russia and the Primorsky Territory

#### 1.1.1 Current Situation

In the mid-90s, Russia designated 11 areas, including Kaliningrad, Nakhodka, Sakhalin, and Sheremetyevo, as free economic zones (FEZ) to promote foreign investment. Enterprises operating within FEZs were given administrative benefits as investment incentives. Following the 1998 Russian financial crisis, however, Russia's foreign investment policy became passive. Instead of providing extra incentives on taxes or expanding the operation of FEZs, selective preferential measures were

given to particular regions or industries.

In the 2000s, which included the first and second terms of President Vladimir Putin, Russia was economically well-off with rising international oil prices; however, its policy on foreign investment was not so friendly. On May 5, 2008, the federal Procedures for Foreign Investments in the Business Entities of Strategic Importance for Russian National Defence and State Security became effective, limiting foreign investment in strategically significant sectors for the purposes of national defense and state security. While the law brought the negative effect of further tightening investment-related regulations, it also positively improved the investment process.

According to the World Bank Group's annual Doing Business report, Russia ranked 92 out of 189 countries in 2014 (Table 1-1). This is 20 places higher than 2013, and improvements have been made in all 10 topics considered for ranking (Table 1-2). In particular, the 2014 data showed that Russia underwent reform in the five topics of "Starting a Business," "Dealing with Construction Permits," "Getting Electricity, Registering Property," and "Trading Across Border," making it easier to do business in Russia. At this rate, Putin's stated goal to move Russia to the 20th place in the ease of doing business index by 2018 may come true.

〈Table 1-1〉 Doing Business 2013 Rank for Russia

RUSSIAN FEDERATION		Europe & Central Asia	GNI per capita(US\$)	12,700	
Ease of doing business(rank)		High income	Population(m)	143.5	
92					
√ Starting a business (rank)	88	√ Registering property (rank)	17	√ Trading across borders (rank)	157
Procedures(number)	7	Procedures(number)	4	Documents to export(number)	9
Time(days)	15	Time(days)	22	Time to export(days)	22
Cost(% of income per capita)	1.3	Cost(% of property value)	0.1	Cost to export(US\$ per container)	2.615
Minimum capital(% of income per capita)	1.2			Documents to import(days)	10
		√ Getting credit (rank)	109	Time to import(days)	21
		Strength of legal rights index(0-10)	3	Cost to import(US\$ per container)	2.810
√ Dealing with construction permits (rank)	178	Depth of credit information index(0-6)	5		
Procedures(number)	36	Public registry coverage(% of adults)	0.0	√ Enforcing contracts (rank)	10
Time(days)	297	Private bureau coverage(% of adults)	59.2	Procedures(number)	36
Cost(% of income per capita)	89.0			Time(days)	270
		√ Protecting investors (rank)	115	Cost(% of claim)	13.4
√ Getting electricity (rank)	117	Extent of disclosure index(0-10)	6		
Procedures(number)	5	Extent of director liability index(0-10)	2	√ Resolving insolvency (rank)	55
Time(days)	162	Ease of shareholder suits index(0-10)	6	Time(days)	2.0
Cost(% of income per capita)	293.8	Strength of investor protection index(0-10)	4.7	Cost(% of estate)	9
				Recovery rate(cents on the dollar)	42.8
		√ Paying taxes (rank)	56		
		Payments(number per year)	7		
		Time(hours per year)	177		
		Total tax rate(% of profit)	50.7		

Source: World Bank and IFC, Doing Business 2013, 2013.

〈Table 1-2〉 Doing Business Rankings by Topic

RANKING TOPICS		2012 RANK	2013 RANK	CHANGE IN RANK	2014 RANK	CHANGE IN RANK
<b>DOING BUSINESS OVERALL RANK</b>		120	112	△8	92	△20
<b>BY TOPIC</b>	Starting a Business	111	101	△10	88	△13
	Dealing with Construction Permits	178	178	-	178	-
	Getting Electricity	183	184	▽1	117	△67
	Registering Property	45	46	▽1	17	△29
	Getting Credit	98	104	▽6	109	▽5
	Protecting Investors	111	117	▽6	115	△2
	Paying Taxes	105	64	△41	56	△8
	Trading Across Borders	160	162	▽2	157	△5
	Enforcing Contracts	13	11	△2	10	△1
	Resolving Insolvency	60	53	△7	55	▽2

Source: World Bank and IFC, Doing Business 2013, 2013.

It is welcoming that the government of the Russian Federation has started to take interest in the World Bank Group's Doing Business index as a benchmark to gauge the improvement of its investment climate. The Doing Business indicators have been developed to measure the climates of foreign investment, and in particular, to understand how legislation and regulations affect small and medium-sized enterprises and the climates in which they will perform their businesses. Nonetheless, there is a broad awareness that improvement in the Doing Business rankings indicates a better investment climate for foreigners that leads to increases in foreign direct investment(FDI). In fact, in actual case studies, such an interrelationship has been well proven<sup>1)</sup>.

To become the world's 20th best country in which to do business, Russia established the Agency for Strategic Initiatives(ASI) in May 2011 to remove excessive administrative barriers and to set strategies to improve its investment climate. To date, only 28 out of 83 federal agencies have entered into agreements with ASI. In the of the Primorsky Territory, it entered into an agreement on July 26, 2012, and has taken on two federal projects. In 2012, the Primorsky Territory established an Investment Ombudsman to allow<sup>2)</sup> lawsuits to be filed against bureaucrats who hamper the interests of investors. Furthermore, a wide range of improvement measures were taken, such as setting up the Investment Advisory Council, providing various tax benefits, simplifying the licensing process for construction, and amending its law on immigration. On December 9, 2013, the Russian Federal government established the Investment Promotion Agency(IPA) under the Ministry

1) World Bank and IFC, Doing Business 2013, 2013.

2) Agency for Strategic Initiatives, [http://asi.ru/asi\\_in\\_regions](http://asi.ru/asi_in_regions)

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of Regional Development to be in charge of all matters related to the promotion of foreign investment, responsibility for which had been scattered across several agencies and departments<sup>3</sup>). The strategic base of the Ministry for the Development of the Russian Far East is expected to be established in Vladivostok, along with the ones in Moscow and Khabarovsk.

Russia also has special economic zones (SEZ), but they are not being actively promoted. In 2012, Federal Law of No.409-FZ amended the federal law to provide various tax benefits and to protect legislation, systems, and investment support. Foreign investment, however, remained low due to a lack of a unified operating system, an ineffective business management environment, and a long period of absence of development strategies.

Russia's investment climate has been judged to be low in legal stability because of frequent amendments to legislation, contradictory laws, and inconsistent interpretation of regulations. The situation is no different for the investment climate of the Primorsky Territory for foreigners. In 2012, foreign investment in the Primorsky Territory was USD 90 million, which accounted for only about 1-2% of the total foreign investments in the entire Russian Far East, just like the previous year (investment amount: USD 114 million).

It is estimated that the Far Eastern Federal District covers 19% of Russia's oil deposits and 23% of gas reserves, but its energy development rate is only about 10% due to aging infrastructure. Much of the investment is being limited to large-scale projects being promoted by the government, such as the Asia-Pacific Economic Cooperation (APEC) Leaders' Meeting or oil pipeline projects. Furthermore, in the case of the Primorsky Territory, the amount of buried resources, the potential growth rate, and many other economic indicators have been exaggerated, misrepresenting project feasibility.

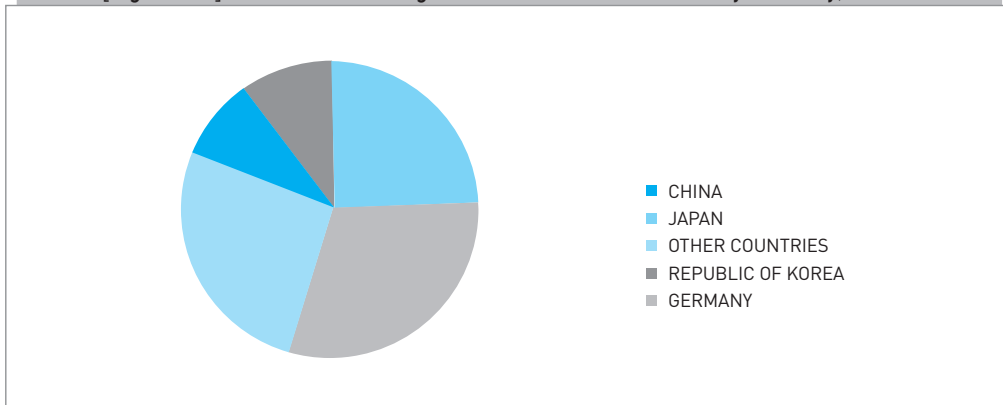
The main cause of poor investment promotion is found in the decreasing population from continuous population outflow; in other words, there are not enough markets. The Primorsky Territory is 0.75 times larger than the Korean Peninsula but its population is only 1.95 million with a very small market. Population outflow is caused not only by citizens moving between cities but also, among other things, the repatriation of foreigners and a low birth rate.

Moreover, there are administrative barriers, such as the government's tight rules and regulations, the absence of an administrative body, and the difficulty in visa issuance. Only 30% of the available budget is being executed, showing the

3) RBC Daily, <http://www.rbcdaily.ru/economy/562949989883853>

ineffective use of budget funds. In addition, the complicated legislation and tax system and administrative omnipotence make licensing much harder. As a result, for investment, there are 26 permits to obtain, which takes about 218 days to obtain and about 169.4% of one's income, requiring considerable time and money for foreign investors. In addition, investment incentives and investor protection policy are poor, which is a common situation in Russia and an indication that the state has no investment incentives to provide at its own capacity.

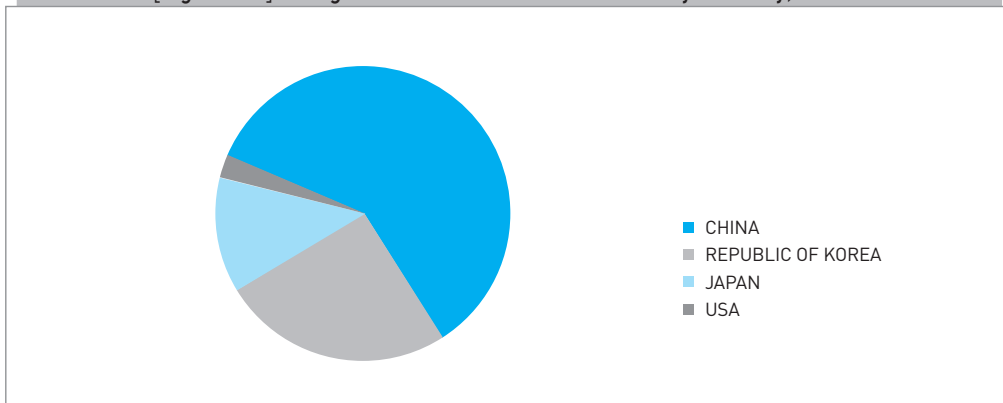
[Figure 1-1] Accumulated Foreign Investments in the Primorsky Territory, Russia



Comment: As of 2012

Source: Primorsky Krai-The gates of Russia to Asia-Pacific Rim, Investment Portal of Primorye Territory,<http://invest.primorsky.ru/>

[Figure 1-2] Foreign Trade Structure in the Primorsky Territory, Russia



Comment: As of 2012

Source: Primorsky Krai-The gates of Russia to Asia-Pacific Rim, Investment Portal of Primorye Territory,<http://invest.primorsky.ru/>

## 1.1.2 Analysis of the Investment Climate of the Primorsky Territory

Based on an analysis of strengths, weaknesses, opportunities, and threats (SWOT), the current investment climate of the Primorsky Territory is as follows. In regard to strengths, the Primorsky Territory has a favorable geopolitical location and abundant natural resources like timber. Furthermore, the federal government of Russia has put together a national project to turn the Primorsky Territory into the largest international transport hub. Based on what has been announced, the project includes, for example, modernizing ports and the Trans-Siberian Highway; developing the Eastern Siberia-Pacific Ocean oil pipeline (ESPO pipeline); upgrading roads and airports; and hosting APEC. There are also plans to construct the Bureya Dam and to create an integrated energy system between China, Japan, and Korea that will pass through the Primorsky Territory. The Primorsky Territory also has the potential for an agricultural and marine processing industry, and its trade volume is growing stably with China, Japan, and Korea. It has the largest remote telecommunications system of the Russian Far East, as well as a large military-industrial complex. There are groups of educational and professional personnel from the Far Eastern Federal University who possess innovative potential and scientists from the Far Eastern Branch of the Russian Academy of Sciences, boasting of the Primorsky Territory's comparatively high educational level.

The Primorsky Territory's proximity to the extended sales market of Asia-Pacific makes it one of the few regions with all the prerequisites required for innovative business development. Its regional structure with highly-valued natural surroundings, mineral resources, and centres with both sports and health facilities serve as the basis for infrastructure and tourism development.<sup>3)</sup> In addition, its potential for alternative energy development, absence of terrorism within the region, and absence of national conflicts compared to other Russian regions are strengths.

Its weaknesses include high social and economic risks due to high taxes, poor living conditions, a high crime rate, and the deterioration of manpower due to outward migration and the ageing and high death rate of the male labor force. Economically, there are financial risks coming from debts. The financial system lacks transparency, and legislation and regulations to support small and medium enterprises are underdeveloped. While the need for innovation on the basis of regional development is recognized at the level of social groups, like political parties, social movements, business groups, and the media, some regional authorities are structurally unprepared. Moreover, the Primorsky Territory's unstable

4) Analysis of the Recent Investment Climate of the Primorsky Territory(Russia), [http://www.ois.go.kr/portal/page?\\_pageid=93,721534&\\_dad=portal&\\_schema=PORTAL&p\\_deps1=info&p\\_deps2=&oid=1120801180018641564](http://www.ois.go.kr/portal/page?_pageid=93,721534&_dad=portal&_schema=PORTAL&p_deps1=info&p_deps2=&oid=1120801180018641564)

living conditions, and earthquakes, typhoon, and other natural disasters may lead to excessive spending in terms of food and living, and there could also be large expenses spent in environmentally protected areas due in part to the neutralization of radioactive waste and a lack of reclamation sites. Furthermore, undeveloped tourism and transport infrastructure as well as the undeveloped northern territories of the Primorsky Territory mean that natural resources are underutilized. There is a lack of alternative energy projects due to rejections by regional authorities and a lack of financial assistance, while the drastically long distance to the economically and culturally developed regions of the European market and Russia lead to low end product ratio in terms of overall production. For this reason, it has been a long-standing issue that there were insufficient resources available in credit-rating agencies for major investment projects because of a low percentage in adopting high-tech products.<sup>5)</sup>

In terms of opportunities, the Primorsky Territory will be the center of Russia's innovation under the leading of Putin. The federal government of Russia is attempting to develop Vladivostok as the heart of the Primorsky Territory and as a global center for cooperation. There is also hope that an economically active population will grow due to the development of the Primorsky Territory's travel industry and Russia's effective immigration policy. For Asian countries interested in the Primorsky Territory's mineral and energy complex, the Primorsky Territory is a fast growing market for investment. In August 2013, as an act of strong determination to develop the Russian Far East, Putin released Viktor Ishayev from his posts as Presidential Plenipotentiary Envoy to the Far Eastern Federal District and as Minister for the Development of the Russian Far East. In August of the same year, Putin appointed Yuri Trutnev, who was Assistant to the President of Russia, as Presidential Plenipotentiary Envoy to the Far Eastern Federal District, and in September, he appointed Alexander Galushka as Minister for the Development of the Russian Far East. Ishayev and Galushka are expected to uphold and value Putin's ideas and plans as they carry out their responsibilities. Another figure to note is Vladimir Miklushevskiy, who replaced Sergey Darkin, who had been Governor of the Primorsky Territory since 2001.<sup>6)</sup>

Some of the threats posed to the Primorsky Territory include high living costs and monopolized services, as well as its high dependency on the federal budget. There is also ongoing ecological regression due to the low birth rate and high death rate, as well as outward migration due to low living standards and quality of life when compared to the central regions of Russia. Currently, high-tech skilled

5) KOTRA, *Collection of Counselling Cases on Overseas Expansion to 9 Major Countries in 2012*, KOTRA Document 12-064, 2012, p.304.

6) *Analysis of the Recent Investment Climate of the Primorsky Territory(Russia)*, [http://www.ois.go.kr/portal/page?\\_pageid=93,721534&\\_dad=portal&\\_schema=PORTAL&p\\_deps1=info&p\\_deps2=&oid=1120801180018641564](http://www.ois.go.kr/portal/page?_pageid=93,721534&_dad=portal&_schema=PORTAL&p_deps1=info&p_deps2=&oid=1120801180018641564)



workers as well as a great number of young intellectuals are moving to other regions or countries from the Primorsky Territory. For this reason, decreasing experienced manpower and skilled workers may bring loss in economic sovereignty. Furthermore, due to the development of the imprudent construction system in the vacation region, there is a possibility of a drop in quality of housing and businesses, and the regional government has not shown any efforts on this issue.

〈Table 1-3〉 SWOT Analysis of the Primorsky Territory's Investment Climate

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>◇ Geopolitical location</li> <li>◇ Abundant resources</li> <li>◇ International transport and energy hub</li> <li>◇ Potential for processing industry</li> <li>◇ Innovative scientists</li> <li>◇ Proximity to sales markets</li> <li>◇ Political and social stability</li> </ul>	<ul style="list-style-type: none"> <li>◇ Social and economic risks</li> <li>◇ Population loss</li> <li>◇ Financial risks</li> <li>◇ Environmental issues</li> <li>◇ Underdevelopment of social and economic infrastructure</li> <li>◇ Lack of financial and credit-rating agencies</li> </ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>◇ Central role in innovation for the Russian government</li> <li>◇ Northeast Asia centre for cooperation</li> <li>◇ Development of travel and tourism industry</li> <li>◇ Energy demands</li> <li>◇ Image as an emerging market</li> <li>◇ Central government's determination for development</li> </ul>	<ul style="list-style-type: none"> <li>◇ High dependency on the central government</li> <li>◇ Low birth rate</li> <li>◇ Population loss</li> <li>◇ Lack of specialized jobs and skilled workers</li> <li>◇ Imprudent development</li> </ul>

Source: KOTRA, "Collection of Counselling Cases on Overseas Expansion to 9 Major Countries in 2012," *KOTRA Document 12-064*, 2012, p.303~4

## 1.2 The Need for Improvement in the Primorsky Territory's Investment Climate

As the key region of the Russian Far East, the cities of the Primorsky Territory is are gradually expanding to potentially grow into the industrial and transport base of the Russian Far East. To date, however, the development of the cities of the Russian Far East and Siberia has been largely influenced by the plans and initiatives of the government; thus, nothing is confirmed at this moment in terms of its size or groundwork. While the Primorsky Territory has basic infrastructure, it is limited in terms of its scale to administer both the Russian Far East and Siberia, and to expand its role and potential throughout the entire Russian Federation.<sup>7)</sup> Furthermore, despite the industrial potential and territorial size of East Siberia and the Russian Far East, it is being undervalued and its industrial production and trade volume remain low.

Currently, the Primorsky Territory government is promoting investment in the fuel and energy industries, transport and logistics clusters, tourism and resort complexes, high-efficiency production industry and innovation, food industry, and fish processing industry. While it is understandable that no visible achievement is available at this moment as the promotion is still in the planning stage, there is no detailed data either on its progress so far or on future directions. To promote foreign investment, results need to be backed by data. In other words, according to the materials provided by Territorial organization of the Federal State Statistics Service of Primorsky Krai (Primorskstat), total sums are available for direct investment, portfolio investment, and other investment, but they do not indicate the details of who invested what amount into which industry sector.

For this reason, as part of the efforts to promote investment by providing basic information for foreign investors and to boost closer relations with the federal government, the government of the Primorsky Territory needs to improve its administrative system. Currently, the Primorsky Territory government is attempting to vitalize industries by actively promoting foreign investment, enhancing the living standards of its regional citizens, and pulling through ongoing and stable economic growth by building the regional economy. By cleaning up the legal and systematic environments through simplifying the registration process and through proper and fair taxation for the purpose of reforming the administrative system for investment promotion, efforts are being made to encourage enterprises to do business in a stable environment.

Particularly from a policy perspective, the following efforts seem valid. First, there must be solutions in the eyes of foreign investors to improve the investment climate and a road map that is realistically feasible in consideration of the situation of Russia. Second, to provide a one-stop service, the Primorsky Territory government officials who handle foreign investment-related tasks need to raise their understanding. This needs to be followed by the enactment of necessary laws to improve administrative regulations and related systems. Also, in order to execute the various projects in accordance with the development programs of Siberia as proposed by the Ministry for the Development of the Russian Far East, the Primorsky Territory government should better prioritize projects, manage finance, distribute funds, and improve the transparency of the related administrative system for procurement.

Along with such efforts in policy, there are issues to be resolved before promoting foreign investment. First, there are issues related to the reorganization

7) Jae Wook Park, Hae-Yong Jeong and Hea-Ryon Kang, "The Mega-Region Growth Strategy and Governance in Coastal Hub Cities of Northeast Asia", *The Korea Local Administration Review*, Vol. 25, No. 4, December 2011, p.315.

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of industry structure. The cities of Russia are generally not integrated but are rather scattered in terms of their major functions like logistics, finance, transportation, or commerce, and the situation seems to get worse in the case of the Russian Far East, including the Primorsky Territory. In terms of industrial construction, the Primorsky Territory needs integration; in other words, it needs an autonomous structure of production from raw materials to finished products. Second, it needs a solution to demographic desertification and population loss. From racial composition, residents, urbanization, living conditions, population changes to Chinese immigrant issues, the Russian Far East is facing serious population deterioration and loss, along with its natural environmental conditions.

To address these issues, the Russian government has put together and is operating regional development programs for the Russian Far East, including the Primorsky Territory. As a start, in 2009, the Strategy for Socio-Economic Development of the Far East and the Baikal Region 2025 was approved as a basic concept of the region's development. For this plan, a total of RUB 10.7 trillion (about KRW 381 trillion) is to be invested toward the ambitious goals of increasing gross regional product(GRP) 2.2-fold, industrial output by 53%, exports by about 3-fold, and population inflow of 1 million to the Russian Far East by 2025. Additional goals include producing high value-added products of advanced science and technology through the construction of plants and transportation network, and enhancing the status of the Russian Far East within Asia-Pacific. Around the same time the Putin administration began its third term, VTB Bank's Far East and Baikal Region Development Fund(in November 2011) as well as the Ministry for the Development of the Russian Far East(in May 2012) were established, signifying the Russian government's elevated interest in the development of the Russian Far East.

To overcome the economic underdevelopment of the region and to promote socio-economic development, the Primorsky Territory government approved, the "Socio-Economic Development Program(Draft) of the Primorsky Territory in 2013-2017" and this program is currently under implementation. This program is divided into four sub-programs: improvement of the investment climate in the Primorsky Territory; promotion of small and medium-size enterprises within the Primorsky Territory; enhancement of competitiveness of products and service markets within the Primorsky Territory; and advancement in budget execution, such as implementing mid- and long-term budget plans.

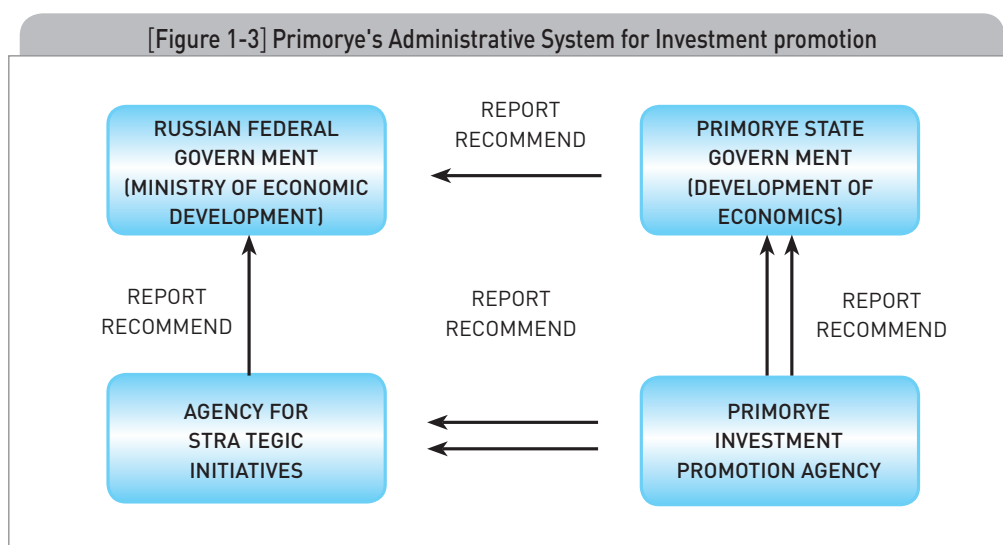
The Primorsky Territory is in urgent need of detailed measures to promote foreign investment. First, it needs a solution to draw capital resources from Russia and the European regions to the Primorsky Territory. Second, it needs to consider ways to vitalize the private sector on resources and land. Then, in view of the characteristics of the economic structure of the region, balanced investment and

management between the state and the private sector should be identified.

## 2. The Current Situation of the Primorsky Territory's Administrative System for Investment Promotion

The Primorye Investment Promotion Agency (PIPA) is an institution established by the Primorsky Territory government to be exclusively in charge of investment promotion in the Primorsky Territory. The organization and operation of PIPA is supervised and controlled by the Department of Economics of the Primorsky Territory government. The strategies and guidelines for the investment promotion activities of PIPA follow the direction of ASI established by the federal government.

There is no separate body in charge of investment promotion at the federal government level; instead, different federal ministries like the Ministry of Economic Development, the Ministry of Regional Development, and the Ministry for the Development of the Russian Far East share responsibilities in cooperation with regional governments. With regard to legislation, regulations, and systems pertaining to investment promotion and to establishing SEZs, the Primorsky Territory government follows the system and supervision of the federal government. ASI closely works with the federal government to create a better investment climate by improving legislation, regulations, and system. The diagram in [Figure 1-3] illustrates the decision-making and orchestration structure of the Primorsky Territory's administrative system for investment promotion.



Source: Agency for Strategic Initiatives

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## 2.1 Agencies for Investment Promotion

### 2.1.1 Primorye Investment Promotion Agency(PIPA)

In December 2012, the Primorsky Territory government established PIPA to promote investment by expediting and effectively supporting the entire process for investment activities within the Primorsky Territory. A managing board was formed according to the Articles of Association, of which board is chaired by the Governor of the Primorsky Territory. The Articles of Association stipulate the roles and functions of PIPA, and regulate the Primorsky Territory government to cooperate. Currently, Andrey Aksenov is the Director of PIPA and Elena Yaskevich is the Deputy Director, along with 13 staff members with some positioned in Moscow to work closely with the federal government.

The primary function of PIPA is to set investment strategies to assist and closely work with the road-map put together by ASI to improve the investment climate. Second, PIPA provides systematic assistance for investors. Without having to go through numerous Primorsky Territory government's departments and agencies, PIPA seeks to provide a "single window service" for investment-related matters<sup>8)</sup>. A plan for such a service has been drawn up and is currently waiting for the approval of the Governor of the Primorsky Territory. Third, PIPA exists to monitor and identify the progress of ongoing investment projects within the Primorsky Territory so that they are being carried out as planned. When necessary, PIPA may provide assistance for smooth out and expediate steps. Fourth, PIPA surveys, analyzes, and predicts required manpower. A joint report between PIPA and the Far Eastern Federal University was produced in late 2013. Fifth, PIPA provides educational and training programs for employees of investment project-related agencies. Sixth, PIPA accompanies government officials of the Primorsky Territory on overseas business trips and to international conferences, and participates in overseas road-shows for investment promotion.

The Primorsky Territory government evaluates PIPA, particularly for the total amount of investments and the total number of successfully promoted investments. While Maxim Iakovenko, Head of the Investment Projects Department, and other employees are making all efforts to promote investment, PIPA being at an early stage, still is in the process of establishing its business structure so that except for a few minor investments, there have not been significant achievements so far.

8) Prior to the establishment of PIPA, much of the work related to investment promotion was overseen by the Department of Economics in the Primorsky Territory, and 20 or so departments by sector, such as construction and public health, handled investment-related matters. For this reason, foreign investors were required to contact various departments and agencies for approvals and decisions.

Although PIPA has just launched, it has been given the responsibility and determination to accomplish within a few years what took other countries decades. In particular, PIPA is especially paying attention to the efforts being made by ASI to improve the investment climate, such as good results for the World Bank Group's Doing Business indicators, which the Primorsky Territory government strongly supports<sup>9)</sup>.

### 2.1.2 Agency for Strategic Initiatives (ASI)

The influence of ASI appears to be very powerful and active in terms of improving Russia's business and investment climate. This could be due to the fact that ASI was established in May 2011 under the order of Putin (then Prime Minister), who still serves as the Supervisory Board Chairman today and continuously supports the activities of ASI by, for example, hosting strategy meetings.

ASI, which was established as a non-profit organization to promote new projects, formed the Supervisory Board in accordance with relevant laws, where the Executive Board and Executive Officers operate under the approval of the Supervisory Board. Chaired by President Putin, the Supervisory Board consists of the Minister for the Economic Development of the Russian Federation, the Governor of the Central Bank of Russia, the Chief Executive Officer of ASI, the Chairperson of the Expert Advisory Committee, the executive authority of the Russian Federation, representatives of public associations, and business leaders.

As the purpose of ASI is to create opportunities for the self-actualization of young ambitious leaders capable of bringing Russia to become the world's best country in which to live and work, it supports more than just foreign investment promotion. ASI also, among other things, promotes medium-sized business-related projects and initiatives, fosters and trains leaders from medium-sized businesses, creates a positive image of entrepreneurs and entrepreneurship in Russian society, and improves the business environment.

One of the projects being promoted by ASI is to improve the investment climate. ASI adopted road maps as action plans to make the business process simpler, cheaper, and quicker through the National Entrepreneurship Initiative. Altogether, 11 road maps were adopted: "Connection to Power Grids," "Property Registration," "Enterprises Registration," "Promotion of Competition," "Export Promotion," "Access to Government Companies Procurements," "Quality of State Regulation," "Construction," "Valuation Activity," "Customs," and "Paying Taxes."

9) The Doing Business rankings by topics: "Starting a Business," "Dealing with Construction Permits," "Registering Property," "Getting Credit," "Protecting Investors," "Paying Taxes," "Trading Across Borders," "Enforcing Contracts," "Resolving Insolvency."

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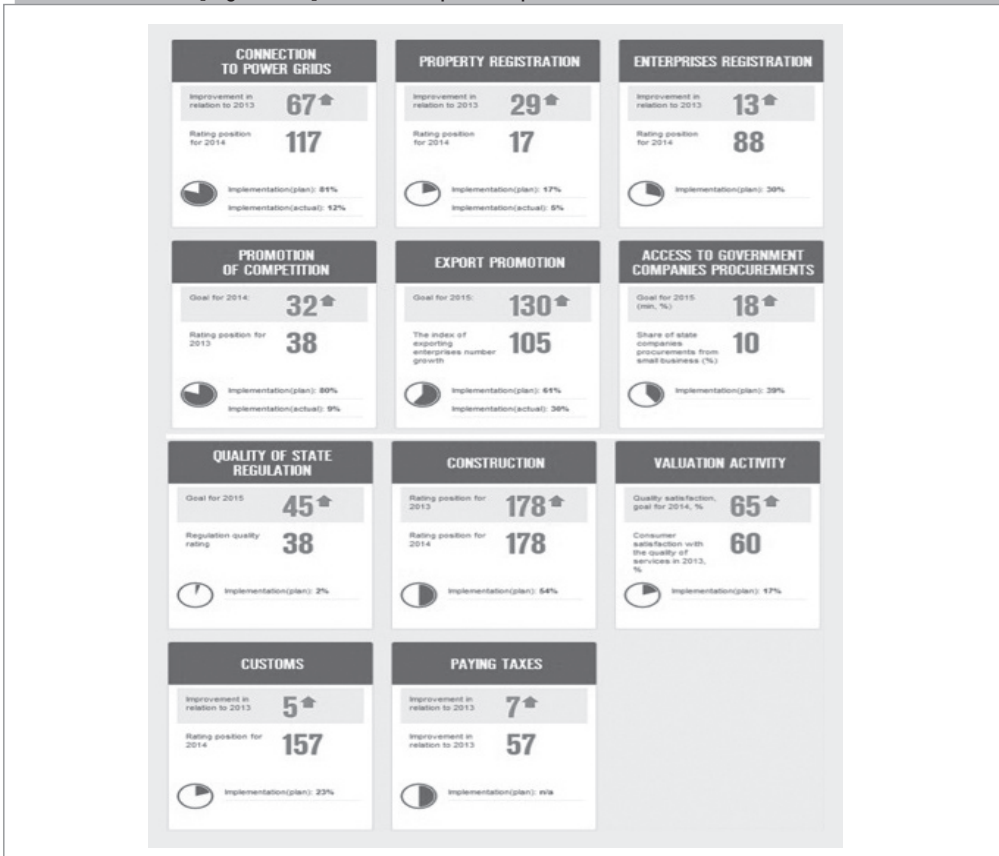
As shown in [Figure 1-4], each of the 11 road maps has its goal to improve the investment climate, and indicates its level of improvement. In order to continually monitor the improvement in these areas, ASI is benchmarking various indicators, such as the World Bank Group's Doing Business report, the Organisation for Economic Co-operation and Development's (OECD) indicators of product market regulation on a competition environment, and New Business Density indicators on business activities. After the adoption of the road maps, Russia ranked 112th in the 2012 Doing Business report, which was an improvement of eight places from the previous year, and in 2013, it increased another 20 rankings and recorded 92nd. Ultimately, Russia aims to become 20th place by 2018<sup>10</sup>.

It seems ASI is able to take charge of improving relevant provisions, systems, and such, if and when there is a need to improve the investment and business climate not just at the federal level but at the regional level as well. ASI improves the investment climate of regions through one of its main programs called the Regional Investment Standard, through which it discovers and spreads successful cases as well as adopts and executes a standard system. This standard system has been put together on the basis of the 15 best investment practices throughout regions successfully promoting investment. For this reason, standardizing such best practices and spreading them allows businesses to have a positive impact on public administration. In 2012, 11 regions adopted and implemented this standard system, and in December 2012, the Russian federal government mandated all regions of Russia to adopt and implement the standard system. To further spread the standard system, ASI currently provides methodological support with the implementation process, as well as organizational support for an expert group's business conduct<sup>11</sup>.

10) Agency for Strategic Initiatives, [http://www.asi.ru/about\\_agency](http://www.asi.ru/about_agency)

11) Agency for Strategic Initiatives, <http://investstandart.ru/0-standarte>

[Figure 1-4] 11 Road Maps to Improve the Investment Climate



Source: Agency for Strategic Initiative, <http://investstandart.ru/o-standarte>

On July 26, 2012, ASI signed an agreement with the Primorsky Territory government to collaborate on the Primorsky Territory's investment climate and social and economic development strategies. A standard for a favorable investment climate for the entire Russian Far East region, including the Primorsky Territory, was to be established, and will be continually improved through consistent monitoring.<sup>12)</sup>

In December 2013, the Russian federal government established the Russian Investment Promotion Agency (RIPA) under the Ministry of Regional Development to provide a single window service for investors. RIPA, initiated by Prime Minister Medvedev, would provide support services to attract FDI in Russia by partnering with public organizations having similar functions, like the National Council for Investment Climate Development and the Russian Direct Investment Fund. There are, however, mixed opinions on the performance of the newly established RIPA.

12) Agency for Strategic Initiatives, [http://asi.ru/asi\\_in\\_regions/](http://asi.ru/asi_in_regions/)



Supporting voices for RIPA believe that it will act as the control center to improve the investment climate for foreigners, especially since it was established at the federal government level as an outcome of Russia's strong determination for foreign investment promotion. On the other hand, there are negative views that RIPA lacks the authority to influence regional governments in terms of protecting the rights and interests of investors and that it may just end up as another bureaucracy without making any feasible influence on improving the investment climate as it has no financial resources to jointly invest in foreign investment projects<sup>13</sup>.

## 2.2 Administrative Institutions for Investment Promotion

### 2.2.1 Primorsky Territory Government

The Primorsky Territory government is located in the city of Vladivostok, a port city of the Russian Far East. The current governor, Vladimir Miklushevskiy, took office in March 2012. The Primorsky Territory government is comprised of more than 30 different departments by sector, such as the Department of Economy; the Department of Town Planning; the Department of Natural Resources and Environmental Protection; the Department of Industry and Transport; and the Department of Energy, Oil and Gas and Coal Industries. The Legislative Assembly of the Primorsky Territory consists of 40 assemblypersons.

Much of investment promotion-related matters are governed by the regulations and systems of the Russian federal government, but at times, the Primorsky Territory government may implement a measure at its own discretion through a resolution of the Legislative Assembly. For example, the federal government's corporate tax rate is 20%, but the Legislative Assembly of the Primorsky Territory passed a bill on tax exemptions. Under this bill, enterprises investing in production facilities would be fully exempt from corporate tax for the first five years and then taxed at only 5% thereafter, a quarter of the federal tax rate<sup>14</sup>. Also in the case of property tax, the federal government imposes a 2% tax rate, but in the Primorsky Territory, property tax is fully exempt for the first five years and then is taxed at 0.1% thereafter.

13) See [http://indrus.in/economics/2013/12/13/russia\\_to\\_launch\\_first\\_foreign\\_investment\\_promotion\\_agency\\_31601.html](http://indrus.in/economics/2013/12/13/russia_to_launch_first_foreign_investment_promotion_agency_31601.html)

14) It is under the jurisdiction of the federal government to change corporate tax. For this reason, even if a bill on a corporate tax exemption has passed the Legislative Assembly of the Primorsky Territory, it requires the approval of the federal government. But this bill has been mentioned by Prime Minister Medvedev, and therefore is likely to be approved. On the other hand, property tax is under the jurisdiction of the regional government, so the bill passed by the Legislative Assembly of the Primorsky Territory becomes effective as is.

For legislation and regulations requiring the decision of the federal government regarding improvements, the Governor of the Primorsky Territory may put forth a recommendation at a meeting with the President. Nonetheless, such request for revisions and improvements would need to be backed by clear justification and benefits to be accepted.

With regard to creating and operating an SEZ, the Primorsky Territory government has no authority to make an independent decision; instead, it needs the approval of the federal government by application. Currently in the Primorsky Territory, there are two SEZs: One of them is Sollers, a cluster for automobile production. The other one is Nadezhdinskoye, which is currently under development<sup>15)</sup>.

## 2.2.2 Russian Federal Government

The Russian federal government recognizes that foreign investment promotion is essential to the economic development of Russia. For this reason, Russia is encouraging foreign investment through measures such as removing administrative barriers, designating SEZs and high-technology complexes, and establishing investment promotion funds. Despite such efforts by the Russian government on the improvement of the investment climate and its battle against corruption, international organizations view Russia as one of the most difficult countries in which to do business.

Putin and Prime Minister Medvedev both stress the importance of vitalizing foreign investment by improving the investment climate. There are, however, stumbling blocks, such as the delay in economic restructuring and the government's intervention, that make foreign investors hesitant to invest. While ostensibly there are legislation and regulations to protect foreign investors, such legislation and regulations do not always serve that purpose.

The Russian government also recognizes this and is making efforts to improve the effectiveness and usefulness of legislation and regulations. Such efforts can be seen in its establishment of non-governmental organizations like ASI to take advantage of the expertise of the private sector and to actively seek and promptly reflect the requests of the private sector. Russia's participation in the World Bank Group's Doing Business rankings, the creation of road maps to improve its rankings, and the establishment of long-term plans with the monitoring of the progress of improvement each year all indicate positive movements in Russia for an improved investment climate.

15) Previous findings showed that the Russian federal government had planned to designate Troitsa Bay and Vostochny Port as Port Special Economic Areas, PSEA, but was not mentioned during the interview with staff in charge at the Primorye Investment Promotion Agency.

The Ministry of Economic Development is in charge of investment-related policy for the Russian federal government. The Ministry of Regional Development is also involved in promoting investment in the Primorsky Territory as it provides the investment funds of the federal government for regional development and oversees policy and regulations related to this area. In particular, the Russian federal government has recently established the Ministry for the Development of the Russian Far East for the development of the region, including the Primorsky Territory. The Ministry for the Development of the Russian Far East is currently involved in a construction project to build 23 large-scale investment complexes in the Far East and Baikal region by 2025 and is preparing to introduce economic legislation that would provide various tax benefits, such as incentives on investment by the private sector.

### 3. Korea's Reformation on the Administrative System for Investment Promotion

#### 3.1 Promotion Policy on Foreign Direct Investment and the Process of Transition of the Administrative System

Korea's policy on foreign investment promotion had been somewhat exclusive and passive under the title of protecting the domestic industry until 1996 when Korea became a member of the OECD and faced the 1997 Asian financial crisis, which rapidly shifted its policy toward liberalization and promotion. The process of transition for policy on FDI can be divided largely into three phases<sup>16)</sup>.

Phase 1 Adoption Period (1962-1983): FDI was first introduced during this period, but the basic policy restricted FDI, and the Korean government procured foreign capital through loans. The Korean government preferred the loan system over FDI because they feared that foreign enterprises would dominate domestic industry and funding through foreign loans was easier to control than capital inflows.

Phase 2 Transition Period (1984-1997): On July 1, 1984, the government changed the FDI permission system from a "positive system," indicating the industries where foreign investment was allowed, to a "negative system," indicating industries prohibited or restricted from foreign investment. This change provided the basis for liberalized foreign investment. In the early 90s, Korea abolished its foreign investment permit system and adopted the reporting and permitting system.

16) Korea Development Institute (KDI), *The Korean Economy Six Decades of Growth and Development: Foreign Economy.*, 2011.

In particular, becoming an OECD member in December 1996 also served as a turning point for Korea to actively promote liberalization of foreign investment by greatly relaxing regulations. It was during this period that Korea liberalized the sectors allowed for foreign investment; expanded national treatment; simplified the foreign investment process; allowed FDI by mergers and acquisitions; and allowed long-term borrowings of five years or more direct investment.

Phase 3 Promotion Period (1998 - ): Following the Asian financial crisis in 1997, Korea prioritized foreign investment promotion among its policy. Accordingly, the government took bold liberalization measures, such as expanding the number of business categories that would be liberalized, abolishing the ceilings on overall foreign ownership of stocks limits on investment by for foreigners, and opening up the real estate market. The Foreign Investment Promotion Act was enacted for abroad range of investment incentives, including tax incentives, financial support incentives, incentives on foreign-invested areas, and better state support for foreign investment promotion activities by local governments.

During the terms of President Roh Moo-hyun (2003-2008) and President Lee Myung-bak (2008-2013), investment promotion took a shift from quantity-based to strategic foreign investment promotion that would advance the industrial structure. One of the bold foreign investment promotion policies in Korea during this period was the adoption of FEZs to vitalize foreign investment. Following the initial designation of FEZs in Incheon on August 6, 2003, and Busan-Jinhae and Gwangyang Bay Area on October 27, 2003, Daegu-Gyeongbuk, Yellow Sea, and Saemangeum-Gunsan were designated on May 2, 2008.

To promote foreign investment, the Korean government has continually improved its governance system. In particular, it created a system where the government, local governments, Invest KOREA (IK), and the private sector would be connected and cooperate dimensionally and organically with one another to strengthen the capacity of investment promotion. The central agency pushed for a comprehensive foreign investment policy while establishing a responsibility system by ministry. Local governments made efforts to strengthen their capacity by sharing investment promotion information and cooperated with the investment promotion activities of related institutions. IK, in charge of investment promotion, actively promoted a cooperative system between related institutions and strengthened the function of research, analysis, and assistance. The private sector participated in the government's policy-making, provided advice, and contributed to investment promotion activities that met the standards of the established policy. Detailed governance improvement practices are as follows.

First, to prevent the dispersion of promotion capacity due to individual

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investment promotion systems of the government and local governments as well as unilinear tasks, complicated and duplicate systems were improved. In order to effectively address the changes in the global investment climate, dimensional investment promotion governance was established.

Second, the vertical and horizontal cooperation system was strengthened for investment promotion. Along with the vertical governance by the central government, local governments, and the private sector, a horizontal cooperation network among the agents attracting investment was expanded. By delegating most of the execution to the working level, participation and discussion among members of the central organizations and local governments were encouraged, and the investment promotion plan was newly created every year, with major investment sectors by the characteristics of each ministry and measures to improve the investment climate. Other joint activities included investor relations, public relations, and policy research.

Third, investment promotion that utilized private capacity was vitalized. For this, the appointment system of high-class project managers (PM) of civilian experts was expanded and established, and investment activities utilizing the capacity of industry and financial sectors were promoted. The networks and expertise of influential overseas leaders were also expanded.

Fourth, the capacity of investment promotion institutions was strengthened. The supporting role of the government organization that acted as the hub of investment promotion was strengthened, and overseas investment promotion activities and the functionality of the single window service was expanded. The strategic investment promotion activities of local governments were supported, and programs on educating and training investment promotion experts were created.

Fifth, investment promotion-related systems were revamped to meet the international standard. Complicated FDI approval standards and scope were simplified, and the function of the Ombudsman was strengthened. In line with the guideline set by the international body, the FDI statistics database was redesigned and the analysis on the economic effect was strengthened. Cooperation with and participation of international bodies like OECD, United Nations Conference on Trade and Development (UNCTAD), and APEC on common interest agendas were encouraged, and by training experts of international organizations, the capacity on working with international organizations was strengthened.

Lastly, a continuous solutioning system for investment difficulties was built. A hot line was created between local governments and foreign investment companies as a bilateral communication channel to identify any inconvenience in investment. The

system included regular visits to foreign investment companies for meetings, along with an ongoing network between economic organizations. Through Facebook and Twitter, efforts were made to identify any concerns coming not just from foreign companies that have invested already but also from potential foreign investors. Improvement plans reflected opinions and comments of foreign investors on their overall satisfaction toward solutions provided.

## 3.2 The Structure of the Administrative System for Investment Promotion

### 3.2.1 Korea's Investment Promotion Governance System

The bodies handling work on investment promotion in Korea include the central government via the Foreign Investment Commission, IK, the Foreign Investment Ombudsman, local autonomous entities, and FEZs, in collaboration and mutual exchanges or independently (overlapped at times).

First, the Foreign Investment Commission deliberates and resolves basic policy and systems on foreign investment in accordance with the Foreign Investment Promotion Act. The Commissioner is the Minister of Trade, Industry & Energy, and the members are the ministers of government bodies as well as those relevant to the items being introduced, such as heads of central administrative institutions, mayors or governors, and the CEO of the Korea Trade-Investment Promotion Agency (KOTRA). The Foreign Investment Commission aims to coordinate communication and opinions between departments in the process of establishing and implementing foreign investment policy to enable pan-governmental promotion activities. In terms of Korea's foreign investment promotion policy and systems, it is the highest decision-making body.

Second, IK, a national investment promotion agency (IPA), provides the actual support for foreign investors and foreign investment companies. Strongly convinced that overseas promotion and the finding of foreign investors are essential, KOTRA set up IK. KOTRA has overseas network, and supports foreign enterprises entering the Korean market and their successful business operation. IK was first established in April 1998 as the Korea Investment Service Center (KISC), and as its size and function grew, it was renamed to Invest KOREA in December 2003. Closely connected to 42 overseas branches (Korea Business Centers), IK offers various information and consulting services, such as providing materials for foreigners on investment feasibility studies and giving expert advice on investment procedures, law, taxes, and accounting. IK strengthened its single window service by designating a PM for each project to fully support the entire process of investment from pre-investment consultation to business launch, and by operating various licensing and approval systems.

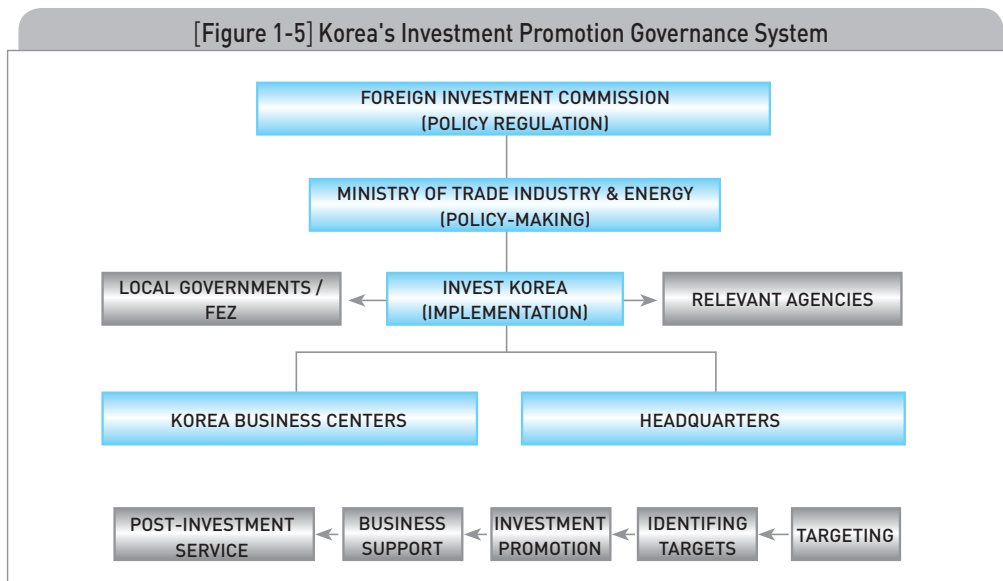
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Third, the Office of the Foreign Investment Ombudsman, established in 1999, identifies issues faced by foreign investors and foreign investment enterprises conducting business activities in Korea. Commissioned by the President, the Foreign Investment Ombudsman also chairs the grievance settlement body that supports the duties of the Ombudsman. The Foreign Investment Ombudsman and the grievance settlement body oversee diverse business affairs, such as collecting and analyzing information relating to foreign investment enterprises; requesting cooperation from concerned administrative institutions; and making recommendations for implementation as well as coming up with improvement measures on the foreign investment system. From 2000 to December 2012, a total of 4,865 complaints were handled for foreign investment companies. Currently, the Foreign Investment Ombudsman has civilian experts in fields such as finance, taxation, accounting, law, information technology and intellectual property, construction, labor, and is operating a "Home Doctor" system that provides aftercare service for foreign investment enterprises.

Fourth, regional local governments have dedicated teams for foreign investment. The Foreign Investment Promotion Act allows local governments to set up of foreign investment promotion offices to effectively support foreign investment with civil affairs, such as licensing, approval, permission, appointment, cancellation, reporting, recommendation, and negotiation. Accordingly, there are offices and personnel stationed in regional local governments throughout the country, including, the Incheon Metropolitan City Investment Promotion Officer, the Daegu Metropolitan City Investment Promotion Team, and the Chungcheongnam Province Investment Securement Division. The offices and personnel assist and work closely with Invest KOREA and offices and branches of KOTRA as well as agencies concerned with foreign investment promotion.

Fifth, since 2003, Korea has operated FEZs to improve the business conditions and living conditions of foreign investment enterprises and to guarantee autonomy and investment incentives in economic activities. There are a total of eight FEZs designated so far: three zones (Incheon, Busan-Jinhae, Gwangyang Bay Area) in the first phase; another three zones (Yellow Sea, Daegu-Gyeongbuk, Saemangeum-Gunsan) in the second phase; and two zones in the third phase (East Coast, Chungbuk). Furthermore, to promote investment promotion, various special zones are in operation, such as free trade zones, foreign investment zones, Jeju Free International City and business city development zones. Each special zone for investment promotion is making efforts to continually improve the communication between investors and relevant departments as well as the investment climate by monitoring each step from planning to investment review and implementation and follow-up management.

The below diagram [Figure 1-5] illustrates the governance system for Korea's administrative system on investment promotion.



Source: KOTRA (2012)

### 3.2.2 Korea's Investment Promotion Process and the Functionality of Invest KOREA

What is more important than the assigned duties of each institution is how economical, effective, and efficient the entire investment process is from the investor's point of view. For this reason, perhaps the necessary approach is to shift the work process from investment promotion institution-based to investor-based so that "the improvement investment promotion process improvement = the adoption of the investor-centered process." When investors review an investment or proceed with the investment process, the key is to have investors feel that they are receiving the best attention and service under a systematic management.

The investment promotion process at the national level involves several institutions and bodies, including potential foreign investors, domestic investment promotion institutions (like the federal government, IPA, local governments, SEZs), and Korea Business Centers. For this reason, there needs to be a standardized process. Enhancing the predictability through the standards of the investment process contributes to increasing the credibility of the country to be invested in.



〈Table 1-4〉 Korea's Investment Promotion Process

	Investment Promotion Activity Phase		Detailed Activities	Related Organization
Central Government	Phase 1	National Investment Promotion Policy	<ul style="list-style-type: none"> <li>• Basic policy on FDI</li> <li>Connected to economic policy and industrial policy</li> <li>Improvement of regulations, business and living environments</li> </ul>	Central Department
	Phase 2	Investment Promotion Goal Setting	<ul style="list-style-type: none"> <li>• Establishment of investment promotion goal</li> <li>Quality and quantity goals, industrial policy goals</li> </ul>	
	Phase 3	Investment Promotion Organizational Structure	<ul style="list-style-type: none"> <li>• Investment promotion teams and institutions</li> <li>Set up and operate central and regional investment promotion teams</li> </ul>	
Investment Promotion Institution	Phase 4	Competitiveness Analysis	<ul style="list-style-type: none"> <li>• Analyze competitiveness for investment in Korea</li> <li>Strengths and weaknesses by sector, ideas for persuasion</li> </ul>	IK
	Phase 5	Investment Promotion Sector Targeting	<ul style="list-style-type: none"> <li>• Targeting strategies that fit the FDI promotion goal</li> <li>Identify target enterprises by sector and set strategies</li> </ul>	IK (nation-based), local government
	Phase 6	Marketing	<ul style="list-style-type: none"> <li>• Location marketing (build a brand image)</li> <li>Investor relations, investment delegation, investment exhibition, conferences</li> </ul>	Korea Business Centers, IK, local government
	Phase 7	Investor Contact	<ul style="list-style-type: none"> <li>• Recommend and persuade investment on target enterprises</li> <li>Identify potential investors and build networks</li> </ul>	Korea Business Centers, IK, local government
	Phase 8	Project Management	<ul style="list-style-type: none"> <li>• Find investment projects and support PM designation, single window service</li> </ul>	Korea Business Centers, IK, local government
	Phase 9	Follow-Up Management / Investment Climate Improvement	<ul style="list-style-type: none"> <li>• Encourage re-investment from existing investors</li> <li>• Enhance competitiveness by improving the investment climate</li> </ul>	Ombudsman
	Phase 10	Evaluation	<ul style="list-style-type: none"> <li>• Investor Satisfaction Survey</li> <li>• Evaluate IPA tasks</li> </ul>	IK Government

Source: KOTRA (2012)

Invest KOREA at the central government level provides various services through its PM system, such as finding potential investment partners; coordinating meetings between foreign investors and domestic government organizations; connecting foreign investors to investment companies; evaluating project plans; providing information on the Korean markets and industries; advising and supporting administrative issues; providing consulting on FDI incentives, legal issues, taxation, and labor; and selecting factory locations and on-site trips. IK shares this information with local investment organizations for active support.

Information is provided not just at the official level between IK and regional governments but also at the 1:1 counseling level by having officials seconded from related organizations through the PM system. The civilian PM designation system is a system to enhance the responsibility of investment effectiveness utilizing civilian experts. By identifying issues that may be overseen at the government level and turning them into solutions that reflect market demands, problems that may arise at the time of investment may be prevented or resolved promptly.

## 3.3 Free Economic Zones (FEZs)

### 3.3.1 Background and Progress

FEZs are areas created to improve the business environment of foreign investment enterprises and the living conditions of foreigners<sup>17)</sup>. FEZs are formed by having economic blocks centered on the local strategic points, where they emerge as the growth power of the world economy. Major countries compete to attract foreign capitals with its regulations and legislation according to their own countries.

Korea, too, announced the "Northeast Asian Business Hub Plan"<sup>18)</sup> in 2002 as a new business strategy at the national level for foreign capital promotion, and legislated the formation and operation of FEZs<sup>19)</sup>. By creating FEZs, the goal was to improve the business environment of foreign investment enterprises and the living conditions of foreigners as well as promote foreign investment and strengthen national competitiveness and encourage balanced growth between regions<sup>20)</sup>.

17) Article 2 of the Special Act on Designation and Management of Free Economic Zones

18) - 2002.1.14. President announced the basic idea to turn Korea into the business hub of Northeast Asia during the new year's address

- 2002.4.4. Confirmed the master plan at the National Economic Advisory Council Meeting and the Economic Policy Coordination Meeting

- 2002.7.24. Created an action plan with relevant ministries at the Economic Ministers' Meeting

19) [http://www.wikitree.co.kr/main/news\\_view.php.id=143324](http://www.wikitree.co.kr/main/news_view.php.id=143324)

20) Article 1 of the Special Act on Designation and Management of Free Economic Zones

〈Table 1-5〉 History of FEZs

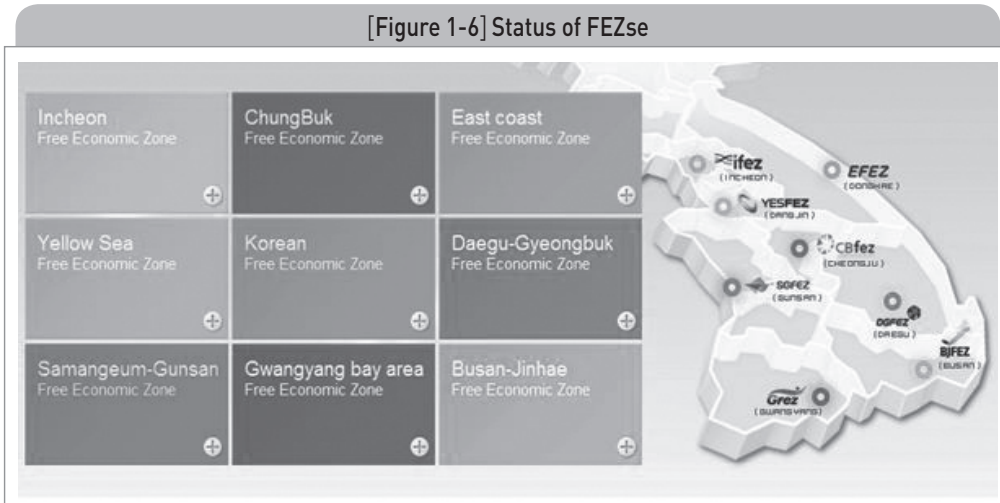
DATE	HISTORY
2002.1.	Declaration of the idea to become "the business hub of Northeast Asia" during the President's New Year's Address
2002.7.	Presentation of an action plan to become the business hub of Northeast Asia
2002.11.	Resolution by the National Assembly on the Special Act on Designation and Management of Free Economic Zones
2003.7.	Inauguration of the Free Economic Zone Committee (formerly under the Ministry of Finance and Economy)
2003.8.~10.	Designation of the Incheon FEZ and the FEZ of the Busan-Jinhae and Gwangyang Bay Area
2004.12.	Amendment of the Act on Designation and Management of Free Economic Zones for systematic improvements <ul style="list-style-type: none"> <li>• e.g., Opening of foreign hospitals to Korean residents and strengthening the independence of FEZ authorities</li> </ul>
2008.12.	Change in the organizational structure due to the government's (The FEZ Committee and the FEZ Planning Office to be headed by the Ministry of Knowledge Economy)
2009.1.	Amendment and proclamation of the Act on Designation and Management of Free Economic Zones as a special act
2009.8.	Conduct of performance assessments on the zones designated in 2003: Incheon, Busan-Jinhae, Gwangyang Bay Area <ul style="list-style-type: none"> <li>• By the Performance Assessment Committee</li> </ul>
2009.9.	Announcement of the strategic plans to promote FEZs and a legislation revision on the Special Act on Designation and Management of Free Economic Zones as a follow-up measure <ul style="list-style-type: none"> <li>• e.g., Strict designation and development standards, early development incentives, better foreign investment incentives, and effective administrative system</li> </ul>
2010.12.	Removal of FEZ designation <ul style="list-style-type: none"> <li>• Zones with business developers unselected and implementation plans not established</li> </ul>

Source: Seong-heon Hong and Jae-yeong Lee, "A Study on Institutional Improvement for effective Operation of Korea's Free Economic Zone," Journal of International Commerce and Information, Vol. 13(2), Korea Association for International Commerce and Information, 2012, pp.237-238.

### 3.3.2. Current Status of FEZs

#### 3.3.2.1. Designation Status

Currently, the designated FEZs are as follows.



Source: Korean Free Economic Zone, <http://www.fezone.go.kr>

〈Table 1-6〉 FEZ Designation Status

Name	Incheon	Busan-Jinhae	Gwangyang Bay Area	Yellow Sea	Daegu-Gyeongbuk	Saeman Geum-Gunsan	East Coast	Chungbuk
LOCATION	Incheon (Yeonsu-gu, Jung-gu, Seo-gu)	Busan (Gangseo-gu) Gyeongnam (Jinhae)	Jeonnam (Yeosu, Suncheon, Gwangyang), Gyeongnam (Hadong)	Chungnam (Dangjin, Asan, Seosan), Gyeonggi (Pyeongtaek, Hwaseong)	Daegu, Gyeongbuk (Gyeongsan, Yeongcheon, Gumi, Pohang)	Jeonbuk (Gunsan, Buan)	Donghae, Gangneung	Cheongwon, Cheongju
AREA	169.5km <sup>2</sup>	83.1	85.12	13.84	30.04	50.3	8.25	9.08
LAUNCH DATE (DESIG. DATE)	2004.10.15 (2003.08.11)	2004.3.30 (2003.10.27)	2004.3.24 (2003.10.27)	2008.7.22 (2008.4.25)	2008.08.13 (2008.04.25)	2008.08.28 (2008.04.25)	2013.07.09 (2013.02.04)	2013.04.26 (2013.02.04)
AIR PORT	Incheon Int'l Airport	Gimhae Airport	Yeosu Airport	Pyeongtaek Port Dangjin Port	Daegu Int'l Airport	Gunsan Port New Saeman geum Port	YangYang Int'l Airport	Cheongju Int'l Airport
PORT	Incheon Port	New Busan Port	Gwangyang Port				Donghae Port	

〈Table 1-6〉 FEZ Designation Status

COMPLETION YR. DEV PERIOD	2020							
	2020	2020	2020	2020	2020	2020	2024	2020
PROCESS	I . 03 ~ 09 II . 10 ~ 14 III . 15 ~ 20	I . 04 ~ 06 II . 07 ~ 15 III . 11 ~ 20	I . 04 ~ 10 II . 11 ~ 15 III . 16 ~ 20	I . 08 ~ 13 II . 14 ~ 20	I . 08 ~ 13 II . 14 ~ 20	I . 08 ~ 20	I . 13 ~ 24	I . 13 ~ 20
MAJOR INDUSTRIES	Business/ Finance/ Logistics High-Tech Medical / BT Education Culture / Tourism	Logistics - High-Tech - New City - Tourism / Leisure - Education / Medical	Logistics Manufacturing Global Business Offshore Tourism / Leisure	Auto parts Semiconductor / LCD Steel / Petro- chemistry	IT Industry High-Tech Transport Parts Green Energy Knowledge Service	Auto / Ship- building Machinery / Parts Renewable Energy Tourism / Leisure for China	High-Tech Components & Parts Logistics / Distribution R&D Tourism / Leisure	BT Air Machine Tourism / Leisure Auto Parts

Source: Korean Free Economic Zones, <http://www.fez.go.kr>

### 3.3.2.2. FEZ Incentives

Parties eligible to establish occupancy are local companies, 100% foreign-invested firms, and joint ventures with more than 10% shareholding by foreign investors. Foreign-invested firms are given up to seven years of tax benefits (same as the systems of the foreign investment zones). Manufacturing businesses investing more than USD 10 million, logistics businesses investing more than USD 5 million, tourism businesses investing more than USD 10 million, R&D investing more than USD 1 million, medical institutions investing more than USD 5 million, and project developers investing more than USD 30 million are eligible for a 100% exemption from corporate and income taxes for three years and a 50% reduction for the two years following. Manufacturing businesses investing more than USD 30 million, logistics businesses investing more than USD 10 million, tourism businesses investing more than USD 20 million, and R&D investing more than USD 2 million are eligible for a 100% exemption from corporate and income taxes for five years and a 50% reduction for the two years following. Custom duties (100% exempt for five years) apply to imported capital goods, and local tax like acquisition tax and property tax can be 100% exempt for up to 15 years depending on the enactment of the local government regulation to that effect.

For business support, there are various regulatory exemptions provided on labor affairs and management. For instance, foreign-invested companies are relieved from the over-populated regulation policy from the metropolitan area; the obligation to fill vacant job positions with "persons of national merit" or with a disability; the limitation on expanding the type of work and terms for dispatched worker assignments; and the restriction from providing unpaid leaves.

In terms of living conditions, there are exceptions given to create a foreigner-friendly living environment. For example, there are primary, secondary, and college institutions for foreigners only, and foreign medical institutions or foreigner-specific pharmacies may be established. For foreign educational institutions and research institutions entering the zones, there is financial support for construction and settlement. In the case of Korea, Songdo Global University opened in March 2010 as a global university campus for foreign universities to have branch campuses in Korea. In September 2010, six foreign universities, including the State University of New York, opened in the zone. Johns Hopkins Medicine International is also expecting to open soon. Other benefits include residential lots for the construction of houses for foreigners, houses for rent, direct engagement in foreign currency transfer to clear a business transaction (up to a limit of USD 10,000), and foreigner-only casinos.

In addition, the process for permits and licenses has been simplified for project developers at home and abroad, where 50% of government expenses and another 50% of regional expenses are provided as project expenses to construct access roads, main roads, common duct, and other infrastructure. In addition, project developers are given exemptions on 40 laws and various fees, and a maximum of 150% for the floor space to land ratio. Seven categories of the fees waived include the development impact fee, the transportation impact fee, and the farmland reservation fee.

For local companies, acquisition and registration taxes will be fully exempt, and property tax will be exempt for five years. Industrial complexes by legal fiction also receive the same exemption of local tax.

〈Table1-7〉 Foreign Investment Incentives in FEZs

TYPE	INCEN-TIVE	DETAILS		RELEVANT PROVISION
Good Business Conditions	Tax Reduction	Requirements for 5-Year Incentives	<ul style="list-style-type: none"> <li>• Manufacturing industry (USD 10 million or more)</li> <li>• Tourism Industry (USD 10 million or more)</li> <li>• Logistics Industry (USD 5 million or more)</li> <li>• Medical Industry (USD 5 million or more)</li> <li>• Project Developers (USD 30 million or more, or a project worth more than USD 500 million with more than 50% of the cost invested by a foreign investor)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Act 16(1) of the Special Act on Designation and Management of Free Economic Zones</li> <li>▶ Act 121-2 of the Restriction of Special Taxation Act</li> </ul>
		Eligibility	<ul style="list-style-type: none"> <li>• Corporate Tax, Income Tax (State Tax) and Acquisition/Registration Tax, Property Tax (Local Tax) : 100% exempt for 3 years and 50% reduced for the following 2 years</li> <li>* Local Tax may be 100% exempt for 15 years depending on the enactment of the local government regulation</li> <li>• Custom Duties: 100% exempt for 5 years</li> </ul>	
		7-Year Incentives	<p>(Extended tax reduction due to the amendment of The Restriction of Special Taxation Act on Jan. 1, 2009)</p> <ul style="list-style-type: none"> <li>• For the Manufacturing Industry (USD 30 million or more), Tourism Industry (USD 20 million or more), Logistics Industry (USD 10 million or more), R&amp;D (USD 2 million or more &amp; must hire more than 10 full-time researchers with a Master's degree or higher),</li> <li>• With the Free Economic Zone Committee's review and resolution, the exemption period may be extended to 100% exemption for 5 years and 50 % reduced for the following years</li> </ul>	

〈Table1-7〉 Foreign Investment Incentives in FEZs

TYPE	INCEN-TIVE	DETAILS		RELEVANT PROVISION
Good Business Conditions	Location Support	Lease	<ul style="list-style-type: none"> <li>• State and/or public properties may be leased up to a 50-year period (may renew thereafter within the 50-year period term)</li> <li>• Lease fee shall be determined by applying the rate (above 10/1,000) to the property value</li> </ul>	▶ Act 16(2) and (4) of the Special Act on Designation and Management of Free Economic Zones
		Lease Exemption	<ul style="list-style-type: none"> <li>• May be 50%-100% exempt depending on the enactment of the local government regulation (negotiable)</li> </ul>	
		Purchase	<ul style="list-style-type: none"> <li>• May purchase state or public properties through a private-negotiated contract at price equal to the original property cost</li> </ul>	
	Cash Subsidy	Eligibility	<ul style="list-style-type: none"> <li>• Must be a foreign-invested company in Korea with the foreign investment amount of more than 30% of the cost</li> <li>• USD 10 million or more investment in a high-tech parts and materials manufacturing factory being newly established or expanded, more than 10 full-time researchers with a Master's degree or higher for an R&amp;D facility</li> </ul>	▶ Act 14-2 of the Foreign Investment Promotion Act
		Amount	<ul style="list-style-type: none"> <li>• May be negotiated but a minimum of 5% of the investment amount</li> </ul>	
	Facility Support	<ul style="list-style-type: none"> <li>• Preferential assistance in the construction of infrastructures (Within 50% of the construction budget)</li> </ul>	▶ Act 18 of the Special Act on Designation and Management of Free Economic Zones	
	Deregulation on Labor Affairs	<ul style="list-style-type: none"> <li>• No obligation to fill vacant job positions with "persons of national merit" or with a disability; the limitation on expanding the type of work and terms for dispatched worker assignments; and the restriction from providing unpaid leaves</li> </ul>	▶ Act 17 of the Special Act on Designation and Management of Free Economic Zones	



〈Table1-7〉 Foreign Investment Incentives in FEZs

TYPE	INCENTIVE	DETAILS	RELEVANT PROVISION
Good Business Conditions	Foreign Exchange Transactions	<ul style="list-style-type: none"> <li>• Direct engagement in foreign currency transfer to clear a business transaction (up to a limit of USD 10,000)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Act 21 of the Special Act on Designation and Management of Free Economic Zones</li> </ul>
	Administrative Support	<ul style="list-style-type: none"> <li>• One-stop administrative services (FEZ Authorities, PM designation)</li> <li>• Provision of foreign-language services</li> </ul>	<ul style="list-style-type: none"> <li>▶ Act 27-2 of the Special Act on Designation and Management of Free Economic Zones</li> <li>▶ Act 20 of the Special Act on Designation and Management of Free Economic Zones</li> </ul>

Note: Incentives vary according to FEZs.

Source: Ministry of Knowledge Economy (2010). Recited from KDI (2010).

〈Table 1-8〉 Local Tax Exemption and Reduction in FEZs

District		Acquisition and Registration Taxes (City and Provincial Taxes)	Property Tax (City, County, District Taxes)	
Incheon		100% for 15 years	100% for 10 years 50% for the following 3 years	
Busan-Jinhae		100% for 15 years	100% for 7 years 50% for following 3 years	
Gwangyang Bay Area		100% for 15 years	100% for 15 years	
Yellow Sea		100% for 15 years	100% for 15 years	
Daegu-Gyeongbuk	Suseong Medical District	100% for 10 years 50% for the following 3 years	50% for 10 years	
	Sinseo District		100% for years 50% for the following 3 years	
	International Fashion District			
	International Culture District			
	Daegu Technopolis		100% for 10 years 50% for the following 3 years	100% for 10 years 50% for the following 5 years
	Pohang Fusion Tech District			
	Gumi Digital District		100% for 15 years	
	Gyeongsan R&BD District		100% for 7 years 50% for the following 3 years	
	Yeongcheon Industry District			
High-Tech Park District				
Saemangeum-Gunsan		100% for 15 years	100% for 15 years	
East Coast (Donghae, Gangneung)		100% for 15 years	100% for 15 years	
Chungbuk		100% for 15 years	10 years exempt 50% for the following 5 years	

Note: Some areas may apply different exemption requirements, such as a local tax exemption for foreign investment companies or businesses run by a local company or a foreign investment company.

Source: Ministry of Trade, Industry and Energy, Korea Development Institute.

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### 3.3.3 Operating System of FEZ

FEZs are operated by both the central government (FEZ Committee and FEZ Planning Committee) and regional governments (FEZ authorities).<sup>21)</sup>

#### 3.3.3.1. Central Government

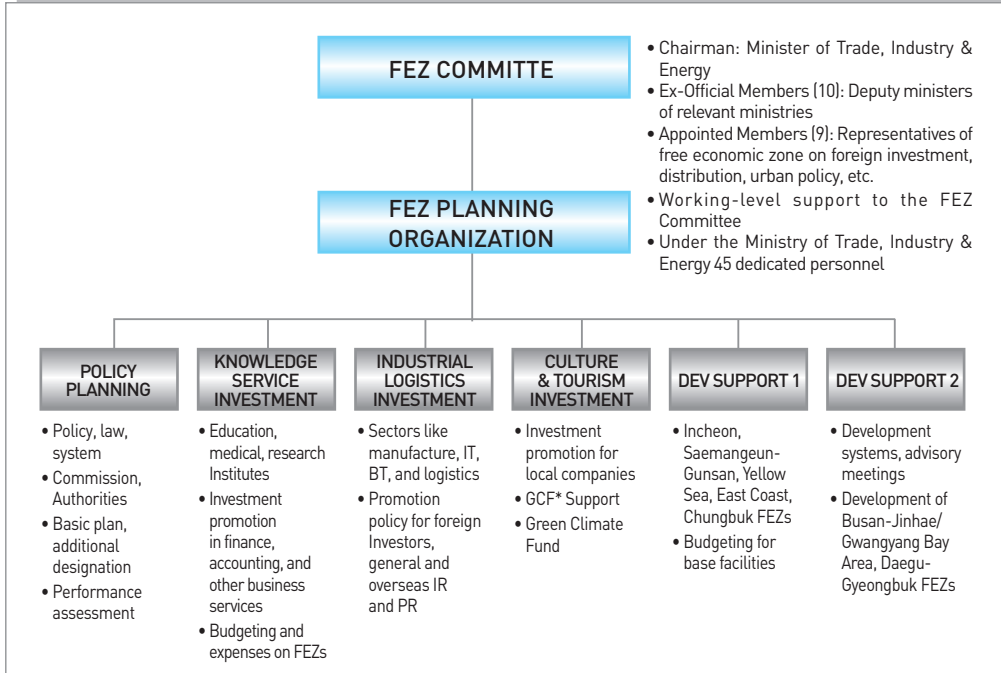
The FEZ Committee, operated at the central government level, is a non-permanent consultative body that oversees all matters and affairs involving FEZs.<sup>22)</sup> Some of the affairs handled by the FEZ Committee are: the basic policy and system with regard to FEZs; designation, cancellation of designation, and the alteration of designation of FEZs; FEZ development plans and its implementation; the provision of administrative services required by foreign-invested enterprises to operate their businesses in FEZs; the coordination of opinions with the heads of central administrative agencies and the mayors and governors with regard to FEZs; and other necessary matters concerning the designation and management of FEZs prescribed by the Presidential Decree.

The FEZ Committee is comprised of one chairman, one vice chairman, ex-officio members, and 10 appointed members.

21) KDI, *A Study on the Revitalization of the Free Economic Zone*, 2010, p. 7.

22) *Ibid.*, p.7.

[Figure 1-7] Related Central Agencies of FEZs



Sources: Ministry of Trade, Industry & Energy, <http://www.motie.go.kr/motie/mi/on/institution/institutionstaff/organizationUser/institutionView.do?organ=view>, FEZ Homepage: <http://www.fez.go.kr/kr/planning-office-introduction.js>

There is also the FEZ Planning Office under the Ministry of Trade, Industry & Energy, assisting the operation of the FEZ Committee.<sup>23)</sup> Its working-level assistance includes: the formulation and planning of policies and systems with regard to FEZs; management of the laws on FEZs and coordination with other related laws; consultation and approvals on plans for developing FEZs; assistance in the operation of the FEZ Committee, such as preparation of the agenda; survey of materials; public relations; and international cooperation with regard to FEZs.<sup>24)</sup>

### 3.3.3.2. Regional Governments

FEZ authorities are operated by regional governments. A local government may set up an FEZ authority for administrative duties. If an FEZ is located between two cities or provinces, the mayors or governors of the two areas can agree to establish a joint administrative agency. The Commissioner is appointed by the mayor or the governor but must be in agreement with the Ministry of Trade, Industry & Energy.

23) Ibid., p.8

24) Bo-Hyun Kim and Dong-Geun Lee, "A Study on the Impact of Free Economic Zone Policy on the Foreign Direct Investment Decision", *The Korea Local Administration Review*, Vol. 25, No. 1, March 2011, p.253.

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In terms of financial assistance, the state is to provide assistance as prescribed by the Presidential Decree to support the operation of FEZ authorities. For accounting and finance, the authorities must set up special accounts or create separate accounts under the general or special accounts of the city or province in accordance with the Local Finance Act.

The quota of an authority is decided by the Local Autonomy Act, and may have public officials of the relevant local government fill the capacity. The commissioner of an FEZ authority receives his or her appointment as a public official of an FEZ authority from the mayor or governor in which the FEZ authority is located.<sup>25)</sup>

#### 3.3.3.3. The Governance System for the Operation of FEZs

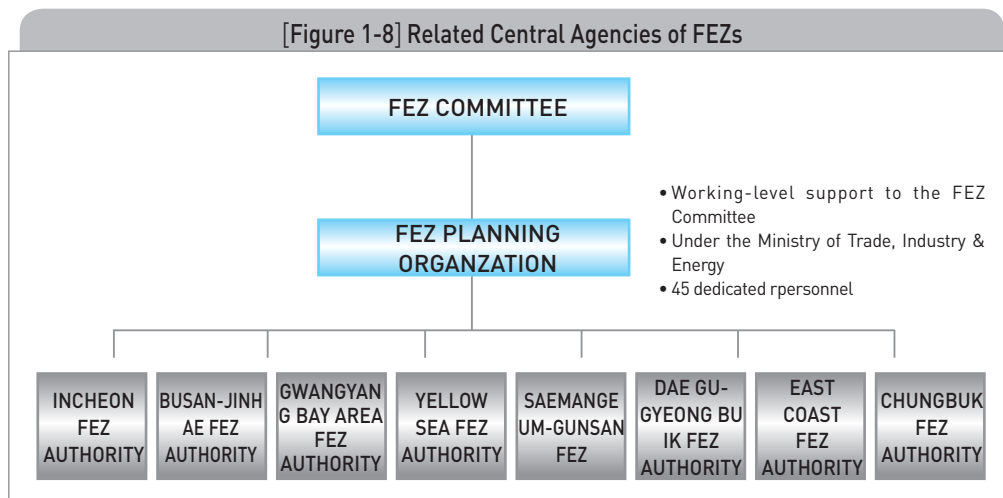
Based on the Act on Free Economic Zones, FEZs are operated in three phases of [Designation-Development-Investment Promotion], where the roles are split between the central government and local governments. The governance system is headed by the FEZ Commission, and FEZ authorities operate under the FEZ Planning Office of the Ministry of Trade, Industry & Energy. Based on this organizational structure, the agencies receive support and cooperation from local governments and KOTRA on land development projects and foreign capital attraction projects.

The designation and development phase of an FEZ begins with a mayor or a governor submitting an application form for development planning and the appointment of a district to the Ministry of Trade, Industry & Energy. Then, the mayor or the governor requesting the designation meets with the FEZ Committee and the FEZ Planning Office and proposes a development plan. The plan is then reviewed and deliberated on by the FEZ Committee, especially in terms of its environmental effects and metro-wide transport improvement measures. When the plan is approved by the FEZ Committee, the city or province is designated as an FEZ. Finally, the Minister of Trade, Industry & Energy needs to approve the designation and the development plan. Following the Minister's approval, there is a review and validation stage for the designated zone. When approved, the land is developed. Settlement conditions for foreigners, such as education, medical, cultural facilities, are created by selecting a project developer and signing a contract. The mayor or governor of the designated area then hands over associated tasks and duties to its FEZ authority, and provides budgets and manpower.<sup>26)</sup>

25) *Special Act on Designation and Management of Free Economic Zones*, <http://www.yeslaw.com/lims/front/page/fulltext.html?pAct=view&pLawId=3507>

26) Song-Hog Hong and Jae-Young Lee, "A Study on Institutional Improvement for effective of Korea's Free Economic Zone", *International Commerce and Information Review*, Vol. 13, No. 6, June 2011, p.250.

At the investment promotion stage, the relevant FEZ authority selects investors according to its development plan and attracts enterprises and research institutions by providing incentives. Depending on the development concept, the FEZ Authority may carry out promotion activities.<sup>27)</sup>



Source: Korean Free Economic Zones, <http://www.fez.go.kr>

### 3.3.4 Issues and Improvement Measures on the Governance System for the Operation of FEZs

#### 3.3.4.1. Problems in Driving FEZs

After adopting the FEZ system in 2003, the Ministry of Knowledge Economy made several reform attempts to bring changes to foreign investment, which remained low and inactive. These efforts, however, ended at the regional level and failed to resolve fundamental issues, such as overexploitation.

The biggest problem was a lack of comprehensive consideration for regional development. While the formation of FEZs was one of the various policies on regional development, the government failed to consider its connectivity to existing cities. Initially, the planned population of FEZs was 1.12 million, which would have greatly affected the existing urban structure, but the government failed to consider issues, such as deterioration in cities and distribution of roles with nearby cities.

To address such problem, the Korean government began to additionally initiate similar businesses within FEZs from 2011. Issues on industrial complexes within FEZs

27) KDI, *op. cit.*, p. 9.

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are being discussed with the Ministry of Land, Transport and Maritime, but there lacks a communication channel for issues other than industrial complexes, such as general land for industrial use and housing sites.

The second issue is a lack of expertise among agencies of FEZs. Unrealistic plans were set because the agents initiating FEZs lacked expertise in development projects. When FEZs were first promoted, there were no measurable goals, and only in 2012 was the first draft of Free Economic Zone Basic Plan created, setting goals for 2021. As such, all sorts of unrealistic policy exist. For the development of an FEZ, having skilled individuals in the zone makes a significant difference, which the government failed to note thereby negatively effecting the long-term development of the zone. In order to attract skilled workers, the zone should be equipped with more than just basic living infrastructure: there should be the facilities and the necessities to fulfil one's desire for a quality life.

Contrary to the original intention to promote foreign investment, FEZs became regional development projects and are performing poorly on foreign investment promotion.

#### 3.3.4.2. Problems in the Governance System for FEZs

The first problem in the governance system is found in the development process. When applying to be designated as an FEZ, all the paperwork for the development plans are put together by the mayor or governor, who sets the development plans all at once. For this reason, there is a long-term delay in executing the plans, leading to the violation of property rights and an increase in land prices. In the 68 districts designated in 2003, 27 projects have not been launched and 15 districts are still waiting for project developers.

The second problem is the lack of cooperation in governance. For foreign capital attraction, cooperation with related institutions is one of the key factors; however, whether from a process perspective or a substantive perspective, such cooperation is rarely seen<sup>28)</sup>.

The third issue is the weak influence of the FEZ Commission. According to the Government Performance Evaluation Office of the Prime Minister (2009), the

28) There are views that related organizations fail to cooperate and work together smoothly as a group because the Ministry of Knowledge Economy evaluated each institution, like KOTRA and Authority, independently for foreign capital attraction. As the evaluation was used as data to determine the government's subsidies for the concerned institution, institutions were under competition (The Board of Audit and Inspection of Korea, *Operation of FEZs and Status on Project Implementation*, 2009. 12.p23)

FEZ Commission is functioning in a perfunctory manner. Since 2003, 19 out of 32 meetings held by the Commission were done on paper, and when the Commission's duties were transferred to the Ministry of Knowledge Economy in 2008, the three face-to-face meetings were attended by proxies on behalf of all the government commissioners. For this reason, the governance system failed to reflect the policy direction of the government.

#### 3.3.4.3. Implications to Promote FEZs

First, there needs to be a mid- to long-term plan in connection with the national comprehensive plan. Along with the mid- to long-term plan, a short-term implementation plan is required. In addition, a road map needs to be created so that the plans can be connected. Furthermore, there is also a need to promote the clustering of scattered investment areas by region.

Second, a national governance system for regional governance and the development of FEZs is required<sup>29)</sup>. In order to promote and vitalize FEZs, regional governance and national governance need to come together rationally so that investors can fundamentally save time for licensing and approval.

By building a cooperative governance system between the federal government and local governments, the current consecutive method of process should become simultaneous. In other words, instead of having to wait until the concerned mayor or the governor reaches an agreement to proceed to the next step of a meeting among federal government departments, the meeting between the departments should take place along with the meeting with the mayor or the governor.

In addition, individual consultation by ministry should be combined for a single review by the federal government through an integrated review system. If and when individual consultation is required, ad-hoc meetings and consultation may be permitted. This new operation method should apply to the advisory meetings as well.

By putting cities and provinces in more control over the approval process, the autonomy of cities and provinces should be protected. Also, when there is a dispute or a conflict between ministries, the FEZ Committee should act as a mediator to resolve the issue.<sup>30)</sup>

29) Hyung Gon Jung and Seong Kwon Nah, *FEZ Development Strategy for Improvement of Investment Environment*, KIEP, 2008.

30) *Ibid.*, p.88.



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## 4. Restructuring Measures of the Administrative System for Investment Promotion in the Primorsky Territory

In most nations, the public sector, such as legal, institutional, and system-based areas and cooperation between the central and regional governments, plays a pivotal role in producing results in foreign investment. One of the important tasks for a better investment promotion climate for the Primorsky Territory is to build and implement an administrative system in an effective and efficient way.

The following are six proposed restructuring measures for the administrative system for investment promotion in the Primorsky Territory: 1) promoting the status of PIPA; 2) strengthening cooperation between the Russian Federation and the Primorsky Territory governments; 3) establishing communication channels between investment promotion agencies and meeting on a regular basis; 4) analyzing competitiveness in investment promotion using benchmarks 5) re-designing for investor-oriented investment promotion process; and 6) facilitating a special economic zone.

### 4.1 Promoting the Status of the Primorye Investment Promotion Agency(PIPA)

If PIPA wants to conduct activities and achieve results in accordance with the established purpose, its status should be promoted further enough to offer single window service. This status needs to be achieved within a bilateral relationship with the Primorsky Territory government. The full administrative and financial support of the Governor of the Primorsky Territory, who is also the Supervisory Board Chairman of PIPA, is highly required.

With this enhanced status, PIPA should be able to coordinate interests among related agencies including the Primorsky Territory government, the Ministry for the Development of the Russian Far East, and the ASI; identify potential investors; and offer overall investment-related consulting services. Comprehensive services to start business in the Primorsky Territory need to be provided by single window service. In the long term, dedicated investment officers also need to be dispatched in a strategic region to consult with local companies there and provide them with the information on investment in the Primorsky Territory.

It is necessary for PIPA to call the attention of the Russian Federation and the Primorsky Territory governments by pinpointing the causes that prevent investment in the region from being facilitated, and to encourage foreign companies to

do business in the region by designating additional special economic zones. The advantages of foreign investment need to be identified considering the characteristics of the region. Industries and businesses also need to be selectively targeted for focused investment promotion activities. Once the target is set, proactive and aggressive marketing efforts such as direct contact with target businesses should be launched.

PIPA needs close cooperation with and support from the Primorsky Territory Government and needs to maximize the utilization of its autonomous areas that can be provided without the Russian Federation government's decision-making. Administrative services including registration and permissions and authorization, in particular, should be improved by the Primorsky Territory government or PIPA itself. If necessary, such efforts for improvement should be proactively requested to the federal government.

PIPA should listen to related foreign agencies and businesses in the Primorsky Territory and promote communication with them for a better investment climate. For example, by adapting the federal government's Foreign Investment Ombudsman System for the Primorsky Territory, PIPA needs to function as a customized system to be attentive to difficulties or complaints that foreign investors have in taxation, investment procedures and incentives, tariff and trade, labor and personnel, law, insurance, land for building and factory site location, visa and immigration, environment and others, and to serve as a communication channel offering solutions based on collaboration with the Primorsky Territory government.

In particular, it is worth noting Korea's "Invest KOREA," which formed a Grievance Settlement Body that consists of a group of experts, called "Home Doctors," in fields such as finance, construction, information technology, law, accounting. By positioning the Home Doctors in the same office space, they react collectively and immediately to the difficulties appealed by foreign investors. Utilizing such a system, it is necessary to identify the practical difficulties foreign investors suffer from. Based on that understanding, policy reflection and system improvement should be requested to the Primorsky Territory government as well as to the Russian Federation government to provide better incentives and create a favorable business climate.

In particular, considering that attracting re-investment from foreign investors who have already made investment in the region is more cost-efficient than new investments, policies to prevent investors from leaving and to encourage them to reinvest need to be made with the governments.

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## 4.2. Strengthening Cooperation between the Russian Federation and the Primorsky Territory Government

As there are not many laws or systems independently governed by the Primorsky Territory government and efforts to improve them at the federal government level should be accompanied, the Primorsky Territory government should propose measures to improve and ease investment-related laws and regulations and drive discussions to reflect their priority.

The Primorsky Territory government needs to provide businesses that have shown their intention to invest with market-oriented incentives in cooperation with the federal government. Those incentives are about guaranteeing land provision and residential, educational, and medical conditions. To this end, the Primorsky Territory government should propose and persuade the federal government to establish a system in line with international standards in the areas of law, tax, labor, finance and accounting.

In the case of permissions and authorization, as there are many complaints from foreign investors not only because of regulations, the Primorsky Territory government should provide foreign investors with predictability by enacting regulations that stipulate the maximum period required and how to raise complaints in regards to the permissions and authorization procedures under the authority of the government. Easy access to information by foreign investors needs to be considered by offering English language brochures to them. In particular, simple procedures to file an objection for the cases in which permissions and authorization are improperly denied need to be made and promoted.

At the federal government level, foreign investors need to be guaranteed against potential insecurity in investment profit due to political uncertainties from changes in government to changes in the basic economic condition or social system. Using guarantee services from international organizations such as Multilateral Investment Guarantee Agency (MIGA) is an option for consideration. Building a safety net, which is a prerequisite for foreign investment promotion, would be impossible without the strong commitment of and cooperation between the Primorsky Territory and Russian Federation governments.

### 4.3 Establishing Communication Channels among Investment Promotion Agencies and Meeting on a Regular Basis

The Primorsky Territory government needs to establish a process and a channel to build and share investment promotion strategies in accordance with the federal government's economic development policy, Russian Far East development strategy, and specialized policy for the Primorsky Territory by organizing a "foreign investment policy council", holding a quarterly meeting for strategic investment promotion, and sharing information and building a channel for cooperation between the federal government, the Ministry for the Development of the Russian Far East, the Primorsky Territory government, PIPA, and SEZs.

In order to make the council work effectively, the participation in the council of high-ranking officials from investment promotion and development related federal government agencies, such as the Ministry of Economic Development, the Ministry of Regional Development, the Ministry for the Development of the Russian Far East and ASI should be made official so as to secure a regular and efficient bottom-up communication channel.

The participants should gather and combine macro and micro information based on defined roles and responsibilities and devise short-, mid-, and long-term investment promotion strategies together. To this end, the role of government agencies should be presenting information at the macro level, such as the future direction and tasks for economic and industrial policies and the policies they support. PIPA should identify and research FDI trends and issues, report on the status and prospect for investment promotion, the investment trend by overseas business center, the status of individual projects, and propose policies. For SEZ, its role should be calling attention to foreign investment-related issues unique to each special economic zone, reporting on the requests for support, the status of individual projects and problems, and proposing policies.

The short-, mid-, and long-term investment promotion strategies mentioned above should be shared among those in charge of investment promotion. Therefore, the information system for investment promotion needs to be set up to serve as a channel through which various uploaded materials and posted ideas and comments can be shared.

Marketing activities for investment promotion should be launched together. The investment delegation and IR (investor relations) events planned and carried out by the Primorsky Territory and Russian Federation governments, PIPA, and SEZ for marketing purpose should be coordinated through the council for the

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efficient execution of resources at the national level. PIPA should play a leading role in consolidating and coordinating investment delegation and IR events. A co-marketing process should be introduced to help the events to be held at a larger scale, produce meaningful results, and represent industries in a balanced manner.

Likewise, in order to further activate collaborative efforts in building investment promotion strategies and implementing the co-marketing activities, it is necessary to encourage investment promotion institutions of the Primorsky Territory government as well as the federal government branches in the region, such as the Ministry of Economic Development, the Ministry of Regional Development, the Ministry of the Development of the Russian Far East, and ASI, to be geographically more close to one another. If possible, it is worth considering the relocation of these institutions to the same site as PIPA to facilitate joint promotion for foreign investors, and thus formulate practice-based policy and identify areas for improvement.

## 4.4 Analyzing Competitiveness in Investment Promotion Using Benchmarks

In order to improve the investment promotion climate in the Primorsky Territory, it is necessary to face up to whether the region is competitive in investment promotion compared to other nations and regions. Investors may decide on whether or not to invest in the Primorsky Territory. Their decisions, however, are more about whether to invest in the Primorsky Territory or in other nations or regions. Therefore, the Primorsky Territory's investment promotion competitiveness needs to be thoroughly analyzed from the perspectives of a macroeconomic environment, the federal government's policy environment and the industrial climate within and outside of the region. Based on this analysis, once key areas for improvement are identified, efforts should continue to be made to work on them.

Analyzing investment promotion competitiveness in the region requires study on a regular, biennial basis from the perspectives of investment promotion structure, business and living environment, and investment incentives. The analysis of and comparison between key nations and Asian competitors in terms of investment climate should be used as reference in making investment promotion policies and improvement measures for support. It is desirable to use the indicators of international organizations including the World Bank Group's Doing Business and the OECD's product market regulation indicators and New Business Density to make comparison and analysis easier and continue to secure a driving force for improvement by setting a goal. Under the "Road Map to Favorable Investment Climate" by ASI, the degree of improvement is being monitored in nine areas including power grid connection, tariff, property registration, competition promotion, export support, state-owned company's participation in procurement,

regulations and construction. Considering the relevancy of the federal government investment promotion policies, it is advisable to use the road map as a benchmark.

Policy approaches focusing on eased regulations are needed not only to improve the business climate but also to create a livable environment for foreign investors. In the areas of housing, education, and medical infrastructure, which are key factors in improving a living environment, what is important is building a climate in which foreign companies can freely make investments under relaxed regulations on related services. It is not about building that infrastructure alone.<sup>31)</sup>

For a better living environment for foreign investors, competitive foreign companies need to be attracted by eased regulations of market entry on education, medical and other key services. In earlier stages, it is necessary to make plans for building infrastructure and housing supply catered to their demands.<sup>32)</sup>

## 4.5 Re-Designing for Investor-Oriented Investment Promotion Process

Investment promotion related tasks in the Primorsky Territory involve more than 30 departments including PIPA and the Department of Economics in Primorsky Territory depending on the type of the task. It is important for investors to feel that they are given the most favorable attention and best services and everything is taken care of under the system when they review the investment in this region and start investment procedures. To this end, an investment promotion tasks need to be re-designed to focus on investors not on investment promotion agencies.

First of all, an investment information system should be developed. As potential investors tend to be hesitant in their decisions due to uncertainties and risk factors, PIPA's professional and efficient services should resolve this issue. To this end, an investment information system needs to be developed to provide up-to-date information on the overall investment process. By implementing Customer Relationship Management (CRM) in the system, investment promotion-related internal tasks and data should be systematically accumulated. Real-time support to investors should also be made through interactive communication. Information should be provided primarily in English and then gradually expanded to the languages of investors. FAQ and Q&A in the system handle simple investment inquiries and information requests for a quick response. Contact information should be highly visible to better respond to email and telephone inquiries.

31) Ibid., p.91.

32) Ibid., p.5.

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In addition, it is necessary to introduce a PM system in which dedicated project managers support continued investment counseling or critical investment projects. Designation of co-PMs which consist of those in charge from PIPA and specific departments in the Primorsky Territory government should be promoted so as to quickly process complex civil complaints covering factory building, moving into an industrial complex, local tax reduction, and subsidiary support. When a PM is designated, a process to inform potential investors of the designation should be formalized.

Lastly, single window service for administrative processes needs to be further promoted. PMs serve as a single window service. Their role is counseling, contact, application, issuance, and notification in regards to administrative civil complaints targeting various government agencies on behalf of investors. As other services for business activities and living are required, an 'investment information system' should offer all kinds of information including administrative procedures, permissions & authorization, living tips, tax, and employment for investors to move in and settle and start their business. From an offline perspective, competent PMs should be provided from PIPA in order to offer counseling, consulting, and related materials.

## 4.6 Re-Establishment of the Role of PIPA

PIPA is a new institution of just a little over a year. According to its Charter, PIPA was established to promote investment within the region, eliminate administrative barriers, and create a favorable investment image. However, PIPA is not able to fully perform these functions yet, due to its lack of managerial resources, such as personnel and budgets, as well as the unsettled division of roles with investment promotion-related departments of the Primorsky Territory government. In addition to setting up its originally intended roles and responsibilities, a few suggestions on the roles of PIPA that are considered desirable for effective investment promotion are as follows:

First, with a dedicated investment promotion agency already in place, the Primorsky Territory government should delegate investment promotion-related works to PIPA. Also, the personnel of PIPA need to belong to PIPA permanently, rather than being dispatched for a certain period of time. It may not be an exaggeration to say that currently, a small number of PIPA officials are promoting investment based on their individual capabilities. Considering the characteristics of public organizations, capable individuals, including the head of PIPA, cannot permanently serve one position performing the same job tasks; therefore, it is essential for PIPA to be more systematized by means of a divisionalized organizational structure for longer-term sustainability. As a way of capacity building for officials, it may be worth considering an aggressive incentive system

where individuals or teams exceeding the investment promotion goal are given a performance-based cash bonus.

Second, the main focus of PIPA should be to harmonize Federation-wide development and investment promotion strategies and the ones of the Primorsky Territory. Designating a special economic zone without a focus can be disadvantageous from the perspective of selection and concentration. PIPA and SEZs have ports and logistics in common as a selling point. Also, as the same incentives are granted under the same legal system with the federal government, there are concerns that PIPA is likely to compete with the federal government's initiatives. Therefore, coordination and adjustment at the national level is required to avoid such overlap.<sup>33)</sup> If PIPA fails to build an official and regular access for discussions with the federal government as well as with the Primorsky Territory government, it would be difficult to set and adjust such policy directions to improve the investment climate.

The third is developing new strategies and policies related to foreign investment promotion such as creating new incentives and strengthening relations between FDI and domestic industries. Incentives for foreign investment promotion under the domestic system are practically more or less the same. It is told that a related government department is planning to standardize incentives so that they are all at the same level. Incentives, however, are one of the key factors in investment promotion. As of now, systems implemented for foreign investment companies are nearly the same and there are not many incentives independently granted by the Primorsky Territory government.<sup>34)</sup> However, it is necessary to make continuous efforts to expand its authority to provide incentives and create new incentives. For example, it would be considerable to postulate the investments of foreigners to a local company as a type of foreign investment and introduce an incentive system to facilitate such equity investment. Another focus that PIPA should consider is to link foreign investment along with the development of domestic industries. In order to do so, a long-term insight and plan, as well as competency to coordinate conflicts between regions are necessary and required. These roles are considered to be the mission of PIPA at its early stage.

33) Jungseok Research Institute of International Logistics and Trade, *A Study on the Efficient Management of FEZ Authority*, 2004, p.195.

34) *Ibid.*, p.195.



〈Table 1-9〉 Measures to Restructure the Administrative System

#### Short-Term Measures

- ◇ Promoting the status of PIPA by re-establishing its function
  - Administrative and financial support required
  - Laying a foundation for the one-stop single window service
- ◇ Multi-dimensional governance for investment promotion
  - Further promotion activities
  - Cooperation among local governments' investment promotion agencies
- ◇ Inter-governmental consultative body
  - a consultative body among the federal government, the Ministry for the Development of the Russian Far East and PIPA
  - Co-marketing for investment promotion

#### Mid-Term Measures

- ◇ Restructuring incentive system
  - Reorganizing tax break system
  - Enhancing permissions & authorization support system
- ◇ Promoting investment competitiveness
  - Utilizing international indicators
  - Continued promotion to improve investment climate
- ◇ Enhancing the competency of PIPA
  - Identifying and nurturing civilian PMs
  - Developing investor-oriented investment information system

#### Long-Term Measures

- ◇ Cooperative structure between the Russian Federation and the Primorsky Territory governments
  - Discussing investment promotion related laws and regulations
  - Offering market-oriented incentives
- ◇ Upgrading business environment to global level
  - Dealing with employment issues
  - Consulting to support labor management
- ◇ Improving living environment for foreigners
  - Identifying investment-related difficulties/complaints in the field
  - Upgrading living conditions for foreigners

Source: Primorsky Krai Investment Portal, <http://invest.primorsky.ru/api/index.php/ru>

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2013 Knowledge Sharing Program with Russia  
Primorsky Territory: Policy consultation to strengthen  
Russian economy's capacity

## Chapter 2

# Capacity Building for Primorye Investment Promotion Agency (PIPA)

1. Overview of PIPA
2. Capacity-building for PIPA
3. Knowledge Sharing: Korea's Experience
4. Strengthening Ability of PIPA
5. Policy Recommendations and Conclusion

# Capacity Building for Primorye Investment Promotion Agency (PIPA)

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## Summary

In May 2011, the Russian Federal Government unveiled a plan for Primorye Investment Promotion Agency (PIPA) in a bid to create the world's top-20 Doing Business environment, and subsequently established PIPA in November 2012. The Primorsky Territory has vast potential for investment and growth. However, PIPA is still in a nascent stage of providing preliminary services, and yet to fully conduct investment promotion activities.

This study assesses the current operation of PIPA and proposes how to strengthen PIPA's capacity so that it can effectively improve business environment and promote foreign investment in the Primorsky Territory. Section 1 examines organizational structure, website, and investment portal of PIPA, as a preliminary study for PIPA's capacity building. Section 2 discusses specific measures to build PIPA's capacity that include acquiring legal status as a permanent establishment, strengthening its role as an investment promotion agency, and providing market-oriented services. The discussion highlights the need to set up strategies in response to global economic trends, tap into more diverse funding resources from development banks and international financial institutions, play a bigger role in multilateral development initiatives, and work as a single-window in a multilateral investment platform. Section 3 introduces Korea's investment promotion agency, Invest KOREA, and the experience of developing Incheon Free Economic Zone, which can be a useful reference for more effective operation of PIPA. Section 4 proposes how

to strengthen PIPA's capacity based on the analysis of its current operation as well as case studies of Korea's experiences. Specifically, it maps out a three-stage capacity-building strategy for organizational capacity-building and investment promotion. The former involves establishing a legal and systematic ground for investment attraction, a multilateral investment platform, and efforts to enhance organizational structure and quality of human resources. The latter calls for goal-oriented promotion services, personalized investment support, broader information disclosure, and stronger promotion of the investment agency. Lastly, Section 5 offers policy recommendations on how PIPA can successfully fulfill its roles with stronger capacity.

## 1. Overview of PIPA

The Primorsky Territory is part of Vladivostok where the 2012 APEC Economic Leaders' Meeting took place, and it has potential to become a hub of Northeast Asian economy. 414 million people reside within a radius of 1,000km from Vladivostok, representing 9.5% of the global GDP (USD6.6 trillion).

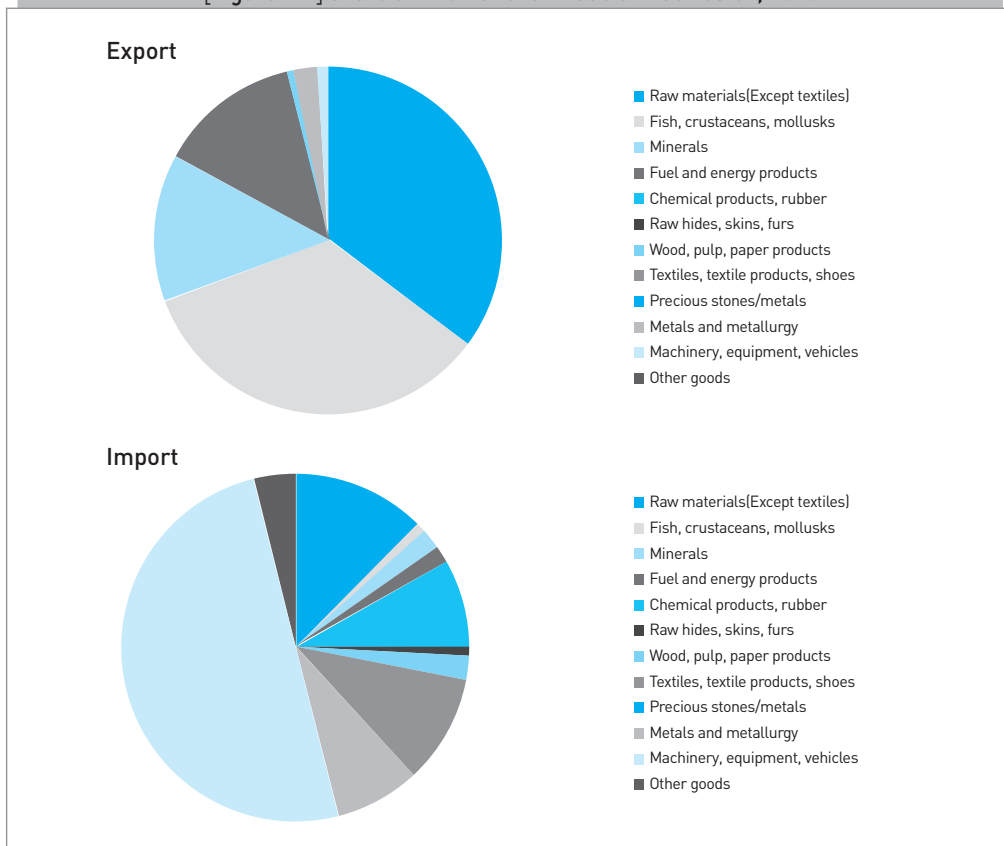
[Figure 2-1] Areas within a Radius of 1,000km from Vladivostok



Source: Russian Trade Representation in USA, APEC Russia 2012, <http://www.rustradeusa.org/eng>

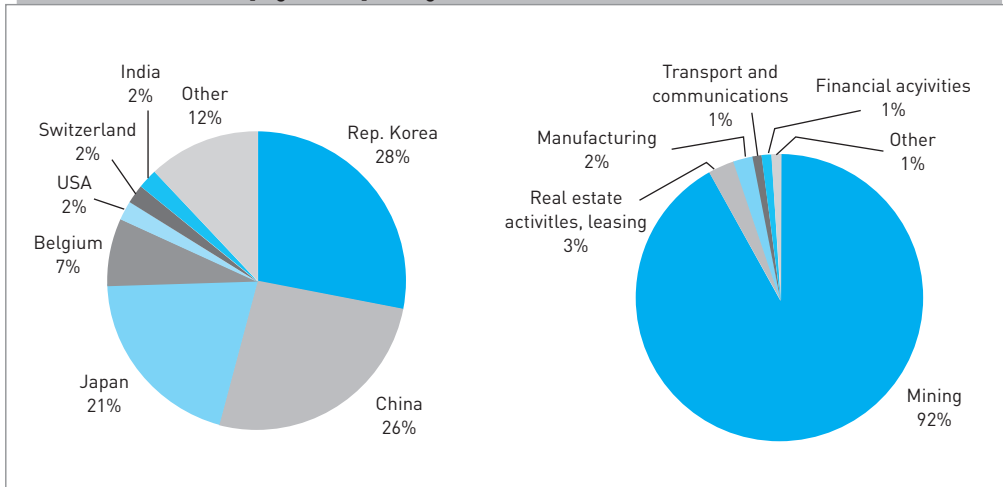
The Primorsky Territory is expected to experience a booming growth in logistics infrastructure and energy supply, and develop into a new industrial and economic hub, backed by advanced manufacturing and heavy chemical industries, as well as geopolitical advantages. FDI in Russia's Far East area surged from 2000 and onwards. It grew 16.5 times in the past 10 years. Among Korea's investment in Russia, the Far East accounted for 25% in 2012, a sharp increase from merely 6% in 2011 (Kim 2013). By industrial sector, mining represented 92% of FDI in Russia, indicating an urgent need to diversify areas of investment.

[Figure 2-2] Share of International Trade of Vladivostok, 2010



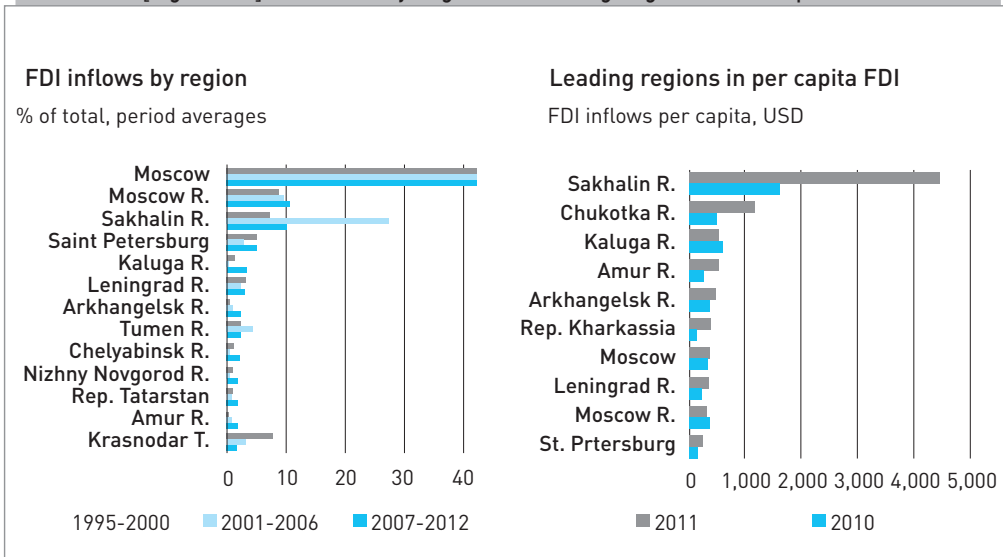
Sources: Russian Federation Federal State Statistics Services, Regiony Rossi, 2011, [http://www.gks.ru/wps/wcm/connect/rosstat\\_main/rosstat/en/main/](http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/en/main/)

[Figure 2-3] Foreign Investment in Russia's Far East



Source: Russian Federation Federal State Statistics Services, 2011, [http://www.gks.ru/wps/wcm/connect/rosstat\\_main/rosstat/en/main/](http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/en/main/)

[Figure 2-4] FDI Inflows by Region and Leading Regions in Per Capita FDI



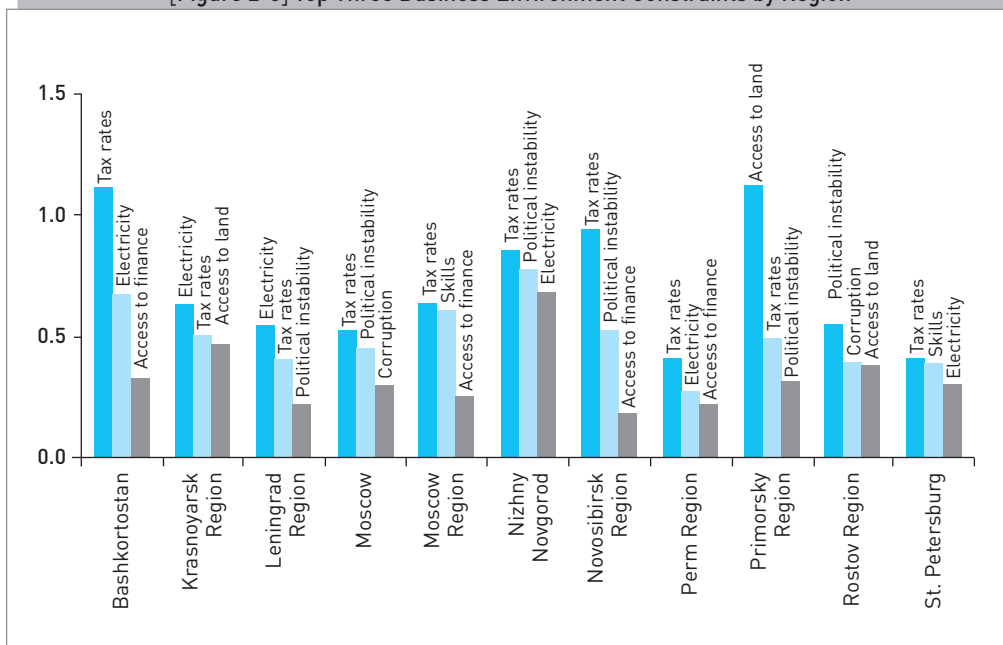
Source: Russian Federation Federal State Statistics, 2011, [http://www.gks.ru/wps/wcm/connect/rosstat\\_main/rosstat/en/main/](http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/en/main/)

In a bid to create excellent Doing Business environment that ranks within 20th in the world, the Russian Federal Government unveiled a plan in May 2011 to establish investment promotion agency, and subsequently established Primorye Investment Promotion Agency (PIPA) on 16 November 2012 (in accordance with No.331-ra of the Primorsky Territory government). The purpose is to promote investment in the region, eliminate bureaucratic obstacles, and create a more favorable image



to attract greater investment. However, a site visit by the KSP researchers revealed that these activities have been hardly undertaken to date. The PIPA is expected to provide a broad range of service from consulting service for incorporation, business management and marketing, to investment advice, market survey, legal advice, manpower and technical support for implementation of both federal and local government projects, as well as monitoring over the progress of projects. However, so far, only preliminary level of consulting service is being provided. An interview with agency insiders found out no visible activities or plans other than a few cases of dealing with investment inquiries.

[Figure 2-5] Top Three Business Environment Constraints by Region



Sources: Alexander Plekhanov and Asel Isakova, "Region-specific constraints to doing business: evidence from Russia," , No. 125, 2011, p.14.

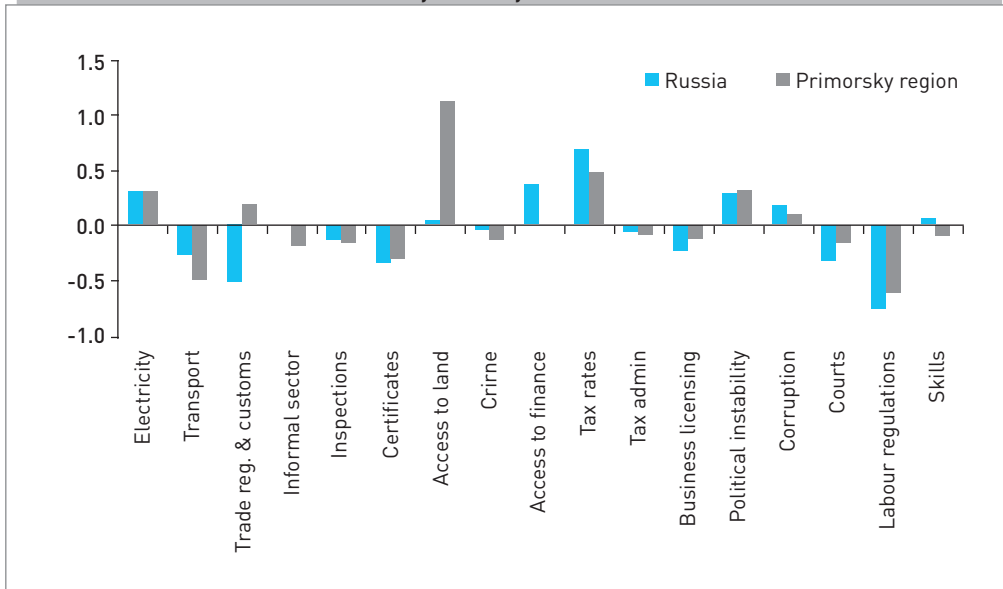
Typically, a primary task of an investment promotion agency is to improve business environment. In this regard, PIPA needs to build capacity in terms of efficient administration, practical application of consulting outcomes, cost and benefits of investment incentives, stronger investor network, broader use of global expertise, and establishment of information sharing network. PIPA has operated about one and half year, and its activities are yet to fully take off. It would be premature to assess capacity and performance of PIPA at this point.

〈Table 2-1〉 Region-Specific Features of the Business Environment

Region	Strong Points (low scoring obstacles)	Significantly better than X regions	Weak Points (high scoring obstacles)	Significantly worse than X regions
Moscow	Courts Informal sector	5 0	Customs Political instability	8 4
St. Petersburg	Access to land Tax rates Informal sector	4 3 2	Transport Tax administration Business licensing Compulsory certificates Courts Workforce skills	7 7 6 5 5 4
Primorsky Territory	Access to finance	4	Access to land Customs	10 10

Source: Alexander Plekhanov and Asel Isakova, "Region-specific constraints to doing business: evidence from Russia," *EBRD Working Paper*, No. 125, 2011, p.22.

[Figure 2-6] Comparison of Average Relative Severity of Business Environment Constraints by Moscow and the Primorsky Territory



Source: Alexander Plekhanov and Asel Isakova, "Region-specific constraints to doing business: evidence from Russia," *EBRD Working Paper*, No. 125, 2011, p.33.

Against this backdrop, this section provides basic data and analysis of PIPA to seek measures for its capacity-building.

## 1.1 Where PIPA stands

Understandably, the role of PIPA is limited due to the lack of legal and systemic infrastructure for foreign investment in the region. Efforts to attract investment are often inefficient amid over-competition among organizations similar to PIPA such as Vladivostok office of Agency for Strategic Initiative (ASI), Development Corporation of Primorsky Krai, and Vladivostok office of Russian Direct Investment Fund (RDIF).

Currently PIPA lacks preparations to serve prospective investors, with limited information access, information processing, consulting service, and dispute resolution. As it is, PIPA is playing a severely limited role with a very small staff of 20.

〈Table 2-2〉 Organizational Structure of PIPA



The organizational structure of PIPA is presented as a list of roles within a rectangular box. The roles are listed from top to bottom: Director, Deputy Director, Accountant (Chief Accountant), Lead Counsel / HR outsourcing, Head of investment projects / investment experts, Head of Marketing, Manager involvement and investment appraisal, Consultant Project Investment, Project Support Manager of Research Projects, Project Support Manager of PR and advertising projects, Project Support Manager of congress and exhibition events, Project manager to monitor secondary data and FTP, Assistant Director / Office Manager, and Driver Courier.

Director
Deputy Director
Accountant (Chief Accountant)
Lead Counsel / HR outsourcing
Head of investment projects / investment experts
Head of Marketing
Manager involvement and investment appraisal
Consultant Project Investment
Project Support Manager of Research Projects
Project Support Manager of PR and advertising projects
Project Support Manager of congress and exhibition events
Project manager to monitor secondary data and FTP
Assistant Director / Office Manager
Driver Courier

Source: Primorsky Krai Investment Portal, <http://invest.primorsky.ru/api/index.php/ru>

PIPA regularly updates investment information on its website<sup>35)</sup>, and provides consulting service via call center and website. However, it is yet to become a full-fledged investment agency that can offer one-stop service for foreign investors, provide customized consulting service, and find matching projects and partners among investors.

35) Primorsky Krai Investment Portal, <http://invest.primorsky.ru>

〈Table 2-3〉 PIPA Website Sitemap

<p><u>About Agency</u></p> <ul style="list-style-type: none"> <li>- Mission, goals, objectives</li> <li>- Charter</li> <li>- Structure</li> <li>- Service agency</li> <li>- Schedule of events planned</li> </ul>	<p><u>Press Room</u></p> <ul style="list-style-type: none"> <li>- News</li> <li>- Announcements</li> <li>- Interview</li> </ul>	<p><u>Map of Investment Projects</u></p>	<p><u>Contacts</u></p> <p><u>Feedback</u></p>
<p><u>For Partners</u></p> <ul style="list-style-type: none"> <li>- Regulations of investment project support</li> <li>- Information for investors (initiators)</li> <li>- FAQ</li> </ul>		<p><u>Investment Projects</u></p> <ul style="list-style-type: none"> <li>- Implemented investment projects</li> <li>- Implemented and offered to realization investment projects</li> <li>- Map of investment projects</li> <li>- Interactive presentation</li> <li>- Video presentation</li> </ul>	

Source: Primorsky Krai Investment Portal, <http://invest.primorsky.ru/api/index.php/ru>

PIPA also has an investment portal<sup>36)</sup> in Russian and English, but little information is available as the portal is in the early stage of development. Due to the lack of information infrastructure, foreign investors have little access to local information, and the information lacks credibility as they are widely dispersed. For this reason, a prospective investor should seek investment partners, check their credibility and decide investment mechanism at his/her own risks and expenses. The lack of English information poses a serious obstacle to promoting foreign investment. For instance, information on bids and projects that are open to foreign investors is available only in Russian on respective websites. Foreign investors are required to pay extra charge for research, consulting, and translation

36) Primorsky Krai Investment Portal, <http://invest.primorsky.ru>

〈Table 2-4〉 Sitemap of Primorsky Krai Investment Portal

<p><u>Primorye today</u></p> <ul style="list-style-type: none"> <li>- Overview</li> <li>- Competitive advantages</li> <li>- Economy</li> <li>- Investment</li> <li>- Foreign economic activity</li> <li>- Ratings</li> </ul>	<p><u>Investment Climate</u></p> <ul style="list-style-type: none"> <li>- Investment projects</li> <li>- Map of investment projects</li> <li>- Success Stories</li> <li>- Industrial sites</li> <li>- Special Economic Zones</li> <li>- Strategic and program documents</li> <li>- Tax system</li> <li>- Regulatory and legal framework</li> </ul>	<p><u>Standard Investment</u></p> <ul style="list-style-type: none"> <li>- Standard of executive authorities</li> <li>- Roadmap implementation of the standard in Primorsky Krai</li> <li>- Section of the Standard</li> </ul>	<p><u>Development Institutions</u></p> <ul style="list-style-type: none"> <li>- Investment Agency of Primorsky Krai</li> <li>- Agency strategic initiatives to promote new projects in DFO</li> <li>- Development Corporation of Primorsky Krai</li> <li>- Council investment in the economy of the Governor of Primorsky Krai</li> <li>- Public Expert Council of investment in Primorsky Krai</li> </ul>
<p><u>Press</u></p> <ul style="list-style-type: none"> <li>-News</li> <li>- Announcements</li> </ul>	<p><u>Multimedia</u></p> <ul style="list-style-type: none"> <li>-Live Broadcast</li> </ul>	<p><u>Contacts</u></p> <ul style="list-style-type: none"> <li>-Ask a question</li> </ul>	

Source: Primorsky Krai Investment Portal, <http://invest.primorsky.ru/api/index.php/ru>

Going forward, PIPA needs to make a transition from supplier-oriented to consumer-oriented private-sector mindset. It would take a significant time for high-level officials to change their attitudes toward foreign investment and dramatically enhance their capacity. Until now, officials have mostly focused on carrying out strategies delivered from higher level, and as a result, performance evaluation has been largely an internal affair, not necessarily a good reflection of market conditions. Further, it seems that a basic concept of performance evaluation is not firmly established yet. This debate gets simpler if it is limited to capacity of PIPA in accordance with global standards of IPAs. However, we deem that capacity building of PIPA alone would not be enough to produce visible outcomes, led and directed by the local government.

Practically, PIPA should dramatically strengthen its capacity to raise its profile over the current level of a state government. To fulfill its goals, PIPA needs to eliminate various obstacles for prospective investors and function as a single window for investment based on consumer-oriented private-sector principles.

However, there is a caveat that providing comprehensive investment service with a small staff might erode service quality and slow down investment promotion. To avoid this, it might be considered to organize a committee to involve outside experts in PIPA's service.

Most importantly, a large part of factors that drive investment promotion in the Primorsky Territory is directly related to strategic decision of the federal government, and thus, roles should be clearly divided among participating institutes. For a potential investor, it is essential to know who is going to be accountable for investment risks. To overcome uncertainties in investment in the region, strong commitment should be displayed by the federal government and parties that will undertake investment promotion activities and be responsible for them. Legal and systemic infrastructure should be enhanced to ensure independence, expertise and accountability of PIPA. Only after investment infrastructure is solidly put in place and risks can be assessed in the market, investment would flow into the region.

## 2. Capacity-building for PIPA

### 2.1 Measures to strengthen PIPA's capacity

PIPA was established to promote investment in the region, eliminate administrative barriers, and create a favorable investment climate, but its size and activities have been quite limited. As OECD(2006, p. 36) suggested, the principal aim of PIPA of the first stage, like other the IPA, should be to draw attention to low risk and high return of relevant investment opportunities in the Primorsky Territory. Low levels of foreign investment inflow into manufacturing and service sector in the region do not mean that there is a lack of opportunities of making business in the such sector in the region .

〈Table 2-5〉 Market failures that can underpin the rationale for PIPA

Market failure	Description
Public goods and services	It may be impossible to exclude non-clients from consuming PIPA services. If, for example, PIPA carries out an advertising campaign that improves the country's image abroad, all inhabitants may benefit as a result. But if it were left up to the clients to pay for the services, the funding would only reflect their benefit from the PIPA. The benefit of its services to others would not be taken into account. In such a case, the PIPA may become underfunded. If, on the other hand, the IPA is publicly funded, non-clients benefiting from the PIPA's work would also be paying for the services (through taxes). In theory at least, the greater supply of PIPA services would then better reflect the total benefit to society.

Market failure	Description
Externalities	Positive externalities occur when benefits accrue to those not involved in a transaction. In the case of inward FDI, a foreign company may bring e.g. new technologies or management techniques to the host country. The establishment of a foreign firm can also contribute to the development of suppliers, better training, and transfer of skills. In some cases, other companies and individuals in the host country can also benefit from these.
Information problems	Insufficient (or incorrect) information can lead to inefficient markets. This means that people may be better off if these information gaps can be filled. An IPA can act as an information provider to foreign investors. There are several situations in which the IPA can fulfil this role, including: <ul style="list-style-type: none"> <li>- Smaller firms or individuals rarely have resources to acquire knowledge about location decisions;</li> <li>- Larger firms do not always have access to knowledge or know where to find it, even if they have resources;</li> <li>- International perceptions of a region may not reflect business realities;</li> <li>- The business sector rarely has sufficient knowledge of the public sector to find its way around. Especially for foreigners, an IPA providing a "road map" may be very useful;</li> <li>- There is a role for a "trusted intermediary" to introduce the foreigner to the domestic business and private sector networks.</li> </ul>
Coordination problems	Coordination problems may prevent market participants from overcoming the above-mentioned problems or their consequences. Market-driven initiatives to solve these may not be forthcoming (e.g. to reduce or coordinate sub-regional competition for FDI). The PIPA can act as a center for dealing with coordination between economic agents.

Source: UNCTD, 2008, P.11.

Largely three main tasks are ahead to strengthen PIPA's capacity in consideration of geographical characteristics of the region. First, it is necessary that PIPA has sufficient authority over investment issues by ensuring the status and role as a permanent establishment, not a temporary, special organization. It would be essential to set up PIPA having responsible for investment promotion and its coordination as a key organization among many investment agencies in the region. At the same time, the scope of PIPA's activities needs to be redefined in consideration of projects implemented in the region.

Many Korean companies hesitate to invest in Primorsky krai without credible commitment by Federal and regional government, therefore PIPA should be the linkage between governments and foreign companies. This efforts lead to attract foreign capital into targeted sectors in particular. Federal government and local government projects need to be set apart, and for federal government projects in

the Primorsky Territory, it is important to clearly define a work relationship between the federal investment agency and PIPA. The strength of PIPA's authority and reveals should receive supports from federal and regional government policy makers. Too often, potential investors in the region have fundamental difficulty figuring out which agency is responsible for specific area of interests that matter to them. In fact, our interview results with the related personnel suggest that ultimate picture of the role and responsibility remains vague, unsettled. Many regional governments of the Far East of Russian Federation still lack the necessary know-how without full authority. You cannot expect government officials have market exposure and understanding that remains the ultimate backup for investment decision-making. The "back and forth" relegation of duties among related agencies remain the lingering source of investment uncertainty for potential investors. Therefore, an investment promotion agency plays a pivotal role in attracting foreign investment especially when investment infrastructure is in a poor condition.

PIPA established to be more dynamic and adaptable agency after announcement of Russian Far East Development Strategy by the Federal government. Investment promotion of PIPA includes a range of different activities, many of which is similar to marketing of private firms, used by governments in order to attract FDI. Although Primorsky government does not fully delegate financial incentives, tax privileges, project screening, and negotiation with foreign investors to PIPA, the PIPA should be the key player to offer an attractive package of tax incentives and other benefits, while making necessary preparations for on-site stay of project staff and for mid-to-longterm capital investment. An investment promotion agency can be a crucial element in making up for poor market conditions and organizational capacity.

Second, PIPA should undertake a broader range of activities, rather than carrying out only supplementary roles for investment promotion. To do so, it might be necessary to establish a multilateral investment platform. Private-sector investment in the Primorsky Territory bordering with China and North Korea requires a lengthy period of preparation and extensive support for its huge capital needs and relatively high risks. Even though Russian Federal Government is fully committed to development of the Far East region, an investment promotion agency operating at a local government level would not be strong enough to deal with projects that are directly related with the Korean peninsula, for instance, a trilateral South Korea-North Korea-Russia partnership. This is because the barrier is not only economic but extends to geopolitical dimension. Moreover, a strong, accountable investment party and foundation should be in place as the Primorsky Territory lacks properly functioning market and infrastructure. As it is, there seems to be a significant lack of understanding concerning the market condition or investment uncertainties of the region and responses to them. To develop the region, an indirect approach might be more advisable where a multi-party investment trust with various private-sector



participants leads the initiative, rather than by the Primorsky Territory Government. To fuel foreign investment, a minimum level of human resources, market, and market mechanism should be secured. As OECD(2006, p. 150) recommended, increased private participation would bring beneficial effects on investment climate via enhanced understanding of market sentiment and conditions. The pivotal role of regional and federal government at this stage of development remains critically important and should be further promoted and enhanced to fully utilize the benefits of increased private participation. That is, because the region has yet less visible presence of private market participants, there should be careful and gradual confidence building exercise with a de facto partnership between the public and the private. Therefore, it is recommended that the Primorsky Territory Government positively considers assigning investment-related activities to relevant Korean institutions to benefit from their past experiences and knowhow, instead of directly engaging in investment promotion that would require approval from the federal government. This would considerably increase the chance of successful implementation of project due to separation between development party and construction companies, which facilitates risk assessment and project financing.

In addition, to produce tangible outcomes, PIPA should provide market-oriented service with incentives tailored to the needs of prospective investors, and continue capacity-building to closely follow the global trends and market development, and attract outside investment accordingly. While investment promotion activities remain the integral part of the PIPA activities, the ultimate question is to equip this organization with market oriented and private investment friendly experts so that recognition gap between potential investors and the regional interests do not get conflicted and aborted. Since the actual staffing has additional dimension of human elements, an “open, accommodating and friendly environments” need to be fostered par excellence. However, PIPA might not have sufficient human resources to fully communicate with and understand the needs of prospective investors, and this might obstruct private-public partnership. Thus, PIPA should actively increase its pool of human resources and hire outside experts to make up for its shortage of investment experts, and effectively establish PIPA as a single window for foreign investment services.

## 2.2 Key considerations in attracting foreign investment

Invest HK in Hong Kong claims that they are market-driven rather than product-driven and conducts investment promotion activities accordingly to meet changing needs of potential investors<sup>37)</sup>. This could be a good reference to PIPA, which should take into account the following elements for market-driven investment promotion.

37) World Bank, *Global Investment Promotion Best Practices*, April 2012

First of all, PIPA needs to set up strategies in view of the recent transition of the global economy from a production-oriented to consumption-oriented basis with global rebalancing efforts. Next, it needs to tap into diverse financing sources from ADB, EBRD and other international financial institutions (IFIs). This would be a useful strategy to mitigate risks of a heavy bias toward private-sector funding amid market uncertainties. Third, PIPA has a unique geopolitical feature as it borders with China and North Korea, and as such, it should work as a fully functioning arm for multi-lateral development initiatives in the region. Fourth, PIPA needs to be a platform for joint investment and financing by Russian and Korean companies to develop the Siberian region as was mandated by leaders of the two countries. Lastly, the Russian Federal Government needs to vouch for PIPA's investment incentives as the UAE government guaranteed tax breaks and free transfer of capital and investment profits for companies operating in the Jebel Ali Free Zone (JAFZ). These elements would bolster PIPA to be a central organization in attracting FDI in the Primorsky Territory.

Taking a step further, it is important to decide whether to utilize PIPA as an investment service provider only, or partly give it authority on higher-level strategic decision-making. For example, a regulation might be introduced that requires review by an investment promotion agency over the federal government's decision on major investment strategies. Compared to similar agencies in other countries, PIPA has additional burden of attracting foreign investment while the country undergoes a sea change of regime transition. Main tasks of an investment promotion agency are to find targeted segment of prospective investors, develop aftercare program, and provide consulting service. PIPA should provide extensive information on business environment in the region, geographical information, tax system, employment condition, wage level, and support infrastructure projects, business activities and living in Russia. Additionally, a system should be set up to request a higher-level agency to step in and resolve investment-related issues when the investment procedure falls behind its schedule. PIPA should offer timely information on economic and legal issues that have bearing on potential investment, and find optimal local firms or investment sites for foreign investors. A legal and systemic foundation should be laid out so that the Primorsky Territory Government would cover related expenses. Further, more information should be disclosed through the investment portal to enhance transparency of PIPA's activities, and cases of successful investment projects should be widely advertised.

Of particular importance is to offer customized investment incentives, instead of uniform tax breaks. For example, the extent of tax benefits may vary by investment areas and regions (e.g. special economic zones vs. others), and other incentives such as soft loan, free land lease, job training, subsidy for employment or infrastructure building, R&D support, and deregulation. Since the use of a significant part of the

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land is restricted due to military reasons, the federal government and the local government would need to discuss the future use of the land. To develop the Primorsky Territory, a strategic, multi-pronged approach would be critical, followed by close monitoring, to find and attract prospective investors around the world that would fuel development of the region in accordance with the government planning, priority of development, and investment areas. Extra efforts would be needed to win investment projects from neighboring countries for complex geopolitical position of the Primorsky Territory.

## 3. Knowledge Sharing: Korea's Experience

### 3.1 Case Study 1: Invest KOREA

The following section introduces Korea's public investment promotion agency, Invest KOREA, to provide guidelines on how to upscale and manage the PIPA.

Invest KOREA is a subsidiary of Korea Trade-Investment Promotion Agency (KOTRA), and was created soon after the Asian financial crisis in 1998 to support foreign companies' business in Korea. It has a close partnership with 42 Korea Business Centers (KBC) located within major financial companies and policy institutes around the world. Invest KOREA offers customized one-stop service to foreign companies, and follows up with extensive support after business set-up in Korea so that foreign companies can fully benefit from Korea's investment environment, and smoothly settle in the new place. Invest KOREA significantly contributed to reforming foreign investment mechanism in Korea including regulations, and phased in tax reduction for foreign companies, to considerably increase FDI. Between 1998 and 2012, accumulative FDI reached USD178.6 billion, seven times greater than accumulative FDI made between the beginning period of industrialization in 1962 and 1997.

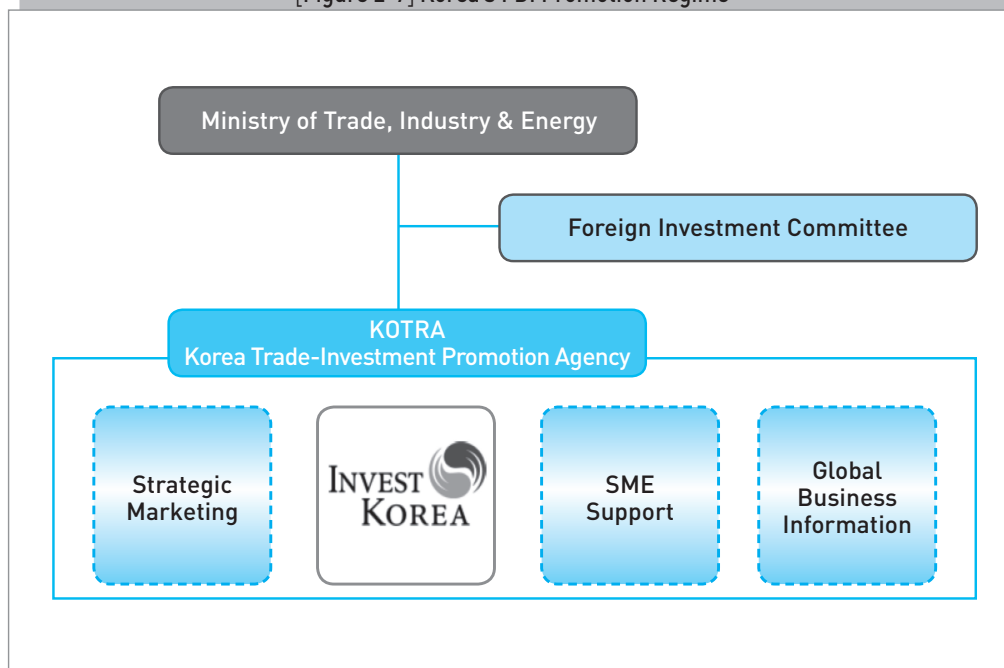
Invest KOREA's main services include information disclosure, foreign investment support, aftercare, and consulting service<sup>38</sup>). A wide range of consulting service data for feasibility study, investment procedure, legal matters, accounting and tax advice is provided, and investment specialists come up a proposal with key information for prospective investors to make an investment decision. This information service is broadly promoted to prospective investor groups via 120 business centers of the KOTRA in 82 countries.

Invest KOREA seeks target companies for investment projects, reviews proposals,

38) Invest Korea, <http://www.investkorea.org>

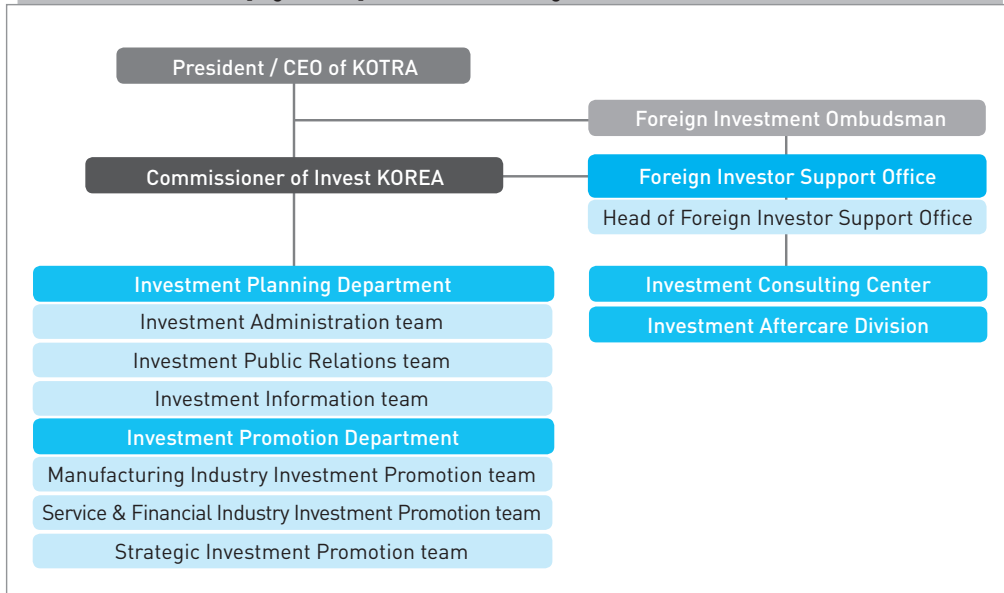
sets up plan and launches investment, which is followed up with advisory service and aftercare. It communicates an investor's feedback to policy-making bodies to steadily improve investment environment. In October 2006, Investment Consulting Center (ICC) was established in Invest KOREA Plaza to provide free consulting service throughout the entire stages of investment, including administrative matters, and support for medical, educational services and living arrangements in Korea via visit, phone call, fax, online or video call. A staff of 20 private-sector experts and government officials provides systematic and professional consulting service for foreign investors. Another notable feature is Red Carpet Service that starts with airport pick-up, aid with entry process (customs clearance, passport, and quarantine inspection), and extends to an up to three-day stay at a five-star hotel, with transportation and interpretation services. It also assists with arranging meetings with government officials and site visits to free economic zones. Introduction of project manager (PM) also strengthened capacity of Invest KOREA to attract foreign investment by assigning PM to each project to provide customized services.

[Figure 2-7] Korea's FDI Promotion Regime



Source: Invest Korea, <http://www.investkorea.org>

[Figure 2-8] Invest KOREA's Organizational Structure



Source: Invest Korea, <http://www.investkorea.org>

Concerning post-investment management, Ombudsman service<sup>39)</sup> is offered to help foreign investors acquire necessary permits and approvals, and remove barriers for investors' benefits. This motivates foreign investors in Korea to reinvest in the country, and gives a positive signal to newly entering businesses. Invest KOREA has Investment Aftercare Division to resolve difficulties of foreign investors, and provides one-on-one service by assigning Home Doctor to those who want Ombudsman service. Home Doctors are experts in their respective fields who communicate advice and recommendation of foreign investment experts to top-level institutions or various committees involved in foreign investment, report foreign investors' difficulties and complaints concerning investment policies, and request coordination among relevant ministries and government offices.

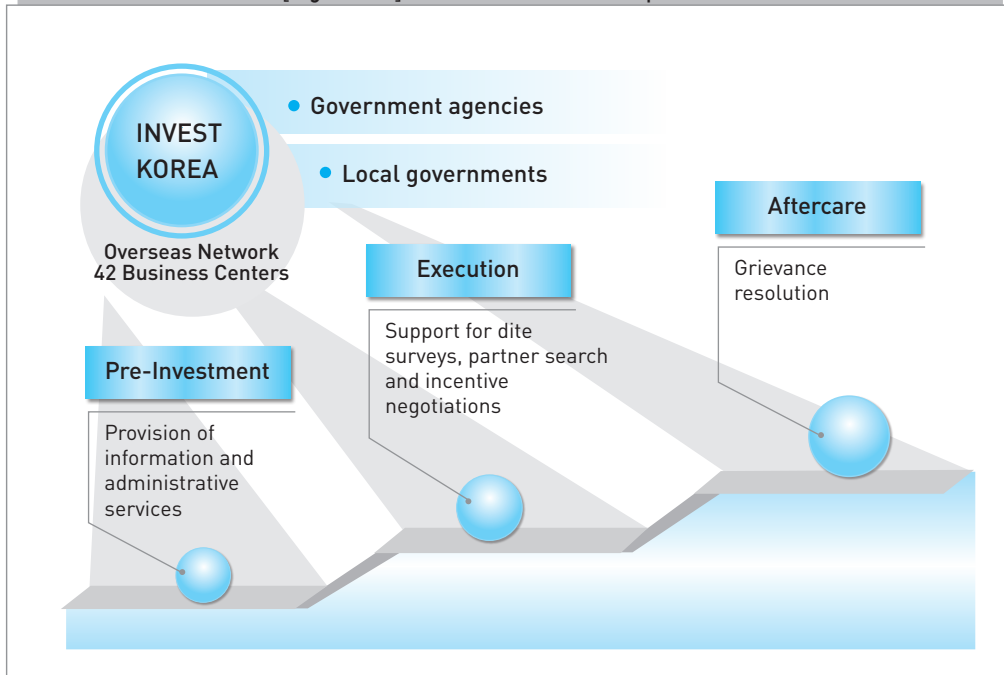
39) Office of the Foreign Investment Ombudsman, <http://www.i-ombudsman.or.kr>

〈Table 2-6〉 Organizational Structure and Main Duties of Invest KOREA

	Team	Duties
Invest KOREA Commissioner	Investment Administration Team	- Devise FDI strategies and govern general Invest Korea affairs
	Investment Public Relations Team	- Promote Korea's advantages as an investment destination to potential foreign investors and interested parties - Develop promotional materials on Korea's business environment
	Investment Information Team	- Compile, manage, and analyze FDI statistics - Survey and examine investment trends of foreign-invested companies - Analyze effects of FDI policies and study improvement measures
	Manufacturing Industry Investment Promotion Team	- Attract investment in manufacturing and parts and materials industry
	Service & Financial Industry Investment Promotion Team	- Promote service and financial industries, including logistics, distribution, SOC, alternative energy and cultural contents
Foreign Investment Ombudsman	Strategic Investment Promotion Team	- Attract regional investments
	Foreign Investor Support Center (Investment Consulting Center)	- Provide administrative and support services for foreign investors - Provide consulting services in areas such as accounting, tax, legal affairs, etc. - Help foreign investors settle down in Korea including one-day secretarial service, consulting
	Investment Aftercare Division	- Address difficulties experienced by foreign-invested companies

Source: Invest Korea, <http://www.investkorea.org>

[Figure 2-9] Invest KOREA's One-Stop Service



Source: Invest Korea, <http://www.investkorea.org>

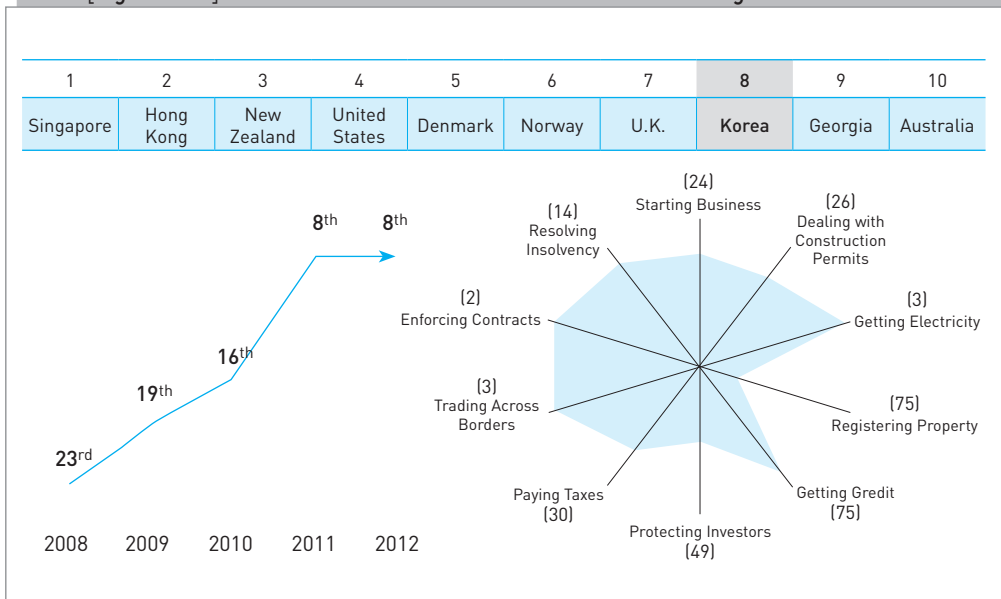
Invest KOREA provides a broad range of investment information in Korean, English, Chinese and Japanese. Under Doing Business section of the website, information is given on FDI procedure and related laws, establishment of corporation, various incentives including tax benefits and cash subsidy, policy support for foreign investors, Korea's labor laws, tax system, customs/tariff, financial regulations and accounting rules, policies on foreigners' land acquisition and remittance, approval and permits related to factory set-up, information on factory sites, patent application for intellectual properties and registration process. It introduces Korea's key industries that have global-level competitiveness, special economic zones, and local governments' projects in progress. Under Resources section, links to investment-related news, publications, and other useful sites are listed, as well as search menu for Korean companies, and investment-related FAQs. To disseminate success stories, Why Korea section provides success stories of foreign investors in Korea. Additionally, the website helps visitors with life in Korea by giving information on daily life, transportation, medical service and so forth.

[Figure 2-10] Invest KOREA Website Sitemap



Source: Invest Korea, <http://www.investkorea.org>

[Figure 2-11] One of Main Performance of Invest KOREA via Doing Business in Korea



Source: World Bank, 2013, <http://www.doingbusiness.org>



## 3.2 Case Study 2: Incheon Free Economic Zone (FEZ)

The Incheon FEZ takes center stage in Korean government's initiative to establish a northeast economic hub. It was designated in August 2003 to cover the area of 169.5km<sup>2</sup> that includes Incheon International Airport, Incheon Port, Songdo, Yeongjong and Cheongna areas. The FEZ is set apart from other regions in terms of business environment and related policies to ensure efficient business activities of foreign investors. The FEZ provides excellent tax benefits, unrestricted economic activities, quality administrative service, and a comfortable living environment.

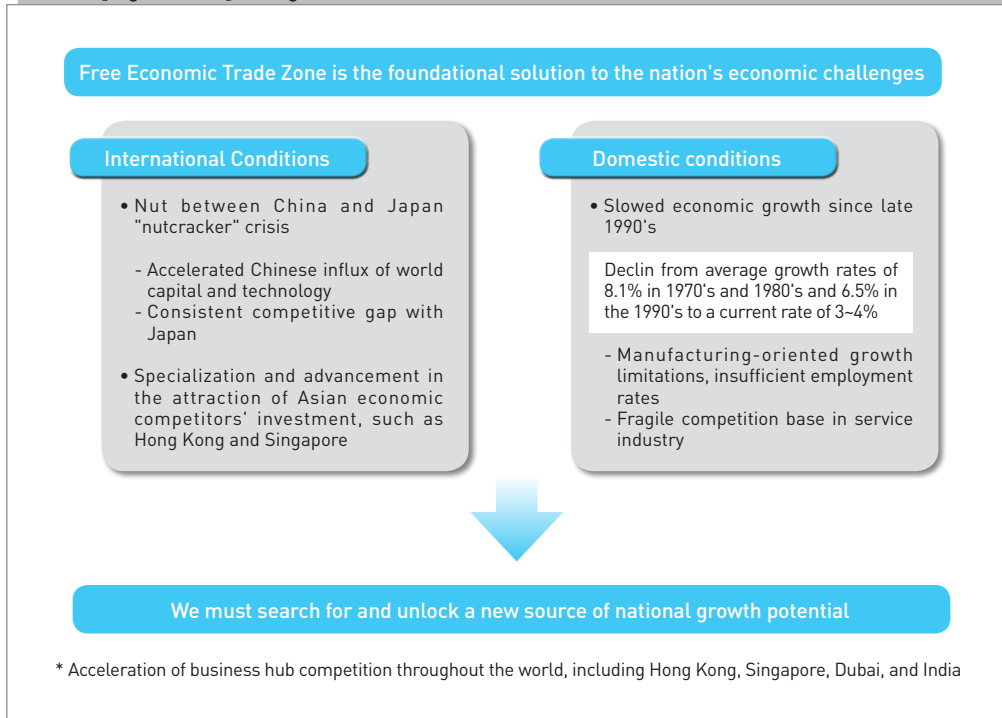
[Figure 2-12] Current State of Korea's Free Economic Zones

Name	Location	Designation year	Completion year	Area (km <sup>2</sup> )	Priority industries
IFEZ	Incheon	2003	2020	169	5+3 (IT, BT, logistics, parts, business, tourism, and education)
BJFEZ	Busan-South Gyeongsang	2003	2020	83	Shipping and logistics, autos, machinery and ship building
GFEZ YESFEZ	Jeolla-South Gyeongsang	2008	2020	89	Shipping and logistics, materials
DGFEZ	Gyeonggi-South Chungcheon	2008	2025	55	Auto parts, IT, BT, value added and logistics'
SGFEZ	Daegu-North Gyeongsang	2008	2020	34	Education, health care, fashion, IT, parts and materials
	North Jeolla	2008	2030	50	Autos, ship building, parts and eco-friendly industries

Source: Free Economic Zone Planning Office, 2011, <http://www.fez.go.kr>

The Incheon FEZ was established to develop new growth engine and revitalize the regional economy. Though Northeast Asia emerged as one of the three major trade blocs in the world, the momentum has been weakening due to accelerating competition among countries in the region, limitation of manufacturing-oriented growth, and weak competitiveness of service industry

[Figure 2-13] Background to Establishment of Incheon Free Economic Zone (IFEZ)



Source: Incheon Free Economic Zone, <http://www.ifez.go.kr/>

The Incheon FEZ is being developed in several phases between 2003 and 2020. The first is a foundation stage (2003-2009) for initial take-off to become a high-tech global city. The second is a maturity stage (2010-2014) that continues to build infrastructure for u-city, parks, green space, and facilities for waste disposal, energy use and new transportation, and also build Global & Compact Smart City by attracting educational, medical, cultural and leisure facilities, and businesses and research labs from both home and abroad. The last is a completion stage (2015-2020) to push Incheon FEZ to be one of the world's top-three free economic zones. Toward this goal, efforts have been made to attract businesses, competent human resources, promote tourism, design u-city and eco-city, and give policy support including regulatory reform to lure more foreign businesses.

[Figure 2-14] IFEZ Development Plan

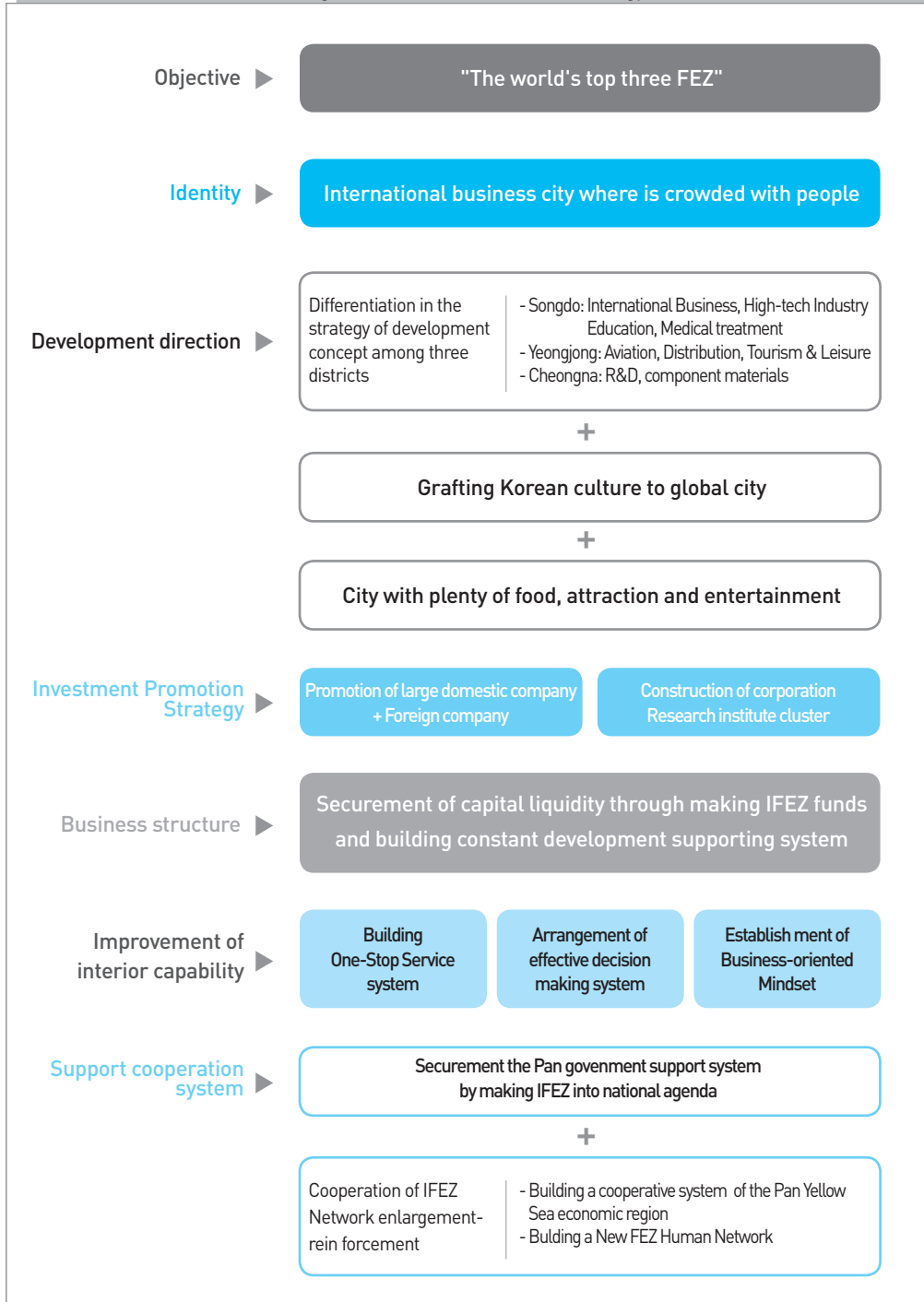
Classification	Songdo District	Yeongjong	Cheongna District
Location	Around Songdo-gang, Yeonsu-gu	Around Yeongjong/Yongyoo-do, Jung-gu	Around Gyeongseo-dong, Seo-gu
Area	53.3km <sup>3</sup>	98.4km <sup>2</sup>	17.8km <sup>2</sup>
Cost	10 trillion 425.3 billion won	19 trillion 710.6 billion won	6 trillion 230.2 billion won
Period	2003-2020	2003-2020	2003-2012
Expected Population	252 thousand people (93.6 household)	298.8 thousand people (111.7 thousand household)	90 thousand people (33.2 thousand household)
Business performer	Incheon City	Incheon City	Incheon City
	NSIC	LH	LH
	Songdo Landmark City	IUDC	KRC
	MITM	Incheon Int'l Airport Corporation	
Main development plan	International Business District	Incheon International Airport	Finance-Business Complex
	Knowledge Information Industry Complex	Yeongjong Sky City	Leisure-Sport Complex
	Bio Complex	Unbuk Leisure Complex	Theme park
	Internationalization Complex	YongyooMueui Tourism Complex	Agricultural Complex
	High-tech Industry Cluster	Yeongjong Comple Resort etc.	High-tech Industry Complex
	Land Mark City		Robot Land etc.
	New port etc.		

Source: Incheon Free Economic Zone, *IFEZ Project 2011*, 2011, p. 16.

The IFEZ development plan has a project overview and specific investment types for each area in the zone, and posts project schedule by each development stage. Information on main businesses activities, investment information, culture and tour information, and online contact is given on the website<sup>24)</sup>.

24) Incheon Free Economic Zone, <http://www.ifez.go.kr/>

[Figure 2-15] IFEZ Vision and Strategy



Source: Incheon Free Economic Zone, *IFEZ Project 2011*, 2011, p. 26.

[Figure 2-16] Three-stage Development of IFEZ



Source: Incheon Free Economic Zone, <http://www.ifez.go.kr/>

The website introduces incentives for foreign investors along with related law (Enforcement Decree of Special Act on Designation and Management of Free Economic Zones). Specifically, corporate taxes and income taxes are reduced at different rates depending on the area of investment and its volume. Also, rental may be reduced and land subsidy provided depending on the proportion of foreign investment in a given project.

〈Table 2-7〉 Tax Reduction for Foreign Investors in IFEZ

Incentive		Description
Tax Reduction	Customs Duties	[100% reduction over 5-year period] Capital goods imported
	National Tax(Corporate Tax/Income Tax)	[100% reduction over 3-year period, 50% reduction over 2-year period] - Manufacturing industry (over \$10 million) - Tourism industry (over \$10 million) - Business-information-fictive art-service industry(over \$10 million) - Logistics industry (over \$5 million) - R&D (over \$1 million & regular employment of more than 10 researchers holding a degree higher than masters) - Business developers (more than \$30 million or foreign investment ratio over 50% with total business expenses over \$500 million)
		[100% reduction over 5 years, 50% reduction over 2 years: Free Trade Zone Committee review and resolution project ] - Manufacturing industry (over \$30 million) - Tourism industry (over \$20 million) - Logistics industry (over \$10 million) - R&D (over \$2 million and regular employment of over 10 researchers holding a degree higher than masters)
	Regional Tax	Acquisition tax : 100% over 15 years Property tax : 100% over 10 years, 50% over 3 years

Source: Incheon Free Economic Zone, <http://www.ifez.go.kr/jsp/eng/invest/invest3.jsp>

Additionally, various funding supports are given such as education subsidies and employment subsidies to companies that have more than 30% of foreign investment. The related law lays out detailed requirements to provide foreign language service, excellent educational environment, and reliable medical service. Foreign investment is further promoted by easing labor regulations, facilitating FX transactions, and minimizing bureaucratic red tape

〈Table 2-8〉 Subsidies for Foreign Investors in IFEZ

Incentive		Description
Subsidy Support (Foreign investment rate over 30%)	Location Subsidies	<ul style="list-style-type: none"> <li>- Normal sale price contract support limited to sale price margin</li> <li>- Cannot exceed 50% of normal sale price</li> <li>- Business plan consultation project must be managed for over 10 years.</li> </ul>
	Facility Subsidies	<ul style="list-style-type: none"> <li>- In the case of new construction or expansion exceeding 30 billion won, 2 billion won per business, within 2% of equipment cost in excess of 30 billion won.</li> </ul>
	Education Subsidies	<ul style="list-style-type: none"> <li>- Up to 500,000 won per person within a 6-month time in the event of new domestic employment of over 20 people</li> <li>- Cannot exceed 2 billion won per business</li> </ul>
	Employment Subsidies	<ul style="list-style-type: none"> <li>- In the case of a foreign investment business establishment, support of up to 500,000 won per month If new regularly employed personnel exceed 20 people</li> <li>- Employee support per additional employee within 5 years after business commencement</li> </ul>
	Promotion Results Compensation	<ul style="list-style-type: none"> <li>- As a public official or private citizen in an MOU contract, foreign investment payment is limited to the occasion in which a foreign investment is made, and annual promotion results are reviewed and resolved by the Foreign Investment Promotion Committee</li> </ul>
	Business Transfer Subsidies	<ul style="list-style-type: none"> <li>- More than 40 billion won in previous fiscal year sales (more than 10 billion won in logistics businesses and knowledge based businesses)</li> <li>- Up to 300,000 won per person and 300 million won per business for head offices and research centers who exceed regular employment of 20 people</li> <li>- Up to 200 million won per business for logistics and knowledge based businesses, covering 30% of building's purchase price or 1 year of rent</li> </ul>
	Funding	<ul style="list-style-type: none"> <li>- Receive same financial support as national businesses</li> </ul>

Source: Incheon Free Economic Zone, <http://www.ifez.go.kr>

### 3.3 How to Emulate Success of Invest KOREA

Mostly, three factors contributed to successful development of Invest KOREA and the Incheon FEZ. First of all, private-sector investment experts were hired to provide professional services to foreign investors in Korea and promptly deal with their difficulties. External organizations have been actively engaged to ensure quality service.

Second, services and contact points have been streamlined for consistent service quality and clear messages. Government officials from the Ministry of Justice, National Tax Service, Korea Customs Service and courts of law provided service to foreign investors through Investment Consulting Center to avoid miscommunication and confusion.

Third, comprehensive one-stop consulting service has been provided. Services throughout the entire stage of investment from administrative work to settlement in Korea have been provided free of charge. Foreign investors and their families are free to visit the consulting center or have consulting sessions via phone call, fax or online at their convenience.

However, there is room for further improvement. In establishing FEZ, some of the internally identified agenda turned out to lack feasibility as they did not meet investors' needs. Some of the investment projects were an outcome of herding behavior, which led to over-competition, over-supply and subsequently eroded project feasibility in the implementation stage. The lack of transparency in bidding process was often criticized, and concerned voice arose over giving undue benefits to certain companies. Sometimes benefits offered to foreign investors backfired due to political headwind from the general public. Korea's extensive experience in investment promotion would provide a useful guideline for capacity building of PIPA.

## 4. Strengthening Ability of PIPA

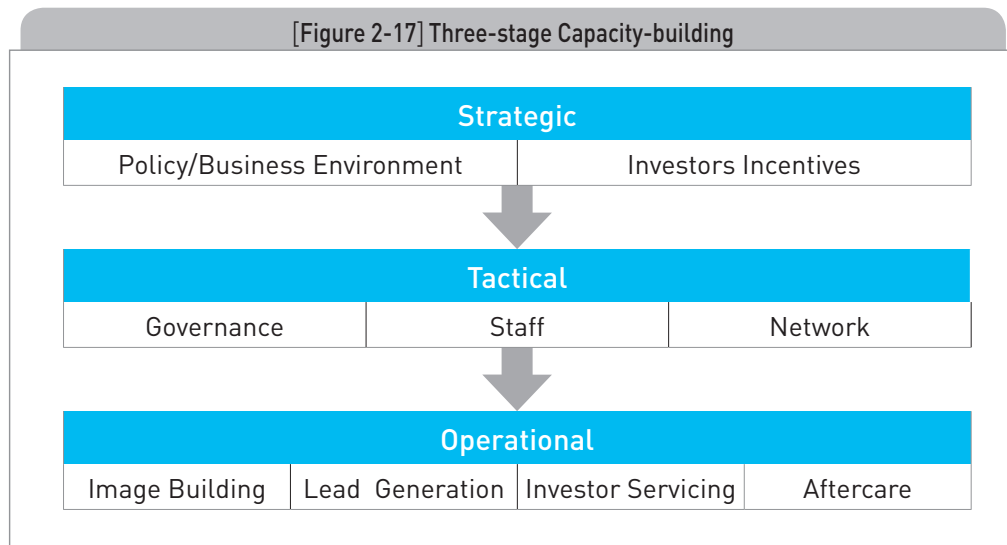
### 4.1 Capacity-building strategies

In the initial strategic stage, it is necessary to create a favorable policy and business environment, and design customized incentives for individual investors. In the ensuing tactical stage, plans should be made for PIPA's governance, strengthen staff expertise, and build a network for cooperation. In the last operational stage, efficient and concrete measures are needed to create good images, and provide investor support, service and aftercare. The Strategic Guidelines on Investment Promotion of OECD(2006) have provided the role of the IPAs and its activities taken from some successful experiences and practices for attracting foreign investment.

OECD(2006, p. 35) has emphasized as followings: first of all, the creation of the IPA and other similar functioning organizations and institutions, second, clear objectives of the IPA and the proper legal and administrative structures. third, professional management skill and service oriented business culture, fourth, result-oriented ethos and creative marketing methods in a changing economic situation,



lastly, establishment of the IPA with competitive strength for achievement selected strategic options.



Source: Authors

Image building is especially vital for Primorsky Territory which has negative image for the FDI attraction, with little international media coverage. Marketing is main tool to upgrade the image-building function of PIPA whose task is to turn Primorsky Territory into a trustworthy and resonant brand among investors.

The PIPA is not necessarily to serve all investors, the PIPA should focus some strategic sector according to regional development strategy. Primorsky government expects foreign investors to enter into high value-added manufacturing industry and innovative industry using their own human capital and academic facilities including the new campus of Far East Federal university. PIPA has to focus market segments of locational advantages, and matching services for foreign investors within the frame of grand development plan of the Primorsky Territory. It enables to reduce cost and efforts of PIPAs to attract FDI, and foreign investment will be increased as much as its the scope of promotional efforts are narrowing.

The PIPA has proposed and advocated improvements in relevant FDI policies in the regional and federal level. Moreover, it should become key player in the policy reform process. PIPA must create crucial parts of policy process enhancing to suggest recommendation of various policies, laws and procedures in order to improve the business environment for investors. The PIPA is middle organization among regional and federal government and foreign investors, which gives opportunities of

feedback the state organs and its improvement of policy.

〈Table 2-9〉 Desirable PIPA Functions and Activities

FUNCTION	DESCRIPTION	ACTIVITY
Image building	The creation of a perception of Primorsky Territory as an attractive place for foreign investment. Its role is mainly that of focusing foreign investor interest on the Primorsky region and reducing negative images and perceptions. Overall, the PIPA create the positive image of the Primorsky Territory in Asia- Paific region.	Focused advertising to Asia-Pacific countries, public relations events with foreign companies, the generation of favorable news stories by various journalists via world famous TV and newspaper such as CNN and Bloomberg
Investment generation and targeting	The process of targeting specific sectors and companies with a view to creating investment leads	Indetification of potential investors of high value-added and innovative industry, direct mailing and campaigns, open investors forums and seminars, and individual presentations to targeted investors
Investor facilitation and investor services	The range of services provided in Primorsky Territory that can assist an investor in analyzing investment decisions, establishing a business, and maintaining it in good standing	Information provision, "onestop shop" service aimed at expediting approval process, and assistance in obtaining sites, utilities and open Korean, Chinese, and Japanese desks in PIPA and so on
Aftercare and Policy advocacy	Activities through which the agency supports initiatives to improve the quality of the investment climate and identifies the views of the private sector on that matter	Surveys of the the complain of existing foreign firms, participation in task forces of regional governemnt and suggest policy and legal proposals, and lobbying for foregin investors.

Source: Jacques Morrisset and Kelly Andrews-Johnson, "The Effectiveness of Promotion Agencies at Attracting Foreign Direct Investment," *Occational Paper*, 16, World Bank, 2004, p.7; Fergus Cass, "Attracting FDI to transition countries: the use of incentives and promotion agencies," *Transnational Corporations*, Vol. 16, No. 2, August 2007, p.84; Authors

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## 4.2 Specific measures

### 4.2.1 Strengthening organizational capacity

#### 4.2.1.1. Legal and systemic foundation to attract foreign investment

The PIPA needs to acquire a more stable legal status as an agency designated to attract foreign investment in the Primorsky Territory. This would facilitate strategic moves to provide a broad range of services from identifying prospective investors, to supporting investment projects and providing aftercare.

Governments around the world are stepping up efforts to attract more external investment, and yet success stories are rare to find outside Dubai and Singapore. To enhance credibility of investment agency, it needs to have solid authority and power to negotiate with the central government to promote investment as part of a broader regional development plan in cluster unit. Developing the strategy for attracting foreign investment, PIPA requires strong political support and leadership, both from the Federal government and Primorsky Territory governments as well as from front-line agencies and departments responsible for implementing policy.

Considering geopolitical importance of the Primorsky Territory in Far East region, it might be considered to designate the area as a special zone subject to different sets of laws from other regions. A bold proposal should be made that comes with a package of attractive incentives as is the case of Korea's IFEZ, Dubai's JAFZ, and Singapore's FTZs. In addition to this, measures should be sought to address the labor shortage in the region, for example, by actively recruiting technical experts from outside the region, or adopting flexible labor policies for farmers whose work regimen varies greatly by season. The PIPA also plays the role of linkages between foreign investors and local partners.

Meanwhile, procedures of setting up corporation or investment trusts should be significantly streamlined, and various tax benefits need to be considered. The Primorsky Territory government should display its firm commitment to improving investment environment, giving guarantee for unrestricted remittance of investment profits, and opening up the market to foreign financial companies. PIPA needs an authority to make legally binding decisions when a foreign investor requests to verify rights over joint venture with local businesses, or requests interpretation of legal provisions. When conflicts arise during the project period or after investment is made, PIPA needs an authority to step in for coordination and mediation among investors. To do so, it is important to establish cooperative relationship with both federal and local governments and related institutes to smoothly resolve conflicts over financial and labor matters in the future. Also, a

cooperative network is needed with departments involved in FDI within the Russian Federal Government, to clearly divide roles and responsibilities. The PIPA facilitates effective and efficient communication platform between foreign investors and regional government. If necessary, an investment committee may be organized to prevent unnecessary activities and licenses and so on. It underlined that the PIPA should be the main transmission belt of feedback from investors to government and state organs.

#### 4.2.1.2. Multi-lateral investment network

The PIPA needs to strengthen relationship with World Bank and ADB, and analyze what types of capital to attract to facilitate investment in the region in the long term. Investing in areas that seemingly do not offer lucrative opportunities involves substantial risks, and PIPA would need to make extra efforts to lower investment risks and produce visible outcomes. It will need to develop new projects in the Primorsky Territory that borders with other countries to involve China, Russia, North Korea, South Korea and Japan more actively in investment. As mentioned earlier, a multilateral investment platform is needed to examine feasibility of such projects. To assess work of PIPA, unique features of the region should be taken into account, instead of simply comparing its roles and functions with other similar investment agencies.

#### 4.2.1.3. Organizational structure and human resources

It would be effective to organize PIPA's structure by areas of investment and industries, and assign human resources accordingly to hone their expertise. Priority of investment will be given to petrochemical, automobile, agriculture, forestry and marine industry, and tourism. Centering PIPA's structure on these areas would help to sharpen its competitive edge. The PIPA has about 20 staff members, while the average number of professional staff of IPA in most developed countries is about 30.92. Thus, additionally, committees might be organized to work with outside experts for key projects given budget constraints.

Considering that not many experts are available in the Primorsky Territory, PIPA needs to be more open to hiring private-sector experts with extensive understanding of the market to strengthen PIPA's human resources. Project review committees may be organized by industries and areas of investment with participation of outside experts. An advisory committee might be organized that garners opinions and voices of foreign companies in the Primorsky Territory on a regular basis. At the same time, qualified consultants need to be trained to assist foreign investors, and if necessary, the local government may designate consultants for each project to provide credible support and services.

〈Table 2-10〉 Skill Sets Required for PIPA Staff

Position type	Skill set
Project manager	Experience in industry, ability to build rapport with investors, has a pro-active, can-do attitude. Experience working in a foreign company is an advantage
Research and marketing manager	Strong research and organization skills. Experience in marketing, events and graphics an advantage. Ability to work with close deadlines.
Investment promotion officer	Flexibility and adaptability to do varied types of work. Strong communication skills, including willingness to conduct telemarketing-type work.

Source: Authors

To maximize organizational capacity, it is essential to design a wellfunctioning remuneration system with effective incentives. Some kind of attractive compensation scheme needs to be introduced to make the work environment more lively and friendly. Some extra budget room for strengthened incentive schemes needs to be secured to exercise discretionary management skills for stated objectives. Korea's investment agencies can give a useful reference in this regard that operates a merit-based promotion and remuneration system with various levels of incentives. Performance evaluation of PIPA employees needs to reflect their contribution to successful attraction of investment. Similarly, in a market survey, it is insufficient to simply survey market needs of the surrounding areas, but broaden the scope to include hubs of global finance or industries in Korea and China that play a pivotal role in the regional economy. To do so, PIPA may work with global consulting firms or university-affiliated research centers.

The PIPA may consider having communication channels separately for Korea, China and Japan for more active, customized investment activities, hire staff fluent in these languages, and recruit people from local educational institutions including Far Eastern University. If PIPA hires Korean-speaking staff, it would be possible to sign MOU and build partnership with the Korean Consulate General in Russia, official Russian representatives in Korea, and KOTRA to expand communication channel and promote investment by Korean companies.

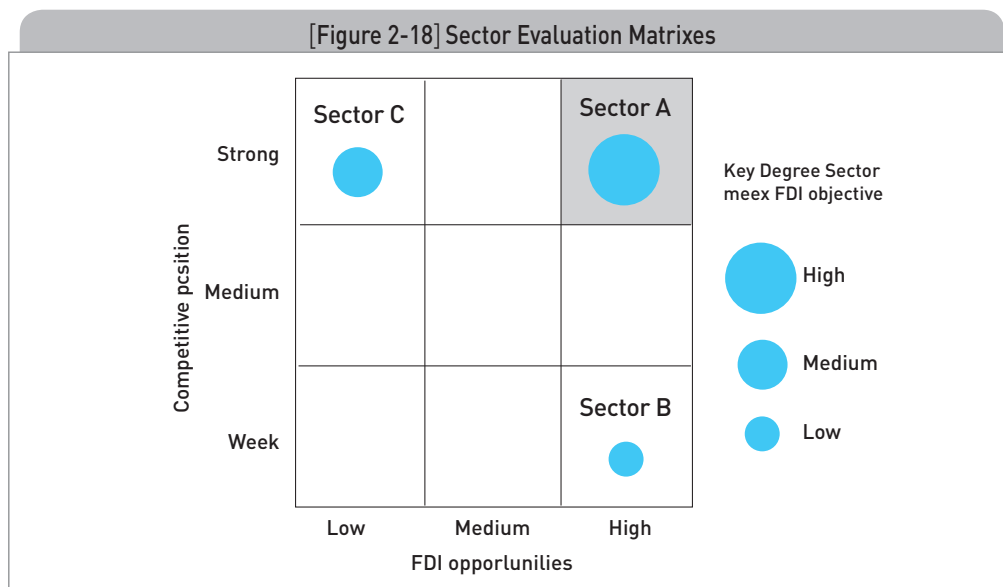
To strengthen staff-level capacity, multi-faceted efforts are needed to attract globally competent workers and operate training programs for internal capacity-building. Specifically, an investment academy might be established to train investment experts, and work with colleges in the Primorsky Territory to run both short-term training courses and more lengthy professional courses. PIPA might enter into MOUs with relevant Korean institutions such as Korea Development Institute (KDI) for staff exchanges and to operate training programs.

Staff exchange programs may be run with neighboring countries such as Korea's KOTRA, China's China Investment Promotion Agency, and Japan's Japan External Trade Organization.

## 4.2.2 More effective investment promotion

### 4.2.2.1. Goal-oriented service

It is critical to set clear goals for investment promotion in the Primorsky Territory. The goals should be laid out by the government's programs for social, economic development, by investor countries, by investment sizes, and by industries. Investment projects need to be categorized by their length short-term (1 year), mid-term (3 years) and long-term (5 years and longer) to adjust investment goals annually based on performance evaluation and remove barriers along the way. Since PIPA has limited capacity and human resources, it would be important to focus on a few key projects and produce many small but successful projects. In the mid to long term, projects that require cooperation with other local governments might be undertaken. Once specific goals are set, a list of companies may be drawn up and contacted to match with Russian investors. The outcomes may be tracked and recorded to accumulate database to improve investment promotion mechanism and attract more investment. Remind that the best ways to attract foreign investors is sectoral targeting where the Primorsky Territory has locational advantages.



Source: Henry Loewendahl, "A Framework for FDI Promotion," *Transnational Corporations*, Vol. 10, No. 1, April 2001, p. 11.

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The PIPA should adopt MBO (Management by Objectives) evaluation system to strengthen goal-oriented service. Specifically, business goals need to be set at the year-beginning by main projects, and by individual employees, to be evaluated at the end of the year. MBO is a three-step process. In addition, government officials, who are involved in attracting foreign investment, should be evaluated based on the MBO to enhance capacity of PIPA.

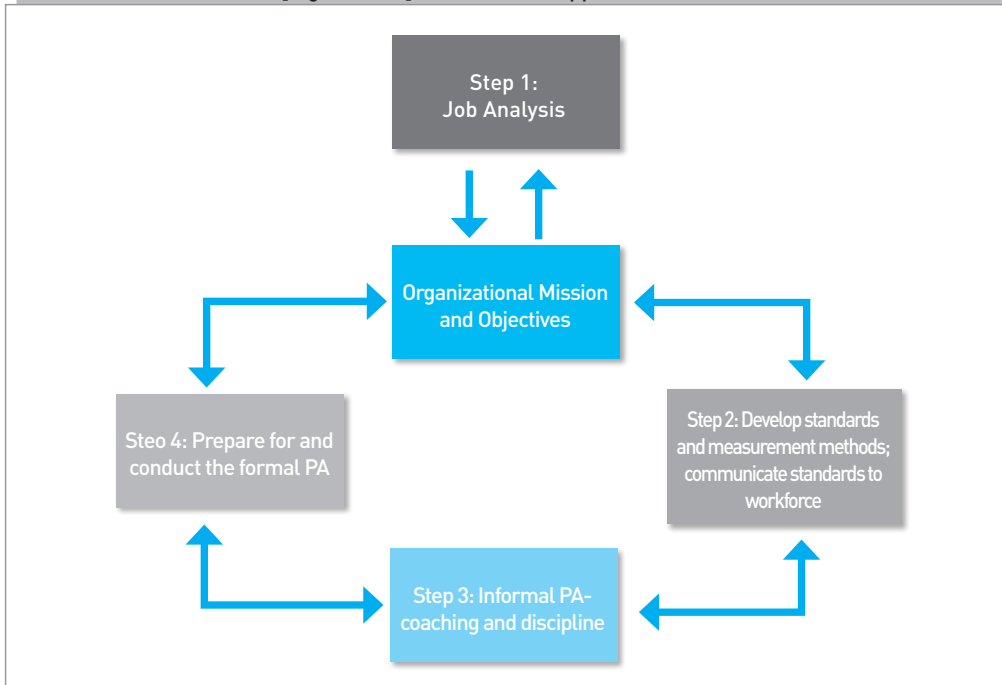
Step 1. There needs to be a clearly defined set of targets and timelines for each individual personnel at the PIPA. Regular evaluation of pre-assigned job description should serve as a benchmark for performance evaluation and incentives. Quality and timeliness remain the key criteria for job performance.

Step 2. HR staff is mainly responsible for promotion and evaluation of its staff, but the input for such surveillance should come directly from the supervisors, peers, and clients in a separate channel. Combined results should be the final basis of judgment and evaluation.

Step 3. Compensation and rewards need to be administered carefully for agencies like PIPA since “results” often take the form of improved climate in favor of actual \$ figures. Korean experiences show that short-term result-oriented performance evaluation actually led to inferior outcome with lots of cleanup costs afterwards. Some qualitative judgment of job performance is unavoidable because longer term and large risk factors need to be cleared before expecting tangible results. Here comes the managerial skills at the top.

Employees, who do not meet their goals, so long as the reason is not out of their control, usually have rewards withheld and even punishment when necessary. Excellent performance needs to be rewarded with corresponding incentives such as bonus, and poor performance needs to be followed up with a probe into its causes and search for solutions. China’s experience can be a good case in point as it attracted more foreign investment by setting aside a certain percentage of the investment as incentives. At the same time, competition needs to be spurred among divisions to facilitate investment. In case an important project yields poor results, PM may be replaced or more resources may be put into the project based on evaluation results. In using evaluation system, the emphasis needs to be put on improving results, than on a mere reward or penalty. In [K3] this regard, MBO may be implemented in sequence. For example, it may be used to identify potential investors (first year), invite potential investors to the Primorsky Territory (second year), and enter into MOUs and investment projects (third phased in gradually).

[Figure 2-19] Performance Appraisal Process



Source: Robert N. Lussier and John R. Hendon, Performance Management and Appraisal, Los Angeles: SAGE Publication, 2013, p.286.

[Figure 2-20] Sample of Self-Assessmen

	AA- Always	B+BB- Usually	C+CC- Frequently	D+DD- Sometimes	F Rarely
Dida "good" analysis of project					
Developed "good" questions to ask					
Actively Participated(truly interested/involved)					
Made "quality" effort and contributions					
Got along well with group members					
Displayed leadership					
List at least 3 of your own measures of performance here					
Class Attendance-number of absences	0-1	2	3	4	5+
Group Meetings Attendance to prepare group project-number of absences	0	1	2	3	4+
Manages the group's time well					

Source: Robert N. Lussier and John R. Hendon, Performance Management and Appraisal, Los Angeles: SAGE Publication, 2013, p.323.



#### 4.2.2.2. Personalized service

Comprehensive and personalized services would be a key to ensuring sustainable investment environment and expanding the role of PIPA. The PIPA needs to provide customized service in consideration of areas of investment and its size, in close cooperation with special economic zones authority and based on information of investment environment.

To facilitate feasibility study by foreign investors, PIPA needs to provide consulting service on information provision, investment procedure, legal affairs, and advice on tax and accounting matters. It needs to put together a manual on how to identify target companies, review investment plan, set up investment schedule, and implement a project as well as advisory service and aftercare. This would help to provide one-stop single-window service. In addition, <Investment Company Day> should be designated to increase interests of relevant state officials, which is organized by the Governor of Primorsky Territory and state organs.

Another way of enhancing PIPA's credibility would be clearly set timeline for responding to customer inquiries as is the case of the PRONicaragua. This might require reorganization of administrative units within the local state so that divisions involved in foreign investment may work in a coherent, integrated manner.

[Figure 2-21] Inquiry-handling Best Practice (PRONicaragua)

- ▶ Acknowledge receipt of inquiry by email within 24 hours
- ▶ Give a full or near-full response within 7 calendar days
- ▶ Provide any missing or more detailed information within another 7 calendar days, or simply follow up to confirm receipt of response and receive additional questions
- ▶ In another 15 days, try to arrange a conference call to hear project status, answer questions, and propose a country visit
- ▶ In another 30 days, inquire about project status, offering a conference call or country visit

Source: World Bank, *Global Invest Promotion Best Practices*, 2012

Foreign investors in the Primorsky Territory may experience difficulties in many areas from employment, to human resources management, procurement, and funding. To address these, it is important to organize job fairs for foreign companies, and aid with local financing. PIPA needs a mechanism akin to Ombudsman of Invest KOREA to resolve difficulties of foreign investors, both in business and in daily living, throughout the stages of investment project. The Ombudsman might be appointed directly by the Governor of the Primorsky

Territory, and it would contribute to improving investment climate of the Primorsky Territory.

Korean companies listed difficulties they have experienced in Russia as below:

〈Table 2-11〉 Korean Companies' Motivation for Investment in Russia

Motivation	Moscow	Vladivostok	Russia
Domestic market	91%	55%	73%
Low wage and rich labor force	0%	10%	5%
Export to a third country	3%	0%	2%
Commodities and parts	0%	10%	5%
Technology	0%	0%	0%
Resource development	6%	15%	11%
Logistics base	0%	5%	3%
Others	0%	5%	3%
Total	100%	100%	100%

Source: Lee et al., *Korean Firms' Investment and Future Agenda in Russia*, 2008, p. 82.

〈Table 2-12〉 Level of Satisfaction with Business Condition in Vladivostok

	Microbusiness	SME	Large Corporation	Total
Very dissatisfied	0	0	0	0
Dissatisfied	0	2	0	2
Moderate	3	4	0	7
Satisfied	0	2	2	4
Very satisfied	0	0	4	4
Total	3	8	6	17

Source: Lee et al., *Korean Firms' Investment and Future Agenda in Russia*, 2008, p. 108.

〈Table 2-13〉 Obstacles to Establishing Corporation/Factory in Vladivostok

Obstacles	Share
Lengthy period to acquire permit/ unpredictable attitude of local partners	24.1%
Bureaucratic complexity	41.3%
Finding local partners	6.9%
Finding factory site and construction	3.4%
Communication/language barrier	10.3%
N/A	13.8%
Total	100%

Source: J.Y.Lee, et al. *Korean Firm's Investment and Future Agenda in Russia*, Seoul: KIEP, 2008, p.109.

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Compared to Moscow, Korean investors in Vladivostok struggled more with unpredictable attitude of local partners. Going forward, it would be necessary to regularly survey investment-related difficulties of Korean investors and respond to them. Possibly, an MOU with KOTRA can be made to facilitate this effort.

Since many foreign investors reinvest in the same region, regularly inquiring their difficulties and reflecting the outcomes in employees' performance evaluation would improve quality of aftercare service. In particular, PIPA might assign staff and experts to communicate with potential investors, as ongoing management of potential investors helps to build mutual trust, and thus attracts more investment. The scope of aftercare can be extensive as words-of-mouth concerning Russia's investment environment can be particularly influential for potential investors from Korea, China and Japan. However, the priority needs to be given to tax incentives and labor relations, and aftercare also needs to extend to support for local stay of employees of investor companies.

#### 4.2.2.3. More extensive information provision

To improve investment accessibility in the Primorsky Territory, PIPA needs to put more resources into keeping and managing investment information and related statistics. One conceivable idea would be to build an integrated FDI network on the PIPA website to provide well-organized information. Providing more information on local business partners would be especially useful to prospective investors in assessing project feasibility. Data show that Korean companies rely more on other Korean companies in Russia, than on local agencies, to gather information before making investment decision in Russia. According to a study (Lee et al., 2013), primary source of Korean investors to garner investment information for Vladivostok was site visits and surveys (64.7%), followed by local acquaintances (17.6%), Korean companies in Vladivostok, agencies that support Korean businesses in the region (5.9%), and consulting firms (5.9%).

Considering language barrier and Korean companies' tendency to acquire information from other Korean firms, it would be advisable that PIPA enters into MOUs with KOTRA, Korea International Trade Association (KITA), Korea Chamber of Commerce, Korea Exim Bank, or other official Korean representatives in Russia to provide investment information. In the longer term, PIPA would need to gradually take over these roles. To do so, it needs to examine what kinds of projects attract Korean investors and what are their levels of satisfaction with provided information.

To win more FDI projects from neighboring countries, information needs to be provided in English, Korean, Chinese and Japanese, and also interpretation and

translation services should be available for major projects. In the case of Korea, websites of Invest KOREA, IFEZ, Gwangyang Free Economic Zone (GFEZ), and Jeju Special Self-governing Province Development Corporation (JPDC) provide information in English, Korean, Chinese and Japanese.

#### 4.2.2.4. Strengthening promotion activities

To promote investment in Russia by neighboring countries, various activities should be undertaken that include more effective marketing, meetings with global investors, and broader coverage by Bloomberg and other media outlets. Working with Federation of Korean Industries, China Enterprise Confederation and Japan Business Federation might be useful in organizing IR meetings and other activities.

The Primorsky Territory is working on strengthening partnership with its trade partners, to create a more favorable business climate and investor-friendly environment, and the role of PIPA is also expanding. PIPA had an investor's meeting in Seoul in June 2013, but has not followed up with further information and data for major investor groups. As global economy changes rapidly, potential investors need to accumulate even information that might not be immediately valuable. Considering this, PIPA needs to regularly update website contents, collaborate with Korean institutions to provide timely information to prospective investors, and use media outlets to raise the profile of PIPA.

In addition to the Primorsky Territory Government's efforts to provide investment information, the office of the Russian Federal Government's trade representative in Korea should be a portal to regularly provide investment information to potential investors.

## 5 Policy Recommendations and Conclusion

The role of special economic entity like an investment promotion agency in attracting FDI should be assessed and analyzed with particular care under Russia's regime, which is different from Korea. The agency needs to display credibility and commitment to resolve issues that are at odds with market principles and thus might hamper foreign investment. To fit success elements of Korea's FDI attraction into peculiar Russian context, it is essential to clarify parties accountable for associated risks, which are hard to assess especially due to different market mechanisms of the two countries. It remains to be seen whether PIPA has capacity to carry out these activities, and it needs to be clarified which parties would be accountable for investment risks, as well as risk sharing.

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The Primorsky Territory has vast investment potentials as it has a plenty of natural resources to export abroad. However, FDI in Russia is at a gridlock as it struggles with the lack of transparency in high-level governance structure, setting aside more practical discussions on prospective investors, investment procedure, risk management or remittance of investment profits. To revitalize FDI in Russia, the institute that has most information and definite answers to related inquiries

should take the lead. Investment in the Primorsky Territory would differ markedly from past projects in terms of scale and length of project, and many of them are likely to be mega projects. The most glaring aspect in investment in the Primorsky Territory is that an investment promotion agency under the local government is burdened with the task of attracting foreign investment without corresponding capacity to improve infrastructure and skillfully deal with complicated geopolitical factors. Meanwhile, prospective investors cannot conduct even basic risk assessment due to the lack of infrastructure.

To move ahead, the federal government and the local government will have to figure out how to divide roles and take responsibilities. Considering the strategic value of the Primorsky Territory, it would be practical that multiple countries participate in investment projects in the region, rather than small investments at a state level. In this case, internal capacity building of PIPA under the existing governance structure might not be a primary concern.

More importantly, the PIPA should be scaled up and assigned with greater roles to be a leading investment agency in the region. If PIPA can be a special corporation with a solid legal status as a representative of the federal government, it would be possible to attract substantially larger projects than now, also with different characteristics. PIPA's capacity is in hands of the federal government, which decides how much investment authority to grant. This would also affect PIPA's performances and their evaluation. Clearly a local government's efforts would not be sufficient to ensure long-term, sustainable growth of investment in the region. To pull various production factors into the Primorsky Territory and resolve the current shortage of human resources, simultaneous efforts should be made to enhance education, medical service, welfare and cultural environment in the region. Only then it would be ready to host individual investment projects.

That is, the PIPA should be firmly set up first as an effective channel to attract large investment projects and support them, and develop abilities to implement them. State-level activities to attract outside investment would not be enough to lay groundwork for tangible and sustainable growth of the region. It would be advisable that a powerful key institute leads the initiative and involves multiple parties in investment projects. Due to high risks, prospective foreign investors need assurance concerning who will be accountable for risks before making investment

decisions. If these cannot be done internally, it would be necessary to set up a joint venture with authorities to coordinate issues that are of interest and importance to foreign investors. To set in motion a virtuous cycle of investment and reinvestment, environment should be created first for proper risk distribution by engaging various private-sector parties and global investors.

From a strategic viewpoint, PIPA should secure de facto authority to decide FDI projects, manage and monitor legal and financing procedures to strengthen its capacity. It should focus on eliminating investment barriers, based on market principles.

The key to lowering entry barriers for prospective investors is to provide comprehensive, global consulting services. Specifically, PIPA should endeavor to host world-class accounting firms and law firms, and work with them. It is an urgent task to remove bureaucratic formalities and improve transparency of decision-making process to attract more foreign investment to the region.

Private-sector investment in the Primorsky Territory would require substantial amount of preparation and support for its large capital needs and high risks. Compared to other regions, the Primorsky Territory has a weak market base, and it would be rather unrealistic to try to host SME investments. A more practical alternative would be to plan long-term mega projects that can capitalize on the vast hinterlands of the Primorsky Territory and its rich resources. Again, operation of an investment agency at a state level would not provide enough momentum to attract and implement large investment projects. Moreover, the poor financial infrastructure would make it hard to provide satisfying investment services. To promote investment in the early stage, involvement and attention from Korea, China and Japan would be critical, partly for their supplementary industrial structures. Thorough market surveys should be undertaken and promotion activities planned to advertise the Primorsky Territory as an ideal investment location.

Specifically, we propose that PIPA strengthens its capacity and roles with the following efforts.

First, it should clearly set strategic, tactical and operational goals for capacity-building, to better define its role as an investment promotion agency. The main target of potential foreign investors should be Asia-Pacific countries, thus PIPA makes the basis of platform and network serves for investors from Asia-Pacific countries. To achieve these goals, one of possible solutions is open the Korean, Chinese, and Japanese desk to increase responsibility of attracting these countries' capital. However, PIPA can not work without receiving some autonomous powers from regional government in terms of attracting foreign investment. This is main

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challenges for PIPA because it started to work not for long period, at the same time, its early stage of development, PIPA has chance to establish its role and functions properly within the existing legal framework with using supports from grand strategy of Far East development initiated by the Putin government.

Second, it should make continued efforts to strengthen an interactive relationship between organizational capacity-building and investment attraction. It needs to develop partnership with the local and federal governments to solidify both legal and operational foundation. We also recommend that PIPA operates training programs in cooperation with institutes of investor countries to develop human resources. Staff exchanges and infrastructure-building would lay foundation to establish a multilateral investment platform. In addition, regional level cooperation should be vitalized as there are many conversation among regional level in the Russia Far East and regional government of Korea, China, and Japan. Using these platform, PIPA develops multilateral projects and stimulates SMEs' investment which reduces the risk and increase local employment.

Third, it needs to have concrete goals in investment promotion, establishes short-term, mid-term and long-term plans accordingly, regularly evaluates outcomes, identifies problems and tries to resolve them. For the purpose of effectiveness, PIPA has regularly receive feedback from foreign investors and partner institutions of Asia-Pacific countries not for blame but for improvement. Success story of foreign companies should be regularly advertized through famous international newspaper, TV and so on.

Fourth, it needs to build a partnership with partner institutions in Korea and regularly examine moves of Korean investors. PIPA have to survey the opinion related invested activities of Korean companies and the result of survey will be delivered to regional and federal government. It should also strengthen promotion activities and provide timely information to investors. Major changes in investment climate and announcement of new law will affect of foreign companies should be delivered through web site or partner institutions to improve credibly of Russian government.

In summary, to make steady improvement in investment promotion activities, PIPA's capacity-building efforts should be directed in a way that is consistent with investors' needs. In addition to basic infrastructure, a coordinating party would be needed to fine-tune relations between market conditions and interests of investors for organic interaction among the federal government's basic investment directions, state government's concrete strategies, and the role of investment promotion agencies. Preparations should be put in place to undertake complex, large-scale projects that involve neighboring countries, for example, projects in

heavy chemical industries. PIPA's capacity should be strengthened with preparations and investments that go far beyond the state government level. The federal government's solid guarantees, state government's unsparing support, and strategic moves to ensure efficient operation of PIPA should all come into play. To this end, efforts to strengthen PIPA's capacity will need to be made and coordinated within a much greater framework than the agency alone.



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2013 Knowledge Sharing Program with Russia  
Primorsky Territory: Policy consultation to strengthen  
Russian economy's capacity

## Chapter 3

# Review and Detailed Planning on the "Socio-Economic Development Program (Draft) of the Primorsky Territory in 2013-2017"

1. Review of the "Socio–Economic Development Program (Draft) of the Primorsky Territory in 2013–2017"
2. Enhancing the Feasibility of Investment Projects in the Primorsky Territory – The Direction of Short– and Mid–term Development
3. Clustering Potential and Development Strategy in the Primorsky Territory – Direction for Long–Term Development

# Review and Detailed Planning on the "Socio-Economic Development Program (Draft) of the Primorsky Territory in 2013-2017"

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## Summary

### 1. Review on the "Socio-Economic Development Program (Draft) of the Primorsky Territory in 2013-2017"

The "Socio-Economic Development Program (Draft) of the Primorsky Territory in 2013-2017" largely focuses on the analysis of the current status of the Primorsky Territory and its policy goals. Along with the "Socio-Economic Development Program (Draft) of the Primorsky Territory in 2013-2017," the Investment Portal of the Russian Regions, the Investment Portal of the Primorsky Territory (the Primorye Investment Promotion Agency, PIPA), the Ministry of Regional Development of the Russian Federation, the Ministry of Foreign Affairs of the Russian Federation, and the Primorsky Territory government have individually disclosed their list of major investment projects in the Primorsky Territory. The lists, when compared, revealed inconsistencies in many areas, such as project developers, project sizes, and project statuses, and contained frequent errors. Furthermore, the greatest problem with these investment projects was that they were initially planned mainly focusing on the expected results.

For this reason, there should first be a distinction between budget items and non-budget items. Second, infrastructure for investment promotion should be classified as a budget item and be the first investment. Third, sectors that can

further secure the industrial predominance of agriculture and fisheries, such as the processing industry, derivative industries, and the construction of the related distribution infrastructure, should be the next investment. Fourth, there should be progressive development strategies to remove project barriers one by one from a long-term perspective. Some of the projects with barriers are long-standing energy-projects and other idle projects, labor-intensive projects, and high-tech and other industrial projects with weak industrial predominance.

## 2. Enhancing the Feasibility of Investment Projects in the Primorsky Territory - The Direction of Short- and Mid-Term Development

Under this section, a variety of measures is recommended to promote foreign investment: increasing Public-Private Partnership-based investments; classifying infrastructure and construction projects as budget projects; providing more policy funds to the investors of the Primorsky Territory; introducing specific and active promotion strategies, such as joint partners; and educating and training civilian expert groups.

This section also assesses the suitability of foreign investments and project statuses by analyzing the 10 projects often mentioned for foreign investment promotion and the seven projects which the Primorsky Territory government proposed for a review. Among the projects, four of them were chosen for further analysis: first, the Russky Island Technopark Project in view of a need for growth poles through the fostering of the manufacturing industry and through the clustering of different sectors within the manufacturing industry; second, the "Zelenye Listya" Innovative Agrocomplex (Green Leaves) Project from a view of development strategies for agricultural regions as part of balanced regional development; third, the Fisheries Cluster Formation Project in view of developing a fisheries cluster; and fourth, the effects and prospect of the visa waiver agreement between Korea and Russia and the Russky Island Tourism & Recreation Zone in view of increasing cooperation for the tourism industry.

## 3. The Potential and Development Direction of the Primorsky Territory: Long-Term Development Plan

The review on the *"Socio-Economic Development Program (Draft) of the Primorsky Territory in 2013-2017"* showed that the growth poles were being poorly treated. The real issue of the Primorsky Territory today seems to be about building a socio-economic structure of its own from a long-term perspective rather than

investment promotion itself. By strategically promoting the fostering of the poorly-performing manufacturing and services industries through regional clustering, the Primorsky Territory needs to form an organic relationship between industries, as well as set long-term development strategies through agglomeration economies that will contribute to the vitalization of the market economy.

Korea's development is an effective display of growth poles through the development policy of the manufacturing industry in the 60s and the 70s, as well as clustering from the 70s to the 80s. The promotion policy of the service industry in the 2000s and beyond also played a role in the vitalization of FEZs.

When the projects under the "Socio-Economic Development Program (Draft) of the Primorsky Territory in 2013-2017" were clustered by district, the result showed four major regions. The four regional clusters recommended in this paper are the Troitsa Bay district centered on Khasan, Posyet, and Zarubino; the Ussuriysk district for the agricultural industry; the Vladivostok district for the service industry; and the Nakhodka district for the heavy and chemical industry.

Each regional cluster has been recommended in reference to Korea's clustering practices, such as the formation of the Masan Free Trade Zone, which took advantage of the manpower and logistics transportation along the border and coast; the creation of the agroprocessing industrial complex to promote the manufacturing industry of agriculture; the designation of the Incheon Free Economic Zone to promote the logistics and service industry; and the creation of heavy and chemical industry of Ulsan.

## 1. Review of the "Socio-Economic Development Program (Draft) of the Primorsky Territory in 2013-2017"

### 1.1 Status of the Socio-Economic Development Strategy in the Primorsky Territory

#### 1.1.1 Status of the Regional Development in the Primorsky Territory

The Government of the Russian Federation approved the "*Strategy for Socio-Economic Development of the Far East and the Baikal Region by 2025*" on December 28, 2009, and publicly announced the "*State Program of the Russian Federation on Socio-Economic Development of the Russian Far East and the Baikal Region by 2025*" ("*2025 Far East Development Program*") on March 29, 2013.

The "2025 Far East Development Program" includes 88 projects in the Primorsky Territory. The total investment of those projects is worth RUB 1.387 trillion: RUB 327.9 billion from the federal government budget, RUB 33 billion from the Primorsky Territory government budget, and RUB 1.261 trillion from the private sector. While the natural resource development-related sector consists of 25.6% of the federal government budget, the budget for the fishing and tourism industries is 0.8% and 1.8% only. The budget allocation is considered to be disadvantageous to the Primorsky Territory. In addition, as the percentage of private sector investment is too high in all of the projects, the feasibility of these projects is questionable. The following table is the budget allocation and the percentage of each sub-program under the "2025 Far East Development Program."

〈Table 3-1〉 The Budget Allocation and the Percentage of Each Sub-Program under the "2025 Far East Development Program"

Sub-Program	Total Budget		Percentage by Investor (%)		
	Percentage (%)	Budget (RUB1 billion)	Federal Gov.	Regional Gov.	Corporate (Private)
1. Promotion of economic efficiency	26.7	2,662	3.9	0.0	96.1
2. Development of a mineral resource raw material complex	25.6	2,554	3.2	0.1	96.7
3. Development of a timber industry complex	1.9	189	9.0	0.4	90.5
4. Development of a fish industry complex	0.8	79	55.7	3.8	40.4
5. Development of an agricultural industry complex	1.2	116	24.0	11.4	64.5
6. Development of transportation infrastructure	16.7	1,168	97.1	1.6	1.3
7. Development of energy infrastructure	13.9	1,386	31.9	1.0	67.1
8. Creation of convenient living conditions for residents.	7.6	761	72.9	12.4	14.6
9. Ecological security and environment conservation	3.0	297	80.0	17.8	2.3
10. Securing and nurturing of human resources	0.7	69	92.4	3.0	4.6
11. Development of tourism	1.8	175	16.6	4.5	78.9
12. Guarantee of the implementation of the state program of socio-economic development	0.2	15	50.0	50.0	0.0
Total	100	9,976	32.4	2.3	65.4

Source: State Program of the Russian Federation on Socio-Economic Development of the Russian Far East and the Baikal Region by 2025

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After the "2025 Far East Development Program" was announced, the Primorsky Territory government approved the following 18 programs due to the need for planning socio-economic development at the regional government level in line with the structure and contents of the "2025 Far East Development Program." The following 18 programs are being implemented by the departments in charge:

- The Primorsky Territory Program of Health Development for 2013-2017
- The Primorsky Territory Program of Education Development for 2013-2017
- The Primorsky Territory Program of Social Support (Supporting the Socially Vulnerable) for 2013-2017
- The Primorsky Territory Program of Employment Promotion for 2013-2017
- The Primorsky Territory Program of Cultural Development for 2013-2017
- The Primorsky Territory Program of Housing Supply Expansion and Residential Condition Improvement for 2013-2017
- The Primorsky Territory Program of Residential Protection Against Natural Disasters (including Fire and Flood Damage) for 2013-2017
- The Primorsky Territory Program of Environment Protection for 2013-2017
- The Primorsky Territory Program of Physical Education and Sports Development for 2013-2017
- The Primorsky Territory Program of Tourism Promotion for 2013-2017
- The Primorsky Territory Program of Information Society for 2013-2017
- The Primorsky Territory Program of Transportation System Development for 2013-2017
- The Primorsky Territory Program of Energy Efficiency for 2013-2017
- The Primorsky Territory Program of Agricultural Development and Better Living Conditions for Farmers for 2013-2017
- The Primorsky Territory Program of Fishing Industry Development for 2013-2017
- The Primorsky Territory Program of Forest Industry for 2013-2017
- The Primorsky Territory Program of Economic Development and Innovation for 2013-2017
- The Primorsky Territory Program of the Approval of Program Creation, Implementation and Efficiency Evaluation Procedures

Meanwhile, the Primorsky Territory government is drafting the "Socio-Economic Development Program (Draft) of the Primorsky Territory in 2013-2017" in accordance with the "2025 Far East Development Program" by putting together the 18 programs above. The government selected 23 detail subjects and appointed expert groups and their leaders. Appointed leaders are mainly scholars, professors or researchers in related areas or CEOs from private companies, including CEOs from the subsidiaries of federal-level companies. Each expert group of 12 subjects created a draft on the "Socio-Economic Development Program(Draft) of the Primorsky

*Territory in 2013-2017*" ["2013-2017 Development Program (Draft)"] and submitted the report to the government.

The "2013-2017 Development Program (Draft)" was revised and submitted after being reviewed by the Department of Justice of the Primorsky Territory, but it has not been enacted and proclaimed as law yet.

The Primorsky Territory program of economic development and innovation for 2013-2017, which is a part of the "2013-2017 Development Program (Draft)" being reviewed by the government, is made up of four sub-programs: improving the investment climate of the Primorsky Territory; promoting small and medium enterprises (SMEs) in the region; enhancing the competitiveness of the regional products and services; and establishing an advanced budget-planning and execution system. These sub-programs are distributed to three districts (Northeast, Midwest, and South), based on which industry specialization measures are presented as follows:

(Table 3-2) Industry Specialization by District in the Primorsky Territory

Category		Specialized Industries
Northeast	Nature conservation district	<ul style="list-style-type: none"> <li>- Promoting eco-friendly tourism such as ecological and nature adventure</li> <li>- Developing an eco-friendly district using green technologies</li> </ul>
Midwest	Eco-friendly industrial district	<ul style="list-style-type: none"> <li>- Developing primary industry such as the agriculture and mining industries</li> <li>- Nurturing the food industry and architecture &amp; construction materials-manufacturing industry</li> <li>- Promoting an eco-friendly manufacturing industry</li> </ul>
South	Industrial district	<ul style="list-style-type: none"> <li>- Developing the district as a base to facilitate the service industry</li> <li>- Developing financial and logistics/transportation services with priority</li> </ul>

Source: Seung jun Kim, "the economic development plan in the Primorsky Territory and the implications of market entry of Korea related industries," *the Institute of Russian Studies at Hallym Univ. Issue Paper 2013, No. 4*

### 1.1.2 Review on the Investment Promotion Strategies through Projects

Appendix 1 of the "2013-2017 Development Program (Draft)" shows the rank of projects in terms of investment priority by district. Appendix 2 provides the list of projects. In Appendix 2, 117 projects are listed under the 11 categories: (1) transportation and communications; (2) sports and tourism; (3) mining of mineral



resources; (4) processing production; (5) food industry; (6) combined heat and power plant; (7) environment; (8) fishing industry; (9) agriculture; (10) construction; and (11) state-of-the-art innovation. The project list in Appendix 2 is attached as Appendix A to this report.

The Investment Portal of the Russian Regions<sup>40)</sup> presents 47 investment projects (including 13 completed projects), 1 federal project, 11 investment proposals, and 1 special economic zone for the Primorsky Territory.

The Investment Portal of Russian Regions provides information on 1,220 investment projects across the Russian Federation by region and industry. Information in regards to the Primorsky Territory is focused on the social infrastructure built to host the Asia-Pacific Economic Cooperation (APEC) Leaders' Meeting in 2012 or on the projects to improve the regional environment of the Vladivostok area. Information in general, however, is very limited compared to other regions and much of the information presented is inaccurate.

Meanwhile, the Investment Portal of the Primorsky Territory (<http://www.invest.primorsky.ru>) presents 75 investment projects in the Primorsky Territory including 18 projects that were successfully completed. It is confirmed that eight projects that were supposed to be ended in 2013 had not been completed yet as of the end of 2013. The Vladivostok office of the Ministry of Foreign Affairs<sup>41)</sup> also provides a list of investment projects to attract foreign investment. Only 12 projects on this list coincide with the projects presented by the Investment Portal of the Russian Regions and the Investment Portal of the Primorsky Territory.

On May 30, 2013, an economic delegation consisting of the Primorsky Territory government and entrepreneurs from Primorsky Territory-based companies visited South Korea and was given an opportunity to present its investment projects to attract foreign investment from Korea. When the investment project list presented in Korea is compared to the list of the Vladivostok office of the Ministry of Foreign Affairs, only 10 projects coincide.

After review, the number of the Primorsky Territory investment projects that both the federal government and the Primorsky Territory government consider necessary to attract foreign investment and interesting enough for foreign investors to invest considering the details and the scale of projects is narrowed down to 10. All of these projects are in the southern district: projects are mostly in Vladivostok or neighboring Arthyom except the projects to build petrochemical and gas chemical

40) THE MINISTRY OF FOREIGN AFFAIRS OF RUSSIA, Vladivostok Office, <http://www.vladivostok.mid.ru/investments.html>

41) *ibid.*

factories around Nakhodka, to construct liquified gas factories in the Khasan district, and to make a combined heat and power plant in Ussuriysk.

Out of these 10 projects, some projects are not driven by federal-level companies, such as Gazprom, Rosneft and RAO East Energy Systems. In regards to these projects, the direction of business feasibility review and the review progress will be covered in Section 2.

## 2. Enhancing the Feasibility of Investment Projects in the Primorsky Territory - The Direction of Short- and Mid-term Development

### 2.1 The Review Results of and the Issues Identified on the List of Investment Projects in the Primorsky Territory

#### 2.1.1 Overview and Identified Issues of the "2013-2017 Development Program (Draft)"

The "2013-2017 Development Program (Draft)" reviewed by the Primorsky Territory government consists of the main text and Appendices 1 and 2. The 202-page main body consists of eight chapters about evaluation, outlook goals, challenges, priority fo the policy, the program implementation system and structure, resources, evaluation of effectiveness, and the socio-economic development status of the Primorsky Territory. Appendix 1 provides a glimpse of key investment projects by district and has 83 pages. In 50-page Appendix 2, 117 projects are categorized by industry and listed in the tables.

The main text of the "2013-2017 Development Program (Draft)" devotes more than three quarters of its pages in describing the status analysis and strategic goals. There are neither specific details on the financing measures and efficiency analysis, nor evidence to back up the figures or evaluation items presented there. Similarly, despite the fact that the title of Appendix 1 is "Projects by Priority," the investment projects that are being pushed ahead or being planned by districts are randomly listed without considering their priority and are described without any details. In Appendix 2, investment projects are categorized by industry, based on which it provides total investment budgets, project goals and policy objectives (for example, job creation) that can be achieved through the projects. The problem is, however, the total investment budget is specified without differentiating between budget and non-budget items, and without providing the financing measures for

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non-budget items. In addition, expected job creation figures are suggested with no evidence to support them. These ambiguities make the feasibility of these projects questionable.

### 2.1.2 Issues on the Investment Project Lists of the Primorsky Territory

As described in Section 1, the Investment Portal of the Russian Regions, the Primorsky Territory government, the Investment Portal of the Primorsky Territory, the federal ministries of regional development and foreign affairs are providing lists of investment projects in the Primorsky Territory. In general, the information provided from them is all similar. Project developers, expected project scale, duration, and results are briefly described without details such as the project structures, characteristics, and investment procedures. As many government organizations offer their own version of the lists, some information, such as project developers, size and status, is mismatched between the organizations and much of the information is not correct.

The Investment Portal of the Primorsky Territory provides comparatively detailed information than the others. Still, it does not have information that helps to understand project details and progress. As a result, contact by phone or visits are the only way to get the project details.

In general, the first thing that needs to be reviewed in investment projects is the structure and characteristics of projects and their feasibility rather than the expected results of the projects. Expected results can be the first thing to be reviewed if the project is fully financed and run by government institutions. The Primorsky Territory investment projects, however, are listed and described focusing on expected results even though these projects are not fully financed and are not run at the government level.

In regards to the lists of investment projects in the Primorsky Territory that is clearly stated as projects to attract foreign investment by the Ministry of Foreign affairs or the Investment Portal of Russian Regions, it is hard to know on what criteria these projects are classified as foreign investment projects. In addition, as there is no information on the project structure, there is no way for foreign investors to know about how to join the projects and to decide whether to join or not.

## 2.2 The Proposal on the Criteria to Prioritize Projects to Attract Private Investment in the Primorsky Territory

### 2.2.1 Overview Proposal on Re-Organizing the List of Investment Projects in the Primorsky Territory and on the Rules for a List

#### 2.2.1.1 Issues that Need to Be Resolved Immediately from the Perspective of Foreign Investors

The lists of investment projects in the Primorsky Territory disclosed by the Investment Portal of the Russian Regions and the Investment Portal of the Primorsky Territory outline project developers, contact information, business goals and expected results, project summary, target location for the project, duration, estimated project cost, and status. Appendix 2 of the "2013-2017 Development Program (Draft)" describes projects focusing on business goals and expected results and on estimated project cost.

There is nothing wrong with the structure above, but the following points made from the perspective of investors should be considered:

- 1) Whether the project is based on contract, private investment, or cooperation between the private and public sectors;
- 2) Whether there should be a bidding process, an optional contract can be signed, a guarantee should be provided from investors if the project proceeds based on the contract, and any permissions, authorizations or licences should be required before the project starts;
- 3) What is the capital investment ratio if the project proceeds based on private investment or cooperation between the private and public sectors;
- 4) Whether the project is qualified for borrowing if there is a need for it which means considering if a mortgage can be offered or if the federal or the Primorsky Territory government can guarantee the project;
- 5) If the project is suspended or stopped due to force majeure, those who place an order, or the government, what measures exist to compensate or retrieve the cost.

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If projects are based on private investment or cooperation between private and public sectors, private investors finance all expenses required to start business for several years in the initial stages and then retrieve the cost after dozens of years of operation. Therefore, it is necessary that baseline measures to stabilize business operation, forecast revenue, and retrieve investment cost should be guaranteed to encourage investors to invest.

The investment projects in the Primorsky Territory, however, lack the information mentioned above. As a result, investors are in a frustrating position in which they are forced to decide to invest solely based on the advantages of the project itself or gather information on their own. Russia has advanced foreign investment policies under which there is no discrimination against foreigners: there is no foreign investment permission system, and foreigners do not have any limitations in the acquisition of land. Recently, federal tax laws have been revised for the Russian Far East including the Primorsky Territory. According to the revised laws, corporate tax is exempted for the corporations that make a certain level of investment. They can also receive property tax exemptions under the law of the Primorsky Territory government. These are clearly attractive factors to induce foreign investment. Still, in regards to the feasibility study of projects, basic aspects that should be considered are: when the investment should be made; what should be the size of investment; what would be the expected revenue; and when would be the appropriate time to retrieve the cost.

All the points raised above do not have to be reflected on the list of investment projects in the Primorsky Territory. Still, it is desirable to disclose information on: project developers' investment capability and credit; expected borrowing cost<sup>42)</sup>; and how the project proceeds, whether contract, private investment, or cooperation between the private and public sectors). In the list of investment projects in the Primorsky Territory, nothing is mentioned on project financing. The project developers are mostly private companies. If the companies are not publicly-traded companies but closed shareholding companies or limited companies, the credit of those companies alone would not be enough for them to run the project on their own by fully financing the project or to operate the project based on a contract. Therefore, it is considered that most of the investment projects in the Primorsky Territory should be carried out based on joint ventures between private companies, private investment through cooperation between the private and public sectors, or budget-based funding.

42) The investment Portal of Russian Regions has items as follows: a) expected total cost of the project, b) already-invested cost (financing by the project developer), and c) borrowing cost Items b) and c), however, are filled out as "0" at the portal, which is not helpful to investors at all.

## 2.2.1.2. Foundation to Promote Projects Based on Private Investment

### **a. Establishing a Legal Foundation to Develop Investment Projects Based on Cooperation between the Private and Public Sectors**

As of now, the concession agreement law is in effect as federal law. In the Primorsky Territory, however, not a single concession agreement has been signed before. Besides the Concession Agreement Law and the Product Sharing Agreement Law, the law on public-private partnership (PPP) needs to be enacted to develop projects based on cooperation between private and public sectors. In fact, the Primorsky Territory government is working on the draft of the Private-Public Partnership Law (the PPP law of the Primorsky Territory) at the regional government level.<sup>43)</sup>

Provided however, under the draft, the ways of project participation by the Primorsky Territory government are classified as capital- and finance-based participation. Capital-based participation is limited to land leases and exceptions provided under the contracts while finance-based participation is only about budget support and subsidies. Therefore, even if the law is enacted as it is, it is not likely that the law will be an effective investment promotion measure to foreign investors. In Korea, for example, the law on the private investment of social infrastructure stipulates what must be included in PPP-related contracts for project financing, such as the guarantee of the state government or regional government, the establishment of a mortgage for project property, and measures to guarantee revenue. The law also includes measures to compensate the cost at the termination of the contracts. The example above needs to be reviewed for reference in order to identify the most optimal PPP structure for the Primorsky Territory.

### **b. Higher Priority on the Projects to Build Social Infrastructure**

The Primorsky Territory is seeing a gradual decline in its population even though the birth rate has slightly increased recently. The population inflow and traffic volume of this region is lower compared to the other regions of Russia. For foreign investors, these characteristics mean an increased burden of transportation costs due to longer transportation distances, difficulties in sourcing human resources, and an increased production cost due to the difficulties in securing distribution networks. In addition, as a relatively small inflow of population makes it difficult for private investors to retrieve their cost, it is very unlikely that the Primorsky Territory can attract projects based on private investment.

43) The draft of the law on the participation of the project based on the public-private partnership had been primarily reviewed and modified by the governor of the Primorsky Territory, <http://www.invest.primorsky.ru/images/textdoc/law%2base/2.pdf>

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Considering the points raised above, the Primorsky Territory needs to run projects for building social infrastructure as budget-based projects. If these projects are carried out as budget- and contract-based projects, it is expected that Korean companies located nearby the Primorsky Territory will show a high interest in the projects.

### **c. Simplified Mortgage Offering Procedures for Tax and Policy Fund Support and Financing**

In the second half of 2013, federal tax laws were revised and the Primorsky Territory law on property tax cuts was enacted. As a result, those who invest RUB 150 million for three years or RUB 500 million for five years will have a 0% corporate-tax for the first five years and 10% for the next five years, and 0% property tax rate for the first five years and 0.5% for the next five years. These benefits in the Primorsky Territory are very exceptional compared to other regions.

Considering its industry size and population, however, the level of investment qualified for the benefits is so high that it is difficult for those who want to invest in small- or medium-sized manufacturing or service industry to get the benefits. Although tax breaks that can be granted at the Primorsky Territory government level are very limited, the government still can reduce its corporate tax rate from the current 20% to 15.5% and provide property tax exemptions. It may be burdensome for the Primorsky Territory government whose tax revenue is small. Still, the Primorsky Territory government needs to consider selective tax benefits targeting industries at a disadvantage, such as small- and medium-sized manufacturing, distribution and service businesses.

As regional-based financial institutions are undeveloped in Russia, financing is one of the issues for companies based in the Primorsky Territory. Running small- and medium-sized manufacturing, distribution and service businesses does not require a large scale of money. Therefore, the Primorsky Territory government needs to consider policy measures for those who want to start small- and medium-sized businesses or for those who are running small-sized agriculture or livestock businesses. In Korea, for example, low-interest policy funds are provided to support specific industries.

In regards to the private investment projects, the Primorsky Territory needs to consider additional government support including government guarantees or a minimum revenue guarantee (MRG). External borrowing is needed in many cases to execute investment projects, and it requires offering mortgages on land or other properties. For the projects on the lists of investment projects in the Primorsky Territory, the land is mostly owned by the Primorsky Territory government. In

general, the government allows investors to use its land by leasing the land until a building or factory is constructed. When the leased land is to be offered as a mortgage, a prior written agreement should be obtained from the land owner. Considering this process, if the Primorsky Territory government can set up a process to provide a prior written agreement on the mortgage offering of the land leased to investors, it will be very helpful to investors or financial institutions that loan money to investors.

#### **d. Proactive and Efficient Promotion Strategies**

##### **1) Measures to Mitigate Different Investment Risks**

In general, investment risk is classified as country and counterparty risks. For Russia, its country risk tends to be a bit exaggerated.

In order to remove negative perceptions of country risk, it is necessary to provide an easy and friendly guide on Russian laws and to enhance access to information. Information in English should be available and accessible to attract foreign investment.

Minimizing counterparty risk requires promoting expert support groups, offering quality service, and improving an access to information on the counterparty. Many foreign investors consider applying for a guarantee for a hedge against country risk, such as from the Multilateral Investment Guarantee Agency (MIGA) and Korea Trade Insurance Cooperation. It would be better to provide the information of the organizations mentioned for reference.

##### **2) Investment Guide**

Investment guides generally project overview and status; investment points, such as investment incentives, expected operating profit ratio, or cash flow; legal limitations, such as permissions and authorizations; matters that require attention; and key investment conditions, such as conditions for a PPP.

An analysis of geographical characteristics, dominant industries, and the distribution of population, which are necessary factors in identifying investment projects with the highest priority, can serve as very useful information to explain investment points.

Revised federal laws, including the corporate tax cut up to 10 years for foreign companies that invest in the Russian Far East that were enacted and promulgated in October 2013 should be considered to be highlighted as one of the key investment points.



### 3) Checklist for Individual Investment Projects

In general, a checklist includes: the establishment measures and format of a project company; shareholder composition, capital stock, and borrowings; measures to offer shareholder's credit or mortgage in external financing; privatization-related information; permission and authorization information to carry out projects; the usage purpose of investment such as assets, properties included held by a project company; main contracts to be signed and key contract terms; an overview on employment and Russian labor laws; environmental restrictions, such as the need for environmental effect evaluation, and environment-related permission and authorization details; an overview on the Russian tax system, and the list of taxes and levies potentially imposed on the operation of projects; and an overview on dispute resolution, such as litigation, and related laws.

Foreign investors are unfamiliar with the legislative system in Russia. Their interest is particularly on the measures to compensate or retrieve investment cost when they invest in projects in Russia.

Checklist items mentioned above are information on general laws except permissions, authorization and key contract terms. Therefore it is necessary to make this information more accessible to foreign investors and to provide them with the information on the laws applicable to investment projects by categorizing the projects by industry, investment structure and investment type and posting them to the investment web portals.

If disclosing the specific details of projects is inappropriate, a checklist could be disclosed first and details only are provided to investors who intend to invest under the condition of signing non-disclosure agreements.

#### **e. Civilian Expert Groups to Facilitate Private Investment Promotion**

In general, once foreign investors decide that the project they reviewed has business feasibility, they survey the site, submit a letter of intent, sign a non-disclosure agreement, go through any necessary financial, legal and technical due diligence and finally make an investment decision. Currently, there is a shortage of expert groups consisting of lawyers, accountants, tech experts, and appraisers in the Primorsky Territory. Efforts to nurture civilian expert groups are required to facilitate foreign investment promotion.

#### 2.2.1.3. Rules to Identify Projects with the Highest Priority

##### **a. Differentiating between budget and non-budget items**

It is necessary to identify the projects that more easily attract private investment by considering the geographical characteristics, dominant industries, and population distribution of the Primorsky Territory rather than just gathering demands from regional government departments and listing them down. Please refer to Section 2 for considerations to identify, from the perspective of long-term strategies of regional development, the investment projects with the highest priority.

More than anything else, budget items, such as projects financed by investment funds, and non-budget items, such as projects financed by private investment, should be differentiated. The timeline and conditions for payment under the budget items also should be specified.

#### **b. Making Social Infrastructure Projects as Budget-based Projects and Investment Projects with the Highest Priority**

The road and transportation category under the list of investment projects appended to the "2013-2017 Development Program (Draft)" shows that social infrastructure projects, including road transportation and ports, are mostly planned to be carried out by private investment. In the Primorsky Territory, however, private investment-based projects have never been carried out under build-operate-transfer (BOT), build-transfer-operate (BTO) or build-transfer-lease (BTL) methods. The legal foundation for private investment in the Primorsky Territory is also very weak. In addition, as the influx of population is low, it is practically impossible for the Primorsky Territory to operate social infrastructure projects based on private investment. Most nations or regions, including emerging nations in Southeast Asia run social infrastructure projects based on the government budget.

In Korea, for example, all the investment in social infrastructure had been made under government budget-based projects until the mid-90s when Korea was witnessing a rapid growth in its economy. In order for the Primorsky Territory to lay a social and economic foundation for the development of the regional economy, projects to establish social infrastructure, such as roads, ports, electricity, water resources, and waste treatment facilities, all of which are indispensable to the creation of an industrial base, need be operated not based on private investment but on the government budget with the highest priority.

#### **c. Investment on the Dominant Industries of the Primorsky Territory with Higher Priority**

The fishing and agriculture industries are relatively developed in the Primorsky Territory. To take a more efficient approach in project operation, the Primorsky Territory should focus on dominant industries such as fishing and agriculture rather

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than on high-tech, tourism, energy, and resource development, which have a weak industrial foundation. Still, the fishing and agriculture industries have limitations in increasing production volume for non-processed products due to climate conditions, insufficient transportation, and storage facilities. Therefore, the scope of the projects related to these industries needs to be expanded to include a processing or food industry and distribution infrastructure, such as grain terminal.

#### **d. Long-Pending Projects and Removing Obstacles**

A case in point in regards to long-pending projects is the petrochemical complex in Nakhodka, which was planned in 1974 but is still pending. The list of investment projects of the Primorsky Territory government includes projects that were as part of the Soviet Union's regional development plan during the 70s and 80s. Little progress has been made since then. Including such long-pending projects every time a new government program for socio-economic development is created may erode the credibility of government's commitment to implement projects in the eyes of foreign investors as well as the people of the Primorsky Territory. It is necessary to analyze long-pending projects, change their project developers or project structures, and work on measures to remove obstacles. Analyzing the root cause of the delay and eliminating obstacles would require a substantial amount of time. Therefore, it is desirable to exclude these projects from the list of investment projects, or to classify them under a long-term project category and set their timeline as to be determined.

#### **e. Seeking Long-term Policy Direction to Realize Projects with Weak Industrial Base or Labor intensive Projects**

The first things investors should consider when they decide on regions in which to invest are whether the region is competitive in terms of production conditions and costs, and whether the region is positioned in a geopolitical location appropriate to selling products. For Korea, the Primorsky Territory has geoeconomic advantages as it is adjacent to the sea and not far from Korea. Still there are some disadvantages in order to carry out projects with a weak industrial base and labor-intensive projects. For example, high wages and a high turnover rate in the Primorsky Territory make it difficult to conduct labor intensive projects from the investors' perspective. Utilizing labor resources from China or North Korea requires a quota and employment permissions, which would take longer than a year. Therefore, a realistic approach would be classifying these projects under the long-term project category, coming up with measures to remove obstacles, and then considering attracting investors for the projects.

## 2.3 Key Projects and Case Review

### 2.3.1 Review and Analysis of the List of Investment Projects of the Primorsky Territory for Foreign Investment Promotion

The following 10 projects are the projects in common between the lists of investment projects from the Vladivostok Office of the Ministry of Foreign Affairs and from the Primorsky Territory government reviewed in Section 1.

- Construction of a Petrochemical Complex in Nakhodka
- Construction of a Natural Gas Chemical Complex in Nakhodka
- Construction of Liquefied Gas Factories in the Khasan District
- Construction of a Combined Heat and Power Plant in Ussuriysk
- Construction of a Combined Heat and Power Plant in Vostochny
- Development of an SEZ for Tourism and Resorts in Russky Island
- Development of the "Primorye" Integrated Entertainment Zone
- Development of a High-tech Industrial Complex on Russky Island
- Construction of a Marine Bio-tech Complex in Ostrovnoy
- Construction of the "Zelyonye Listya" Innovative Agrocomplex

There is little information on what benefits or favors are offered to foreign investors from the Primorsky Territory government or project developers. In 2013, however, federal tax laws were revised and the Primorsky Territory law on property tax cuts was enacted: those who make a certain level of investment can get a corporate tax cut for 10 years (five years + five years), and can be exempted from property tax under the Primorsky Territory law.

Projects that require foreign investment are generally operated not based on a contract but on the private joint venture or public-private partnership under which foreign investors exercise their shares in project operation by investing in the project company. Considering the project developers, duration, and characteristics of these projects, it would be premature to discuss the current suitability of foreign investment for some of the projects.

〈Table 3-3〉 The Suitability of Foreign Investments of the Key Investment Projects in the Primorsky Territory

	Project Name	Developer	Project Status and Foreign Investment Suitability
1	Construction of a petrochemical complex in Nakhodka	Rosneft Oil Company, OJSC	The project was disclosed in 2011. Rosneft had completed a basic research and site feasibility study by the end of 2013. Rosneft plans a joint venture with Mitsui. It is expected that there will be no open bidding process or investor relations (IR) activities to attract additional foreign investors. The project was initially planned in 1974. It is not confirmed what level of commitment Rosneft has to run this project.
2	Construction of a natural gas chemical complex in Nakhodka	National Chemical Company, CJSC	The project was disclosed in 2012. As of 2013, no progress has been made since disclosure. The project developer is preparing a feasibility study. As this project is related to mineral resources <sup>44)</sup> mining and processing businesses, the project developer is planning IR activities considering those businesses. → Foreign investment suitability is not confirmed yet.
3	Construction of liquefied gas factories in the Khasan district	Gazprom, OJSC	Little progress was made in 2013. A business feasibility study is being prepared. Gazprom plans IR activities. It is not confirmed whether the project is based on equity participation for project operation or on a contract. → Foreign investment suitability is not confirmed yet.
4	Construction of a combined heat and power plant in Ussuriysk	RAO East Energy Systems, OJSC	RAO East Energy Systems is a state-run integrated energy company. It is in the preparation stage of a business feasibility study. When a combined heat and power plant is constructed in a joint venture with the company, an agreement should be made to guarantee the sales of produced heat and electricity and to maintain the sales price. RAO East Energy Systems, however, has never signed this kind of agreement with foreign investors before. In addition, it is not clear whether RAO East Energy Systems has the authority under Russian law to sign this kind of agreement. → It is currently impossible to determine the feasibility of foreign investment.
5	Construction of a combined heat and power plant in Vostochny	RAO East Energy Systems, OJSC	Same as the above → It is currently impossible to determine the feasibility of foreign investment.

44) Bezformata News (Russia), <http://nahodka.bezformata.ru/listnews/gazohimicheskogo-kompleksa-v-nahodke/12027062>

	Project Name	Developer	Project Status and Foreign Investment Suitability
6	Development of an SEZ for tourism and resorts on Russky Island	The Ministry of Economic Development of the Russian Federation, the Primorsky Territory government, the Vladivostok city government, and Special Economic Zone OJSC	Designated as an SEZ in 2010. Details including benefits and favors are not confirmed yet.
7	Development of "Primorye", Integrated Entertainment Zone in the Primorsky Territory	Nash Dom Primorye, OJSC	Some foreign investors are confirmed to join the project. The first phase of the project has been delayed more than expected. As this area, however, is designated as a specialized casino zone, the prospect for business profitability is bright.
8	Development of a high-tech industrial complex on Russky Island	Far Eastern Shipbuilding and Ship Repair Center, OJSC (a USC subsidiary)	On Russky Island, both techno-park and technology center projects are underway. The techno-park project, which is still being driven by PIPA and the Department of Mass Media of the Primorsky Territory, has not determined the project structure and developer. The technology center construction project is run by Far Eastern Shipbuilding and Ship Repair Center, OJSC (a USC subsidiary) The subsidiary is also operating the project to build a shipbuilding plant in Zvezda and related businesses. Basic design has been under review since 2011.
9	Construction of a marine bio-tech complex in Ostrovnoy	Far Eastern Federal University, Marine Biology Institute of the Far Eastern Branch of the Russian Academy of Sciences	Far Eastern Federal University and the Marine Biology Institute of the Far Eastern Branch of the Russian Academy of Science are working together. A business feasibility study is under way. This project is to create four ecological clusters by utilizing recent achievements of the Russian Academy of Sciences on ecology. As the site will be a research complex, the key to the success of this project will be the investment from or the capabilities of attracting investment of Far Eastern Federal University or the Russian Academy of Science. A profit model based on the original technology held by the academy and its commercialization has not been confirmed yet. This is a long-term project that will be completed by 2020. Making profits by attracting foreign investment is not considered their top priority. Instead, their priority may be to attract foreign research institutions or raising funds. → It is currently impossible to determine the feasibility of foreign investment.

	Project Name	Developer	Project Status and Foreign Investment Suitability
10	Construction of the "Zelyonye Listya" Innovative Agrocomplex	Innovative Agrocomplex Zelenye Listya, CJSC	It is currently in the detailed designing stage and is being actively promoted by the representative of the developer. While the project's intellectual property, expected outcome, and other information about the project have been well announced on its website and at various info sessions, nothing has been said about the participation process.

Source: Author

### 2.3.2 Review and Analysis of the Seven Projects Proposed by the Primorsky Territory Government

The Primorsky Territory government asked for a review of the following seven projects:

- ① Development of the "Primorye" Integrated Entertainment Zone
- ② Construction of the Russky Island "High Technology" Technopark
- ③ Construction of the "Zelyonye Listya" Innovative Agrocomplex
- ④ Construction of the Sports and Techniques Complex "Primorskoye Koltso"
- ⑤ Construction of Mikhailovsky Agro-Industrial Complex
- ⑥ Formation of the Fisheries Cluster
- ⑦ Construction of the Industrial Site Volnyo-Nadezhdinskoye

Of the seven projects, the Mikhailovsky Agro-Industrial Complex, the fisheries cluster, and the industrial site Volnyo-Nazdezhinskoye are not included in the list of the Investment Portal of the Russian Regions or the "2013-2017 Development Program (Draft)." The "Primorye" Integrated Entertainment Zone, Russky Island "High Technology" Technopark, and "Zelyonye Listya" Innovative Agrocomplex are included in the list of projects reviewed under Part 2.3.3. <Table 3-4> below is a brief analysis of the above seven projects in terms of their suitability for foreign investments.

(Table 3-4) The Suitability of Foreign Investments and Statuses of the Seven Projects Requested for a Review by the Primorsky Territory Government

	Project Name	Developer	Project Status and Foreign Investment Suitability
1	Development of the "Primorye" Integrated Entertainment Zone	OJSC Nash Dom Primorye	Foreign investment is partially confirmed. While Phase 1 of the project is taking much longer than expected, the business profitability seems high because it has been designated as a gambling zone.
2	Construction of the Russky Island "High Technology" Technopark	PIPA; the Department of Communication and Mass Media of the Primorsky Territory	In Russky Island, the Technopark Project, and the Technology Center Project are being developed in parallel. The project structure and the developer have not been decided for the Technopark Project as it is being initiated by PIPA and the Department of Communication and Mass Media of the Primorsky Territory.
3	Construction of the "Zelyonye Listya" Innovative Agrocomplex	CJSC Innovative Agrocomplex Zelenye Listya	It is currently in the detailed designing stage and is being actively promoted by the representative of the developer. While the project's intellectual property, expected outcome, and other information about the project have been well announced on its website and at various info sessions, nothing has been said about the participation process.
4	Construction of the Sports and Techniques Complex "Primorskoye Koltso"	LLC Tekhnohoding Sumotori	According to the developer's investment guide materials, the construction for a pilot plant was launched on July 1, 2013, and the project initiator, LLC Sumotori Machinery Group, pre-invested over RUB 400 million. Currently, the project is raising an additional investment of RUB 3.2 billion, and compared to other projects, its investment conditions are fairly clearly indicated on its investment guide materials. However, the project's outlook on the return of investment seems overly positive, guaranteeing a 16% internal rate of return (IRR), while it lacks sufficient information on investment fund withdrawals. → The propriety of the project should be proven in line with the tourism industry of the Primorsky Territory.



	Project Name	Developer	Project Status and Foreign Investment Suitability
5	Construction of Mikhailovsky Agro-Industrial Complex	Unknown (PIPA)	<p>This project is to promote an agro-industrial complex on the 121 ha of land owned by the Primorsky Territory and on the 117 ha of land owned by the Mikhailov local government. LLC Agro-Biotekh is also interested in the lots for a soybean processing plant, but the Primorsky Territory government aims to create an agro-industrial complex and include a soybean processing plant. The only available information is on the infrastructure status, and nothing has been shared on the development method or special land lending.</p> <p>→ Because the land is to be used for agriculture and currently there are no access roads, electricity, or water supply, the construction of the industrial complex must be executed before considering an investment.</p>
6	Formation of the Fisheries Cluster	Primorsky Territory Government	<p>While the area and boundaries of the site to be developed are unconfirmed, the area is said to include private land. The project's policy objective is to form a fish processing cluster in connection with the port. However, the closest port, Bolshoy Kamen, is 18 km away, and the area is not equipped with access roads, electricity, heating system, water supply, sewage treatment equipment, or gas.</p> <p>→ While there is no detailed information of the project, a further review was conducted below in consideration of the dominance of the fishing industry in the Primorsky Territory.</p>
7	Construction of the Industrial Site Volnyo-Nadezhdinskoye	Unknown (PIPA)	<p>There are two lots adding up to 1,500 ha. The land is owned by the Nadezhdinskoye local government and OJSC Nadezhdinskoe. Currently, there is no infrastructure at all. There are ideas for an industrial complex, like a logistics complex, but no specific development plan, including its use, has been drafted.</p> <p>→ A private enterprise owns part of the land and the development plan is still in the early stages to determine the propriety of the project. At this point, the investor would have to create a development plan based only on the location of the site and request a lease from the local government.</p>

Source: Author

## 2.3.3 Analysis of Major Projects

### 2.3.3.1. The "Primorye" Integrated Entertainment Zone

#### a. Project Overview

Primorye is one of the four exclusive districts approved by the Russian federal government for casino facilities. On July 1, 2009, the Russian federal government approved the four provinces of Krasnodar in the southern part of Russia, Kaliningrad close to the Baltic Sea, Altai in Siberia, and the Primorsky Territory as special gambling zones and prohibited gambling from all other areas.

Located 50 km from Vladivostok and 15 km from the airport, the 620 ha of land have been designated as a special gambling zone within the Primorsky Territory. In the Primorye gambling zone, there will be 16 hotels with casinos, a ski resort, a yacht club, a shopping center, a convention center, a business town, a park, a beach, and other recreational facilities for not just a simple gambling site but an integrated entertainment zone<sup>45)</sup>.

The project will be done in three phases: Phase 1 from 2010 to 2012, Phase 2 from 2012 to 2017, and Phase 3 from 2017 to 2022<sup>46)</sup>. Due to the small population of the Primorsky Territory, this project was initially planned with foreigners in mind, especially those from nearby countries like China, Korea, and Japan. An overview of the project is as follows.

〈Table 3-5〉 Overview of the "Primorye" Integrated Entertainment Zone

<b>Project Background</b>	The Primorye gambling zone is one of the four zones in Russia designated for gambling.
<b>Project Purpose</b>	To construct an integrated complex and continually expand by creating a tourism zone - Increase the inflow of tourists - Promote regional economy and create more jobs - Additional income for the labor and construction workers - Spread the advantages of investing in the Primorsky Territory
<b>Location</b>	50 km from Vladivostok and 15 km from the international airport; 620 ha of land area
<b>Overview</b>	16 hotels with casinos, a ski resort, a yacht club, a shopping center, a convention center, a business town, a park, a beach, and other facilities
<b>Investment Status</b>	12 sites have been leased as of December 1, 2013, amounting to a total investment of USD 1,636.9 million. The main investor is Hong Kong's Melco Group.

45) Primorskaya gazeta, (Russia), September 6, 2013, <http://primgazeta.ru/news/2013-09-06-coglashenie-s-gruppy.htm>

46) Primorsky Investment Portal, [http://www.invest.primorsky.ru/images/textdoc/Invest\\_Guide.pdf](http://www.invest.primorsky.ru/images/textdoc/Invest_Guide.pdf)

<b>Infrastructure</b>	<ul style="list-style-type: none"> <li>- Roads: A total of 15.97 km in length</li> <li>· Construction Phases 1, 2, and 3: Vladivostok - Artyom – Tourism Zone - Ring Roads</li> <li>· Phase 4: Additional roads</li> <li>· Phase 5: Additional roads around the seaside area -&gt; To be developed</li> <li>- Water Supply: A water pipeline system of 7.36 km in length</li> <li>- Heating System: Expected heating level of 150 Hcal/h (natural gas)</li> <li>- Electricity: A total supply of 49MWtt in energy</li> </ul> <p>The funding for the infrastructure construction is anticipated to come from private investment (see separate list) based on the PPP law to be enacted by the Primorsky Territory government. However, the legislation is still being drafted and there is not even a concession agreement on the grounds of the Concession Agreement Law. For this reason, the infrastructure construction itself is expected to take some time.</p>
<b>Implementation Period</b>	<ul style="list-style-type: none"> <li>- By May 3, 2022</li> <li>- Phase 1: by 2016, Phase 2: by 2019, Phase 3: by 2022</li> </ul>

Source: Primorskya gazeta, (Russia), September 6, 2013, <http://primgazeta.ru/news/2013-09-06-coglashenie-s-gruppyoy.htm> Primorsky Investment Portal, [http://www.invest.primorsky.ru/images/textdoc/Invest\\_Guide.pdf](http://www.invest.primorsky.ru/images/textdoc/Invest_Guide.pdf) RIA News(Russia), August 27, 2013, <http://ria.ru/vl/20130827/958792300.html> Wall Street Journal(USA), September 6, 2013, <http://online.wsj.com/article/SB10001424127887323595004579064282488454684.html>

## **b. Status of Foreign Investment for the Project**

As is generally the case with casinos, Russian and overseas enterprises are all showing great interest in the Primorye gambling zone. In fact, Melco International Development Ltd., one of the largest gambling and entertainment companies in Macao, signed an investment agreement for USD 700 million with the Primorsky Territory government on September 6, 2013<sup>47)</sup>. There was also a media report that NagaCorp Ltd., the largest gaming and leisure operator in Cambodia, decided to invest USD 350 million<sup>48)</sup>.

The high expectation is that the completion of this project would bring an end to the Primorsky Territory's chronic financial stress<sup>49)</sup>, and the Wall Street Journal forecasted that "Primorye" would be a project with high profitability. The outlook estimated that even in the early stage of the casino operation, the annual net profit would be USD 1.2 billion, and 10 years later, it would reach up to USD 5.2 billion (approx. KRW 5.5 trillion)<sup>50)</sup>.

47) RIA News(Russia), August 27, 2013, <http://ria.ru/vl/20130827/958792300.html>

48) Wall Street Journal, September 6, 2013, <http://online.wsj.com/article/SB10001424127887323595004579064282488454684.html>

49) RIA News(Russia), September 6, 2013, <http://ria.ru/vl/20130906/961206980.html>

50) Primorskya gazeta(Russia), September 6, 2013, <http://primgazeta.ru/news/2013-09-06-coglashenie-s-gruppyoy.htm>

One of the reasons for the keen interest expressed by global gambling businesses seems to be Russia's relatively low tax rate compared to other countries<sup>51</sup>.

### **c. Current Status of the Project and Participation Methods for Korean Investors**

Due to the positive forecast that the project is bound to bring high profits from the very beginning of operation, the Primorsky Territory government and investors within and outside of Russia are showing great interest. OJSC Nash Dom ? Primorye, the project developer, was incorporated in 2002, fully funded by the Primorsky Territory government. Even today, the Primorsky Territory government holds all of its shares, and as the sole shareholder, the owner's powers are exercised by the Department of Property Relations of the Primorsky Territory<sup>52</sup>). Foreign investors who have agreed to invest in this project have yet to receive any shares as project developers, and nothing has been verified in terms of investment conditions and methods.

According to the information provided, the construction for hotels and other parts have started, but when we visited the actual site, even basic public works had not begun. When we inquired of an official of the Primorsky Territory government, we were simply told that orders are being placed for infrastructure and that the actual construction will not take place until the latter half of 2014. From what we heard from PIPA, the Primorsky Territory government currently has no intention to transfer or share the developer stake for this project.

The project is much behind its original plan, and with unsettled surroundings, including its infrastructure; there are doubts as to the feasibility and timing of the project. From the Primorsky Territory government's stance, however, this is a mega project that can resolve in a single stroke the lack of labor power and floating population; unstable industrial foundation; extremely low tax revenues; and other obstacles leading to chronic financial deficit. Furthermore, because of the characteristics of the project, it is unlikely that the project would be reversed or halted for a financing issue.

In consideration of the above, it would be realistic for Korean investors to keep an eye on the progress of the project to seek ways to be actively involved as subcontractors. Because the project developer is a 100% state-owned company, open bidding is required for contracts of a certain scale. Therefore, Korean companies should participate in the bidding for opportunities to either become a contractor for the construction of hotels and casinos or to operate a casino, a hotel, or other facilities on a subcontract.

51) Business Daily(Macau), August 27, 2013, <http://macaubusinessdaily.com/Gaming/Melco-International-limits-Russian-casino-stake-5pct>

52) Nashdom Primorye, <http://primdevelop.ru/shareholders/>

### 2.3.3.2. The "Zelyonye Listya" (Green Leaves) Innovative Agrocomplex Project

#### a. Project Overview

〈Table 3-6〉 Overview of the "Zelenye Listya" Innovative Agrocomplex Project

<b>Project Purpose</b>	A self-sufficient integrated cluster of innovative agro-livestock industries. The complex includes, for example, milk production and processing; animal feed production; crop storage and processing; and waste processing.
<b>Overview</b>	<ul style="list-style-type: none"> <li>- Ranch: 4,232 cows</li> <li>- Milk Processing Plant: 18,250 tons/year (dairy products)</li> <li>- Animal Feed Processing Plant: 81,000 tons/year</li> <li>- Crop Processing Plant: 28,000 tons/year</li> <li>- Greenhouse: 1,100 tons/year (vegetable)</li> <li>- Natural Fertilizer Fermentation Plant (worms, leaf mold: a biogas plant): 16,000 m<sup>3</sup>/year</li> <li>- Stand-Alone Power System: 4 MWtt</li> </ul>
<b>Project Period</b>	2013-2016
<b>Investment Amount</b>	<ul style="list-style-type: none"> <li>- Project Investment Amount: RUB 6.2 billion (USD 185 million)</li> <li>- Infrastructure Investment Amount: RUB 160 million (USD 4.74 million)</li> </ul>
<b>Project Efficiency Index</b>	<ul style="list-style-type: none"> <li>- Net Present Value (NPV): RUB 1.2 billion</li> <li>- Internal Rate of Return: 18%</li> <li>- Payback Period: 7.2 years</li> </ul>
<b>Current Status</b>	<ul style="list-style-type: none"> <li>- 2012.09.08. An MOU signed between the developer (CJSC Innovative Agrocomplex Zelenye Listya) and JSC "Far East and Baikal Region Development Fund"</li> <li>- 2013.01.21. An MOU signed between the developer and the Primorye State Agricultural Academy (re: expert training)</li> </ul>

Source : Green Leaves, <http://www.zlhc.ru/>

#### b. Current Status of the Project and Participation Methods for Korean Investors

The feasibility of this project seems comparatively high as it is one of the top 10 projects of the Primorsky Territory government, and the technical skills of the developer is also highly recognized by the Primorsky Territory government. In fact, the developer has applied for a patent in South Korea, Russia, New Zealand, Japan, and Europe on an organic agricultural technique using leaf mold and worms. According to the developer's project plan, a residential complex of 5,400 m<sup>2</sup> will be built for labor workers, which is expected to contribute about 0.06% to the Primorsky Territory's economy. The IRR of investors is also expected to reach 18%. While it is encouraging that the federal government's "2025 Far East Development Program" considers this project to be one of the major projects of the Primorsky

Territory and that it is also included as part of the "2013-2017 Development Program (Draft)," support funds from the government alone are insufficient for the project and the involvement of private investors in Russia or foreign investors is unclear. In particular, the developer apparently submitted a project plan to Vnesheconombank (VEB, Bank for Development and Foreign Economic Affairs) for financial investment, but no further update is available. From a foreign investor's point of view, the decision to invest does not seem easy as the grounds for the project forecast, such as the high IRR rate, are unclear.

As indicated in Part C of Section 2 above, around 50 investments have been made by Koreans in the Primorsky Territory's agriculture in the past decade, but most of the investments have been withdrawn and only about six of them are currently ongoing. Among the various reasons for such an outcome, the biggest cause seems to be the low competitive pricing for the export of produced crops and dairy products, affected by the Primorsky Territory's small population.

For this project, too, one can very well relate to its purpose to establish an autonomous infrastructure (including a fertilizer fermentation plant); adopt innovative technologies; and cultivate assorted types of crops along with the livestock industry to overcome agricultural limitations and achieve high agricultural productivity. However, questions remain in terms of sales, distribution, and price competitiveness.

In this regard, along with crops, the Primorsky Territory government should consider ways to increase exports and sales, for instance, by targeting Chinese and Korean consumers with the cultivation of medicinal herbs and establish processing plants for crops and dairy products.

Furthermore, some parts of the Primorsky Territory cannot be owned by foreigners as they are either near borders or military reserves, and the ownership of farmland is prohibited by foreigners, foreign corporations, or Russian corporations with foreigners being the majority shareholders. It should be taken into consideration that a Korean investor investing in this project will not be able to acquire a majority of the developer stake.

### 2.3.3.3. Formation of the Fisheries Cluster

#### a. Project Overview

〈Table 3-7〉 Overview of the Fish Processing Cluster Project	
Overview	<ul style="list-style-type: none"> <li>- Phase 1: Refrigeration equipment with a storage capacity of 200,000 ton</li> <li>· Berth (coast) facility for medium- and large-sized transport refrigerators</li> <li>· A trade center and distribution structure for transaction service</li> <li>· Marine product processing facility (80,000 ton)</li> <li>- Phase 2: Refrigeration equipment with a storage capacity of 500,000-700,000 ton</li> <li>· Marine product processing facility (335,000 ton and 24,000 ton of canned goods in total)</li> <li>· A building to process marine products, freezers, and conveyer belts and transport facility for processed marine products</li> <li>· Social infrastructure (residential homes, hotels, necessary service goods)</li> </ul>
Project Period	<ul style="list-style-type: none"> <li>- Phase 1 Construction: 2015-2016</li> <li>- Phase 2 Construction: 2017-2018</li> </ul>
Investment Amount	<ul style="list-style-type: none"> <li>- Initial investment of RUB 1.5 billion</li> <li>- Total investment of RUB 39.1 billion (RUB 11 billion from the federal government, RUB 3 billion from the regional government, and RUB 25 billion from private investors)</li> </ul>
Progress	<ul style="list-style-type: none"> <li>- As a result of the PIPA bidding last January 13, the Moscow branch of Nomura Research Institute (NRI) was chosen as the developer of the project.</li> <li>- NRI will form a consortium with specialized agencies in Moscow, Vladivostok, and Tokyo, and sign an agreement with the Primorsky Territory government within 15 days (by the 27th). The first report on the project plan is scheduled for April.</li> <li>※ NRI is a global research institute with experience in the overall planning of building ports, such as the ones in Japan (e.g., Tokyo, Yokohama, and Okinawa), the Gwangyang Bay in Korea, and the Port of Taipei in Taiwan.</li> </ul>

Source : Primorsky Krai Investment Portal, <http://www.invest.primorsky.ru>

#### b. Current Status of the Project and Participation Methods for Korean Investors

Considering that the Russian Far East produces, for example, salmon (99%), crabs (100%), herring (40%), and mollusks (60%), the formation of a fisheries cluster in the Primorsky Territory could be significant for all of Russia. The consortium headed by the Moscow branch of NRI is likely to draw up the development plan of this project; thus, a project development plan that meets international standards is expected to be available in the first half of 2014.

Because NRI has been chosen as the project plan developer, there is a higher possibility that Japanese enterprises may be selected for investment or project participation. Nonetheless, NRI has been chosen as the developer to draft the development plan along with a consortium comprised of specialized agencies in Moscow and Vladivostok. Therefore, depending on the progress of the project, Korean enterprises may need to do some research on their own as to whether they can participate in the project and how. For this, attention needs to be paid to the agreement details between the Primorsky Territory government and NRI, as well as the project plan to be submitted this April. Depending on the content of the project plan, the bidding details of enterprises seeking to participate in the project may change, and the participation method or investment size could also vary.

Currently, the Primorsky Territory government is initiating the formation of a fisheries cluster, and it has neither procured any private funds nor announced any plan to do so. Korean enterprises could participate in the construction through subcontracts; collaborate with a Russian enterprise and set up, for example, a processing plant; or invest alone and operate a related facility. Russia has no general licensing regulation on foreign investors; however, 42 types of businesses in Russia limit the shares quota of foreigners to no more than 50% (to acquire more, a pre-approval from the government committee is required), and marine capture fisheries are one of the businesses prohibiting the shares quota of foreigners from exceeding 50%. For this reason, if a Korean enterprise wishes to also perform marine capture fisheries in addition to the simple processing of marine products, the enterprise should consider establishing a joint company or follow the 50% quota limit rule.

Currently, most of the marine products exported or sold in the domestic market are unprocessed. When the fisheries cluster, including a large-scale marine product processing facility, is established in the Primorsky Territory, Russia will be equipped to produce and sell finished marine products. This, from a mid- to long-term view, could affect the exports of companies related to Korea. In this regard, for Korea's finished marine product companies, they ought to invest independently and set up a processing plant that uses Russia's low-priced marine products as raw materials, or establish a joint plant or a joint enterprise by providing some parts of skills to Russian companies for a royalty in return.



### 2.3.3.4. Construction of the Russky Island "High Technology" Technopark

#### a. Project Overview

(Table 3-8) Overview of the Russky Island "High Technology" Technopark

<b>Project Purpose</b>	<ul style="list-style-type: none"> <li>- Attract and support high-tech innovative companies</li> <li>- Support the concentration of intellectual resources to promote the development of high technology within the area</li> </ul>
<b>Overview</b>	<ul style="list-style-type: none"> <li>- Technopark: 200 ha</li> <li>- Number of companies on site: 100 or so new companies</li> </ul>
<b>Project Period</b>	2012- 2014
<b>Investment Amount</b>	RUB 3.7 billion
<b>Progress</b>	<ul style="list-style-type: none"> <li>- Initiated with the federal budget of RUB 1.2 billion (for three years) in 2007</li> <li>- This technopark project is currently on hold due to the selection of location</li> <li>- But the federal budget allocated to this project is still secured.</li> </ul>
<b>Feasibility Assessment</b>	<ul style="list-style-type: none"> <li>- This was one of the projects highly expected by the Primorsky Territory government for its mid- to long-term economic development</li> <li>- According to experts, the governments of Russia and the Primorsky Territory are strongly determined to initiate a project, but the situation seems unclear on Russky Island. The acquisition of land ownership and the right of usage seem to be the biggest reason.</li> <li>- There are about four possible locations on Russky Island, but three of the four locations have military facilities, requiring the approval of the Ministry of Defence of the Russian Federation and related government authorities, which will not be easy. The fourth location is the southern area to the Far Eastern Federal University, owned by the Primorsky Territory government. This area has been designated as a small-scale thermoelectric power plant to supply electricity to Russky Island and there are conflicts between local residents and experts.</li> <li>- Due to the land ownership issue, not even the total areas of land or boundaries have been decided. There are doubts as to whether the selection of land could finish on time.</li> </ul>

Source: Investment Map of the Russian Federation, <http://invest.gov.ru>

#### b. Current Status of the Project and Participation Methods for Korean Investors

The Primorsky Territory government has a plan to mainly attract enterprises in the high value-added, high-tech industries, such as the IT industry. While the progress of the project is currently slow due to its siting issue, there are hopes that the project will enter a new phase and find ways for development as the Primorsky Territory government is strongly in support of this project.

Currently, it is too early to discuss the possibility of participation by Korean enterprises. Even when the project is at its implementation stage, it will not be too late to wait for an overall development plan before considering various participation options. One thing, however, is that when Korean enterprises participate in this project, they may want to consider signing a technical service contract with a Russian company and pass on some parts of skills in return for a royalty, or set up a joint enterprise with a Russian company to participate with a minimum amount of investment. This would be a better option than investing independently, considering that Russia's communications technology and software industry have been rapidly growing.

### 2.3.4 Forecast of the Primorsky Territory's Tourism Business and Methods to Attract Korean Tourists

#### 2.3.4.1. Overview

The "National Program on Tourism Promotion for 2013-2017" has been approved by the Primorsky Territory government and is currently being implemented. The Korea-Russia Visa Waiver Agreement that was signed in November 2013 during Putin's visit to Korea, however, now allows Korean citizens to visit Russia without a visa for sixty days. Accordingly, the Primorsky Territory government has requested an additional review on the outlook of attracting Korean tourists to the Primorsky Territory that reflects the systematic environmental changes.

#### 2.3.4.2. Current Situation

According to the "National Program on Tourism Promotion for 2013-2017" approved by the Primorsky Territory government, the number of visitors to the Primorsky Territory in 2012 alone increased more than threefold, and the Primorsky Territory government's goal is to attract between 10 million to 12 million visitors by 2017. Behind this ambitious goal lies the government's high expectation for the successful completion of the "Primorye" Integrated Entertainment Zone. Meanwhile, a dramatic increase to the number of visitors since 2011 seems also influenced by the conditional visa-free agreement for Chinese visitors<sup>53)</sup> and the expansion of infrastructure, such as the opening of roads and railroads, increasing the number of Chinese visitors from the Chinese provinces of Jilin and Heilongjiang. Hosting an APEC meeting seemed to have played a key role as well.

To increase cooperation on tourism following the visa waiver agreement between Korea and Russia, the Primorsky Territory government hosted an expert

53) Russian and China signed an agreement for 30 days visa-free tours.

meeting at the end of January 2014, and is taking various active measures to attract Korean tourists, such as agreeing to review a recommendation proposed by the Korea Tourism Organization to set up a special hotline for the safety of Korean tourists<sup>54</sup>).

#### 2.3.4.3. Experience of Korea

The trends of overseas tourists in Korea and Russia from 2008 to 2012 are as follows.

〈Table3-9〉 Statistics on Overseas Tourists<sup>55)</sup>

(Unit: Thousand)

Rank	Country	2012	2011	2010	2009	2008
9	Russia	22,736	22,686	20,271	21,339	23,676
23	Korea	11,140	9,795	8,798	7,818	6,891

Source: UNWTO Tourism Highlights(2013)

In the case of Korea, its inbound market continually grew from 1990 to 2012, recording an average annual growth of 6.2% with a growth of 12.5% for the past five years from 2008 to 2012. In 2009, 7 million foreigners visited Korea, and this number grew by about a million each year, breaking the record of 10 million in 2012. The percentage of Chinese tourists increased from 11% in 2004 to 26% in 2012, and Japanese tourists set its highest record of 3.52 million visitors in 2012.

Korea ranked 25th place (Russia:63rd) out of 140 countries for the Travel and Tourism Competitiveness Index<sup>56)</sup>, being in 38th place for "T&T Regulatory Framework;" 17th place for "Business Environment and Infrastructure;" and 20th place for "T&T Human, Cultural, and Natural Resources."

The travel trends for foreigners to Korea from 2008 to 2012 showed that visiting friends or relatives decreased from 11.5% in 2008 to 11.1% in 2012, whereas visitors with the purpose of leisure, tourism, or vacation gradually increased from 40.4% in 2008 to 43.9% in 2012. On the other hand, shopping increased from 9.2% in 2011 to 11.8% in 2012; beauty, health, and treatments increased from 0.2% in 2008 to

54) Official Administration of the Primorsky Territory, January 27, 2014, <http://primorsky.ru/news/common/59092/>

55) UNWTO Tourism Highlights(2013), Compendium of Tourism Statistics (2013), Borometer (Oct. 2013), [Recited from Korea Tourism Organization, Korea Tourism Statistics, Dec. 2013]

56) Korea's ranking improved from 32nd place in 2011 to 25th place, whereas Russia's ranking dropped from 59th place in 2011 to 63rd place in 2013, World Economic Forum, The Travel & Tourism Competitiveness Index 2013, [http://www3.weforum.org/docs/TTCR/2013/TTCR\\_OverallRankings\\_2013.pdf](http://www3.weforum.org/docs/TTCR/2013/TTCR_OverallRankings_2013.pdf)

1.1% in 2012; and education increased from 4.6% in 2011 to 6.5% in 2012<sup>57</sup>). In terms of activities while in Korea, shopping, which was the most common activity in 2010 with 18.1% (duplicate rankings: 60.9%), maintained its position at the top but with a dramatic jump to 45.3% in 2012 (duplicate responses: 72.8%)<sup>58</sup>.

The below table shows the purposes of visit by Russian tourists to Korea in 2012.

**〈Table3-10〉 Visits to Korea by Russian Tourists**

(Unit: %)							
Leisure/ Tour/ Vacation	Business/ Professional Activities	Shop ping	Friends/ Relatives	Educ ation	Beauty/ Health /Treatments	Religion/ Pilgrimage	Other
14.6	45.8	1.4	20.1	5.2	10.9	0.3	1.4

Source: Korean Tourism Organization, *Korea Tourism in figure*, December, 2013, p18

In the case of Russian tourists, it is notable that their purposes in visiting Korea are particularly high for beauty, health, and treatments compared to the travel trends for foreigners generally. What they actually do while in Korea, however, is slightly different from their stated purposes for visiting: shopping ranked as the most common activity and medical tourism as the fifth most common. Considering that there are a high number of Russian tourists visiting Korea for the purpose of medical treatments, many local governments of Korea, including the Province of Gyeonggi and the Province of Gangwon, have signed Medical Tourism MOUs with the Primorsky Territory government and are making efforts to attract Russian tourists for medical treatments. Recently, Korea amended the Tourism Promotion Act and allowed the establishment of medical tourism hotels, coming up with a systematic ground to promote medical tourism and form medical tourism clusters<sup>59</sup>.

**〈Table3-11〉 Activities in Korea by Russian Tourists (2012)**

(Duplicate Responses, Top 5 Activities, Unit: %)				
1	2	3	4	5
Shopping (52.8)	Business (35.9)	City Tour (28.5)	Leisure/Rest (14.0)	Medical Tourism (13.3)

Source: Korean Tourism Organization, *Korea Tourism in figure*, December, 2013, p18

57) Korea Tourism Organization, *Tourism in Korea in Numbers*, p.18.

58) *Ibid.*, p.20.

59) Asia Economic News(Korea), November 26, 2013, <http://www.asiae.co.kr/news/view.htm?idxno=2013112609095404693>

Usually for foreigners visiting Korea, the number of first-time visitors is slightly higher than returning visitors, but in the case of Russian tourists, there were more returning visitors than first-time visitors. For example, Japan (30%) and Russia (22%) are the top two countries with the highest number of visitors who have visited four times or more, and Russia's returning rate was especially high<sup>60</sup>. Also in the case of Russian tourists, the average duration of a stay in 2012 was 12.2 days, spending about USD 209.1 per day per person<sup>61</sup>.

In contrast, Korean tourists to Russia gradually decreased from 110,788 in 2006 to 90,622 in 2010<sup>62</sup>. Meanwhile, the Korean government announced that until 2017, it will allocate a considerable amount of its budget toward, for example, content technology development, international conferences, travel incentive programs, conventions, exhibitions, medical, and *Hallyu* to support high-valued, future-oriented industries such as the content and tourism industry<sup>63</sup>. The Korean government, local governments, and travel industry are collaborating on different tourist promotion strategies to strengthen various tourism promotion and marketing by region or item, all while making efforts to expand support on tourism investment.

#### 2.3.4.4. The Outlook for the Tourism Industry Following the Korea-Russia Visa Waiver Agreement

Research by the Korean Institute for International Economic Policy in 2013 predicted that the visa waiver agreement between Korea and Russia would increase the percentage of Russian visitors to Korea by 94.4% for an annual growth of 5.59%, and the percentage of Korean visitors to Russia would increase by 132% for an annual growth of 12.2%<sup>64</sup>. Particularly in the case of Korea, the number of short-term Russian tourists visiting Korea for the purpose of medical tourism reached 26.2% in 2012, highlighting the need to expand Korea's medical facilities and personnel, as well as to develop medical tourism packages.<sup>65</sup>

The Primorsky Territory is currently under investment consultation on medical facilities for secondary or tertiary hospitals in Korea, but there has not been any

60) Ibid., p.22.

61) Ibid., p.23.

62) Ibid., p.29. Since the abolishment of the departure form system in 2006, the purpose of visit by foreigners could not be identified. Such information is obtained from the government agency for tourism of each country, but Russia's Federal Agency for Tourism has not disclosed or shared its information. Therefore, no data is available since 2011.

63) Money Today News(Korea), May 31, 2013, <http://www.mt.co.kr/view/mtview.php?type=1&no=2013053108150294266&outlink=1>

64) Korean Institute for International Economic Policy, *The Economic Effects of the Korea-Russia Visa Waiver Agreement and Its Application Plan*, p.79.

65) Ibid., p.84.

tangible progress so far. Meanwhile, ecotourism is the Primorsky Territory's main promotion item, along with various festival events, such as the Festival "Vladivostok Fortress," Korean Culture Festival, film festivals, kids festivals, and Chinese Culture Festivals, to attract short-term tourists. Furthermore, in support of the tourism industry, the Primorsky Territory government is taking active measures, such as expanding the infrastructure on tourism, setting up a dedicated hotline for Korean tourists, and securing more police officers.

Nonetheless, as statistics and surveys on the purposes of visit and main activities during visits for foreigners in Korea have shown, tourists rarely travel for a single purpose but rather prefer to experience and enjoy various activities, such as shopping, food, leisure, and entertainment. As an example, Gallup Korea conducted a survey of 1,000 Korean adults who recently traveled abroad. Their answers on major activities while abroad were as follows: food and drinks in Japan; beautiful scenery and visits to historical and cultural sites in China; leisure, vacation, and sports in Thailand; shopping in Hong Kong or Macao; leisure and vacation in the Philippines; shopping, food, and drinks in Singapore; and performances, events, and festivals in the United States. In general, about three to five activities were done by visitors more than once<sup>66</sup>). The downsides to travelling abroad included, for example, public safety, expensive travel costs, inconvenient local transportation system, difficulty in communication, unfamiliar food, lack of information on tourism, and poor accommodations. By country, Japan's greatest challenge was "difficulty in communication" and "expensive travel costs." For China, it was "unfamiliar food" and "lack of amenities at tour sites," while for Thailand, it was "difficulty in communication" and "public safety." For the Philippines, "public safety" and "inconvenient local transportation system" were the top concerns, and for Singapore, the greatest challenge was "expensive travel costs," which was also a concern when travelling in the United States, along with "public safety." For Guam and Saipan, "issues with travel guides" were considered to be the greatest challenge<sup>67</sup>).

In consideration of the various issues above, the Primorsky Territory government should come up with mid- to long-term policy to continue the rising trend of short-term tourists through the Korea-Russia Visa Waiver Agreement.

First is the expansion of tourism infrastructure. Currently, there is a lack of accommodations and short-term transportation options in the Primorsky Territory, leaving tourists with few choices. As such, a wide range of accommodations should be made available with a sufficient supply of human resources so that tourists have

66) Korea Tourism Organization, *Outlook on Overseas Travel Trends*, Dec. 18, 2013, p.26.

67) *Ibid.*, p.37.

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the option to make their choices depending on their travel purpose or budget.

Second, there should be better security measures to assure Korean tourists of public safety. On that note, the expert meeting held between Korea and Russia in January of this year is very encouraging, and prompt follow-up actions should be taken on the issues under review, such as the dedicated hotline for Korean tourists and a tourist police system.

Third, a variety of tour packages should be developed for Korean tourists. Historically and culturally, the Primorsky Territory carries a special meaning to Koreans, and therefore, in addition to sightseeing tours, historical and cultural packages related to independence movements or to the Korea Town would be helpful.

Fourth, the Primorsky Territory needs improved surroundings and better tourism facilities for shopping, entertainment, sports, and food to satisfy short-term tourists. Currently, visitors to the Primorsky Territory on business trips are left with very few choices during their free time because of a lack of cultural, sports, and recreational infrastructure, such as shopping centers, entertainment facilities, and restaurants.

Perhaps this explains the reason behind the high number of revisits among Russian tourists to Korea. In addition to their stated purposes for visiting, other interesting activities are available during their free time, such as shopping, eating, and entertainment.

### **3. Clustering Potential and Development Strategy in the Primorsky Territory - Direction for Long-Term Development**

#### **3.1 The Trend of Industrial Development and Geo-Economic Status in the Primorsky Territory**

##### **3.1.1 Comparative Advantage for Industrial Areas and Geo-Economic Features of the Primorsky Territory**

There has been rapid economic growth in recent years in the Primorsky Territory propelled by preparing for the 2012 APEC meeting (Asia-Pacific Economic Cooperation) and by implementing large scale projects in the energy and resource sectors (for instance, the opening of Far East gas pipeline and Eastern Siberia-Pacific Ocean oil pipeline). Along with the growth in traditional markets such as agriculture, fishery, and forestry, it is worth noticing the growth in the manufacturing

(automobile industry), tourism, service, transportation, and logistics market. The Primorsky Territory is also expected to propel construction of an LNG factory, petrochemical complex, and shipyard.

The Primorsky Territory has optimum conditions for agricultural business, especially with its active push into overseas market such as Republic of Korea, China, and Japan. In 2010, agricultural productivity was about RUB 30.8 billion and the total arable acreage was approximately 28 thousand hectares; the major agricultural products were rice, beans, and meat.

Producing 54,200 tons of all kinds of meat in 2011, the Primorsky Territory was the largest producer in the Far East. Fisheries are the major industry in the Primorsky Territory, accounting for one-third of the total of its industrial output and 20-35% of Russian fisheries productivity.

The Primorsky Territory government has prepared the ground for the development of fishery industry by adopting the "Supporting Program of Processing of Marine Products for 2010-2013" (Program Cost: RUB 689 million).

In this region, the agriculture and fishery industries are foundational, but the region is expected to take a leap forward by seeking the advancement of the tourism, service, transportation, and logistics industries with the advantage of geo-economics and by promoting the high-tech industries.

### 3.1.2 Investment Trend for the Primorsky Territory from Neighboring Countries and Cooperation Status

The Primorsky Territory has conducted trade with 84 countries and overseas trade reached USD 8 billion with 120% increase year-on-year. Asia-Pacific countries accounted for more than 90% of the Primorsky Territory's trade. Republic of Korea, Japan, China, and the United States are the key trading partners in the region, taking 87% of the share. The major investors are Rep. of Korea, Japan, and China (Korea Institute for International Economic Policy, 2013: 398).

In 2012, foreign investment was USD 0.56 billion, which grew 6.9 times compared to the previous year, and the investment priorities were as follows: finance (75.1%), manufacturing (8.8%), agriculture and forestry (7.5%), and fishery (2.8%).



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## 3.2 Issues in the Socio-Economic Development Program (Draft) of the Primorsky Territory in 2013-2017

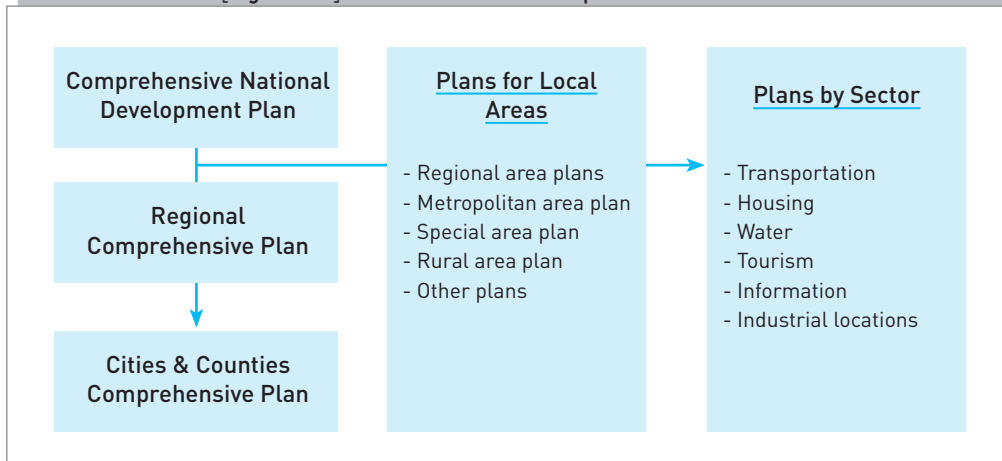
### 3.2.1 Lack of a Specified Regional Development Strategy for the Southern Areas

“The Socio-Economic Development Program (Draft) of the Primorsky Territory in 2013-2017”) divides the Primorsky Territory into three areas -the northern, central, and southern areas - and suggests specialized industries. However, the plan does not include specified local development strategies like those of inter-urban and industrial linkages. To put it concretely, the Investment Portal of the Russian Regions, the Investment Portal of the Primorsky Territory, the Ministry of Foreign Affairs of the Russian Federation, and the investment projects in this program provide only investment implementation years and estimated costs without specific explanations of the projects and capital procurement methods. Therefore, information is far from sufficient to attract actual interest from investors.

Most of all, as the investment projects are dispersed widely in the area, connectivity between the projects has been barely seen, and considering that there are also many infrastructure demands for each project and that construction takes a substantial amount of time, completing on-going constructions by 2017 will not be viable. For instance, the ports are located in diverse regions such as Nakhodka, Vladivostok, and Zarubino (Troika), and the accessibility between them is not in good condition due to the insufficient traffic networks. This issue has many precedents. A number of the projects that had been implemented based on the Socio-Economic Development Strategies of the Primorsky Territory by 2013, in particular in relation to APEC hosting, were not completed by the expected date even with sufficient budget support. In addition, many of the long-term projects based on the Socio-Economic Development Strategies of the Primorsky Territory by 2013 that were scheduled to complete past 2013 have not even begun when two or three years of their implementation periods have gone by.

The population and the industries of the Primorsky Territory are especially concentrated in the southern area, and thus it is essential to devise strategies of inter-urban and industrial linkages for socio-economic invigoration in the entire southern area. Rep. of Korea, for example, shows that national land (territorial) plans, regional plans, and urban plans are comparatively designed to be organically linked, which makes it easier to mark networks between cities and industries within the region.

[Figure 3-1] The Structure of Development Plans in Korea



Source: Author

### 3.2.2 Lack of Manufacturing Industries for Efficient Use of Natural Resources

The Primorsky Territory holds the leading position in the domestic fishery industry, and, recording 4% of the agricultural growth rate in 2012, it has a comparative advantage in this field. However, most of the primary industry is centered only on raw material production, and a high-value added manufacturing industry has not been extensively explored. The primary products of the fisheries have been exported to countries such as China, but secondary processing products have been imported at high costs. Similarly, productivity in agriculture has grown recently and yet is highly dependent only on primary agricultural products. Likewise, exports are also highly dependent on primary products.

Even though Russia is an oil-producing country, its heavy chemical industry, including the petrochemical industry, needs improving. Due to technical insufficiency in oil-refining and the low economic feasibility, the industry has mainly exported crude oil. However, recently Russia has sought the advancement of its secondary processing industry, such as the petrochemical industry. In March 2012, the federal Ministry of Energy announced the "2030 Gas and Petrochemical Industry Development Plan," and this includes a complex formation plan for petrochemical clustering in six regions. Under these circumstances, Rosneft, the national petroleum firm, has been constructing oil refineries in Nakhodka of the Primorsky Territory.

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### 3.2.3 Lack of Local Development Strategy Through Cooperation with Surrounding Countries

In the southern Primorsky Territory, the population and the industries are concentrated and have an advantageous geographical condition for economic cooperation with China and North Korea. The conditions for land logistics between South and North Korea and Russia are expected to improve with the Trans-Korean Railway (TKR) and the Trans-Siberian Railway (TSR), which have long been discussed. The conditions for maritime logistics in the ports of Zarubino and Posyet, which are related to entering China's Pacific market, are also expected to improve. Furthermore, the low population of the Primorsky Territory needs to be overcome through planning local development with a low-cost labor force from neighboring countries. Especially for the fishery and agriculture industries of the Primorsky Territory, which have comparative advantages, a plan is needed for a cluster installation of a comprehensive light manufacturing industry through a cooperating low-cost labor force from neighboring countries.

### 3.2.4 Lack of Bilateral Development Governance System

The *"Socio-Economic Development Program (Draft) of the Primorsky Territory in 2013-2017"* requires a lot of capital as it concentrates on expanding key industries and infrastructures. For this reason, dependency on the support provided by the federal government would be high in implementing the plans. However, the federal government has expressed its serious dissatisfaction with the result of the investment project for APEC and stated that it will only allocate a certain amount of budget funds.

As such, without the procurement of private financing in the global market, having little chance of success is a natural result. But procurement of private capital is possible when the marketability of a project, the systematic guarantee for securing risks of investment loss, and the bilateral governance that contains methods for political risk assurance exist. To activate the Primorskiy investment projects that have been considered based on the Socio-Economic Development Program (Draft) of the Primorsky Territory in 2013-2017 and other investment project lists, it is necessary to settle the investor-based bilateral governance system.

### 3.2.5 Lack of Successful Multilateral Development Finance System

The *"Socio-Economic Development Program (Draft) of the Primorsky Territory in 2013-2017"* premises a development of finance systems that rely mainly on private investment, but the consideration for achieving various actual investors is insufficient.

The public and private partnership (PPP), a structure that depends on private equity investment or loans, is the predominant financial position in project-type structures; however, without guarantee against political risks, financing from private capital would be difficult. For a country in which profitability or marketability is uncertain and political risks exist, prior investments from credible development finance institutions like MDBs are important. Furthermore, there must be a recognition that the parties for development cooperation are largely divided into four parts - bilateral official development aid (ODA), multilateral ODA (MDB), public development cooperation subject (foreign guidance policy finance), and private development cooperation subject (private firm and finance) - and that the systematic networks between the four parts are a core factor for a successful project.

### 3.3 Clustering Potential and Development Strategies for Southern Primorsky

Both the growth pole strategy through the fostering of the manufacturing industry and the clustering approach between each industry led Korea's economic growth. The fostering policy for manufacturing originated with the "Five-Year Economic Development Plans" that began in 1962. The growth pole strategy originated with Korea's Comprehensive National Territorial Plan that began in 1972. The first Five-Year Economic Development Plan (1962-66) concentrated on securing the infrastructure of manufacturing such as power plants. The second Five-Year Economic Development Plan (1967-71) was aimed at enhancing the manufacturing sector led by the chemical, steel, and machine industries. The third Economic Development Plan (1972-76) was to boost the growth of the heavy and chemical industry, and the fourth plan (1977-81) emphasized balanced regional development. During the implementation of the fourth plan, the first Comprehensive National Territorial Plan (1972-81) began, and the name of the plan was changed to the "Five-Year Socio-Economic Development Plan" (1982-86) after the fourth Economic Development Plan. For now, the *"Socio-Economic Development Program (Draft) of the Primorsky Territory in 2013-2017,"* pursues the development of the heavy and chemical industry, and aim at enhancing fairness. Its period is also similar to the period when Korea implemented the first Five-Year Economic Development Plan. Despite different economic scales and social conditions, in terms of strategic perspectives, the situation in which regional balanced development needs to be simultaneously promoted in each region by implementing the clustering method of the manufacturing sector is regarded as the same as Korea. The economic development experiences of Korea could be considered an exemplary model.

In particular, the southern Primorsky Territory is classified as an industrial district and is expected to contribute to the economic growth of the whole Primorsky Territory through the growth pole clustering strategy that specifies the areas for

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growth that have possibilities of changes to the manufacturing sector from areas relying on the key industry.

This report discusses the clustering potential and the development strategies focusing on Nakhodka, which has a solid foundation for the manufacturing sector; Vladivostok, which has outstanding tourism and service industries; Ussurysk, which has the foundation for agricultural production; and the neighboring areas of China and North Korea, which have potential to establish a foundation for the logistics and manufacturing sectors around the areas. Furthermore, this report aims to contribute to the clustering growth pole strategies by applying ideas based on Korea's practice and experiences to the four areas. In addition to that, this report also contains Korea's similar experiences and cases that could provide ideas for the clustering growth pole strategies.

### 3.3.1 Troika Harbor Logistics and Industrial Clustering Free-Trade Zone

The ports, such as Zarubino and Posyet, are well-developed in the Troika harbor region and the region has become a central region for land and maritime logistics as the railways from Hunchun, China, to Mahalino, Russia (75km), and from Najin, North Korea, to Khasan, Russia, reopened in August and October 2013, respectively.

The Port of Zarubino, built 30 years ago, is currently the main port for the export of fishery products, transporting 200-250 containers of fisheries every month. Having a depth of 7.5-9.5m, the port is not too deep, and its four docks record 350,000 tons of freight per year. Port Posyet is located about 40km away from China, and as a coal transport terminal, it transports 2.8 million tons of coal per year from its three docks. Port Posyet, however, is considered insufficient as a coal export terminal in meeting the demands.

The Troika harbor region has potential for multilateral economic cooperation through the newly opened land routes. In addition to this, as the region is within close proximity of China and North Korea, there are commute routes for the labor force from those countries. Based on these conditions, to the Troika harbor region expects the installation of a large-scale light industry cluster and procurement of export routes through land and maritime logistics.

This region has few residents with connections to Khasan-Posyet-Zarubino, and, for this reason, the shortage of product labor force is inevitable and self-demand for consumer products is insecure. Also, this region is considered important for the cooperation between South Korea, North Korea, and Russia. They cooperated to

develop the energy sector such as PNG and power but the cooperation has stopped due to security matters caused by North Korea. As a result, the development of energy-related industry is at a halt in the Nakhodka petrochemical complex.

Furthermore, in regards to the blueprint for the Port of Zarubino, the long-term development strategy was inappropriate as it included a heavy chemical industry, such as the petrochemical industry, as the rear complex. As the main port for fisheries export, what the port really needs, instead, is a rear complex of the high-valued fishery processing light industry, and the industry is also suitable for using low-cost labor forces from North Korea and China.

Therefore, multilateral economic cooperation based on a light industry that would be accepted by, for example, North Korea and China is first needed and then, with improved economic cooperation, improving energy economic cooperation would be the next step for a practical economic strategy for this region.

For the basic level of cluster, attracting SME investors from South Korea by installing light industry cluster could be an appropriate strategy. In addition, by creating a free trade zone where tariff is exempted, the population shortage issue would be addressed and production and exports could be done freely using land and sea routes while a more brisk attraction of various multinational firms is expected.

The Masan Free Trade Zone was created in January 1970 through *the Act on the Establishment of Free Export Zones*, to promote export, employment, and technological improvement. Here was the first complex exclusively for foreigners with a majority of foreign investors.<sup>68)</sup> The Masan Free Trade Zone was managed mainly as a free zone for production export from 1970 to July 2000, but additional sectors such as trade, logistics, distribution, information, and services have since been added and managed.<sup>69)</sup>

While Masan, located 500km from Seoul, was lagging, it became a well-known foreign investment complex that led to Korea's economic growth in the 1970s and 1980s through free trade, tax exemptions, and tax reduction for foreigners.

Foreign investors intended to take opportunities through the hub of an industrial complex that connects Zarubino, Posyet, and Khasan. As Korea changed a lagging area into a center for foreign investment promotion through the Masan Free Trade Zone, Troika harbor could lead the Russian economy based on an appropriate plan.

68) Ministry of Trade, Industry & Energy, Administration Agency of Masan Free Trade Zone

69) Ibid.

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The advancement of the logistic industry could possibly be achieved by installing the foundations for high-valued transit trade, for example, the construction of an industrial complex in port hinterland.

### 3.3.2 Vladivostok Tourism and Service Industry Clustering Free Trade Zone

Vladivostok has a population of about 620,000 with a central role in economics, trade, defense, logistics, education, science, and culture in the Russian Far East. Vladivostok is the last station of the Moscow-Vladivostok TSR (9,288km) and is located 778km away from Khabarovsk; 280km away from Unga, North Korea; and 221km away from Suifenhe, China. Through well-developed maritime transportation, the city has routes that connect the five oceans and direct routes to Asia-Pacific cities, including, Incheon, Busan, Nikata, Osaka, Harbin, Dalian, and Bangkok. The city is also the homes of major institutions such as the Far-Eastern Shipping Company (FESCO), the largest shipping company in Russia; major shipyards and dockyards; Pacific Fleet Headquarters; the Far Eastern Federal University; Maritime State University; Far Eastern State Technical University; and the Far Eastern Branch of the Russian Academy of Sciences.

Vladivostok has become a cosmopolitan city since the gate opening in 1992. As of late 2011, cumulative foreign investment was about USD 1.2 billion, most of which are being invested in tourism, transportation, communication, wholesale and retail sales, and food industries in Vladivostok. This indicates that Vladivostok has comparative advantages in the tourism and service industries. An increase in foreign investment into commercial facilities, such as tourism infrastructure and department stores is also expected against the backdrop of the visa waiver agreement with Korea in December 2013.

The Incheon Free Economic Zone (IFEZ) is a strategic location for Northeast Asia economic center strategy propelled by the Korean government. In August 2003, the 169.5km<sup>2</sup> area, including Incheon International Airport, Songdo, Yeongjongdo, and Cheongna, was designated. The project period is from 2003 to 2020 (the first stage ended in 2009) and the expected population is 643,459. Three cities, Songdo for development of business and IT-BT, Yeongjong for logistics and tourism, and Cheongna for finance and leisure, were developed as planned. To support foreigners' business management, IFEZ provides various incentives including tax exemptions. Just as the Masan Free Trade Zone is designated for foreign investment promotion in light industry, IFEZ is designated for foreign investment promotion in tourism and service industry. In particular, from real estate development to loans for foreign investors, IFEZ has provided decisive support. Based on such developments, including procurement of local campuses and branches of reputable foreign

universities and hospitals, large-scale recreational facilities, and accommodations for foreigners, IFEZ has made a cornerstone for advancement.<sup>70)</sup>

The Russky Island economic district development project for tourism and leisure, one of the major projects in Vladivostok, is now at the concept approval and concretization stages. The major difficulty is that most of the land in Russky belongs to the Ministry of Defence. Accordingly, to construct tourism facilities, landownership transfer issues should first be addressed.

First, in order to cluster the tourism and service industries in Vladivostok, developing infrastructure for tourism is essential. For instance, the increased number of accommodation facilities is still insufficient to cover the current demand, and the expansion of the visa waiver program is necessary for the relatively free entry of foreign tourists. Second, putting spurs to the installation of a special economic zone is needed to stabilize investment promotion and protection. Third, it is necessary to arouse interest in investment and promotion through releasing military reservation district and allowing development authority to be given to Russian and foreign real estate development firms.

### 3.3.3 Ussuriysk Agricultural Processing Industry Clustering

Ussuriysk, located north of Vladivostok, is a major transportation hub through which the TSR and the railway to Harbin pass. Ussuriysk has long been one of the major agricultural regions, thanks to the flourishing water resources from Lake Khanka. Recently, a high-value added manufacturing industry has entered, going beyond the primary light industry, such as sewing and shoe-making.

By attracting Chinese industrial complexes, the Ussuriysk region is also showing potential for the manufacturing industry. Because it is geographically close to China, there is a high possibility that the manufacturing industry will utilize Chinese workers. Korea is also actively investing in Ussuriysk, where over the past decade, 50 companies have mainly invested in agriculture. However, due to poor investment conditions, there are only five companies currently involved in agricultural production in the entire Ussuriysk region.

In the Ussuriysk region, compared to other regions in Russia, the growing season is short. At the same time, logistics costs are high as fertilizer, which is one of the most important factors in cultivation, is delivered from long-distance Moscow. Sales networks are also an issue because the number of consumers is very small. In this context, securing a sales network with western Russia and neighboring countries is

<sup>70)</sup> Incheon Free Economic Zone (IFEZ), Home page ([www.ifez.go.kr](http://www.ifez.go.kr))



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important.

Exporting the crops of this region require constructing ports and providing tax incentives. In the case of Korean investment firms, applying allocated custom on Russian crops by the Korean government is demanded. Yet expanding allocated custom is a difficult issue since it is a temporary tax exemption for less than six months and there is difficulty in expanding tax revenue. But the case of Korea and neighboring countries, where taxes of 4-5% are imposed on manufactured products rather than direct taxation on crops, are considerable examples.

Under the improved circumstance with the recent settlement of a Chinese industrial complex, creating an industrial complex for agricultural product manufacturing by using agricultural possibilities in Ussuriysk will be practical for investment promotion and employment creation without the construction of a port for crops or related infrastructure. Furthermore, if Ussuriysk can benefit from the low-cost labor forces of China and North Korea, it can lower the unit prices to manufacture processed foods for a competitive manufacturing of food products.

Korea introduced agricultural manufacturing complexes in 1984 to fill gaps between urban and rural areas and to purposefully promote balanced economic development. Companies settled in the complexes receive financial and technical support and tax exemptions.

As of the second quarter of 2013, there are 447 complexes, totaling a designated area of 71,715,000 km<sup>2</sup>, 95.3% of lot sales, 6,345 companies, and 144,977 employees.

The Korean national food cluster project began construction in December 2013. With an expected completion date of December 2015, it will be a center of future economic growth in Iksan, the southwestern region of Korea, and the global food market.

Once the settlement of companies into the Korean national food cluster complex is complete, the complex will operate with the purpose of achieving KRW 15 trillion of annual sales and USD 3 billion of exports.

Korea's examples indicate the investment promotion toward the Primorsky Territory that Korean firms are interested in and also the efforts for promoting agriculture manufacture. The Primorsky Territory recently sought advancement through crop production through the vast agricultural plains and livestock industry development. With this huge industrial potential, efforts for the development of the manufacturing industry would lead to the self-development of the Ussuriysk region.

### 3.3.4 Heavy Chemical Industry Clustering in Nakhodka

The Port of Nakhodka is the biggest port in the southern region and has appropriate conditions to promote heavy chemical industry. In particular, under the federal government's petrochemical industry promotion policy, government support is better than other areas in the region. Also, the possibility of project implementation is very high with self-financing from Rosneft, the biggest petroleum company in Russia. Since the integrated shipyard of the Russian Federation is currently planning a shipbuilding industry complex in Bolshoy Kamen, the installation of a comprehensive shipbuilding cluster can be actualized. Also the LNG plant industry is vigorously ongoing. With this, constructing an LNG shipyard combined with Nakhodka's advantageous conditions would be a high-valued industry in the future.

Nakhodka is a major region for the federal government's promotion of the petrochemical industry and has the biggest petroleum and gas companies in Russia. Also, the region seems to have a large enough budget from the federal government. However, foreign participation in the shipbuilding industry cluster is unclear, and, particularly in managing shipyards, there are difficulties in cooperation with foreign companies. Thus, a heavy chemical industry promotion policy combined with the petrochemical industry and shipbuilding industry can be a clustering strategy for Nakhodka. Consequently, it is better to promote, for instance, a high-value shipbuilding industry, LNG plant, and LNG transport ship, which will be more effective than the labor-incentive shipbuilding industry.

The Ministry of Land, Infrastructure and Transport, as part of the "First Five-Year Economic Development Plan," installed the Ulsan (formerly Ministry of Construction) Industrial Complex (Ulsan Complex) for the modernization and industries settlement in Korea. First established as the Ulsan Industrial Center in 1962, it became the national<sup>71)</sup> heavy chemical industry complex after the development of the industrial development district in 1975. As the case of the Ulsan Industrial Complex shows, support from the central government is a main factor for promotion. It could also be applied to the Primorsky Territory.<sup>72)</sup> With support from the Russian federal government, promotion of the heavy chemical industry could be more likely to succeed.

71) Dusan Dictionary, "Ulsan Industrial Complex," [http://www.doopedia.co.kr/doopedia/master/master.do?\\_method=view&MAS\\_IDX=101013000711422](http://www.doopedia.co.kr/doopedia/master/master.do?_method=view&MAS_IDX=101013000711422)

72) Ibid.

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### 3.4 Policy Proposal for an Effective Long-Term Regional Development Strategy in the Primorsky Territory

Reviews of the *“Socio-Economic Development Program (Draft) of the Primorsky Territory in 2013-2017”* and on-site visits revealed that the regional development strategies of the Primorsky Territory divide districts and largely focus on project-centered investment promotion strategies. What are missing here are the strategies for growth poles.

As such, to create growth poles missing in the *“Socio-Economic Development Program (Draft) of the Primorsky Territory in 2013-2017,”* the report further divides the clustering of the manufacturing zone in the southern part of the territory into four sub-clusters and suggests distinct strategies for clustering development on the basis of industries with comparative advantages in each region..

Also, the report proposes strategies for clustering in collaborative relationship with neighboring countries to better access labor and distribution networks that the *“Socio-Economic Development Program (Draft) of the Primorsky Territory in 2013-2017”* has failed to utilize. As clustering strategies for each region, the paper identifies obstacles to investment promotion and regional development, and offers ways to remove them and provide investment incentives.

In order to smoothly implement the *“Socio-Economic Development Program (Draft) of the Primorsky Territory in 2013-2017”* and the investment projects included in the final draft of the Program to be successfully implemented in the long run, the following issues should be considered:

First, more detailed implementation plans are needed. After conducting reviews on the *“Socio-Economic Development Program (Draft) of the Primorsky Territory in 2013-2017,”* and lists of investment projects, it was concluded that it would be difficult to absorb private capital under the current scattered regional development strategies. Accordingly, a growing need for a comprehensive regional development program emerged as an issue, concentrating on few necessary projects in certain areas in the Primorsky Territory with geo-economic comparative advantages.

[Figure 3-2] Four Growth Poles of Clusters in the Southern District of the Primorsky Territory



Source: Author

Second, clustering strategies, including installations of free economic zones, free trade zones, and agricultural manufacturing industrial complexes, are essential to promote manufacturing and service industries and to build the socio-economic development base for the Primorsky Territory. In the cases of Korea, the manufacturing industry promotion policy in the 1970s and the regional balanced development policy in the 1980s laid the foundations. Based on these foundations, Korea overcame economic crisis in the 1990s and reached a Gross National Income of USD 20,000. As a result, the clustering strategies for the promotion of manufacturing sectors and service industries combined with appropriate manufacturing industry and service industry promotion with foreign investment encouragement, such as the Masan Free Trade Zone, IFEZ, and Iksan Foodpolis, were regarded as effective strategies.

Third, the establishment of bilateral development governance seeking the federal government's participation is essential to encourage foreign governments to participate in projects, going well beyond attracting foreign private capital. This will help the two parties involved continue to maintain a mutually beneficial relationship of development and diplomacy. At the same time, private investment would be guaranteed. To that end, Korea and Russia must work together to set up a decision-making system and a long-term Korea-Russia development governance system by separating the management committee. An Inter-government Cooperation Committee should embrace all the government departments involved in economic affairs and be led by competent leaders, such as the heads of state.

For instance, the Primorsky Territory government might set up a public company

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that supervises investment projects and invest in the company's shares, while suggesting that the federal government acquire a portion of the company's shares as well. By drawing the federal government's attention and inviting a development program that the federal government takes part in, it would be possible to address some of the region's chronic issues including a lack of major investors and actual inflows of investment. Forming bilateral development governance and adopting a regional development project as a federal business would accelerate the implementation of scattered projects by incorporating them into a viable, purposeful public project. This would induce diverse investors.

Fourth, there is a growing demand for a comprehensive development finance scheme. The completion of development governance would help program investment projects, build up trust in public projects, and create development finance governance. The success of the above-mentioned programs would accelerate cooperation and development in the whole region of Siberia and, in the long run, enable the establishment of a regional bank needed to support it.

The Korean government recently announced its plans to work with other nations to found a Northeast Asian Development Bank to support domestic enterprises to enter into markets in North Korea, Mongolia, and the Russian Far East, while laying a foundation for a unified economy in the region. The Northeast Asian Development Bank would be established in Vladivostok under the leadership of South Korea and Russia. It is especially noteworthy that President Park Geunhye's vision for the Northeast Asian Development Bank has begun to receive attention once again.

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Стратегия социально-экономического развития Дальнего Востока и Байкальского региона на период до 2025 года, утвержденная распоряжением Правительства

Российской Федерации от 08.12.2009 № 2094-р Государственная программа российской федерации "Социально-экономическое развитие дальнего востока и байкальского региона" от 29 марта 2013 г. № 446-р

ПРОЕКТ Программы социально-экономического развития Приморского края на 2013-2017 годы Приложение № 1 к ПРОЕКТУ Программы социально-экономического развития Приморского края на 2013-2017 годы Приложение № 2 к ПРОЕКТУ Программе социально-экономического развития Приморского края на 2013-2017 годы Федеральный закон от 21.07.2005 N 115-ФЗ "О концессионных соглашениях" (с изм. и доп., вступающими в силу с 01.01.2013)

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Краткий конспект

# 2013 Программа по обмену знаниями в администрации Приморского края, Россия



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## Ход работы Проекта «KSP Россия»

*Че Юн Хи (Институт Евразии при Университете Кукмин)*

В 2013 году Приморский край России впервые стал участником Государственной программы по обмену опытом (KSP), проводимой Министерством финансов Республики Корея. В качестве основного научного института, непосредственно занимавшегося данным проектом, на основе конкурсного отбора был выбран Институт Евразии при университете Кукмин, который не только проводил исследовательскую деятельность, но и активно контактировал с отделом экономики Приморского края и Инвестиционным агентством Приморского края. «Программа обмена знаниями 2013» по разработке рекомендаций для повышения компетенций государственных служащих Приморского края состояла из следующих разделов: (1) модернизация системы государственного администрирования для улучшения инвестиционного климата Приморского края, (2) повышение уровня компетенции работников Инвестиционного агентства Приморского края, (3) анализ «Программы социально-экономического развития Приморского края на 2013-2017 гг. с учетом опыта Кореи. Все три темы были сформированы в результате письменного запроса Администрации Приморского края, а так же были обоснованы с учетом их целесообразности на основе тщательного анализа представленных материалов и эмпирических исследований. В процессе этого, экономический отдел Администрации Приморского края и Инвестиционное агентство были выбраны в качестве основных партнеров в рамках этого проекта, поскольку три вышеперечисленные темы имели к ним непосредственное отношение.

Руководителем проекта «KSP Россия 2013» была назначена госпожа Кан Юн Хи (директор Института Евразии, профессор Университета Кукмин). Проект проводился при тесном сотрудничестве с представителями Администрации Приморского края и российскими экспертами. Для определения характера запроса Администрации Приморского края в письменном виде было получено техническое задание, определена тема исследования на основе активных контактов с государственными служащими, после чего была сформирована команда корейских специалистов, в которую вошли ведущие эксперты страны, обладающие не только профессиональными знаниями по соответствующим вопросам, но и непосредственно участвовавшие в программах по определению стратегии Республики Корея.

<Таблица 1> Коллектив ученых проекта «KSP Россия 2013». Задачи исследования.

Сферы исследования	ФИО	Место работы и должность
Руководитель Программы	Кан Юн Хи	директор Института Евразии, профессор Университета Кукмин
Модернизация системы государственного администрирования для улучшения инвестиционного климата Приморского края	Ким Сан Вон	профессор Университета Кукмин
	Пак Че Син	профессор Университета Кукмин
Повышение уровня компетенции работников	Че Гон Пиль	научный сотрудник Института финансов Республики Корея
Инвестиционного агентства Приморского края	Ли Сан Чжун	профессор Университета Кукмин
Анализ «Программы социально-экономического развития Приморского края на 2013-2017 гг.	Рю Хе Чжон	адвокат коллегии адвокатов «Чипхенчисон»
	Чо Чин Чхоль	научный сотрудник Института исследований земельных ресурсов

Сотрудник по Программе Чхве Юн Хи Исследователь Института Евразии

После определения темы исследования и формирования команды специалистов были проведены «полевые исследования», а также был проанализирован полученный запрос. С целью составления более полной картины относительно темы предстоящего исследования, а также сбора материалов и встречи с российскими экспертами и представителями власти с 21-го по 24-е августа 2013 года корейская делегация в составе 11 человек во главе с господином Нам Дон О (министерство финансов Республики Корея) посетила Приморский край. В этот период делегация

провела встречи с представителями Администрации Приморского края, Инвестиционного агентства, ДВФУ и ВГУЭСа. Кроме того, плодотворно прошли встречи с российскими экспертами, которые подтвердили целесообразность настоящего исследования. Двое участников проекта, которые не смогли присоединиться к поездке в августе, с 13-го по 16-е октября 2013 года в индивидуальном порядке посетили Владивосток и провели встречи с экспертами в области юриспруденции и финансов.

**<Таблица 2> Коллектив ученых проекта «KSP Россия 2013». Задачи исследования.**

	Сферы исследования	Корейские исследователи	Российские эксперты
1	Модернизация системы государственного администрирования для улучшения инвестиционного климата Приморского края	Ким Сан Вон (профессор университета Кукмин) Пак Че Син (профессор университета Кукмин)	В. С. Кузнецов (Директор Школы региональных и международных исследований ДВФУ)
2	Повышение уровня компетенции и работников Инвестиционного агентства Приморского края	Че Гон Пиль (научный сотрудник Института финансов Республики Корея) Ли Сан Чжун (профессор Университета Кукмин)	А. В. Ерохин (руководитель филиала компании "Ernst&Young" во Владивостоке)
3	Анализ «Программы социально-экономического развития Приморского края на 2013-2017 гг..»	Рю Хе Чжон (адвокат коллегии адвокатов «Чипхенчисон») Чо Чин Чхоль (научный сотрудник Института исследований земельных ресурсов)	А. Л. Абрамов (профессор ДВФУ)

После этого, с целью обсуждений предварительных результатов исследований в сотрудничестве с Корейским институтом развития с 18-го октября 2013 года была организована стажировка для представителя российской стороны. Делегация представителей российской стороны в составе пяти человек во главе с директором департамента экономики Приморского края Дубининым пребывала в Республике Корея с 11-го по 15-е ноября 2013 года. 14 ноября была проведена конференция с двадцатиминутными выступлениями по каждой теме и десятиминутными обсуждениями, результаты которой были отражены в исследовании. 13 ноября был проведен семинар в Корейском институте развития, а так же были организованы посещения некоторых организаций. В частности,



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посещение организации InvestKorea при агентстве KOTRA, а так же встреча с представителем Инчхонской СЭЗ помогли членам российской делегации лучше понять работу системы по привлечению иностранных инвестиций в Республике Корея.

С 25-го по 28-е февраля 2014 года в завершение работы по данному проекту представители корейской стороны посетили Владивосток с целью проведения конференции, в рамках которой был представлен отчет для участвующих сторон. 26-го февраля была проведена встреча на высоком уровне между вице-губернатором Приморского края Костенко и советником Министерства финансов Республики Корея Син Дон Гю относительно вопросов определения политики. Во время этой встречи стороны обменялись мнениями относительно проведённой работы и в очередной раз подтвердили обоюдное согласие в вопросе необходимости проведения подобных встреч с целью углубления сотрудничества в этом направлении. Сама конференция была проведена 27-го февраля. На конференции присутствовало около 40 человек, включая представителей Администрации Приморского края во главе с Дубининым, Инвестиционного агентства в лице его директора Аксенова, российских экспертов и представителей местного бизнес-сообщества. Как и в случае предыдущей конференцией, данная конференция была проведена с двадцатиминутными выступлениями по каждой теме и десятиминутными обсуждениями. Результаты конференции также нашли отражение в исследовании.

## Реформирование системы административного управления Приморского края с целью улучшения инвестиционного климата в регионе

1. Инвестиционный климат Приморского края и необходимость его улучшения
2. Текущее положение в системе административного регулирования вопросов привлечения инвестиций в экономику Приморского края
3. Опыт реформирования системы административного регулирования притока инвестиций в Корею
4. Реформирование системы администрирования с целью улучшения инвестиционной привлекательности Приморского края

## Реформирование системы административного управления Приморского края с целью улучшения инвестиционного климата в регионе

*Пак Чэсин (университет Кунмин)  
Ким Санвон (университет Кунмин)*

### 1. Инвестиционный климат Приморского края и необходимость его улучшения.

#### 1.1 Инвестиционный климат в России и Приморском крае.

Благодаря непрерывному улучшению бизнес-климата в России, к 2014 году она заняла 92-ое место среди 189 государств в ежегодно публикуемом рейтинге "DoingBusiness". С целью вхождения в первую двадцатку мира по условиям инвестиционного климата в мае 2012 года в России было образовано Агентство стратегических инициатив (АСИ), которое 26 июля 2012 года заключило с администрацией Приморского края соглашение о сотрудничестве и приступило к совместному осуществлению двух проектов. В 2012 году была введена система бизнес-омбудсменов, а 9 декабря 2013 года было принято решение об образовании Инвестиционного агентства, в качестве органа, подчиненного Министерству регионального развития. Кроме того, планируется помимо уже существующих на сегодняшний день опорных пунктов министерства развития Дальневосточного региона в Москве и Хабаровске, создать еще один во Владивостоке. Однако, несмотря на создание на этой территории особой экономической зоны (SEZ), отсутствие скоординированной системы управления, а также долгосрочной программы стратегического развития, нацеленной на формирование благоприятной среды для продуктивной предпринимательской деятельности, привело к тому, что до сих пор не удалось стимулировать приток иностранных инвестиций.

<Таблица 1-1> Факторы инвестиционного климата в Приморском крае по методике «SWOT-анализа».

Достоинства	Недостатки
<p>Геополитическое расположение.                      Богатейшие природные ресурсы.                      Международные транспортные и энергетические кластеры.                      Высокий потенциал обрабатывающей промышленности.                      Инновационные научные кадры                      Соседство с рынками сбыта.продукции.                      Региональная политическая и социальная стабильность.</p>	<p>Высокий уровень социальных и экономических рисков.                      Проблема сокращения работоспособного населения.                      Высокая волатильность стоимости финансовых активов.                      Экологические проблемы.                      Необеспеченность общественной и экономической инфраструктурой                      Отсутствие соответствующих кредитно-финансовых институтов.</p>
Возможности	Угрозы
<p>Опора на ведущую роль российского правительства в осуществлении инновационных преобразований.                      Превращение в центр сотрудничества с Северо-восточной Азией.                      Разработка ресурсов развития образовательного и культурного туризма.                      Рост спроса на энергоносители.                      Репутация перспективного развивающегося рынка.                      Использование твердой решимости центральной власти к продолжению развития.</p>	<p>Высокая зависимость от воли центральной власти.                      Низкая рождаемость.                      Утечка мозгов и технологий.                      Нехватка профессиональной и высококвалифицированной рабочей силы.                      Диспропорции стихийно-рыночного развития.</p>

## 1.2 Необходимость улучшения инвестиционного климата в Приморском крае.

Потенциал Приморья в качестве центрального региона Дальнего Востока с постепенно расширяющейся зоной урбанизации, ведущей, в конечном итоге, к превращению его в главный центр формирования индустриально-транспортной базы развития всего Дальнего Востока, неуклонно возрастает. Однако, несмотря на наличие базовой инфраструктуры, проблемой данного региона остаются серьезные ограничения в возможностях масштабного роста, а также низкий уровень объемов промышленного производства и объемов торговли. Для стимулирования притока иностранных инвестиций необходимо решить ряд первоочередных вопросов. Во-первых, это проблема перестройки структуры промышленного производства. Российские города, в целом, в качестве одного из главных своих недостатков характеризуются чрезвычайно разрозненными логистическими, кредитно-финансовыми, транспортными и торговыми сетями, плохо взаимодействующими друг

с другом, однако, в случае с Приморьем, как и всем Дальневосточным регионом, эта тенденция выглядит еще более выраженной. Во-вторых, требуется принятие адекватных мер противодействия проблемам нехватки и процессу сокращения населения этого региона.

В целях решения подобных проблем, российское правительство в рамках "Стратегической программы социально-экономического развития Дальнего Востока и Прибайкалья до 2025 года", принятой в 2009 году, конкретизировала свои приоритеты развития в данном регионе во внешнеэкономической и банковской сфере через создание "Фонда развития регионов Дальнего Востока и Прибайкалья" (в ноябре 2011 года), а также учреждения министерства по развитию Дальнего Востока (в мае 2012 года). Приморье нуждается в проведении конкретных мероприятий по стимулированию притока иностранных инвестиций, принятии профилактических мер по оживлению частного предпринимательского интереса к таким активам, как минеральные и земельные ресурсы, а также принятии стратегии развития, учитывающей особенности структуры региональной экономики и точного расчета соотношения участия частного и государственного капитала с созданием соответствующих форм управления. И для этого администрация Приморского края формирует и осуществляет "план социально-экономического развития Приморья на 2013-2017 годы".

## **2. Текущее положение в системе административного регулирования вопросов привлечения инвестиций в экономику Приморского края.**

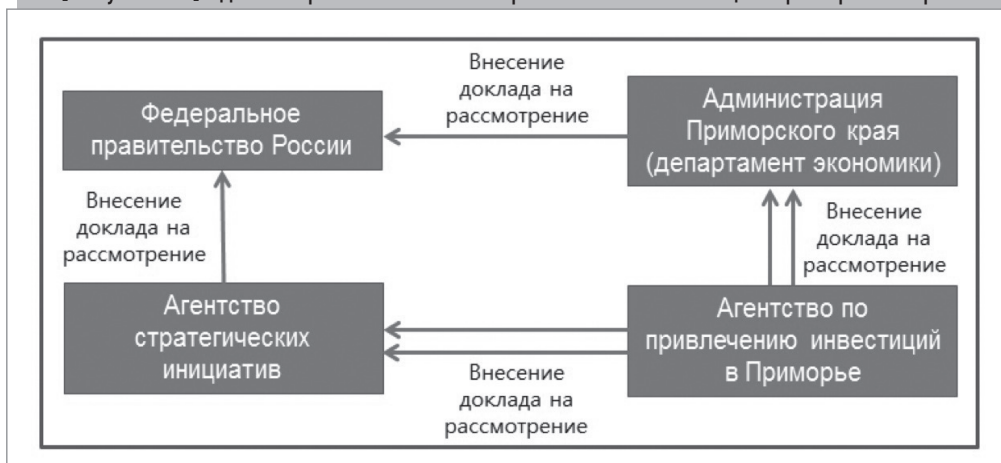
Учрежденное администрацией Приморского края "Инвестиционное агентство" - главный орган, отвечающий за приток инвестиционных средств в региональную экономику.

### **2.1 Специализированный орган, ответственный за привлечение инвестиций.**

**2.1.1 Инвестиционное агентство Приморского края - это учрежденный Администрацией Приморского края в декабре 2012 года, специализированный орган по стимулированию инвестиций, созданный для поддержки процесса оперативной и эффективной реализации полного цикла инвестиционной деятельности, осуществляемой ее субъектами.**

2.1.2 Агентство стратегических инициатив было создано в мае 2011 года по указу президента Владимира Путина (на тот момент занимавшего пост премьер-министра), который на сегодняшний момент сохранил за собой пост председателя наблюдательного совета, участвуя в заседаниях и принятии решений Агентства, постоянно поддерживая и укрепляя авторитет деятельности данного учреждения.

[Рисунок 1-1] Административная система привлечения инвестиций Приморского края



## 2.2 Административные органы, имеющие отношение к привлечению инвестиций.

2.2.1 Администрация Приморского края в большинстве вопросов, связанных с привлечением инвестиций, ограничена юридическими и ведомственными рамками федерального правительства, однако может самостоятельно ставить вопросы на голосование в краевом законодательном собрании и начинать реализацию принятых там решений.

2.2.2 Федеральное правительство РФ поощряет иностранных инвесторов к активным действиям по инвестированию в экономику страны устранением административных барьеров, учреждением специальных экономических зон и свободных научно-технических зон, а также основанием финансовых фондов стимулирования инвестиций.

### 3. Опыт реформирования системы административного регулирования притока инвестиций в Корею.

#### 3.1 Меры по привлечению прямых иностранных инвестиций и процесс изменения административной системы управления.

1 этап: период введения системы (1962~1983 годы): первая и фундаментальная мера: ограничение прямых иностранных инвестиций и получение необходимого объема иностранного капитала в виде займов. 2 этап: переходный период (1984~1997 годы): переход от 'списка активов, разрешенных для инвестиций' (разрешительного перечня) к 'списку активов с полным запретом или теми или иными ограничениями по возможности инвестирования' (запретительному перечню). 3 этап: период интенсивного стимулирования (после 1998): расширение номенклатуры открытых для инвестиций активов, полная отмена ограничений на инвестирование средств иностранными компаниями, открытие рынка недвижимости для свободного инвестирования - кардинальное расширение степени либерализации и открытости инвестиционной политики.

После прихода к власти администрации во главе с президентом Но Му Хёном (в 2003 году) в стране для оживления притока иностранных инвестиций была введена система свободных экономических зон (FEZ). Кроме того, система управления бизнес-процессами неуклонно улучшалась. В частности, с целью укрепления потенциала системы привлечения инвестиций, была сформирована структура многоуровневого и гибкого делового сотрудничества между правительством, органами местного самоуправления, компанией «InvestKorea» (IK) и частным сектором. Власти системы местного самоуправления оказывали полную поддержку соответствующим органам по привлечению инвестиций через раскрытие информации об инвестиционных объектах, частные инвесторы участвовали в процессе выработки инвестиционных программ правительства с правом подачи собственных рекомендаций и вносили свой вклад в деятельность по привлечению инвестиций, осуществляемую в соответствии с принятым и утвержденным планом мер.

#### 3.2 Структура системы администрирования в сфере привлечения инвестиций.

Регулирование и управление процессом привлечения инвестиций в Республике Корея осуществляется в атмосфере тесного делового сотрудничества и взаимопомощи следующими организациями: Комитетом

по привлечению иностранных инвестиций (центрального аппарата правительства), Центром поддержки иностранных инвестиций (компания «InvestKorea»), бизнес-омбудсменом по поддержке иностранных инвесторов, местными органами самоуправления и администрациями свободных экономических зон.

[Рисунок 1-2] Система управления бизнес-процессами в сфере привлечения инвестиций в Республике Корея



<Таблица 1-2> Бизнес-процессы в сфере привлечения инвестиций в Республике Корея

	Этапы выполнения мер по привлечению инвестиций		Детализация предпринимаемых мер	Ответственный исполнитель
Центральный аппарат правительства	1 этап	Определение государственной политики в сфере инвестиционной политики	<ul style="list-style-type: none"> <li>Базовая политика в отношении прямых иностранных инвестиций;</li> <li>Интеграция инвестиционных программ с мерами экономической и промышленной политики</li> <li>Снятие ограничений, улучшение бизнес-климата и условий среды жизнедеятельности</li> </ul>	Центральные органы власти



	Этапы выполнения мер по привлечению инвестиций		Детализация предпринимаемых мер	Ответственный исполнитель
Центральный аппарат правительства	2 этап	Установка целевых уровней привлекаемых инвестиций	<ul style="list-style-type: none"> <li>• Принятие целевых показателей по привлечению инвестиций</li> <li>- Целевые параметры качества и количества инвестиционных средства, целевые параметры промышленной политики.</li> </ul>	
	3 этап	Формирование организационной структуры привлечения инвестиций	<ul style="list-style-type: none"> <li>• Определение структурной схемы привлечения инвестиций и входящих в нее организаций.</li> <li>- Учреждение и управление организационной структуры привлечения инвестиций на центральном и региональном уровнях.</li> </ul>	
Механизм привлечения инвестиций	4 этап	Анализ конкурентоспособности	<ul style="list-style-type: none"> <li>• Анализ конкурентоспособности нашей инвестиционной модели.</li> <li>- Сильные и слабые стороны инвестиционных активов, разработка аргументации.</li> </ul>	«Invest Korea»
	5 этап	Таргетинг в сфере привлечения инвестиций	<ul style="list-style-type: none"> <li>• Выработка стратегии, соответствующей целевым показателям привлечения прямых иностранных инвестиций.</li> <li>- Поиск целевого инвестора для каждого актива и выработка и утверждение стратегии.</li> </ul>	«InvestKorea» (все госструктуры) Органы местного самоуправления

	Этапы выполнения мер по привлечению инвестиций		Детализация предпринимаемых мер	Ответственный исполнитель
Механизм привлечения инвестиций	6 этап	Маркетинг	<ul style="list-style-type: none"> <li>• Пиар инвестиционной модели (формирование брендового имиджа)</li> <li>- Отдел по связям с инвесторами, делегация подписания соглашения, выставка инвестиционного проекта, бизнес-конференция.</li> </ul>	Торговая палата, «InvestKorea» и органы самоуправления
	7 этап	Встреча с инвесторами	<ul style="list-style-type: none"> <li>• Процесс аргументированного доказательства целесообразности инвестиций целевому инвестору.</li> </ul> Поиск потенциальных инвесторов, организация контактов.	Торговая палата, «InvestKorea» и органы самоуправления
	8 этап	Сопровождение проекта	<ul style="list-style-type: none"> <li>• Поиск инвестиционного проекта и его поддержка</li> </ul> Выделение персонального менеджера по проекту, комплексная система обслуживания «одного окна».	Торговая палата, «InvestKorea» и органы самоуправления
	9 этап	Постпроектное сопровождение / улучшение инвест-климата	<ul style="list-style-type: none"> <li>• Обеспечение реинвестирования прежними инвесторами.</li> <li>• Усиление конкурентоспособности модели через улучшение инвест-климата</li> </ul>	омбудсмен
	10 этап	Оценка	<ul style="list-style-type: none"> <li>• Оценка удовлетворенности инвесторов (анкетирование)</li> <li>• Оценка качества исполнения взятых на себя обязательств по системе независимого аудита проектов</li> </ul>	«InvestKorea» и правительство

### 3.3 Свободные экономические зоны.

Сегодня в Корее насчитывается 9 свободных экономических зон: Инчхон, Пусан/Чинхэ, бухта Кванъян, зона Хванхэ, Тэгу/Северный Кёнсан, Сэмангым/Кунсан, Восточное море и Северный Чхунчхон. В них инвесторам предоставляются значительные налоговые льготы. В области создания благоприятного климата ведения бизнеса для компаний с участием иностранного капитала, осуществляется поддержка в найме рабочей силы, вопросах коммерческого управления и смягчения различных ограничений. В области бытовой адаптации в целях создания благоприятной для иностранцев атмосферы натурализации вводится специальное юридическое регулирование данных вопросов. Кроме того, предлагаются облегченные процедуры получения разрешений и лицензий на деятельность местных и зарубежных исполнителей работ по проектам инвестиционного развития. Регулирование режима свободных экономических зон осуществляется на основе разделения полномочий между центральным правительством (Комитетом по управлению свободными экономическими зонами, Комиссией по учреждению свободных экономических зон) и органами местного самоуправления (отделами управления свободными экономическими зонами).

Первостепенной проблемой свободных экономических зон в республике Корея оказался недостаточно комплексный анализ перспектив регионального развития. Во вторую очередь, негативную роль сыграл недостаток профессионализма при оценке главных движущих сил осуществления проектов. Среди недостатков в сфере управления бизнес-процессами следует, прежде всего, отметить проблемы с последовательностью выполнения проектов инвестиционного развития. Вторым по важности здесь выделяется недостаток координации усилий сотрудничающих субъектов, а третьим фактором становится не достаточно активная роль Комитета по управлению свободными экономическими зонами.

Для решения указанных проблем, прежде всего, необходима выработка среднесрочного и долгосрочных планов инвестиционного развития, интегрированных с комплексным национальным планом развития региональных экономик. Необходимо разработать комплекс предложений по согласованию разнообразных проектов, направленных на оживление региональных экономик, с комплексным национальным планом регионального развития. Во-вторых, необходимо сформировать систему управления бизнес-процессами, как на региональном, так и на национальном уровне. В-третьих, разрозненный процесс согласования решений между отдельными ведомствами преобразовать в систему

комплексной оценки и принятия единого решения при активном сотрудничестве в процессе достижения консенсуса со стороны органов центральной власти. В-четвертых, за счет значительного расширения системы делегирования санкционирующих полномочий на уровень городских и провинциальных властей, обеспечить городам и провинциям право на хозяйственное самоуправление.<sup>4</sup> Направления реформирования системы административного управления в сфере привлечения инвестиций в экономику Приморского края.

## **4. Реформирование системы администрирования с целью улучшения инвестиционной привлекательности Приморского края.**

### **4.1 Укрепление функциональной значимости отдела по привлечению инвестиций краевой администрации.**

Укрепление функционального потенциала отдела по привлечению инвестиций администрации Приморского края должно быть осуществлено с целью предоставления комплексных услуг инвесторам по схеме «одного окна». Для этого абсолютно необходимо предоставить полную административную и финансовую поддержку губернатору Приморского края, который одновременно является председателем наблюдательного совета отдела по привлечению инвестиций.

Необходимо, чтобы отдел по привлечению инвестиций имел возможность точно оценить причины невозможности активизировать процесс инвестирования в проекты регионального развития Приморского края в настоящее время и привлечь внимание к ним, как со стороны краевой администрации, так и со стороны федеральных органов власти для их решения. Он должен иметь возможность учреждать дополнительные особые зоны на территории Приморского края для привлечения интереса зарубежных компаний к возможностям выхода на местный рынок. Он также должен взять на себя ведущую роль в поиске зарубежных инвесторов, обладающих преимуществами, отвечающими особенностям региона, устанавливать точные параметры отбора отраслей промышленности и компаний для инвестиционных проектов и свободно принимать те или иные меры в целях привлечения необходимых инвестиций. После определения конкретной цели прямых инвестиций, он должен иметь возможность лично выйти на руководство соответствующей компании для проведения динамичной и наступательной политики в сфере инвестиционного маркетинга.

## 4.2 Укрепление системы сотрудничества между федеральными органами власти России и краевой администрацией Приморского края.

В распоряжении администрации Приморского края находится небогатый набор юридических и административных механизмов предназначенных для их автономного правоприменения, поэтому все предпринимаемые ею меры должны сопровождаться одновременным улучшением отклика со стороны федерального правительства. Таким образом, администрация должна брать на себя ведущую роль в переговорах о необходимости коррекции тех или иных регулирующих правил, указывая на первоочередные задачи по смягчению законодательных норм и ограничений, связанных с привлечением инвестиций. В сфере выдачи разрешений и лицензий, помимо ограничений в законодательстве, большое количество претензий иностранных инвесторов возникает в связи со сложностью и длительностью сроков оформления документов различными органами краевой администрации, поэтому возникает настоятельная необходимость принятия четких и ясных правил по максимальному сокращению срока прохождения процедур выдачи разрешений, находящихся в компетенции местной администрации, и определению процедур обжалования принятых ею решений с целью предоставления иностранным инвесторам возможностей перспективного планирования своих действий.

Со стороны федерального правительства требуется предоставить четкие гарантии безопасности и стабильности доходов от инвестиций вне зависимости от смены власти, политической неопределенности, смены экономического курса, резких социальных потрясений.

## 4.3 Формирование каналов связи между органами, отвечающими за привлечение инвестиций и перевод на регулярную основу процедур согласования совместных решений.

Существует необходимость создания координационного совета по вопросам политики привлечения иностранных инвестиций под эгидой администрации Приморского края и проведения им регулярных квартальных заседаний по согласованию вопросов стратегии в сфере привлечения инвестиций, для выстраивания системы беспрепятственного обмена информацией и принятия конструктивных решений, связывающей федеральное правительство, министерство развития Дальнего Востока и Инвестиционное агентство Приморского края, которые призваны совместно определять инвестиционные программы в соответствии с планами

регионального развития федерального правительства, стратегией развития Дальнего Востока и стратегией превращения Приморского края в регион с особым экономическим режимом, а также разрабатывать общие процедуры принятия решений и способы обмена информацией.

На этих заседаниях органы власти должны представлять на обсуждение макроэкономическую ситуацию с определением насущных задач и направлений дальнейшего развития экономической, промышленной и социальной политики. Инвестиционное агентство Приморского края должно раскрывать темы, связанные с последними тенденциями глобального рынка прямых иностранных инвестиций, перспектив и современного положения с привлечением инвестиций, курсом на привлечение инвестиций Торговых палат разных стран, текущей ситуации с осуществляемыми проектами и предлагать конкретные меры реагирования. Администрация свободной экономической зоны должна привлекать внимание к насущным проблемам иностранных инвесторов каждого конкретного особого экономического района, желаемым мерам поддержки, текущей ситуации с выполнением отдельных проектов и решением возникающих проблем. И все они должны совместно принимать активные меры по инвестиционному маркетингу в зоне своей ответственности.

Обязательность глубокой информированности ответственных лиц из учреждений, занимающихся привлечением инвестиций, о ранее принятых к исполнению краткосрочных, среднесрочных и долгосрочных стратегических мерах инвестиционной политики диктует необходимость создания общей информационной системы инвестиционного сектора для активизации каналов обмена различными материалами и мнениями, и их систематического обсуждения.

#### **4.4 Анализ конкурентоспособности в сфере привлечения инвестиций на базе результатов эталонных тестов.**

Анализ и сравнение инвест-климата в странах-конкурентах, включая крупнейшие развитые державы и страны азиатского региона также должны приниматься во внимание при принятии программ по привлечению инвестиций и совершенствованию систем поддержки. В этом плане наиболее желательным представляется использование в качестве эталонных образцов индексы, составляемые авторитетнейшими международными агентствами, включая индекс Мирового банка «DoingBusiness», индекс OECDPMR и индекс NewBusinessDensity. Использование в качестве эталона параметров «Дорожной карты мер по улучшению инвест-климата», составленного Агентством стратегических инициатив, нацеленной на мониторинг

показателей улучшения инвест-климата, также должно приветствоваться в плане повышения степени согласованности принимаемых решений с политикой федерального правительства в сфере привлечения инвестиций.

Подход с позиции политики смягчения существующих ограничений необходим не только в плане улучшения бизнес-климата, но и с точки зрения требований по формированию условий для переезда инвесторов на постоянное жительство в Россию. Для улучшения условий натурализации более всего востребованы меры по снижению регулирующих барьеров для вхождения на рынок первоочередных по важности образовательных и медицинских услуг, на который необходимо активно привлекать конкурентоспособные иностранные компании.

#### 4.5 Переориентирование рабочих процессов по привлечению инвестиций на интересы инвестора.

Решение задач, связанных с политикой привлечения инвестиций в Приморье в зависимости от конкретного проекта оказываются связанными с более чем 30 отделами краевой администрации, включая Инвестиционное агентство Приморского края и департамент экономики Приморского края, поэтому важным является стремление к созданию у инвестора ощущения, что он находится в фокусе внимания и атмосферы доброжелательности в рамках системообразующей концепции отношения к клиенту.

Прежде всего, необходима разработка информационной системы для инвесторов, предоставляющей самую последнюю информацию о всех инвестиционных процессах в регионе. Система управления взаимоотношениями с клиентами (CRM), призванная организовывать процесс внутренних рабочих процедур по привлечению инвестиций и накопление статистических данных, позволит посредством двустороннего диалога наладить систему поддержки инвестора, действующую в режиме реального времени.

Кроме того, требуется внедрение или же усиление уже существующей системы «персонального кураторства по проекту» с выделением персонального менеджера для нужд инвестора в случае, если ему необходимы постоянные консультации, поддержка или если запланированный проект представляется наиболее важным для реализации.

И, наконец, необходимо укрепить систему оказания комплексного обслуживания по системе «одного окна». Для реализации схемы комплексного обслуживания по системе «одного окна» необходимо

назначение персонального менеджера по проекту, который вместо самого инвестора сможет выполнить такие операции, как получение консультации в органах власти, посылка запросов, подача заявлений, получение документов, получение извещений и т. д.

**<Таблица 1-3> Меры по реформированию системы администрирования**

#### Краткосрочные меры

- ◇ Укрепление значимости отдела привлечения инвестиций администрации Приморского края через пересмотр исполняемых им функций.
  - Необходимость административной и финансовой помощи.
  - Формирование системы комплексного обслуживания «одного окна».
- ◇ Утверждение системы управления бизнес-процессами многоуровневой политики привлечения инвестиций
  - Интенсификация рекламно-информационной деятельности
  - Взаимопомощь и сотрудничество органов местного самоуправления в сфере привлечения инвестиций.
- ◇ Координационный орган межведомственного сотрудничества.
  - Учреждение координационного совета с участием представителей федерального правительства, министерства развития Дальнего Востока и департамента по привлечению инвестиций администрации Приморского края.
  - Совместная маркетинговая политика по привлечению инвестиций

#### Среднесрочные меры

- ◇ Реструктуризация системы материального стимулирования
  - Приведение в порядок системы налоговых льгот
  - Усовершенствование системы выдачи разрешений и лицензирования.
- ◇ Повышение конкурентоспособности инвестиционной модели.
  - Использование международных стандартов в индексах крупнейших агентств.
  - Последовательное совершенствование условий инвестиционной среды.
- ◇ Расширение функциональных возможностей департамента по привлечению инвестиций.
  - Поиск и подготовка «частных кураторов по проектам».
  - Разработка информационной сети инвестиционных данных, ориентированной на интересы клиента.

#### Долгосрочные меры

- ◇ Формирование системы сотрудничества между федеральным правительством России и администрацией Приморского края.
  - Обсуждение ограничений и законодательства, касающегося привлечения инвестиций
  - Выплата сумм материального стимулирования в тесной привязке к ситуации на рынке
- ◇ Расширение возможностей бизнес-среды до мирового уровня.
  - Улучшение ситуации с занятостью населения.
  - Консультации по поддержке системы трудового регулирования.
- ◇ Повышение условий жизнедеятельности иностранцев.
  - Поиск и обнаружение причин неудовлетворенностью инвестиционной политикой, тесно связанных с конкретным объектом инвестиций.
  - Улучшение условий натурализации иностранцев.





## Проблемы повышения компетенции работников Инвестиционного Агентства Приморского края

1. Инвестиционное агенство Приморского края: Особенности работы
2. Предложения по улучшению работы инвестиционного агенства
3. Стратегические предложения

## Проблемы повышения компетенции работников Инвестиционного Агентства Приморского края

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### 1. Инвестиционное агентство Приморского края: особенности работы.

АНО «Агентство по привлечению инвестиций в Приморский край» было основано Правительством Российской Федерации в ноябре 2012 г. с целью

- привлечения инвестиций в регион,
- устранения административных нарушений в этой сфере,
- формирования благоприятного инвестиционного климата в регионе.

Несмотря на то, что организация существует в течение сравнительно короткого срока, в этот период услуги Агентства совершенствовались достаточно быстрыми темпами. Однако, достижению оптимальных результатов работы мешает отсутствие у Агентства правовой основы для привлечения зарубежных инвестиций, а также отсутствие системного подхода к проблеме в целом. Поэтому на данный момент выполнение этой организацией своих функций остается ограниченным определенными рамками: выполнением элементарных услуг и консалтингом.

Остановимся на насущных проблемах инвестирования в Приморский край.

#### 1.1 Проблемы инвестирования в Приморский край.

- (1) Потребность в человеческих ресурсах. Непрерывный рост инвестиций

возможен только при наличии такого важного фактора, как привлечение человеческих ресурсов, для чего необходимо создание базовой инфраструктуры, а также решение ряда других связанных с этим проблем.

- (2) Необходимость определения стратегии в сфере инвестиций. В настоящее время до конца не решен важный структурный вопрос: в обязанности какой государственной структуры должно входить привлечение инвестиций - будет ли это Федеральное правительство или Администрация Приморского края.
- (3) Необходимость учета потребностей инвесторов. Для зарубежного инвестора наиболее принципиальным является реальная возможность его активного участия в инвестиционном проекте и учет в проекте инициатив соседних стран.
- (4) Необходимость решения ряда вопросов частного характера. Помимо того, что для инвесторов существуют привилегии в виде снижения и отсрочки уплаты налогов, необходимо также дать дорогу основным движущим факторам в сфере инвестиций: это обеспечение определенного уровня дохода инвестора, репатриация прибыли от инвестиций и введение некоторых других стимулов.

Препятствием для привлечения инвестиций в Приморский край являются следующие факторы, которые не могут быть разрешимы в рамках обычного инвестиционного органа. Это

**а. не достаточно привлекательные исходные условия,**

**б. сложные геополитические факторы,**

**в. многоступенчатое административное подчинение: дело в том, что Инвестиционное агентство Приморского края, которое занимается инвестициями, подчинено Администрации Приморского края, а та, в свою очередь, находится в прямом подчинении Федерального правительства,**

**г. самое главное то, что учитывая изолированность и промышленную отсталость Приморского края, для преодоления недоверия со стороны зарубежных инвесторов необходимо, чтобы Федеральное правительство было серьезно мотивировано на привлечение инвестиций из-за рубежа и, кроме того, нужно, чтобы был создан**

**ответственный орган, способный практически реализовать эту задачу. Другими словами, для укрепления автономности, компетентности, ответственности Инвестиционного Агентства Приморского края в первую очередь требуется обеспечение правовой и системно-стратегической основы его деятельности.**

Существуют и внутренние противоречия в самом Агенстве. Если говорить в целом, то оно в настоящее время не в полной мере обеспечивает потенциальным инвесторам доступность информации, ее систематизацию и обработку, консалтинг, не обеспечивает должный уровень подготовки кадров. А с позиции потенциального инвестора для принятия обоснованного решения о капиталовложении в первую очередь необходима информация, на основе которой совершается поиск партнера, проверка его кредитоспособности, составление схемы инвестирования, определение долевого участия партнеров и степени риска.

## 1.2 Положительный и отрицательный опыт Кореи в сфере привлечения иностранных инвестиций.

Существенную роль в улучшении работы Инвестиционного агентства Приморского края может сыграть изучение системы привлечения инвестиций в том виде, в каком он организован в Южной Корее. Для этого должен быть внимательно изучен такой поучительный и практически ценный опыт, как опыт системы управления компанией «Инвест Корея» и опыт организации деятельности "СЭЗ Инчхон".

Если говорить о деятельности «Инвест Корея», то основная обязанность компании - это предоставление клиентам разносторонней информации, разнообразная поддержка иностранных инвесторов, обслуживание деятельности на всех этапах их работы, консалтинг.

Во-первых, услуги предоставления информации предусматривают

- обеспечение потенциальных инвесторов материалами для изучения вопроса об обоснованности и процедуре инвестирования,
- содействие инвесторам в правовых вопросах, в налогообложении, в сфере бухучета и аудита и в других видах информационного консалтинга,

составление профессиональными сотрудниками организации подробного делового предложения, то есть ключевого для инвесторов документа, который необходим при решении о вложении ими капитала.

Во-вторых, важно, что служба поддержки иностранных инвесторов и инвестиционных проектов осуществляет консалтинг на всех этапах инвестирования: начиная от поиска потенциальных компаний-партнеров, анализа возможных инвестиций, составления плана инвестирования, реализации инвестиций и кончая составлением итоговых отзывов о компании-инвесторе для соответствующих органов. При этом постоянным объектом внимания должны оставаться меры по непрерывному совершенствованию инвестиционного климата.

Третье. Для того, чтобы капиталовложения давали максимально возможный эффект, к работе привлекаются омбудсмены, которые выполняют роль посредников иностранных инвесторов и проводят такие операции как получение лицензии или снятие эмбарго, добиваются для инвесторов разного рода льгот, т.е. обеспечивают разнообразную помощь. Кроме того, Инвестиционное агентство руководит Управлением по решению проблем иностранных компаний, которое обеспечивает индивидуальный консалтинг для урегулирования сложных вопросов, поставленных омбудсменами, предоставляя для этого соответствующих специалистов. Данная служба называется «Домашний доктор».

Обратимся к другому примеру - организации Инчхонской свободной экономической зоны. В этой зоне акцент делается на привлечение иностранного капитала посредством повышения профессионализма работников.

Первое. Привлечение к работе с инвесторами высокопрофессиональных кадров помогает оперативно решать проблемы, возникающие у иностранных инвесторов в процессе инвестирования. Независимые эксперты, приглашенные на работу из общественных организаций страны, обеспечивают профессиональный и системный консалтинг по всем этапам инвестирования в Корею. Кроме того, рекомендации общественных консультантов и активное привлечение внештатных кадров повышает уровень профессионализма сотрудников Агентства.

Второе. Средства связи в Инчхонской СЭЗ унифицированы и объединены. Благодаря этому обеспечивается оперативное предоставление информации заинтересованным лицам по мобильной связи. Откомандированными сотрудниками основных государственных структур (Министерства юстиции, Налоговой службы, Таможенной службы, Суда и других органов власти) организован Центр инвестиционного консалтинга, который предоставляет единую, скоординированную и точную информацию, касающуюся привлечения иностранного капитала в какой-либо регион. Это минимизирует

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возможную путаницу в информационном обеспечении инвесторов.

Третье. Организация такой службы сделала возможным единый, выверенный по многим параметрам, консалтинг. Иностранным инвесторам, желающим осуществить капиталовложения в Корею, предоставляется бесплатный консалтинг относительно всего процесса инвестирования, начиная от начального этапа, включая административную деятельность в процессе самого инвестирования и до получения необходимой поддержки в стране уже после вложения капитала. При этом для комфорта иностранных инвесторов и членов их семей консультации предоставляются в наиболее удобной для них форме: по телефону, по факсу, в режиме онлайн, по видеосвязи, а также в формате личной беседы.

Однако опыт Кореи имеет и недостатки, которые нельзя не принимать во внимание. В процессе продвижения свободной экономической зоны бывали случаи снижения эффективности проекта по причине того, что часть выбранных организатором направлений не подходила заказчику. Кроме того, инвестиционных проектов, которые отличались престижностью, иногда оказывалось много, что приводило к ненужной конкуренции, недостаточной эффективности и к другим негативным последствиям. Определенные трудности могут возникать также из-за непрозрачной схемы аукционных торгов.

Наконец, опасность может представлять акцент на льготах, предоставляемых потенциальным зарубежным инвесторам. Они вызывают общественно-политический протест со стороны местного населения, что может привести к противоположному результату.

Таким образом, учет положительных и отрицательных сторон корейского опыта может стать важным фактором повышения компетентности сотрудников Инвестиционного агентства Приморского края.

## 2. Предложения по улучшению работы Инвестиционного агентства.

### 2.1 Повышение компетенции кадров.

#### 2.1.1 Подготовка правовой / системной основы для привлечения зарубежных инвестиций.

В целях:

- разработки стратегии поиска перспективных иностранных инвестиционных компаний,
- поддержки этих компаний и их инвестиционных проектов,
- широкомасштабной деятельности, связанной с привлечением иностранного капитала

необходимо, чтобы Инвестиционное агентство Приморского края имело правовые основания для признания его юридически ответственным органом по привлечению иностранных инвестиций в Приморский край.

Если принять во внимание политические и экономические особенности Приморского края, можно сделать вывод о необходимости формирования особой зоны, отличной от других регионов Российской Федерации. Необходимо разработать предложения по решению не только проблем финансового стимулирования, но и проблем недостатка рабочих кадров в этом регионе. Так, могут быть эффективными более смелые предложения по привлечению и трудоустройству технических профессиональных кадров со стороны, а в сфере сельского хозяйства, с учетом фактора сезонных изменений, можно предложить политику обеспечения людских ресурсов с помощью рабочих-мигрантов. Кроме того, необходимо в значительной мере упростить процедуру регистрации инвестиционных организаций и юридических лиц, рассмотреть варианты предоставления различных льгот в сфере таможенного контроля и налогообложения. Одновременно с улучшением инвестиционного климата необходимо в стране и за рубежом продемонстрировать серьезность избранной правительством политики посредством размещения информации о привлечении в регион иностранных финансовых организаций, о создании правовых гарантий, связанных с инвестиционным риском и международными банковскими операциями.



В случае возникновения у зарубежных инвесторов претензий по поводу неудовлетворительного управления совместными предприятиями, по поводу разделения прав или толкования законодательных актов Агентство должно стать полномочным органом толкования прав зарубежных инвесторов, и его интерпретация этих прав должна иметь юридическую силу. В случае возникновения конфликта в ходе реализации проекта или после окончания инвестирования Агентство должно урегулировать конфликт между инвесторами или выступить в роли арбитражной комиссии. Для решения финансовых или профсоюзных конфликтов, которые могут возникнуть в ходе привлечения иностранных инвесторов, Федеральное правительство наряду с Краевой администрацией и заинтересованными органами должны создать систему содействия и помощи инвесторам по всем возникающим вопросам.

### 2.1.2 Создание системы многостороннего инвестиционного сотрудничества.

В целях укрепления сотрудничества со Всемирным банком, Банком развития Азии (ADB), Международной финансовой корпорацией (IFC) и другими международными организациями, а также для формирования различных систем распределения риска, предварительного изучения необходимых форм инвестирования и поощрения долгосрочных инвестиционных вкладов необходимо отказаться от привычной системы двустороннего инвестиционного сотрудничества, и поэтому крайне важно создать такой проект развития Приморского края, который учитывал бы развитие соседних стран: Китая, Кореи, Северной Кореи, Японии. Эти страны могут быть привлечены к участию в многостороннем инвестиционном сотрудничестве.

### 2.1.3 Структура организации и повышения компетентности кадров.

Учитывая сложившуюся ситуацию с недостатком квалифицированных кадров в Приморском крае, в целях повышения компетентности работников Инвестиционного агентства необходимо привлекать иностранных квалифицированных специалистов, понимающих специфику рынка труда для преодоления внутренних проблем Агенства. Кроме того, необходима подготовка консультантов, способных содействовать выходу на рынок иностранным инвесторам. При необходимости Администрация Приморского края должна создать службу поддержки привлечения инвестиций, учредив официальные консалтинговые компании в каждой отрасли. Кроме того, в целях повышения компетентности кадров совершенно необходимо внедрение системы поощрения результативности их работы. Для этого нужно в полной мере изучить опыт аналогичных организаций, пользующихся кадровой политикой дифференцированного премиального поощрения и системой

вознаграждения, основанной на учете служебных заслуг (merit-based system), которые хорошо зарекомендовали себя за рубежом. Кроме того, учитывая, что Корея, Китай, Япония и другие страны АТР заинтересованы в инвестировании в Приморский край, необходимо организовать специализированные структуры для каждой страны в отдельности в целях увеличения активного привлечения капитала.

Необходимо также прилагать разноплановые усилия в рамках практического повышения компетентности работников: это и привлечение в Агентство кадров международного уровня, и организация программ повышения самостоятельного повышения квалификации. Если говорить конкретно, то будет полезным заключение Соглашения о сотрудничестве с Институтом развития Кореи (KDI) и другими организациями, а также создание программ обмена и стажировок.

## 2.2 Совершенствование функции привлечения инвестиций.

### 2.2.1 Целенаправленное инвестирование, укрепление службы поддержки по привлечению капитала.

Администрации Приморского края необходимо определить конкретные задачи для Инвестиционного агентства, то есть задачи по предложенным программам социально-экономического развития по странам - потенциальным инвесторам, масштабам капиталовложений, отраслям инвестирования. А также следует составить краткосрочный (на 1 год) план привлечения инвестиций средней продолжительности (3 года) и долгосрочных инвестиций (более 5 лет), ежегодно корректировать задачи, проводя оценку результатов с принятием мер по устранению недостатков. Кроме того, с целью усовершенствования деятельности Инвестиционного агентства Приморского края необходимо укрепление службы поддержки привлечения целеориентированных инвестиций за счет внедрения системы управления выполнением задач (Management by Objectives, MBO).

### 2.2.2 Содействие в укреплении тесных связей для привлечения иностранного капитала.

Для изучения обоснованности привлечения иностранного капитала необходимо обеспечить инвесторов консалтинговыми услугами: предоставление информации и схем инвестирования, консультации с экспертами в области бухучета и аудита, налогообложения, законодательства. При этом, в целях предоставления дальнейших комплексных услуг

необходимо разработать системно обоснованное руководство, облегчающее поиск перспективных для инвестиций предприятий, создание проектов и планов инвестирования, непосредственное осуществление инвестирования и дальнейший контроль хода инвестирования специалистами. Кроме того, необходимы усилия по регулярному выявлению недостатков в работе компаний и активному принятию контрмер. При необходимости можно заключить договор с Корейским агентством по продвижению внешней торговли и инвестирования в целях создания единой системы для облегчения этой работы.

### 2.2.3 Усовершенствование функций службы обеспечения информацией.

Для усовершенствования инвестиционных проектов на территории Приморского края и непосредственного оперирования инвестиционной информацией и статистикой необходимо повышение компетенции службы обеспечения информацией в Инвестиционном агентстве Приморского края. Для увеличения притока инвестиций из соседних государств необходимо предоставлять информацию не только на русском или английском языке, но также и на корейском, китайском, японском языках. Наконец, необходимо обеспечить качественный письменный и устный перевод основной информации, связанной со всеми этапами работы.

### 2.2.4 Совершенствование рекламы.

Для привлечения инвестиций из ближайших стран необходимо систематизировать маркетинговую деятельность в области привлечения капитала, а для расширения контактов с перспективными с точки зрения капиталовложения корпорациями нужны презентации, реклама в СМИ (агентство Блумберг) для информации об инвестиционном климате в Приморском крае. Особенно важно установить партнерские отношения с экономическими организациями соседних государств, такими как Корейская федерация промышленников (Federation of Korean Industries), Федерация китайской промышленности (China Enterprise Confederation), Федерация предпринимателей Японии (Japan Business Federation) для получения помощи в организации инвестиционных презентаций и рекламной деятельности.

Для получения инвестиций из близлежащих стран деятельность маркетинга по рекламе должна быть систематизирована.

### 3. Стратегические предложения.

Проект привлечения инвестиций в развитие Приморского края на уровне частных инвесторов при учете масштабов капиталовложений и степени риска требует тщательной подготовки и безусловной поддержки. В отличие от других регионов, слабый потребительский фундамент Приморского края делает инвестиционный проект Агентства, подчиняющегося Федеральному правительству, далеким от реальности. И наоборот, наличие приграничных регионов и богатые природные ресурсы делают привлекательными широкомасштабные и долгосрочные проекты. Следовательно, для администрации Приморского края наличие только Инвестиционного агентства предположительно создает затруднения в привлечении капитала в соответствующих масштабах, тем более что недавно сформированная финансовая инфраструктура и всевозможные услуги, способные привлечь инвесторов, не находятся на должном уровне. Абсолютно необходима служба инвестиционного консалтинга для преодоления вышеуказанных недостатков. В связи с этим для расширения притока инвестиций в Приморский край на ранних этапах важны заинтересованность и участие стран, взаимодополняющих друг друга: Кореи, Китая, Японии. Детальное исследование рыночного спроса и соответствующих проектов в целях расширения притока инвестиций из этих стран должно увеличить привлекательность региона для инвестиций и сделать реализацию инвестиций выполнимыми.

Что для этого нужно сделать? Можно предложить конкретизировать следующие функции и роль Инвестиционного агентства Приморского края. Во-первых, в целях повышения квалификации работников Инвестиционного агентства необходимо определить стратегические, технические и организационные задачи. Исходя из стратегии повышения квалификации кадров, нужно максимально точно определить роль и задачи Инвестиционного агентства Приморского края. Во-вторых, принимая во внимание, что повышение квалификации работников Инвестиционного агентства напрямую влияет на поток инвестиций, необходимо продолжать прилагать усилия, направленные на ее повышение. Предлагаем на основе укрепления правовой и системной основы создать совместную структуру, возглавляемую Администрацией Приморского края и Федеральным правительством РФ и организовать программы повышения квалификации кадров для заинтересованных организаций из ведущих стран-инвесторов (например, организация КОТРА из Республики Кореи). Подобный обмен кадрами может стать основой для создания органа многостороннего инвестиционного сотрудничества на территории Приморского края. В-третьих, необходимо ориентировать Инвестиционное агентство Приморского края

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на выполнение функций привлечения инвестиций, обеспечить инвесторов необходимой информацией, определить конкретные задачи в деле привлечения инвестиций, составить кратко-, средне- и долгосрочные планы деятельности и регулярно проводить оценку достижений и промахов.

В-четвертых, для периодического анализа работы корейских инвесторов необходимо наладить постоянное сотрудничество с основными корейскими организациями, усилить деятельность по рекламе, связанную с реализацией совместных проектов для своевременного обеспечения инвесторов необходимой информацией.

Подведем итоги. Для последовательного совершенствования деятельности по привлечению инвестиций необходимо, чтобы основные направления инвестиционного спроса и политика повышения эффективности работы Инвестиционного агентства Приморского края были согласованы. Для согласования роли Агентства в проведении общей инвестиционной политики на уровне Федерального правительства и ее конкретизации на уровне Регионального правительства необходима организация, способная урегулировать интересы инвестиционных компаний. А именно, в отношении проектов, связанных с тяжелой химической промышленностью и высокотехнологичными отраслями промышленности, которые трудновыполнимы при участии только одной РФ, необходимо обеспечить условия для выполнения комплексного инвестиционного проекта, рассчитанного на участие соседних государств. Таким образом, повышение компетенции работников Инвестиционного агентства Приморского края станет возможным, если найти подходы на уровне Администрации края и выше. Здесь безусловно необходима стратегическая регулирующая функция, способная эффективно объединить гарантии правительства, поддержку краевой администрации и связующую роль Инвестиционного агентства Приморского края.

## Анализ Программы социально-экономического развития Приморского края 2013-2017 гг. и выработка конкретных предложений для ее улучшения

1. Анализ программы социально-экономического развития Приморского края 2013-2017 гг. и повышение инвестиционной привлекательности
2. Потенциал и стратегия развития для кластеризации южного приморья  
экономический рост Южной Корея можно рассматривать как сочетание стратегий развития производства и кластеризации между производствами

# Анализ Программы социально-экономического развития Приморского края 2013-2017 гг. и выработка конкретных предложений для ее улучшения

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## 1. Анализ Программы социально-экономического развития Приморского края 2013-2017 гг. и повышение инвестиционной привлекательности.

Администрация Приморского края, ввиду необходимости собственного плана социально-экономического развития, отвечающего требованиям Программы социально-экономического развития Дальнего Востока до 2025 года, своими силами разработала собственную программу социально-экономического развития Приморского края (далее Программа 2013-2017), состоящую из 18-ти инвестиционных проектов, которые в настоящее время находятся на этапе рассмотрения.

### 1.1 Анализ экономических проектов Приморского края, выявление слабых сторон.

#### 1.1.1 Слабые звенья Программы социально-экономического развития Приморского края 2013-2017.

Основная часть текста Программы социально-экономического развития Приморского края 2013-2017 (а именно  $\frac{3}{4}$  текста) посвящена анализу сложившейся ситуации и описанию стратегических целей. Отсутствует конкретная информация относительно способов финансирования, анализа эффективности. Отсутствует обоснование приведенных цифр и результатов оценки. В Приложении 1 приведен список проектов в порядке приоритета.

При составлении проектов применен способ перечисления известных фактов без подробного описания. В Приложении 2 приведена только конечная стоимость инвестиций и не понятно, в каком отношении находятся бюджетные средства с частными инвестициями.

### 1.1.2 Недостатки способа составления списка инвестиционных проектов Приморского края.

Создается впечатление, что список был составлен разными ведомствами, которые не согласовывали между собой способы составления данного списка. В результате этого пункты описания проектов не совпадали между собой, а так же были выявлены неточности. Кроме того, в описании обычно уделяется больше внимание структуре проекта, его особенностям, возможности реализации нежели получаемым эффектам. В данном же случае, учитывая приоритет в анализе ожидаемого эффекта, складывается впечатление, что предполагается стопроцентное государственное финансирование.

## 1.2 Предложение по выстраиванию приоритетов инвестиционных проектов с использованием частных инвестиций.

### 1.2.1 Предложение переформировать список инвестиционных проектов Приморского края с использованием иностранных инвестиций.

#### 1.2.1.1 Моменты, требующие скорейшего улучшения с точки зрения иностранных инвесторов.

Ниже приведены моменты, по которым иностранные инвесторы должны в первую очередь определиться перед принятием решения.

Во-первых, проводится ли настоящий проект по принципу аутсорсинга или же по принципу частного инвестирования, или же этот проект реализуется по принципу ГЧП.

Во-вторых, предусмотрен ли тендер или имеется возможность участвовать в проекте без прохождения тендера. В случае, если проект проводится по принципу аутсорсинга, необходимы ли гарантии со стороны инвестора, так же, необходимо ли заранее получать соответствующие лицензии и разрешения с целью исполнения проекта.

В-третьих, если данный проект проводится по принципу ГЧП, на каком уровне предполагается участие государства и в каком отношении будут



находиться государственные и частные инвестиции.

В-четвертых, в случае необходимости привлечения заемных средств для реализации данного проекта, на каких условиях можно получить заемные средства (имеется ввиду, предоставляется ли кредит под гарантии центрального правительства или краевой администрации).

В-пятых, какие существуют гарантии в случае форс-мажора или в случае неисполнения своих обязательств со стороны заказчика или правительства.

#### 1.2.1.2 Создание основ для привлечения проектов с использованием частных инвестиций.

##### 1) Создание юридической базы для развития проектов на основе Государственно-частного партнерства (ГЧП).

В настоящее время существует федеральный Закон о концессионных соглашениях, однако в Приморском крае до сих пор не было заключено ни одного концессионного соглашения. Помимо закона о концессионных соглашениях или Закона о соглашениях о разделе продукции должна учитываться возможность развития проектов на основе ГЧП. В настоящее время администрация Приморского края работает над Законом о ГЧП. Однако, если вдаваться в подробности содержания данного закона, становится понятным, что вероятность участия иностранных инвесторов в проектах на основе ГЧП достаточно мала. В Корее положение о ГЧП прописано в Законе о частных инвестициях в объекты инфраструктуры. И в соглашении о ГЧП в обязательном порядке должны стоять следующие пункты: гарантии со стороны центрального правительства или органов местного самоуправления, определение порядка залога стоимости проекта, гарантии относительно получаемой прибыли. Одним словом, должны быть прописаны все положения относительно финансирования проекта, а так же порядок компенсаций в случае его приостановки. Будет неплохо, если администрация Приморского края примет во внимания все эти моменты.

##### 2) Приоритет в инфраструктурных инвестиционных проектах.

По возможности все инвестиционные проекты необходимо проводить на средства государственного бюджета. Если все инфраструктурные проекты перевести на бюджетное финансирование с привлечением аутсорсинга, вероятнее всего, большое количество корейских предприятий, которые находятся в непосредственной близости от Приморского края, проявят

определенный интерес.

### 3) Налоговые льготы, целевое финансирование. Упрощение процедуры предоставления залога под финансирование.

Во второй половине 2013 года произошли изменения в Законе федерального налогообложения. Был так же принят закон Приморского края о сокращении ставки налога на собственность, согласно которому инвестор, вкладывающий в экономику края 150 млн. рублей в течение 3-х лет или 500 млн. рублей в течение 5-ти лет, освобождается от налога на прибыль сроком на 5 лет, а последующие 5 лет его налоговое бремя составляет 10%. Кроме того, обнуляются налоги на его имущество сроком на 5 лет, и последующие 5 лет налоговая ставка составляет всего 0,5%. Администрация Приморского края также идет навстречу мелким и средним инвесторам, сокращая их налог на прибыль с 20% до 15,5% и полностью освобождая от налога на имущество. Предполагается, что определенные налоговые льготы могут получить предприятия, инвестирующие в приоритетные области: мелкое и среднее производство, дистрибуцию, сферу услуг.

Следует также отметить, что желательно обратиться к опыту Кореи и проводить политику целевого финансирования мелких предпринимателей, занимающихся в сфере производства. Это особенно актуально в сфере сельского хозяйства и животноводства.

В случае же проектов с использованием частных инвестиций необходимо проработать варианты различных способов гарантий со стороны государства, включая введение системы гарантий минимальной прибыли. Если местная администрация заранее согласует процедуру предоставления залога относительно предоставленной в аренду земли, необходимой для реализации инвестиционного проекта, инвесторам будет гораздо легче получить кредит в финансовых институтах.

### 4) Стратегия активной и эффективной рекламы.

#### **а. Информирование о решениях, сокращающих различные риски.**

Необходимо информировать инвесторов о изменениях в российском законодательстве. Особенно важно, чтобы вся необходимая информация была доступна на английском и корейском языках. Было бы хорошо, если вместе с повышением доступности информации о потенциальных партнерах была активизирована работа групп экспертов. Иностранные инвесторы уделяют большое внимание страхованию от возможных рисков

в Многостороннем агентстве по инвестиционным гарантиям (MIGA) или в Корейской корпорации страхования торговли (это больше касается корейских инвесторов). Следовательно необходимо своевременно информировать инвесторов о порядке страхования в этих организациях.

#### **в. Составление информационного буклета для инвесторов.**

Рекомендуется составление информационного буклета для инвесторов, в котором бы содержалась различная информация о проектах (описание, настоящее состояние дел, инвестиционные моменты (инвестиционные льготы и предполагаемая прибыль), законодательные ограничения (разрешения), моменты, на которые следует обратить внимание, условия инвестиций (ГЧП).

#### **В. Способ составления контрольного списка по проектам.**

Для иностранных инвесторов российское законодательство неизвестно, их больше всего интересуют гарантии вложений. С этой целью существует необходимость в доступной форме разместить всю необходимую информацию на сайте. Информация о существующем законодательстве, относящаяся а проектам, должна быть систематизирована во отраслям промышленности, структуре инвестиций и форме инвестиций.

#### **5) Подготовка группы экспертов для активизации процесса привлечения частных инвестиций.**

В Приморском крае наблюдается недостаток специалистов (адвокатов, бухгалтеров, технических специалистов), способных оказывать качественные услуги иностранным инвесторам. Для привлечения иностранных инвесторов подготовка вышеперечисленных специалистов - актуальная и необходимая мера.

#### **1.2.1.3 Установление принципа приоритета в выборе проектов.**

#### **1) Разделение проектов на проекты с бюджетным финансированием и проекты с частным финансированием.**

Все проекты необходимо разделить на проекты с государственным финансированием (включая проекты с использованием государственных инвестиционных фондов) и проекты с частным финансированием (частные инвестиции). Кроме того, в проектах с государственным финансированием должны быть подробно расписаны условия участия.

## 2) Перевод инфраструктурных проектов в раздел государственного финансирования и необходимость определения приоритетов инвестиций.

В странах Юго-восточной Азии и других странах и регионах мира, где активно реализуются инвестиционные программы с участием зарубежных инвесторов, объекты инфраструктуры обычно возводятся на средства государства. Аналогичные примеры можно найти и в Корее. До середины 90-х годов в период активного экономического роста все инвестиционные проекты реализовывались при стопроцентным финансированием со стороны государства. Исходя из этого, для того, чтобы в Приморском крае были созданы социально-экономические основы для экономического развития региона, необходимо как можно скорее начать строительство необходимых объектов инфраструктуры: дорог, портов, электростанций, водопроводов, мусороперерабатывающих заводов. И самое главное, при строительстве этих объектов инфраструктуры не следует полагаться на иностранных инвесторов, а полностью осуществлять финансирование в этом на правлении на основе бюджетных средств.

## 3) Необходимость определиться с приоритетными инвестиционными проектами.

В Приморском крае к наиболее развитым отраслям хозяйства относится сельское хозяйство и рыбная промышленность. Следовательно, следует сначала сконцентрироваться на проектах, связанных с этими отраслями, нежели на проектах по отраслям, в которых экономика Приморского края не является конкурентоспособной: высокие технологии, добывающая промышленность, энергетика, туризм. Что же касается рыбной промышленности и сельского хозяйства, существуют климатические и инфраструктурные ограничения для перевозки и хранения продукции, поэтому с целью эффективного развития этих отраслей необходимо вкладывать определенные средства в соответствующую инфраструктуру.

## 4) Анализ причин приостановки реализации некоторых проектов и способы устранения препятствий.

Среди проектов, представленных на рассмотрение администрацией Приморского края, представлены проекты, которые планировались для реализации плана развития экономики региона в 70-80 гг. Необходимо тщательно проанализировать причины заморозки этих проектов, попытаться устранить препятствия, мешающие их реализации, а так же разработать ряд

конкретных мер для восстановления работ по этим направлениям.

5) Разработка долгосрочного плана по неприоритетным проектам, а так же трудоемким проектам.

Проектам, которые не являются приоритетными для Приморского края, а так же требующим привлечения большого количества людских ресурсов, необходимо придать статус долгосрочных и после принятия мер по устранению препятствий начать проводить политику по привлечению потенциальных инвесторов.

### 1.3 Основные проекты и рассмотрение примеров.

#### 1.3.1 Анализ инвестиционных проектов Приморского края с целью привлечения иностранных инвесторов.

Оценка соответствия инвестиционных проектов Приморского края по вопросам привлекательности для иностранных инвесторов.

No	Название	Исполнитель	Описание
1	Находкинский нефтехимический комплекс	«Роснефть»	Проект был анонсирован в 2011 году, после чего «Роснефть» провела основные изыскания и проверила соответствие земельного участка. Предполагается, что будет учреждено совместное предприятие с «Мицуи», после чего и будут проведены основные форумы для привлечения остальных инвесторов. Данный проект на самом деле берет свое начало с 1974 года. Можно сказать, он возрожден компанией «Роснефть».

No	Название	Исполнитель	Описание
2	Строительство завода по сжиганию газа в Находке	«Национальная химическая компания»	<p>Проект был анонсирован в 2012 году. В течение всего этого времени по нему не было никакой информации. В настоящее время исполнитель данного проекта готовится к проведению изысканий относительно его экономической целесообразности. Этот проект связан с добывающей и перерабатывающей отраслью. Предполагается, что в будущем будет проведена презентация для потенциальных инвесторов.</p> <p>→Нанастоящиймоментневозможноопределитьсоответствиеданногопроектапотребностяминостранныхинвесторов.</p>
3	Строительство завода по сжиганию газа в Хасане	«Газпром»	<p>На 2013 год никаких работ по этому проекту не наблюдалось. Готовится проведение работ по изучению экономической целесообразности, после чего, ожидается, что «Газпром» проведет форум для потенциальных инвесторов. Пока не понятно, будет ли предложено инвестировать в сам проект или проект будет реализован по принципу аутсорсинга.</p> <p>→Нанастоящиймоментневозможноопределитьсоответствиеданногопроектапотребностяминостранныхинвесторов.</p>
4	Строительство ТЭС в Уссурийске	РАО «Энергетические системы востока»	<p>РАО «Энергетические системы востока» - государственная энергетическая корпорация. Готовится проведение работ по изучению экономической целесообразности. Если будет принято решение о создании совместного предприятия, в случае строительства электростанции будущему инвестору необходимо заручиться гарантиями относительно продажи производимой электроэнергии и горячей воды, а так же относительно тарифов. РАО «Энергетические системы востока» до сих пор не заключало никаких соглашений с иностранными компаниями. Кроме того, не ясно, вправе ли компания РАО «Энергетические системы востока» заключать с иностранными компаниями соглашения такого рода.</p> <p>→Нанастоящиймоментневозможноопределитьсоответствиеданногопроектапотребностяминостранныхинвесторов.</p>

№	Название	Исполнитель	Описание
5	Строительство ТЭС в Восточном	РАО «Энергетические системы востока»	Аналогичная ситуация. →Настоящий момент невозможно определить соответствии данного проекта потребностям иностранных инвесторов.
6	Развитие туристско-рекреационной зоны на о. Русский	Министерство развития ДВ, Администрация ПК, Администрация Владивостока, Особая экономическая зона	В 2010 году этот проект получил статус особой экономической зоны. В настоящее время не понятно, какие льготы предусмотрены для участников этого проекта.
7	Строительство Игровой зоны «Приморье»	«Наш дом Приморье»	В этом проекте принимают участие несколько иностранных компаний. Предположительно, завершение всех работ по первому этапу в значительной мере отстает от намеченных сроков. Ожидается, что этот проект, в основе которого лежит игровой бизнес, будет наиболее перспективным.
8	Развитие зоны высоких технологий на о. Русский	Дальневосточный судоремонтный и судостроительный завод	На острове Русском одновременно реализуются два проекта: технопарк и научно-технический центр. Проектом технопарка занимается Инвестиционного агентства Приморского края. На настоящий момент не понятно, какова структура этого проекта и кто является исполнителем. Исполнителем проекта строительства научно-технического центра является дочерняя компания Российской судостроительной корпорации, которая одновременно занимается строительством завода «Звезда». С 2011 года эта компания ведет проектно-изыскательские работы.

No	Название	Исполнитель	Описание
9	Морской биотехнопарк «Островной»	ДВФУ, Институт биологии моря при Дальневосточном отделении РАН	<p>Данный проект реализует Дальневосточное отделение РАО вместе с ДВФУ. В настоящее время проект находится на стадии изучения экономической целесообразности. Предполагается, что в проекте будут применены последние наработки РАН в области экологии. Исходя из этого парк будет разделен на 4 эко-кластера. Возникают вопросы, насколько максимально смогут сделать инвестиции РАО и ДВФУ. До сих пор не представлена модель коммерциализации соответствующих технологий РАН. Это долгосрочный проект, рассчитанный до 2020 года. Этим проектом могут заинтересоваться иностранные научные институты или фонды. Что же касается иностранных инвесторов, то это не то, что их может заинтересовать на данном этапе.</p> <p>→Наданномэтапенепредставляетсявозможнымпривлечениеиностраннихинвесторовэтотпроект.</p>
10	«Зеленые листья»	Инновационный агрокомплекс «Зеленые листья»	<p>К настоящему моменту проект детально проработан, и генеральный директор одноименной компании активно его продвигает. Проект уже получил достаточную известность благодаря участию его представителей в инвестиционных форумах. Кроме того, вся необходимая информация размещена на сайте компании. Однако на настоящий момент не понятно, на каких условиях возможно сотрудничество.</p>



### 1.3.2 Оценка 7-ми инвестиционных проектов Приморского края на предмет их соответствия для иностранных инвестиций.

No	Название	Исполнитель	Описание
1	Строительство Игровой зоны «Приморье»	«Наш дом Приморье»	В этом проекте принимают участие несколько иностранных компаний. Предположительно, завершение всех работ по первому этапу в значительной мере отстает от намеченных сроков. Ожидается, что этот проект, в основе которого лежит игровой бизнес, будет наиболее перспективным.
2	Развитие технопарка на о. Русский	Инвестиционное агентство ПК, Администрация ПК	На острове Русском одновременно реализуются два проекта: технопарк и научно-технический центр. Проектом технопарка занимается Инвестиционное агентство Приморского края. На настоящий момент не понятно, какова структура этого проекта и кто является исполнителем.
3	«Зеленые листья»	Инновационный агрокомплекс «Зеленые листья»	К настоящему моменту проект детально проработан, и генеральный директор одноименной компании активно его продвигает. Проект уже получил достаточную известность благодаря участию его представителей в инвестиционных форумах. Кроме того, вся необходимая информация размещена на сайте компании. Однако на настоящий момент не понятно, на каких условиях возможно сотрудничество.

№	Название	Исполнитель	Описание
4	«Приморское кольцо»	Технохолдинг «Сумотори»	<p>Согласно инвестиционному буклету строительство пилотных объектов было начато 1 июля 2013 года. Инициатором проекта стала компания «Сумотори», вложившая в проект 400 млн. рублей. В настоящее время исполнители предпринимают попытки найти инвесторов, способных вложить 3,2 млрд. рублей. По сравнению с другими проектами, здесь подробно описаны условия инвестиций, подготовлены материалы для презентаций. Однако уровень внутренней ставки рентабельности (IRR) составляет 16%, что подтверждает пессимизм относительно инвестиций. Отсутствует информация касательно способов возвращения вложенных средств.</p> <p>→ Презентацию данного проекта необходимо сделать в связи с развитием туристической отрасли.</p>
5	Сельскохозяйственная площадка «Михайловское»	Не определено (Инвестиционное агентство ПК)	<p>Данный проект – инвестиционный план по разработке сельхозугодий, находящихся в собственности администрации Приморского края и администрации Михайловского района (121 га и 117 га соответственно). Площадка по выращиванию сои ООО «Агробиотех» тоже, предполагается, по инициативе администрации Приморского края станет частью этого проекта. Информация по этому проекту достаточно скудна. В описании площадки приведены данные о существующей инфраструктуре, но абсолютно отсутствует какая-либо информация относительно структуры и способов распределения участков.</p> <p>→ В настоящее время эта площадка лишена основных объектов инфраструктуры: отсутствует электричество и водопровод. Возможность обсуждения ее инвестиционной привлекательности возможна только после решения вопросов создания соответствующей инфраструктуры.</p>

No	Название	Исполнитель	Описание
6	Рыбоперерабатывающий комплекс		<p>На настоящий момент не решены вопросы с землей. Предполагается, что будущая площадка будет размещаться на территории, частично занимающей частные владения. Цель проекта – создание рыбоперерабатывающего кластера, связанного с портом. Проблема заключается в том, что самый ближайший порт Большой камень находится на расстоянии 18 км и с ним отсутствует дорожное сообщение. Кроме того, данная площадка не имеет никакой базовой инфраструктуры: отсутствует электричество, системы отопления, водопровод, канализация и газопровод.</p> <p>→ Поэтому проекту очень мало информации. Исходя из этого, что это приоритетный проект для Приморского края, есть необходимость его детального изучения.</p>
7	Промышленная площадка в Надеждинском районе	Не определено (Инвестиционное агентство ПК)	<p>Две площадки общей площадью в 1500 га. Владельцами этих площадок являются администрация Надеждинского района и ОАО «Надеждинское». На настоящий момент здесь полностью отсутствует какая-либо инфраструктура. До конца не ясны будущие планы развития.</p> <p>→ в площадки общей площадью в 1500 га. Владельцами этих площадок являются администрация Надеждинского района и ОАО «Надеждинское». На настоящий момент здесь полностью каранто. В данной ситуации единственная информация, которой могут руководствоваться инвесторы при планировании своего бизнеса – это расположение. А этого крайне недостаточно.</p>

### 1.3.3 Анализ конкретных примеров крупномасштабных проектов

#### 1.3.3.1 Интегрированная развлекательная зона Приморского края «Приморье»

##### План акционерного участия корейских инвесторов

- В силу специфики игорного бизнеса российские и иностранные компании проявляют значительный интерес к игорной зоне „Приморье“. 6-го сентября 2013 года расположенная в Макао крупнейшая игорная компания MelcoInternationalDevelopmentLtd. заключила с Администрацией Приморского края соглашение об инвестициях на 700 миллионов американских долларов. Базирующаяся в Камбодже игорная компания NagaCorp. Ltd. тоже приняла решение об инвестициях на 350 миллионов долларов.
- WallStreetJournal также оценивает проект как исключительно прибыльный. К тому же, учитывая то, что данный бизнес построен на извлечении прибыли из азартных игр, уровень налогового бремени на него в России крайне низок.
- Однако неясно, разрешит ли доленое участие иностранцев в проекте Администрация Приморского края, которая является нынешним оператором и главным инициатором создания зоны в 2002 году, со 100% объемом вложения инвестиционных средств. По устной информации, вопрос о предоставлении акционерной доли иностранным инвесторам, в том числе корейским, не рассматривается.
- Средства массовой информации сообщают, что возможное начало строительства казино ожидается в 2014 году, однако на сайте отражен только график строительства общественных сооружений. По заявлению представителя администрации Приморского края, в связи с началом работ по строительству инфраструктуры, реальные сдвиги ожидаются во второй половине 2014 года.
- Представляется реалистичным вариант участия корейских инвесторов, внимательно наблюдающих за продвижением данного проекта, в подрядных заказах по заключенному контракту. Так как проведение открытого тендера на заключение контракта является обязательным, им может быть предоставлена возможность выступить в качестве подрядчика по контрактам строительства гостиницы с казино и различных сооружений, а также доверительного управления этими заведениями.
- В связи с этим, в случае необходимости, при условии гарантированного инвестиционного дохода, могут рассматриваться такие виды сотрудничества, как предварительные инвестиции по проекту.

### 1.3.3.2 Проект инновационного агрокомплекса „Зеленые листья“(GreenLeaves)

#### План по продвижению корейских инвесторов

- Данный проект включен в качестве ключевого сопутствующего проекта в план развития Дальнего Востока до 2025 года и в план развития Приморского края с 2013 по 2017 год.
- Компания-исполнитель подала заявление на патент в области органического земледелия в Японии, Корею, Европе, Новой Зеландии, причем профессиональные знания и экспертный опыт компании получили высокое признание региональных властей этих стран.
- Внутренняя ставка рентабельности для иностранных инвесторов ограничена до 16%, но основания для этого не ясны, не утвержден и вопрос о получении кредитов от банков, имеющих лицензию на зарубежные операции, поэтому с точки зрения прибыльности все еще существует множество неясностей.
- В частности, в свете опыта корейских компаний, уже вышедших на рынки Дальнего Востока, остается множество вопросов как по сбыту и распределению товара, так и по конкурентоспособности цен его реализации. Следовательно, помимо планов по поставкам зерна, необходимо также выработать различные варианты планов увеличения удельного веса экспорта и продаж лекарственных трав и культур специального назначения для корейских и китайских потребителей, через строительство параллельных производств по переработки молока и зерна для увеличения конкурентоспособности цен на поставляемые товары.
- Поскольку иностранцы не имеют права владеть долей более 50% аграрных земель и земельных участков в приграничной зоне, при определении структуры вложений необходимо получение правовой консультации. Ее цель - создание оптимальной структуры инвестиционного портфеля, которая позволит обойти данное правовое ограничение и окупить инвестиции.

### 1.3.3.3 Создание рыбодобывающего и рыбоперерабатывающего кластера

Ход проекта	<ul style="list-style-type: none"><li>- 13-го января в результате проведенного Инвестиционным агентством Приморского края тендерного аукциона, Московский филиал исследовательского института Номура получил право стать генеральным разработчиком данного проекта.</li><li>- Институт Номура создал консорциум специализированных институтов в Москве, Владивостоке и Токио и после заключения контракта с администрацией Приморского края в течении 15-ти дней после победы в тендере (до 27-го января), он намерен подготовить бизнес-план первой стадии выполнения проекта, представление которого запланировано им на апрель.</li><li>※ Институт Номура является специализированным международным институтом, разработавшим проекты морских портовых сооружений и комплексов в портах Японии (Токио, Иокохама, Окинава), Республики Кореи (залив Кванъян), Тайваня (Тайпэй) .</li></ul>
План по выходу корейских инвесторов на рынок Приморья	<ul style="list-style-type: none"><li>- После представления бизнес-плана институтом Номура в соответствии с его содержанием будет возможно провести оценку объемов и способов инвестирования.</li><li>- При инвестировании в рыболовный промысел, возможно получить не более 50% всех акций. При желании приобрести большее количество акций необходимо предварительное разрешение специального правительственного комитета.</li><li>- Что касается бизнеса по переработке рыбных продуктов, то с точки зрения средней и долгосрочной перспективы возможно рассмотреть вариант единовременных инвестиций в соответствующие производства.</li></ul>

### 1.3.3.4 Строительство технопарка на острове Русском

Ход проекта	<ul style="list-style-type: none"><li>- Проект технопарка высоких технологий в Приморском крае, на который выделено 1 млрд. 200 млн. рублей из федерального бюджета 2007 года (на 3 года вперед)</li><li>- В настоящее время проект заморожен из-за сложностей связанных с выделением земельного участка под строительство.</li><li>- Однако сумма, выделенная из федерального бюджета на этот проект, остается прежней.</li></ul>
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### Оценка реализации проекта

- Для регионального правительства это один из самых ожидаемых проектов, формирующих среднесрочную и долгосрочную перспективу развития экономики края.
- По оценке специалистов существует сильное желание центрального и регионального правительств начать его реализацию, однако ситуация на острове Русском пока остается неясной. Главной причиной является проблема получения прав владения и использования земельного участка под проект.
- Земельных участков-кандидатов на острове – четыре, на трех из которых расположены военные сооружения, поэтому необходимо получить согласие Министерства обороны, что является весьма сложным. На четвертом участке, принадлежащем местной Администрации, располагается южная часть Дальневосточного федерального университета. Эта территория была выбрана для возведения тепловой мини-электростанции для снабжения острова электричеством, но на пути осуществления проекта встретилось немало трудностей из-за сопротивления местных жителей и специалистов.
- До появления первых видимых результатов трудно предвидеть инвестиционные перспективы корейских инвесторов в этом проекте. Даже если он будет осуществлен в соответствии с планами краевой Администрации, выгода для корейских инвесторов от единовременных капиталовложений в строительство станции оценивается как невысокая.

#### 1.3.4 Перспективы развития туристического бизнеса в Приморском крае и предложения по привлечению корейских туристов.

Администрация Приморского края санкционировала и приступила к исполнению государственной программы по стимулированию развития туризма на период 2013-2017 гг. Благодаря вступившему в силу с 1 января 2014 года соглашению о безвизовом режиме между Республикой Корея и Россией граждане обеих стран могут въезжать и оставаться на территории страны-партнера до 60 дней без оформления визы. Администрация Приморского края обратилась с просьбой совместно обсудить дополнительные возможности по привлечению туристов из Южной Кореи в связи с изменившимся режимом взаимоотношений.

Текущая ситуация в сфере туристического бизнеса в Приморском крае демонстрирует взрывное увеличение иностранного турпотока после 2011 года. Данное явление объясняется, в основном, увеличением туристов из провинций Цзилинь и Хэйлунцзян КНР, вызванным введением ограниченного определенными условиями безвизового режима для китайских туристов, расширением социальной инфраструктуры в виде открытия движения по автомагистрали и новой ветки железнодорожных путей между двумя странами, а также наплывом гостей проходившего во Владивостоке форума

стран АТЭС.

В период с 1990 по 2012 год въездной турпоток в Республику Корея неуклонно рос, увеличиваясь в среднем на 6.2% в год, а за период с 2008 по 2012 год продемонстрировал ежегодную прибавку в 12.5%. По уровню конкурентоспособности туристического бизнеса Корея занимает 25 место среди 140 стран (Россия находится на 63 месте), по уровню ограничений на въезд на 38 месте, по условиям бизнес-климата и уровню обеспеченности инфраструктурой - 17 место, и по богатству человеческого, культурного и природного потенциала на 20 месте. В последнее время высокие темпы роста потока иностранных туристов в Корею демонстрируют такие отрасли индустрии, как шоп-туры, образовательный туризм и медицинский туризм в сфере эстетической пластики, оздоровительного и лечебного отдыха. Из всех видов туристической деятельности внутри страны за 2012 год удивительные темпы роста продемонстрировал туристический шоппинг, выросший на 45.3% (или на 72.8% с учетом многовариантных ответов).

Так туристы из России заняли второе место после японцев по числу повторных посещений страны за год (более 4 раз) со средней продолжительностью каждого в 12.2 суток и ежедневным расходом средств в 209 долларов США, что выше, чем у представителей других государств. Обращает на себя внимание и очень высокий процент российских туристов, посетивших Корею с целью пройти здесь курс лечения. В последнее время наше правительство принимает дифференцированные стратегии привлечения туристов для различных регионов страны, усиливая, с одной стороны, рекламную-информационную и маркетинговую стратегию, направленную на конкретный регион или сферу интересов, а с другой, прилагает усилия к привлечению инвестиций в туристическую индустрию, в частности, сосредотачивая усилия на разработке новых тематических туров, таких как международные форумы разработчиков медиа-контента, поощрительные турпоездки, конференции, выставки, лечебный отдых, «корейская волна» и прочие.

#### 1.3.4.1 Перспективы развития туристической индустрии в результате введения между республикой Корея и Россией безвизового режима.

По результатам исследований, проведенных в 2013 году ожидаемый суммарный прирост турпотока из России в Корею оценивался примерно в 94.4% с темпом роста 5.59% в год, а суммарный прирост обратного турпотока в 132 % с темпом роста 12.2% в год. Для сохранения тенденции роста краткосрочных посещений с целью туризма, благодаря введению безвизовому режиму, представляется необходимым, чтобы Администрация



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Приморского края выдвинула программу мер на средне и долгосрочную перспективу по исправлению ситуации в следующих областях.

Во-первых, необходимо расширить туристическую инфраструктуру. В настоящее время выбор в гостиничном секторе, как и в секторе средств скоростного транспорта, крайне ограничен и испытывает заметный недостаток. Необходимо расширить выбор места временного проживания в зависимости от цели поездки или финансовых возможностей туриста за счет строительства разнообразных гостиничных комплексов и подготовки достаточного количества квалифицированного персонала.

Во-вторых, необходимо обеспечить уровень вводимых мер безопасности, способный устранить любые сомнения в данной сфере у туристов из Кореи. Большой оптимизм здесь внушает организация в Приморском крае в январе этого года встречи российских и корейских специалистов по безопасности, однако необходимо в кратчайшие сроки решить вопрос с обеспечением специальной телефонной связи для корейских туристов и введением системы туристической полиции.

В третьих, необходимо разработать ассортимент разнообразных туристических продуктов, ориентированных на гостей из Республики Корея. Приморский край имеет особое значение для корейцев, как с точки зрения истории, так и с точки зрения культуры, поэтому помимо демонстрации природных ландшафтов, требуется создать историко-культурную программу, представляющую информацию о борьбе за независимость корейского народа и землях, населенных корейцами на территории Приморья.

В-четвертых, требуется создание дополнительных факторов, способных поднять уровень удовлетворенности от краткосрочного пребывания в России, то есть расширить сеть таких объектов, как: центры розничной торговли, развлекательные заведения, спортивные сооружения и рестораны для гурманов. Приморский край до сих пор не имеет достаточно разнообразных магазинных, развлекательных, спортивных и ресторанных комплексов, то есть, выбор у туристов, приезжающих с деловыми целями в край, и желающих приятно провести свой досуг, крайне не велик. Необходимо обратить внимание на тот факт, что причиной высокого уровня неоднократной посещаемости Кореи туристами из России как раз и является наличие в Республике вышеперечисленных заведений для приятного времяпровождения, вне зависимости от первоначальной цели их поездки.

## 2. Потенциал и стратегия развития для кластеризации Южного Приморья

Экономический рост Южной Кореи можно рассматривать как сочетание стратегий развития производства и кластеризации между производствами.

Пятилетний план экономического развития, начавшийся в 1962 году, основан на политике развития производства, а стратегия развития на основе ключевой точки является господствующей концепцией плана комплексной разработки земли с 1972 года. Пятилетний план экономического развития был сосредоточен на обеспечении инфраструктуры производства в том числе объектов первичной мощности, 2-й пятилетний план экономического развития (1967-71) был направлен на улучшение производства в области химии, сталелитейной промышленности, машиностроения. Цели 3-его пятилетнего плана экономического развития (1972-76) заключались в развитии тяжелой и химической промышленности. В 4-ом пятилетнем плане экономического развития (1977-81) подчеркивалась справедливость. Речь шла о создании системы социальной справедливости через сбалансированное региональное развитие. В то время был выполнен 1-ый план комплексной разработки земли (1972-81), сбалансированное региональное развитие страны на основе стратегии развития за счет ключевых точек. Пятилетний план экономического развития был переименован на пятилетний план экономического и социального развития (1982-86).

Приморский край в настоящее время осуществляет программу социально-экономического развития края (2013-2017), стремясь содействовать равенству развития тяжелой и химической промышленности и социального развития. Кроме того, этот период соответствует времени 1-го плана комплексной разработки земли в Корее, в ходе которого правительство продвигало стратегию развития на основе ключевой точки. Конечно, они отличаются по экономическим масштабам и социальной ситуации, с точки зрения стратегии можно сказать, ситуация похожа, так как требовалось сбалансированное региональное развитие через кластеризацию производства в отдельном регионе. Можно сказать, что в некоторой мере модель экономического развития Южной Кореи остается значимой.

Поскольку Южное Приморье классифицировано как промышленный район и в нем сосредоточена большая часть населения Приморского края, регион может выступать в качестве центра экономического роста на основе стратегии кластеризации, которая сможет превратить производственную базу и первичную промышленность в производственный сектор. В этом

исследовании, были рассмотрены потенциалы кластеризации и стратегия развития, особое внимание уделено городу Находка, как сильной производственной базе, Владивостоку, как точке туризма и сферы обслуживания, Уссурийску, как базе сельскохозяйственного производства, точки активного товарооборота с Китаем и Северной Кореей. Кроме того, корейская практика и опыт аналогичных 4 отдельных точек, могут стать полезными в деле активизации ключевых точек развития кластеризации.

## 2.1 Логистика бухты Троица и Зона свободной торговли и промышленной кластеризации.

Морские порты Зарубино и Посыет расположены в акватории бухты Троица. В августе 2013 г. вновь открылась железная дорога (75 км) между станциями Хуньчунь в Китае и Махалино в России, в октябре открылась также железная дорога между станциями Раджин в Северной Корее и Хасан в России, в настоящее время залив находится в центре морской и сухопутной логистики. С открытием железной дороги в Троицком заливе стали возможными многостороннее экономическое сотрудничество и обеспечение рабочей силы, за счет небольшой удаленности от Северной Кореи и Китая. Другими словами, можно будет создать крупномасштабный кластер легкой промышленности, используя рабочую силу Северной Кореи и Китая, обеспечить путь экспорта через морскую и сухопутную логистику.

В районах Хасан-Посыет-Зарубино с небольшой численностью населения абсолютно не хватает рабочей силы и не обеспечивается спрос на потребительские товары. В течение длительного времени обсуждались как важные точки сотрудничества между Южной и Северной Кореей и Россией, так и сотрудничество в области энергетики, в том числе и PNG, но сейчас было прервано из-за проблемы с Северной Кореей в настоящее время энергетическая промышленность остается только в нефтехимическом комплексе Находки. Морскому порту Зарубино, как основному порту для экспорта морепродуктов, требуется комплекс легкой промышленности для обработки морепродуктов с высокой добавленной стоимостью, комплексу поможет использование дешевой рабочей силы из Северной Кореи и Китая.

Таким образом, такая стратегия экономического сотрудничества может быть эффективна: сначала может быть достигнуто многостороннее экономическое сотрудничество с Северной Кореей и Китаем, представив вариант комплекса легкой промышленности, а затем можно перейти к дальнейшему экономическому сотрудничеству в секторе энергетики. Если Корейские предприятия малого и среднего бизнеса получают возможность активизировать капиталовложения в этих районах путем создания кластера

легкой промышленности, возможно они будут подходить к кластеру начальной стадии. Кроме того, создание зоны свободной торговли (FreeTradeZone) может привести к активизации инвестирования, освобождению от таможенных пошлин, обеспечению не только свободного производства и экспорта товаров сухопутным и морским путем, но и привлечение транснациональных корпораций.

Свободная торговая зона «Масан» в Южной Корее была создана в соответствии с Законом, от января 1970 г. «О создании зоны свободного экспорта» с целью внесения вклада в экономическое развитие страны и региона (политика поощрения экспорта, увеличение занятости населения и развитие технологий) путем привлечения иностранных инвестиций, является первым корейским инвестиционным проектом для иностранцев и промышленным комплексом, где плотность иностранных инвестиционных компаний самая высокая в Корее. Свободная торговая зона «Масан» была зоной свободного экспорта, ориентированной на производство в период с 1970г. до июля 2000г., но после этого она была расширена и реорганизована в зону свободной торговли с добавлением таких новых функций, как торговля, логистика, товарооборот, обработка информации и обслуживание и т.д. Экономически слаборазвитый район Масан географически удален от Сеула на 500 с лишним км, при помощи свободной торговли, налоговых и таможенных льгот приобрел известность среди зарубежных инвесторов, деятельность которых сыграла роль движущей силы для экономики Кореи в 1970-х и 80-х годах.

В центральных точках портов Зарубино, Посыет и Хасан, объединяемых сухопутно-морской логистикой, иностранцы хотят приобрести возможность инвестирования в промышленные комплексы. Исходя из примера, благодаря созданию зоны свободной торговли, Масан превратился из маргинального района в зону привлечения иностранного капитала и стал Меккой легкой промышленности для зарубежных инвесторов, создание новой зоны в Троицком заливе преобразует его в центр развития экономики России на Дальнем востоке и Приморском крае. Кроме того, дальнейшее развитие логической отрасли и укрепление торговли с высокой добавленной стоимостью в центрах логистики зависит от создания логистической базы путем создания промышленного комплекса на основе портов.

## 2.2 Свободная экономическая зона кластеризации туризма и сферы обслуживания во Владивостоке.

Владивосток с численностью населения 620 тыс. человек, является экономическим, торговым, военным, транспортно-логистическим,

образовательным и научно-культурным центром Дальнего Востока России. Владивосток является конечной точкой Транссибирской железнодорожной магистрали (9,288км), соединяющей Москву с Владивостоком, и он расположен на расстоянии 778км от Хабаровска, 280км от Унги в Северной Корее, 221км от Суйфэньхэ в Китае. Имеет развитые морские маршруты, соединяющие с 5 мировыми океанами и прямое воздушное сообщение между городами Азиатско-Тихоокеанского региона (Инчхон, Пусан, Ниигата, Осака, Харбин, Далянь, Бангкок и т.д.). Владивосток представляет собой краевой центр, где находятся различные государственные органы и учреждения: крупнейшая российская судоходная компания FESCO, большой судостроительный завод, судоремонтный завод, штаб-квартира Тихоокеанского флота, Дальневосточный федеральный университет, Морской государственный университет, Дальневосточный институт рыбного хозяйства, Дальневосточное отделение Академии наук России и т.д.

Владивосток быстро превращается в международный город с момента получения статуса открытого города в январе 1992 года, размер привлеченных иностранных инвестиций в Приморский край составляет 1,2 млрд. долларов по материалам на конец 2011 года, большинство из них поступает в город Владивосток по секторам: гостиницы, транспорт, телекоммуникации, оптовая и розничная торговля, пищевая промышленность и т.д. Это доказывает, что Владивосток имеет сравнительное преимущество в секторах туризма и сферы обслуживания. После заключения Соглашения об отмене визового режима с Республикой Кореей в декабре 2013 года можно прогнозировать будущий резкий рост иностранных инвестиций в коммерческие объекты инфраструктуры туризма, универмаги, гипермаркеты и т.д.

На основе Инчхонской свободной экономической зоны (IFEZ) правительство Республики Корея продвигает стратегию превращения города Инчхон в ключевой экономической центр Северо-Восточной Азии, в августе 2003 г. был принят проект создания СЭЗ Инчхон (IFEZ) с общей площадью 169.5км<sup>2</sup> в Сонгдо, Енджони, CheongnaInternationalCity, включая международный международный аэропорт Инчхон и порт. Был разработан проект, в котором установлен следующий план развития городов: г. Сонгдо - город IT и BT, г. Енджон-город логистики и туризма, г. Чжонра - город финансов и досуга, со сроками реализации проекта с 2003- 2020годах (1 этап: завершен в 2009 году) с плановым населением 643,459 человек. Предоставляются различные стимулы, в том числе налоговые льготы, для поддержки управленческой деятельности иностранных инвестиционных компаний. Свободная зона «Масан» была создана на основе стратегии привлечения иностранных инвестиций в легкую промышленность и производство, а свободная экономическая зона Инчхон была создана на основе стратегии привлечения

иностранных инвестиций для продвижения сферы туризма и обслуживания. Предоставление больших льгот, связанных с оформлением недвижимости до кредита иностранным инвестиционным предприятиям, привлечение кампусов известных университетов и иностранных госпиталей, создание развлекательных комплексов, строительство «умного» города, и обеспечение жилья для иностранцев, могут служить основой для успешной деятельности свободной экономической зоны Инчхон.

В настоящее время самой большой трудностью для развития туризма на острове Русский и в особой экономической зоне является то, что большая часть земли принадлежит Министерству обороны России, для строительства туристических объектов в первую очередь должна решиться проблема передачи права собственности.

Для кластеризации туризма и сферы обслуживания во Владивостоке нужно: во-первых, расширить инфраструктуру туризма гостиницами и местами проживания, обеспечить свободный выезд и въезд иностранных туристов с расширением списка стран, освобождаемых от визового режима. Во-вторых, нужно ускорить создание особой экономической зоны, чтобы обеспечить безопасность инвестиций. В-третьих, передачей права на разработку зоны военного значения российским и иностранным предприятиям можно мотивировать приток инвестиций и обеспечить привлечение дополнительных инвестиций.

### 2.3 Кластеризация промышленности и сельскохозяйственного производства в Уссурийске.

Уссурийск, расположен к северу от Владивостока, является транспортным узлом, через который проходят транссибирская железнодорожная магистраль и Харбинская железная дорога Китая. Уссурийск играет важную сельскохозяйственную роль на фоне богатых водных ресурсов озера Ханка. Республика Корея также активно инвестирует средства в сельское хозяйство в Уссурийском районе за последние 10 лет, количество компаний достигло 50. Тем не менее, из-за плохого инвестиционного климата в настоящее время только 6 компаний занимаются сельскохозяйственным производством в Уссурийске.

В Уссурийске короткий период выращивания сельскохозяйственных культур и высокая цена на удобрения из-за высокой стоимости перевозки из Москвы. Также существует другая проблема отсутствия торговой сети, обеспечение продаж в европейской части России и соседних странах, что становится важным фактором в связи с малочисленностью местного

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потребительского населения. Для вывоза за границу требуется постройка зернового порта, а также необходимы различные таможенные льготы.

Инвестиционные предприятия Кореи требуют применения тарифной квоты на российское зерно от корейского правительства, но корейское правительство сталкивается с трудностью в расширении тарифной квоты из-за проблемы с налоговым поступлением и временным снижением тарифов максимум до 6 месяцев. Тем не менее, в Южной Корее и соседних странах взимается тариф на обработанные пищевые продукты по ставке 4~5%, нужно воспользоваться этим.

В последнее время произошло привлечение китайского промышленного комплекса по производству, если будет создан комплекс по обработке сельскохозяйственного сырья, используя сельскохозяйственный потенциал Уссурийска, ожидаются привлечение инвестиций и рост региональной занятости населения без создания зернового порта или связанной инфраструктуры. Кроме того, если будет обеспечена дешевая рабочая сила из Китая и Северной Кореи, то ожидается создание конкурентоспособного промышленного комплекса по обработке сельскохозяйственного сырья со сниженными производственными затратами.

С 1984 года началось создание агропромышленного комплекса в Корее с целью сбалансированного развития за счет сокращения разрыва между городскими и сельскими районами. Жителям аграрных комплексов предоставляется больше преимуществ: финансовая и техническая поддержка, налоговые льготы. По данным на 2/4 кварталы 2013 года: количество агропромышленных комплексов - 447, площадь - 71,715 тыс. м<sup>2</sup>, доля продажи - 95.3%, численность населения - 6,345, численность сотрудников - 144,977 чел. В последнее время продвигается проект национального продовольственного кластера в Иксане в Республике Корея по продвижению города Иксан в центр глобального продовольственного рынка. Строительные работы по проекту начались в декабре 2013 г., календарный план завершения строительства промышленного комплекса национального продовольственного кластера намечен на декабрь 2015г. Промышленный комплекс национального производственного кластера начнет функционировать после завершения переселения жителей, ожидаемая годовая прибыль до 15 триллионов вон, объемы экспорта до 30 млрд. долларов.

Пример Кореи демонстрирует стремление не только к привлечению инвестиций, но и к развитию перерабатывающей промышленности в сельскохозяйственном секторе. Приморский край, как известно, занимается



производством зерна на обширных сельскохозяйственных угодьях, в последние годы появилась тенденция к развитию животноводства. При условии развития перерабатывающей промышленности в Уссурийском районе на базе огромного потенциала, ожидается развитие самого города Уссурийска. Также наличие достопримечательностей и достоинств местной кухни может способствовать привлечению корейских туристов.

## 2.4 Кластеризация тяжелой химической промышленности в Находке.

Находка, являясь самым крупнейшим портом в Южном Приморье, имеет соответствующие условия для развития тяжелой химической промышленности. Особенно, поддержка центрального правительства находится на высшем уровне по сравнению с другими южными районами в соответствии с политикой развития нефтехимической промышленности. Темпы осуществления проекта очень высоки, так как самая крупная нефтяная компания в России «Роснефть» финансирует в проект собственный капитал. Федеральный интегрированный судостроительный завод также планирует создание комплекса судостроительной промышленности в Большем Камне, стоит ожидать формирование кластера комплексной судостроительной промышленности. Проект по строительству завода СПГ также ведется активно, строительство судостроительного завода на основе СПГ в сочетании с благоприятными условиями порта Находка способствует созданию производства с высокой добавленной стоимостью.

В Находке, являющейся центром развития нефтехимической промышленности, плотно расположены лидирующие нефтехимические и газовые предприятия, имеется достаточное центральное финансирование. Участие иностранных компаний в кластере судостроительной промышленности неопределенно, в частности, существует трудность в управлении. И поэтому на текущий момент стратегией кластеризации в Находке может являться политика развития тяжелой и химической промышленности в сочетании с нефтехимической и судостроительной промышленностью. Судостроительная промышленность может стать прибыльной не на основе трудоемкого блочного завода, а на основе завода СПГ.

Управление города Ульсан при Министерстве строительства продвигало государственный проект по созданию промышленного района Ульсан в Корее в рамках выполнения ключевых задач модернизации страны и развития промышленности 1-го пятилетнего плана экономического развития. После создания промышленного района «производственный центр Ульсан»



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в 1962 году, район преобразовался в национальный тяжелый и химический комплекс с 1975 года после назначения зоной развития промышленных сайтов. Большая часть тяжелых и химических комплексов, как показал пример промышленного района Ульсан, зависит от поддержки федерального правительства. Приморский край также не является исключением, развитие комплекса тяжелой химической промышленности зависит от поддержки федерального правительства.

## 2.5 Предложения по успешной долгосрочной стратегии развития Приморского края.

В этом исследовании произведено деление на 4 кластеризации в промышленной зоне южного округа Приморского края и представлена стратегия по развитию уникальной кластеризации на основе сравнительного преимущества каждого района для создания точек развития, выпавшие из государственной программы экономического развития 2013-2017гг.

Кроме того, представлена стратегия кластеризации Приморского края по отношению к соседним странам, т.е. кластеризацию в сочетании с рабочей силой и логистикой, кластеризацию активизации туризма и сферы обслуживания (повышающийся уровень Владивостока), кластеризацию, превращающую первичную промышленность в обрабатывающую промышленность и кластеризацию тяжелой химической промышленности, проведенную Федеральным правительством. Эти кластеры не входят в стратегию социально-экономического развития Приморского края. Стратегия кластеризации каждого района освещает проблемы с привлечением инвестиций и их решение, планирует устранение препятствий и максимальное обеспечение мотивации для инвестиций.

[Рисунок 3-1] 4 кластера в промышленной зоне южного округа Приморского края.



В целях успешного выполнения программы экономического развития Приморского края 2013-2017гг. при реализации инвестиционных проектов, представленных в окончательном варианте программы социально-экономического развития 2013-2017гг., следует учитывать следующие факторы:

Во-первых, необходимо детальное планирование поиска выбора и концентрации. В результате рассмотрения программы экономического развития Приморского края на 2013-2017 гг., окончательного варианта программы социально-экономического развития 2013-2017 гг. и перечня инвестиционных проектов, развитие каждого района в отдельности оценено довольно сложным для привлечения частного капитала. Возникает необходимость комплексной программы регионального развития путем выбора и локальной концентрации проекта, учитывая сравнительные преимущества геополитического положения региона.

Во-вторых, нужна стратегия кластеризации, включая установление свободной экономической зоны, зоны свободной торговли и агропромышленного комплекса, с целью активизации производства и сферы обслуживания, и создания основы экономического и социального развития. Пример Республики Кореи: развитие производства в 1960-х и 70-х годах, сбалансированное региональное развитие в 1980-х годах, преодоление кризиса 90-х годов на основе экономического и социального фундамента, достижение уровня дохода населения 20 тыс. долларов в 2000-х

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годах. Следует отметить, что в случае Республики Кореи была эффективная стратегия кластеризации, активизации производства и сферы обслуживания в сочетании с привлечением иностранных инвестиций в свободную экономическую зону, зону свободной торговли и агропромышленный комплекс.

В-третьих, необходимо установить двустороннее сотрудничество с федеральным правительством. Структура с участием Федерального правительства облегчит получение поддержки Федерального правительства, а привлечение правительств других стран в проект выгодно в плане долгосрочного развития проекта и укрепления дипломатических отношений, а также для гарантии частных инвестиций. В свете всего вышесказанного можно предложить создание корейско-российской системы управления по продвижению проекта, отделив систему принятия решений через Комиссию по межправительственному сотрудничеству от Исполнительной комиссии. Желательно организовать комиссию по межправительственному сотрудничеству в диапазоне, охватывающем все соответствующие экономические ведомства, поручить председателю правительственного аппарата или заместителю контролировать проект.