

Economic Relationships between the Democratic People's Republic of Korea, Russian Federation and the Republic of Korea (DPRK-Russia-ROK)

N. Dorjsuren

Head, Center for China, East Asia Studies, Institute for Strategic Studies (ISS), Mongolia

With the western countries' sanctions against the Russian Federation [Russia] due to the Ukrainian crisis, Moscow is intending to find 'new financial partners' in Asia and settle its economic influence throughout the Far East and Asia. Consequentially, Russia tries to enhance its cooperation in the field of economic relations with China, and it is simultaneously seeking economic and commercial negotiations with the Democratic Peoples' Republic of Korea [DPRK] actively. As a Northeast Asian security expert, this is a considerable issue for me. Thus, this article is intended to reveal the economic relationship between Russia and DPRK as well as the present economic cooperation between the DPRK-Russia - ROK.

The economic cooperation of Russia and DPRK refreshes into a new era from its stagnation¹ (From a passive mode into a pro-active mode)

According to some experts, Asia is supposed to be splitted up under the economic interventions and under the direct and indirect effects of Russia and the USA in the near future. China, which is the main supporter of Russia, is located in this continent, as well as India, and DPRK that are either new or old partners of these countries. As 2014 began, economic correlation between Russia and DPRK is obviously activated, and several significant agreements have been already made. For example:

1. During the visit of Alexander Galushka, Minister for the Development of the Russian Far East, to DPRK from March 24th through March 28th 2014, the parties negotiated to make their bilateral trade volume to reach USD 1 billion by 2020. The bilateral trade value was just \$112 million in 2013 (*which increased by 48.1% than the amount in 2012*), where Russian export was \$103.4 million which included metallurgical coal, diesel and metal dominantly, and import equaled to \$9.3 million. Now this amount is intended to increase 10 times within the next 6 years per the negotiation between these 2 countries. For this intention, it will be necessary for the parties to intensify their economic cooperation as much as possible. Another issue confirmed during the visit was that the countries agreed to make their financial settlements and payments related to commercial activities in Russian Rubles.²
2. In the beginning of April 2014, Russia's State Duma

wrote off 90% of \$10 billion DPRK's debt. The remaining debt of \$1 billion will be repaid in equal installments every six months during the next 20 years. In addition, the payment will be spent to build a gas pipeline and railroad through North Korea to South Korea that can be a valuable contribution of these two countries' economic cooperation. Chronologically, when the United Nations made a resolution to impose sanctions against Russia that deemed responsible for a contested independence referendum in Crimea, Russia signed an agreement with the DPRK for commercial and economic cooperation. This was considered as not an unintentional occurrence.

3. The Presidential Envoy to the Far Eastern Federal District Mr. Yury Trutnev visited Pyongyang from April 28th through April 30th, 2014. The personnel team of this visit included the Governors of Amur Region, Primorsky and Khabarovsk Territory. As a result, the Ministry of Foreign Trade of the DPRK and the Amur Region Governor signed an agreement on trade and economic cooperation. The Ministry received 50 fire extinguishers as a humanitarian aid.
4. The 6th Session of the Russian - North Korean Intergovernmental Commission was held on Russky Island, Vladivostok from June 2nd to June 5th, 2014. During the session, North Korea revealed the information about its economic free zones, and made several significant decisions mutually on the bilateral economic cooperation development including:
 - To fulfill the agreement made on 22nd of May, 2014 to write off the North Korea's debt to Russia (*formerly the Union of Soviet Socialist Republics*);
 - To provide Russian economic institutions, companies and businessmen located in the DPRK with visa facilitation and have a right to use advanced communication technologies such as cell phones and internet within the territory of the DPRK;
 - Russian companies were allowed to make a mineral exploration in the territory of North Korea. Pyongyang Governing authorities announced that they would like to take TU-204 airplane from Russia, and in return, they would approve Russia to exploit its gold mine. In details, as mentioned in the Minutes of this Intergovernmental Commission Session, it has been agreed in advance that 'Chondin' North Korean

¹ Referred on the news dated on 9th of June, 2014, by "ITAR Tass" Agency

² Yury Trutnev, Presidential Envoy to the Far Eastern Federal District, and Rho Doo Chol, Deputy Prime Minister and Head of the State Planning Committee, agreed to make bilateral trade in Ruble during Yury Trutnev's visit to the DPRK.

Company and 'Severnie Priisky' Russian Company would co-operate a gold mine that is located in Pyoktong County, in the province of North Pyongyang.

- Oleg Vladimirovich Deripaska, Chairman of the Supervisory Board of Basic Element Company, received several economic cooperation proposals from North Korea. He was offered with the maintenance and restructuring of the Thermal Power Station in east Pyongyang, and copper and anthracite mining exploitations.
- Finally, North Korean Governors revealed their interest to import coking coal from Russia for the Kim Chaek Iron and Steel Complex, Chongjin, North Hamgyong Province. If it is agreed, the initial coal import will be 50,000 tons a month. Furthermore, the Russian companies are likely to get involved in the Kaesong Industrial Park, which is co-operated by the North and South Korea.

As the Russian economic cooperation proposals, Russian "TAIF" Company is supposed to build a fuelling station chain in the territory of North Korea based on the permission of DPRK.

- Russia has been obliged to complete the list of companies, by October 1, 2014, that will cooperate on the exploitation of North Korean mining sites such as graphite, zircon, limonite, vermiculite, granite and phosphorus mining sites in Dancheon, South Hamgyeong Province of North Korea. The final decision making process related to the joint mining development is expected to be accelerated so that to get a result before the end of this year as the mining experts were exchanged between two countries.

The concluding observation is that Russian and North Korean Governments have agreed to develop and implement a special mechanism that supports their intergovernmental projects and significant negotiations. In fact, the intergovernmental commission will work directly to make these various negotiations. As the parties have agreed to make all the relevant settlements and payments in ruble, their first transaction in ruble is expected to start from June. One critical statement was given by Alexander Galushka, Minister for the Development of the Russian Far East, where he concluded the session by stating that "These significant economic proposals are dedicated for only the Russian investors. Any other country's investors and economic entities, particularly China's investors, will be unable to be involved in it".

The previous governors' Intergovernmental Commission Session was conducted in August 2011. But Ludmila Zakharova, a Senior Researcher at the Center for Korean Research Institute of Far Eastern Studies, said "Our former

session did not contribute to the bilateral trade and economic cooperation development as much as we expected". Actually, these countries' trade volume was just around \$110 million at the time of the former session; and the sole project concluded by the parties was the railway line that connects the countries. Today a double-track railway between Khasan and Rajin and Freight Terminal Construction in Rajin port with the length of 54km that was built by the Russian investment of \$250 million is about to be opened.

Khasan - Rajin Railway can be considered as the beginning of the connection between North - South Korea Railway and Trans - Siberian Railway. When the project is fulfilled completely, it will become the main gate for Russia to attract massive economic profits from the DPRK. On the other hand, South Korea's decision and attitude is an imperative aspect on the project implementation. But it remains doubtful due to the two Koreans' complicated relationship. Another influential project is a gas that will be delivered into South Korea from Russia through North Korea³. However, as the Russian, South and North Korean experts are expressing, the project is sluggish because of its security risk. In such circumstance, Russia made a big political decision to boost their economic and commercial ties with North Korea in 2014.

Although bilateral relationship is intensifying in the economic field, obviously, some difficulties are still persistent in the reality. In the past, the bilateral trade turnover has been declining year by year. It can be said bluntly that their total trade turnover has not exceeded over \$100 million in the past decade. Compared to the international trade volume, it is insignificant amount, whereas the trade turnover between China and the DPRK was \$6.5 billion. Thus, an investment for such an unsustainable economy is still a risk-bearing process for the Russian companies.

Eventually, this new bilateral economic cooperation blossoming between the DPRK and Russia will be dominantly dependent on their immutable effort and diligence; moreover it will be affected by the UN's sanctions against North Korea, as well as the international communities' attitude.

Why does North Korea build a friendship with Russia?

Since the beginning of 2014, the economic development was being attained by the North Korea as a top priority for relations with Russia. It has several reasons. The North Korean authorities have been adhering to a policy to enhance relations with Russia in order to prevent coming under the Chinese economic influence. Especially the resignation and execution of the 67 year old Jan Son Teak, who was an influential politician of the country, brought a fracture into the relations between China and North Korea. Fuel export into North Korea has been discontinued by

³ The considerable time spent since the project of gas pipe routed between the Russian Federation - DPRK - PRK had been confirmed. When Kim Jong Il, the Supreme Leader of DPRK visited Russia in August 2011; he initially discussed with the former Russian President, Medvedev, about gas pipe routed from Russia into PRK through DPRK and reached a common expectation. The gas pipe will be 1100 km long and with its prevailing part in DPRK; it is expected to transfer the gas of 10 billion m3 per year. Construction of the gas pipeline between North and South Korea will require \$3.5 billion. Thus, "Gasprom" will contribute to the project.

China for 6 months since January 6th 2014. Moreover Xi Jinping's visit to the South Korea at first in July was considered as a "neglectful attitude" that violated the tradition to visit the DPRK first. Thus, according to Alexander Galushka, Minister for the Development of the Russian Far East, an increasing Russia's influence is a profitable choice which also could contribute to getting rid of the North Korean economic crisis; even though the intended target to reach \$1 billion of bilateral trade between Russia and North Korea by 2020 is a small amount compared to the trade and economic relations between China and North Korea.

Finally, about the trilateral railway project: "Korali" Co., Ltd of South Korea reported its request to a party of North in 2014 to build a trilateral training center between Russia, DPRK and South Korea to share experience on railway transportation. The proposal had been expressed by Choi Hyun Hi of the company, but on the last day of the meeting the North side has expressed that it can be promoted. But, "Korali" Co., Ltd has reported that in the future this issue will be discussed with the North. In addition, they reported that Russian "RJD" Trans-Siberian railway will carry out connection of Rajin port of North Korea from the West Siberia. Thus, the trilateral cooperation in railway sector will be greatly facilitated in the case of the proposal of "Korali" Co., Ltd will be promoted.

Conclusion

Russia has been working to boost its economic relationship with the Asian countries, particularly with the

DPRK, more than ever before. However, it is useful for both of the parties, as the beginning of a massive regional and geopolitical restructure in Asia. According to Russian experts⁴, Russian economic relationship with the DPRK should be based on the following principles, such as:

1. To maintain the relationship with North and South Korea equally, despite the gap between two Koreas in economic capacity and political regime; to support any measure/event for their conciliation;
2. To fulfill trilateral economic cooperation and joint projects between Russia, DPRK and ROK as much as possible.
 - To connect Trans — Siberian railway with the North — South Korea Railways.
 - To build oil and gas pipeline (*Yakutsk, Kovyktinskoye, South Sakhalinsk versions*)
 - To implement projects that are intended to improve the North Korea's industry based on the investments of the ROK and Japan, and the Russian technical capacity.
 - To build free commercial zones in the territories of Russia and DPRK.
3. To support DPRK to settle a policy ruling for an open economy and cooperate with other international organizations for that purpose.
4. To persuade North Korea to be free of nuclear weapons.
5. To cooperate with the 'great four' countries, North and South Korea and Mongolia to develop a multilateral mechanism on Northeast Asian security and economy.

北朝鮮・ロシア・韓国間の経済協力

モンゴル戦略研究所 (ISS) 中国・東アジア研究センター長 N. ドルジスレン

要旨

ウクライナ危機に対する西側諸国の対ロ制裁によって、モスクワは「新しい金融パートナー」をアジアに求め、極東・アジアに経済的影響を及ぼそうとしている。その結果、ロシアは経済関係分野における中国との協力を強化し、同時に北朝鮮との間で、経済的・商業的交渉を活発化させている。北東アジアの安全保障専門家として、筆者はこれを大きな問題として捉えている。そのため、本稿では、ロシアと北朝鮮の経済関係並びに北朝鮮・ロシア・韓国間の経済協力の現状を明らかにしたい。

ロシアと北朝鮮の経済貿易の協力関係は2014年に入って急速に進展し、6月には両国の政府間委員会を開き、ロシア・ルーブルでの貿易を始めた。さらに、北朝鮮に進出するロシア企業への支援措置において合意している。本稿では、両国の経済関係強化の要因と背景、そして今後の発展過程についても述べてみたい。

⁴ "The Potential Future Scenarios and Russia's Policy" International Fund of Socio-Economic and Political Research (The Gorbachyev Fund)