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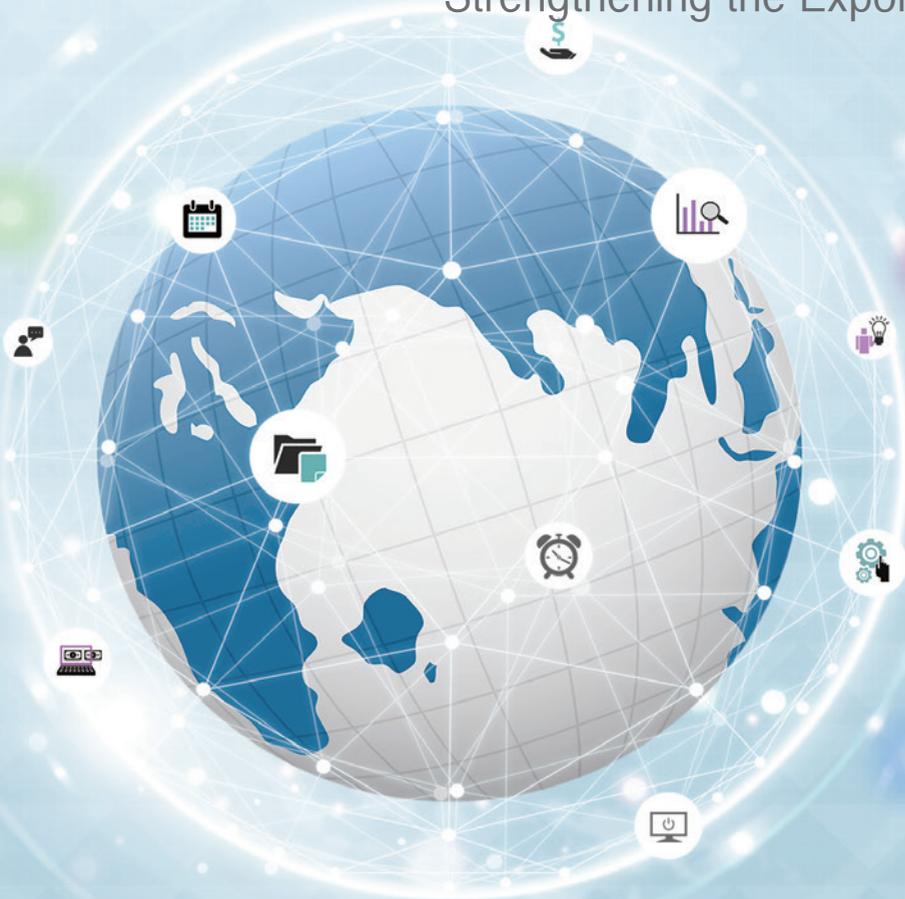
2017 / 18

Knowledge Sharing Program

— — — (Industry & Trade)

with **Khabarovsk Krai**

Policy Recommendation for
Developing Export Potential and
Strengthening the Export Support System of
Khabarovsk Krai





2017/18

Knowledge Sharing Program
(Industry & Trade) with



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Khabarovsk Krai

2017/18 Knowledge Sharing Program (Industry & Trade) with Khabarovsk Krai

Policy Recommendations for Developing the Export Potential and
Strengthening the Export Support System of Khabarovsk Krai

- Overview
- 2017–2018 Knowledge Sharing Programme (KSP) with
Khabarovsk Krai
- Chapter 1. Export Promotion Strategy of Khabarovsk Krai through
Korea's Case
- Chapter 2. Strengthening the Export Capacity of SMEs in
Khabarovsk Krai
- Chapter 3. Capacity Enhancement of the Khabarovsk Export
Support and Development Center



Preface

The Knowledge Sharing Program (KSP) sponsored by the Ministry of Economy and Finance is Korea's representative knowledge-based development cooperation program that supports the economic and social development of our partners and lays the foundation for friendly economic cooperation between our partners and Korea. In response to both local and foreign requests to create a new growth engine in overseas markets by utilizing the KSP strategically not only for policy consultation but also for economic cooperation, the Korea Trade-Investment Promotion Agency (KOTRA) has participated in the KSP since 2014 as its joint general agency. The KOTRA has provided consultation mainly for the promising areas of Korean companies, such as industries, trades, and investments, and helped the KSP to become the foundation of economic cooperation between our partner nations and Korea.

As a general agency of "KSP's policy consultation program for the industry, trade, and investment of 2017/2018," the KOTRA has worked on five KSP tasks, including the Russian Khabarovsk program, focusing on the following two aspects: first, in accordance with its original purpose, the KSP has shared with our partners the knowledge Korea has earned during the economic development process and provided meaningful policy consultation. Rather than unilaterally delivering the knowledge to our partners, we have tried to find out lessons together with them through mutual knowledge sharing and conversation with various participants including high-ranking officials. Second, we enhanced the effectiveness of policy consultation by upgrading the KSP to economic cooperation level, from mere knowledge sharing, and incorporating companies into the program. Specifically, for the Khabarovsk program, one-on-one meetings were held for small and medium-sized businesses of Korea and Russia in accordance with the "Khabarovsk export promotion plan." The economic cooperation that the KSP aims to pursue has been achieved as business participants from both countries meet and talk directly, thereby expanding the opportunities for future exchanges.

Sponsored by the Ministry of Economy and Finance and directed by KOTRA, this report is about the research and policy advisory results for the Khabarovsk state government and Khabarovsk export support center in Russia. As part of an effort to rebuild a country through balanced development among industries and areas, Russia currently facilitates connection with the Asia-Pacific region.

Khabarovsk, a center of the Far Eastern region traditionally, hopes to export products manufactured by its small and medium-sized companies to this region, enhancing the competitiveness of its companies as a result and thus creating a sustainable growth engine for the state. In meeting the needs of the Khabarovsk state government, the following tasks have been conducted under the “Khabarovsk export promotion plan.” In the analysis of the current status of Khabarovsk exports based on product space analysis, Chapter 1 <Export expansion strategy of Khabarovsk> identifies potential export markets and variation of export items. Chapter 2 <To boost the export capacity of small and medium-sized companies in Khabarovsk> presents how small and medium-sized companies in Khabarovsk can increase exports by analyzing the export promotion policies of both the Khabarovsk companies and state government. In the evaluation of the development and experience of Korea’s export promotion agency and local trade promotion agencies and sharing our knowledge for each topic, Chapter 3 <To boost the capacity of Khabarovsk export support center> presents its implications for Khabarovsk export support center and Khabarovsk policies.

We would like to acknowledge and thank all those who devoted themselves to the knowledge sharing of Korean economic development, especially professor Lee Sang-Jun of Kookmin University (principal researcher), professor Kim Deuk-Gap of Yonsei University, professor Lee Yong-Kwon of Hallym University, researcher Park Dong-Hyeong at KOTRA, professor Kim Dong-Su of Korea University (senior advisor of the Khabarovsk KSP), the Khabarovsk Export Support Center, KOTRA Vladivostok trade officials, and local specialists. We would also like to thank all those, including the professional advisory panel, who gave their invaluable advice for this report.

Lastly, this report represents the opinion of the professionals who participated in the program. It does not constitute KOTRA’s official opinion.

November 2018

Executive Vice President for Economic Cooperation & Trade Affairs, KOTRA
JONGCHOON KIM

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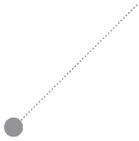
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Overview

Sang Joon Lee (Kookmin University)

Despite Russia's various policies and efforts, its dependence on energy resources is still high. In the 2000s, petroleum and natural gas accounted for one-fifth of the Russian GDP, accounting for 30% of the government's financial revenues and more than 50% of exports.¹⁾ As Russia's dependence on energy resources has increased, the Russian economy has faced a situation of fluctuations due to the high volatility of oil prices in global markets. To overcome the economic crisis, the Russian government has established export promotion policies in cooperation with industrial policies to promote exports in the non-resource sectors.

The Russian government's foreign trade policies focused on limiting the role of the state in the process of introducing free trade and the division of trade functions in the early period of system transformation. The trends of trade policy in the 1990s showed both passive and responsive aspects. Russia accessed the WTO only in 2012 because of the double aspects of trade policy in the 1990s.

From the 1990s to the 2000s, the Russian government gradually introduced foreign products in different sectors, where Russian companies have lost their competitiveness, to improve the welfare of the Russian people and to minimize the bad effects on Russian companies. This policy is based on the fact that it is virtually impossible to export products, except energy and mineral resources, timber, and agricultural and marine goods.

Russia's exports were linked to energy policies that relied on a more stable demand of oil and natural gas. The interest in exporting goods in the non-resource sector has increased

1) Simola, H., Solanko, L., and Korhonen, V. Perspectives on Russia's energy sector, BOFIT Online, February 2013; Kuboniwa, M. Estimating GDP and foreign rents of the oil and gas sector in the USSR then and in Russia now, BOFIT Policy Brief, October 2016.

due to the need to overcome the rapid decline in the export of resources because of price fluctuations in international markets. In addition, after US and EU sanctions, Russia has also introduced counter-sanctions, which has made enhancing the competitiveness of the non-resource sector important.

With the fluctuation of oil prices and the western sanctions in 2014, Russia's industrial policy has focused on the development of import substitution sectors. To succeed in the import substitution policy by considering past failures, it is being promoted as an active measure to allow Russian companies to integrate into the global value chain (GVC) by increasing the export of Russian products.

More precisely, the policy of developing the import substitution industry, which has been started since the mid-2000s, has not received much attention at the time of rising energy prices and has not contributed to lowering the energy dependence of the Russian economy. However, as energy prices are declining, Russia's policy makers are actively pursuing the import substitution policy. As a result, exports in the non-resource sector will provide opportunities for diversifying and upgrading the Russian industry.

Of course, it would be more advantageous to promote the export promotion policy in the non-resource sector in the period of rising energy prices rather than in the period of decline. As oil prices dropped, Russia is having more difficulties in pursuing such a policy because it is experiencing a slowdown in economic growth. Especially since 2014, when western sanctions began and shale gas was actively developed, oil prices declined, and the value of ruble decreased. This has reduced investment into the Russian economy, while capital outflow from Russia has increased significantly. Interest in import substitution policies is becoming important as a means of reducing foreign currency expenditure and securing competitiveness in non-resource industries.

The Russian government is making efforts to develop import substitution in aviation, electronics, and pharmaceuticals, which are highly dependent on imports. To succeed in such a strategy to foster import substitute industries, if the Russian industry operates from the viewpoint of protection trade, such as the Soviet era, it may not be competitive in the global market and may exacerbate the dependence on energy resources again in the long term. Therefore, it is important to support companies in the field of import substitute industry so that they can be competitive in terms of the GVC.

In this context, the Russian Export Center Group was created to provide a one-stop service of related ministries—such as the Ministry of Finance, the Ministry of Economic Development, and the Ministry of Industry and Trade—to promote Russian exports. This is because raising the import substitution ability of Russian companies means not to passively protect the Russian market but to provide competitive products in the global market.

The export support policy of the Russian government aimed at promoting companies with

the export potential of Russia to expand into neighboring foreign markets, thereby enhancing the industrial competitiveness of every region, and to change the economic structure dependent on energy resources.

Russia's Far East development aims to improve the economic conditions in the Far East by exporting Far Eastern products to the Asia–Pacific region. Therefore, companies in the Far East are encouraging their local products and products to be exported to Asia–Pacific markets. In particular, for the Russian government, exporting products other than energy resources to the Asia–Pacific region is more important because the export performance of small– and medium–sized enterprises (SMEs) in the Far East contributes more directly to the activation of the Far Eastern economy.

Khabarovsk is also hoping to export more of its products to the Asia–Pacific region, thereby enhancing the competitiveness of regional companies and creating a sustainable growth engine for the region. The GRDP (2015) of Khabarovsk Krai is RUR 571 billion (about USD 10.2 billion), the average GRDP per capita (2015) is RUR 427,700 (about USD 7,600), and the average monthly wage of workers (2016) is RUR 41,401 (about USD 740). The volume of foreign trade in Khabarovsk (2016) is USD 1.96 billion (22.2% increase from the previous year), and the ratio of trade to GRDP is 19.2% (USD 1.96 billion / USD 10.2 billion), which is much lower than the overall ratio of Russia, that is, 36.9% (USD 473.9 billion / USD 1,284 billion). Therefore, to increase the ratio of export, Khabarovsk has established the Export Support and Development Center of Khabarovsk Krai (hereinafter referred to as the “Khabarovsk Export Support Center”) to strengthen the export capability of SMEs in the region and to provide policy support.

Korea's development experience, which has successfully supported industrialization and promoted foreign trade at the same time, will help establish the export promotion policy of SMEs in non–resource sectors and strengthen the capacity of the export promotion organization supported by the Khabarovsk government. Sharing Korea's experiences will be a great opportunity not only for the successful development of the Russian Far East but also for Khabarovsk SMEs' entry into the Asia–Pacific market including Korea.

The topics of the Khabarovsk KSP project in 2017/18 are “analysis of the export potential and export market of Khabarovsk Krai,” “strengthening the export ability of SMEs in Khabarovsk,” and “strengthening the capacity of the Khabarovsk Export Support and Development Center.” It is possible to present realistic practical development plans considering the natural, environmental, and socioeconomic conditions of Khabarovsk Krai.

The KSP project with Khabarovsk Krai, which is the political, administrative, educational, and cultural center of the Russian Far East, will provide a mechanism for strengthening the economic cooperation between Russia and Korea.

2017–2018 Knowledge Sharing Programme (KSP) with Khabarovsk Krai

1. Background

The Knowledge Sharing Program (KSP) organized by the Ministry of Strategy and Finance, which is a comprehensive consulting project that includes policy researches, counseling meetings, and workshops for strategic economic cooperation countries, was launched not only to share the experiences of Korea's industrial and economic development with partner countries but also to support their economic and social development. Moreover, KSP aims to contribute to cooperation countries' sustainable growth by fully utilizing Korea's past experiences in terms of trade and export; provide policy consultations on promising industries, investment, and trade; and seek the possibility of linkages with following industries. Currently, the Korea Trade and Investment Agency (KOTRA) takes charges in the Industry, Trade, and Investment KSP, and has implemented the project in cooperation with the government of Khabarovsk Krai and the Khabarovsk Export Promotion Center.

The Russian Federation government has constantly implemented Far East development plans to foster a balanced development of their territory, and also pays ceaseless efforts to empower institutions and implement policies in both the federal and provincial government levels. Recently, the Russian Federation endeavors to strengthen linkages with Asia–Pacific countries for their innovation based on the principle of balanced industrial and regional development, and as a part of the plan, Russia has organized and held a considerable number of events such as “Vladivostok APEC” (2010), the “2025 Social and Economic Development Strategy for Far East and Vikal Regions” (2013), and the “Far East Economy Forum” (September 2015, 2016, and 2017).

Traditionally, Khabarovsk Krai has played a pivotal role in the Far East region, which has core organizations. With these political and military strategic significance, the Khabarovsk government expects to enhance local SMEs' competitiveness by promoting their exports to the Asia–Pacific region and, therefore, to create a sustainable growth engine for them.

According to the result of the demand survey based on the main purpose of “seeking a solution for promoting the exports of Russian SMEs by sharing Korea’s past experiences for export promotion,” the subtopics of KSP in 2017/18 were adopted as follows: 1) Export Promotion Strategy of Khabarovsk Krai through Korea’s Case; 2) Strengthening the Export Capacity of SMEs in Khabarovsk Krai; and 3) Capacity Enhancement of Khabarovsk Export Support and Development. Every policy consultation and capacity workshop related to the program has been implemented with the directions mentioned above.

2. Progress Status of Russia’s Khabarovsk Krai KSP

2.1. Kickoff Meeting (July 20, 2017)

The researchers in this project were selected among university professors and KOTRA experts considering their expertise and practical experiences in the field of international cooperation and the region, as shown in Table 1.

[Table 1] Korean research team for the Russia Khabarovsk KSP and their responsibilities

	Role and Assigned Research Topics	Name	Position
Advisor	Senior Advisor	KIM Dong Soo	Chair Professor, Korea University
PI	Principle Investigator	LEE Sang Joon	Professor, Kookmin University
Researchers	Export Promotion Strategy of Khabarovsk Krai through Korea’s Case	KIM Deuk Kab	Professor, Yonsei University
	Strengthening the Export Capacity of SMEs in Khabarovsk Krai	LEE Yong Kwon	Professor, Hallym University
	Capacity Enhancement of Khabarovsk Export Support and Development	PARK Dong Hyung	Researcher, KOTRA Development Cooperation Office
	Research Assistant	PARK Seul Gi	Research Assistant, Hankuk University of Foreign Studies

2.2. Kickoff Seminar and 1st Pilot Study (August 6–11, 2017)

In August 2017, the research team conducted a demand survey and the 1st pilot study along with the kickoff seminar of the 2017–2018 Khabarovsk KSP. The researchers identified the demands of the Khabarovsk government and the Khabarovsk Export Promotion Center, defined the range of the research through a discussion meeting, and confirmed the following subtopics by grasping the current status and problems of exports in Khabarovsk SMEs through the 1st pilot study:

[Table 2] 2017/18 Russia Khabarovsk Krai KSP Demand Survey and assigned research topics

	Original	Revised
Subtopic 1	Strengthening the International Competitiveness of Khabarovsk Local Products	Export Promotion Strategy of Khabarovsk Krai through Korea's Case
Subtopic 2	Strategy for Promoting SMEs and Strengthening Export Competitiveness	Strengthening the Export Capacity of SMEs in Khabarovsk Krai
Subtopic 3	Sharing the Best Practices of KOTRA and the Mid- to Long-Term Development Strategy of the Export Support and Development Center of Khabarovsk Krai	Capacity Enhancement of Khabarovsk Export Support and Development

2.3. 2nd Pilot Study and Local Seminars (October 11–14, 2017)

In October 2017, the KSP research team conducted an additional field survey and field study with regard to the research direction and subtopics through the 2nd pilot study. Researchers attended “Far Eastern Business Forum” sessions with the following topics as requested by the Khabarovsk government:

- 1) “Export Promotion Strategy of Khabarovsk Krai through Korea's Case” Forum Session: Professor Deuk Kab Kim
- 2) “Strengthening the Export Capacity of SMEs in Khabarovsk Krai” Presentation: Professor Yong Kwon Lee
- 3) “Capacity Enhancement of Khabarovsk Export Support and Development” Master Class: Professor Sang Joon Lee and Dong Hyung Park

Moreover, the research team could acquire several significant information and materials in terms of the expanding feature of export markets and the capacity building of Khabarovsk SMEs by conducting interviews and FGI research with local companies in Khabarovsk. According to the survey, problems in logistics and transportation were pointed as the most serious issues to be supported by both the Khabarovsk government and the federal

government. Through this opportunity, Ivan Sukhanov—the head of the Export Support and Development Center of Khabarovsk Krai—and Ruslan Gulidov—the first deputy director of the Federal Autonomous Scientific Institution, “Eastern State Planning Center”—were appointed as local experts of the KSP for efficient collaboration research.

2.4. PCP Assessment Meeting (October 27, 2017)

KSP researchers conducted an evaluation of the Project Concept Paper (PCP) with external advisors. Through the meeting, opinions were drawn to be complemented and revised (Table 3). The results were then reflected in the research paper.

[Table 3] Examination opinions on the 2017/18 Russia Khabarovsk KSP PCP Assessment Meeting

Criteria	Examination Opinions
<ul style="list-style-type: none"> - Was the plan properly established in accordance with the purpose and expected impact of the research? 	<ul style="list-style-type: none"> - Overall, adequate research direction and plans have been established. - It seems that the research aims to present feasible alternatives that focus on short-term solutions; however, the term "short-term" should be clearly defined. Action plans need to be chronologically presented in accordance with the order of cases or annual order. - Moreover, it is questionable whether export promotion strategy in the short term can be effective. Therefore, detailed action plans in both the short term and long term have to be conceptually and comprehensively illustrated; hereafter, short-term solutions can be considered.
<ul style="list-style-type: none"> - Was the methodology adequately applied? - Was the table of contents adequately designed? 	<ul style="list-style-type: none"> - In terms of the table of contents, illustrating the part of the Supporting System between SMEs-TPO and Methodology for Their Capacity Building in the front can be thought as a better option rather than locating the part of Selecting Promising Markets and Products. - The methodology of conducting in-depth interviews with significant companies by each industrial sector and presenting export promotion strategies by categorizing products as follows can be considered: 1) products that have a relatively high competitiveness but experience difficulties in export due to insufficient market information; 2) products that need quality improvement through technological innovation; 3) products that need improvement in reliability through the Quality Warranty Certification; and 4) products that need an export collaboration with conglomerates. - To enhance export, an analysis of the aspects of Khabarovsk Krai is necessary. However, to draw a better strategy, a more comprehensive analysis should be conducted considering the market demand and competitors in the Asia-Pacific sector.

[Table 3] Continued

Criteria	Examination Opinions
<ul style="list-style-type: none"> - Was sufficient pre-inspection executed? - Was the cooperation countries' demand sufficiently reflected? 	<ul style="list-style-type: none"> - Research plans regarding data collection in the product manufacture process and the status of foreign SMEs need to be included. - The necessity of this research has been fully accepted by the partner country; therefore, the research aims and subtopics are also properly composed. - However, PCP and the task performance plan include only limited explanations on the current status of Khabarovsk Krai.
<ul style="list-style-type: none"> - Was the PCP index properly implemented? 	<ul style="list-style-type: none"> - A more detailed explanation in terms of data source has to be presented. Defining data sources necessary for drawing an output/outcome in advance can be helpful for effective program management and implication, and can also contribute to the enhancement of the quality of the report. - The part of identifying risks is adequately illustrated; however, preventive actions have to be devised along with. For instance, if any challenges on planning/implementing the individual provincial level of the export strengthening strategy are expected due to the plans executed by the federal government, related alternatives—for example, analyzing the federal governments' plans in advance and including it in the conclusion part—have to be considered.
<ul style="list-style-type: none"> - Does the research have sufficient feasibility on the cooperation countries' policies and also contribute to socioeconomic development? 	<ul style="list-style-type: none"> - It is expected that the research can make a contribution to the economic development of Khabarovsk Krai by strengthening export competitiveness and creating an engine for sustainable economic development. - Moreover, it is prospected that the research can contribute to maintain safety between Korea and the Russia Federation by improving relations and fostering economic cooperation. - This research can support the social-economic development in this region.
<p>Others</p>	<ul style="list-style-type: none"> - As an analysis of the research is only focusing on existing export products, the part of discovering new promising products is limited. On this context, a comparison research with products manufactured in neighboring regions is highly recommended. - Furthermore, the import market analysis of China and Japan have to be necessarily conducted, focusing on promising industries that have a relatively high relationship with existing industries.

2.5. 2nd Pilot Study

The research team first complemented the report based on the comments given in the previous sessions of inspection meeting and interim reporting seminar. To further improve the report, the research team visited India for the 2nd pilot study, where they interviewed local practitioners and experts, and collected relevant materials. In this respect, the research team visited on January 23-27, 2018.

Specifically, the research team presented each topic of the Russia KSP, and visited and interviewed related practitioners and local companies to collect data and useful information as well as improve the policy directions and suggestions of the research. During this meeting, the Korean side received very positive feedback and the suggestion of an MOU between the Russia Far East Investment and Export Agency and KOTRA.

[Table 4] Implementation of the 2nd Pilot Study

Details	
Date	January 23-27, 2018
Venue	Moscow, Russia
Meetings	<ul style="list-style-type: none"> • Visited the Russian Export Center (REC): Presented the research progress and key results; interviewed related officers and practitioners • Visited the Russia Far East Investment and Export Agency, and interviewed related officers and practitioners • Visited a Korean company in Moscow (law firm, Ji-Pyung): Interviewed related practitioners including Attorney Seung Min Lee • Visited the Agency for Strategic Initiatives, and interviewed related officers and practitioners • Visited REC, and conducted an additional meeting with related officers and practitioners

2.6. Interim Reporting Seminar and Russia's Site Visits in Korea (March 20–23, 2018)

Khabarovsk government officers and enterprisers were invited to Korea and attended the interim reporting seminar held in Seoul, Korea, on March 21, 2018. In the seminar, Korean research team members presented the research results and particularly highlighted the progress since the kickoff meeting. The Russian officers shared the research results with the Korean research team and also provided their useful comments on the project and the research. Both sides also discussed the future schedule of the research project and key issues on promoting exports in Khabarovsk with Korea's success cases. Russian delegations also visited related Korean government departments and private companies. Such visits provided Russians a good opportunity to acquire basic knowledge.

2.7. Senior Policy Dialog & Final Reporting Workshop (June 11–13, 2018)

In the final reporting workshop, the researchers presented the final results of the study on the three subtopics to the high-level governors of Khabarovsk and provided useful policy suggestions to Russian policy makers. The final reporting seminar was held in relation to Russia's International Business Day, and was attended by more than nine government officers and practitioners including Minister Victor Dmitrievich Kalashnikov.

On the other hand, the Russian side showed great interest especially in SMEs that support the system of Korea such as the certified trading company (CTC) and global market developer (GMD), and expressed their satisfaction in the KSP.

2017/18 Knowledge Sharing Program
(Industry & Trade) with Khabarovsk Krai

Chapter 1

Export Promotion Strategy of Khabarovsk Krai through Korea's Case

1. Current Status of Khabarovsk Exports
2. Lessons from Korea's Export Promotion Policy
3. Suggestions for Export Promotion in Khabarovsk Krai

Export Promotion Strategy of Khabarovsk Krai through Korea's Case

Kim Deuk Kab (Yonsei University)

1. Current Status of Khabarovsk Exports

1.1. Export Overview

Russia is a major producer of crude oil and natural gas, and is the largest exporter of mineral resources such as steel and aluminum. The Russian economy is heavily dependent on raw material exports and is vulnerable to changes in global resource prices. It grew at a CAGR of 7% between 1998 and 2008 when international oil prices skyrocketed. However, the Russian economy has fallen by around 3% in 2015 due to the combination of fluctuating oil prices, western economic sanctions, and structural problems. In 2016, the growth rate of the Russian economy was -0.2%.

Russia was the 8th largest exporter in 2012 when exports of crude oil and natural gas were strong. However, exports dropped sharply due to the declining resource prices and the staggering global economic growth, resulting in a 16th decline in 2016. The export statistics for 2017 show that exports in Russia have improved from the slump of the past three years due to the stabilization of resource prices and the growth of demand in Europe, which is the largest export market (export growth rate of 25.1% in dollar terms in 2017). As a result, the Russian economy could grow by 1.5% in 2017 despite the economic sanctions of Western countries. For reference, the external dependence (imports and exports / GDP) of the Russian economy in 2016 was 36.5%, and exports accounted for 22.2% of the Russian economy.

The export trend of Khabarovsk Krai, which is located in the Far East of Russia, is similar to that of Russia. Exports in Khabarovsk Krai suffered a severe deterioration in 2015 but recovered from 2016, showing a 38.4% increase over the same period last year.

[Table 1-1] Exports of Russia and Khabarovsk Krai (2012-2017)

(Unit: USD million, %)						
	2012	2013	2014	2015	2016	2017
Russian Federal	524,766 (+1.5)	527,266 (+0.5)	497,834 (-5.6)	343,908 (-30.9)	285,491 (-17.0)	357,083 (+25.1)
Khabarovsk Krai	1,552 (-5.9)	1,504 (-3.1)	1,438 (-4.4)	1,143 (-20.4)	1,546 (+35.1)	2,138 (+38.4)

Note: () indicates a year-on-year increase rate.

Source: ITC, Russian Far East Federal District Customs Service.

However, the export volume of Khabarovsk Krai is very small. Looking at the Russian exports by federal districts, the gap between the East and West regions is very big (Table 1-2). As of 2016, the exports of the Central Federal District, including Moscow city, accounted for 48.1% of Russian exports, while the exports of the Far Eastern federal district accounted for only 6.5%. In particular, the exports of Khabarovsk Krai are very small, accounting for 0.5% of Russia's total exports.

[Table 1-2] Exports by region of the Russian Federation (2016)

(Unit: USD million, %)				
Federal District and State	Non-CIS Countries	CIS Countries	Amount	Share
All	247,944	37,730	285,674	100.0
Central Federal District	119,140	18,149	137,289	48.1
Moscow city	106,463	11,918	118,381	41.4
Northwest Federal District	28,354	3,501	31,855	11.2
Southern Federal District	10,684	2,113	12,796	4.5
Volga Federal District	24,543	6,923	31,466	11.0
Ural Federal District	23,600	3,305	26,905	9.4
Khanty-Mansi Autonomous Region	11,210	739	11,949	4.2
Siberian Federal District	22,594	3,092	25,686	9.0
Far Eastern Federal District	18,368	273	18,640	6.5
Khabarovsk Krai	1,543	3	1,546	0.5
Northern Caucasus Federal District	633	349	982	0.3
Crimean Federal District	28	25	54	0.0

Source: Statistics Bureau of the Russian Federation.

As mentioned above, Russia's exports depend heavily on raw material exports, where

mineral resources account for more than 60% of the total exports. The product structure of Khabarovsk Krai is similar to that of the Russian Federation, and most export items are composed of primary products such as resource-related goods and raw materials. What is unusual, however, is that exports of machinery and transportation equipment have significantly increased since 2016. As of 2017, export items (two-digit HS code) consist of machinery and transportation equipment (36.2%), wood, pulp and paper (28.8%), mineral products (15.8%), and food and agricultural products. In 2016, wood and pulp and paper accounted for 28.9%; machinery and transportation equipment, for 19.4%; food and agricultural products, for 14.5%; and mineral products, for 12.4%. Until the mid-2000s, 40% of Khabarovsk's exports were made up of mineral products such as crude oil and natural gas. Since then, exports of other products, such as airplanes, have increased, and the share of mineral products in the total exports has decreased to 10%.

[Table 1-3] Export items of Khabarovsk Krai (2017)

(Unit: USD thousand, %)					
HS Code		CIS Countries	Non-CIS Countries	Amount	Share
	Total	3,301	2,135,357	2,138,657	100.0
01-24	Food and agricultural products	326	257,035	257,361	12.0
25-27	Mineral products		338,088	338,088	15.8
28-40	Chemicals and rubber	1,278	2,743	4,021	0.2
41-43	Leather and fur	22	159	181	0.0
44-49	Wood and pulp and paper	0	615,587	615,587	28.8
50-67	Textile products and shoes	315	8	323	0.0
72-83	Metal products	491	67,060	67,551	3.2
84-90	Machinery and transportation equipment	741	773,355	774,096	36.2
68-71 and 91-97	Others	128	81,322	81,450	3.8

Source: Russian Far East Federal District Customs Service.

Exports that show strong growth in Khabarovsk Krai aside from mineral products are as follows.

Exports of machinery and transportation equipment have been decisive for the recent 30% increase in Khabarovsk export for the second consecutive year. The reason for the surge in exports of machinery and transportation equipment is the increase in aircraft exports to China. Excluding aircraft exports, the export growth rate in Khabarovsk Krai will

drop sharply to 9.7% in 2016 and to 11.6% in 2017.

Second, exports of wood and processed wood increased significantly. 90% of logs produced in Khabarovsk Krai are exported through the Suifenhe city of Heilongjiang province in China. There are more than 300 furniture companies in Suifenhe, China, and they naturally developed into export–specialized areas. Chopsticks are made in the city of Khabarovsk and sent to the city of Suifenhe, where the processing companies re–export them to Japan and other regions based on their low labor costs. The processed wood is known to be exported to Korea and Japan. Japanese companies process coniferous trees only in the north of Khabarovsk Krai and export them through the Taniyama Port in Japan. Japan has developed specialized technologies to make plywood by synthesizing natural softwoods in Malaysia and Southeast Asia. In the northern region (Khabarovsk), the intensity of wood is high, while in the southern region (Southeast Asia), it is weak; these two types of wood are mixed to make plywood.

Third, in the case of aquatic products, such as frozen pollack, the products of Khabarovsk Krai suit well the preferences of Koreans and are exported to Korea through the Busan Port. Korean fishermen are re–exported to Vietnam, China, and Japan after categorizing Russian marine products at Sadahan Port.

Fourth, steel and scrap metal are also major export items. Steel products produced at Amurmetall’s only factory in the Far East are exported to Taiwan and Korea, and are mainly exported to POSCO in Korea. The company exports semi–finished steel products to Taiwan and Korea, and exports steel scrap to Korea, Taiwan, and Southeast Asia. Recently, the owners of Amurmetall have changed and announced that they will rearrange their technical work, which is expected to increase exports of semifinished products, scrap metal, and processed products in the future.

Let us look at the export markets of the Russian Federation and Khabarovsk Krai. In the Russian Federation’s exports, Europe and the Asia–Pacific region (APEC) account for more than 70% of the total exports. According to the statistics for 2017, 28 EU countries accounted for 47.2% of the total exports in Russia, and APEC countries account for 24.6%. In the case of Russian exports, the share of EU did not differ significantly from 47.9% in 2007 to 47.2% in 2017, while that of APEC increased from 11.5% to 24.6% in the same period. This means that the center of gravity of Russian exports is gradually shifting to the Far East including China and Korea. In particular, China, Korea, and Japan accounted for 17.3% of the total exports in 2017.

[Table 1-4] Major export markets in Russia

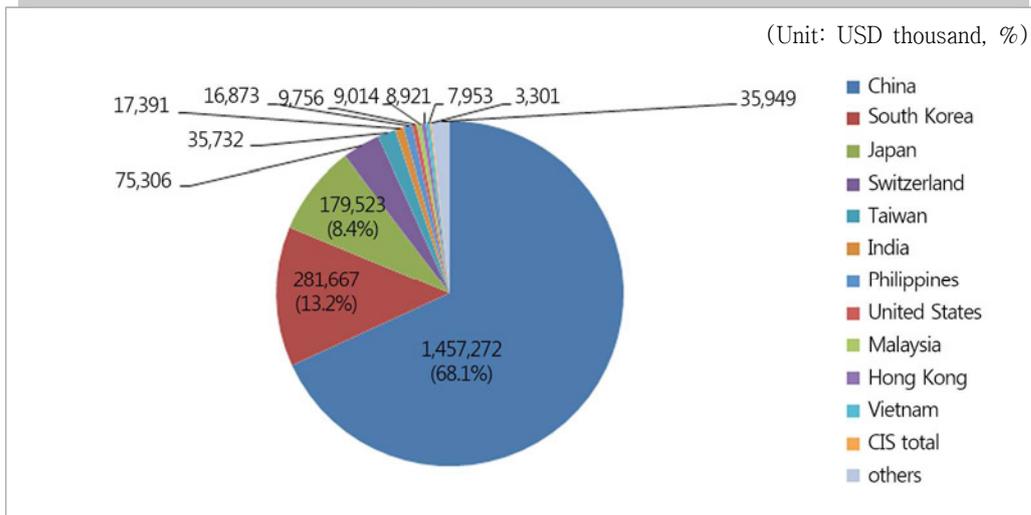
(Unit: USD million, %)

2007			2017		
Countries	Amount	Share	Countries	Amount	Share
World	352,266	100.0	World	357,083	100.0
EU 28	168,737	47.9	EU 28	78,120	47.2
APEC	40,631	11.5	APEC	40,743	24.6
China	15,167	4.3	China	38,922	10.9
Japan	11,785	3.3	Korea	6,259	3.5
Korea	6,222	1.8	Japan	4,840	2.9

Source: International Trade Center (ITC) Statistics.

Europe is the largest export market in Russia's total exports. However, as shown in Figure 1-1, China, Korea, and Japan account for 90% of the exports of Khabarovsk in 2017. In particular, China's share of total exports in Khabarovsk Krai surged from 49.3% in 2013 to 58.2% in 2016 and 68.1% in 2017, thanks to the rapid increase in exports to China. On the other hand, the shares of Korea and Japan are still declining. (See Table 1-5.)

[Figure 1-1] Major export markets in Khabarovsk Krai (2017)



Note: () indicates the share of each country in the total exports of Khabarovsk Krai.

Source: Russian Customs Service and Russian Far East Customs Service.

[Table 1–5] Major export market trends in Khabarovsk Krai

(Unit: USD million, %)

2013			2015			2016			2017		
Total	1,503.6	100.0	Total	1,142.2	100.0	Total	1,545.8	100.0	Total	2,138.7	100.0
China	741.4	49.3	China	531.5	46.5	China	899.9	58.2	China	1,457.3	68.1
Korea	383.3	25.5	Korea	257.0	22.5	Korea	275.6	17.8	Korea	281.7	13.2
Japan	161.4	10.7	Japan	114.3	10.0	Japan	90.1	5.8	Japan	179.5	8.4

Source: Russian Far East Federal District Customs Service.

The major export markets of export items in Khabarovsk Krai are as follows.

In the case of aircraft, high-tech products represent Khabarovsk Krai, with exports concentrated in China. Due to the nature of the industry, aircraft exports have been subject to severe ups and downs. In the meantime, the aircraft produced in Khabarovsk Krai were not caught by export data because they were classified as export products in other regions during the export process. For example, the Komsomolsk-on-Amur Aircraft Plant (KnAAZ) in Khabarovsk Krai has produced and exported 36 Sukhoi Superjet 100 aircraft. However, only one of the total in 2011 was counted as an export of Khabarovsk Krai. The rest were all exported from other regions of the Russian Federation. In the case of large corporations, there are many branches all over Russia, so even if they are exported from Khabarovsk Krai, export customs vary depending on which customs clearance is made.

In the case of wood, China is the largest export market, accounting for 80%, followed by Japan, which is the second largest export market. Looking at the items in detail, there is a difference between the demand for wood in the rough in China and the demand for sheet for veneering in Japan.

For mineral products, such as crude oil and natural gas, Korea, China, and Japan are the three major import markets. The difference is that Korea and China import bituminous coal, while Japan imports light oil.

In the case of fisheries, Korea and China account for more than 90% of the total export market. Both countries are mainly importing frozen pollack and crab meat from Khabarovsk Krai. Korea is the largest importer of black metals and imports more than USD 30 million worth of used nonferrous metal from Khabarovsk Krai annually.

In the case of agricultural products, Japan and China are the largest import markets for Khabarovsk Krai. Japan imports mainly wheat and corn, while China imports mainly dairy products, fresh vegetables, and fruits because of its geographical proximity.

So far, we have examined the export structure of Khabarovsk Krai. To summarize briefly, first, the export of Khabarovsk Krai is small and its industrial structure is simple,

so export products are few and lack in diversity. Most exports, excluding aircraft, are composed of resource-related products, raw materials, and simple processed goods. Second, both Russia and Khabarovsk Krai are dependent on low-value-added resource exports such as crude oil, natural gas, and raw materials. Third, the manufacture of Russia and Khabarovsk is not part of the GVC, so the proportion of intra-industry trade (IIT) is low. As a result, exports of industrial products, excluding raw materials, are volatile, and it is difficult to expect a continued expansion of exports. Fourth, it is difficult to expand the stable export of aircraft, which is a typical high-tech item in Khabarovsk Krai, because of the nature of the ordering industry. Fifth, in terms of export markets, Khabarovsk Krai is highly dependent on exports to China, Korea, and Japan, especially China. As a result, Khabarovsk Krai is exposed to the pressure of price cuts by Chinese importers, and the export product structure faces a problem in which the export profitability deteriorates due to the high proportion of raw materials with low added value. Sixth, the export of Khabarovsk Krai is just in its early stage. Considering that the Russian Federation and Khabarovsk Krai have not yet made a full-fledged effort to promote exports, we believe that there is room for expansion in exports depending on future policies.

1.2. SWOT Analysis of the Khabarovsk Economy

In 2009, the Khabarovsk government presented the “2025 socioeconomic development strategy” and pursued its growth strategy based on export expansion. To diagnose the success of this growth strategy and explore its future direction, we will examine the situation of the Khabarovsk economy through SWOT analysis.

The first strength of Khabarovsk Krai is that it is close to the dynamically developing Asia-Pacific region, and has rich and abundant natural resources. Khabarovsk Krai has vast land, rivers, and forests, and a wide variety of natural resources. The length of the entire river in Khabarovsk Krai is 584,000 km. In addition, Khabarovsk Krai is famous for its abundance of forest resources, such as timber, in both Russia and the Far East. The total area of Khabarovsk Krai is 788,600 km² (3.5 times of the Korean Peninsula), with 6,655 km² of agricultural lands and 525,000 km² of forests. Even the annual deforested forests reach 25.1 million m³. Khabarovsk is rich in mineral resources such as gold (10% of Russia), platinum (25% of Russia), copper (50%), tin (20%), and coal (8%). In addition, Khabarovsk is a hub for transit and logistics networks for trans-Eurasia transits, such as TSR and the Baikal-Amur Railway, and has the potential to grow into a Eurasia-Asia-Pacific logistics hub in the future. In addition, if transportation infrastructures are improved due to its excellent natural environment, Khabarovsk Krai can expect a rapid growth in services such as tourism and medical services.

The second strength of Khabarovsk Krai is that it has a strong manufacturing base, such

as aircraft manufacture and shipbuilding, compared to other regions in the Far East. Although it may be a long-term task, if the manufacturing industry that has been dependent on the domestic market so far can be exported and incorporated into the GVC through global industrial cooperation, it is expected that the IIT will contribute to the expansion of exports.

The third strength of Khabarovsk Krai is that the Russian Federation and Khabarovsk Krai have a strong will to grow through export expansion. Russian President Vladimir Putin has set up economic development in the Far East as an axis of Russia's growth strategy and is actively pursuing economic development. Researchers at the KSP project initially questioned whether the commitment of the Russian central government and the Khabarovsk government to export support would weaken. Russia is trying to overcome crisis through exports as the economic sanctions of the United States and EU continue, and economic difficulties become worse because the value of resources, such as crude oil and natural gas as well as rubles, decline. However, there was doubt whether the will to expand exports and the desperation would weaken once the adverse situation improved. Regarding these concerns, government officials and local businessmen said that they did not have to worry about the weakening of the Russian government's export promotion policy.

On the other hand, the weaknesses of the Khabarovsk economy are, first, the domestic market is extremely small, with a population of 1.3 million. According to the 2010 demographics, the city of Khabarovsk, with the largest population in Khabarovsk Krai, has 577,000 people, and the population of Komsomolsk-on-Amur is only 264,000. In addition, the socioeconomic situation in Khabarovsk Krai is not so high compared to other regions because of the delayed industrial diversification policy and the lack of economic growth projects. The region's GDP is estimated at RUR 571.5 billion (2015, approximately USD 10.2 billion), and the GDP per capita is only RUR 427,700 (2015, about USD 7,600). However, as far as Khabarovsk Krai is concerned, the fact that the domestic market is small can be a positive environmental factor that makes the export promotion desperate. Second, the proportion of exports of energy and mineral resources is high and heavily dependent on exports to China. Third, Khabarovsk Krai lacks the transportation, power, and communication infrastructures necessary for the revitalization of the local economy and industrial development. According to the 2012 Business Environment and Enterprise Performance Survey, which was jointly conducted by the European Bank for Reconstruction and Development (EBRD) and the World Bank, 122 interviewed entrepreneurs point to the highest tax burdens and poor infrastructures (transportation, power, and communication) as the biggest challenges in doing business in Khabarovsk Krai.

Opportunities to expand the export of Khabarovsk are expected because of the large market size of the Asia-Pacific (APEC) region—including China, Korea, and Japan—and economic dynamism and the activation of intra-regional trade. As of 2017, the GDP (on current prices) of 21 APEC countries accounts for 60% of the world economy. In particular,

according to the IMF’s economic outlook, the share of the three countries in the world will increase from 23% in 2016 to 25% in 2022. The IMF expects the global economy to grow at an average annual rate of 3% between 2017 and 2022, while the average annual growth rate of the three countries will reach 4%–5%. This means that, if Khabarovsk Krai makes good use of the regional trade revitalization trends in the Asia–Pacific region, it is in a favorable geographical position to expand exports. In particular, with the improvement of the income level of China, export of mineral products, agricultural products, and forest resources with the comparative advantage of Khabarovsk is expected to expand.

On the other hand, the factors that threaten the Khabarovsk economy are the uncertainty of export because of the fluctuation of resource prices and the possibility of investment weakening. In addition, the global economic trend to reduce the consumption of energy resources, including fossil fuels, could be disadvantageous to Khabarovsk Krai, which depends on resource exports. In addition, various geopolitical risks—such as the Russia-US military confrontation on the hegemony of the Asia–Pacific region, the potential tension between Russia and China within the Far East region, and territorial disputes between Russia and Japan—could have a negative impact on the expansion of Khabarovsk exports.

[Table 1–6] SWOT analysis of the Khabarovsk economy

Strengths	Weaknesses
<ul style="list-style-type: none"> 1. Rich forest and mineral resources 2. A relatively strong manufacturing base (aircraft manufacture, shipbuilding, etc.) 3. Strong commitment to “economic growth through exports” 	<ul style="list-style-type: none"> 1. Small population and narrow domestic market 2. High dependence on resources and exports to China 3. Vulnerable infrastructure (transportation, power, and communication) 4. Inadequate utilization of the manufacturing base
Opportunities	Threats
<ul style="list-style-type: none"> 1. Stable growth of neighboring countries (China, Korea, and Japan) 2. Activation of intra–regional trade in the Asia–Pacific (APEC) region 3. China’s potential resource demand 	<ul style="list-style-type: none"> 1. High volatility of resource prices 2. Global trend to reduce energy and resource consumption 3. Geopolitical risks

1.3. Khabarovsk State Export Promotion Policy and the Need for Korea's Benchmark

Even though Khabarovsk is the fourth largest area in Russia, its economy and living standards are insufficient. The gross regional product (GRP) in 2015 ranks 32nd out of 83 federal states, and the GRP per capita (PPP basis) ranks 19th, but there is much room for improvement. Economic growth through export expansion is necessary for income level improvement, job creation, and enhancement of the quality of life in Khabarovsk Krai, which has a small domestic market.

In 2016, the trade volume of Khabarovsk Krai was USD 1.96 billion (up by 22.2% from the previous year), and the share of trade relative to the GRP was only 19.2% (USD 1.96 billion / USD 10.2 billion). This is only half the Russian average of 36.9% (USD 473.9 billion / USD 1.28 trillion). This not only shows the reality of Khabarovsk Krai in terms of foreign trade, but also means that there is room for expansion. The expansion of exports will play an important role not only for economic growth but also for the long-term vitality of the Khabarovsk economy. It is expected to improve the industrial structure of Khabarovsk Krai and contribute to the competitiveness of the knowledge-based industry.

To actively promote the Far East development strategy, the Putin government established the Ministry for Development of the Russian Far East as a federal ministry dedicated to the development of specific regions in 2012 for the first time in Russian history. In March 2013, the Russian government adopted the national program, "Socio-Economic Development of the Far East and the Baikal Region," and, in April 2014, established a new strategy that reflects this. These efforts reflect the unprecedented interest and willingness of the Russian government to develop the Far East. Russia's Far East development strategy is primarily aimed at exporting products from the Far East to the Asia-Pacific region and improving the economic conditions in the Far East. As one of the measures to this end, the Russian government is developing TASED, which provides tax benefits, and is trying to expand its production base in the region.

The Khabarovsk government is also aware of the necessity and importance of expanding exports. While the role of SMEs as a growth engine has been emphasized in the past, the share of SMEs in the export of Khabarovsk Krai was not so large. To solve this problem, Khabarovsk has been actively exporting products manufactured by SMEs to the Asia-Pacific region. The Khabarovsk government is endeavoring to promote the export of SMEs engaged in the service sector through the cultivation of the tourism industry, and to identify and cultivate companies with export potential among manufacturing SMEs. In 2011, the Khabarovsk government established the Export Support and Development Center as a demonstration at the provincial level before the Russian Export Center (REC) was established. The Khabarovsk government has been continuously implementing support

policies to strengthen the export capabilities of SMEs through the Export Support and Development Center.

To expand exports, Khabarovsk Krai shall continue to diversify export products and export markets. Khabarovsk Krai has to overcome the limitations of export products that depend on natural resources and the weakness of the export market concentrated in China. In the short term, the Khabarovsk government is expected to expand its exports through the diversification of exports based on its existing industrial structure. In the medium and long terms, a more fundamental strategy is needed to foster SMEs and expand exports by attracting foreign companies.

In this respect, it is necessary to refer to the Republic of Korea, which has achieved economic development through continuous export promotion policies over the last 50 years. Of course, Korea is different from Khabarovsk Krai in terms of GDP, export volume, resources, and industrial structure. However, Korea can be a role model for Khabarovsk Krai, which is in the early stage of export promotion, because it has achieved economic growth through export expansion despite having a small domestic market. In particular, Khabarovsk Krai, one of the Russian federal states, needs to refer to the export promotion policies of local governments in Korea (e.g., Gyeongsangnam-do).

The development experience of Korea, which succeeded in economic development by simultaneously promoting “industrialization” and “export promotion” in the past, can also contribute to the export expansion policy by cultivating the manufacturing industry in Khabarovsk Krai. If Khabarovsk Krai shares its experience with Korea and strengthens its cooperation with companies in the Asia-Pacific region, including Korea, it will have a positive effect not only on the export of small businesses in Khabarovsk Krai but also on investing in the Far East by Korean companies.

2. Lessons from Korea's Export Promotion Policy

2.1. Export Trends in Korea

Korea's exports have increased more than 20,000 times over the past 50 years at current prices. Korea's exports reached USD 1 billion (37th) in 1971, USD 10 billion (20th) in 1977, and USD 100 billion in 1995 (12th place). In 2011, it surpassed USD 500 billion, becoming the world's 7th largest exporter, and by 2017, it became the world's 6th largest exporter.

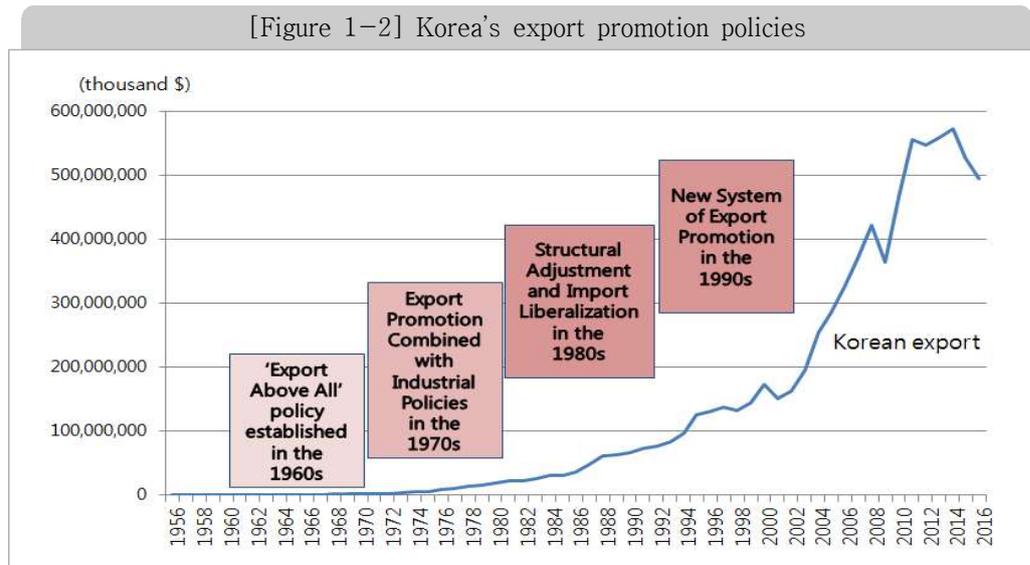
Korea's exports not only have grown in size but also have become similar to advanced countries in terms of product structure. In the 1960s, most of Korea's main export products, like the current Khabarovsk Krai, were raw materials. The export statistics of 1977, when the detailed export item statistics began to be collected, showed that textile, agricultural, forestry, and fisheries products, which can be manufactured from raw materials and cheap labor, accounted for half of Korea's total exports. However, since then, Korea's exports have begun to be upgraded because of the government's policies to foster the heavy chemical industry. In 1995, electronic appliances and machinery (automobiles, shipbuilding, etc.) accounted for 54% of the total exports, and by 2011, machinery and electronic appliances accounted for 60% of the total exports. As of 2015, electrical and electronic products, machinery, and chemical products account for 77% of the total exports. This is the result of the fact that the Korean manufacturing industry is incorporated into the GVC and that the IIT is activated.

Korea's export market has also diversified over time. In 1965, the number of exporting countries was only 43, but now, it has increased to more than 200 countries. As a result, the dependence on exports to a few specific countries, such as the United States and Japan, has gradually declined. The share of the three largest export markets fell from 70% in 1965 to 40% in 2015, and the share of the top 10 export markets also dropped from 91% to 67% during the same period.

On the other hand, when we look at the export statistics by region, we can see that the regional variation of exports is considerably high in Korea as in Russia. Seoul, Gyeonggi-do, and Incheon, which form the heart of the Korean economy, and Ulsan and Gyeongsangnam-do, which are the mecca of the heavy chemical industry, account for about 60% of Korea's total exports. In addition, it can be seen that there is no significant change in the export ranking and export share by region since 2000 when the export statistics of each local government started to be collected. However, it is noteworthy that the export portion of Chungcheongnam-do, in which a number of innovative firms are concentrated, rose rapidly from 9.9% in 2000 to 11.6% in 2010 and to 13.9%. This shows that regional exports are closely related to the industrial structure of the region, and it is necessary to foster and attract export enterprises at the local level to expand exports.

2.2. Korean Government's Export Promotion Policies by Period

The Korean government's continued export promotion policy played a major role in Korea becoming the 6th largest exporting country in the world. Since the adoption of the export priority policy in the 1960s, Korea has been implementing various export promotion policies. During this process, the Korean government has set quantitative export targets, and has continuously assessed and revised them. Figure 1–2 shows Korea's export trends and export promotion policies since the 1960s.



Source: Korea International Trade Association (KITA). Korea's Trade Statistics.

A. Export Promotion Policy of the 1960s

Korea, which was one of the poorest countries since the Korean War, adopted the "Export Above All" policy, considering export promotion as the only means of economic development. In December 1962, the prime minister launched the Export Promotion Committee as a policy review committee. In June of the same year, the Korea Trade–Investment Promotion Agency (KOTRA) was established to play a leading role in export promotion. Since then, in February 1965, the Export Promotion Committee was expanded and reorganized as the Expansion Promotion Conference, which is presided over by the president. The Expansion Promotion Conference was held almost monthly from its founding until 1979, and the president attended 147 of 152 meetings.

At that time, the Korean government introduced the Export Promotion Act (1962) and the Export and Import Linkage System (1963), which allow the foreign exchange earned through exports to be used for the importation of restricted items to achieve quantitative

export targets. As a result, exports of primary light industry products—such as plywood, wigs, and shoes—increased. At that time, textile products were the major export products, accounting for 40% of the total exports. In 1964, December 5 was designated as “Export Day” to celebrate the achievement of USD 100 million in exports.

B. Export Promotion Policy of the 1970s

In the 1970s, the export promotion system was diversified along with the continuous promotion of the “export first” policy. In the 1960s, the export promotion system, such as the Export Promotion Act and the Export-Import Link System, was maintained, while the shift from quantitative export expansion to qualitative export promotion was attempted. At this time, policies—such as the modernization of export industry infrastructures, the establishment of a mass production system, the increase of the foreign exchange utilization rate, export procedures, and the simplification of the system—were newly introduced.

The export support scheme introduced in 1971 contributed greatly to the expansion of exports. First of all, we provided financial support for facility investment in the export industry to expand its base. In the case of short-term export financing, it provided differential benefits such as an increase in loan rates and special export rates. In addition, the company implemented mid- to long-term export finance and export insurance. In 1973, the Korean government abolished the system of deducting 50% of corporate income tax and personal business income tax on income from exports. Instead, it allowed for the disposal of overseas market opening reserves, export loss reserves, and reserves for overseas investment losses to support export activities. In addition, a special depreciation system for imports and exports was introduced in place of the pretax exemption system. The excise tax exemption system, including the business tax for exporters, was replaced by the zero-rate system in 1977 with the introduction of VAT. Meanwhile, to diversify the export market, KOTRA has expanded its overseas network and the Korean government appointed 12 private companies as general trading companies (GTCs) to actively develop overseas markets.

In addition, the most important policy of this period was to link export promotion policy with industrial policy. Since 1973, it has started to promote the heavy chemical industry to achieve USD 10 billion exports by the early 1980s. To this end, the government selected six industries—steel, chemical, nonferrous metal, machinery, shipbuilding, and electronic—which have a large effect on front-to-back industrial relations and have a large contribution to the industry as a whole.

C. Export Promotion Policy of the 1980s

Government-led economic policies, which focused on growth strategies through the expansion of exports, reached its limit by the end of the 1970s. The Korean economy was faced with the problem of inflation because of the second oil shock and the weakening of industrial competitiveness. As a result, the Korean government has pursued trade policies based on stability, autonomy, and openness. The export support system implemented at that time is related to the price competitiveness enhancement plan (February 1980). In December 1986, the Foreign Trade Law was enacted and enforced by integrating the Foreign Trade Act, the Export Trade Union Act, and the Industrial Equipment Export Promotion Act.

The specific export support scheme at that time was as follows. The export financial support system for large enterprises (in June of 1987), the trade finance support system for companies that belong to individual companies, and the deferral of customs collection (in October of 1988) were abolished. Instead, to promote the export of heavy industry products, policies—such as the establishment of an export base for heavy industry products, the strengthening of the export support system, and the promotion of the export of industrial facilities—were newly implemented. To strengthen export support for heavy industry products, such as machinery, export financing has been provided for a long time. To promote the export of industrial facilities, various existing plant export regulations were integrated into one according to the Industrial Equipment Export Promotion Act. For the export of industrial equipment, the Korean government reduced the income tax by 50% for five years, and implemented the export guarantee insurance system and the mid- to long-term export insurance system.

In addition, to strengthen the foundation of technological independence, R&D investment was expanded so that the ratio of R&D investment to GNP increased from 0.75% in 1980 to 2.0% in 1986. To support this, measures—such as the extension of the temporary investment tax credit for research facility investment, the funding of technology development, and the establishment of the technology development revolving fund—have been taken. To improve product design and to expand the exports of trademarked products, the Korean government established the domestic and foreign trademark information supply system, collected information about the trademark international application registration procedure, strengthened the promotion of the Korean trademark through the Seoul Olympics, established a design protection system, and nurtured professional designers.

D. Export Promotion Policy of the 1990s

In the 1990s, changes in the international trade order, such as the launch of the Uruguay Round (UR) and the spread of regionalism, required changes in export-oriented growth strategies. The Korean government has set up a basic policy direction to align the trade-related system with international norms and to advance the export support system. Accordingly, the export approval system and the export recommendation system were phased out, and the customs clearance process was greatly simplified. In particular, during this period, the Korean government has expanded the indirect support system, such as strengthening the export insurance system, rather than the direct support system, which is restricted by international norms.

The major export support scheme implemented at that time included the trade bill system (in August of 1989), the establishment of the export insurance corporation (in June of 1992), and the export credit guarantee system (in October of 1992). Specific support activities include expanding support projects for global exports of promising export products, revitalizing inter-Korean trade and northern trade linked to economic cooperation projects, funding overseas market development (in 1992), and expanding the support for export market development activities.

The Korean government has upgraded its export product structure to focus on heavy chemical and technology-intensive products while seeking high value-added products for the light industry. To this end, the Korean government has strengthened its export base for capital goods as well as parts and materials that have high added value and high export-inducing effects. The government also supported the export of plants to Southeast Asian countries through the use of external cooperation funds and export finance. In addition, R&D and design development activities were supported so that existing main export items could reach the level of world-class products. Companies have strengthened their independent overseas marketing capabilities by improving their non-price competitiveness such as quality and unique brands. To this end, the most important policy of the Korean government was to support the export of proprietary brand products.

The Foreign Trade Act enacted in 1986 was fully revised at the end of 1996, the most important change being the guarantee of free trade. As a part of this, the management of traders has been changed from registration system to declaration system since the end of 1999.

E. Export Promotion Policy of the 2000s

The export support system implemented at this time was export financial support. The Korean government supported export financing—such as trade finance, export credit guarantee, and export insurance—for the smooth financing of export companies.

In the case of trade finance, companies that were excluded from the top 30 affiliated companies were eligible for the export of goods, construction, and services. Export Credit Guarantee is a system in which foreign exchange banks or similar institutions provide export credit guarantees so that export companies can receive the financing necessary to manufacture, process, or procure exported goods, and support export financing as a collateral. The Export Credit Guarantee includes the trade finance loans of SMEs for the trade credit guarantees by the Korea Credit Guarantee Fund or the Korea Technology Credit Guarantee Fund and the export credit guarantees by the Korea Export Insurance Corporation, the guarantee of purchase of the export bill of exchange, and the guarantee of payment of export credit related to the import of raw materials for export guaranteed by the Korea Credit Guarantee Fund or the Technology Credit Guarantee Fund.

In addition, there is an export assurance system that guarantees export financing from the Export-Import Bank, an exception guarantee for the credit guarantee fund, and an export incubating guarantee that provides one-stop support for companies subject to export incubation. As export insurance is operated under the government's support, it provides a compensation system that is favorable to exporters such as raising compensation with low premiums.

To support overseas marketing, KOTRA provided information on buyers, overseas information, overseas market trends, etc., through global trade centers and held a briefing session for overseas market entry. The SME Promotion Corporation also carried out a market research project called “Best of Korea,” which uses domestic consulting agencies and buyers in the United States to establish strategies to advance Korean SME products into the US market. The overseas marketing support for SMEs is mainly centered on the Small and Medium Business Administration and SME Promotion Corporation. It supports total marketing such as export marketing, export incubation, private overseas support center, and support for SMEs' export agency, as well as target marketing such as support for overseas distribution markets.

It also provides support for export consulting and the designation of promising export items and enterprises. Export consulting support includes the trade consultation service of the Korea International Trade Association (KITA), the cyber enterprise service of the Ministry of Foreign Affairs (MOFA), solving the difficulties of companies that enter overseas markets, the export consulting support of SME Promotion Corporation, the IT export consultation center of the Korea Information & Telecommunication Export Promotion

Center, and support for small- and medium-sized IT export marketing.

The Ministry of Trade, Industry and Energy (MOTIE) is implementing a “first-class product certification company” that certifies world-class products as “world-class products” and “next-generation world-class products” based on the global market share of domestic companies. KOTRA dispatches a sales team composed of world-class product manufacturing companies to a certain area and conducts a tour to buyers.

F. Export Promotion Policy of 2017

Currently, the Korean government is focusing on supporting the export of SMEs and emerging markets. It is trying to find out and solve the difficulties of exporting through field visits, meetings, export call centers, and written surveys. To this end, it is operating an “export caravan” jointly with related organizations.

In addition, the Korean government has provided financial support for a total of KRW 10 trillion for infrastructure projects in emerging countries. In particular, it has strengthened its “local response team” activities, which are jointly organized with overseas diplomatic missions and KOTRA. Meanwhile, the government plans to improve the selection criteria for export support projects, such as participating in overseas exhibitions, to expand the support of export enterprises of USD 1–10 million, which is lacking in support compared to the export potential. In addition, more than USD 10 million export companies will support customized overseas marketing through “World Champ” business.

The government provided a total of KRW 232 trillion (USD 205 billion) in trade financing, an increase of KRW 8 trillion (USD 7 billion) from 2016, and expanded KRW 4 trillion (USD 3.5 billion) in support for SMEs and medium-sized enterprises in particular. The company will exempt the representatives’ joint guarantee for the export credit guarantees within five years from the start of the business and discount 50% of the guarantee fee. In the case of SMEs’ policy finance totaling KRW 103 trillion (USD 91 billion), priority will be given to selecting export companies and preferential interest rates.

Meanwhile, the Korean government has implemented various support measures to expand online exports. It is removing obstacles to online exports, such as online product registration → sales → shipping → customs clearance, and expanding policy funding. To this end, it is planning to establish specialized funds within the fund for export financing of SMEs and seek solutions through obstacles to the expansion of cross-border e-commerce through the channels of international organizations.

In addition, for SMEs that have little experience in exporting online, the Korean government is supporting export using global online malls such as Amazon and Alibaba. The government plans to support the launch of the “Korea Product Online Promotion Exhibition,” which promotes and sells popular products—such as cosmetics, fashionable clothing, etc.—at

representative online malls by country. In addition, the Korean government is actively utilizing a CTC with a global network and a GMD as a platform for exporting SMEs. Currently, KITA has designated 240 trading companies, including Samsung C&T, as a CTC, and has been supporting the expansion of matching business meetings for SMEs, and preferential trade insurance coverage rates for mid-product export agents. Meanwhile, the Ministry of Small and Medium Venture Business has designated 76 GMDs in emerging markets, e-commerce, and B2G overseas to support SMEs in exploring export markets.

2.3. Examples of Major Export Promotion Policies

A. General Trading Company (GTC) System and Certified Trading Company (CTC) System

Korea experienced a rapid increase in exports with economic growth through the five-year plan for the first, second, and third economic development in the early 1960s and early 1970s. At that time, the Korean government actively promoted the export drive policy and the heavy chemical industry development policy for economic growth. During this period, the Korean government was able to lay the foundations for economic development by expanding exports led by large corporations.

As part of the export promotion policies, the Korean government introduced the “General Trade Company Designation System” in April 1975, which lasted for 34 years until it was abolished by the amendment of the Foreign Trade Law in April 2009.

A GTC specializes in trading business based on large-scale capital strength and creditworthiness with a marketing organization in many overseas regions. GTCs carry out a wide range of trade business from general import and export, overseas production and sales, inter-trilateral trading, resource development, research and development, and joint venture. They give preference to expanding exports in Japan or Korea, where trade is important, and it is characterized by handling various products without being limited to specific products. The reason there is no GTC system in other developed countries is that trade was developed naturally, and it was not necessary to make a special type of company that received national support as a GTC. In many countries, there are general exporters and importers that import and export various products, but they are self-contained private companies. They are different from GTCs supported by the government.

The requirements that must be met to be designated as a GTC were very tricky. Since Samsung C&T was designated as the first GTC in May 1975, a total of 11 companies—including SsangYong Motor; Daewoo Industrial Co., Ltd.; Kukje Trading Co., Ltd.; and Hanil Synthetic Fiber Co., Ltd.—were designated as trading companies. GTCs played a leading role in the government’s export drive policy.

Until the 1980s, the Korean government was able to achieve dramatic export expansion through the GTC system. However, the excessive dependence on GTCs has resulted in several problems. Many domestic producers have become subcontractors of GTCs, and their competitiveness has weakened. As the support for export companies has been concentrated in a few GTCs, which are large companies, the management difficulties of small- and medium-sized trade firms have been increasing.

In October 2009, the government decided that the role of GTCs was no longer necessary and abolished the GTC system. As a result, domestic companies and companies in the early stages of export have had difficulties in exporting or expanding exports. The export portion of SMEs accounts for less than 20% of Korea's total exports. Therefore, the Korean government revised the Foreign Trade Act in 2014 to overcome the export difficulties of SMEs, and officially introduced the CTC system that KITA has been operating since 2009.

This system is intended to utilize a specialized trading firm with export knowledge for specific markets and specific products to expand the exports of domestic and exporting companies.

If the former GTC system was introduced in Japan, the CTC system benchmarked the American one. The US Small Business Administration (SBA) implements policies to support the export of goods and services produced by small businesses and individuals, as well as products manufactured by their own SMEs, through a trading company with a specialized knowledge for items and regions.

The newly registered CTCs play roles to support the export of SMEs. To be designated as a CTC, 1) the export amount of the previous year or the average annual export amount of the past three years should be more than USD 1 million, and 2) the export value of goods produced by other SMEs or midsize companies should account for more than 30% of the total export value. Both of the above requirements must be met. In other words, an exporter with an export value of more than USD 1 million may be designated as a certified trading firm if the proportion of handling other products is more than 30%. The status of a professional trading firm is maintained for two years after selection, but it can be reapplied; however, it is deprived when the standard is not met.

SMEs with no export experience or that lack export capability can enter overseas markets through the CTC specialized for each region and item. The CTC will normally charge 1%-3% of the export amount as the export agency fee.

The CTC system is jointly operated by MOTIE, KITA, KOTRA, and Korea Trade Insurance Corporation.

As of April 2018, a total of 240 companies have been designated as CTCs. The designated industries are chemical product (57 companies), agriculture and forestry product (40), machinery (34 companies), steel metal product (26), textile (18), plastic rubber and

leather product (16) (16), electrical and electronic product (16), and mineral product (4). Companies designated as CTCs can receive various preferential support from major exporting organizations. When it is deemed necessary for new market exploration, new product exploration, and the expansion of the export of SMEs, the government supports activities undertaken by certified trading firms such as finding excellent products and opening overseas markets. For a given company, it will increase the credit guarantee limit to 1.5 times per year before and after shipment. Priority is given to participation in overseas exhibitions and the import offers of foreign buyers obtained by trade-related institutions such as KOTRA. 1:1 matching consultation meetings between domestic companies or early-stage export companies and certified trading firms are held from time to time. A variety of local information necessary for overseas market exploration is also given priority to CTCs. In addition, a separate Internet homepage has been established to provide online matching services with CTCs and partner companies.

In 2017, the total amount exported through CTCs totaled USD 6.74 billion, which is up by 85% from the previous year. In 2017, there were more than 100,000 export transactions for SME products. The number of target companies reached more than 3,000. GoshenKorea is a CTC in the cosmetics sector that focuses on Russia and Ukraine. The company is acting as an exporter for more than 40 domestic small- and medium-sized cosmetics companies. GoshenKorea exported USD 4.6 million in 2016 and surpassed USD 9 million in 2017.

MOTIE and KITA have organized the Council for Certified Trade Companies to understand their difficulties and suggestions. In addition, the government will upgrade the information related to the overseas trading market of CTCs such as tariff rate, import regulation, quarantine, legal issues, accounting issues, and market and buyer information so that they will play a larger role in export expansion.

B. Global Market Developer (GMD) Scheme

Another system to support the export of SMEs is the GMD scheme. The Ministry of SMEs and Startups (MSS) has been conducting GMD projects since 2016 to support SMEs in overseas markets. A GMD is a private export company that supports the efforts of SMEs and venture companies to enter overseas markets. Forty-six companies were selected in 2016, and 30 more companies were selected in 2017. As of May 2018, 76 companies are active.

Companies selected as GMDs receive a variety of support from MSS (Export Support Center).²⁾

2) MSS's support benefits are as follows.

1. Participation as a host organization when participating in overseas exhibitions and dispatching market pioneering groups

GMD will identify 5-10 export-oriented SMEs and support their entry into overseas markets. GMD supports SMEs through their experience and knowledge in emerging markets—such as ASEAN, Latin America, the Middle East, Africa, South Africa, and China—as well as e-commerce, international procurement markets (B2G), and distribution. GMD's main support activities include researching overseas markets, finding buyers, participating in overseas exhibitions, export consulting, providing information, and supporting the production of promotional materials such as global brand and foreign language catalogs. SMEs that participate in the GMD project pay only 30% of the total project cost, and the government subsidizes up to KRW 20 million.

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2. Financing for export financing (short term [one year]) and export business financing (long term [five years])
 3. Short-term trade insurance premium (50% discount)
 4. The company selected as a GMD is designated as a CTC through the recommendation of MSS.
 5. To find out GMD's promising export companies and to support matching
 6. Holding online and off-line matching consultation meetings with MSS and related organizations
 7. Supporting the expansion of cooperation network through the formation and operation of a GMD private council (provision of office space and equipment; support for meeting and activity expenses; etc.)

C. “Trade Day” Event for Export Promotion

Korea’s “Trade Day” is a national anniversary celebrated to reaffirm the importance of and renew the will of trade. Trade Day was originally “Export Day.” Korea celebrated its anniversary every year on the occasion of November 30, 1964, when it first achieved USD 100 million in exports. In 1977, a ceremony was held to achieve USD 10 billion in exports. In 1981, a USD 20 billion commemoration ceremony was held on the day of export. In 1987, the name of the event was changed to “Trade Day,” and it is now reaching the present. In 1995, Korea celebrated the anniversary of the export of USD 100 billion, and in 2005, it celebrated the achievement of the trade of USD 500 billion.

In the commemoration ceremony of Trade Day, individuals and companies are awarded prizes by the President of the Republic of Korea; the Prime Minister of the Republic of Korea; the Minister of Trade, Industry and Energy; and the President of KITA. Export towers are also awarded to companies and organizations according to their export performance. Other events include classical concerts, economic debates, and symposiums. In addition, a special event is held during Trade Week or the week before and after Trade Day.

Individuals and companies that have won the export award have various benefits such as low-interest financing. In particular, in the early stage of export promotion, this preferential system of the government was an important motivation factor for the export expansion of companies.

D. Global Partnering (GP) Program

Global companies are seeking to differentiate themselves from their competitors by strategically utilizing management resources, such as physical and human resources, information, technology, and knowledge from a global perspective, to enhance price competitiveness and enhance technology. To maintain price competitiveness, companies identify parts suppliers or business partners with global technological capabilities.

In view of the increasing demand for outsourcing by these global corporations, KOTRA has established a Global Partnering (GP) platform with related organizations since 2010 and has helped SMEs to incorporate them into the value chain of global corporations. This is a strategy to expand the stable exports of domestic component makers by laying the foundation for promoting intra-industry trade.

Currently, KOTRA provides pinpoint consultation, online matching business, R&D funding consulting, and modularization support and implementation of quality education (Techtrain) to enable intermediary companies to participate in the global production systems of the Global Fortune 500 or global companies with revenues of more than USD 100 million. The development process of the GP program, which started in 2010, is summarized as

follows.

In the first period (2010–2011), it was promoted mainly in auto parts and was a business aimed at the demand for the price competitiveness improvement of global companies. This is a parts supply business to meet the price competitiveness improvement strategy based on the standardization of parts by global companies such as GM and Ford. Given the low margins of domestic companies and the ability to easily relocate to China and India, the utilization of the GP platform was insignificant.

In the second phase (2012–2013), the business area expanded not only to automobiles but also to heavy equipment parts and machinery. Moreover, R&D projects that utilize technology development demand discovered during parts procurement were also promoted. The GP platform has been strengthened, including education and finance, to expand the GP business area.

In the third phase (2014–present), KOTRA expanded the platform to R&D, education, and finance, and its business to high value-added fields, leveraging component outsourcing for global companies. After finding out the needs of global companies, KOTRA sought business demand through selection, concentration, and advance targeting. The target industries also expanded to the aerospace, energy, precision equipment, medical equipment, and IT industries, which demand global technology competitiveness in the field of automobile parts. The target area has also expanded from developed countries, such as the United States and Europe, to emerging markets, such as China, India, and Brazil, where global companies are actively advancing. Korean companies have supplied more than USD 300 million worth of heavy equipment parts to Caterpillar. In the automotive field, they have expanded our supply channels to the top 10 global automakers including Ford, Nissan, PSA, and Volvo. The partnership has advanced from simple parts export to the joint development of advanced products.

Meanwhile, the support for joint R&D is also expanding. A project to support the development of products by domestic companies was promoted for the tasks proposed by global companies to propose their development plans. A maximum amount of KRW 150–600 million is supported by the technology research and development fund. In addition, technology development linked to national research institutes is also supported. SMEs that need the support of technological development by national research institutes are subject to support because of the lack of internal technology development capability for products with a global demand. German steel company ThyssenKrupp's R&D development with domestic companies, and Boeing's agreement to acquire and develop element technology (eco-magnesium material) are typical examples.

E. Miracle K–Food Project

The Korean government is constantly making efforts to diversify export structures that are centered on heavy chemical products. These export diversification policies are in line with the income increase policies promoted by local governments for a balanced development between regions, especially between cities and rural areas.

The agricultural sector is a good example of the Korean government's export product diversification policy. Agricultural products account for only 1.5% of Korea's total exports, but the export growth rate is above the average of Korea's total exports, making it a promising export item. In recent years, exports of agricultural products and processed livestock products have increased rapidly. The brisk export of agriculture products is caused by the fact that more urban people move to live in rural areas, and by the active export promotion policies of the Korean government and municipalities.

The Ministry of Agriculture, Food and Rural Affairs (MAFRA) and the Korea Agro–Fisheries & Food Trade Corp. (aT) are promoting the “Miracle K–Food Project” to expand the export of agricultural products from 2016. The project is a scheme to find and support promising agricultural export items that are competitive in the world market such as kiwi in New Zealand or salmon in Norway. It is derived from the intention to cultivate new products that do not lead to export due to the small–scale and lack of experience in overseas advancement, which is directly connected with farm income and a high export potential.

Twelve items—green pepper with diabetes treatment effects, processed sweet potato products, fermented brown rice, peeled ginkgo, frozen gondola herb, bokbunja juice, citronide base, sprout ginseng, chrysanthemum, omija, uncooked rice cake, and mushroom—were selected. Nine items were newly added on May 22, 2018, and as of May 2018, a total of twenty–one items will be supported by the government.

aT is frequently recommended for promising items through various channels including domestic and overseas branches, local governments, R&D institutions, and media companies. The recommended items are selected by the selection committee after on–site inspection, and the main selection criteria include the share of domestic raw materials, the differentiating function of the items, and the expected demand from the importing country. aT will actively support SMEs' overseas market development activities such as functional verification, customs clearance, and quarantine procedures, as well as participating in international fairs. In addition, if a product is selected as a Miracle K–Food, it will receive not only aT's support program but also a step–by–step support for marketability test, test export, and settlement support, as well as the diversification of the market through the trade platform of a CTC.

The Miracle K–Food Project is already showing its fruits, with green pepper with a

proven functionality for diabetes as a representative example.

MAFRA and aT have been preparing to enter the Japanese market in 2011 to cultivate green pepper as the second paprika. Thanks to these efforts, in 2017, the green pepper has succeeded in entering the Japanese market, which is known to be difficult. MAFRA and aT have teamed up with Kyushu University of Japan for export to Japan, and have verified the functionality of green pepper in diabetes. By utilizing this as a marketing point, they succeeded in entering 210 stores in UNY, the third largest Japanese distributor in May 2017. Currently, MAFRA and aT are promoting the registration of green pepper with diabetes treatment effects as the first functional food in Japan for Korean agricultural products.

In the case of peeled ginkgo, which is hygienically produced through the automatic stripping technology differentiated from other countries and by lowering the risk of toxic poisoning through the mashing stage, they promote export merchandising projects, such as packaging design improvement and functional verification, to enter the target market and are trying to achieve the successful export of the model.

Meanwhile, the Korean government is working with local governments to expand its export of fisheries products. Tongyeong, a southern port city, is a mecca for exporting Korean seafood. Tongyeong city is continuously promoting activities, such as tasting events, in the United States, Japan, and China to expand the export of marine products. In addition, strict marine management is being strengthened to enhance consumer confidence and secure aquatic products. Seawell, which operates a processing plant in Tongyeong, is a small-sized company that exports marine products, mainly, oysters, premium smoked salmon, and eel fillets. The company has been recognized with an export award for six consecutive years since 2011 and a USD 1 million exporter award in 2016. It was selected as a promising export company for marine products in 2017 and will receive special supports of 91 items including export marketing, export finance, and low-interest bank loans.

2.4. Export Promotion Policy of the Local Government Level

As Khabarovsk Krai is a small state located in the Far East region of Russia, it may be more practical to examine the export promotion policy of a local autonomous entity than the whole of Korea. Since 1995, Korea has begun full-scale civilian autonomy, and now, it consists of 17 municipalities including the city of Seoul.

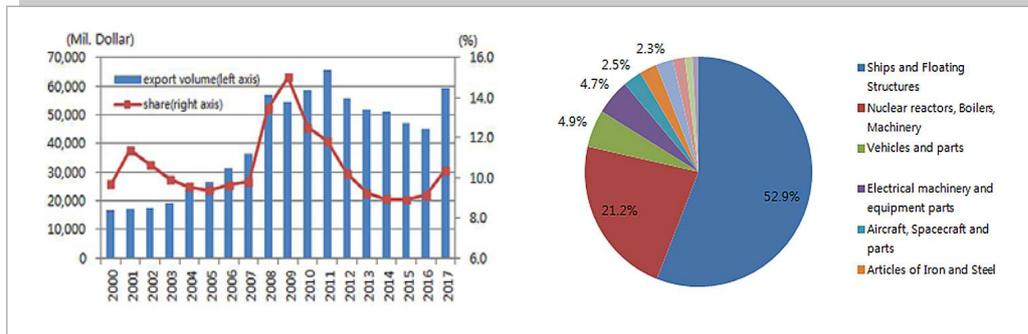
Gyeongsangnam-do is the 4th largest municipality in Korea, accounting for 10.4% of exports to Korea (as of 2017). In September 1996, it signed a sisterhood relationship with Khabarovsk Krai. Gyeongsangnam-do is an area with high potential for cooperation as it is similar to the industrial structure of Khabarovsk Krai because of the development of the aircraft, shipbuilding, and fishing industries.

Gyeongsangnam-do suffered a 3.7% decline in exports due to sluggish export shipments

in 2016, but exports increased by 31.4% in 2017 due to strong exports of ships, offshore structures, and heavy construction equipment.

Gyeongsangnam-do's main export items are ships (31.9%) and offshore structures (19.8%). Other export products include automobile parts (5.0%), construction equipment (2.5%), pumps (2.0%), and aircraft parts (2.0%). Although the export volume of agricultural and marine products in Gyeongsangnam-do is not as large as those of manufacturing products, exports are brisk, thanks to aggressive export promotion efforts. In 2017, agricultural exports totaled USD 820 million (up by 17.6%), and fishery exports totaled USD 200 million (up by 6.4%).

[Figure 1-3] Export trend and major export items in Gyeongsangnam-do



Source: KITA Database.

The major export markets of Gyeongsangnam-do are the United States, China, and Japan. However, the export volume of ships and offshore structures is so large that the proportion of exports to Marshall Islands, Norway, Liberia, and Greece is relatively high.

According to the “2018 Trade and Promotion Measures” issued by the Ministry of Commerce, Industry and Energy (MOCIE) in March 2018, Gyeongsangnam-do has various export promotion policies like other municipalities and introduces several policies that Khabarovsk Krai can refer to.

First of all, Gyeongsangnam-do supports export premiums of up to KRW 5 million per company to expand the exports of SMEs through the Gyeongnam regional branch of KITA, and supports a product liability insurance of up to KRW 1 million per company. There are about 200 beneficiaries. In addition, it also promotes the exports of domestic SMEs. The support target is about 25 promising export SMEs with an export performance of less than USD 2 million in the past year. It supports foreign language website, catalog production, and export logistics expenses within KRW 3 million per company.

Second, the part that Khabarovsk Krai should pay attention to is the two organizations that Gyeongsangnam-do operates independently to support SMEs' overseas marketing.

The first is Gyeongnam Trade Corporation. Gyeongsangnam-do has established a trading company since 1994 to support the expansion of SMEs' exports. Gyeongsangnam-do attracted private capital and jointly established "Gyeongnam Trade." Gyeongnam Trading Co., Ltd. has a capital of KRW 6.2 billion. Its shareholding structure consists of Gyeongsangnam-do (48%), Kyungnam Bank (13%), and private investors (39%). Currently, Gyeongnam Trade Corporation has a total of 28 people.

The company mainly supports export activities in the agricultural and marine product sectors, with exports worth USD 55.6 million in 2016. In terms of major export items, frozen squids, sea mackerels, and other aquatic products account for 56.5% of the total exports, and agricultural products—such as paprika, strawberries, and tomatoes—account for 43% of the total exports. Gyeongsangnam-do cooperates with government agencies, such as KOTRA, to help companies dispatch trade delegations and participate in overseas exhibitions. Gyeongnam Trading Co., Ltd. is supporting overseas market development to expand agricultural and marine product exports through its local offices in the United States (Los Angeles), China (Qingdao and Shanghai), and Vietnam (Ho Chi Minh). Representative support activities include 1:1 matching consultation with buyers and the overseas sales promotion of agricultural and marine products. Moreover, it supports the upbringing of "Bravo Gyeongnam," the representative brand of agricultural products in Gyeongsangnam-do.

The second institution is Gyeongnam Technopark. Gyeongsangnam-do is also promoting overseas marketing in connection with strategic industries such as shipbuilding, aviation, intelligent machinery, and anti-aging. Gyeongsangnam-do supports SMEs in overseas market development in the heavy chemical industry, which has a comparative advantage. Currently, Gyeongnam Technopark is at the center, and supports small- and medium-sized machinery manufacturers in the province that lack the ability to exploit overseas markets. The company supports up to KRW 10 million for each fair such as exhibition fee, equipment fee, one-way airfare, and 50% of the interpretation fee. In total, 16 companies received support in 2017. In addition, Gyeongnam Technopark is promoting overseas branch support projects in connection with KOTRA's export assistance project and is also carrying out overseas certification support projects with the Small and Medium Business Administration (SMBA). Finally, they are also offering a customized package support system by differentiating companies based on company size and export performance. In 2017, 25 companies were eligible. Support contents are tailored to the needs of companies such as buyer discovery, market research, and invitation to overseas buyers. The satisfaction of supported companies through the customized support of these companies is increasing.

3. Suggestions for Export Promotion in Khabarovsk Krai

3.1. Necessity of Export Diversification Policy as an Export Promotion Strategy

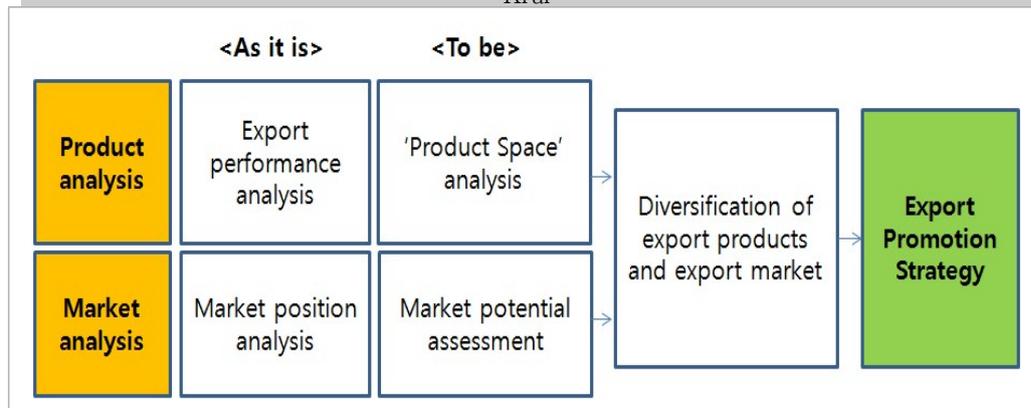
Khabarovsk Krai is part of the Russian Federation but is geographically close to Far Eastern countries. While the distance between the city of Khabarovsk and Moscow city is 6,140 km, the distance between the city of Khabarovsk and Tokyo, Beijing, and Seoul is only 1,400–1,800 km. This means that, in terms of logistics costs and time, Khabarovsk Krai is more advantageous to trade with neighboring Northeast Asian countries than Moscow.

In the export market, Western Europe, which is concentrated in Russia's central federal province, accounts for about half of Russia's exports, while in the case of Khabarovsk Krai, China, Korea, and Japan account for about 80% of exports. In addition, the Russian Federation and Khabarovsk Krai also differ in the composition of their main export products due to differences in industrial structure.

From this point of view, Khabarovsk Krai has to develop and implement a customized export strategy considering the regional situation under the export promotion policy of the Russian federal government. At present, the expansion of non-resource sectors in the Russian Federation is one of the main strategies. To expand exports, Khabarovsk Krai should make efforts to diversify its exports. Export diversification refers to the process of expanding export products or export markets and is generally a strategy introduced by under developed countries to promote exports during the economic development process. Export diversification can be divided into product diversification and regional diversification. For example, in the case of South Korea, the central government and the local government are promoting “a system to find and support world-class products” in terms of product diversification and a “support system for overseas marketing activities” in terms of regional diversification.

In this section, data analysis was conducted to derive an export promotion strategy through the export diversification of Khabarovsk Krai. We analyzed the performance of current export products in terms of export product diversification and tried to find promising export items through “Product Space” analysis. In terms of export market diversification, we analyzed the position of exported products in major export markets and derived the promising future market by evaluating export market potential.

[Figure 1-4] Analysis framework for the export promotion strategy in Khabarovsk Krai



3.2. Diversification of Export Products: Product Analysis

A. Performance Analysis of Export Products

The composition of export products in Khabarovsk Krai is relatively simple. As of 2017, major export products include machinery and transportation equipment (36%), wood, pulp and paper (29%), fuel and energy (16%), and food and agricultural products (12%). Machinery and transportation equipment account for the largest portion of the export volume due to the increase in aircraft exports, but wood, mineral products, and agricultural and marine products are traditionally the main export items of Khabarovsk Krai. However, as exports to China have surged recently, there is a change in exports by product.

Performance analysis of export products is a task of evaluating the performance of existing export products to present the direction of Khabarovsk government's support policy for export items. We calculated the export volume of the products manufactured and exported in Khabarovsk Krai in 2016 as well as the CAGR of the past three years, and created a matrix table as shown below.

[Figure 1–5] Analysis of export volume and export growth rate by item in Khabarovsk Krai

Export growth rate	high	II ('Promising' products) <ul style="list-style-type: none"> ✓Soya-bean oil ✓Sunflower-seed ✓Crustaceans ✓Bread, pastry, cakes, biscuits ✓Waters and mineral waters ✓Insulated wires ✓Plywood, veneered panels ✓Ethyl alcohol 	I ('Star' products) <ul style="list-style-type: none"> ✓Wheat and Meslin ✓Beer made from malt ✓Flours, meals and pellets ✓Fuel wood ✓Sheets for veneering ✓Ferrous waste and scrap ✓Bars and rods ✓Aircraft ✓Cruise ships, excursion boats, ferry-boats
	low	IV ('Problem child' products) <ul style="list-style-type: none"> ✓Barley ✓Tubes, pipes ✓Titanium and articles ✓others 	III ('Flagship' products) <ul style="list-style-type: none"> ✓Coal briquettes ✓Petroleum oils and oils obtained from bituminous minerals ✓Wood in the rough ✓Wood sawn or chipped lengthwise ✓Semi-finished products of iron or non-alloy steel
		small	big

In the above figure, the name of each cell is classified into I (“Star” products), II (“Promising” products), III (“Flagship” products), and IV (“Problem child” products) based on the export scale and the annual average export growth rate by product. In the case of “Star” products, the export volume is large and exports are also growing at a high rate. “Promising” products are those whose export volume is small but whose export growth rate is high. “Flagship” products are export items with a low export growth rate but a large export volume. “Problem child” products consist of items that are in need of solving the overall problem due to sluggish exports.

Some items in the wood (fuel wood and sheets for veneering), agricultural product (wheat and meslin, and beer), and metal and machinery (iron waste and scrap, aircraft, and ships) sectors that have a comparative advantage in Khabarovsk Krai are among the “Star” products.

On the other hand, processed agricultural products, aquatic products, food and beverage products, and veneer plywood, which have a small export volume but show a high export growth rate, belong to the “Promising” products. Khabarovsk Krai has to focus its support policies on expanding exports of products belonging to the “Star” products with comparative advantage and the “Promising” products with high growth potential.

Export companies in Khabarovsk Krai should be able to take advantage of federal assistance programs and the Khabarovsk government’s support programs. The certification system introduced by REC in 2017 has issued a “Russian Exporter” certificate for companies with the certain requirements and allows “Made in Russia” labeling only for products that

pass the strict criteria. As of April 2018, 75 manufacturers and 120 items were granted certificates. The Khabarovsk government should strengthen PR activities and education about Russian export programs so that more companies can obtain certification and the “Made in Russia” label, and participate in the Russian Gastro Week project.

B. Product Space Analysis for Finding Items with Export Potential

The Russian federal government is pushing to expand exports of non-resource and non-energy products. According to the “Strategic Direction of International Cooperation and Exports” approved by the Presidential Council on Strategic Development and Priority Projects, which will be held on November 30, 2016, the Russian government will increase the proportion of exports of non-resource and non-energy products by more than 15% in 2018 and plans to double it in 2025. The Khabarovsk government is also hoping to export a variety of products with high added value in the manufacturing sector, away from a simple export structure based on resources.

What kind of products will Khabarovsk Krai be able to diversify its exports in the future? This question can be answered through an analysis called “Product Space” developed by Ricardo Hausmann, César Hidalgo, and several co-authors.

Product Space analysis measures the relationship between two products using the term “proximity.” “Proximity” refers to the probability that a country will export two products with comparative advantage at the same time. Using this measure, you can map the “product space” based on the estimated distance between exported products. Based on the “location” of current export products, it is possible to identify nearby products that can easily gain comparative advantage. A country that is specialized for a specific product can easily increase its exports by utilizing its existing comparative advantage for other products located close to the product in the product space.

In this study, two indicators are added aside from the proximity index to identify potential export items in Khabarovsk Krai. First, it can be assumed that the closer the product is to the center of the product network, the greater the spillover effect for other industries in the future. “Product Path” is defined as the sum of the proximity of a specific product and other products. This shows the strength of linkages between specific products and other products, which means that the larger the number, the greater the potential impact. Second, the added value of each product means product sophistication. This is calculated by the weighted average of the current comparative advantage index to the real per-capita GDP (PPP adjustment) of countries that export products with comparative advantage. This is defined as “Prody.” The higher the number, the higher the level of technological development of the competitor’s products and the higher the added value of the product, which means that Khabarovsk Krai will find it difficult to export new products.

Table 1–7 shows the results of Product Space analysis in Khabarovsk Krai. The first column in the table lists 4–digit HS export products with $RCA > 1$. The second column shows the RCA index for these products. The third column lists the products that are closest to the products in the first column, with a proximity index of 0.5 or higher. The fourth column shows the RCA index of the products in the third column. Finally, the last three columns show the proximity, product path, and product sophistication index (prody), respectively.

As a result of analyzing the product space in Khabarovsk Krai, it is estimated that wood fuel (4401), wood in the rough (4403), and wood sawn or chipped lengthwise (4407) are the closest items to the existing comparative advantage products. We expect exports of these products to expand in the short term without significant investment. In addition, there are a number of promising export items that are highly correlated with the existing comparative products in the processed food sector but are not yet competitive. These items include fresh fish or chilled fish (0302); drinking water and mineral water (2202); ice cream and other edible ice confectionery (2105); prepared fish, caviar, and roe (1604); and wooden cases and boxes (4415). On the other hand, plastic bathtubs and kitchen furniture (3922), wood fuel (4401), wood sawn or chipped lengthwise (4407), and wooden cases and boxes (4415) were found to have a relatively large spillover effect.

The results of Product Space analysis have some limitations in that they rely on the poor export data of Khabarovsk Krai and consider only the current comparative advantage. However, the analysis results are similar to the first promising export items presented in the three–year export promotion policy (“Development of International, Interregional and Congress and Exhibition Activities”) approved by Khabarovsk Krai in 2015 and finally revised in December 2017. The Khabarovsk government has selected natural resource processing products (processed wood, veneer plywood, fuel pellets, and processed marine products), nonferrous metal products, pharmaceuticals, machinery and construction materials, food and agricultural products, and tourism and education services as midterm export expansion items.

[Table 1–7] Results of Product Space analysis in Khabarovsk Krai

Items with RCA > 1	RCA	Items with Proximity > 0.50	RCA	Proximity	Product Path	Prody
Frozen fish (0303)	72.3	Fish (fresh or chilled) (0302)	0.36	0.61	0-50	0-50
Fish fillets and other fish meat (0304)	2.6	Frozen fish (0303)	72.32	0.59	0-50	75-90
		Fish (fresh or chilled) (0302)	0.36	0.56		
Beer made from malt (2203)	2.6	Water, including mineral water and aerated water (2202)	0.43	0.62	0-50	0-50
		Ice cream and other edible ice confectionery (2105)	0	0.57		
		Buttermilk, curdled milk and cream, and yogurt (0401)	0	0.55		
		Sauce and mixed seasoning (2103)	0	0.55		
Meat and fish (2301)	6.9	Prepared fish, caviar, and roe (1604)	0.09	0.61	0-50	75-90
		Fish fillets and other fish meat (0304)	2.57	0.57		
		Dried fish and salted fish (0305)	0.74	0.56		
		Fish and sea animal oil (1504)	0	0.53		
Wood fuel (4401)	11.4	Plastic bathtubs and kitchen furniture (3922)	0	0.50	50-75	50-75
Wood sawn or chipped lengthwise (4407)	34.6	Wood in the rough (4403)	270.6	0.68	50-75	50-75
		Wood fuel (4401)	11.4	0.57		
Sheets for veneering (4408)	101.3	Wood fuel (4401)	11.4	0.69	50-75	50-75
		Wood sawn or chipped lengthwise (4407)	34.6	0.57		
		Wooden cases and boxes (4415)	0	0.56		

3.3. Export Market Diversification: Market Analysis

Although the area of Khabarovsk Krai is large, it has a handicap that the population size is small and the domestic market is narrow. For Khabarovsk companies to grow, they have to enter the domestic market in Western Russia or access overseas markets such as China, Korea, and Japan. In terms of liability of foreignness, it is advantageous for Khabarovsk companies to enter the western region of Russia, but it is disadvantageous in terms of competitiveness because there is not enough transportation infrastructures to access the western region and the logistics cost is high. According to the companies, the logistics costs in the direction of “Moscow → Far East” are relatively inexpensive, but in case of “Far East → Moscow,” the logistics costs are twice as expensive.

In addition, there are already many multinational companies in the western markets of Russia including Moscow city. It is true that the companies in Khabarovsk Krai are in a difficult position to compete with multinational corporations in terms of technology and brand power. This makes it difficult to find products manufactured in Khabarovsk Krai in the Moscow market, but it is easy to find them in the Chinese market. This is because of the cooperation agreement between the government of Khabarovsk and three local governments in China.

Meanwhile, Russia has a population of 150 million, while China has 1.3 billion, which means that exports to China are advantageous in terms of market size. It is also relatively easy to export to Korea and Japan because of their good purchasing power and low resistance to imports.

Therefore, companies in Khabarovsk Krai should enter overseas markets. It is necessary to actively exploit not only the three countries of China, Korea, and Japan but also new markets with great growth potential. Indeed, companies in Khabarovsk Krai are targeting new markets as the most efficient business strategy for expanding exports. In a survey on local companies conducted by the Export Support and Development Center of Khabarovsk Krai, 33% of the responding companies plan to open new markets with their existing products.

A. Market Position Analysis of Export Products

The main purpose of this analysis is to assess the status (or competitiveness) of products in each export market, and to present market positioning strategies and export support policies.

We analyzed the status of Khabarovsk export products in major export markets. To this end, the market growth rate and market share of export products (two- or four-digit HS code) were calculated. The market growth rate is the average growth rate (CAGR) of the

last three years (2014-2016), and the market share is the portion of exported products of Khabarovsk in 2016. According to the “Growth-Share Matrix” analysis, the export products of Khabarovsk Krai were classified into four groups: “Stars,” “Cash Cows,” “Question Marks,” and “Dogs.” It is an analytical technique first developed by the global consulting firm Boston Consulting Group (BCG) in the 1970s. “Stars” are products with the highest market share and market growth rate. “Cash Cows” are those with a low market growth rate but the highest market share, while items with a low market share but a high export growth are “Question Marks.” Products that are poor in both are classified as “Dogs.”

Table 1–8 shows the results of analyzing the export products of Khabarovsk Krai into four groups. In dividing the four groups, the market share was 0.5%, and the market growth rate was 10%. Each product was placed in a matrix table to diagnose its product location in each market.

[Table 1–8] Market position analysis of Khabarovsk export products

Export Market	Cash Cows (Growth ↓, Market Share ↑)	Stars (Growth ↑, Market Share ↑)	Questions Marks (Growth ↑, Market Share ↓)	Dogs (Growth ↓, Market Share ↓)
China	<ul style="list-style-type: none"> • Aircraft • Frozen fish • Wood in the rough 	<ul style="list-style-type: none"> • Beer • Cruise ships • Crustaceans • Wood sawn or chipped • Sheet for veneering 	<ul style="list-style-type: none"> • Breads, pastries, cakes, and biscuits • Fuel wood 	<ul style="list-style-type: none"> • Coal briquettes • Petroleum oils
South Korea	<ul style="list-style-type: none"> • Frozen fish • Sheet for veneering • Ferrous waste and scrap • Crustaceans 	<ul style="list-style-type: none"> • Fuel wood • Flours, meals, and pellets • Fish fillets • Wood sawn or chipped 	<ul style="list-style-type: none"> • Aircraft • Coal briquettes • Canned crustaceans and mollusks 	<ul style="list-style-type: none"> • Petroleum oils
Japan	<ul style="list-style-type: none"> • Crustaceans • Wood in the rough 	<ul style="list-style-type: none"> • Sheet for veneering 	<ul style="list-style-type: none"> • Fish fillets • Wheat and meslin • Cereals • Coal briquettes • Wood sawn or chipped 	<ul style="list-style-type: none"> • Canned crustaceans and mollusks

First, we analyzed the position and competitive structure of major export products in China, which is the largest export market. There are three products classified as “Cash Cows”: frozen fish, wood in the rough, and aircraft. Wood in the rough and aircraft, excluding frozen fish with a high market share of 34%, are intensely competitive with developed countries. The main competitors in wood in the rough are New Zealand and the United States, and those in the aircraft sector are the United States, France, Germany, Brazil, and Canada. On the other hand, crustaceans (mainly crabs), beer, wood sawn or chipped, sheet

for veneering, and cruise ships are classified as “Stars.” Major exporters of crustaceans (Canada, USA, and New Zealand), beer (Germany, Mexico, Belgium, and Netherlands), wood sawn or chipped (Russia, USA, Thailand, and Canada), sheet for veneering (Vietnam and Russia), and cruise ships (Korea, Japan, and Romania) are different.

In Korea, frozen fish, sheet for veneering, and ferrous waste and scrap are classified as “Cash Cows.” In the frozen fish market, the gap with China, which is the second largest, continues to expand, while China and Malaysia are dominant in sheet for veneering, and Japan is dominant in ferrous waste and scrap. In terms of the four items classified as “Stars,” Vietnam, the United States, and Norway are showing signs of improvement in fish fillets and fishes, while the exports of Russia and Vietnam are rapidly increasing in crustaceans. In the case of wood fuel, Vietnam is the overwhelming No. 1 exporter, and in the wood sawn or chipped market, Chile, Russia, Japan, and Canada are fiercely competing.

In the case of the Japanese market, Khabarovsk Krai has four “Cash Cows” products. In the crustacean market, Vietnam, Russia, India, Indonesia, and Canada are fiercely competing. In the wood in the rough market, the United States and Canada form the Two Top, while in the wood sawn or chipped market, Canada followed by Russia, Finland, Sweden, and the United States are competing. In the field of sheet for veneering, Russia has a unique position.

Based on this analysis, the Khabarovsk government and the Export Support and Development Center need differentiated support policies for each market. Marketing support activities should be strengthened for products that are in intense competition than products that have a stable market position. The government of Khabarovsk should strengthen its support for wood in the rough and sheet for veneering in China; fish fillets, fish meat, and wood sawn or chipped in Korea; and crustaceans and wood in the rough in Japan.

B. Evaluation of Export Market Potential

At the APEC summit in Vladivostok in September 2012, Putin announced the New East Asia policy, “Pivot to Asia.” The Russian government has set up a “Far East – Baikal Socioeconomic Development Strategy” in 2013 to shape the “New East Asia policy” and is promoting the “Leading Development Zone” and the “Vladivostok Free Port.” Fourteen regions were selected as TASED or special economic zones for the Russian Far East.

The aim of the “New East Asia policy” is to regain the economic structure concentrated in Europe by participating in the rapidly growing East Asian market and to build a long-term “Greater Russia” through the balanced development of the country. This is because East Asian economies, such as China, are emerging as the central axis of the world economy on behalf of the West. Russia has selected Asia–Pacific as a market that can supplement or replace Europe and is strengthening its cooperation with these countries. To this end, Russia

has developed energy resources, such as crude oil and natural gas, in Eastern Siberia and the Far East, and is actively promoting exports to Northeast Asia and the Asia–Pacific region.

To expand exports, it is necessary for the Russian government to diversify not only export products but also export markets. Trade with China, which is geographically close, is currently active, but it is necessary to expand exports to other countries in Asia and the Pacific (APEC) region, as well as to Korea and Japan. China is a key partner in the New East Asia policy, but in terms of economic power, population, and geographical proximity, it might be Russia’s most threatening presence in the Far East in the long run. Russia needs to expand economic cooperation in various fields—such as energy, logistics, manufacture, agriculture, medical care, and education—by attracting Korea, Japan, and North Korea to offset China’s influence. This is in line with the policy of the Russian Federation.

If so, what is the export market that the Khabarovsk government should pay attention to next to China, Korea, and Japan? Although the diplomatic and trade policy direction of the Russian federal government is important, it is meaningful to select a potential export market that can expand export in the long term from the Khabarovsk government’s viewpoint.

This analysis yielded a market potential index (MPI) from the perspective of Khabarovsk to identify new export markets with high growth potential around the world. MPI was first developed in 1996 by the International Management Center (IBC) of Michigan State University (MSU). It was aimed to help American companies plan to expand their export markets by measuring the market potential of major countries. The first batch of countries to be analyzed was 26, but as of 2017, it has expanded to 97 countries. Seven measurement items—market size (15%), market growth rate (12.5%), market consumption capacity (12.5%), commercial infrastructure (10%), market acceptance (10%), economic freedom (7.5%), and country risk (7.5%)—were used.

In this study, the MPI metrics were modified to fit the reality of Khabarovsk Krai. The measurement items consisted of seven categories including market size, market growth potential, market acceptability, possibility of trade expansion, geographical proximity, trade barriers (average import tariff rate), and industrial relevance. For reference, Khabarovsk companies are considering geographical adjacency (36.2%), past export experience (27.6%), market size (17.2%), and growth potential (13.8%) as new export market selection criteria.

Based on the results of the measurement, the 21 analyzed countries are classified into four groups as “Core Market,” “Important Market,” “Potentially Important Market,” and “Other Market.” “Core Markets” are the main markets for the export of Khabarovsk Krai, with more than 90 MPI (full score = 100), while “Important Markets” are countries with an MPI of 50–89. “Potential Important Markets” are countries with an MPI that is above a certain level (30–49), whose current markets are of low importance but are expected to expand in the future. “Other Markets” have an MPI below 30, making it difficult to expect exports to

expand in the short term.

[Table 1–9] Evaluation of the export market potential for Khabarovsk Krai

	MPI	MPI (Full Score = 100)	Market Classification
China	77	100	Core
South Korea	50	65	Important
Japan	41	54	Important
Hong Kong	34	45	Potentially important
India	31	40	Potentially important
Vietnam	30	40	Potentially important
Singapore	29	38	Potentially important
Philippines	26	33	Potentially important
Taiwan	24	32	Potentially important
USA	22	29	Others
Kazakhstan	22	29	Others
Malaysia	21	27	Others
Indonesia	21	27	Others
Switzerland	20	26	Others
Thailand	20	25	Others
France	19	24	Others
Canada	18	23	Others
United kingdom	17	23	Others
New Zealand	17	22	Others
Germany	17	22	Others
Australia	16	20	Others

To diversify export markets, a strategic approach is required not only for China, Korea, and Japan, where exports are already active, but also for countries with high growth potential such as India, Vietnam, and some ASEAN countries. Companies in Khabarovsk Krai are considering Vietnam, India, the United States, and Canada as new export markets in addition to China, Korea, and Japan. While the Russian federal government is actively engaging in diplomatic efforts, such as concluding a free trade agreement (FTA), the Khabarovsk government needs to strengthen its market access to core markets, important markets, and potentially important markets through cooperation agreements with major local governments.

3.4. Export Promotion Strategy in Khabarovsk Krai

A. Strengthening the Role of the Khabarovsk Government

As shown in the previous SWOT analysis, the situation of the Khabarovsk economy is not at all remarkable. We cannot be sure that strengths and opportunities will directly lead to the expansion of exports without ongoing efforts because there are many weaknesses and threats.

As shown in the corporate survey conducted by the Export Support and Development Center of Khabarovsk Krai, it is imperative to improve inefficient customs procedures and logistics systems to expand exports in the short term.

As the Russian federal government is pursuing support policies to expand exports, such as the Regional Export Standard, the Khabarovsk government needs to take the initiative in implementing export support policies for SMEs in response to this policy. To expand SMEs' exports, it is also necessary to strengthen institutional support such as strengthening e-commerce platforms, supporting marketing activities for SMEs, and enhancing export finance. In light of the fact that the Khabarovsk government does not have enough financial resources, it is necessary for the Khabarovsk government to promote federal government policies and educate local companies so that they can make full use of federal export support programs such as "Made in Russia" or "Russian Gastro Week."

On the other hand, given that the Russian federal government is likely to formulate export promotion policies from the perspective of the central federal government, the Khabarovsk government shall need to implement flexible export support policies in accordance with local circumstances. Moreover, if necessary, the Khabarovsk government should be able to persuade the federal government to carry out the necessary measures to expand the export of Khabarovsk enterprises.

In addition, the Khabarovsk government should strive to secure sufficient budget and workforce for export support activities and hastily improve the activities of several export support agencies. At present, the Russian Federation's REC regional office and the Export Support and Development Center of Khabarovsk Krai are operating separately in Khabarovsk Krai. According to the analysis, exporting companies are confused with these two agencies that perform similar export support activities. In addition, the federal government's SME Corporation is funding SMEs through their own banks (SME Bank). Therefore, it is necessary to establish an organic cooperation system among them so that export support organizations can smoothly carry out support activities.

This short-term export promotion policy is also important, but as shown in the example of Korea, it is more important to have long-term perspectives and continuous efforts to achieve export enhancement through industrialization. The Khabarovsk government needs to

identify and foster potential strategic industries that have a large spillover effect in the long term and contribute to industrial development.

B. Diversification of Export Products and High Added Value

In spite of the limitation of export data in Khabarovsk Krai, we have been able to identify promising export items through Product Space analysis. Khabarovsk Krai is required to strategically nurture the following items to upgrade export products.

First, in the wood industry, where Khabarovsk Krai has a comparative advantage, high value-added promising export items are wood pellets produced from the by-products of wood. Wood pellets are wood-based eco-friendly biofuels produced by crushing dried wood residues from wood processing with sawdust. The demand for wood pellets is steadily expanding globally due to the growing demand for environment-friendly fuels. Western European countries such as the United Kingdom, Denmark, and Italy have been the largest import markets for wood pellets, but Asia-Pacific countries are emerging as promising markets. In the case of Korea, it is expected to increase from about 2.9 million T in 2018 to 8.2 million T in 2025. Japan is expected to increase from about 2 million T in 2018 to 9 million T in 2025. As of 2017, Korea imports wood pellets from Vietnam (61.1% of the total), Malaysia (15.7%), Canada (7.0%), Russia (5.5%), and Indonesia (4.9%). Russia is the 8th largest exporter of wood pellets in the world, but most large producers are located in the midwest regions of Russia, failing to respond to the growing demand for wood pellets in the Asia-Pacific region.

At present, Khabarovsk Krai is mainly exporting low value-added wood and lumber, and it is necessary to actively nurture wood pellets as a promising export item and enter the biomass market. If Khabarovsk Krai has wood pellet production facilities, it can become a strong supplier to the wood pellet market in East Asia.

It is believed that a joint venture in which foreign companies provide the necessary capital and technology for production facilities, and a Khabarovsk company provides the production site with wood fuel is the most desirable. The Khabarovsk government should actively seek cooperation with foreign companies such as Korea and Japan. In the long term, there is also a need to develop forestry clusters that produce wood processing and pellets. In particular, the joint venture with Korean companies is expected to be a new milestone in the Korea-Russia industrial cooperation in the Far East. For reference, Sawdust-Korea, a Korean-owned wood corporation, has invested USD 50 million in a joint venture with Irkutsk Development Corporation in the 2nd half of 2014 to produce wood pellets at Ust-Ilimsk.

Second, Khabarovsk Krai has to develop innovative products that link the shipbuilding industry with the fisheries industry, which has a comparative advantage. To revitalize the

shipbuilding industry and secure advanced technology, it is necessary to prepare the shipbuilding capacity of advanced vessels equipped with fish detection equipment in the future. The shipbuilders of Khabarovsk Krai will be able to secure the necessary technical skills through industrial cooperation with Korea. In November 2017, Dae Sun Shipbuilding, Korea's small shipbuilder, won two orders from Dongwon Industries for tuna fishing vessels equipped with fish finders, radars, and freezers below -50°C . Dongwon Industries recorded breakthrough catches, thanks to the two vessels already delivered from Dae Sun Shipbuilding. Because of this, additional orders were signed. Two new vessels will be delivered in 2019. Dae Sun Shipbuilding currently faces difficulties due to its deteriorating financial structure, but it can become an industry cooperation partner because it has the competitiveness as a specialized shipbuilding yard.

Third, exports of foodstuff and processed agricultural products are also promising. As these sectors have high export potential, export expansion is expected if supported by appropriate support programs. The two working groups operated by the Export Support and Development Center of Khabarovsk Krai evaluated the potential of food and processed agricultural product markets in the Asia–Pacific region through a 2017 survey. As a result of the analysis, it was found that the demand of bottled water in Japan and China is large, and that the demand of honey in the United States is more than that of China. The export of ice cream raw materials is also promising in South Korea. 95% of the ice cream sold in Korea uses imported ingredients. If the companies in Khabarovsk develop and produce ice cream suitable for Korean consumers' preferences, and solve the logistics problem, export to Korea is expected.

On the other hand, the Khabarovsk government needs to introduce a customized support system for promising agricultural and marine products such as Korea's Miracle K–Food Project. Just as green pepper with diabetes treatment effects has entered the Japanese market, thanks to the Korean government's support policy, the Khabarovsk government should also consider how to maximize the image of clean areas, and cultivate chaga mushrooms and bottled water as strategic export products.

It is also necessary to nurture strategic industries that are closely related to various industries and not too far from those with comparative advantage. To this end, Khabarovsk Krai should be active in fostering local companies and attracting foreign companies into the leading TASED.

C. Diversification of Export Markets

In January 2015, the Eurasian Economic Union (EEU), officially launched with five CIS members, laying the foundation for Russia's economic territory expansion. Furthermore, EEU signed an FTA with Vietnam in May 2015 after eight rounds of negotiations, which became mandatory in October 2016. Through the FTA negotiations, 87% of industrial goods tariffs were abolished or reduced. Vietnam expects new markets in Eurasia for agricultural products, aquatic products, textiles, footwear, and processed foods, and Russia expects to increase exports of technical products, minerals, and automobiles. Although the economic effects of FTAs do not appear equally in all countries, they are expected to contribute to economic growth and job creation through increased trade and investment in the medium to long term.

In the future, Russia needs to sign an FTA with other Asian and Pacific countries to expand exports. In the FTA negotiations with the core markets, important markets, and potentially important markets presented in this study, a favorable environment for expanding export will be created.

According to the results of the study (Lee Sang-joon, 2015), Korea has technical, management, and capital resources that can be used as a card to check China and Japan, which compete for the hegemony of the Far East. Over the past two decades, the trade volume between Korea and Russia has been much smaller than that of China but much larger than those of other countries. Unlike China and Vietnam, most of the trade between Korea and Russia is inter-industry. The short-term benefits that Russia can gain from an FTA with Korea may not be much due to the asymmetric structure in which Korea sells industrial goods and Russia exports resources and energy. In the case of Russian companies, there is little room for the finished goods of the manufacturing industry to be sold in the Korean market, except for resources, which can weaken the incentive to negotiate.

Nevertheless, it is expected that there will be plenty of room for Korea and Russia to coexist through the FTA. Korea can provide incentives to Russia during the FTA negotiations and balance the interests between the two countries (Lee Sang-joon, 2015). For example, the Korean government is likely to emphasize the need for an FTA, suggesting Korean firms' entry into the energy, aerospace, and IT sectors or Korean companies' investment in resource development and infrastructure. For Russia, real GDP will increase through an FTA with Korea, and the additional real GDP growth will be larger than that of Korea. Industrial products are also expected to show an increase in production similar to the change in real GDP. EEU, including Russia, is expected to benefit most from the increased industrial production, particularly in the mining and textile industries.

Khabarovsk Krai can expect a direct investment and technology inflow from Korea if a Korea-EEU FTA is concluded. According to the Far East - Baikal 2025 development project,

the Russian government plans to modernize 13 airports, and Korean companies are expected to participate actively in these projects because of the Korea-EEU FTA. In addition, Korean companies will be able to enter the agricultural sector in two agricultural development zones, namely, Primorsky and Amur. On the other hand, the biggest problem of agricultural development in Far East Russia is the high tariffs on export of rice and soybean crops to Korea. If the tariff rates for agricultural products are cut through the Korea-EEU FTA, it is expected that the agricultural products produced in Khabarovsk, which are currently exported mainly to China, will expand into the Korean market.

The Russian government is planning various industrial clusters for the development of fisheries in Khabarovsk, Primorsky, Kamchatka, and Kuril. If the Korea-EEU FTA is concluded, it is highly likely that Korean companies will invest heavily in infrastructure projects and aquatic product processing to create a cluster of fisheries.

In particular, with the recent denuclearization of North Korea and the widespread atmosphere of reconciliation between North Korea and South Korea, expectations for a gigantic single economic zone that includes South Korea, North Korea, China, Japan, and Far East Russia are increasing. In the future, it is worthy to look at ways of promoting mutually beneficial economic cooperation by combining the resources of Russia (Khabarovsk Krai); the rich labor force of North Korea; and the capital of Korea, China, and Japan. This is in line with the Russian government's New East Asia policy, which aims to revitalize the economy in the Far East by building infrastructure and logistics, and the new northern policy ("Northern Economic Cooperation" initiatives) that the Korean government is pursuing.

On the other hand, in addition to the FTA negotiations at the federal level, Khabarovsk Krai is required to conclude a cooperative agreement with the local governments of major countries. It is necessary to cooperate with not only Korea and Japan but also Vietnam and India in the long run. The need for economic cooperation between local governments can be confirmed by the fact that the trade between Khabarovsk Krai and China has been greatly expanded since the signing of cooperation agreements with three provinces of China. If regional cooperation is strengthened in the field of logistics, licensing, and certification, the export of Khabarovsk companies will be expanded.

D. Simplified Administrative Procedures Such as Customs Clearance

Russia ranked 38th out of 137 countries in the 2017 national competitiveness rankings of the World Economic Forum (WEF). However, it ranked 83rd in institutional competitiveness. In the World Bank's "Doing Business," Russia ranked 40th out of 190 countries, but it ranked 140th in terms of international trade. This means that the preparation and customs procedures for export are too time-consuming and costly.

One of the biggest challenges for businesspeople in the Far East is the complex and

inefficient administrative procedures. An entrepreneur who attended the Far East Business Forum was asking the governor to cut the number of public officials to half to shorten the time. The Khabarovsk government also acknowledges that there are technical problems with administrative procedures. Khabarovsk Krai has proposed to the federal government to streamline its administrative procedures and said that, in the last three to four years, 30–40 rights have been transferred from the central government to the local government.

Russia has streamlined customs procedures since 2004, allowing the central government to reduce the period of customs declaration inspection to three days and to allow the goods to be brought in later after the previous customs declaration of goods. In addition, the customs officer for the registration process has made improvements to request a list of closed documents to government agencies when necessary. However, the logistics performance related to border clearance is still low. It is not implemented properly by the customs authorities on the frontline, which causes damage to many exporters and obstructs the competitiveness of Russia.

It is important to solve ineffective administrative procedures to prevent unnecessary waste of time in the process of customs clearance so that direct effects will be reflected to export companies in the future.

E. Improvement of Logistics Infrastructures

As Khabarovsk Krai is on its early stage of export promotion, there are still many problems related to the export of SMEs. To increase the number of exporters in Khabarovsk Krai and increase the exports of SMEs, logistics problems should be solved first.

There are many food production enterprises in Khabarovsk Krai, so the distribution period of food processing products is short. In interviews with local businessmen, honey producers in Khabarovsk Krai pointed to logistics problems. It is impossible to supply honey using a normal container, so a heating and cooling container is needed, and the logistics cost is too high. There is not yet a system in Khabarovsk Krai of sharing air-conditioning containers between SMEs. A company with sufficient competitiveness in terms of raw materials and technology can export more products if there is an efficient logistics infrastructure in which the product can be received by the buyer within two days.

This requires an efficient transportation system to be built up urgently. If a company can collect products, such as confectionery and honey, in one container, it can export them within the expiration date. Now, however, they have to spend half the time to fill a single container.

Another issue is related to the sanitary control procedure, which needs to be addressed along with logistics issues. Until now, if an average of two certifications per month are needed, more than three certifications may be required per week if the logistics problem is

resolved in the future. Without the shortening of procedures to solve this, the efficiency of logistics becomes meaningless.

At present, the Khabarovsk government is in a position to solve problems one by one, as stated by the Russian proverb, “An elephant cannot be eaten at once.” However, if Khabarovsk Krai wants to expand SMEs’ exports, the government should hurry to improve the logistics system. To actually implement this, it will be necessary to carefully prepare for the impact analysis by professional organizations. If several companies jointly establish a logistics system (LCL freight transport) that transports them through a single container, the export logistics problem can be solved to a certain extent. In this case, the number of companies that pay taxes will increase due to an increase in exports, which is a profitable leading investment for the government.

F. Introduction of the Trade Company System

In the case of Korea, the GTC system as well as the government and KOTRA played a role in the process of export expansion in the 1970s and 1990s.

As mentioned above, the GTC system was abolished in 2009, but its necessity was recognized, and so, the CTC system was newly introduced in 2014. As of May 2018, 240 CTCs with expertise in products and markets are helping SMEs export.

In Khabarovsk Krai, which is in the early stage of export promotion, there is a need for a specialized company to find promising export products and to play a role of leading the export market. Currently, two companies in the wood sector and two companies in the steel sector are known to be in charge of the export business in Khabarovsk Krai, but there are no companies that act as supporters for SMEs who want to export. Currently, the Export Support and Development Center of the Khabarovsk government is playing a role, but due to the legal constraints of the government organization; lack of budget, human resources, and incentives; and other reasons, there is a fundamental limitation to its activities.

In May 2017, the Russian Federation presented 16 business standards that the state should implement to create a favorable environment for export promotion. This is called the “Regional Export Standard.” This is an integrated export support system that all local governments in Russia should implement. The system, which is currently piloted in 22 states, including Khabarovsk Krai, encourages export promotion policies and local export brands. It also encourages export support centers, the establishment of export promotion organizations, and financial support. In this context, Khabarovsk Krai needs to consider the introduction of a trading firm system to support SMEs’ exports. Korea’s CTC and GMD scheme can be good references for the Khabarovsk government. Table 1–10 compares the institutions that Khabarovsk Krai can refer to among the support systems implemented by the Korean government to expand SMEs’ exports.

[Table 1–10] Korea’s major SME export support system

	Certified Trading Company (CTC)	Global Market Developer (GMD)	Miracle K–Food Project
Enforcement year	2009, 2014	2016	2016
Scheme contents	A company that has abundant export knowledge is selected as a CTC to support small– and medium–sized manufacturers to develop overseas markets (replacing the GTC system).	GMD is a system that supports closely all the processes of the export promotion of SMEs with high export growth potential and hoping to enter overseas markets.	A system to find and support promising agricultural and marine export items that have competitiveness in the global market
Authority	MOTIE, KITA, KOTRA, and Korea Trade Insurance Corporation	Ministry of SMEs and Startups (MSS)	Ministry of Agriculture, Food and Rural Affairs (MAFRA); and Korea Agro–Fisheries & Food Trade Corp. (aT)
Current situation	240 CTCs (April 2018)	76 GMDs (May 2018)	21 items (May 2018)
Selection criteria	Exports are over USD 1 million, and the percentage of products manufactured by other companies is over 30%.	Export sales of more than USD 1 million (specializing in emerging markets) and over USD 500,000 (e–commerce), procurement market export performance or qualification (overseas B2G), and retention of direct store (distribution)	Differential functions of items, the proportion of the domestic raw materials used, the expected demand of importing countries, etc.
Target field	Chemical industry products, agriculture, forestry and marine products, machinery, steel metal products, textiles, plastic rubber and leather products, household goods, electronic appliances, minerals, etc.	Emerging markets (ASEAN, Central America and South America, Middle East, Africa, Southeast Asia, and China), e–commerce, overseas B2G, distribution, and startup	Agricultural and fisheries food sector

[Table 1–10] Continued

	Certified Trading Company (CTC)	Global Market Developer (GMD)	Miracle K–Food project
Support contents	<ul style="list-style-type: none"> ▷Credit guarantee limit expanded to 1.5 times per year ▷Grant points when participating in overseas exhibitions ▷Priority given to the request of foreign trade buyers from KOTRA, KITA, etc. ▷Support for holding business meetings with domestic companies and new export companies ▷Preceding information related to overseas market 	<ul style="list-style-type: none"> ▷Participation as a supervisory organization when sending overseas exhibition and market pioneering groups ▷Financing for export financing (short term [one year]) and export business financing (long term [five years]) ▷Short–term trade insurance premium (50% discount) <ul style="list-style-type: none"> ▷A GMD is designated as a CTC through the recommendation of MSS. ▷Online/off–line matching meeting held jointly with MSS and related organizations. ▷Provision of office space and equipment, meeting expenses, partial support for activity expenses, etc. 	<ul style="list-style-type: none"> ▷aT supports self–support programs for functionalization verification, customs clearance and quarantine procedures for selected items, and the overseas market development activities of SMEs such as participation in international fairs. ▷In addition, a CTC provides a step–by–step testing of marketability, support for test export and export settlement, and support for market diversification.

G. Fostering “Born Global” Companies

There are about 64,000 SMEs in Khabarovsk Krai, but only 186 companies are doing export activities. As of 2016, SME exports account for only 40% of the total exports of Khabarovsk Krai.

Currently, the Khabarovsk government and the Export Support and Development Center are encouraging SMEs to export, but SMEs are reluctant to do so because of the complicated administrative procedures, lack of information on overseas markets, risks and fears about exports, and possibility of uncertain success. In Khabarovsk Krai, businesspeople are becoming increasingly popular, but in reality, only a small number of people are becoming entrepreneurs. The percentage of people who dream of becoming businesspeople in the Far East is about 2.5%.

Accordingly, it is necessary to strengthen education to raise the awareness of businesspeople. Fortunately, projects are underway to support the training of businesspeople at the federal level. The Bulatov Group, which attended the Far East Business Forum, is supporting a start–up project to train 1,000 entrepreneurs for four years. At the Khabarovsk

government level, it is necessary to strengthen start-up support so as to dream of business management. In particular, it is necessary to strengthen management training so that a large number of “Born Global” companies are engaged in product development and marketing activities aimed at overseas markets rather than the domestic market from the beginning of business.

In addition, the Khabarovsk government needs to promote the export support programs of the federal government, such as “Russian Exporter” and “Made in Russia,” to companies. It is also necessary to hasten the support policy outlined in the Regional Export Standard. There is a need to provide a support package rather than formally awarding a certificate to SMEs that have achieved export targets on Export Day. This is because such companies deserve to receive both honor and economic benefits. The Khabarovsk government needs to refer to the various benefits that the Korean government offers to export-winning companies (export marketing support, export financing, low-interest bank loans, etc.).

On the other hand, for exports to expand, an entrepreneurial spirit that is as strong as the government support is required. The government is a mere helper, but the parties for expanding exports are the entrepreneurs in Khabarovsk Krai. Instead of a narrow domestic market, companies in Khabarovsk Krai need to take a “Born Global” strategy that targets overseas markets from the beginning. Businesspeople should not neglect product innovation to cope with changes in the overseas demand and to secure competitiveness. Through this process, SMEs in Khabarovsk Krai can grow into “hidden champions.” Companies should closely monitor changes in demand in overseas markets. They must not rely on the government but instead build their own information network by actively utilizing the Internet and participating in overseas exhibitions.

H. Expanding Participation in the Global Value Chain (GVC)

The biggest problem of exporting in Khabarovsk Krai is that the proportion of primary products that depend on resources is too high, and the export of manufactured goods is irregular every year. Khabarovsk Krai has the most number of industrial bases in the Far East, with a comparative advantage in the areas of aircraft manufacture and shipbuilding. However, as these sectors are not included in the GVC, it is difficult to expect the intra-industry trade to be revitalized.

To ensure the stable growth of exports, Khabarovsk Krai shall encourage companies in the manufacturing sector with a comparative advantage to be incorporated into the GVC. Komsomolsk-on-Amur Aircraft Plant (KnAAZ) in the aircraft sector and Khabarovsk Shipbuilding Yard in the shipbuilding sector are expected to participate in the international division of labor with Korea and other neighboring countries.

If you look at the value chain of the aircraft industry in Khabarovsk Krai, you can see

that the final assembly of aircraft is conducted in Khabarovsk Krai, and the design and development functions of the aircraft as well as almost all its core components and systems depend on other regions. Currently, KnAAZ, which produces various fighters and civilian medium-sized aircraft (Sukhoi Superjet 100), and Sukhoi Civil Aircraft Company (SCAC), which assembles private aircraft, play key roles. In addition, there is Safran in France, which produces aircraft engines, and PAX LLC in Russia, which produces and supplies cable networks. However, other major parts—such as glass, chassis, wheel, wing, door, and interior—are imported from abroad (e.g., France, USA, and Italy), and some parts and modules are procured from other regions of Russia such as Novosibirsk. The final work (painting, interior construction, etc.) before delivering the aircraft is also made in Russia for domestic aircraft and in Venice for export. The infrastructure for aircraft maintenance service in Khabarovsk Krai is also weak.

The aircraft industry in Khabarovsk Krai has not got “Value Chain Integrators” with global competitiveness. It is because the GVC is also limited compared to Boeing and Airbus. Therefore, for the aircraft industry in Khabarovsk Krai to achieve international competitiveness in the field of civilian aircraft, it is necessary to establish an international division of labor with Korea, China, and Japan for technology development and market access. The aircraft industry in Khabarovsk Krai needs to consider joint venture for development and production systems through technological cooperation with KAI (located in Sacheon, Gyeongsangnam-do).

[Figure 1-6] Export status of Korea Aerospace Industries (KAI)



Source: <http://www.koreaaero.com/english/>.

On the other hand, Khabarovsk Krai needs to support local manufacturers to participate in the international division of labor, targeting global companies' outsourcing needs such as the GP program that KOTRA has been pursuing since 2010 in Korea.

Companies in Khabarovsk Krai need to be actively involved in the GVC to secure global competitiveness and sustainable growth. According to JA Mathews' Linkage-Leverage-Learning (LLL) theory, for emerging country companies to grow rapidly as advanced companies, they must participate in the value chain of companies in developed countries to form sustainable business relationships, thereby leveraging the strategic assets of advanced companies, and they must go through a learning process that makes it an advantage factor of its own.

I. Establishment and Implementation of an Export Promotion Road Map

As Khabarovsk Krai is in the early stage of export promotion, there is a long way to go. The Khabarovsk government needs to establish a short-, medium-, and long-term export promotion road map, and implement the proposed policies step by step.

Based on the results of previous studies, Tables 1-10 and 1-11 presented the basic direction of export promotion policies by period and the export promotion road map for Khabarovsk Krai, respectively. If the improvement of the system and the creation of an environment are short-term policies to expand the exports of existing export companies, the development of high value-added products using resources as resource-linked export models and the incorporation of the GVC are medium-term policies. The development of strategic industries through the construction of industrial infrastructures and attracting foreign companies, that is, the upgrading of the quality of the industrial structure, can be classified as long-term tasks.

[Table 1–11] Basic direction of the export promotion policy

	Short Term (2018)	Midterm (2020)	Long Term (2025)
Export products	“Star” products and “Promising” products (aircraft, resources, and agricultural products)	Resource–linked high value–added products (wood pellets and processed food such as bottled water)	Strategic industrial products with large spillover effects (processing machinery for forestry and agricultural products, etc.)
Export markets	China	China + Korea and Japan	South Korea and Japan + Vietnam, India, etc.
Basic policy direction	<ul style="list-style-type: none"> ▷Early enforcement of the Regional Export Standard ▷Utilizing the federal government’s export support programs ▷Building cooperation among export support organizations 	<ul style="list-style-type: none"> ▷Intra–industry trade activation through incorporation into the GVC ▷Regional Cooperation Network expansion 	<ul style="list-style-type: none"> ▷Upgrading the industrial structure through industrial cluster composition, the construction of logistics infrastructures, and attracting foreign capital

For reference, the Russian federal government has already prepared an “Action Plan for Supporting Entry into the Foreign Market and an Export Support Action Plan (Road Map)” in June 2012 and amended it in July 2015. The road map is designed to facilitate the export of non–resource and non–energy products needed for export diversification. The road map includes the specific objectives to be achieved such as easing export requirements for non–resource products, increasing the number of small– and medium–sized export companies, expanding the export of innovative products, and diversifying export support systems. If this road map is implemented as planned, the Russian government hopes to create a favorable environment for Russian companies to strengthen their export competitiveness in the global market.

The Khabarovsk government is expected to achieve high economic growth by expanding exports to Far East Asia if it faithfully implements its own export promotion road map.

[Table 1–12] Continued

	Specific Export Promotion Policy	Korean Case
Long term (2025)	<ul style="list-style-type: none"> ▷Creation of an industrial cluster by improving infrastructures and attracting foreign companies – Activation of TASED in the field of aircraft, forestry, processed agricultural, and marine products ▷Promotion of a Far East Asian economic zone that links Russia’s New East Asia policy and Korea’s Northern Economic Cooperation initiatives – Infrastructure and resource development project by combining Khabarovsk Krai’s resources, North Korea’s labor force, and Korea’s capital ▷Expansion of the trade network with APEC countries such as Vietnam, India, and ASEAN 	<ul style="list-style-type: none"> ▷Masan Free Trade Zone

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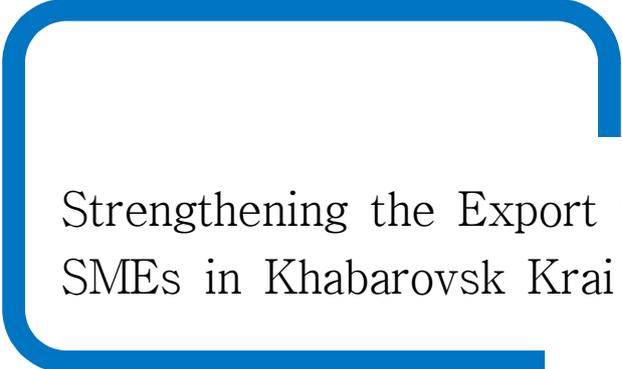
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2017/18 Knowledge Sharing Program
(Industry & Trade) with Khabarovsk Krai

Chapter 2

Strengthening the Export Capacity of SMEs in Khabarovsk Krai

1. Russia's SME Export Support Policy
2. Khabarovsk Krai's Industrial Structure and Export SME Support Policy
3. Korea's Industrial Structure and Export SME Support Policy
4. Suggestions for Strengthening the Export Capacity of Khabarovsk



Strengthening the Export Capacity of SMEs in Khabarovsk Krai

Yong Kwon Lee (Hallym University)

1. Russia's SME Export Support Policy

1.1. Background of Strengthening SME Support in Russia

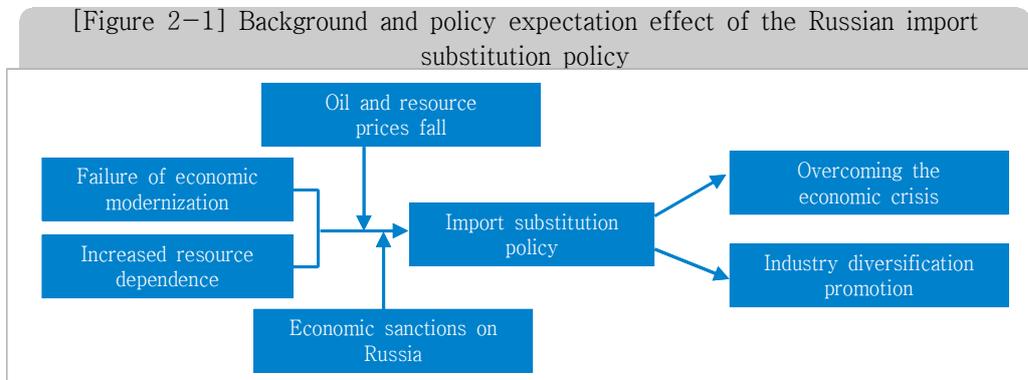
Since 2000, the Russian economy has entered a period of full-scale rise through a decade-long tunnel of recession. Thanks to the global rise in energy prices, Russia's economy, which has large-scale reserves of energy resources, is booming. The Russian economy in the downturn of the 1990s has grown tremendously with soaring oil prices. At the same time, when energy prices plummeted due to the financial crisis in 2008, when international oil prices peaked, Russia's economic growth also fell rapidly.

Faced with the 2008 financial crisis, experts have confirmed through various economic indicators that the energy-dependent instability of the Russian economy is greater than anticipated. Moreover, they started to publish the analysis that it is necessary to look for the qualitative change of the economic structure. In fact, it is not that the Russian government did not anticipate the impact of fluctuating oil prices on the Russian economy. The establishment of the Stabilization Fund is a form of typical crisis management. In the 2000s, large-scale investments in social infrastructures—such as roads, railways, telecommunications, airports, and ports, were also expected to boost the overall industry, which would be the driving force for diversification and normal economic activity.

However, the effect is not very successful. When the Crimean Peninsula merger incident took place in Russia since 2013, Russia has invested on stabilization funds that have accumulated over the years to overcome the strong economic sanctions by western countries and the global economic downturn. Moreover, the Russian government promoted domestic economic stimulus policies centered on the SOC industry. Nevertheless, the short-term decline in GDP was sharp.

The anti-crisis policies established in 2008³⁾ and the Russian government's countermeasures to cope with the crisis in 2014 were roughly similar. That is, the Russian government tried to solve the crisis caused by external factors by revitalizing the domestic market. However, the domestic market in Russia has not been promoted to the extent expected by the Russian central government. The main reason is the economic structure and the export structure, which depend on the primary industry including energy resources. The proportion of raw material production to GDP has steadily exceeded 10% within 10%-12% from 2010 to the 1st half of 2015, and the proportion of exports of raw materials also increased from 50% in the early 2000s to 70% at the end of 2014.

However, the situation in 2014 is different from that in 2008. If the situation in 2008 is due to economic factors solely, the situation in Russia in 2014 is due to the addition of international political factors to economic factors. It is the dilemma of the Russian government that it is difficult to rapidly improve the deteriorating economic situation unless a way to solve the international political situation is presented, even when the recovery of the global economy is visible. In this context, the Russian government continued its economic modernization policy, which is one of the anti-crisis policies pursued as a means of overcoming the Russian economic crisis. Among them, the import substitution industry promotion policy is one of the representative policies. This has been created because of multiple factors, namely, responding to western sanctions against Russia, overcoming Russian economic crisis, and promoting the diversification of the Russian industry. This policy was the main policy of the Russian government to be implemented by 2020.⁴⁾



Source: Lee Sang Joon and Lee Dae Sik. 2016. "Changes in Russian Industrial Policy and Industrial Complex and Korea-Russia Industrial Cooperation." *Russian Studies*, Vol. 26, No. 2, p. 337.

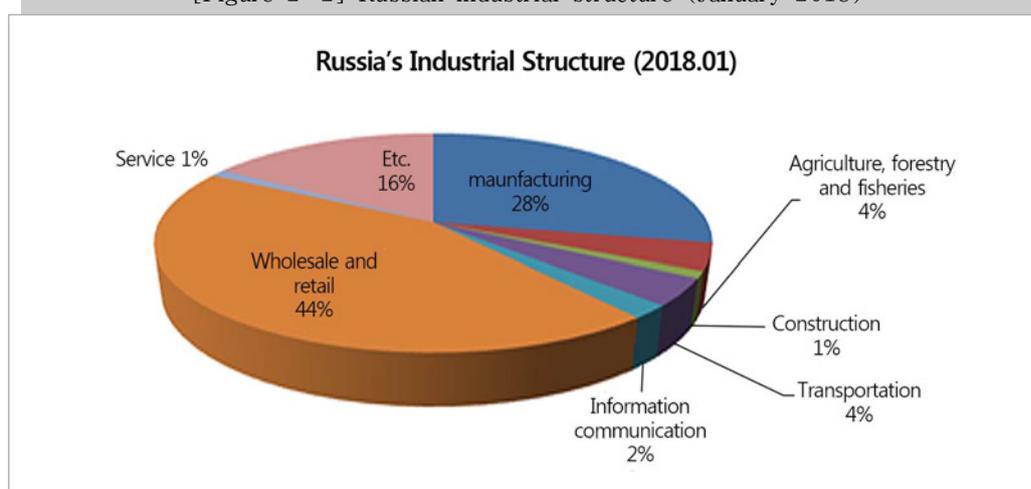
3) In response to the financial crisis of 2008, the Russian government proposed a program to overcome short-, medium-, and long-term crises. It can be summarized as financial and real economy adjustment in the short term, economic modernization in the medium term, and the establishment of an advanced economic system in the long term.

4) Lee Sang Joon and Lee Dae Sik. 2016. "Changes in Russian Industrial Policy and Industrial Complex and Korea-Russia Industrial Cooperation." *Russian Studies*, Vol. 26, No. 2, p. 336.

Above all, however, it is one of the most important policy directions in the Russian economy to move away from economies that depend on useful mineral resources including energy resources. In particular, the share of resource exports, which is 50%–70% of the GDP, is a serious problem, and this shows that the manufacturing sector, which is the axis of industrial modernization, is weak. In this respect, fostering the import substitution industry means fostering the manufacturing sector that has the competitiveness of combining technology. To overcome the inefficiency of a resource–dependent economy, it is necessary to strengthen its innovation capacity, which requires changes in the corporate structure and the start–up of innovative companies.

According to the data released by the Russian Statistical Office, in January 2018, the primary industries of forestry, agriculture, and fisheries accounted for 4% of the Russian industry; wholesale and retail trade has the largest share (44%) in the Russian industry. Moreover, the manufacturing sector is 28%, which is exceptionally high compared with the previous one. This is certainly a very high figure compared to an average of around 20% in the past five years, but it is expected to approach the five–year average by the end of 2018, based on previous experience, which was high at the beginning of each year.

[Figure 2–2] Russian industrial structure (January 2018)



Source: Russian Statistical Office.

The manufacturing sector with competitiveness, which the Russian government is pursuing as a strategy to overcome the crisis, accounted for 12.4% of the Russian industry in 2016.

Even if secondary industries—such as mining, construction, water, and electricity—are included in manufacturing, the proportion of manufacturing to industrial structure is 20.8%. However, the problem is that the proportion of manufacturing has been declining. The share

of manufacturing in the Russian industry is gradually decreasing from 17.6% in 2007 and 15.2% in 2012 to 12.4% in 2016. However, the sharp increase in the manufacturing industry in January 2018 is expected to change the structure of the Russian industry. The downturn in manufacture is difficult to make a virtuous cycle structure that overcomes the crisis caused by the recession of the global economy and the slowdown caused by western sanctions through the revitalization of the domestic economy. Moreover, the weakening of the manufacturing industry may deepen the imbalance of trade and make the situation worse. In this context, it can be understood that the Russian government is promoting the expansion and strengthening of the export industry along with the development of the import substitution industry as a means to overcome western economic sanctions.

1.2. Status of SMEs in Russia and SME Export Support Policy

The decline in energy prices has severely damaged the industrial production in Russia. In particular, the decline in the export prices of energy products, which account for about 50%–70% of exports, led to a review of the Russian government's economic policy direction. The Russian government defined this overall situation as a crisis, and established economic recovery and sustainable development policies. The establishment of anti-crisis policies is a representative example. The core of the anti-crisis policy is to foster technological innovation industries through the development and application of new technologies, support for import substitution industries in the same context, and strategies for the diversification of industries and export products. According to this policy, to stimulate the domestic market, the import substitution industry has been set up to foster SMEs with technological competitiveness, and to designate special economic zones (Territories of Advanced Social Economic Development [TASED], free ports, and Far East hectares) for the smooth flow of investment.

To induce the stable growth of the Russian economy, the Russian government promoted the diversification of products and the industry by strengthening the competitiveness of the manufacturing sector and nurturing the import substitution industry. This goal of this policy is settled by being incorporated into Asia–Pacific economies with a leading position. It is proposed to create “international–level trade relations,” with “leadership” and “technological innovation (new technology development)” as prerequisites for carrying it out. It can be seen that the focus is on SMEs with technological capabilities, not on large companies or energy industries, which have been supported for the purpose of increasing the size of the economy up to now.

Recently, the Russian government has emphasized that SMEs are the central axis of their economy, and is making efforts to nurture the import substitution industry and export SMEs. Since 2000, when the Russian economy started to rise in earnest, this trend has been made

in terms of the diversification of industries and economic entities. However, the actual export SMEs policy has been promoted since the mid-2000s. The Russian government enacted the Russian Small and Medium Enterprise Support Act in 2007, aimed at expanding the number of SMEs by creating a business-friendly environment, and strengthened the support for export SMEs.

In support of this goal of the central government, former president D. Medvedev announced in 2008 that, by 2020, the proportion of SMEs to the GDP will increase to 60%-70%. Moreover, based on this, the Ministry of Economic Development of Russia announced SME support programs. In addition, by 2015, SMEs will also increase their share of total GDP in Russia to 22.4%. The following are the SME support programs announced by the Ministry of Economic Development of the Russian Federation.

[Table 2-1] Small and medium business support program for 2012-2015

Division	2012	2013	2014	2015
	(Forecast)	Vision		
Share of SMEs and individual operators in the workforce, %	25.5	26	26.5	27
Share of SMEs in GDP, %	21.3	21.7	22	22.4
Number of SMEs per 1,000, person	11.4	11.8	12.1	12.5
Number of individual businesses per 1,000, person	29.8	30.5	31.3	32
Number of SMEs receiving government support, each	252,000	At least 250,000	At least 250,000	At least 250,000

Source: Ministry of Economic Development of Russia. Status of SMEs in Russia and Support Policy. Quoted by KOTRA. (news.kotra.or.kr) (Date of search: November 23, 2017)

The purposes of the program are to simplify records retention, provide special tax rates, provide preferential treatment in public procurement, simplify tax and fee refunds, and support infrastructures, which are enacted by the law. In addition to the legislation, the government also has a plan to enforce SME support programs, allowing the federal, local, and municipal governments to operate SME support programs and provide SMEs with financial or nonfinancial support through these programs.⁵⁾

Financial support is administered by the Ministry of Economic Development of the Russian Federation, and the budget is distributed to local governments in the form of local subsidies. In 2012 alone, the Russian government approved the expenditure of RUR 19

5) Russia's Ministry of Economic Development, Russia SMEs Status and Support Policy, KOTRA Re-Citation. (search.kotra.or.kr) (Date of Search: 2017.11.23.)

billion (about USD 630 million) for supporting innovative companies and lending to companies to modernize production facilities, and RUR 18 billion (about USD 600 million) have been contributed to the creation of industrial and technological innovation complexes.⁶⁾

In addition, it provides financing for SMEs through the Russian SMEs Support Bank (MSP Bank). However, the MSP Bank does not directly support the fund but through commercial banks and other financial institutions. Funding is provided mainly to manufacturing and high-tech companies, and in 2010, a total of RUR 750 billion (approximately USD 2.5 billion) was supported. Moreover, if it is a micro/small company, it will support about RUR 120 million; and if it is a small company, it can support RUR 800–2,000 million. The important condition here is that the foreign shareholder should not exceed 49% (when it is a corporation), and the stake of the local government, including the Russian central government, should not exceed 25%. If the stake exceeds that range, the company is not eligible for financial aid.⁷⁾

The Russian Venture Company (RVC) was founded in 2006 to support innovative SMEs and export related products. RVC focuses on nano, medical, IT, security, bio, aerospace systems, and energy.

On the same line with the SME promotion policy, export SMEs can receive the necessary support related to export through local government agencies. The most prominent support is to get financial support and to engage in government projects to develop export markets. It is motivating the export business of SMEs by providing more incentives to exporters. In the early stage of export, companies can receive information, such as marketing and export-related DB, through local governments; from time to time, companies have made available a variety of services from export support agencies.

According to the data released by the Ministry of Economic Development of the Russian Federation published in August 2017, the number of SMEs has recently increased sharply. It has grown by more than 10% compared to the same period of last year and announced that about 5.73 million SMEs are located in Russia.⁸⁾ The fact that the number of SMEs in Russia has greatly increased but the number of export SMEs is less than 1% of the total SMEs (13,500 total export SMEs at the end of 2016) means that Russia's export potential is not so high.⁹⁾ The reason can be found in the industrial structure of Russia.

As can be seen from the figure below, the sectors that occupy the largest share of Russian SMEs by industry are the wholesale and retail sectors (37.4% for each sector and 52.9% for sales). In the manufacturing sector, however, SMEs account for 8.7% of the sector and 13.7% of the total sales.

6) *ibid.*

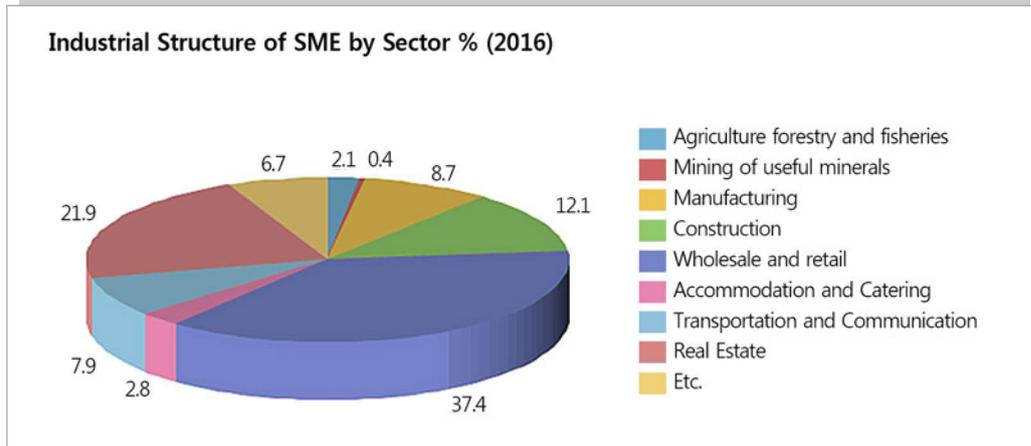
7) <https://www.mspbank.ru/Predprinimateliam>. (Date of search: November 22, 2017)

8) *Malogo biznesa v Rossii stalo bol'she*. www.vedomosti.ru/. (Date of search: November 30, 2017)

9) *Malyy i sredniy biznes prirastayet eksportom*. <https://www.gazeta.ru/>. (Date of search: January 13, 2018)

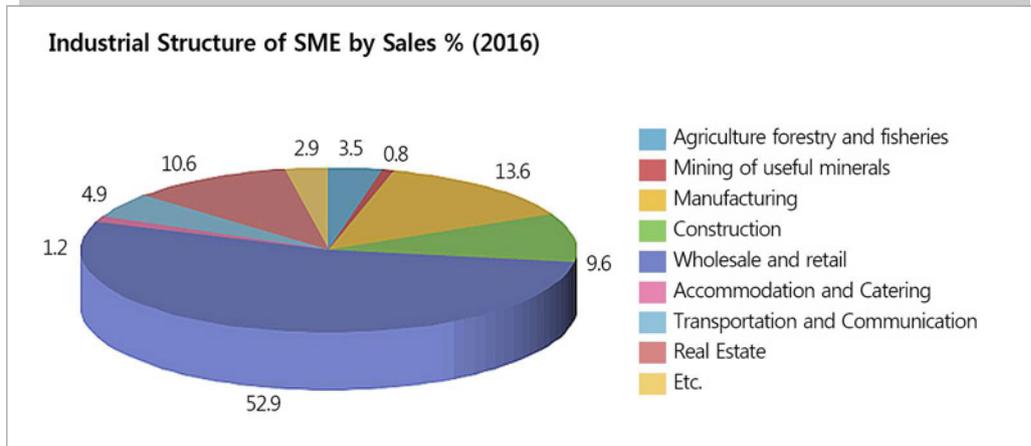
The low proportion of the manufacturing sector that drives exports disproves the thought that SMEs' export expansion policy has not been effective at least until the end of 2016. In particular, the Russian government prepared for the promotion of SMEs, hoping for the revitalization of the import substitution industry, especially SMEs with innovative technologies and innovative companies. However, the growth of such companies has fallen short of expectations, and the growth of exporting SMEs has also declined.

[Figure 2-3] SME industrial structure by sector in Russia (2016)



Source: Russian Statistical Office.

[Figure 2-4] SME industrial structure by sales in Russia (2016)



Source: Russian Statistical Office.

In short, the support policy of Russian SMEs, which started in earnest since the mid-2000s, is successful from a quantitative point of view. Although the growth of SMEs in 2015 and 2016 has stagnated due to the global economic recession in 2014 and Russian economic sanctions, the overall trend has been steadily growing since 2010. However, in terms of the reorganization of the Russian industrial structure, this is a challenge for the central government to consider in light of the results, which are somewhat different from those of the Russian government, which anticipated the role of SMEs in the field of non-resources and manufacture. In other words, to diversify the industry by cultivating the import substitution industry, the active start-up of innovative companies in the manufacturing sector is needed. In this context, SMEs' exports will become more active as well including the provision of a system that allows innovation companies with technological competitiveness to survive in the early days of their start-up.

2. Khabarovsk Krai's Industrial Structure and Export SME Support Policy

2.1. Industrial Structure of Khabarovsk

The area of Khabarovsk Krai is 788,600 km², which is about 3.5 times larger than the Korean Peninsula. However, its population is very small—about 1.3 million—compared with the area. This means that they have an inefficient production and consumption structure of economic activity. It is very likely that the consumption structure due to production will not be dispersed naturally to a large area and is limited to a specific region, and therefore, production is inevitably limited. Nevertheless, as the center of the Far East, central government support and its merit as a transportation hub are highlighted, and Khabarovsk Krai is also a relatively developed region of primary industries and manufacture.

However, after Vladivostok was designated as the venue for APEC Summit 2012, and in 2007, the economic status of Khabarovsk weakened because Vladivostok replaced the role as Russia's Asia-Pacific counterpart. As a result, the economic dynamism of Khabarovsk Krai has lost its momentum compared to the past. This indicates that, since 2008, the economic growth rate of Khabarovsk Krai has remained largely stagnant. After posting a -7% growth in 2009, it rebounded to 11% in 2010, but the growth slowed down to -4.3% to 2.5% until 2016. This is slightly higher than the average growth rate in Russia, but it is lower than that of the major federal entities in the Far East such as the Maritime Province and Sakhalin. For that reason, in 2016, Khabarovsk Krai's GDP grew by 0.1%, and its industrial productivity, by about 2.4%. (The Khabarovsk government expects this to increase by 3.6% in 2017.) The new job growth rate also grew by only 0.5% in 2016; therefore, the economic stimulus policy by expanding the domestic demand is unclear.

The necessary policy direction for the economic development of Khabarovsk is to promote the domestic industry and export. To promote production in Khabarovsk Krai, where the population is small and the consumer market is weak, expansion of the market is of utmost importance. Therefore, the expansion of exports to neighboring countries with large-scale markets is a natural policy direction. Considering the position of the Khabarovsk province and responding to the policies of the central government, the government of Khabarovsk aims to revitalize the domestic industry through the development of the import substitution industry and the support for the export enterprise by fostering companies with global competitiveness.

In the major industrial structure of Khabarovsk, the wholesale and retail sectors accounted for 49% of the total sales in January 2018, followed by manufacturing (12%), transportation (10%), and agriculture and forestry (8%). One of the characteristics of the structure of the industry in Khabarovsk is that the ratio of wholesale and retail trade and manufacturing is low compared to Russia as a whole, and that the proportion of services, such as traffic and communication, is high. However, the fact that the whole industry develops evenly over other federal entities is also a hallmark of the Khabarovsk industrial structure.

[Figure 2-5] Khabarovsk's main industrial structure (January 2018)



Source: Russian Statistical Office.

As of 2016, the total number of SMEs in Khabarovsk Krai is 63,442, and the share of SMEs that contribute to the Khabarovsk Krai economy is 46% based on sales. This is the highest level since 2010, and it is analyzed that it is the result of the Krai government advancing the promotion of SMEs as a core economic policy and as an important means to overcome the economic crisis in 2014.

[Table 2–2] Share of SMEs in the total sales of Khabarovsk Krai

	2010	2011	2012	2013	2014	2015	2016
Proportion of SMEs to the total sales, %	32.3	35.3	35.4	32.7	32.5	33.0	46.0
Number of government–supported SMEs, number	1,673	1,701	1,682	1,872	1,991	2,528	4,270
In the overall budget, SME support through taxation, RUR million	10,916	12,972	14,178	15,742	17,691	19,150	19,800
Krai budget, RUR million	8,299	9,159	10,744	11,280	12,362	12,691	13,000

Source: Khabarovsk Small Business Bureau, Ministry for Development of the Russian Far East (msb.khabkrai.ru/).

2.2. Status and Problems of Exporting SMEs in Khabarovsk

In response to the central government’s SME promotion policy, Khabarovsk is regarded as the backbone of the economy in the region. In 2012, Khabarovsk has set up a government program to “develop SMEs in Khabarovsk Krai from 2013 to 2020,” and aimed to create favorable conditions for the development of Krai’s SMEs and solid functioning. The challenges of this program include improving the financial situation of the company, seeking to develop the production and innovation potential of SMEs, developing SME support infrastructures, collecting and analyzing information, establishing initial support conditions for corporate activities, developing business cooperation with the private sector, and developing production and cooperation between SMEs in Khabarovsk Krai.

In addition, the most basic methods to support SMEs include financial support, infrastructure development and cooperation, information collection and analysis assurance, and financial input for SME promotion every year from 2014 to 2020. The total amount of financial input was RUR 5.65 billion; the federal budget is about RUR 12.4 billion, the Krai budget is about RUR 10.6 billion, Khabarovsk Krai’s regional budget is RUR 320 million, and none–budget is about RUR 3.03 billion.

According to the data from the Ministry for Development of the Russian Far East, the number of SMEs in 2016 is 63,442, of which 140 are medium enterprises, 29,661 are small businesses, and 33,641 are private enterprises.

[Table 2-3] Trend of increase of SMEs in Khabarovsk

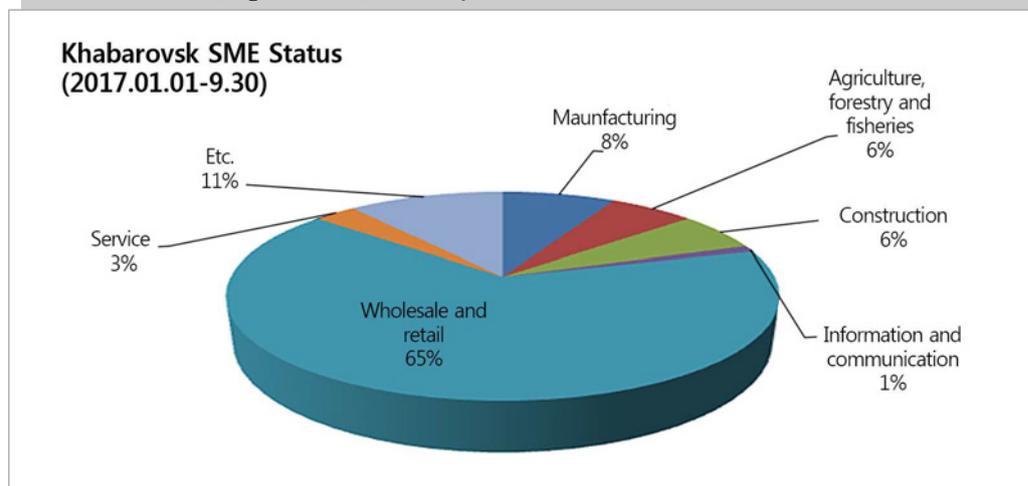
	2010	2011	2012	2013	2014	2015	2016
Total number of SMEs, number	49,614	52,438	54,652	54,887	59,224	59,500	63,442
Medium companies, number	183	138	140	168	140	140	140
Small companies, number	14,221	16,506	17,481	21,310	26,089	26,089	29,661
Private companies, number	35,210	35,794	37,031	33,409	32,995	33,271	33,641

Source: Ministry for Development of the Russian Far East (msb.khabkrai.ru).

In January–September 2017 in Khabarovsk, the wholesale and retail trade (36%) accounted for the largest portion in terms of industrial sectors by the number of SMEs, followed by construction and real estate. In terms of sales, wholesale and retail trade accounted for the largest share of 65% in Khabarovsk SMEs by industry, followed by manufacturing (8%), construction (6%), and agro–fisheries (6%).

Noteworthy is that the number of SMEs has increased dramatically in recent years. It is difficult to assess this part at present, but it is clear that Khabarovsk Krai’s SME policy has achieved results. Most of them are found to be one–start–up companies, but it seems clear that the start–up business is actively developing as the Khabarovsk government encourages and supports start–up programs.

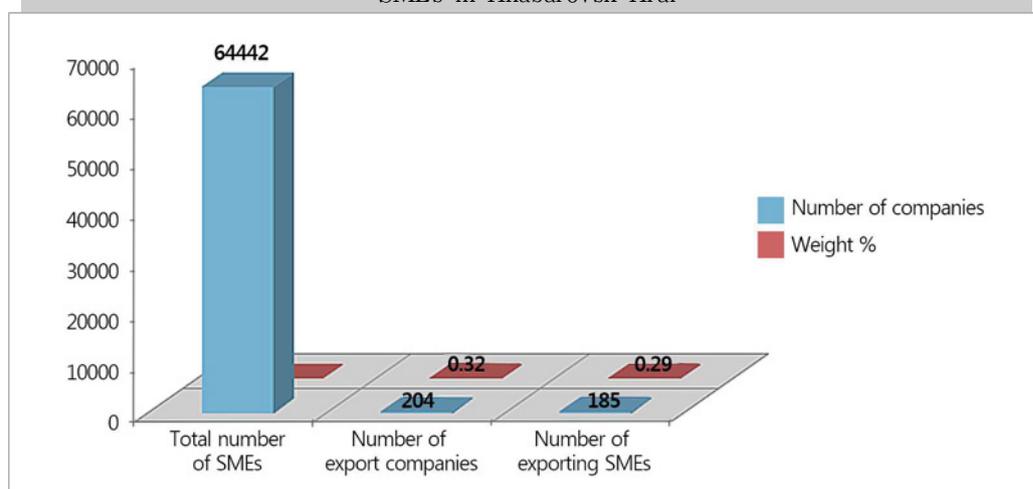
[Figure 2-6] Industry structure of Khabarovsk SMEs



However, the low proportion of manufacturing SMEs in the industrial structure does not comply with the export growth of the manufacturing sector in Khabarovsk. Although various SME support programs are being prepared, the lack of support for the development of SMEs that are close to the goal of fostering the import substitution industry means that the diversification strategy of the industry in Khabarovsk should be changed.

According to the data from the Khabarovsk Krai Small Business Bureau under the Ministry for the Development of the Far East, there are about 140 middle companies with less than 250 employees in the province, and 63,442 total SMEs including one-person companies.¹⁰⁾ Of these, there are 204 export companies, among which export SMEs are only 185 in 2016. Most of these companies are engaged in the wood industry or in businesses related to it that target the Chinese market.

[Figure 2-7] Number and proportion of SMEs, exporting companies, and exporting SMEs in Khabarovsk Krai



Source: Ministry for Development of the Russian Far East (msb.khabkrai.ru/).

There is “Asia Les” as an export lumber company that represents Khabarovsk Krai and exports wood to Germany, Hungary, and Poland based on advanced wood processing technology. It also exports in the fields of machinery, metal, fuel and energy, construction, and chemistry; however, the proportion of SMEs in this sector is very low. In the case of SMEs, it is difficult to judge these companies as exporters because their export sales do not have continuity, and domestic sales account for most of them.

The representative export companies by sector in Khabarovsk (including medium-sized enterprises) are as follows.

10) Source: Ministry for the Development of the Russian Far East (msb.khabkrai.ru/).

[Table 2-4] Major export medium enterprises in Khabarovsk

Field	Major Export Companies
Mechanical design and metalwork	Komsomolsk-na-Amure Gagarin Aviation Plant / Amur cartridge factory, "Vimpel" / Amur Shipyard / Khabarovsk Shipyard / Far East energy machinery construction factory / Dal Lemmasi
Metal	Amur Metal
Fuel and energy	Rosneft-Komsovskiy Refinery / Khabarovsk Refinery / Daltransugol / Urganugol
Wood	Asia Les / RFP Group / Flora / Eastok / Pitonchit
Construction	Master Fleet / Construction Alliance / TehnoNICOL / Engineering technology center, "Synthetic Plus"
Chemistry	Dalximfarm / Leader
Food industry	Rikero-Vodochini factory, "Habarovski" / Soya
Wood processing production	Kur-Vostok-Urmi / Zolatoi Teletsu / Zaiza
Innovation	Kompaniya Inobachiya / Basque Plastics / Biotex-Agro / Technopark KnFGTU
Fishing	50 th Anniversary Fish Plant / Fishing Artel "Inya" / Fish Colkhos "Boshod" / Troitsky Fish Processing Complex / Sigma Marine Technology
Light industry	Companion Pauline
Education services	Pacific National University / Far Eastern State Transport University / Komsomolsk-na-Amure State Technical University / Khabarovsk State Academy of Economics and Law / Amur State University of Humanities and Pedagogy

Source: Khabarovsk Export Support and Development Center.

The status of the export SMEs listed below is based on SMEs that have responded to the Khabarovsk Export SME Survey jointly conducted by the KSP team and the Khabarovsk Export Support and Development Center.¹¹⁾

11) The outline and contents of the questionnaire are as follows ("Suggestion through the Khabarovsk Export SMEs Survey").

[Table 2–5] Main products and export countries of SMEs in Khabarovsk

Industry	Major Export Products	Export Country
Apparel	Women's and children's dresses	Belarus and Germany
Fisheries	Pollack, herring, frozen salmon, caviar, frozen flounder, cod, trout, crab, stingray, and king crab	China, Korea, Japan, Hong Kong, Taiwan, Germany, USA, France, Nigeria, and Singapore
Food	Ice cream, antler, mushroom, prickly wood, honey, jam, soybean oil, and vodka	China, Asia–Pacific region, and USA
Chemical	<i>Ganoderma lucidum</i> extract, vodka, fir oil (Far East), and Florentine water (fir)	Central Asia, Mongolia, Japan, and USA
Construction	Basalt insulation, insulation mats, materials, piles, screw piles, and paint	Central Asia, Eastern Europe, and Baltic states
Innovation	Bathtubs, pollinators, liquid composite fertilizers, soil deoxidation materials, precision machining, design and 3–D modeling, software, drilling control systems, sensor data collection systems, peat, and bacterial consortium	China
Forestry	Timber sawing and processing, timber drying, timber molding products, timber, cut timber, pellets	China, Japan, Korea, New Zealand, USA, Mexico, Canada, Turkey, Poland, and Malaysia
Fuel and energy	Coal, distillate, petroleum, and diesel fuel	China, Korea, Mongolia, and Asia–Pacific region
Metal	Square metal materials and metal slabs	Thailand, Philippines, and Korea
Mechanical engineering & metalworking	Aircraft and components, food industry equipment, power equipment and compressors in various industries, warships, boats, ships, and ammunitions	Russia, CIS countries, China, Middle East, Southeast Asia, India, Korea, Syria, and Cuba

In Khabarovsk Krai's total exports, the proportion of SME exports account for less than 15% of the total. Considering that SMEs account for about 46% of the total sales in the industry in Khabarovsk, SMEs' contribution to exports is still low. It is a major task of the the Khabarovsk export SME policy to increase the export portion of SMEs to 20%–30% by 2020 (5% annual growth from 2017).¹²⁾

In this context, the expansion of the number of exporting companies should start from having external competitiveness; thus, the development of SMEs with technological

12) Standart deyatel'nosti organov ispolnitel'noy vlasti sub'yekta Rossiyskoy Federatsii po obespecheniyu blagopriyatnykh usloviy dlya razvitiya eksportnoy deyatel'nosti (Regional'nyy eksportnyy standart). www.khabexport.com. (Date of search: April 20, 2018)

capability is the most important task of the Krai government. This is because the expansion of the number of export enterprises promotes the diversity of economic entities and is recognized as the most effective means to overcome internal and external economic crises at this stage. However, exporting SMEs in Khabarovsk Krai are very low in absolute number (185) or in proportion (0.29%). (See Figure 2–7 above.)

Increasing the number of exporting SMEs in Khabarovsk and diversifying exported products are important issues in the Khabarovsk economy because it is almost the only economic growth engine that will dramatically reverse the limited market and stagnant economic growth rate. However, one of the biggest challenges in exporting SMEs in Khabarovsk is to secure the technical competitiveness of products. In fact, when SMEs are exporting, if they are less confident about the excellence of their products, they are inevitably reluctant to export. For aggressive overseas market development and marketing, the improvement of product quality should be preceded. The export growth rate of the entire Khabarovsk Krai has increased sharply in 2017 and about 1.8 times (about USD 470 million) in the 1st half of 2017 compared to the same period of the previous year. As a result, the products of Khabarovsk with a comparative advantage—fuel energy and mineral resources (1.5 times), leather goods (30.7%), and machinery and transportation (135.7 times)—have increased significantly. On the other hand, food, beverages, and raw materials (−0.2%); fish (−1.5%); and textiles and footwear (−45%), which are the major items exported by SMEs in Khabarovsk, decreased, and there was only about 22% in the wood industry.¹³⁾

In other words, the fact that the exports of the major export products of SMEs decline sharply in a structure where exports increase greatly means that their product competitiveness is not higher than that of foreign products. This means that the qualitative enhancement, diversification, and quality maintenance of the products are not performed properly.

In this context, SMEs in Khabarovsk Krai need to utilize industrial clusters and TASED that prepare for national competitiveness as well as technical knowledge to compete with competitors' products while receiving various government benefits. In the case of Korea, the "Free Trade Zone" system was introduced in the early 1970s with the aim of introducing advanced technology and knowledge at the early stage of industrialization. Through this system, SMEs that have acquired industrial technology and knowledge have grown up as export companies, and since the late 1990s, industrial clusters have been promoted in earnest, and technological improvements have been made to produce high-quality products. Considering the experience of Korea, it is necessary to make strategic choices in connection with national projects, such as TASEDs and industrial clusters, to secure the technological competitiveness and management knowledge of SMEs in Khabarovsk. It takes time and cost

13) *Obzor vneshneekonomicheskoy deyatelnosti Khabarovskogo kraya za 1 polugodiye 2017 goda* (habstat.gks.ru).

for SMEs to acquire technology with international competitiveness alone. Therefore, it is also necessary to save time and cost, and accumulate technology and knowledge through cooperation with large corporations that participate in national projects.

2.3. Opportunity to Secure the Competitiveness of SMEs in Khabarovsk

Since 2011, Khabarovsk has been providing administrative convenience and market information to export SMEs. These services are mainly provided by the Khabarovsk Krai Export Support and Development Center (www.khabexport.com). The functions and roles of the center are covered in Chapter 3 of this report. Although the center does not yet satisfy all the needs of exporting SMEs, in general, it provides general information related to the export business such as the general process and procedure of export, the gathering of overseas market information, and the education program related to this. It is also true that there is a lack of policy to encourage the export of SMEs in the Krai level. As revealed in a survey of exporting SMEs in Khabarovsk, Khabarovsk's export SMEs have difficulties in finding foreign partners, specialized information on competitive products in foreign markets, and export payment and certification procedure, and the institutional support related to this is still lacking.

However, apart from this, it is the task of individual companies to acquire competitive technologies, knowledge, and mid- to long-term management knowledge. Administrative agencies, such as the Krai government or the Khabarovsk Krai Export Support and Development Center, cannot develop technology and management knowledge on behalf of SMEs. In this regard, however, Khabarovsk has designated industrial clusters and TASED as national projects, and has mandated or encouraged the participation of SMEs, and provides opportunities for the technology development and management knowledge acquisition of SMEs within the business.

2.3.1. Industrial Cluster and SME Growth Opportunities

The industrial cluster system is one of the important industrial development policies of the country in terms of cost reduction through efficient industrial production, intensive effect, and technology upgrade. There is also an industrial cluster in Khabarovsk such as Khabarovsk aircraft and shipbuilding innovation. This industrial cluster was previously closed and operated as an open type that focuses on the diversification and localization of aircraft and shipbuilding production. It is mainly operated with the Sukhoi Superjet 100 aircraft, assembly production, and crab and trawler.

[Figure 2-8] Location of the industrial cluster in Khabarovsk



According to the data distributed by Khabarovsk, the main objective of this industrial cluster is to establish a machine construction and reengineering and innovation development center for the production of complex high-tech products, and to establish infrastructures for supporting universities, research institutes, and SMEs. Participants include large corporations, educational institutions, and SMEs. The participating companies and organizations are shown in Table 2-6.

[Table 2–6] Companies and research institutes participating in the Khabarovsk state industrial cluster

Company Name	Direction
Large Companies and Medium Enterprises	
Branch of PJSC “Company” Sukhoi “KnAAZ” (named after YA Gagarin)	Military aircraft
Komsomolsk branch of AO Sukhoi Civil Aircraft	Civil aircraft
PJSC “Amur Shipyard”	Military and civilian ships
JSC “Khabarovsk Shipbuilding Plant”	Military and civilian ships
PJSC “Far Eastern Power Engineering Plant”	Machine
JSC “Dalremmash”	Machine
Educational Institutions	
FGBOU IN “DEWAPS”	Industrial engineer training
FBOU IN “TOGU”	Industrial engineer training
FGBOU IN THE “KNAGU”	Industrial engineer training
FBBUN “Computing Center of the Far Eastern Branch of the Russian Academy of Sciences”	Large-scale statistical work and scientific research
Small Innovative Enterprises	
Dalsbyt JSC	Parts processing
OOO “Composite–DV”	Engineering service
Microterm Plus LLC	Engineering service
OOO “Continent–Tau”	Engineering service
OOO NPE “Polielektro”	Engineering service
OOO “Building Alliance”	Construction
Raduga–Service LLC	Metalworking
ZAO “Daltehlazer”	Metalworking
OOO NPP Polinom	Device manufacture
FM–Project LLC	Device manufacture
Fogstrim LLC	Software and electronics development
LLC “Innovations”	Composite material production

Source: Khabarovsk Export Support and Development Center.

Within this cluster, there are about 200 projects that help educate on system manufacturing, design, and technological processes, and grow from ideas to innovators including engineering centers; industrial robot centers; and certification, standardization, and R&D infrastructures. Benefits for companies in the cluster include tax deductions for employee training; laboratory equipment purchases and R&D; and deductions and tax benefits for rent, loan interest, and software purchase costs.¹⁴⁾

14) Materials are provided by the Khabarovsk Export Support and Development Center.

Support for SMEs is largely assisted by interaction with large corporations that have technology or executives in charge of cluster affairs. For example, projects are being developed with the aim of outsourcing products, jobs, and services to large companies, and working groups with cluster participants are held with the support of the local administration. However, the most effective way to increase the technology and management knowledge of participating SMEs is to have programs for growing SMEs until they can supply the level of products required by large enterprises with high-level technology and knowledge. In particular, large business representatives can participate in this program, and advise SMEs on passing certification procedures and standardizing their production processes, thereby raising the competitiveness of SMEs to a certain level.

In other words, the Russian government provides tax benefits, administrative convenience, incentives, etc., to SMEs in the cluster and operates a program that can enhance the competitiveness of SMEs, together with the educational institutions in which the SMEs are centered and participate. The ultimate goal of the Russian government is to ensure that these companies have their own technology and grow into midsize companies. In particular, one of the goals of the Khabarovsk government is to encourage these companies to grow into exporting companies with overseas competitiveness.

It is clear that SMEs that participate in this cluster have an opportunity to acquire certain technologies and knowledge. However, as will be described later, if a close-coupled SME support system, such as the Enterprise Growth Support Center in Korea's industrial cluster, is equipped, SMEs will be able to grow quickly and efficiently into competitive ones.

2.3.2. TASED and SME Growth Opportunities

In December 2014, the Russian central government announced the appointment of TASED for the purpose of creating a specialized industrial complex centered on the Far East. In many regions of the Far East, the candidates were accepted, and TASED was designated as the most suitable area for the purpose of presentation. Khabarovsk was designated as TASED in June 2015, followed by Komsomolsk in April 2017.

[Figure 2–9] Location of TASED of Khabarovsk



Source: Khabarovsk Investment Portal (invest.khv.gov.ru)

TASED of Khabarovsk has been designated as specializing in industrial production, agriculture, fisheries, metal, machine production, ship repair, etc. The total investment is about RUR 43.22 billion (up to RUR 140.5 billion if private capital is included), and the number of companies currently in operation is 39. The number of enterprises that have actually moved into production is 12 (end of 2016). As of the end of 2016, a total of 86 companies have submitted applications for residence.¹⁵⁾ Therefore, more companies are expected to move in.

15) Khabarovsk Investment Portal (invest.khv.gov.ru). (Date of search: December 3, 2017)

[Table 2-7] Basic status of TASED of Khabarovsk

TASED	Date	Field of Specialization	Investment Amount (RUR billion)	Job Creation (Person)	Num. of resident (each)
Khabarovsk	June 2015	Industrial production, metal, and agriculture	34.6	2,604	20
Komsomolsk	June 2015	Processing, machinery manufacture, food and beverage, and travel	56.6	2,600	17
Nikolayevsk	April 2017	Ship repair and fishing	2.5	894	2

Source: Khabarovsk Investment Portal (invest.khv.gov.ru).

According to Khabarovsk, these areas are close to airports, railways, and roads, and can receive special government benefits (such as tax benefits,¹⁶⁾ and power and industrial water use facilities). Products manufactured in the zone may be provided with administrative convenience when supplied to the domestic market or exported to overseas markets.¹⁷⁾

Infrastructures completed in the development area to date are as follows.

[Table 2-8] Status of completed infrastructures in TASED

Required Infrastructure	Available Capacity	Maximum Capacity
Water treatment	1.8 m ³ /day	2.6 m ³ /day
Waterworks	3.3 m ³ /day	7.9 m ³ /day
Gas	3.4 m ³ /hr	5 m ³ /hr
Heat supply	14 GCal/hr	78.36 GCal/hr
Electrical energy	35.75 MW	113.5 MW

Source: Far East Asia Development Corporation.

In addition, the Far East Development Corporation of Khabarovsk introduces the infrastructures required for the normal operation of TASED as follows.

16) Typical tax benefits include 10 years of insurance premium (-7.6%), income tax exemption for 5 years, land tax exemption for 3 years, and real estate tax exemption for 5 years.

17) The backgrounds of TASED and the Masan Free Trade Zone in Gyeongsangnam-do, which will be described later, are different from each other, but they prefer to attract foreign companies with capital, technology, and knowledge, and have the opportunities to acquire and strengthen SMEs. In this context, it is possible to compare and draw implications. However, in the site selection section, in the case of Korea, which is surrounded by sea on three sides, not only other transportations but also sea transportation are easy; on the other hand, TASED is inevitably the main purpose of air, rail, and land routes.

[Table 2–9] Additional infrastructures needed in TASED

Required Infrastructure	Required Capacity
Road	15.2 km
Heat supply	20 GCal/hr
Gas	10.7 m ³ /hr
Electrical energy	110.5 MW
Water treatment	559 m ³ /day
Waterworks construction	2.4 m ³ /day

Source: Far East Development Corporation.

The following projects are in operation in TASED.

[Table 2–10] Project status in TASED

(Unit: RUR million)

Project Name	Total Investment
Industrial park “Avantgarde”	401.9
Composing the Far East Complex Plant	270
Integrated system of solid waste management in Khabarovsk State and the Jewish Autonomous Region	6,900
LLC Polymer Complex “SMART Plant” composition	120
Khabarovsk Construction Cluster	150
Agrohub construction of an agro–industrial complex and a wholesale distribution center	890
Construction of an adjacent exhibition complex in Khabarovsk’s new international port	975
One of the commercial district development projects, AirCity	1,200
Construction of a steel sheet and building material production plant	500
Establishment of a mushroom production plant	550
Construction of a new passenger terminal at Khabarovsk International Airport	6,500
Road construction and machinery assembly plant construction	1.1
Creation of a 10.3 ha greenhouse complex, “Evergreen,” to produce vegetable products throughout the year	–
Construction of a complex shopping center adjacent to the new airport in Khabarovsk	8.1
Construction of a metallurgical plant in Khabarovsk	4.1

Source: Far East Development Corporation.

Considering TASED's main purpose of the development of the industry through investment attraction, benefits for residents with technology and capital may be attractive because of the ability to extend benefits or offer new ones according to their performance. In addition, it can be used as a window for gathering information on foreign competitive products and as a good opportunity to raise the quality level of SMEs in Khabarovsk by attracting excellent foreign companies. It can also be a good way to acquire overseas marketing and advanced management knowledge. In Korea, for example, in the early stage of industrialization, a free export area was designated as a national project under the condition of a lack of capital and technology, and various benefits were provided to tenant companies (among which 80%-90% are foreign companies). As a result, it contributed a lot to the growth of Korean SMEs that lacked capital, technology, and management knowledge. Since then, these companies have grown into export-oriented enterprises.

It is not desirable that the number of foreign companies that reside in TASED in Khabarovsk is small, considering the purpose of fostering export SMEs with competitiveness through the activation of TASED. As of the end of 2017, 15 TASED have been designated throughout the Far East. The number of foreign-invested enterprises is only 15 from 6 countries including China (8), Japan (2), Australia (2), Korea (1), Singapore (1), and Lithuania (1). Information on foreign-invested companies that reside in TASED "Khabarovsk" has not been confirmed yet. Considering that there are 118 residents in the Far East, the proportion of foreign companies is as low as 13%. On the other hand, 16 (64%) of the 25 enterprises in the free port of Vladivostok, which is the logistics center, are foreign companies. This means that TASED is less attractive to invite foreign capital. In fact, except for Chinese companies, the reason for the lack of foreign companies' occupancy is that TASED's infrastructure construction work is delayed than expected, and the advantages of investment in the manufacturing sector other than wood and agriculture have not been found yet. In other words, it is necessary to consider the policy of Khabarovsk Krai on this part.

3. Korea's Industrial Structure and Export SME Support Policy

3.1. Korea's Industrial Structure

Korea's industrial structure has gradually changed from a primary industry-centered structure (more than 40%) that focuses on agriculture, forestry, and fisheries to an increasing proportion of manufacturing and service industries. The proportion of manufacturing industries in the 1960s was just over 10%. Since the late 1960s, manufacturing industries—such as textiles, shoes, and electronics—have played a role in driving the Korean economy. Investment in the SOC industry has accelerated, and fertilizer, cement, refinery, and steel facilities have been built or expanded to create an export-led heavy industrialization base.

In the 1980s, the Korean industry was rapidly reorganized into the assembly and processing industries such as electronics, automobiles, and machinery. In particular, investments in high-tech industries—such as semiconductors, computers, biotechnology, and new materials—have been concentrated. In the 1990s, technology development was emphasized, and the information and telecommunication industry developed dramatically, and Korean manufacture became a global industry. In the 2000s, it fostered a new technology industry and developed into high value-added industries such as parts and materials, information, and information services.

The primary industry's share in the total added value in 1970–2014 was reduced from 33.8% to 2.3%; on the other hand, the share of the manufacturing and service industries increased from 58.7% in the 1970s to 89.7% in 2014. In particular, with the expansion of the manufacturing sector, the scope of the main manufacturing industry has been expanded, which can be thought of as a process of changing from a simple manufacturing industry to a high value-added manufacturing sector.¹⁸⁾

In the share of Korea's 1st, 2nd, and 3rd industries, as of 2016, the tertiary industry (59.24%) is the highest, while the secondary industry (38.56%) is the manufacturing industry.¹⁹⁾ In Korea, the proportion of the light industry is about 16%–17%, while the heavy chemical industry accounts for much more than 80%. Korea has been established as an industrial structure centering on heavy and chemical industries since the government's investment in the heavy and chemical industries concentrated in the industrialization process in the 1970s.

18) "G7 countries and Korea's changes in industrial structure." Hyundai Economic Research Institute, 16–21 (Bulletin 694), May 27, 2016, pp. 1–3.

19) KOSIS National Statistics Portal.

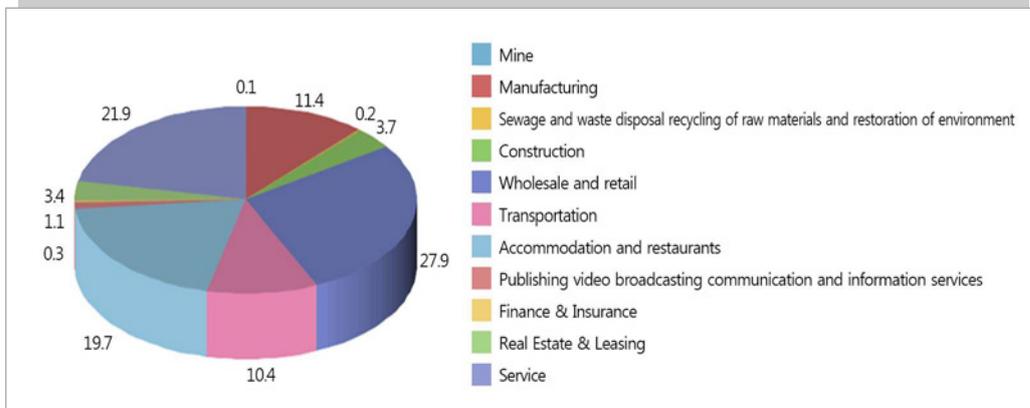
3.2. Korea's SME Status and Support Policy

Support for SMEs in Korea is stipulated in the Basic Law of SMEs. This law aims to support the growth of SMEs, foster the industrial structure, and develop the national economy based on fostering SMEs. The law contains financial support from the government, tax benefits, public purchase, and the non-use of various regulations. In particular, financial support projects are funding, technology, workforce, marketing, informatization, entrepreneurship, small businesses, traditional markets, persons with disability and women businesses, and central agencies and municipalities. In short, it supports the R&D of SMEs, secures human resources for SMEs, and supports SMEs in export-oriented companies.²⁰⁾

According to the data from the Ministry of SMEs and Startups, there are about 3.54 million SMEs in Korea, more than 40% of which are concentrated in the Seoul metropolitan area (Gyeonggi and Seoul). The rest are relatively evenly distributed around major cities in the region. By industry, wholesale and retail trade accounted for 27.8%; lodging and catering, for 19.8%; manufacturing, for 11.4%; transportation, for 10.6%; and other industries, for 30.7%.²¹⁾

Korea's SMEs account for 99.6% of the total number of enterprises and 78.8% of the total number of workers, accounting for about 50% of the total national production value and added value. According to Korea's Ministry of SMEs and Startups, the largest number of SMEs are in the wholesale and retail (27.9%) and real estate and leasing (19.7%) sectors, while the manufacturing sector accounts for only 11.4%.

[Figure 2-10] Breakdown of Korea's SMEs by industry (February 2018)



Source: Ministry of SMEs and Startups.

20) Basic Law of Small Business.

21) Small Business Venture Department Website

(<http://www.mss.go.kr/site/smba/main.do>). (Date of search: December 30, 2017)

The purpose of Korea's SME policy is to support the growth of SMEs and improve the industrial structure to develop the national economy in a balanced manner. The basic rationale for supporting SMEs is that SMEs are relatively weaker in competing with large corporations with superior capital and technology, which is why it is difficult to secure the stable growth of enterprises. Therefore, to promote SME policies, it is necessary to establish a system to secure competitive opportunities and induce fair trade, and to encourage SMEs to start up and innovate through policy complementation.

Recently, Korea's SME support policy is characterized by export-centered support, which has been maintained until 2017, and support for creating jobs since 2018. According to the announcement of the SME policy fund management plan by the Ministry of SMEs and Startups in 2018, the axis of the SME policy has shifted from the existing export-oriented SME support to start-up based on job creation. This plan largely consists of ① providing funds for job-centered entrepreneurs, ② expanding the amount of innovation growth, and ③ promoting institutional innovation.²²⁾

One of the characteristics of the SME support policy in 2018 is that it greatly expanded the amount of innovation growth (increased to KRW 546 billion). In 2018, the budget for fund support for start-up companies amounted to KRW 1,866 billion (an increase of KRW 216 billion), accounting for about 50% of the budget for SMEs (KRW 3,735 billion).²³⁾ In addition, the introduction of a support system for companies that use policy funds for the first time in relation to institutional innovation promotion and consumer-oriented self-paying programs is also a remarkable aspect of SME support. According to the data released by the Ministry of SMEs and Startups, if a young entrepreneur—a sales reduction company—borrows a small amount of policy funds to adjust the repayment burden of a company with difficult financial circumstances, an autonomous repayment system will be introduced in 2018 to allow the repayment period to be adjusted according to the funding situation.

3.3. Direction of Korea's SME Export Support Policy

In October 2016, exports of SMEs (except large corporations) accounted for 37.4% (19.4% of SMEs). The share of SMEs in exports has increased from 33.7% in 2014 to 35.9% in 2015 and increased again in 2016.²⁴⁾ Exports of SMEs are significant enough to affect Korea's overall exports. This is because Korea had made changes at a suitable point in the direction of actually promoting the support of exporting SMEs, in spite of the fact that exports have been expanding mainly in the process of the export drive policy.

22) Small & Medium Venture Business Division Press Release. December 27, 2017.

23) Funds for start-up companies: 2.0% (interest rate), 5-10 years (loan period), KRW 4.5 billion (loan limit)

24) The export value of medium-sized enterprises was USD 72,695.74 million, and the export value of SMEs was USD 78,573.33 million.

The basic structure of Korea's SME export support system is focused on SMEs, which find it difficult to enter overseas markets on their own, in a field where they are much more difficult than large or local companies. In other words, in preparation for export, export-related education; support in the export preparatory stage that provides publicity, market research, and various information; advancement of industrial technology and expansion of overseas markets; and support through cooperation with export-related organizations. Government agencies that can directly support SMEs—for example, KOTRA, SME Promotion Corporation, KITA, and other organizations—have supported SMEs to the level needed if necessary.

Supporting the export of Korean SMEs started with the policy of export industrialization in the 1960s and the industrialization of the export industry in the 1970s then of the light industry in the 1980s, where it received direct subsidies in the form of export subsidies. However, since the start of the WTO in 1995, subsidies for export have been reduced or abolished, and the support structure has shifted to information-oriented marketing or marketing-oriented. In the mid-2000s, as the export performance of SMEs slumped for a while, its global status weakened, and it began to emphasize strengthening its own capabilities of SMEs and started to focus on cultivating “Small but Strong” enterprises. In other words, Korea had included specialized midsize companies with global competitiveness rather than just SMEs, and switched to packaged complex support that includes large companies, midsize companies, and SMEs rather than to individual support. Korea have greatly expanded the government support budget for export companies. Government projects that support it closely or customarily have started to be implemented for companies that have technology but have no experience in overseas, or for companies that lack international technology standards but are likely to succeed in export. The GMD business, described below, and corporate support activities at corporate growth centers in industrial clusters are typical examples.

Below, we will look at the government-led, meaningful projects that will enhance the competitiveness and export environment of Korean SMEs, which can give implications to Khabarovsk.

3.4. Securing the Competitiveness of Korean Export SMEs through Government-Led Projects

3.4.1. Supporting Initial Export SMEs through the Global Market Developer (GMD) Project²⁵⁾

The key to Korea's SME export promotion policy is the globalization of SMEs. The most important factor in promoting this globalization is the technology and price competitiveness of products. However, initial export SMEs have difficulties in exploiting and opening up the market due to a lack of information and experience. If the difficult part is solved through the system and government support, and if the company in the early stage of establishment has excellent technology and succeeds in the high quality of the products, it can grow into an export company in a short period.

In this context, the Korea Small & Medium Business Corporation has been promoting the GMD business for several years to develop overseas markets, and the GMD business was selected as a private export company through the financial support of the Ministry of SMEs and Startups and SME Promotion Corporation. Private companies will closely support SMEs that have high potential and wish to enter overseas markets. In particular, these are private export companies that specialize in export marketing for small- and medium-sized companies that have difficulties in overseas marketing and all export activities, from exporting to new markets and finding promising items to optimized distribution channels, entry support, and customs clearance.

GMD companies have been established in six major emerging markets—ASEAN, Latin America, Africa, the Middle East, Southwest Asia, and China—and have set certain conditions in four areas—emerging market specialists, e-commerce specialists, overseas B2G specialists, and distribution specialists. Approximately 20 privately owned export companies will be selected to support small- and medium-sized businesses that match their needs, and the government will provide financial support according to certain conditions.

25) Contents related to GMD are based on the data released by the SME venture department and the GMD-related announcement document of the SME Export Support Center. Small Business Venture Department (www.smba.go.kr) and Small Business Export Support Center (www.exportcenter.go.kr). (Date of search: February 20, 2018)

[Table 2–11] Classification of GMD type and eligibility

Type Classification	Eligibility
Emerging market specialist	Companies with annual exports of over USD 1 million (including export agencies) – Export agencies with self-proof based on agency contract and agency fee income
E-commerce specialist	① The company has more than two years of experience in export sales of overseas shopping malls and more than five employees or more than USD 0.5 million in service company exports in the previous year, and owns a local corporation (when creating an open market account). ② Over three years of overseas independent mall service experience and companies with an online platform to support the establishment of a shopping mall. – 10 or more dedicated personnel and overseas subsidiaries to act as a local corporation
Overseas B2G specialization	Companies with a proven track record in the procurement market within the past two years or those with certified procurement certifications such as MOU and vendor registration certificates – Self-proof based on consulting contract with company and procurement contract; regardless of the amount – Scope of accreditation: MOU with an overseas procurement agency, recommendation of a procurement agency, and procurement vendor registration
Distribution specialists	Korean distributors who have a direct store in Korea and have Korean product purchase experience

Source: Ministry of SMEs and Startups.

Support for GMD and GMD matching companies is as follows.

[Table 2–12] Support for GMD and GMD matching companies

Support for GMD	Support for GMD Matching Companies
<ul style="list-style-type: none"> ○ Participate in the private company track as an export consortium-sponsored organization such as engaging in overseas exhibitions and dispatching market pioneering groups ○ Export financial support fund (short term [one year]) to a GMD that has concluded a direct sales contract and direct financing such as direct sales finance through export commercialization fund (long term [five years]) ○ Short-term trade insurance premium (50% discount) 	<ul style="list-style-type: none"> ○ “Market exploration cost” support <ul style="list-style-type: none"> – (How to apply) The matching company entrusts all GMD market development activities to SMDs that have mutually matched with a GMD and supports some of the market exploration expenses. (Matching company burden: 30%) – (Scope of support) Market research, product verification, buyer discovery, online and off-line promotion, logistic support, etc. – (Support limit) Up to KRW 20 million per matching company and up to KRW 15 million for matching companies through export voucher linkage ○ Support for SME Promotion Corporation’s export financial support (short term [one year]) and export commercialization money (long term [five years]) ○ Support for overseas export businesses such as overseas standard certification (granting of plus points) and export R&D (exemption of a written evaluation) ○ Collective trade insurance

Source: Ministry of SMEs and Startups.

3.4.2. Overseas Standard Certification Acquisition Support Business²⁶⁾

Another representative project of the Korean government’s export SME support project is to support overseas standard certification acquisition. The biggest goal of this project is to support companies that have difficulties in exporting due to a lack of overseas information or professional workforce due to the lack of an international standard certification required by export target countries. In other words, by supporting the acquisition of an overseas standard certification, which is one of the most difficult aspects of initial export SMEs, it is aimed to enhance the export of SMEs.

To qualify for application to this project, a company must have an export value of less than USD 50 million in the previous year, and companies that are closed, are behind in national or local taxes, and do not meet the conditions set by the Ministry of SMEs and

26) Korea International Certification Center (<http://www.k-icc.kr>).

Startups cannot apply.

As of 2018, the total amount of support for this project is about KRW 10.65 billion, and the number of supporting enterprises is about 1,000. Companies supported by this project receive support for some of the expenses directly required to obtain the overseas standard certification, such as testing, certification, plant inspection, and consulting costs, which will be funded differently depending on the sales amount in the previous year (e.g., 50% for over KRW 3 billion and 70% for less than KRW 3 billion).

Through this project, export SMEs can easily acquire an overseas certification, which may be difficult due to the lack of information in foreign environments, and with only a single experience, it is possible to carry out the export business relatively easily by accumulating the necessary experience.

3.4.3. SME Support through Industrial Clusters²⁷⁾

In the late 1990s, Korea's industrial clusters developed into regional specialization centers and cultural industrial clusters by promoting "regional industrial support projects." In 2003, when the Participatory Government was established, the industrial cluster policy was promoted as part of the regional industrial policy. This policy was designed to pursue a qualitative balanced growth in quantitative growth; transform into a local development system; enhance local innovation capacity; and, ultimately, promote a balanced national development. It includes ① continuous innovation activities in the strategic industry, ② the activation of networks, ③ performance-based competitiveness and profitability, and ④ securing industrial competitiveness based on self-sufficiency.²⁸⁾

The Korean government has pursued a policy of innovation clustering to foster first-stage industrial parks as clusters of creation and innovation. The goal was to shift to a clustering system of open systems in which innovative knowledge and technology were created and exchanged in the center of production and manufacture. After that, a thematic-type cluster was attempted as a cluster project for strengthening the competitiveness of industrial clusters (2008) and the 2nd stage, which is a plan for the innovation of knowledge economy R&D (2011).

27) The basic contents related to industrial clusters are based on the website of Korea Industrial Complex Corporation (<https://www.cluster.or.kr/>). (Date of search: February 20, 2018)

28) KCEN. Policy Focus: Industrial Cluster Policy.
http://kcern.org/bbs/board.php?bo_table=kcern_monthly_late&wr_id=193.
(Date of search: March 2, 2018)

[Table 2–13] Changes in the cluster policy focused on Korea’s industrial complexes

Division	Step 1 (2005–2009)	Step 2 (2010–2012)	Step 3 (2012–2017)
Step	Formulator	Growing	Maturity
Shape	Industrial cluster	Theme–based cluster	Theme–based cluster
Space range	12 industrial complexes	193 industrial complexes	National industrial complex center
Goal	Establishment of an industrial cluster base	Cluster network activation	Strengthening the innovation cluster’s competitiveness

Source: Kang, Hye–jung. 2012. Internal Data of the Korea Industrial Complex Corporation.

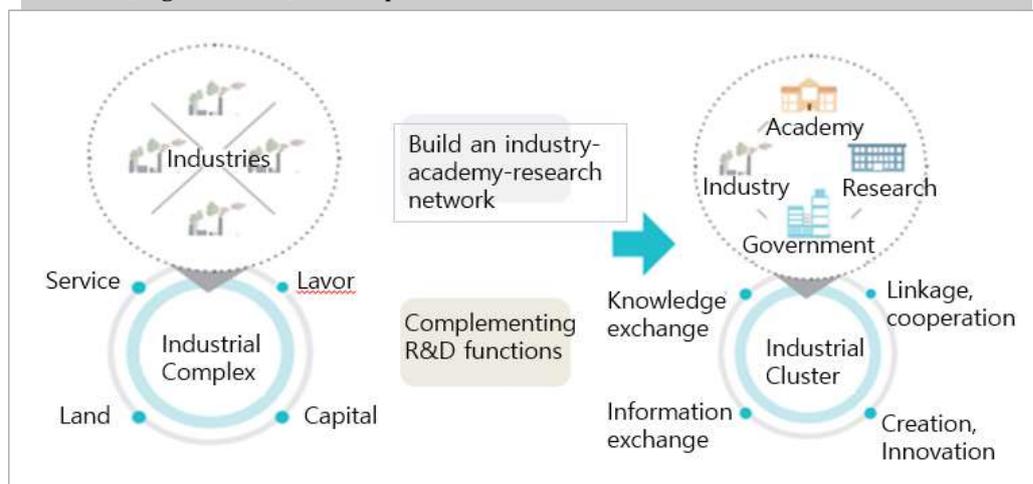
Through the implementation of these policies, industry–academia–research networks have been formed, and the exchange activities between them have been strengthened. The expansion of the network has strengthened the linkage between companies, and R&D capability has also been raised. In addition, since the implementation of this project, they have supported about 10,800 projects for six years until 2010, and the companies that have been supported have achieved economic results such as increased sales and employment creation.²⁹⁾

The clusters of industrial complexes were evaluated as having a clustering effect and synergy by playing a pivotal role in regional economic growth. However, it is pointed out that it focuses too much on securing financial resources that are centered on the national industrial policy and the government–led, top–down cluster policy. In addition, there was a problem that the overall viewpoint of all stages from R&D to commercialization, production, and marketing was not reflected, overlooking the value chain of the industry.

Anyway, the Korea industrial cluster’s most important goal is to cultivate creative and innovative enterprises by complementing the R&D function by establishing an industry–academia network in the existing industrial complex based on the region. The most important characteristic of the Korean industrial cluster is that it operates a Corporate Growth Support Center with the help of government agencies, and has a tailored and on–the–spot support system.

²⁹⁾ *ibid.*

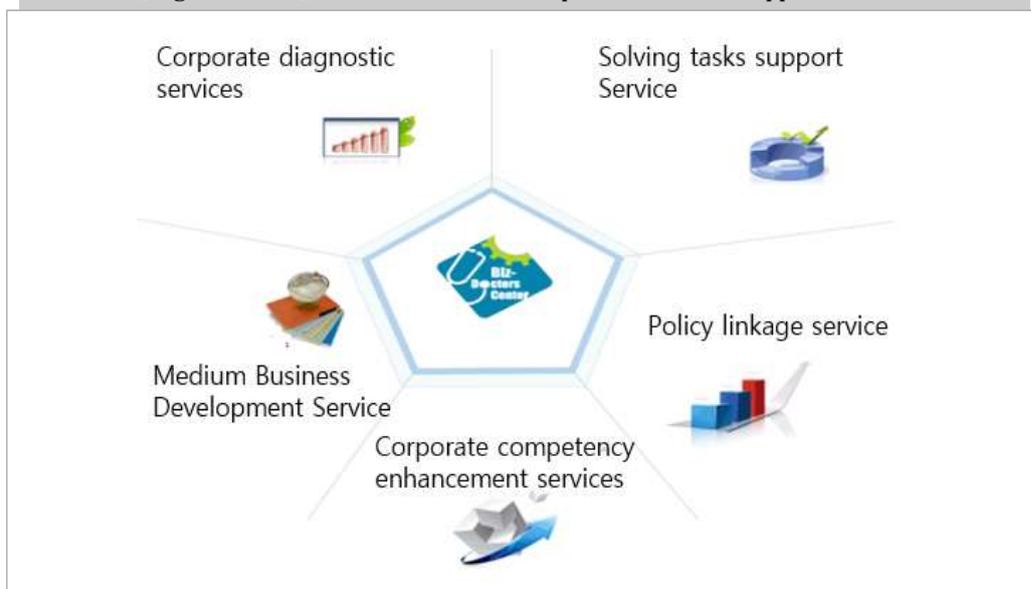
[Figure 2–11] Development direction of the Korea industrial cluster



Source: Korea Industrial Complex Corporation (www.cluster.or.kr).

The role of the Corporate Growth Support Center is to nurture a world-class medium-sized company and to closely support the five services required by SMEs in accordance with the policy. First of all, it is necessary to strengthen the competitiveness of participating SMEs in the target complex. After selecting excellent SMEs, they provide midsize business incubation services that provide continuous and systematic professional consulting; corporate competency enhancement services that provide information on various government and local government SME support policies; policy-linked services that enable the establishment and execution of annual plans to develop corporate competency-based support services depending on the results of the competitiveness evaluation of participating companies; and, finally, a task-solving support service that solves tasks through corporate diagnosis and counseling services. These services are the most important activities of the Corporate Growth Support Center.

[Figure 2–12] Activities of the Corporate Growth Support Center



Source: Korea Industrial Complex Corporation (www.cluster.or.kr).

The Corporate Growth Support Center is operated by the Korea Industrial Complex Corporation for the purpose of supporting the growth of SMEs in regional industrial complexes in accordance with the Ministry of Knowledge Economy. Therefore, experts in the fields of technology, management, and finance reside within the complex, and they manage the member companies as needed. According to the government's support policy, SMEs that have moved into the cluster have the advantage of solving management and financial problems caused by technical difficulties that cannot be solved independently, and can receive the information and consulting necessary for market development at any time.³⁰⁾ In particular, it manages SMEs in a customized and on-the-spot manner, thereby creating conditions to grow into a solid company in a relatively short period.

30) Korea Industrial Complex Corporation Homepage (www.cluster.or.kr/).

3.4.4. Gyeongsangnam–do Masan Free Trade Zone Export Small Business Opportunity

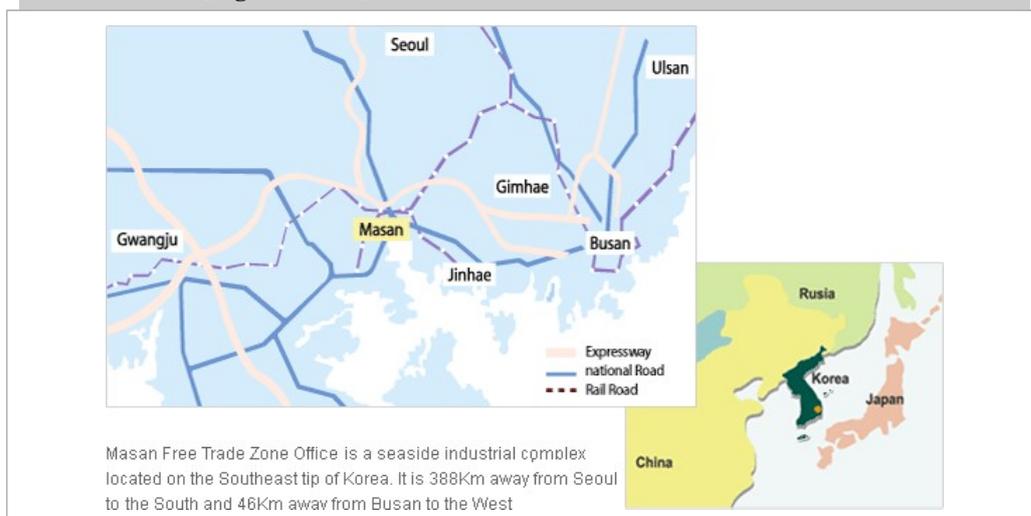
The Masan Free Trade Zone, which is located in the south of Korea, contributed greatly to the export promotion of Korean companies. Since 1970, this area has been designated as a free export zone and is a special area for the collective processing of production, export, and transportation. It covers an area of 500,000 km² factory site, industrial water (85,000 T), electricity, and labor, and was determined by its location.

Masan in Gyeongsangnam–do was selected as a free trade zone because it has a favorable industrial environment and favorable conditions for attracting foreign capital in consideration of the natural location conditions, accessibility, and tenant conditions. To select this area, the government picked eight sites, including the Masan area, as candidates, taking into account the natural conditions, accessibility, and potential for future development.

Since then, Gimhae International Airport (35 km), a railway (Busan–Mokpo), and a ship berthing (with a capacity of 20,000 T/ship) have been installed. Using these, they can easily supply goods. Although its reputation is somewhat weak now, the Masan Free Trade Zone in Gyeongsangnam–do served as the export base for Korea in the early industrialization period. It led the inflow of technology and capital, contributed greatly to the expansion of export and the improvement of trade balance, and led the development of Korea's export industry.

Since the company of "XinhuaJeongong" became the first resident in 1970, 22 companies in 1971 and 75 companies in 1988 moved in. In the early years of its establishment, it had a USD 85 million worth of exports. It boasted the highest export value of USD 5,700 million in 2008, which then decreased five times to a maximum of USD 1,070 million in 2015.

[Figure 2–13] Location of the Masan Free Trade Zone



Source: Masan Free Trade Zone Website (<http://www.motie.go.kr>).

[Figure 2–14] View of the Masan Free Trade Zone



Source: Masan Free Trade Zone Website (<http://www.motie.go.kr>).

The main incentives in the region are non-tariff areas, low rents, tax benefits for foreign-invested companies, zero value-added tax rates, and permits for offshore operations. Factory rents are 1% per annum of the building value (one-seventh of the market), that is, USD 0.5-1.5 / m² / month. 100% exemption for corporate tax and income tax for 5 years,

50% exemption for the next 2 years, and local tax (acquisition tax, registration tax, and property tax) for foreign-invested enterprises for 15 years. Moreover, recently, it has completed the apartment standard factory to offset aged factory buildings, which have been pointed out as a main inconvenience factor. The South Korean government invested KRW 120 billion on this building and built a new factory on a 120,000 m² site. The companies that apply for residence are selected by companies with high technology and performance potential, and are supplied with low rent, which is one-seventh of the market.

It is well known that the Masan Free Trade Zone in Gyeongsangnam-do played an important role in Korea's industrial development process. This is because it served as a window to introduce capital and technology, which Korea lacked in industrialization. Since the establishment of this free trade area, most of the tenant companies were foreign capital companies. As of August 2015, the share of foreign capital is 57%. This is the lowest rate since the Masan Free Trade Zone was established as a result of the failure of new foreign capital to flow in after the global financial crisis in 2010.

[Table 2-14] Foreign-invested portion and export volume in the Masan Free Trade Zone by year

Year	Investment (USD 1,000)			Exports (USD 1,000)	Employee (Person)	Num. of com. (ea.)	
	Domestic Capital	Foreign Capital					Sum
		Volume	%				
1970	200	1,236	86	1,436	-	-	4
1980	19,748	93,136	83	112,884	628,100	28,532	88
1990	34,464	181,353	84	215,817	1,405,374	19,616	72
2000	57,683	193,676	77	251,359	4,442,141	14,415	78
2010	77,378	137,897	64	215,275	3,774,318	8,085	94
2015.8	80,709	107,721	57	188,430	700,328	6,046	102

Source: Ministry of Commerce, Industry and Energy, and Masan Free Trade Zone Management Office (<http://www.motie.go.kr>).

In the late 1960s and early 1970s, as foreign companies entered the Masan Free Trade Zone in Korea, which lacked capital and technology, South Korea had the opportunity to receive advanced technology or capital investment. This area has become one of the largest industrial parks in Korea, leading the industry.

According to one study, the economic effect of a foreign-invested enterprise is very large. Table 2-15 below shows data that explain the economic effects of foreign-invested enterprises on KOTRA's activities in Korea.

[Table 2–15] Economic effects of foreign–invested enterprises in Korea

(Unit: KRW billion, person, USD million, %)

Analysis Item	Industry	Foreign–Invested Enterprise (FIE)						Domestic Share of FIE					
		2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015
Sales	All industries	399,178	482,402	471,429	456,808	478,038	425,063	13.6	14.7	13.7	13.0	13.4	11.8
	Manufacturing	295,901	387,334	372,230	342,879	327,612	267,822	19.6	23.0	21.3	19.7	19.0	15.8
	Non– manufacturing	103,277	95,068	99,199	113,929	150,426	157,241	7.3	5.9	5.8	6.4	8.2	8.3
employ	All industries	483,871	500,630	509,925	515,464	554,027	558,420	6.0	6.2	6.0	5.9	6.0	5.8
	Manufacturing	247,487	270,281	285,147	276,302	269,516	271,390	10.0	10.4	10.3	9.6	9.1	8.8
	Non– manufacturing	190,499	194,057	193,121	208,695	247,727	240,443	3.9	3.8	3.6	3.8	4.2	3.9
	Financial business	45,832	36,292	31,656	30,467	36,784	46,587	12.4	9.3	8.0	7.9	9.4	11.9
Import and export	Export	92,329	100,713	110,584	113,233	103,058	110,397	19.8	18.1	20.2	20.2	18.0	21.0
	Import	91,157	123,967	111,034	110,826	109,517	83,892	21.4	23.6	21.4	21.5	20.8	19.2
R&D	Manufacturing	1,333	1,860	1,975	2,359	2,120	2,220	5.4	7.1	6.6	6.7	6.2	6.4

Source: KOTRA. Survey on the Management Status of Foreign–Invested Companies Each Year.

According to this study, the economic activities of foreign–invested enterprises have a positive effect on sales, employment, import and export, and R&D. Although the proportion of sales decreased in 2015 due to the weakening of the global economy, foreign–invested companies as a whole became an axis of driving the Korean economy.

[Table 2–16] Number of companies in the Masan Free Trade Zone (as of November 2017)

(Unit: Number)

	Electronics /Electricity	Precision Equipment	Metal	Textile Sewing	Mechanical Metal	Etc	Total
(Foreign sole and joint venture corporation number)	27 (15)	39 (19)	2 (2)	2 (0)	13 (7)	14 (11)	97 (54)

Source: Masan Free Trade Zone Website (<http://www.motie.go.kr>).

Currently, there are 97 companies in the Masan Free Trade Zone, which are SMEs of the electronics/electric, precision instrument, metal, textile sewing, machinery, and mechanical metal industries. The investors of these companies are Japan, the United States, the Netherlands, Hong Kong, Taiwan, Singapore, Bangladesh, and Spain. The products are supplied to the domestic market or exported mainly to Asia.

4. Suggestions for Strengthening the Export Capacity of Khabarovsk

4.1. Suggestion through the Khabarovsk Export SMEs Survey

4.1.1. Outline of the Survey and Analysis of the Questionnaire Contents

The KSP project in Russia carried out a survey on a total of 50 companies and export businesses in Khabarovsk Krai, in cooperation with the Khabarovsk Export Promotion Center, for three months from October to December 2017. The number of respondents is 31, the response rate is 62%, and the narrative questionnaire includes many nonrespondents. The questionnaire consisted of 26 questions in 3 fields: I. Information About the Company, II. Questions on Export Performance and Export Markets, and III. Questions About the Export Promotion Policy and Export Support System. Overall, companies responded faithfully to each item, but many of the questions in the field of “III. Export Promotion Policy and Export Support System” were missing in areas that needed a descriptive answer. In addition, there are questionnaires that request multiple responses, and the total number of responses is more than 31. Questionnaires with more than 31 responses are the result of multiple answers.

The questionnaire responses were used selectively for the analysis of meaningful questions.

(1) Industry sector classification of response companies

Among the small- and medium-sized exporters responding to the survey, the industrial sector accounted for the largest portion (70%) in the processing and production (manufacturing) sector, followed by the construction, food service, and information and communications industries. The proportion of manufacturing is high because this is a questionnaire for small- and medium-sized export companies in Khabarovsk.

[Table 2–17] Share of respondents by industry

Field	Processing and Production (Manufacturing)	Service Industry (Transportation)	Construction	Catering	Forestry	Information and Communications
Number of responses	26	1	3	3	1	3
%	70	3	8	8	3	8

(2) Export portion to the total sales

Asked about the export portion of small- and medium-sized export companies in Khabarovsk, about 83% answered less than 50%. Most of the exporting SMEs were found to be domestic companies rather than export specialists.

[Table 2–18] Share of exports to the total sales

	Number of Responses	%
Less than 10%	7	20
11%-25%	6	17
26%-40%	7	20
36%-50%	9	26
51%-65%	2	6
66%-80%	3	9
81% or more	1	3
Total	35	100

In a situation where it is difficult to develop an independent market and the export growth does not improve innovatively, it seems to be a natural corporate strategy because it is a risk factor to switch to an export specialist.

(3) Problems in obtaining overseas partners

What is unique about the results of this survey of small businesses in Khabarovsk is that 40% of the respondents are seeking foreign partners directly. Moreover, it was found that they are looking for local partners through exhibitions (28%), and the Internet, fax, or e-mail (14%). Overseas partner contacts through brokers are also reported at 14%. However, only 3% of the respondents said that they would seek foreign partners with the introduction of central and local governments. The support of central and local governments to small- and medium-sized exporters is relatively ineffective, and it seems necessary for the government of Khabarovsk to do this.

[Table 2–19] How to find overseas partners

Question Contents	Number of Responses	%
Direct contact	23	40
Contact via the Internet, fax, or e-mail	8	14
Contact through a broker	8	14
Introduction of central and local governments	2	3
Exhibition	16	28
Others	1	2
Total	58	100

It seems that this is not the only problem in Khabarovsk. According to Andrei Polyakov, the director of regional development for REC, more than 70% of Russia's small- and medium-sized exporters are looking at finding foreign partners, searching for markets, and solving overseas certification problems as their biggest difficulties.³¹⁾

(4) Difficult problems in exploring overseas markets

In a similar vein, regarding the question of what is the most difficult thing for small- and medium-sized exporters in exploring the overseas market in Khabarovsk, they answered difficulties to analyze and strategize on other countries (30%), difficulties in collecting information related to other countries (28%), and difficulty of the regulation (20%). Overall, they are responding evenly to difficulties in gathering information about the other country.

31) Malyy i sredniy biznes prirastayet eksportom. <https://www.gazeta.ru/>. (Date of search: January 13, 2018)

[Table 2–20] Difficulty in exploring overseas markets

Question Contents	Number of Responses	%
Collection of information on the products of other countries	15	28
Analysis of the consumption patterns of partner countries and establishment of strategies	16	30
Direct or indirect marketing strategy costs	12	22
Regulations on the marketing-related laws and systems of other countries	11	20
Others	0	0
Total	54	100

(5) The main reason exports are sluggish

SMEs that export to the Khabarovsk province responded to domestic demand-oriented business strategy (31.6%) as the biggest cause of export sluggishness. This is because it is difficult to obtain foreign buyers at the right time when analyzing the above question (3) that it is the most difficult to obtain overseas partners. Therefore, it is judged that they are entering the domestic market rather than exporting. In addition, internal and external certifications and procedures (30%) are also a major hurdle to attempting to export, and it seems that these two factors are overlapping, making export more difficult. On the other hand, only 7% responded that product competitiveness was deteriorating, suggesting that they are highly competitive in their products.

[Table 2–21] The main reason exports are sluggish

Question Contents	Number of Responses	%
Domestic market-oriented strategy	13	30
Decreased product competitiveness	3	7
Lack of demand in the export market	2	5
Lack of export market information	6	14
Strict product certification and customs clearance	13	30
Lack of sufficient skills (funds, human resources, etc.)	7	16
Total	44	100

(6) Most effective market diversification method

The most effective way to diversify the market is to respond to online platform enhancement (33%), which is in line with the above question (5), expressing self-confidence in its products. In other words, they are not finding or expanding export markets because they cannot find a way to promote the excellence of their products. This also relates to the problem of direct contact with the foreign partner of question (3). In other words, despite the excellence of its products, the perception that overseas exports are shrinking due to difficulties in locating overseas partners and that market diversification is not succeeding seems to have spread widely in Khabarovsk state exporting SMEs. In addition, we responded to market diversification in the following order: export market information (24%); government financial support (22%); and FTA with neighboring countries, product certification, and the simplification of customs clearance.

[Table 2-22] Exports of Khabarovsk state most effective SMEs think of the most effective market diversification

Question Contents	Number of Responses	%
Providing practical information on export markets	13	24
Strengthening the online platform for product promotion	18	33
Expanding government funding	12	22
Signing an FTA with neighboring countries	5	9
Simplifying product certification and customs clearance	6	11
Total	54	100

(7) Export expansion business strategy

In response to questions about export strategies, 33% and 27% of the respondents, respectively, answered that they would establish new export markets through the development of products that are closely related to existing facilities. This is also the response associated with questions (3) and (5) above. In this question, small- and medium-sized exporters in Khabarovsk Krai were found to have confidence in the quality and competitiveness of their products.

[Table 2–23] Export expansion business strategy

Question Contents	Number of Responses	%
Current product quality improvement	11	22
Improvement of product price competitiveness through cost reduction	6	12
Product development closely related to existing facilities	13	27
Development of new markets with current products	16	33
Manufacture of completely different products	3	6
Total	49	100

(8) Areas that the Russian government would like to help

If your government is helping the export-import business, which part is most needed, nearly half of the companies say that it is a payment and payment process, followed by continuous import and export consulting. What is clear from this survey is that many exporters are experiencing a lot of difficulties in the payment and payment process, which is likely to increase exports or weaken new export markets.

[Table 2–24] Areas that the Russian government would like to help

Question Contents	Number of Responses	%
Continuous import and export consulting	17	29
A series of payment and payment processes	28	48
Troubleshooting for quality improvement	4	7
Various taxation problems related to the import and export business	1	12
Providing fast and accurate information to partners	5	9
Others	3	5
Total	58	100

4.1.2. Policy Suggestions from the Questionnaire

The biggest challenges for Khabarovsk SMEs revealed through the questionnaire is finding an export partner, gathering information about exporting countries and market development, and institutional procedures such as payment or certification.

First, in terms of information on exporting countries, it seems that Khabarovsk exporters have not yet gained access to market information on competing products in the countries concerned, and to quickly obtain information about the changes in consumption patterns that are sensitive to market changes. It is difficult for Khabarovsk SMEs, which are not well financed, to obtain market information periodically or at the necessary time due to the lack of cost and professional workforce. It is also not easy for such a situation to be improved in the short term.

In this respect, it is necessary to conduct questionnaires for all SMEs (a total of 185 cases) that export to Khabarovsk Krai from specialized departments such as the Khabarovsk Export Administration Department and the Export Support and Development Center. For this survey, it is necessary to secure the main export target items of small- and medium-sized exporters in the region, and the countries that are desired to be exported. After that, it is necessary to provide periodic or occasional information on similar products of target export countries, prior to market research in other fields, through the Russian chambers of commerce and overseas supporting organizations for export support. As the total number of exporting SMEs is only 185, it will not be a difficult issue in the short term. At this time, information collected through selection and concentration is managed separately from general information. It is necessary to designate specific tasks in the export support department, and to provide them to specific companies and companies that produce those products.

Second is market pioneering. As a result of the survey, many companies find foreign partners individually or have an export business relationship with their partners through exhibitions or the Internet. In fact, it is very difficult for companies with insufficient funds to find foreign partners at their own expense. This does not appear only in this survey. According to Andrei Polyakov, the director of regional development for REC, more than 70% of Russia's small- and medium-sized exporters are finding it difficult to look for foreign partners as well as search for information on the market, and appealed for difficulties in promoting their products or having to be certified overseas.³²⁾ Even in this case, the Khabarovsk Export Administration Department obtains a list of importers of the relevant countries and invites or contacts foreign importers customized to domestic or overseas exhibitions. If needed, it is necessary to provide the companies' promotional materials through mail or overseas missions. In this context, it is necessary to listen to the survey that Khabarovsk small- and medium-sized exporters is one of the biggest reasons for

32) Malyy i sredniy biznes prirastayet eksportom. <https://www.gazeta.ru/>. (Search date: January 13, 2018)

abandoning their export duties to the domestic market. If contacting overseas potential partners is relatively easy, companies would not have to reduce their export capacity and turn their attention to a limited, competitive domestic market. Rather, they can be more active in overseas market development, which would lead to the expansion of SMEs' exports.

Third is the difficulty of institutional procedures such as payment or obtaining certification. The grievance of this part is not only from the questionnaire but also from the conversation with the company that had been conducted during the field survey. In other words, there is a need for a government-level policy consideration for a clearer and simpler approach to a series of payment procedures. In addition, issues, such as certification schemes, should be streamlined to shorten the time, and methods should be developed to improve the ability of the certificate issuer. The problem is expected to be addressed because the central government and the government of Khabarovsk are fully aware of the problem. However, it is proposed to benchmark the same as the Korean Overseas Standard Certification Acquisition related to the acquisition of overseas certification and to actively support export SMEs to participate actively in the project.

4.2. Suggestions for Expanding Exports through Korea's Experience

4.2.1. Policy Suggestions from Korea's SME Support Policy

Korea's SME support policy is highly fragmented by sector, scale, and technology. Korea has learned through extensive export experience that comprehensive and general support policies are not so effective in expanding exports. Based on this experience, Korea has made practical and concrete support measures for small- and medium-sized exporters. In particular, the policy is related with various government projects operated by the country, and enriched the technology, management knowledge, and export experience of SMEs while promoting an industrial policy that fits the purpose of the project. For example, to increase the technology and management efficiency of SMEs through industrial clusters, it is necessary to seriously consider such things as the operation of the enterprise growth support center in industrial clusters and the support of SMEs in customized and coherent ways. In addition, GMD businesses facilitate the export business of initial export SMEs that have difficulty in marketing, gathering overseas market information, and searching overseas partners, although equipped with technology, and that experience a lack of cost and human resources through the overseas standard certification support system. Therefore, it would be a good system to introduce to Khabarovsk Krai to solve the problem of overseas standard certification, which is one of the difficult problems of export SMEs that have no overseas experience.

4.2.2. Utilizing TASED to Accumulate Advanced Technology and Management Knowledge

The economic effect of a foreign-invested company with advanced technology and management knowledge in the early stage of industrialization has a positive effect on sales, employment, import and export, and R&D. This has been confirmed to some extent in a study on the economic effects of foreign-invested companies in KOTRA. Therefore, in the absence of momentum to attract foreign capital investment, TASED can be a meaningful business for acquiring foreign capital, and technology and management knowledge. Khabarovsk Krai needs to utilize this project, which is currently being promoted as one of the major development policies in the Far East. In the case of Korea, the Masan Free Trade Zone of Gyeongsangnam-do was established at the beginning of industrialization, and was utilized as a window to acquire foreign capital inflows, and technology and management knowledge. In the Masan Free Trade Zone in Gyeongsangnam-do, there are many cases in which the initial companies have grown into exporting midsize companies, and even though they are not exporting companies in the beginning, they have had a positive influence on the entire Korean industry through the various knowledge acquired in the region. In light of these experiences, it is necessary to propose an incentive to attract foreign capital to attract more foreign capital as well as technology and advanced management knowledge to the TASED led by Khabarovsk. In particular, there is a need to attract companies from countries with advanced technologies as well as strategic business relationships with their own SMEs. It is worth considering the “incentive + alpha” system for the basic benefits already offered to foreign companies entering into their own technology and capital.

4.2.3. Strengthening the Role of the Export Support Department or the Export Support and Development Center

The role of the Export Support and Development Center of Khabarovsk is getting bigger and higher. It is very encouraging. It is necessary for government agencies that specialize in SME export support to provide professional support. However, the two persons actually in charge of the center’s work seem insufficient even if internal circumstances are completely understandable. It seems that this center, which was created in 2011, is only functioning as a “temporary” organization because it recognizes that it is at a level that supports the Krai policy. Therefore, some companies do not seem to understand the function of the center or even know its existence. Active public relations are also needed. However, the center will function properly when its content is fully filled. For this purpose, the government has to transfer the support functions of export SMEs to the center, and to develop a program to support SMEs in the region with a system for sharing work with central government-related organizations and actively promote them to SMEs.

4.2.4. Expansion of the Number of Export Companies and Product Diversification Strategy

Only about 185 of the 60,000 SMEs in Khabarovsk are engaged in export business, and exports of 90% or more of their sales to the wood industry and related sectors should be improved in the short term. For the export industry to grow, it is necessary to accumulate experience in exporting various products to other countries. This is because a system for collecting information and information about overseas markets is naturally formed. To expand the number of export companies continuing to support SME exporters, it provides customized information on overseas markets and competitive products to small export SMEs. It should be promoted to find foreign partners, simplify the authentication procedure and a series of payment procedures, and simplify and clarify administrative procedures. This will eventually help expand the number of export companies, and it can be the foundation on which various products are manufactured by various companies; moreover, the development of products that can continue to meet buyers can be maintained. At the same time, it will secure a stable base for expanding Khabarovsk export.

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2017/18 Knowledge Sharing Program
(Industry & Trade) with Khabarovsk Krai

Chapter 3

Capacity Enhancement of the Khabarovsk Export Support and Development Center

<Abstracts>

1. Current Status of the Khabarovsk Export Support and Development Center
2. Korea's Central and Regional Trade Promotion Organization
3. Suggestions to the Khabarovsk Export Support and Development Center

Capacity Enhancement of the Khabarovsk Export Support and Development Center

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<Abstracts>

Under the WTO regime, the role of export promotion organizations has become more important. The Khabarovsk Export Support and Development Center can contribute more directly to the promotion of the export of SMEs in Khabarovsk. Many SMEs are reluctant to export because of the lack of information on overseas market and the failure to find proper foreign partners. These kinds of problem in Khabarovsk is very similar to those of Korea in the process of industrialization by export promotion, but the export promotion policy should be appropriate for the international trade environment. This study analyzes the current status of the Khabarovsk Export Support and Development Center and suggests proposals for strengthening the capabilities of export promotion organizations in the global trade environment as well as in the status of Khabarovsk Krai through the development experiences of Korean trade promotion organizations.

The purpose of this study is to evaluate the role and performance of the Khabarovsk Export Support and Development Center, and to share the experiences of Korea that reflect the characteristics of the export promotion policy of Russia and Khabarovsk Krai. The study also aims to provide essential concepts for contributing to the export promotion of Khabarovsk Krai by establishing the purpose and vision of the Khabarovsk Export Support and Development Center and strengthening its function as a central point of the export support policy. To achieve this goal, the current status of the export support centers in Russia and Khabarovsk was analyzed in Section 1. In Section 2, the implications for the Khabarovsk export promotion organization were derived through the experiences of KOTRA and Gyeongnam Trade in Korea. In Section 3, strengthening the capacity of the Khabarovsk

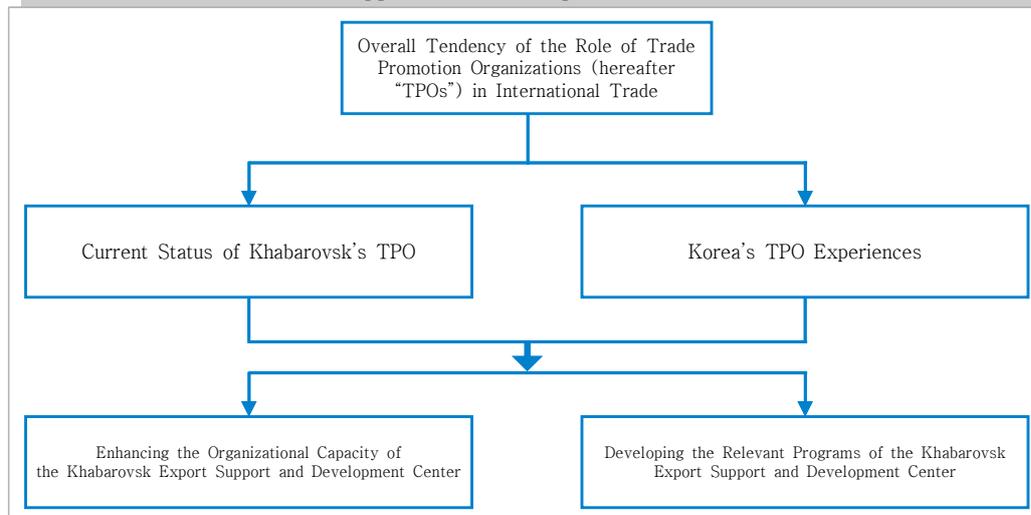
Export Support and Development Center was proposed. The authors hope that the Khabarovsk Export Support and Development Center will contribute substantially to export in the future by sharing the experiences and implications of Korea's trade promotion organizations.

1. Current Status of the Khabarovsk Export Support and Development Center

1.1. Comparison Framework of the Export Promotion Organization

Since the WTO system, the role of the export promotion organization has become more important. Therefore, we analyze the overall characteristics of the export promotion organization in international trade, and the status of the export promotion organization of Russia and Khabarovsk. We also analyze the role and experience of organizational growth of Korea's export promotion organization. As a result of the analysis, we would like to propose a better export promotion program and to strengthen the organization capacity of the Export Support and Development Center as the export promotion organization of Khabarovsk.

[Figure 3-1] Framework for strengthening the capacity of the Khabarovsk Export Support and Development Center



Source: Authors.

The trends of the international community on the role of export promotion organizations can be summarized as follows.³³⁾ First, the export promotion organization provides relevant information between exporters and overseas buyers, and promotes contracts between them. Second, the export promotion agency collects information on overseas markets and overseas buyers, and provides consulting services for companies that want to export. Third, it is necessary to acquire potential buyers and actively promote activities to enable export companies to seize opportunities in these target markets. Fourth, the export promotion organization should support various overseas marketing activities for SMEs, which find it difficult to establish their own overseas sales network. Fifth, in the recent IT environment, information about the target market is distributed to domestic export companies, and information about major export markets is actively investigated and disclosed or offered as paid services. It also involves linking fragmented business activities with international traders in the GVC and naturally internationalizing their activities.

For the study, the method of comparing the role of the Russian Federation export policy and the export promotion organization analyzed the differences and similarities between the policy, the national export promotion organization, and the local export promotion organization. We will propose a plan to enhance the export of Khabarovsk by drawing up the capacity of the organization.



Source: Authors.

33) Olaru, Octavian–Liviu. 2015. "New challenges for trade promotion activity in actual global world economic framework: Challenges of the knowledge society." *Economics*, pp. 683–684.

1.2. Establishment of the Russia Export Center

The most significant change is the establishment of an export promotion organization for the Russian Federation, which offers a variety of subsidies to promote exports in the non-resource sector. Established in 2015, the Russia Export Center is the Russian Agency for Export Credit and Investment Insurance (EXIAR), which has the aim of providing one-stop services for related ministries to promote exports in the non-resource sector.³⁴⁾ The Russia Export Center also acts as a focal point for interaction with relevant domestic ministries and agencies, and cooperates with key industries and business players in Russia to improve the export conditions in the country and help bypass trade barriers. It offers its services to all the exporters of non-commodities' products, goods, and services with no industry restrictions. REC aims at providing exporting companies with continuous support from the proposal and planning phases all the way to the successful completion of the export contract and its implementation and beyond, including e-commerce channels. The main functions and works of REC are as follows.

[Table 3-1] Main functions and works of the Russia Export Center (REC)

Function	Works
Export support	Customs management, customs calculation for export items, VAT refund, basic logistics consulting, development of basic transport routes, calculation of the average shipping cost through developed shipping routes, and preparation for export contract
Overseas market analysis	World trade analysis, basic information on export markets and relations with Russia, import statistics by country, pre-evaluation of foreign markets, overseas market analysis report, export analysis of Russia, Russia's export topography and volume, export route information, exports of Russia's nonproprietary products in the export market, details on Russian regional exports in terms of goods and countries, trade barriers and restrictions information, customs and commission information applicable to Russian import products by country, and export information according to the Russian region
Overseas market entry service	Exporter overseas marketing, exhibitions and business missions, support translation of promotional materials and documents for exporters, matching potential buyers in overseas markets, international bidding and project participation, and e-commerce export support
Education services	Best practice training services for export companies

34) The Russia Export Center was established by Federal Law No. 185-FZ dated June 29, 2015, "On Amendments to the Federal Law," "On the Bank for Development," and Article 970 of Part 2 of the Civil Code of the Russian Federation.

[Table 3-1] Continued

Function	Works
Certification and licensing	International standard and overseas market requirements criteria review service, information on international market and international organization conformity assessment bodies, advisory support for conformity assessment in overseas markets, procedures for performing the general requirements and conformity assessment of products online, support for the legal protection of intellectual property rights, support of accounting advisory of intangible assets, support of legal services, quality certification and sales certificate, and issuance support of export license
Export support special program	Support payments for expenses incurred in the year (renewal of grant payments annually), compensation for overseas patent application, compensation for Russian product certification, participation fees for international exhibitions and fairs, support of overseas market entry for agricultural products (tasting and company product placement), support for interest rate compensation on the export credit provided by banks, some compensation for the cost of transporting agricultural products and products
Insurance	Support of export activities through credit and investment protection through the insurance support service organization of an export company (ЭКСП), foreign investment insurance, short term bond insurance, export credit guarantee, export insurance, interest rate variable insurance, export-oriented SMEs, export insurance, and credit insurance support services for export assets
Export-related loan and guarantee support	Provision of loans and guarantees to exporters through the Export-Import Bank (АО РОСЭКСИМБАНК)
“Made in Russia” support program	Provision of services to raise awareness of Russian brands and products through national brands (“Made in Russia”)

Source: Russia Export Center Portal Site (<https://www.exportcenter.ru/en>).

In addition, REC has established a portal site to help companies acquire information on overseas markets and participate in exports more easily. The Russia Gastro Business event held on April 20, 2018, in Seoul is a representative example of an export assistance program that supports companies in the Russian F&B sector to develop their overseas markets.

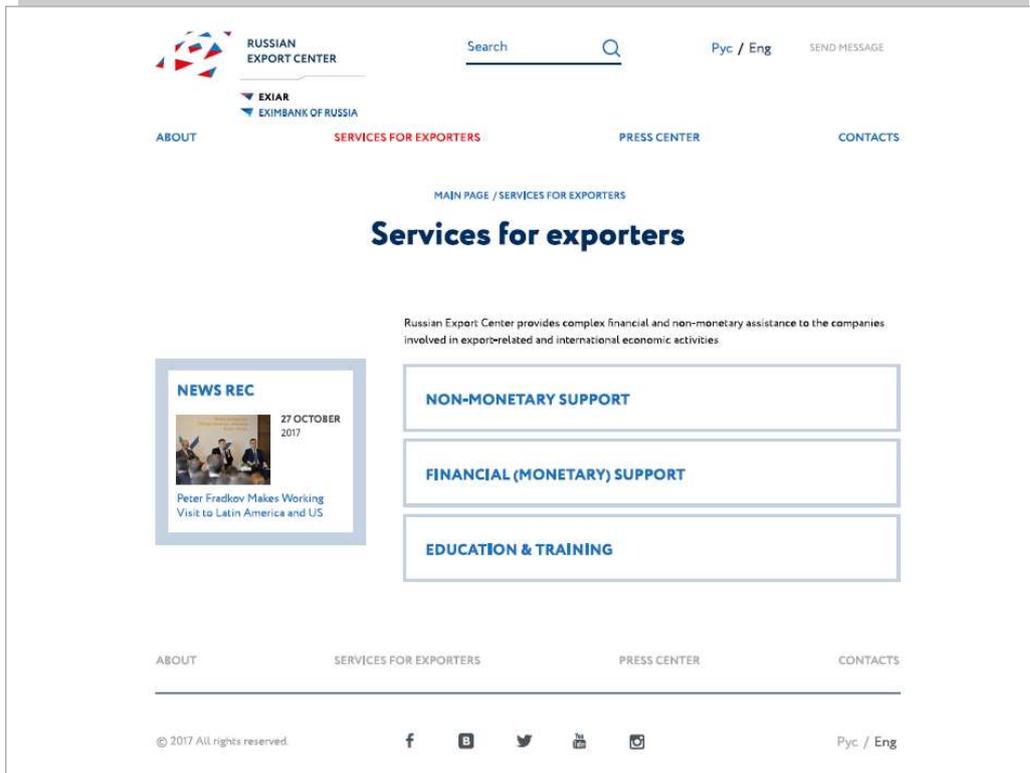
[Figure 3–3] Russian Export Center’s export assistance program, “Russia Gastro Business”



Source: Authors.

Fig. 3–4 shows the main service screen of REC’s portal site.

[Figure 3–4] Russian Export Center’s portal site – Main service website



Source: Russian Export Center Portal Site (<https://www.exportcenter.ru/en>).

The main objectives of the REC portal site are to enable exporters to access one-stop services and to easily apply for export-related services to REC or regional export centers. However, it has not been able to provide sufficient information on exports from regions including Khabarovsk. REC compiles Russian export brands in a catalog; however, this is not sufficient. The “Made in Russia” brand for non-commodity exports was developed, and by the end of 2017, 114 shipments were certified, and 12 exporters were awarded the right to use the “Made in Russia” brand.

[Figure 3–5] Russian Export Center’s issued product catalog for Russian export brands



Source: Russian Export Center Portal Site (<https://www.exportcenter.ru/en>).

Of course, it is necessary to consider that the establishment of REC has not been long. In the short term, REC has made many achievements. It actively cooperated with overseas export promotion organizations to strengthen its capabilities and improve its services. It has signed a memorandum of understanding with Korea's Export-Import Bank (KOEXIM) and is cooperating with export-related financial services.

REC is represented by Andrey Slepnev, the Chairman of the Board of Directors; Anton Siluanov, the first Deputy Prime Minister of the Russian Federation; and other member directors including Maxim Akimov (Deputy Prime Minister for Transport and Communications), Andrey Belousov (Assistant to the President of the Russian Federation), Maxim Oreshkin (Minister of Economic Development), Denis Manturov (Minister of Industry and Trade), and Sergey Gorkov (Chairman of the Chamber of Commerce and Industry of the Russian Federation). Until REC was established, foreign trade banks (VTB and VEB) acted as export support centers, but after its establishment, banks became members of REC.

[Figure 3-6] MOU between EXIAR and KOEXIM



Source: Russian Export Center Portal Site (<https://www.exportcenter.ru/en>).

REC is currently establishing domestic and overseas branch offices including branches in Vladivostok, Khabarovsk, Kaliningrad, Krasnoyarsk, Nizhny Novgorod, Samara, Saint Petersburg, Novosibirsk, and Yekaterinburg. It has overseas branches in Argentina, Iran, Kazakhstan, Tajikistan, and Vietnam. It plans to create 30 branches in 20 regions in 2017, 35 branches in 25 regions in 2018, and 34 branches in 40 regions in 2019.

REC is implementing an export support program based on the regional center, and the

regional branch establishes a regional network of companies to implement financial and nonfinancial export support programs. Through these export subsidies, the Russian government will be able to diversify the Russian industry, restore the regional production system, reduce excessive reliance on resources through job creation, and increase the tax revenues of the regional government.

In Khabarovsk, there is also an REC branch office that supports export at the regional level. The Khabarovsk regional office is working to strengthen the export of Khabarovsk with the Khabarovsk Export Support and Development Center, but it is necessary to coordinate the role with the Khabarovsk Export Support and Development Center.

[Table 3-2] Assets and revenues of the Russian Export Center (REC)

	2015	2016
Assets	48.9	61.4
Revenues	0.86	-2.19

(Unit: RUR billion)

Source: Russian Export Center Portal Site (<https://www.exportcenter.ru/en>).

1.3. Establishment and Development of the Khabarovsk Export Support and Development Center

Khabarovsk is a dynamically developing region and has abundant natural resources such as gold (10% of Russia), platinum (25%), copper (50%), tin (20%), and coal (8%) as well as timber. It has the TSR and the BAM Railway, and shows a high growth potential as a logistics hub between Eurasia and the Asia–Pacific region in the future.³⁵⁾

As it is well known, in 2012, the Russian government formed the Ministry for Development of the Russian Far East for the development of specific regions for the first time in Russia’s history and actively promoted the Far East development strategy. In March 2013, the Far East – Baikal Social–Economic Development Strategy was adopted and, in April 2014, the plan was fully revised to reflect the characteristics of the Far East region. The strategy aims at improving the economic conditions in the Far East by exporting products from the Far East to the Asia–Pacific market. For the purpose, TASED provides tax benefits to set up and expand the production base in the region.

At the regional government level, the role of SMEs is emphasized as a growth engine. Khabarovsk Krai is hoping to increase its competitiveness and create sustainable growth by exporting the products of SMEs in the region to the Asia–Pacific market. Of course, the

35) Consulate General of Korea (Republic) in Vladivostok, Russia. 2017. The Outlook for Khabarovsk Krai and Khabarovsk City. (<http://overseas.mofa.go.kr/ru-vladivostok-ko>). (Date of search: August 25, 2017)

proportion of SME exports to Khabarovsk is still small. Improving the exports of SMEs in the short term is a key task of the Khabarovsk Export Support and Development Center. In 2011, Khabarovsk established a regional-level export support center to promote regional economic development before REC.

The main goal of the Khabarovsk Export Support and Development Center is to become a “one-stop shop” for exporters in the region. At the same time, the Khabarovsk Export Support and Development Center acts as a “link” between companies and authorities. The interest in the export of Khabarovsk is increasing as the federal government strengthens its export support policy. The Ministry for International and Interregional Cooperation of Khabarovsk Krai supervises the center and provides assistance in project execution.

In the beginning, the role of the Khabarovsk Export Support and Development Center was divided into three categories: ① information support, ② consulting service support, and ③ export-related work coordination. However, more services are needed to strengthen the export capacity of the SMEs of Khabarovsk, including resolving difficulties, and they are now serving as export platforms for SMEs. Now, the main goals of the Khabarovsk Export Support and Development Center is to ① diversify exports, ② increase the export volume, ③ strengthen the production capacity of SMEs for export, ④ provide consulting, ⑤ production and export by SMEs, ⑥ export potential evaluation in the Khabarovsk region, ⑦ seek ways to boost exports, and ⑧ prospective overseas expansion. To achieve these goals, the support and interest of the Khabarovsk Export Support and Development Center is continued at the regional government level.³⁶⁾

Currently, there are about 65,000 SMEs in Khabarovsk, of which only a few (186) are exporting. These SMEs account for 40% of the total exports of Khabarovsk.³⁷⁾ It is believed that the export potential of SMEs in the manufacturing sector is great, and the regional government is working together with the Khabarovsk Export Support and Development Center to promote the export of the manufacturing industry. Although SMEs in the service sector cannot promote exports in the short term, they are also interested in export support. Thus, apart from SME support at the federal level, export support work, including nonfinancial support, is being carried out through the regional export support center. The center provided all the necessary technical support for regional SMEs to conduct their negotiations successfully. As a result, in 2017, three export contracts were signed, thanks to that kind of support. The Khabarovsk Export Support and Development Center consults regional companies on a regular basis with regard to the products of EXIAR. Moreover, it processes the requests from REC accumulated from potential importers. As a result, in 2017 the center provided information on six companies for exporting to the APEC, and two companies, to Great Britain.

36) Interview with the Khabarovsk Export Support and Development Center. August 8, 2017.

37) Interview with the Khabarovsk government. August 8, 2017.

[Figure 3–7] Khabarovsk Export Support and Development Centers' portal site



Source: Khabarovsk Export Support and Development Center (<http://khabexport.com/>).

[Figure 3–8] Regional distribution of the Russian Federation's export standards



Source: Russian Export Center Portal Site (<https://www.exportcenter.ru/en>).

The work of the Khabarovsk Export Support and Development Center is divided into three stages: Phase 1 or consulting for start-up entrepreneurs, Phase 2 or financing for SMEs, and Phase 3 or consulting through training programs for export-oriented companies, providing a comprehensive solution for export. The main reasons of support from the beginning of a business is that most SMEs hesitate to export because of the lack of knowledge and information about exporting methods.

While the role of the government is important to promote Khabarovsk exports, the role of the Khabarovsk Export Support and Development Center is more important to help SMEs directly contact and grow into export enterprises. It is also working with regional authorities to improve the administrative aspects of customs and customs-related procedures that SMEs are most afraid of in the export process.³⁸⁾

In 2017, the governor of Khabarovsk has started to host a regional export committee. The strengthening of the capacity of the Khabarovsk Export Support and Development Center will directly contribute to the export of Khabarovsk SMEs, and this will greatly contribute to the export of Khabarovsk products, goods, and services. The mission of the council is to prepare proposals to articulate and implement the export policy, and to coordinate the actions of executive authorities and the business community of the region aimed to develop Khabarovsk Krai's export potential. Basically, the council is a platform, where the business community, executive authorities, and regulatory authorities can discuss existing issues, identify solutions and implement them on the regional level, and initiate improvements on the federal level, if needed. Moreover, Khabarovsk is the only region in the Far East to operate local export standards and export personnel training projects. This means carrying out all kinds of work to promote SMEs' exports in Khabarovsk.

1.4. Organization and Role of the Khabarovsk Export Support and Development Center

The Khabarovsk Export Support and Development Center is currently composed of two employees, and the work related to the other major functions is carried out through cooperation with external experts. The center's employees can provide business-specific consultations on various foreign trade aspects for regional companies. The main roles of the Khabarovsk Export Support and Development Center are as follows.³⁹⁾

- ① Information support: It receives information from relevant ministries and agencies, and uploads it to the portal site of the Khabarovsk Export Support and Development Center (www.khabexport.com), which hosts a directory of regional exporters, in a form that can be understood by regional businesspeople. It operates in Russian and

38) Interview with the Khabarovsk Export Support and Development Center. August 8, 2017.

39) Interview with the Khabarovsk Export Support and Development Center. August 8, 2017.

English (news–centric, briefly a list of companies involved in import and export), and the portal site has the “Knowledge Sharing” site. Using this site, experts in Khabarovsk share knowledge on trade. The Khabarovsk Export Support and Development Center is operated for export companies. There is a lack of useful information for importers.

- ② Support training program of export for SMEs: The only operator of a training program accredited by REC in the Russian Far East.
- ③ Support for exhibitions and fairs: Support for participating in international exhibitions and fairs, and supporting participation by holding exhibitions and fairs
- ④ Overseas marketing support for export goods
- ⑤ Russian manufacturers’ expense compensation for overseas intellectual property registration and Russian product certification; two types of export expense compensation; subsidy support business
- ⑥ Partial transportation cost compensation support business for export products
- ⑦ One of the major key performance indicators (KPIs) for the center is a number of contacts signed with its support

The Khabarovsk Export Support and Development Center has been awarding exports to excellent exporting companies at the Far East Business Forum, which has been held in Khabarovsk since 2016, and is actively advertising the news. However, administrative and financial support measures have not yet been provided for export–oriented companies.⁴⁰⁾

[Figure 3–9] Excellent Exporter Company Award in Khabarovsk



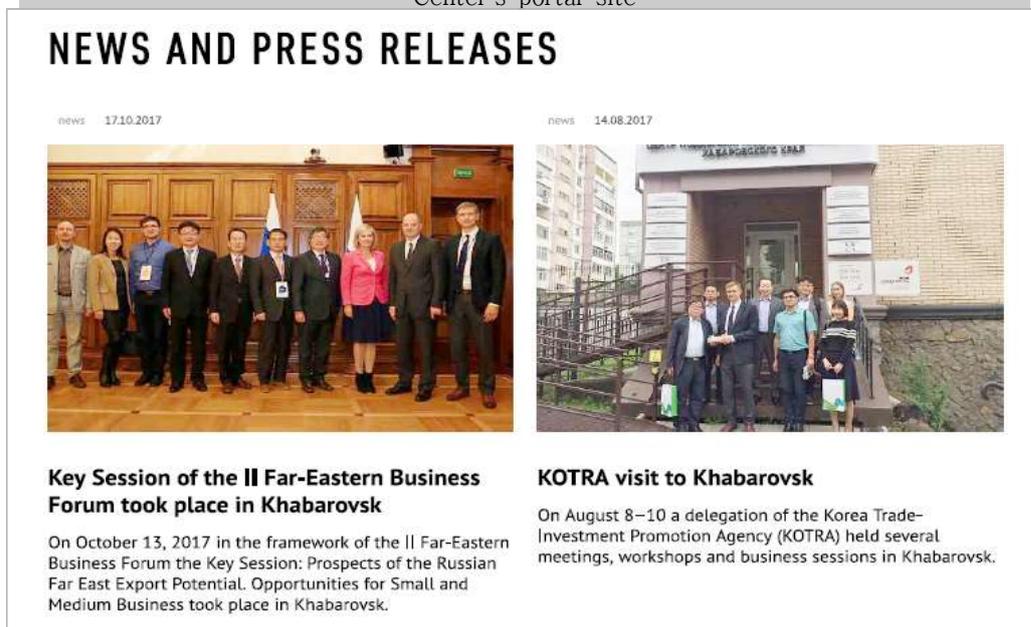
Source: Khabarovsk Export Support and Development Center (<http://khabexport.com/>).

40) Exporter Award Interview. October 13, 2017.

The Khabarovsk Export Support and Development Center is also actively promoting the KSP project with KOTRA through its homepage to enhance the understanding of and interest in Korea as an export market. It also held seminars on the Korean market in the session of the Far East Business Forum held on October 13, 2017.

In addition, the Khabarovsk Export Support and Development Center has been providing B2B consultation with Korean companies during the KSP Interim Report in Korea on March 21, 2018. Moreover, various efforts are being made to promote the news of the Korea Business Council of Khabarovsk export companies through the Khabarovsk Export Support and Development Center. This way, the center is making great efforts to cooperate with the countries of the Asia–Pacific region that can perform well for Khabarovsk Krai.

[Figure 3–10] KOTRA event at the Khabarovsk Export Support and Development Center’s portal site



Source: Khabarovsk Export Support and Development Center (<http://khabexport.com/>).

The support projects planned by the Khabarovsk Export Support and Development Center are as follows: ① analysis of the current export situation; ② difficulties in export; ③ budget allocation for the export support strategy; ④ analysis of the potential of overseas markets; ⑤ training of SMEs through seminars; ⑥ export promotion forums, seminars, and roundtable participation and organization; ⑦ participation in foreign trade exhibitions; ⑧ foreign and domestic exhibitions, and export business conferences.⁴¹⁾

The activities of regional export committees, in which the governor of Khabarovsk

41) Interview with the Khabarovsk Export Support and Development Center. August 8, 2017.

participate, are as follows: ① development of representative brands at the regional level, ② review of export strategy proposals, ③ suggestions for strengthening export capacity, ④ encouraging cooperation between relevant departments and exporters in Khabarovsk, ⑤ recommending measures to resolve export barriers, and ⑥ strengthening the export support of the Khabarovsk government.

[Figure 3-11] Intermediate report and B2B counseling of the Khabarovsk Export Support and Development Center



Source: Khabarovsk Export Support and Development Center (<http://khabexport.com/>).

2. Korea's Central and Regional Trade Promotion Organization

2.1. Korea's Export Promotion Policy and Governance

Since 1962, the Korean government has taken economic development as an important national goal, and has strongly promoted trade promotion policies by directly monitoring the monthly economic trends and export performance, and preparing measures.⁴²⁾

[Figure 3-12] Expansion Promotion Expansion Conference hosted by the president



Source: Yonhap News.

The Korean government has set annual export targets, provided incentives to achieve them, and rewarded them if necessary, using export promotion policies. In 1962, KOTRA was established, providing overseas marketing information and supporting exporting SMEs. In addition, the Korea Trade Association was established as a trade organization with the participation of SMEs. The reason for the increase in exports is that resources for investment in industrial facilities have to be secured through foreign aid, loan money, or exports.⁴³⁾

On the day of trade, the rewarded companies have been provided with the benefits of foreign exchange. When importing for export, they have been provided with customs benefits

42) KDI. 2014. Economic Growth Policy and Governance in the Korean Economy: Modularization of Economic Development Experience, Focusing on Monthly Economic Trends Meeting and Expansion Promotion Conference, p. 44.

43) KDI. 2010. Export Promotion, Economic Development Experience Modularization Project, pp. 133-134.

and allowed a certain amount of foreign exchange reserves. Export companies could be reduced lending rates and could have been provided with tax benefits.

[Figure 3–13] 2017 Trade Day Awards



Source: Yonhap News.

In addition, the Korean government has established secondary education and higher education institutions to nurture industrial engineers so that exporting companies can build their own production systems. It also actively approved the establishment of foreign language education and trade-related courses within the university.

However, as the Korean economy has grown and the trade environment has changed due to the launch of the WTO system, policy support has been differentiated from the past.

2.2. Trade Support Function of KOTRA

From the very beginning, KOTRA has developed its variety of overseas marketing support activities for Korean companies. At the same time, it also functions to attract foreign investment and to support the overseas investment of Korean companies. In recent years, KOTRA is also doing business for the globalization of the knowledge service industry, fostering the medical industry, and the participation of Korean companies in the overseas procurement market.

KOTRA was established in 1962 based on the Korean Trade Promotion Act of the Republic of Korea for the purpose of promoting Korea's exports. In 1963, KOTRA opened a trade center in major export markets—such as New York, Los Angeles, Hong Kong, and Bangkok—and started to work as a major organization for Korea's export promotion. In 1962, when Korea began to promote its exports actively, Korea's main exports were mostly primary products. KOTRA played an important role in establishing an industrial base in Korea by changing the export structure and exploring overseas markets. The acquisition of foreign currency as Korea's export growth, which was not enough for foreign exchange at that time, provided the necessary capital for industrialization.⁴⁴⁾

Since its founding, KOTRA's main business activities are market research, market development, exhibition, and publicity. Market research is the collection of domestic and overseas data and information related to import and export; the demand of overseas major markets for strategic products; the research of export-related capacity of major goods and items; and the various supports for the purpose of establishing the export growth target and the achievement of the goals, and analyzing the causes of sluggish exports and the cost structure.⁴⁵⁾

[Figure 3–14] Supporting KOTRA's overseas information

<h3>Overseas investment information</h3> <p>Provide overseas investment information gathered through KOTRA's trade centers</p> <ul style="list-style-type: none"> - Overseas Investment Information System (www.ois.go.kr) - Call center for investment consultation (1577-9624) 		
<h3>Investment seminars and investment delegations</h3> <p>Investment seminars: Introduce regulations, strategies and cases regarding overseas investment</p> <p>Investment delegations: Visit areas of investment interest and meet with officials of local governments, businessmen and others</p>		
<h3>Overseas Premium Service (OPS)</h3> <p>Provide customized services to individual companies such as feasibility studies on overseas expansion and the establishment of networks and corporations (plants)</p>		
<h3>Support centers for Korean investment companies</h3> <p>Support the successful settlement of Korean companies in 15 countries</p>		

Source: KOTRA. 2017. KOTRA Introduction, p. 19.

44) KOTRA. 2002. KOTRA 40 Years and Korean Economy 40 Years, pp. 90–91.

45) KOTRA. 2002. KOTRA 40 Years and Korean Economy 40 Years, pp. 21–22.

KOTRA collects economic, trade, and industry information on-site through its offices all over the world, and provides government agencies and domestic companies with the information to use in their export strategies. KOTRA publishes a report on market trends, holds detailed information sessions by region and sector, and updates related information quickly and accurately online as a platform for overseas market information.⁴⁶⁾

The trade investment information collected by KOTRA's overseas offices are provided to Korean companies partly free and partly paid. Free information can be found in "Digital KOTRA" and "Global Window," which are the representative websites of KOTRA. These are general short papers on trade and investment information and overseas information on the presence of Korean companies, country profiles, and overseas exhibition information that can easily be accessed through the homepage. KOTRA also publishes country-specific business guides that contain overseas business information such as country outlines, economic trends, and investment climate around the world. In response to customer requests, KOTRA is also investigating import and export inquiries on specific items, inquiries on overseas buyer information, and commodity market trends.

[Figure 3-15] Providing the global trade information of KOTRA

Global trade information

Provide trade information of various countries and announce prospects of overseas markets, exports and more

Providing global trade information

Operating a trade reference hall

Trade reference hall (3F)
Tel +82-2-3460-7405, 7408
Fax +82-2-3460-7335

A portal site for trade & investment information

www.globalwindow.org

Overseas market consulting

- Based on the results of in-depth research on overseas markets, suitable marketing strategies for companies are suggested.
- Select nations for expansion of specific industries and establish entry strategies and roadmaps

Source: KOTRA. 2017. KOTRA Introduction, p. 17.

46) KDI. 2010. Export Promotion, Economic Development Experience Modularization Project, p. 141.

KOTRA is holding “Global Market Trends,” which analyzes and announces the global market trend for the new year in January of each year. The head of KOTRA’s overseas regional center explains the market trend of every important region. There are also occasional briefings on professional issues such as investment environment briefing sessions, intellectual property protection, and project biddings by international organizations that Korean companies hope to join.

[Table 3–3] 2016 KOTRA overseas market research agent performance by type

Types of Service	Number of Completion
Support for business partner connections	3,952
Market research	1,921
Investigation of raw material suppliers	109
Investigation of unpaid on export	228
Checking of contact point of overseas importers	875
Total	7,122

Source: KOTRA Internal Report.

Market pioneering project is a support to achieve specific export performance through matching between Korean companies and overseas buyers. From the early days of its establishment until the 1980s, KOTRA’s most important task was to accept inquiries from foreign buyers that wanted to import Korean products to deliver them to domestic exporters. KOTRA has been sending trade missions as a marketing tool for overseas market development. Currently, more than 200 delegations have been dispatched annually, and direct matching services are held with local buyers. Delegations from regional governments and economic organizations are also directly or indirectly supported by KOTRA’s overseas offices. For SMEs, which find it difficult to establish overseas branches, KOTRA’s overseas offices serve as branch offices.⁴⁷⁾ In addition, KOTRA supports 1:1 overseas market development activities, ranging from market research and export business to transaction completion. Even after the termination of the overseas branch service agreement, the companies have been provided with free after-sales service for six months only for consultation with the buyer in the transaction relationship during the agreement period.

KOTRA operates a joint logistics center and provides services to relieve the burden of the logistics expenses of SMEs.⁴⁸⁾ Korean exporters can reduce logistics costs, and overseas buyers can place small orders that do not require large amounts of money. The KOTRA Joint Logistics Center has been operating in 25 cities as of 2010, starting with the opening of the Amsterdam Trade Center in 2004.

47) KDI. 2010. Export Promotion, Economic Development Experience Modularization Project, pp. 143-144.

48) KDI. 2010. Export Promotion, Economic Development Experience Modularization Project, pp. 144-145.

[Figure 3–16] KOTRA supports SME export



Source: KOTRA. 2017. KOTRA Introduction, p. 11.

Exhibition and promotion business is a marketing activity support that includes various sales promotional activities such as movie production, costume exhibition, and product promotion booklets, as well as international exhibitions and exhibition-related businesses.⁴⁹⁾ KOREA TRADE, which has long been an advertising book for SME exporters, actively promoted Korean exporters' products.

KOTRA has been gradually expanding its business since its establishment. In 2016, KOTRA organized the Korean Pavilion and participated in 155 international exhibitions. It also holds an exclusive exhibition in major trading partner countries. In 2017, the "Korea Excellence Product Exhibition" was held twice in India and the Middle East, and the "K-Culture Product EXPO" was held four times in Wuhan, Chengdu, Taipei, and Bangkok.

KOTRA has organized the Korean Pavilion at the World Expo from the 1964 New York EXPO to the 2017 Astana EXPO. Participating in EXPO is an important means of raising the brand of the country and domestic products from a long-term point of view in addition to the trade inducement effect. In addition, the company provides mentoring services through retired workers to companies that have no export experiences or little knowledge in the export business. Moreover, KOTRA provides services—such as counseling, hotel reservation, interpreter and transportation reservation, and visa acquisition—through the trade center when a company goes abroad for market exploration or investment climate investigation.

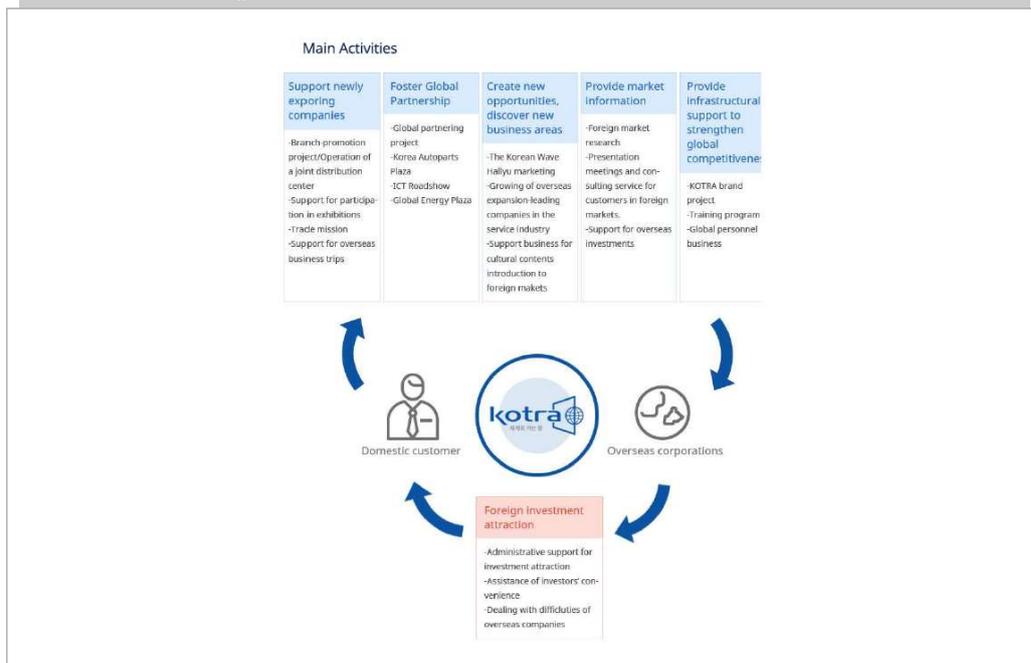
49) KDI. 2010. Export Promotion, Economic Development Experience Modularization Project, pp. 146-148.

This support activity is a paid service that charges according to the business type and the actual cost.

KOTRA invites buyers who want to import Korean goods and, at the same time, provides export consultation to Korean domestic companies. The representative counseling service is “Buy Korea,” a large-scale trade fair held since 2009. In addition, industry-specific conferences are held regularly.⁵⁰⁾ KOTRA supports e-trade overseas marketing services so that all processes from consultation, order, contract, and payment to payment to delivery can be safely performed online.

KOTRA collects information on overseas markets through the most basic businesses—such as market research, market development, and exhibition and promotion—and passes it on to related enterprises. It was able to deliver global market information gathered through the overseas network to customers in real time and hold various briefing sessions to enhance the information for companies. KOTRA Academy, or the “Export School,” and the “Export Information Center” were opened in March 1965 and in the end of 1969, respectively.⁵¹⁾

[Figure 3–17] Introduction of KOTRA’s main activities



Source: KOTRA Homepage.

50) KDI. 2010. Export Promotion, Economic Development Experience Modularization Project, p. 145.

51) KDI. 2010. Export Promotion, Economic Development Experience Modularization Project, p. 133.

KOTRA, which has led the growth of the Korean economy through the expansion of trade, developed new roles and functions in response to the changing global trade environment. Today, KOTRA's work is not limited to promoting trade. In August 1995, the official name of KOTRA was changed from "Korea Trade Promotion Corporation" to "Korea Trade-Investment Promotion Agency." This is because mutual relations among trade and investment have increased in the foreign trade environment after the WTO. The Korea Investment Service Center (KISC) established in the government department was transferred to KOTRA and was established as a window for collectively processing investment services.⁵²⁾ This function was strengthened in 1997 when Korea faced the foreign exchange crisis. KISC changed its name to Invest Korea (IK) in 2003 and expanded its organization to a one-stop service system to attract foreign investment.⁵³⁾

Unlike other internal organizations of KOTRA, IK is an organization that works jointly with KOTRA employees, central and regional government officials, public sector employees, and sectoral experts. It is a part of its services to provide convenience for investors. In particular, investment service centers can be used to deal with various works—such as investment consultation, investment report, visa extension, and tax consultation—in one place. In addition, IK appoints a head of foreign nationality to serve foreign investors. IK has also introduced a foreign investment ombudsman system to solve the management difficulties that foreign-invested companies face after they invest in Korea. The Ombudsman was directly appointed by the president and the co-chairman of the Regulatory Reform Committee, which allowed the difficulties of foreign companies to be immediately reflected in the regulatory reform process.

KOTRA was designated as a dedicated investment promotion support organization in accordance with the Foreign Investment Promotion Act and attracts more than USD 11 billion in foreign investment annually. KOTRA also supports Korean companies' overseas business activities. The Korean Investment Service Center has been established in China, Vietnam, Indonesia, and Cambodia, and supports legal, accounting, and labor affairs.

The role and works of KOTRA are becoming more diverse as Korea's trade volume has increased. In the early days of establishment, the type of commodity trading support was the best, but now, it is expanding into activities to globalize the intangible knowledge industry, support the recruitment of high-quality human resources, and promote national brands.

52) KDI. 2010. Export Promotion, Economic Development Experience Modularization Project, p. 133.

53) KDI. 2010. Export Promotion, Economic Development Experience Modularization Project, p. 134.

[Figure 3–18] Development of KOTRA



Source: KOTRA. 2017. KOTRA Introduction, p. 4.

Every year, KOTRA decides its business goals in accordance with the export environment, and establishes and implements the directions and tasks for key projects. In 2017, KOTRA’s business objective was “to expand exports and investments for economic recovery and to lead the future: recover USD 1 trillion in trade and achieving USD 22 billion in investment attraction.” By converting the abstract concept of the business goal into a goal through concrete numerical values, it effectively manages the business progress and responds flexibly to changes in the situation.

[Table 3–4] KOTRA’s business goals and main tasks in 2017

Business Goals	Main Tasks
Export recovery	Strengthening export-oriented marketing support
	Elimination of export obstacles for SMEs
Diversification of export	Strengthening the export competitiveness of SMEs
	Development of a customized marketing strategy
Sustainable export growth	Support of overseas market development
	Responding to changes in the global market environment
Attraction of investment for export recovery and industrial development	Attraction of investment to drive future economic growth
	Enhancement of the global FDI platform

Source: KOTRA. 2017. KOTRA 2017 Business Plan.

KOTRA differentiates step-by-step services according to the export capabilities and characteristics of companies that hope to export or have the potential of exporting competitiveness. To find export companies, KOTRA will ① seek efficient ways to find new exporters to increase export, ② manage the service history for systematic and continuous support, and ③ improve services for exporters and enhance exporters' satisfaction.

[Table 3-5] KOTRA's customized services at the stages of export growth

Business Start-Up	Export Starter Enterprise	Export Promising Company		Export-Led Growth Company		Global Professional Enterprise
Export Start-Up	Export Orient Enterprise	Export Incubator	Overseas Branch Service	Sales Rep.	World Champ	World-Class Products
Start-Up Environment and Investment Partners Survey	Market Survey and Inquiry Collection	Establishment of Local Entity, A/S and Marketing Support	Discovery of trading partners & Distribution network	Retail and GVC network Survey	Product Promotion and Retail Network Management	Design Development, Brand and IP Strategy
Overseas Joint Logistics Center / B2B, B2C, A/S support						

Source: KOTRA.

KOTRA analyzes the GVC according to the characteristics of globalization and finds out the global business cooperation demand, and promotes overseas penetration through the GVC. In addition, KOTRA helps Korean companies to explore and win overseas public procurement projects, ordered by foreign governments and international organizations.

[Figure 3–19] KOTRA's Global Cooperation Project



Source: KOTRA. 2017. KOTRA Introduction, p. 13.

It should be pointed out that KOTRA is legally guaranteed to carry out independent management activities. Although it carries out business attached to the foreign economic policy of the government, business ideas are developed by KOTRA itself.

KOTRA establishes an evaluation system for each business activity and evaluates the achievement of the targets of services. Through the quantification and systematization of performance measurement, evaluation management efficiency is improved, and performance-based business is continuously implemented by introducing a competence-based personnel system. In addition, the government is checking out annual performance through internal evaluation along with external management evaluation. In particular, the evaluation of the service satisfaction of customers who participate in KOTRA's services is an important factor that influences the incentives of the staffs of KOTRA.

It should also not be overlooked that KOTRA is working to improve the professionalism of its staffs through various learning programs. KOTRA puts a lot of effort into accumulating expertise in business management and industry, as well as using English as a second language, including Russian, and so on.

It is difficult to operate KOTRA, which has a vast network of services, without the help of efficient information systems. WINK, an internal information system that mediates communication among employees, and portal sites and KBC-specific websites that provide information and services to customers, are becoming a necessity for quick and accurate

business processing. In 2017, KOTRA has operated 127 foreign trade centers in 86 countries and has been supporting Korean exporters' entry into overseas markets.

KOTRA developed the GP program to contact overseas global manufacturing companies. Korean SMEs are finding it difficult to penetrate the GVC of global manufacturing companies. KOTRA helps SMEs strengthen their competitiveness through education, overseas certification, R&D, and financial support. KOTRA's GP program is based on the demands of global corporations. To meet the demanding requirements of global companies, KOTRA's GP program is collaborating not only with its own competence but also with the venture department of SMEs, universities, and research institutes. The case of one airplane GP program shows that KOTRA first constructed the mapping DB data of the Korean aviation industry; interviewed US T company in October 2015; and discussed the items, specifications, conditions, etc. After the recommendation for Korean SMEs, which can satisfy all the conditions of T company, in February 2016, KOTRA held a GP meeting between T company and candidate companies in Korea. Since April 2015, Korean SMEs have conducted NADCAP certification training (nondestructive testing and heat treatment) and arranged government R&D funding so that the parts specifications and level required by T company can be met. In October 2016, KOTRA held a business meeting between T company and a candidate company in Sincheon, Gyeongsangnam-do, and confirmed the participation of the project for USD 1 million.

The Khabarovsk Export Support and Development Center needs to start a project to support the incorporation of GVCs in local SMEs by referring to the GP business case of KOTRA in Korea. It is necessary to build a mapping DB that provides detailed information on production companies and basic information by using external experts, mainly in the airline and shipbuilding industries, which have relatively high international competitiveness. Through this data, the Khabarovsk Export Support and Development Center should determine the demand for cooperation with global companies in Korea, China, Japan, and other developed countries. To find a cooperative project, Korea must promote the joint development and production system of materials and components through technical cooperation with KAI in Sacheon, Gyeongsangnam-do; JETRO; China CCPIT; and the Russian Embassy in the Republic of Korea. To enhance the competence of SMEs in charge, it is necessary to build a cooperation system with related organizations, such as the state and federal export support center group in Khabarovsk, and to support education, certification, and R&D fund.

Since 2016, the Ministry for Food, Agriculture, Forestry and Fisheries of Korea and aT have been working together to identify promising export items for the Miracle K-Food project. The Miracle K-FOOD project finds competitive agricultural and food products in the global market. Korea's agricultural exports have steadily increased over the past decade, but as of 2017, more than USD 100 million worth of Korea's agricultural products are being

exported including 10 items such as tuna and coffee. Except for ginseng and processed foods, cigarettes, tuna, noodles, and coffee are not significantly related to farmers' income. The goal is to find and cultivate promising items that are highly likely to be exported in the future because they are directly linked to raising farmers' income. aT will designate future items to assess the proportion of the domestic raw materials used to increase farm income through exports. The selected items will be supported by aT's self-support programs and the trade platform of professional trading companies such as marketability test, test export and export settlement support, and market diversification support. It can support anyone who produces and processes domestic agricultural products. It is the role of aT to find sales points that are difficult for individual companies to develop themselves and to expand overseas exports of Korean agriculture products.

Therefore, the Khabarovsk Export Support and Development Center needs to selectively start a project to support the increase of overseas exports of small agricultural producers in the jurisdiction by referring to the Miracle K-Food project example of Korea aT. The step-by-step support of Khabarovsk agricultural products produced through relatively organic farming is necessary to help establish overseas markets.

The CTC system is designed to help small- and medium-sized manufacturers to develop overseas markets by designating companies with abundant export knowledge as certified trading companies. The system replaces the GTC system abolished in 2009, and became a government official system with the amendment of the Foreign Trade Law in 2014.

The criteria for the selection of CTCs should be as follows: the export performance of the previous year or the annual average export performance of the previous three years is more than USD 1 million, and the export portion of the products of other small- and medium-sized companies should be more than 30%. Both requirements must be met. The status of professional trading firm is maintained for two years after the selection, but it can be reapplied; however, it is deprived when the standards are not met.

SMEs with no export experience or that lack in export capability can enter overseas markets through the CTC specialized for each region and item. The CTC will normally charge 1%-3% of the export amount as the export agency fee.

KOTRA, KITA, and the Korea Trade Insurance Cooperation provide the following benefits to a company designated as a CTC: They extend the credit guarantee limit to 1.5 times per year and give additional points when participating in overseas exhibitions. In addition, KOTRA gives a foreign buyer's import proposal to a CTC first. It also supports conferences with domestic companies and new export companies, and provides information related to overseas markets first.

Currently, there are 240 CTCs. They range from large corporations, such as Samsung C&T, POSCO Daewoo, e-mart, and CJ Home Shopping, to midsize companies such as SeAH

Steel Corp. and Kyung Dong Pharmaceutical.

Suwon Precision Co., Ltd., which is located in Hwaseong, Gyeonggi-do, is a company that manufactures the machine for winding yarn. In October 2017, it was able to export an equipment to Iran, thanks to a CTC named Elpis Corporation. Elpis Corporation have experience in exporting automotive batteries and architectural PET films with local subsidiaries in Tehran and Dubai. Suwon Precision Co., Ltd. is expecting additional exports such as line expansion and provision of supplies.

GoshenKorea Co., Ltd. is a CTC that specializes in cosmetics, focusing on Russia and Ukraine. Based on R&D in the cosmetics field, product planning, and overseas sales experience, GoshenKorea Co., Ltd. is exporting products made by domestic start-up and small- and medium-sized cosmetics companies to the global market. There are about 40 small- and medium-sized cosmetics companies in Korea that GoshenKorea Co., Ltd. exports for. It has recorded an export sales of USD 4.6 million in 2016 and USD 9 million in 2017.

The main offices of the GMD project are the Ministry of SMEs and Startups and SME Promotion Corporation, and GMD is one of the representative government projects that support SMEs. GMD is a private export company that specializes in the export of SMEs that are reluctant to export because of their lack of experience in export marketing although they have export capability and technology. The government's GMD project was first implemented in 2016, and in the first half of 2017, less than a year after its implementation, success stories from the GMD project began to surface. In other words, about six months after GMD was selected, it recorded about USD 30.56 million in exports.

A typical success story is related to Koreacenterdotcom Co., Ltd. The company operates a MakeShop and was selected by GMD based on Malltail (overseas delivery service). It has operated domestic and overseas shopping malls and independent malls. After selecting GMD, the company has chosen matching companies with government support, and played a major role in expanding the export of SME products by intensively introducing and selling products. As of August 2017, the company has supported approximately 3,000 domestic companies as well overseas sales.

Another example is Arin Tech Co., Ltd. The company has grown to become a trading company for about 20 years and was selected as a GMD in 2016. It has mainly exported, through the OEM method, kitchen and household goods overseas through logistics services. In particular, the company has started supplying the products of GMD matching companies in Korea by establishing a sole corporation, and a customs clearance and logistics system in China. It holds corporate business events such as commodities fairs, exhibitions, and export conferences, and encourages matching companies to support the export business of domestic SMEs. In other words, they export the products of domestic SMEs through logistics systems, and contribute to SMEs' exports by having SMEs participate in business

events to enhance their export capabilities.

2.3. Role and Function of KOTRA's Regional Support Center

At the end of 2017, KOTRA has established and operates local support centers in 11 major regional cities. It has a total number of 44 people, with an average of 4 employees.

The main tasks of KOTRA's regional support center are as follows.

- ① Regional trade missions: KOTRA, regional governments, and related organizations work together to organize overseas trade missions (consisting of about 15 companies) for local SMEs that want to enter overseas markets. The KOTRA Overseas Trade Center is supporting the basic businesses of overseas marketing, market research support, export consultation, and after-sales service. In general, regional support centers have made about 150 services a year. In other words, each regional support center has an average of about 15 services annually.
- ② Regional specialization services: To support overseas marketing, such as export consultation and sales promotion, through cooperation with export-related organizations to foster regional specific industries and increase exports. KOTRA's regional support centers develop relevant services from time to time.
- ③ Development of new export enterprises: The export experts of regional centers support overseas marketing for regional companies that do not have previous export experience and convert them into export enterprises. By supporting 4,000 enterprises annually, KOTRA regional centers have successfully developed 1,200 companies as new export companies.
- ④ Regional export consultation meetings: By inviting buyers for suitable regional companies, which do not have sufficient knowledge of exporting methods, an overseas network, and the capability to cope with buyers, KOTRA supports 1:1 consultation matching. Such meetings are held about 30 times a year.
- ⑤ Regional cooperation projects: To support the export of regional export beginners and SMEs, KOTRA holds joint service projects between regional authorities and regional companies regularly.
- ⑥ "Moving KOTRA": It is a service for visiting regional companies and solving export difficulties by utilizing the expert of trade. A total of 13 experts of "Moving KOTRA" visit 2,600 SMEs every year.

2.4. Regional Trade Promotion Activity

In the case of Korea, the proportion of large and small companies in total exports is very different according to the regional industrial structure. Ulsan (87.1%) and Chungnam (86.1%) are the largest municipalities in terms of the share of large companies to the total exports. Daegu (57.3%) and Busan (41.1%) are the largest municipalities in terms of the share of SMEs to the total exports.

Increases in regional exports result in labor and capital inflows, and stimulate the growth of other sectors in the region, ultimately changing the regional export performance directly or indirectly. Therefore, overseas marketing support is being developed as an export support policy at the regional level. The difficulties of regional SME exporters are as follows.

First, they require to increase the export financing system including the facilitation of bank lending. Second, for increasing the trade of SMEs, the central government is requested to expand the FTA. The opinions of SMEs enabled to conclude an FTA with the United States and China. Third, SMEs ask for policy support so that the regional industrial structure can be converted into the export industry. To develop overseas niche markets and to expand the export base of SMEs, KOTRA actively implemented detailed business plans to develop global strategic items and approach global markets. Fourth, by examining the demand of exporting enterprises for technology, management, export, etc., localized customized workforce training programs were jointly developed by industrial complexes and regional universities. Fifth, they jointly implemented an integrated package program for the development of policies for export-related organizations such as the Export-Import Bank of Korea, KOTRA, K-sure, the Ministry of SMEs and Startups, and so on. Sixth, the relationship between technology evaluation and funding has been improved to enhance the financial system for SMEs' innovation. Seventh, regional economic policy authorities have consistently promoted incentive programs to accept export enterprises' support and to convert domestic companies (or subcontracting companies) into export companies as part of the growth engine. Eighth, regional governments have tried to fulfill their roles as coordinators of the government, export support organizations, private trade support agencies, and regional enterprises. In other words, regional enterprises are committed to developing new products and new markets. Export support organizations, such as KITA and KOTRA, improve customer satisfaction service, and financial authorities and financial institutions endeavored to supply export financing smoothly. As a facilitator and coordinator, the regional government has established a governance system that allows export-related partners to help regional exporters, as well as proposals to the central government.

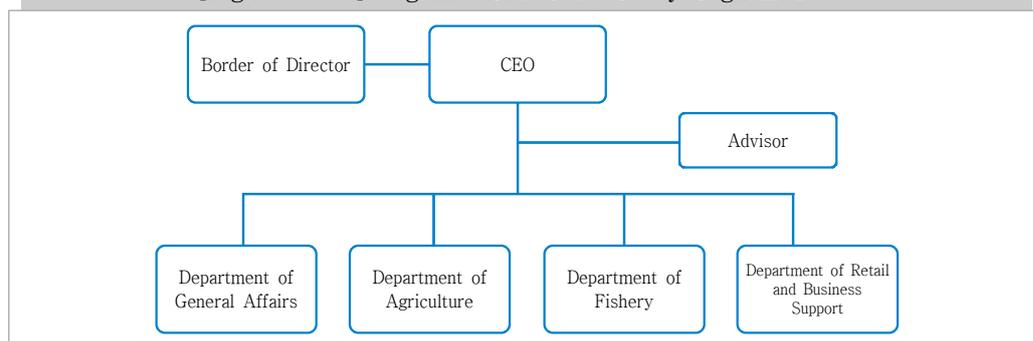
2.5. Gyeongsangnam-do Export Promotion Organization

The export promotion of Gyeongsangnam-do is under the leadership of the International Trade Bureau of the Gyeongsangnam-do regional government. In 1994, Gyeongnam Trading Co., Ltd. was founded to contribute to the promotion of exports of agriculture, forestry, and fishery products, which are special products of Gyeongsangnam-do, and to increase the income of regional residents by exploring overseas markets. In 2004, Gyeongnam Trade opened the Agricultural Products Export Logistics Center and operated a joint logistics warehouse. In 2008, it promoted IRRORO as a brand name in Gyeongsangnam-do. In 2012, K-Berry Co., Ltd. was established to integrate the export of strawberries in Gyeongsangnam-do. Gyeongnam Trade also established a branch office in Los Angeles, the largest export destination in Gyeongsangnam-do.

Gyeongnam Trade aims to become the best trading company that specializes in the export of agro-food products in Korea. Its main management strategies are ① activation of export marketing abroad, ② export expansion by strengthening business activities in the main export market, ③ export diversification through new market development, ④ development of new export items through workshops and brainstorming, and ⑤ strengthening the capabilities of exhibition and its related areas.

The Board of Directors of Gyeongnam Trade is actively reflecting on the interest of companies in Gyeongsangnam-do through the participation of the Economic and Trade Director of the Gyeongsangnam-do regional government, the Deputy Director of Kyungnam Bank, the Economic Business Division of Nonghyup Bank (agricultural trading and banking business), Gyeongnam Regional Headquarters, the President of the Gyeongsangnam-do Council, the General Secretariat of Changwon Business Council, and other relevant stakeholders. Except for one civil servant dispatched from Gyeongnam's regional government office, there are 28 employees at present. One employee is dispatched to the US office.

[Figure 3-20] Organizational chart of Gyeongnam Trade



Source: Gyeongnam Trade. 2017. Introduction, p. 7.

Starting in 1994 with a capital of KRW 3 billion, Gyeongnam Trade has assets of KRW 15 billion (capital of KRW 6.2 billion, surplus of KRW 2 billion, and debt of KRW 6.8 billion), the equity share of the Gyeongsangnam-do regional government is 47.9%, and the private sector, 52.1%. In the beginning, the company did not gain profits, so it had to reduce its capital to KRW 1 billion in 2007 but increased it to KRW 6.2 billion in 2014. In 2016, the sales were KRW 74.9 billion, and the net profit was KRW 5.3 billion. The Trade and Logistics Center (Changwon Agricultural Products Export and Logistics Center) was installed with KRW 7 billion (KRW 4.5 billion from the central government budget, KRW 12 billion from the budget of the Gyeongnam regional government, and KRW 1.3 billion of the budget of Changwon city). It collects, stores, and exports agricultural products with rooms divided into the sorting room, precooling room, and low-temperature warehouse.

In 2017, Gyeongnam Trade aims to export marketing through its Los Angeles branch; strengthen sales activities in Japan, China, and Southeast Asia; expand exports; and develop new markets. Strawberries are exported to Vietnam, Russia, and the Middle East. Kiwi is exported to Japan, Taiwan, Malaysia, and Thailand. Gyeongnam Trade finds overseas buyers in cooperation with the KOTRA Overseas Trade Center and agricultural distribution center of Korea (aT).



Source: Gyeongnam Trade. 2017. Introduction, p. 12.

Gyeongnam Trade sets a feasible export target every year and establishes a collaborative system with related organizations to achieve this goal. It also tries to solve export difficulties through feedback. In addition, Gyeongnam Trade uses performance indicators to improve the effectiveness and efficiency of the organization to improve its performance.

[Table 3–6] Performance index of Gyeongnam Trade

Division	Main Category	Items	Index	Index No.	Score	Measure		
Common Evaluation Index (Management Competency) (50)	Leadership/strategy (15)	Leadership (10)	Executive leadership	2	5	Qualitative		
			Social Responsibility	3	5	Qualitative		
		Strategy (5)	Appropriateness of vision and management strategy	4	5	Qualitative		
	Management system (35)	Personnel and organization management (11)	Appropriateness of personnel and organization management	2	6	Qualitative		
			Management of self-evaluation system	3	5	Qualitative		
		Financial management (10)	Transparency of budget and accounting management	1	5	Qualitative		
			Financial profitability management	1	5	Quantitative		
		Efficiency Management (14)	Efforts to improve work	3	4	Qualitative		
			Strengthening organizational capacity	2	4	Qualitative		
			Evaluation feedback	2	6	Qualitative		
		Individual indicators (50)	Business performance (50)	Client satisfaction performance (10 points)	Client satisfaction	1	10	Quantitative
					Sales performance (30)	Sales	3	20
	Sales performance (30)			Changes in sales	2	5	Complex	
				Contribution to export	3	5	Complex	
	Business marketing efforts (5)			Marketing efforts	2	5	Qualitative	
	Strengthening of institutional cooperation (5)			Cooperation activities between private and public organizations	2	5	Complex	
Total			16 indexes	35	100			
Compliance to policy (add/subtract)	Policy compliance (2)			2	2	Step-by-step evaluation		

Source: Gyeongnam Trade. 2017. Introduction, p. 38.

2.6. Implications of KOTRA and the Gyeongsangnam-do Export Promotion Organization

The implications of KOTRA and the Gyeongsangnam-do Export Promotion Organization are as follows.

First, objectives related to the operation of the Export Promotion Organization are set very simply. To increase the number of export companies, they aimed to ① discover new export companies, ② develop new export markets, and ③ develop better export promotion services. To increase exports, it is necessary to ① provide customized services to exporting companies, ② support SMEs into the GVC and global distribution system, and ③ support export of ICT and services as a new field for export promotion. To improve the export environment, they aimed to ① provide information on trade and investment in the global and main export markets, ② seek overseas business partners, and ③ establish a national economic cooperation basis through economic diplomacy.

Second, they are organizing a B2B meeting by participating in a global partnership program and overseas exhibitions so that start-up companies can become export companies. They support foreign language catalogs and open websites to convert SMEs into export companies. They also provide enterprise-oriented services including export certification and online marketing.

Third, KOTRA and Gyeongnam Trade actively responded to the changing international trade environment. Every year, they set new goals according to the global trading environment, and they have developed programs to achieve export-related goals and evaluate them regularly.

[Table 3-7] Key lessons from KOTRA and Gyeongnam Trade

Main Issue	Lessons from KOTRA and Gyeongnam Trade
Necessity of export promotion organization under WTO	The central government is responsible for policy formulation and licensing, while the executive functions of the trade policy are delegated to KOTRA and affiliated institutions as well as the private sector.
The need for an export promotion agency subject to financial constraints	The Export Promotion Organization plays an effective role in supporting SMEs in the early stage of export.
Cooperation with the government	The Export Promotion Organization can overcome the interests of ministries while making national trade policy a top priority.
Main goal of the Export Promotion Organization	Providing information on exporting companies' trade norms, providing information on export market conditions, analyzing promising export products, and finding overseas importers
Organizational structure of the Export Promotion Organization	The Export Promotion Organization is composed of an initially small-scale workforce, but the number of employees should gradually increase as the trade size increases.
Budget of the Export Promotion Organization	The Export Promotion Organization is legally a corporation, but the government must provide subsidies to the budget because it needs to provide public services, called trade facilitation programs, to all domestic companies. However, some services may be chargeable in accordance with the increase of the profit of the exporting company that receives the service.
Staff expertise	Staffs have a knowledge of foreign languages as well as international economics and trade.
Relationship between the Export Promotion Organization and the Foreign Investment Promotion Organization	FDI promotion could be integrated with trade policy but can be separated. As trade and foreign direct investment are closely related, it is more effective for an organization to take charge of trade promotion and investment promotion together.

3. Suggestions to the Khabarovsk Export Support and Development Center

3.1. Strengthening Organizational Capacity

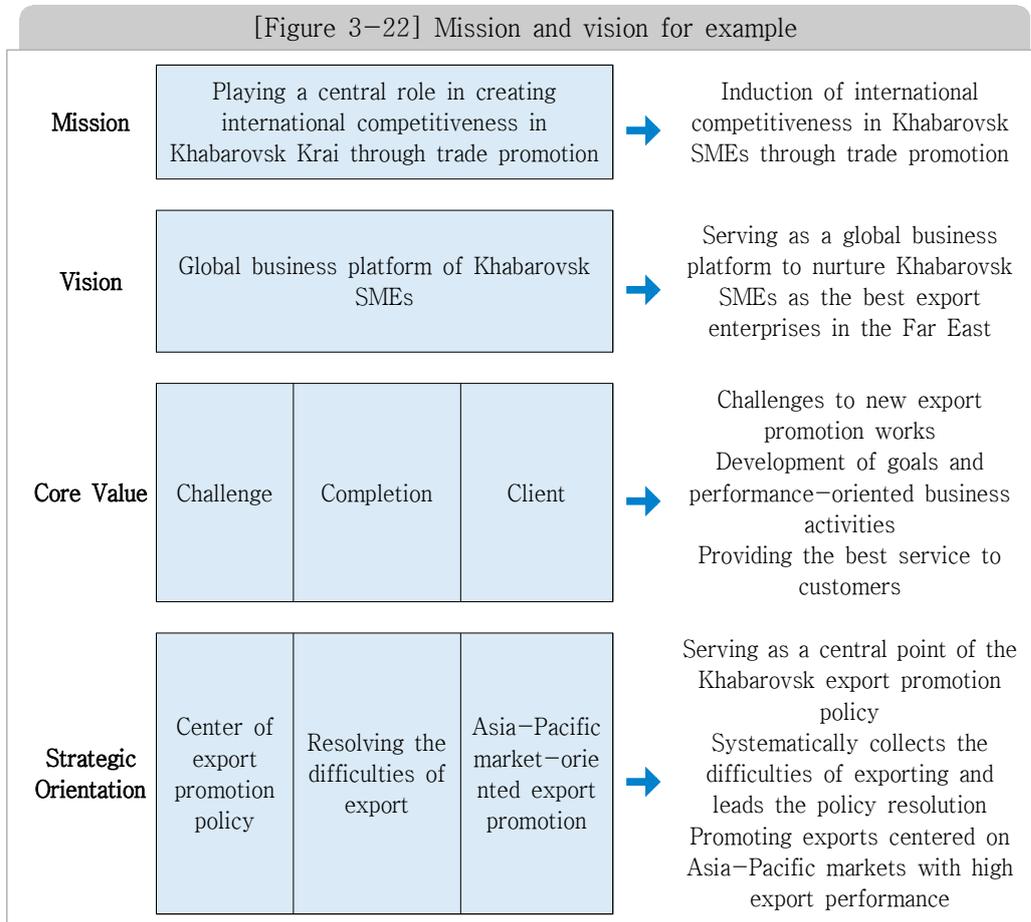
In a survey of Khabarovsk SMEs, 13 of 32 (40.6%) responded that they were very satisfied with the service of the Khabarovsk Export Support and Development Center, and 19 companies (59.4%) were satisfied. The export support services that they need from federal and regional governments are the introduction of foreign partners (12 companies, 30%), provision of the latest overseas market information (11 companies, 27.5%), and support for overseas exhibition (10 companies, 25%) of the 40 respondents.

According to these results, the Khabarovsk Export Support and Development Center seems to be performing well in the export promotion business expected by SMEs with a limited number of people and budget. However, for the center to expand its role as the hub of export promotion in Khabarovsk in the future and to increase the exports of main enterprises, the following important tasks should be considered.

First, export support services between the Russian Federation and Khabarovsk Krai are not linked efficiently, so these export support duties should be coordinated and streamlined. Second, to promote the export of Khabarovsk Krai, SMEs should play an active role in strengthening their export capabilities. Third, a balanced support in the manufacturing sector and the service sector—including tourism, medical, and IT—should be considered. Fourth, it is necessary to link trade and foreign investment promotion business in the medium and long terms. Finally, efforts should be made to change the organization and role of the Khabarovsk Export Support and Development Center, and make it more business-friendly.

3.1.1. Establishment of the Organization's Mission and Vision System

The Khabarovsk Export Support and Development Center needs to reorganize its mission and vision system to expand its role. This can be an important basis for selecting an organization's identity and detailed service assignment.



3.1.2. Appropriate Workforce Calculation According to Work Characteristics and Assignment of Additional Staff if Necessary

The budget should be supported by the regional government to arrange the desired tasks of the Khabarovsk Export Support and Development Center, and to calculate the exact number of personnel needed. Considering the current expectations of SMEs in Khabarovsk, and the experiences of KOTRA and export promotion organizations in Korea, it is now necessary to additionally hire three staffs for overseas exhibitions and customized overseas marketing business. In addition, to incorporate Khabarovsk's SMEs into the GVC, it is

necessary to integrate functions that attract foreign investment and then to add three more people to work for FDI.

[Figure 3–23] Human resources of the Khabarovsk Export Support and Development Center at the development stage for example



3.1.3. Organizing and Distributing Budget for Export Step by Step

Currently, only 186 companies are exporting from Khabarovsk. Therefore, it is important to expand the basis of export SMEs, and business services should be rearranged so that appropriate support can be provided according to the level of export capability of SMEs.

[Table 3–8] Detailed support for each stage of export for example

Stage	Detailed Support Services
Preparations for export	Training of trade workforce, training of overseas experts, funding (facility funds, etc.), guarantee, technology development / R&D support, catalog/design development, standard certification, patent registration, online marketing, and consulting
Export	Overseas market research, buyer survey, buyer meeting arrangement, contract, export insurance, payment, overseas local logistics, customs clearance, logistics consulting, and claim arbitration
Presence abroad	Establishment of a local corporation, provision of a local office space, provision of local consultation, overseas business, overseas project, overseas management counseling and sales support, M&A, and investment inducement

3.1.4. Reorganized Cooperation with the Khabarovsk Branch of the Russian Export Center (REC)

Export support for companies in Khabarovsk is currently divided into the Khabarovsk branch of REC, and the Khabarovsk Export Support and Development Center. In case there is not enough budget in relation to export support, the export support services of both organizations should be integrated, or if integration is not easy, the close coordination of both export promotion organizations is needed so that export companies may have a single export support system.

3.1.5. Establishment of an Efficient DB System of SMEs

To establish databases related to enterprises subject to export support in Khabarovsk Krai, manage their performance and export history, and actively find suitable support programs for each export stage.

3.1.6. The Need to Find a Profitable Business of the Khabarovsk Export Support and Development Center

In view of the fact that the budget of the Khabarovsk regional government is not large, the Khabarovsk Export Support and Development Center should receive a certain fee according to the type of service and provide better-quality services. This not only raises the financial independence of the center but also has the effect of raising the willingness of companies to export through the burden of beneficiaries.

As a result of the questionnaire survey for the services provided by the Khabarovsk Export Support and Development Center for companies in Khabarovsk, the Khabarovsk companies are willing to pay for the services such as direct contract service (1 company), consulting service (2 companies), overseas marketing research support service (1 company), overseas partner search support service (1 company).

Of course, majority of the companies (27, 84.5%) did not answer paid services, but this ratio can continue to grow if the company's performance improves with export increase. Therefore, it is also necessary to reflect on the preparation of paid services considering the personnel of the organization and the budget.

[Table 3-9] Paid service in the Khabarovsk Export Support and Development Center
(for example)

Service	Content	Rate
Customized services for overseas marketing	<ul style="list-style-type: none"> - Export agency service (general trading company role) - Establishing, executing, and managing overseas marketing strategies - Overseas sales support 	Proportion of export scale (year or period basis)
Online purchase	Payment service (credit card)	Fee per amount
Customized export information	<ul style="list-style-type: none"> - Customized in-depth research and information - Discovering and connecting buyers and business partners - Customized market research 	Annual contract or upon request
Credible Khabarovsk	International standard, certification, authorization, registration agency service, export goods quality certification, safety verification, quality control, and overseas intellectual property services	Annual contract or upon request
Representative exports to Khabarovsk	<ul style="list-style-type: none"> - Share logistics services - Packing, picking, sending, transport, etc. 	Annual contract or period base
Domestic and overseas exhibition	Booth rental, interior, facility installation, etc.	Upon request

3.1.7. Establishment of a Legal Basis for the Khabarovsk Export Support and Development Center

KOTRA is backed by a legal guarantee that can promote its management activities independently as a national trade promotion organization. Although KOTRA conducts the projects attached to the national foreign economic policy, it has found out its own business ideas. The functions and roles of the Khabarovsk Export Support and Development Center should be legalized, such as the Korea Trade-Investment Promotion Agency Act and the Foreign Investment Promotion Act, so that they can act on a legal basis.

3.2. Role as a Central Point of the Export Support Policy

3.2.1. A Central Point of the Export Support Policy

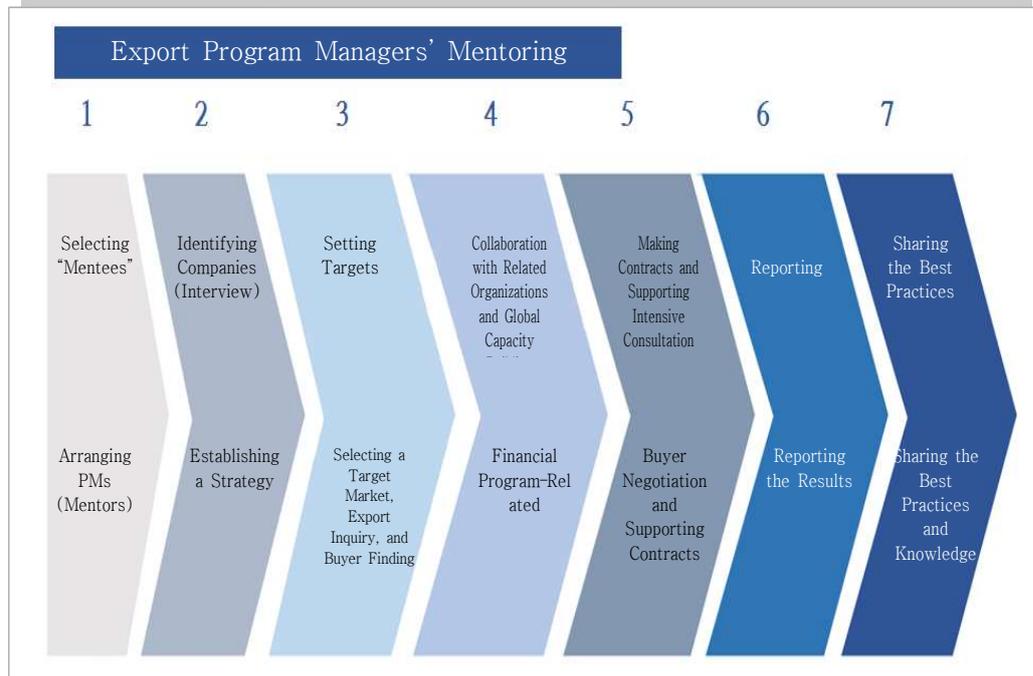
The Khabarovsk Export Support and Development Center needs to strengthen its role as a public institution that provides information on export and import support as well as professional advice on trade information, and that establishes cooperation with research institutes; an exchange center of collected information on foreign markets; and a center of trade information one-stop portal. It also needs to establish a base for trade information exchange between the Russian Federal government, the Khabarovsk government, and trade support institutions, as well as to strengthen trade information on rural areas except for Khabarovsk city.

The desirable functions of the Khabarovsk Export Support and Development Center are as follows: ① consulting on export-related inquiries and overseas investment of Khabarovsk companies; ② support for export marketing programs, including all the steps necessary for SMEs to enter the global market; ③ consulting on export-related inquiries and overseas investment through various ways, such as by telephone, online, etc.; ④ provision of a customized answering service within 72 hr for customer inquiries; ⑤ analysis of the growth stage and items of companies to provide the necessary capacity analysis, promising market recommendation; ⑥ midterm/long-term strategy/vision, export infrastructure, professional workforce/fund, global communication, promotion/marketing, global network, and market strategy according to the product diagnosis result; and ⑦ development and provision of export promotion support services.

Moreover, it is desirable to introduce an export mentoring system that designates an export expert to a domestic company (or an export beginner company) as a mentor and mentee, respectively, so as to support the whole export process. Export specialists, who have worked for more than 15 years at the export market, could transfer their knowledge for the export of SMEs. In particular, SMEs that lack funds and human resources should be made up of people who can actually help SMEs, and they have the advantage of directly hiring professionals with extensive trade experience. However, the selection criteria can be relaxed as a qualified person in accordance with the regional circumstances of Khabarovsk.

The export expert assists in the consulting and overseas marketing activities of domestic companies or export beginner companies (hereinafter referred to as “mentees”) to achieve the desired export performance. The support work of mentors include ① selection of a target market through an interview with the mentees and establishment of an export strategy; ② consulting related to trade practice for overseas marketing; ③ support for export inquiry and buyer finding; ④ support for off-line counseling; and ⑤ arrangement of various export support programs, including financial aid, for mentees.

[Figure 3–24] Export mentoring support workflow



Source: KOTRA.

3.2.2. Developing an Export Support Program Suitable for Khabarovsk

Many SMEs in Khabarovsk Krai have difficulty in direct export because they do not have enough export experience and information. In this regard, it is necessary to develop programs, such as GMD, which is applied in Korea to develop overseas markets and to find export products for SMEs. Khabarovsk Krai can expand the function of the Export Support and Development Center in Khabarovsk or establish these public organizations to function as an export-specialized company that supports the entire export process, such as customs clearance and delivery processing, in the frame of cooperation with the Khabarovsk Export Support and Development Center.

In addition, in view of the high export potential of agricultural products in Khabarovsk, the Khabarovsk Export Support and Development Center will support the active participation of the producers of Khabarovsk agricultural products in export exhibitions of agricultural products such as Russian Gastro Week. It can also operate a joint logistics center to encourage the export of honey, jam, king crabs, and so on, if available.

3.2.3. Collecting and Solving Policy Problems at the Export Site

In the field survey, SMEs in Khabarovsk are facing major export difficulties, such as a weak export logistics system, a weak export competitiveness due to complicated sanitary inspection procedures, and strict financial loan conditions, as well as a lack of general overseas market information. They hoped for the lifting or relaxation of various laws and regulations related to exports. Therefore, the Khabarovsk Export Support and Development Center should collect the difficulties that occur at the export site through business visits, meetings, online difficulties, etc., and suggest institutional solutions in a regular council composed of federal and state government agencies.

In addition, it is necessary to introduce customized support services for the difficulties that arise depending on the type of exporting companies in the Khabarovsk region. For example, to solve the problem of exporting companies in the agri-food sector due to difficulties in logistics, the Khabarovsk Export Support and Development Center should actively provide ways for companies to use logistics jointly. The joint logistics center project of KOTRA is a good example.

The main activities for resolving export difficulties are as follows: ① consultation on export business difficulties; ② consultation on overseas marketing strategy and trade practice in general; ③ finding business partners; ④ review of documents related to contracts, inspection, and inspection guidance; ⑤ payment and finance, and export insurance; ⑥ contract violation and claim; ⑦ customs clearance and management support; ⑧ recommendation of the services of the Khabarovsk Export Support and Development Center or other export support institutions; and ⑨ “moving the Khabarovsk Export Support and Development Center” (Korea’s case: “Moving KOTRA”).

3.2.4. Export Expansion Center on the Asia-Pacific Region

Due to the geographical conditions of Khabarovsk, it is necessary for the Khabarovsk Export Support and Development Center to play a central role in selecting the Asia-Pacific region as the main export market and actively supporting it. To do this, we propose the following activities.

First, through networking with related organizations (KOTRA, JETRO, and CCPIT) in the Asia-Pacific region, the Khabarovsk Export Support and Development Center can establish and utilize a network to conduct research on potential market participants such as potential business partner information survey and market research by item.

Second, it provides support for connecting business partners, market research by item, and contact information on overseas importers free of charge.

Third, the Khabarovsk Export Support and Development Center can charge all customized

services for individual SMEs to some degree such as the introduction of potential buyers, business meeting arrangements, and sales support activities through Khabarovsk export conferences and trade missions, focusing on the export markets of the Asia–Pacific region.

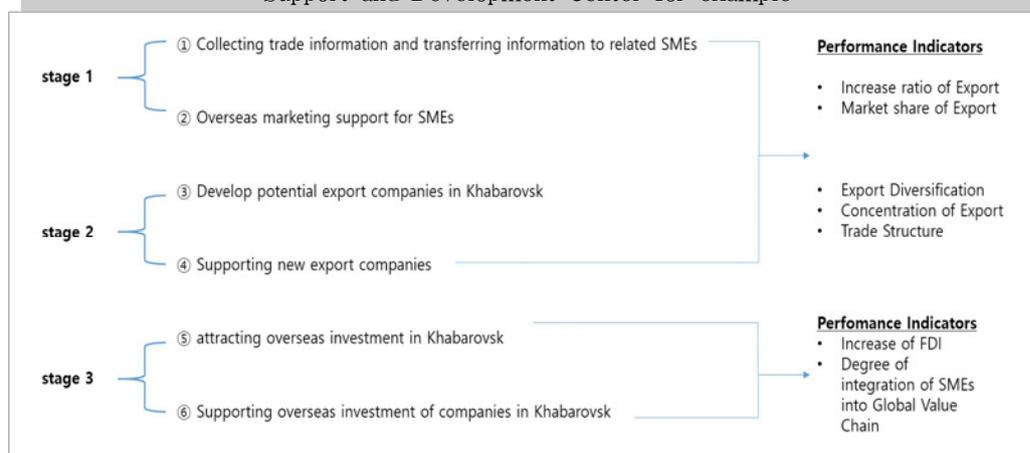
Fourth, the Khabarovsk Export Support and Development Center has to organize overseas exhibitions in countries where it is difficult for SMEs to enter the market such as promising markets and strategic markets. Hosting a variety of events, such as buyer invitation export conferences and CSR, will contribute to expanding exports and enhancing the brand image of Khabarovsk and Russia.

3.3. Developing and Managing the Key Performance of the Organization

3.3.1. Development of Key Performance Indicators (KPIs) by the Organizational Development Phase

Even though the Khabarovsk Export Support and Development Center uses KPIs for evaluation, more KPIs should be developed to measure the performance related to the operation of the Khabarovsk Export Support and Development Center and utilize them as basic data for organizational improvement. Particularly important is that the size of the organization is still small, so it is necessary to manage the indicators to improve the work and increase the efficiency, rather than to punish according to the performance. Moreover, according to the size of the organization and the stage of development, the performance indicators must be partially introduced with a difference.

[Figure 3–25] Performance indicators for the development stage of the Khabarovsk Export Support and Development Center for example



3.3.2. Key Performance Indicator (KPI) Management

Major KPIs should be developed and evaluated to strengthen the competence and improve the performance of the Khabarovsk Export Support and Development Center, and they can be utilized as basic data for expanding the staff of the Khabarovsk Export Support and Development Center and paying performance bonuses. This should ensure that a good workforce is continuously available. Considering that there is not enough organizational workforce to stabilize and develop the initial organization, KPIs should be selected first, and then the evaluation indicators reflected in the KPIs are gradually increased. Moreover, it should be taken into consideration that a performance index should be made for improvement rather than punishment for members, and it would be a more meaningful index management when used as a means of strengthening organizational capacity. In view of the fact that there are not many people in the organization, it is desirable to manage the performance with only two indicators for each item in the first step, and to manage these indicators in the event that the number of personnel increases and the role increases.

[Table 3–10] Khabarovsk Export Support and Development Center’s key performance indicators (KPIs) for example

	Function	KPI Pool
Trade information and research	Information	<ul style="list-style-type: none"> ① Total number of market news offerings for the year ② Total number of survey reports on overseas consumer trends for the year ③ Number of periodical publications distributed for the year ④ Number of customized information provided by exporters for the year ⑤ Customer satisfaction with information provided for the year
	Research policy	<ul style="list-style-type: none"> ① Number of policy proposals for the year concerned ② Actual number of policies adopted for the current year ③ Number of overseas market research reports ④ Number of preferential tariffs ⑤ Number of trade promotion seminars and forums held this year
Trade development	Trade merchandising	<ul style="list-style-type: none"> ① Increase in exports of strategic export items compared to the previous year (USD) ② Strategic marketing and common indicators ③ Total exports (USD) ④ Strategic marketing and Common indicators ⑤ Increase in the exports of SMEs compared to the previous year (USD) ⑥ Total number of companies that support the acquisition of international standards, registration, certification, and qualification for the year ⑦ Increase in the exports (USD) of companies that support international standards, registration, certification, and qualification compared to the previous year
	MICE development	<ul style="list-style-type: none"> ① Number of domestic exhibitions held for the year ② Number of buyers visiting domestic exhibitions this year ③ Number of overseas exhibitions participating in the export support center this year ④ Number of contracts to be concluded at the overseas exhibition participation for the year’s export support center ⑤ Total amount of contract (USD) in participating overseas exhibitions for the year’s export support center
Strategic trade facilitation	Trade hub	<ul style="list-style-type: none"> ① Number of foreign buyer consultation for the year ② Number of year-to-date matching and partner connections ③ Number of contracts after matching the year and the partner ④ Total number of contracts (USD) ⑤ Number of companies designated as export-oriented enterprises for the year ⑥ Export growth (USD) of companies benefiting from year-on-year support
	Strategic marketing	<ul style="list-style-type: none"> ① Number of overseas marketing support companies for the year ② Export amount of overseas marketing support companies for the year ③ Number of trade missions dispatched this year ④ Total exports (USD) ⑤ Increase in the export of strategic export items (USD)
	Trade portal	<ul style="list-style-type: none"> ① Number of visitors to the trade portal for the year ② Number of mobile app downloads for the year’s trading portal ③ Number of trade inquiries using trade portals in the current year ④ Total B2B orders through the EC site for the year (USD) ⑤ Overseas personal purchases through the EC site for the year (total) (USD)

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