

was bluffing (or even if it was capable of such an act), a nuclear detonation took place.

While the intelligence community now debates whether or not it was successful, Pyongyang is insisting that it must be recognized as a nuclear weapons state before it will discuss giving up its weapons. The other five parties must speak firmly and with one voice in disabusing Pyongyang of this notion. Current demonstrations of flexibility notwithstanding, Washington must continue to make it clear that it is impossible for any U.S. president, regardless of political party, to establish diplomatic relations with a nuclear weapons-equipped DPRK.

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Leonid Petrov

Russia's Power Politics and North Korea

Summary: The sharp rise of oil and gas prices has enabled Moscow to utilise its mammoth energy reserves to achieve domestic and foreign policy goals. The new Russian 'power politics' have already been tested on the Baltic States, Belarus, Ukraine, and recently the Czech Republic. Russia's Far Eastern frontier is now turning into the place where energy export becomes a political tool in shaping the country's relations with regional neighbours. China, the two Koreas, and Japan are hungry for energy, natural resources and, at the same time, strive for economic and political cooperation. In such circumstances, the opportunities offered by trans-national railroads and pipelines appear to be more powerful than weapons. Given this new leverage and understanding, can Russia exert its soft and hard power upon North Korea in promoting the goals set in the Six-Party Talks?

The second phase of North Korea's denuclearization process is completed. As part of the deal with the People's Republic of China, the Republic of Korea, Russia, Japan and the United States, in June 2008 Pyongyang filed its nuclear activity declaration and even blew up a cooling tower of its defunct nuclear reactor in Yongbyon. For its part, the United States has officially pledged to remove the Democratic Peoples' Republic of Korea (DPRK) from the *State Sponsors of Terrorism List* and lifted the application of the *Trading with the Enemy Act* to this country. All five members of the *Six-Party Talks* are now expected to deliver to North Korea almost a million tons of heavy fuel oil to compensate for the lost energy production.

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The general expectation is that these actions will solve the North Korean nuclear dilemma by providing North Korea with the energy it is going to miss out on. Nevertheless, the third stage of North Korea's denuclearization does not seem to be showing a smooth start. The DPRK Foreign Ministry complains that it has disabled 80% of its main nuclear complex but has received only 40% of the promised energy shipments. Pyongyang now threatens that it will only move on to the next phase of the denuclearization process – to abandon and dismantle its nuclear weapons programs – only when it has been awarded all the energy aid and political benefits promised under the deal.¹

The nervousness of Pyongyang, which has been championing the motto of 'a strong and prosperous nation', is understandable. The January 2008 *Joint*

The country endured the 'Arduous March' which cost millions of North Korean lives. Their leadership assumed that one meal per day would keep the majority of the population weak but loyal, as long as the state machinery and military-industrial complex has the ample supply of energy.

Editorial promised that the government would focus on the economy. Nevertheless, the skyrocketing international prices on fuel and grain have already caused an unprecedented hike in the food prices in North Korea. The crop of the previous year was largely destroyed by the disastrous hurricane that in combination with the deportation of international aid agencies has created the danger of another famine. The new conservative administration in Seoul, which from the outset took a hardline on inter-Korean agreements, has further complicated the picture. Despite the apparent progress on the international stage, the North Korean leadership is now likely to face a serious domestic problem.

In the mid-1990s, despite the universal predictions of imminent collapse, the DPRK managed to survive. Even the landslide of the Asian Financial Crisis (1997-1998) did not undermine the foundations of its centrally-planned economy. The country endured the 'Arduous March' (better known abroad as 'Silent Famine') which cost millions of North Korean lives. Their leadership assumed that one meal per day would keep the

¹ The North Korean side insists on the principle of 'action for action' as a basic requirement. "DPRK Foreign Ministry Spokesman on Implementation of Agreement Adopted by Six-Party Talks", KCNA (July 4, 2008); <http://www.kcna.co.jp/item/2008/200807/news07/05.htm#1>.

majority of the population weak but loyal, as long as the state machinery and military-industrial complex has the ample supply of energy. Fortunately for Pyongyang, the 1990s were marked by the record low oil prices that can be attributed to the secret of DPRK's survival.

Whether or not Kim Jong II will be able to rescue his nation again from the looming catastrophe depends on his ability to quickly find access to relatively cheap fuel and energy. In this connection the role of Russia as the largest depository of natural resources is difficult to underestimate. Russia holds one third of the world's natural gas (48 trillion cu m), possesses one of the world's largest oil reserves (approximately 50-100 billion barrels), and produces annually 1 trillion kWh of electricity. In the times of political collapse and economic recession these resources provided Russia with confidence and attracted foreign direct investment.

Recently, the sharp rise of oil and gas prices has enabled Moscow to utilize its mammoth energy reserves in achieving domestic and foreign policy goals. The nationalization of the largest Russian oil company *Yukos* in 2004, along with the consolidation of state-owned *Gazprom* and *RAO Unified Energy System* in 2005, have further empowered the Kremlin in making single-handed decisions on the directions and length of new pipelines, high-voltage power lines, and railways, literally forming the new geopolitical landscape in Northeast Asia.

The new Russian 'power politics' have already been tested on the Baltic States, Belarus, Ukraine, and recently the Czech Republic. Russia's Far Eastern frontier is also turning into the place where energy export becomes a political tool in shaping the country's relations with regional neighbors. China, the two Koreas, and Japan are hungry for energy, natural resources and, at the same time, strive for economic and political cooperation. In such circumstances, the opportunities offered by trans-national railroads and pipelines appear to be more powerful than weapons. Given this new leverage and understanding, can Russia exert its soft and hard power upon North Korea in promoting the goals set in the *Six-Party Talks*?

Although the shortage of food is a pressing issue, an industrialized nation like the DPRK would definitely benefit in the long run from access to affordable energy resources, which only Russia can provide. In this light, the nature of relations between Russia and North Korea will become a key to the ultimate solution of the regional security problem. However, can Russia help North Korea become a 'strong and prosperous nation' without itself entering into conflict with the rest of the Northeast Asian community? The effectiveness of Russia's new 'power politics' in Northeast Asia is now being tested through its relations with North Korea.

Besieged North Korea

No longer an 'enemy' or 'sponsor of terrorism' in the books of the US State Department, North Korea remains a subject to endless sanctions and restrictions which leave little hope for its access to international markets or bank credits. The recent removal of North Korea from the *State Sponsors of Terrorism List* and the termination of President Truman's 1950 imposition of *Trading with the Enemy Act* (TWEA) are not really enacting any change. Almost simultaneously with lifting the TWEA, the White House issued an Executive Order declaring a 'national emergency' which, as stated in the order, necessitates the continuance of certain restrictions on North Korea that would otherwise be lifted.²

Similarly, North Korea will not have restored access to the international banking system, from which it was largely cut off in 2005 amid the *Banco Delta Asia* money laundering and counterfeit allegations. Statements from the US Treasury further explain that no substantive actions with regard to lifting sanctions on North Korea have actually been taken. Sanctions aimed at ending North Korean money laundering, illicit financing activities and weapons proliferation will remain in effect, as well as sanctions that prohibit US companies from owning, leasing, operating, or insuring North Korean-flagged shipping vessels, and from registering vessels in the DPRK.

Another pressing issue that is being addressed by the *Six-Party Talks* partners is the acute shortage of food in North Korea. The United States has started the delivery of 500,000 metric tons of food, while China has committed another 150,000 tons. 3,000 tons of flour has already arrived from Russia. Generous humanitarian aid coming from elsewhere has enabled the Pyongyang leadership to turn down the modest offer of 50,000 tons of corn made by the new conservative government of South Korea. This shows that the food situation in the North is difficult but not catastrophic. The looming energy crisis is much more acute. With oil prices firmly over \$140 per barrel and heading further up, industrialized but the impoverished DPRK economy is trapped.

All imports of crude and refined oil traditionally would come from Russia or China at 'friendly' prices. With the end of Cold War confrontation and

² N. Finneemann, "Explosive Progress in the Six Party Talks: What's Left To Do When It Is All Done?", *Korea Economic Institute* (July 1, 2008); <http://newsmanager.commpartners.com/kei/issues/2008-07-01/index.html>.

the development of inter-Korean dialogue, occasional oil shipments were offered to Pyongyang by its sworn enemies, South Korea, Japan and the United States. The continuing shortage of energy forced Kim Jong II to trade his treasured nuclear program for crude oil in 1994 as part of the *Framework Agreement* with the US. The new agreement reached through *Six-Party Talks* in Beijing on February 13, 2007 promised 1 million tons of fuel oil to North Korea in exchange for its nuclear programs. However, this amount will not be sufficient to cover the North's needs in energy for longer than a couple of years. After that Pyongyang has to be prepared either to reduce the amount of import or to invest considerably more in fuel importation.

Currently, most of North Korea's oil is imported from China. This is the reason why Pyongyang's trade deficit with this former communist patron is growing so quickly. In 2007, the DPRK imported 523,000 tons of crude oil from China that accounted approximately for 25% of its total imports, and North Korea's trade deficit with China is steadily growing.³ How much of this oil is sold and how much donated is a state secret, but given the poor economic standing of North Korea it is clear that this trend cannot continue indefinitely without causing tensions in relations between Beijing and Pyongyang.

The production of mineral fertilizer is also directly linked to the availability of cheap energy. During the last ten years, while South Korea was governed by the liberal administrations that pursued the friendly *Sunshine Policy* towards the North, each spring Pyongyang would receive 300-400 thousand tons of fertilizer for free. Generous cash and rice donations from Seoul dried up in early 2008, when a new conservative president, Lee Myung Bak, was elected. Developmental projects, inked at the *Second Inter-Korean Summit* in Pyongyang, were designed to renovate the dilapidating North's infrastructure but became summarily scrapped by the new government in the South.

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³ "World Oil and Grain Prices Up, DPRK Feels the Pinch", *Woodrow Wilson International Centre for Scholars Report*; http://www.wilsoncenter.org/topics/pubs/mar_2.pdf.

North Korea has little to expect from Japan. The conservative *Liberal Democratic Party of Japan* made its mission to upset any accord with the Pyongyang which does not lead to the immediate return of surviving or deceased Japanese citizens kidnapped by the overly zealous North Korean spies in the 1970s and 1980s. Japan's Prime Ministers have been consistent in adopting the hard-line approach which included mentioning the abductees issue whenever possible and therefore delaying the normalization of bilateral relations with the DPRK. While other parties struggle to achieve a multilateral agreement, Japan assumes that sooner or later it will get what it wants because without Japanese money no successful conclusion of negotiations at the *Six-Party Talks* is conceivable.⁴

In other words, despite the official completion of the second phase of the nuclear disarmament deal on June 26, 2008, the prospects for self-reliant recovery for North Korea remain problematic. Although the food and energy issues are ostensibly being addressed, the denuclearized North Korea is going to be significantly weaker and vulnerable than before due to the changing international circumstances. The skyrocketing oil and food prices promise to aggravate the domestic situation in the DPRK much more effectively than any deliberate policy designed to achieve a regime change or economic system collapse in that country. To remedy this situation the North is facing the dilemma of either reneging on the *Six-Party Talks* agreements or changing its position on energy security.

Russia's Energy Policy

The most significant issue involving Russia in Northeast Asia is its abundant oil fields and natural gas reserves. The Asian Financial crisis of 1997-1998 that devaluated the Russian rouble and the dramatic rise in the price of crude oil and natural gas in the early 2000s has given Russia newfound economic muscle.⁵ The state-controlled *Gazprom* is the third largest corporation in the world in terms of market capitalization and it will grow even stronger, as many experts predict, while the industry is being swiftly renationalized. "Russia's economy is about oil" explains Natalia Orlova, chief economist

⁴ M. Okano-Heijmans, "Games Nations Play: Politics, Diplomacy and the North Korean Nuclear Crisis", *Australian National University*, unpublished research paper (May 2008).

⁵ P. F. Hueper, "The Energy Locomotive", J.H. Kalicki, E.K. Lawson (eds) *Russian-Eurasian Renaissance? U.S. Trade and Investment in Russia and Eurasia*. (Washington D.C.: Woodrow Wilson Centre Press, 2003), p. 177.

at the Moscow-based Alfa-Bank.⁶ In 2006, oil and gas were estimated to account for 65% of Russia's exports and 60% of federal tax receipts, making it the world's largest gas exporter and second-largest oil exporter after Saudi Arabia. In 2007, Russia's foreign exchange reserves swelled to \$476.4 billion, more than in the entire Euro zone.⁷

Russia's energy holding provide Moscow with powerful leverage on the international stage, a status not seen since the end of the Cold War. Expectations about East Siberian energy reserves have risen especially after April 2006, when Russia started building the \$12.5 billion Taishet-Skovorodino-Kozmino oil pipeline. A series of disputes over what route the pipeline would take preceded the final decision.⁸ Initially, China's Daqing was considered as the destination for a shorter and cheaper private-owned pipeline. This plan was lobbied by the then powerful Yukos CEO, Mikhail Khordokovsky. Nevertheless, the Kremlin and state bureaucracy promptly interfered, sending the beleaguered oligarch to jail and reconfiguring the whole deal in favor of running the pipe to the Pacific coast of the Russian Maritime Province.

Russia's primary goal is to develop its sparsely populated Far Eastern region, which consists of nine territories that are extremely heterogeneous in political, social and economic terms. Each of the nine Far Eastern members of the Russian Federation essentially has its own political system, its own business elites, and enjoys a certain degree of autonomy, making the coordination of common goals for the region very difficult.⁹ Thus, development projects that would bring benefits to the greatest number of such provinces are currently in Moscow's interest. Still it was primarily the international policy factor that played a major role in influencing the final decision to end the oil pipe on the Russian coast of the Pacific Ocean.

In a sideline meeting at the 2005 *Asia-Pacific Economic Cooperation* (APEC) forum in Busan, Russia's President Vladimir Putin met with then Japanese

⁶ "Russians Mask Economy's Weakness with Shopping, Building Frenzy", *Bloomberg* (November 30, 2006).

⁷ "Russia", *CIA - The World Fact Book*; <https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html>.

⁸ N. Simonia, "Russian East Siberia and the Far East: A Basis for Co-operation with North-east Asia", *Global Asia* (September 2006); F.W. Engdahl, "The Emerging Russian Giant: the U.S. Eurasia and Global Geopolitics", *Japan Focus* (October 26, 2006).

⁹ A. Lukin, "Multilateral Cooperation in Northeast Asia and Prospects for Regional Community", conference "New Approaches to Peace and Stability in Northeast Asia", Moscow (May 26-28, 2005).

Prime Minister Koizumi Junichiro and officially offered the Eastern Sea (Sea of Japan) as the destination for the pipeline in question. Koizumi reportedly reciprocated by saying that Japan would back Russia's bid to join the *World Trade Organization* (WTO).¹⁰ In order to keep China happy, it was also decided that the branch pipeline would extend from Skovorodino to Daqing. Although the pipeline's first stage (Taishet-Skovorodino) was due to be completed in 2008, a corruption scandal and environmental concerns postponed the estimated date of completion to 2009.¹¹ Construction of the 2,100 km-long second stage from Skovorodino to the Pacific Ocean would start after the launch of the first stage and, therefore, cannot be commissioned before 2015 or even 2017. In the meantime, extracted oil will be delivered to consumers by railway.

Russia's natural resources have already become a crucial factor for regional economic development. Along with the opening access to Siberian oil, China

Any cooperation between Russia and North Korea will be based on a purely economic level.

and Japan are vying for Russian natural gas reserves. Indeed, the mood at a September 2006 multinational energy conference in Seoul – *Toward Regional Energy Cooperation in Northeast Asia: Key Issues in the Development of Oil and Gas in Russia* – would testify to this.¹² Answering a multitude of questions from Chinese, Japanese, and South Koreans regarding where exactly its gas would be

going in East Asia, Gazprom Counselor Alexey Mastepanov did not stop repeating – “Gas must be produced only after it is sold”. The problem, however, remains in negotiating the suitable price which until now stops the construction of the new gas pipeline from Russia and opens opportunities for competitors in Central Asia.¹³

Such a pragmatic approach to energy cooperation with neighbors also suggests that any cooperation between Russia and North Korea will also be based on a purely economic level. The Deputy Director of the Russian

¹⁰ “The Case Against Summits”, *The Economist* (November 24, 2005).

¹¹ “Транснефть: На ВСТО процветает коррупция”, *Росбалт* (July 14, 2008); <http://www.rosbalt.ru/2008/7/14/499772.html>.

¹² “Toward Regional Energy Cooperation in Northeast Asia: Key Issues in the Development of Oil and Gas in Russia”, Korea Energy Economics Institute 2006 International Symposium; <http://www.ecoin.or.kr/zeroboard/view.php?id=eidb&itelink2=24&no=1295>.

¹³ On July 9, 2008 Kazakhstan joined the construction of a pan-Central Asia pipeline, a major project to link the Caspian Sea gas reserves with China. “Kazakhstan Building Gas Pipeline to China”, *China.Org.Cn* (July 10, 2008); http://www.china.org.cn/environment/news/2008-07/10/content_15988108.htm.

Ministry of Industry and Energy, Igor Scheulov, confirmed that Russia maintains regular contact with the DPRK concerning energy cooperation at both the corporate and government levels. A large pipeline project was supposed to send natural gas from Kovyktinskoye field in Irkutsk province through China to South Korea. One of the routes under consideration would have gone through North Korea and it was envisaged that Pyongyang would receive free natural gas as a pipeline transit fee.¹⁴

Nevertheless, despite enthusiasm for the idea, it seemed fairly clear that running a pipeline through impoverished and rapidly nuclearising North Korea was a risky business. Due to both cost and security concerns the DPRK was left out in the results of a November 2003 preliminary feasibility study conducted by Chinese, Russian and South Korean companies. A tentative agreement was reached on a pipeline route that would go from Irkutsk through China to the port of Dalian and under the Yellow Sea to South Korean Pyongtaek. North Korea would be bypassed out of fear that Pyongyang might have too much control over the supply of gas to the South.¹⁵

When the consolidating *Gazprom* Corporation took control over this project in 2005, it suddenly started changing the conditions of the proposed deal. Reserving the gas from Kovykta for domestic use, the Russian side offered China and South Korea the natural gas from the still underdeveloped Chayandinskoye field in Sakha. In that case the pipe route would pass through Khabarovsk and Nakhodka, approaching the Korean Peninsula from the east. Upon learning this news the South Korean *Kogas* corporation refused to sign the deal as it would have been much costlier and, ultimately, devoid of economic sense. The poor level of customer service by the state-owned *Gazprom* and the low demand for the liquefied natural gas in South Korea (only 13% of all energy consumption) were attributed to the failure of this project.¹⁶

The prospects for the export of Russian electrical power to the countries of Northeast Asia, as well, depend as much on political will and stability in the region as on the state of North Korea's power grid infrastructure. At present

¹⁴ Three prospective projects involving North Korea have been discussed so far: one that would bring natural gas from Irkutsk province, another from the northern Republic of Sakha, and a third from the island of Sakhalin.

¹⁵ P. Falkenheim Meyer, “Russo-North Korean Relations Under Kim Jong-il”, M.E. Sharpe, H.N. Kim, Y.H. Kihl (eds) *North Korea: The Politics of Regime Survival*. (New York: An East Gate Book, 2006), p. 209.

¹⁶ Д. Верхогуров, “Энергетическая политика России на Корейском полуострове”, *АИП-Казахстан* (April-May 2006); <http://vestnik.tripod.com/articles/korea-russia-gas.html>.

the Far-Eastern division of the Russian government-controlled *RAO Unified Energy System* is considering several different projects, which are aimed at helping North and South Korea to satisfy their energy needs. According to one plan, Russia will direct electricity from Bureyskaya Hydropower Plant via the DPRK to the Republic of Korea (ROK). The high-voltage (500 kilovolt) electrical power transmission lines can be fixed very high above the ground to make any illegal tapping into or interruption of electricity by the North unlikely. Neither will South Korea be able to exert any pressure upon the DPRK: power allocated for the North will go along a separate line because

A tense international atmosphere surrounding North Korea's nuclear ambition, continues to badly affect the prospects of successful implementation of Russian energy in Northeast Asia.

the electrical grids in the two Koreas are technologically different. Another plan suggests that Russia will be able to provide 800 MW of electric power to North Korea in substitution of the energy promised by South Korea to that country.

Earlier projects which would have connected the Russian energy network with the two Koreas failed because South Korea did not want to be in a position of dependency on oil or gas being piped through the North.¹⁷ Tense international atmosphere surrounding North Korea's nuclear ambition, continues to badly affect

the prospects of successful implementation of Russian energy in Northeast Asia. Certainly, a trilateral agreement would be needed to realize this. In the meantime, *RAO Unified Energy System* is exploring the more stable markets of north-eastern China and Japan.

Russia – North Korea Cooperation

Since the early 2000s, overall relations between Russia and DPRK have been improving. DPRK's importation of refined oil from Russia saw the first increase in 2002-2003 (from \$20 million to \$96 million USD) and was caused by the beginning of US-DPRK nuclear confrontation and the subsequent demise of international KEDO project. During 2004-2005, petroleum trade between Russia and North Korea grew from \$105 million to \$172.3 million. Until the *Six-Party Talks* produced first results, in the list of Russia's exports to

¹⁷ "Russia and Inter-Korean Relations", *The Gorbachev Foundation* (April 17, 2003).

the DPRK, oil products dominated with a strong 63%. The rampant corruption in both countries also let a trickle of Russian oil to be smuggled to North Korea unaccounted for¹⁸

In 2006, Russia was DPRK's third largest trading partner after China and South Korea and absorbed 9 percent of the total \$3.18 billion dollars spent by the North on imports (approx. \$286 million). The Kremlin's approval of international sanctions against the former communist ally was accompanied by the curtailment of trade with the North. At the time of North Korea's nuclear test in October 2006, Russia's trade statistics showed that the exports of petroleum had dropped 91.1 percent compared to the same period of the previous year.

The pragmatic mood in bilateral relations prevails, and these days Russia delivers oil and food to North Korea only in accordance with its obligations associated with the progress at the *Six-Party Talks*. This year, Russia has already delivered 100,000 tons of fuel oil to the DPRK in two batches and, according to the Russian Deputy Foreign Minister Alexei Borodavkin, a top Russian envoy to the Six-Party Talks, will deliver another 100,000 tons by October 2008.¹⁹ In June 2008, the Russian government announced that it would provide 2,860 tons of flour to the DPRK. According to the official KCNA news agency report, this food aid arrived at the border city of Sinuiju in the DPRK's Northern Pyongan Province in early July 2008.²⁰

Recently, for the first time in the post-Soviet era, North Korea saw a major Russian investment. In the city of Pyeongseong the Russian auto plant KamAZ opened its first assembly line, specializing in the production of medium-size trucks named *Taebaeksan-96*. Although less than 50 trucks were assembled in 2007 this cooperation became an important milestone in the development of bilateral relations. While the project doesn't violate United Nations sanctions on North Korea, it shows Moscow's drive to expand its influence in the country. Ironically, the more trucks are assembled the heavier is North Korea's dependence on imported fuel, engine oils and other petrochemical products.

The importance of DPRK's *Rajin-Seonbong Special Economic Zone* to Russia's national interests is continuing to grow. The state-run monopoly *OAO Russian*

¹⁸ "N.Korea's Businesses Thriving in Russia", *Dong-A Ilbo* (April 4, 2008); <http://english.donga.com/srv/service.php3?bicode=060000&biid=2008040448638>.

¹⁹ "Russia to Send More Fuel Oil to N.K. by October: Report", *Yonhap News Agency* (July 8, 2008).

²⁰ "Russian Food Aid Arrives in DPRK", *Xinhua* (July 8, 2008).

Railways is currently upgrading its railway connections with North Korea in Khasan-Tumangang, investing at least 1.75 billion roubles (\$72 million) into this project, and plans to participate in an ambitious plan to rebuild a trans-Korean railway. By connecting Rajin (and the rest of northern Korea) to its Trans-Siberian Railroad, Russia is hoping to benefit from the transit of South Korean and Japanese cargo which can be sent via its territory to Central Asian and European markets. Pyongyang seems to endorse these plans and other Russian initiatives but does not commit any financial resources.²¹

80% of the overall bilateral economic trade between Russia and North Korea consists of cooperation, barter and investment-in-kind between the regional areas. The most active Russian regions trading with the DPRK are Eastern Siberia and the Far East. The Maritime Province (Primorsky Krai) itself

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exports to North Korea more than \$4 million worth of refined oil per year. There are no oil fields in the Russian Maritime Province and the oil has to be borrowed through the chain of federal bureaucratic structures from the oil-rich areas of Eastern Siberia. Instead of money, the local governments agree to receive the labor of North Korean workers.

North Korean laborers in Siberia and the Far East were common under the Soviet system and they are still visibly present. In 2004, the *Russian Federal Immigration Service*

issued 14,000 visas for foreign laborers, of whom North Korean laborers in Russia numbered 3,320 in 2005 and 5,000 in 2006. Since the DPRK has no other way to pay in goods or services its government accurately pays for oil imported from Russia by dispatching thousands of laborers at zero cost. Following the strong demand from local companies, just in 2006 regional authorities of Primorsky Krai agreed to issue extra 5,000 working visas to North Koreans.²² This openness is contrary to local government policy that normally restricts the entry of labor from China.

DPRK citizens sent to Russia work as woodcutters and builders but some have also managed to find work in the agricultural and marine industries.

²¹ "Russian Merchants Greatly Increasing in Pyongyang", *Daily NK* (April 5, 2007); <http://www.dailynk.com/english/read.php?cataId=nk00100&num=1871/>.

²² "Pyongyang Offers Slaves in Exchange for Russian Oil"; <http://www.asianews.it/view.php?l=en&art=7651>.

Through the presence of these laborers, Russia has enjoyed a partial repayment of DPRK's post-Soviet debt through North Korean workers being contracted to work in mines and lumber mills in Russia's Far East.²³ The wages they are able to make in Russia are far greater than what they would make at home. However, the foreign worker quota is set not by provincial governments but by Moscow that often tries to put a stop to these programs due to the complexity of the matter, including the refugee issue. Part of this opposition stems from the fact that the North Korean workers in Russia still fall under DPRK laws and, therefore, are subjects to intrusive supervision.

Among the most difficult but negotiable issues in the way of Russia-North Korea cooperation remains the problem of external debt. During the Soviet era the DPRK incurred the debt of approximately \$8 billion dollars, which Pyongyang still owes to Moscow but cannot repay. This debt remains a stumbling block in most negotiations on the new aid and development programs. However, this debt can potentially make the trilateral Russian-Korean relations closer and stronger.

Back in January 1991, soon after the opening of diplomatic relations with Republic of Korea, Moscow received \$3 billion dollars from Seoul in the form of a three-year loan. The collapse of the Soviet Union left this loan largely unpaid. The new Russian government in the 1990s provided South Korea with armaments worth \$150 million dollars to be counted as payment-in-kind for the remaining debt. In 2003, after bilateral negotiations on this issue were completed, part of this Russian debt was cancelled and the remainder was rescheduled to be paid over the next 23 years.

Taking into account its own debts to the South, Russia could easily write off a significant portion of North Korean debt. To resolve this question a certain agreement between all three parties is needed. To engage in a mutual and reciprocal round of debt cancellation, Russia might choose to see the North and the South as one country. Such an agreement would have unblocked the road for a broader cooperation between Russia and the two Koreas, and simplified Russia's energy cooperation with China and Japan.

Conclusions

In the 1990s, DPRK leadership must have hoped that Russia's assistance would help them restore their economy in the same fashion as it used to be in the times of Soviet Union. However, the new market economy in Russia

²³ "Building Ties with North Korea", *The New York Times* (December 11, 2003).

provides little room for Soviet-type sponsorship, leaving North Korea in the state of energy and transportation crisis.²⁴ Disinterest among the Russian private sector in cooperation with North Korean companies has compounded this difficult situation.

Available statistics reflecting bilateral trade in the 2000s still show the sluggishness of Russo-North Korean economic links. Barter and trade-in-kind continue to play an important role in bilateral trade, while the possibility of workforce export remains vital for DPRK. The current system of exchange between North Korea and Russia is that the former exporting labor and agricultural goods and the latter exporting electrical energy, oil, and raw materials.

As it was in the last century, railway remains a symbol of Russia's power in the region. By extending its transportation network and pipeline infrastructure,

The position of reformed North Korea in the newly emerging map of economic interests can be surprisingly strong. The DPRK is located at the very centre of the world's most vibrant and dynamically developing region.

Russia is trying to get back into the grand game in Northeast Asia, which it was forced to leave with the collapse of the Soviet Union. The only difference between then and now is that the main motivating factor these days is profit-making and economic reasoning, not ideological consideration.

For communist North Korea, whose reclusive leadership is bogged in cold-war mentality, this is a novel concept. This disparity in attitudes often creates misunderstanding and results in missed opportunities. Even the railway, which is Russia's most feasible infrastructure project in North Korea, may be endangered by the

unpredictability of current leadership in Pyongyang. The risks are too high to start any other major capital investment without a serious change in regime's attitude.

Indeed, the position of reformed North Korea in the newly emerging map of economic interests can be surprisingly strong. The DPRK is located at the very centre of the world's most vibrant and dynamically developing region. By playing his cards shrewdly, Kim Jong II might create conditions for socio-

²⁴ G. Bulychev, "Korean Security Dilemmas: A Russian Perspective", H. Smith (ed) *Reconstituting Korean Security: a Policy Primer*. (United Nations University Press, 2007), p. 195.

economic revitalization of the North that will be a positive contribution to the eventual unification of the Korean peninsula.

Moscow is learning its lesson too. Russian strategists already realize that North Korea might play the important role of regional balancer if it managed to reconcile with its ideological enemies and rivals. The contiguous powers would probably agree with this as long as the balancer is genuinely neutral and independent. Such a pivotal role would perfectly satisfy the ambitious DPRK that already claims a status of nuclear power.

However, in building regional security the potential of Russian influence on North Korea must not be exaggerated. In fact, Russia's ability to project its economic power, especially through oil and gas pipelines, would be greatly enhanced if political tensions between the two Koreas declined and they finally moved to unification. Cooperation between Russia, North and South Korea in oil, gas and railway construction and exploitation projects can be a good start for reconciliation. No progress in Russian-DPRK relations is possible without close Russian-ROK cooperation.

The concept of three-party cooperation means the combination of Russian energy and resources, North Korean territory and labor, and South Korean capital and technology. The objectives of this policy – to revive and modernize the North Korean economy, to create income sources, and to promote inter-Korean cooperation and economic ties of both Koreas with Russia – would lead to the creation of economically integrated system of Northeast Asia.

Russian-Korean trilateral relations are based on a solid footing and replete with opportunities that can benefit each of them.

In this light, Russian-Korean relations can be seen as based on a solid footing and replete with opportunities that can benefit each of them. The new administrations in the Kremlin and Seoul's 'Blue House', together with the new generation of leaders in Pyongyang, can radically change the political climate in the region. A simple strengthening of economic and military relationships between the three countries will contribute to the peaceful solution of the 'Korean nuclear problem' and prepare the basis for durable peace and prosperity in Northeast Asia.

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