

THE RUSSIAN FEDERATION AND THE TWO KOREAN STATES : ECONOMIC COOPERATION IN THE EARLY 21 CENTURY *

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Preface

About fifteen years ago few people in the world and in the Russian Federation (RF) itself could predict the unusually complicated and thorny development of Russia's relations with the both states of the Korean Peninsula in the years ahead. The Republic of Korea (ROK) was still an exotic and actually closed country for the people of the Soviet Union while the Democratic Peoples' Republic of Korea (DPRK) was the USSR's long-time client state and ally. It was in 1988 when the then supreme Soviet leader M. Gorbachev, for the first time, in his Krasnoyarsk speech alluded to the possibility of establishing - under certain circumstances - economic ties between the USSR and South Korea [Il Young Chun, 1992, p.61]. Within two years not only economic, but also diplomatic relations became a reality.

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Politically, for the Soviets, the recognition of the ROK symbolized the end of Cold War in East Asia. Economically, it promised major gains to be obtained from cooperation with the leading NIC (new industrialized country). The ensuing coolness towards the North was an attempt to get rid of an unnecessary financial burden and demonstrate the new democratic face of the USSR. Anyway, the then Soviet Union became the first great power to have diplomatic relations with the two Koreas simultaneously. Unfortunately, the Russian Federation as the heir to the Soviet Union was unable to profit from its unique advantage. Obviously, those who reduced the Russian-North Korean ties to a virtual break-up expected a high appreciation of this step on the part of Western powers and South Korea. Paradoxically, contrary to these expectations, the very same countries whose gratitude Russia had been seeking for, have come to aid North Korea in that way or another, while Russia found itself shoved away from the peninsula's political settings [Vorontsov, 2002, p.48]. To crown all, economic relations with South Korea soured greatly by the end of the 20 century. Improving the situation has become one of international priorities for President Vladimir Putin's administration.

In this paper the author intends to consider the current stage of trade and economic relations with the both Korean states, as well as the prospects of, and obstacles to, their development in the early years of the 21 century. Of course, in terms of volume and technological sophistication, the ROK's potential is by far much more significant. However, North Korea in the future, could also prove to be an important partner of Russia, especially if the normalization of relations between Seoul and Pyongyang gradually goes on. Moreover, in this case cooperation with both Koreas as the whole entity promises entirely new prospects, though the risks are high as well. Special attention in the paper is being paid to the role of the Russian

Far East (RFE) as the natural realm for Russia's cooperation with both the South and the North. The paper is based on a) the author's talks with relevant specialists from the Russian Far East in the summer of 2002, b) the regional trade and economic statistics, and c) the recent papers by South Korean, American and Russian researchers.

I. Cooperation with South Korea

The Evolution of Russia's Political and Economic Relations with the ROK

For about four decades the Communist rulers of the Soviet Union due to their dogmatic ideology and solidarity with Pyongyang regime, had been pretending not to take notice of the ROK's existence in East Asia. The process of recognition of South Korea began only in Gorbachev's period, just before the dissolution of the USSR. One of the motives of the subsequent rapprochement was the tremendous appeal of economic cooperation with the ROK that was expected to contribute much to restructuring and expanding the ailing Soviet economy.

By the start of the 1990s, in the eyes of many Russians South Korea came to look like a reliable substitute for Japan. Predictions that the ROK might surpass Japan as Russia's most important economic partner in APR were not uncommon. The Russians assured themselves that the Korean companies were longing for Russia's markets and the Far East's resources. Even a kind of competition for the share of the ROK's investment could be witnessed between various provinces of the RFE. President Yeltsin, being disappointed with bad prospects of the Russian-Japanese ties and Japan's pushing for the reversion of the Kuril Islands, in November 1992 abruptly cancelled his trip to Tokyo and visited Seoul instead. There he announced

that the focus of his country's policy had shifted to Asia while the ROK would be Russia's leading partner in region [Ellison, 2001, p.169]. The peak of "honey-moon" in the bilateral relations was embodied in the delivery of samples of most up-to-date ammunition to Seoul.

Now it is obvious that from the very start of the bilateral relations there was much misunderstanding on both parts as well as frequent attempts to profit on each other. The Russians, under their troubled economic conditions, were motivated by short-term interests in approaching South Korea rather by than long-term strategic considerations. They pinned obviously exaggerated expectations on Seoul connections while doing too little to make business environment attractive for partners, and ultimately failed to reap the desired benefits of economic ties with the ROK.

On their part, major Korean firms, when they initiated deals with the USSR, expected to trade with a united economic mechanism firmly controlled by Moscow. But the center that used to supervise Soviet external economic ties disappeared and the new reality appeared to be strange and disappointing. Besides, in some parts of Eastern Russia the Korean corporations set local population against themselves by not fulfilling their obligations or ignoring local needs. Progress of trade, direct investment and economic cooperation between the RF and the ROK was getting increasingly slow and uneven. The Moscow-Seoul "honeymoon" was coming to the end.

The economic crises in both countries, which burst out independently from each other in 1997-1998, brought one more ordeal for the bilateral relations. As a result of the ruble devaluation against the U.S. dollar in 1998, the Korean export of consumer goods to the eastern parts of Russia,

which had thrived before, virtually came to a halt. The inability to get back Seoul's loans to the USSR/Russia (\$ 1.45 billion) was also unproductive to a healthy development of business ties [Strana.Ru, 26 February 2001 (online)]. To make things worse, the situation was aggravated by expulsions of Korean diplomats for the inappropriate gathering of information and the arrest of a high-ranking Russian diplomat for selling state secrets to Seoul.

Fortunately, the state of Russian-South Korean relations by the start of a new millennium was not a genuine crisis. Their ties were able to stand up to the ordeal to become more mature and pragmatic. However, surely both the RF and the ROK failed to meet previous excessive expectations and needed a sober review of their relations. The first signs of their improvement could be seen by the end of Yeltsin period though mainly it has become the responsibility of the new Putin administration.

The Bilateral Trade

After establishing diplomatic relations between Moscow and Seoul, their trade started actually from zero and was rapidly growing. In 1996 it reached its peak of \$ 3.8 billion. Later, due to economic crises in the both countries and drastic fall of their currencies rate, the turnover fell appreciably (to \$ 2.2 billion, \$ 2.8 billion and again \$ 2.8 billion in 1999, 2000 and 2001 respectively). The figures are surprisingly lower than it had been anticipated earlier, and cannot stand international comparisons. For example, in 2001 the ROK's turnover with China amounted to about \$ 30 billion, i.e. 11 times higher than that with the RF. The dynamics of balance of trade between the two countries was erratic during the last decade; in 1996-1998 Russia's imports from Korea exceeded Russia's exports, then in

1999-2000 the trend changed, and annually Russia had a surplus of about \$ 1 billion [Suslina, 2001, p.47].

In the overall Korea's exports, Russia's share does not exceed a mere 0.5%, while in imports it stands at about 1.5%. "Special economic relations" between the two neighbor countries, which had been widely anticipated, never materialized. The both countries are just minor partners of each other. However, the picture is different when it comes to the eastern parts of the Russian Federation, in which the Korean performance is the exclusion to the currently lackluster Seoul-to-Moscow economic relations (see Table 1).

Table 1. The share of major partners in the Russian Far East's trade (% %)

	Japan		China		South Korea		United States	
	Export	Import	Export	Import	Export	Import	Export	Import
1992	47,4	19,4	27,3	47,5	7,0	11,7	3,8	3,9
1993	48,2	17,5	33,0	48,4	6,3	6,0	1,5	6,4
1995	48,3	10,7	7,1	8,9	10,5	12,1	9,1	21,5
1998	24,7	8,5	30,2	10,2	10,0	34,1	13,5	19,0
1999	26,0	13,5	15,8	13,2	13,8	15,4	16,8	22,7
2000	19,7	15,4	25,6	16,5	10,0	20,8	10,6	18,3

Source: The Russian Far East's regional statistics

While the Far Eastern provinces' share in Russia's population and GNP is lower than 5 per cent, their share is much higher when it comes to bilateral trade (for example, it was 13% in 1998). In other words, for Eastern Russia the role of South Korea in terms of trade, as Table 1 shows, is much more tangible than for Russia on the whole. The figures also show that dur-

ing the last decade South Korea was able to raise its importance as the leading supplier of imported goods to Asiatic Russia twice. Moreover, it has become more significant than the neighboring Japan, though in terms of general turnover it has ceded the first place to China. The recent absolute figures for the Far East's trade can be seen on Table 2.

Table 2. Trade between the RFE and its major partners in 2001 (US \$\$ million)

Country	Export	Import	Turnover	Change to 2000
China	1716	171	1887	160%
ROK	644	207	850	116%
Japan	560	186	746	117%
Singapore	498	3	501	170%
USA	47	126	173	93%

Source: "Tamozhennaia politika Rossii na Dal'nem Vostoke", 2002, No.1, p.4.

As Table 2 shows, despite Korea's rather high share on Eastern Russia's export and import markets, absolute figures are tiny against international comparisons. Moreover, the dynamics of trade turnover has been very uneven throughout the last ten years: \$ 248 million, 188 million, 466 million, 859 million, 478 million, and 564 million in the years 1992, 1993, 1995, 1998, 1999, and 2000 respectively. The value of Khabarovsk krai's shipments to the ROK in 1999, for instance, amounted to a mere \$ 54.7 million while its import (\$ 9.7 million) was hardly visible at all.

Russia supplies its partner with raw materials and semi-finished products such as aluminum, nickel, scrap-iron, saw-timber, seafood, fish flesh and roe, coal, cellulose, certain sorts of steel and chemical products, etc. The overwhelming preponderance of raw materials and unsophisticated

manufactured commodities in Korea-bound shipments, though it causes frequent lamentations in Russia, reflects objective opportunities of the present Russian economy vis-a-vis Korea's demand. Moreover, the increase of such kind of exports, at least in the middle-term perspective, is vitally important from Russia's stand-point, as South Korea is a major single importer of raw materials (it ranks second, third or fourth as the world's importer of LNG, round timber, coal, iron ore, cotton, corn, and crude oil).

Focus on primary goods in terms of industrial structure, and concentration on the countries of Northeast Asia in terms of destinations, are the main features of the Russian Far East's exports. For example, 94 per cent of its shipments to Japan falls on timber, fish and seafood, and coal. The region owes more than 3/4 of its Korea-bound export also to the three groups of primary goods (oil, natural gas, and sea products). In 2001, when the volume of the region's export reached the high \$ 644 million, crude oil and oil products accounted for 57.8%, frozen fish accounted for 15,3%, while the shares of round-wood and iron-scrap were 9.5% and 7,8% respectively [Tamozhennaia Politika Rossii na Dal'nem Vostoke, 2002, No.1 , p.82]. According to P. Minakir and E. Devaeva, the initial emphasis on raw materials in regional exports is not only justified but actually unavoidable as in the foreseeable future it is the only way to mobilize financial resources for the region' modernization and, actually, for its economic survival [Minakir and Devaeva, 2002, p.85].

Contrary to Russia's export to South Korea, its imports from there include high value-added products such as specialized machines and equipment (equipment for off-shore boring platform, among them), TV-sets, passenger cars, minibuses and materials for light industries. In the wake of 1998 collapse of the Russian ruble, importation of consumer goods

has nearly ended. Changes in the pattern of the Far East's import have been especially conspicuous.

A four-fold fall of the ruble resulted in a nearly complete end of the purchases of foods and ready-made garments that used to be the pillars of the Korean exports. Hundreds, if not thousands, Far Eastern petty-traders who had specialized on bringing consumer goods from Korea to Vladivostok or Khabarovsk lost their jobs. In a single year, the pattern of import into the region changed completely - from finished goods to the equipment for their production. In Khabarovsk krai, for example, synthetic and jersey fabrics, as well as accessories for the production of garments, currently rank first among items of imports from Korea. Perhaps, nowadays we can talk about a shift from a rigidly vertical division of labor to a more horizontal division. However, Korean goods that the region purchases now are obviously of import-substitution type, designed for the internal consumption, and therefore, in the near future the region's producers will hardly become competitors to the Korean manufacturing firms. Overall, the role of the Russian Far East as the raw materials supplier to the needs of the ROK's industry will persist.

What can be expected of the Russian-South Korean trade on state-to-state level in the nearest future ? Russian scholars believe that in terms of value the Russian shipments to Korea will continue exceeding Korean exports to Russia. Favorable opportunities for the sales of lumber, hydrocarbons, ferrous and non-ferrous metals are likely to remain. It is believed that the further increase of these traditional shipments will depend mainly on the future price competitiveness of the Russian goods. If the current "creeping" devaluation of the ruble against the U.S. dollar continues, one could anticipate the growth of their competitiveness [Suslina, 2001, p.49].

However, narrow range of internationally competitive products and their rather poor quality can restrain the further expansion of Russian exports to South Korea. Unfortunately, short-term prospects for the increase of Russian export of more sophisticated products, such as machines and equipment, to Korea are much more questionable as compared to the raw materials sector. Perhaps, only some individual hi-tech enterprises related to the military-industrial complex could offer their advanced products. Under any circumstances, it would be expedient to use all opportunities to promote Russian value-added products to the Korean market, even if their range is narrow at present.

When it comes to import, Korean industrial materials as well as science-intensive machines and equipment remain, at present stage, the most attractive items for the Russian economy. Various types of Korea-made equipment and chemicals are believed to remain competitive both in terms of price and quality. However, the growth of Korean exports can be obstructed by a) still lingering fears of political and economic instability in Russia; b) relatively high level of risk of doing business with Russia; c) competition on the part of companies from Western nations and from elsewhere.

South Korean Investment in Russia and the Russian Far East

The old saying “foreign trade brings peoples together” at present stage of the world’s development, perhaps, could be transformed into “foreign investment brings peoples together”. Meanwhile, reciprocal direct investment between the two states leaves much to be desired. The volume of Russia’s capital investment into the Korean economy is simply negligible

(\$2.6 million). Accumulated direct investments by Korean corporations into the Russian economy by the end of the year 2000 amounted to only \$ 269 million being scattered in 158 projects. By some estimates, in 2001 it reached approximately \$300 million [Strana.Ru, 26 February 2002 (online)]. To make things worse, many, perhaps, one half of Russian-Korean joint ventures have been registered but never materialized.

Outside, the Russian Far East and Siberia, a mere handful of Korean enterprises can be mentioned, among them Daewoo's car assembly plant in Rostov oblast (Northern Caucasus). Kia's and Hyundai's intentions to establish similar facilities in Kaliningrad oblast as well as in Volga region (Udmurt Republic and Saratov oblast) have been reported. Korean capital is also represented in industries such as mining, metallurgy, hotel business, food industry, and ship repairing.

The amount of Korean investment in Russia will not stand up to the comparison with that in other adjacent countries. Even before the 1998 crisis, the ROK-RF long-term economic relationship had been far from being satisfactory. For example, according to a Moscow scholar, in the middle of the 1990s, the volume of South Korean capitals accumulated in Vietnam was 33 times bigger than the funds invested into the Russian economy. Korean investment to mainland China at the start of the new century reached as much as \$ 9.7 billion [Vorontsov, 2002, p.48, 51]. Moreover, as a result of economic crisis, many Korean businessmen had no choice but withdraw from Russia rather than expand their investments there. According to the South Korean scholars, the share of investment in Russia in Korea's total investment is 0.55%, while Russia is placed 26th among Korea's overseas investment partners in terms of accumulated funds [Park and Lee, 2002, p.3-4, online]. Russians, in their turn, have

become disappointed by their own unrealized expectations and unfulfilled Korean promises.

Contrary to the popular believes, the low level of Korea's private investment can hardly be explained by Russia's inadequate legal base, as since the early 1990s agreements aimed at the encouragement of mutual investment and avoiding double taxation have been in effect. There are other - and numerous - reasons for Korean insignificant involvement in the Russian economy that are distinctly seen in the Far East where most Korean-owned facilities are located.

The Far East has faced numerous obstacles in attracting foreign investment, most of them being self-inflicted. Investors from various countries, including South Korea, who entered the region earlier to develop its enormous natural resources, found only an antiquated economic infrastructure, widespread corruption and outright crime, obstructionist bureaucracy, and - frequently - local government's reluctant, if not hostile, policies. Foreign investment in natural resources of the RFE has also met resistance on the part of communists and nationalists who are inimical to foreign penetration in principle. Domestic financial groups, seeking to protect their own exploitation of natural resources from foreign competitors, have also contributed to the maintenance of unfavorable business environment.

Perhaps, most important factor to avert potential investors from the region was the fact that in the 1990s the cost of production in primary industries of the RFE grew much quicker than prices of raw materials. This discrepancy, as the head of Khabarovsk Institute writes, has led to the region's further loss in attractiveness for producers and investors [Minakir, 2002, p.41]. To crown all, foreign investors have come to be

required to pay heavier taxes than those paid by Russian industrialists while the regulation of foreign investment in the mineral resources of region has been excessively restrictive. It is no wonder that following normalization of Sino-South Korean relations (1992) mainland China began to divert capital funds which otherwise could be invested in the RF.

On the surface, foreign investments play a relatively important role in the economy of the RFE. According to Khabarovsk Economic Research Institute (KhERI), in 2000 they accounted for about 18 per cent of the total fixed capital of the area [Minakir and Devaeva, 2002, p.83] . However, figures can be misleading as they comprise foreign (American and Japanese) investment into the exploration of oil and gas on the shelf of Sakhalin Island. Actually, most foreign money is invested into the Sakhalin hydrocarbon projects. In 1999 they absorbed \$ 1043 million, in 2000 - \$ 251 million, and in 2001 they received \$ 389 million, which accounted for 81%, 43% and 51% of all foreign capital inflow correspondingly [regional statistics data] . The Sakhalin projects are by far an “enclave” as they do not contribute to the diffusion of advanced technology throughout the rest of the Far East.

For many Korean potential investors the RFE turned to be a hard nut to crack. In addition to every possible obstacle, mentioned above, the raw material orientation of Korean industrialists antagonized the local public that was craving for the importation of advanced technology in the first place. As the American weekly wrote, local people were worrying that “the Hyundais of the world will sweep up raw materials without leaving any milling or processing industries behind” [Newsweek, 26 July 1993, p.14] . For example, in the early 1990s, Hyundai’s large timber project in Maritime krai (Svetlaya JV) fell victim of local recriminations and discontent. The

Koreans were accused of arrogance, non-fulfillment of their own commitments, and neglect of the local people's needs [in detail see: Kovrigin, 1993, p.188].

In relative terms, the RFE is still most attractive for the Korean capital as compared to other Russia's areas. Through 1999, 55 projects received the ROK's investment here, i.e. 59 % of total in Russia (against only 20 % in Moscow), but they amounted only to \$69 million. (46% of the total), which is not a big deal anyway [Park and Lee, 2002, p.4, online]. Under the influence of the crisis the Korean investment came down further: only \$ 46 million was infused in 2000, and as little as \$ 20.3 million in 2001. In Khabarovsk krai, by 2000 there were registered 82 ROK-affiliated enterprises (including 57 joint ventures) worth only \$24.8 million. In post-crisis 1999, the krai received from Korea a ludicrously small investment amounting to \$ 115, 000 which was equal to 0.6 % of the total inflow of foreign FDI; this money was spent on the construction of a bowling-center which can hardly be call an essential facility for the region. In addition, the bulk of Korean money invested in the Russian Far East, strictly speaking, is not direct investment but investment credits which are not capable of establishing a long-term production base. To sum up, the current picture of Korean investment in Russia and its eastern provinces is quite far from the expectations the both parts nourished a decade ago.

In order to attract South Korean (and other countries') private long-term funds Russia has no other option but to form in its eastern part an investment environment which would not be inferior to that in adjacent nations. According to KhERI, to achieve the goal the following measures are necessary: (a) in pioneer industries, to resume privileges for foreign investors which existed in the late 1980s and early 1990s, including prefer-

ential taxation regime (the so called “tax holidays”) ; (b) to establish a regional agency for foreign investment management; (c) to establish a Far Eastern bank for international cooperation; and (d) to form a network of economic and technology development areas [Minakir and Devaeva, 2002, p.88].

A joint Russian-South Korean technology park within the greater Nakhodka special economic zone might be one of the above mentioned "development areas". The project was agreed upon in principle during President Yeltsin's visit to Seoul in 1992. It was worked out in detail by 1995 when a basic agreement was concluded to lease one hundred hectares of land. It was anticipated that the deal would induce new sizable investment on the Korean part. However, like it happened to some other projects, the implementation of the Russian-Korean Nakhodka “technopolis” was frozen due to the 1997-98 crises in both countries. Lastly, in 1999 when President Kim Dae-Jung visited Moscow, the final agreement on the construction of industrial complex, providing exemption from taxes and custom duties for construction materials, was settled [Ha, 2002, p.401] .

Anyway, in all possible scenarios of restructuring of the Far East's industrial and export base, it is impossible to avoid focusing on the development of raw materials and energy resources which determine the region's traditional place in the division of labor inside and outside Russia. The plan for the one-hundred-million-dollar reconstruction of Khabarovsk oil refinery, which utilizes crude oil from adjacent Sakhalin, is an appropriate example in this context. In the spring of 2003, the Korean “Samsung” that has won the international bid is supposed to begin the facility's modification aiming at the upgrading of its output. Once the works are over, the level of processing will increase two-fold, in other words the plant will produce

“nobler” oil products with higher added value instead of low-quality fuel oil [Tikhookeanskaia Zvezda (Khabarovsk), 5 July 2002, p.1]. To be true, the project seems to be somewhat controversial. On the one hand, according to the owner of the refinery, due to its modernization the local budget will enjoy a two- or three increase in tax revenues. On the other hand, both Khabarovsk city and krai will have to import the needed fuel oil from elsewhere which will hardly be welcomed by the locals.

With a view to the further development of bilateral economic cooperation, the potential of small and medium-size enterprises of each country should be also encouraged. The interaction of their small businesses' activity is likely to be coordinated by inter-governmental task group that came into existence in 2000. Perhaps, a comprehensive agreement between the Federation of Korean Industrialists on the one hand, and the regional Association of the Far East and Transbaikalia, which was concluded in July 2002 in Khabarovsk, will also be helpful in this respect [Tikhookeanskaia Zvezda, 5 July 2002, p.1]. Within the broad spectrum of small and medium-size enterprises, perhaps, those engaged in venture business should be nurtured in the first place. The fact that venture businesses of the both countries are currently believed to be on the similar stages of development, could facilitate their mutual gravitation and accommodation.

It is obvious that the Russian Far East, abundant with natural resources, could become a major supplier of raw materials or semi-finished products to South Korea. It is equally obvious that the prospects for increasing export of Russian primary commodities could be much better if there were more substantial investment by Korean corporations in Russia. In our understanding, preconditions for such kind of development are being

formed as the general investment environment is getting better. Therefore, it is highly desirable that the Russian businessmen should promote future projects involving joint Russian-Korean enterprise on the Russian territory.

II. Cooperation with the Democratic Peoples' Republic of Korea

Implications of the Latest Change in North Korea

Prospects of Russia's economic cooperation with the Democratic Peoples' Republic of Korea are vaguer than those with South Korea, mainly because of its uncertain political future. To be more specific, currently no one knows when and on what terms the North will be united with the South. As of now, we proceed from the fact that the country for many decades has been notorious for its military-oriented economy and that after the collapse of the Communist camp it finds itself in a deep social and economic crises. The country's regime is apprehended in modern Russia as utterly inhumane, and the two recent trips by President Kim Jong Il to Moscow and Pacific Russia have made an unpleasant impression on many citizens. At the same time, one cannot disregard the prospects of unification and possible transforming of the whole peninsula into an economic powerhouse which could positively affect Russia's striving to develop the RFE and Siberia.

Besides, North Korea, in all probability, has come through the worst of its situation in terms of the economic slump. Despite Pyongyang's nuclear ambitions, its relations with many European countries and Japan are not in the worst shape either. Kim Jong Il's regime has seemingly acknowledged the need to comprehend the capitalist economy in order to expand

international economic co-operation. Reportedly, national universities have invited foreign scholars to lecture on the subject of market economy while the government began dispatching trainees and students to various countries, including the European Union and even the USA [Lim, 2002, p.98]. A serious spadework on the establishing foreign trade laws and regulations is being held in the country. Even if these laws are only nominal at present, they can start working when the time comes.

Deterioration of Trade Relations between the RF and the DPRK

Until the early 1990s, the so-called “people’s Korea” was a stable client, a steadfast trade and economic partner of the Soviet Union. In fact, Moscow annually gave to the DPRK subsidies amounting to as much as \$ 1 billion [Kunadze, 2002, online]. From the early 1950s, the bigger part of commodities and energy was produced with the help of the increasingly antiquated Soviet-made equipment. Everything changed in 1991, in the wake of democratic revolution in Russia. For a significantly long period of time the Russian official policy became, perhaps, more anti-Pyongyang, than that of Washington. Interestingly, the hasty cutback of Russia’s relations with the DPRK was determined by the ideological rather than practical reason and, was not a result of a third party's pressure.

Yeltsin administration’s contempt to the world’s last Stalinist bastion, coupled with unwarranted expectations of North Korea’s collapse following Kim Il Sung’s demise, led to a dramatic weakening of Russia’s positions on the whole of the peninsula. Moscow lost its leverage on the external policy of Pyongyang. Such measures as Russia’s refusal to extend the 1961 Treaty on Friendship, Cooperation and Mutual Help could only further estrange Pyongyang from Moscow. After Russia’s shipment of samples of

ammunition to Seoul, North Korea officially warned: “Russia is all but in the camp of forces hostile to the DPRK. If Russian continues... we will have to settle scores with it” [Ellison, p.177]. Instead of a long-term ally, Russia came to have a nearly adversary on its Far Eastern border.

Russia’s stressed relations with North Korea were by no means helpful to enhancing the national interests of both countries; they did not seem beneficial for the ROK either. When Ye. Primakov changed A. Kozyrev as foreign minister (1996) and took over V. Chernomyrdin’s post of Prime Minister (1998) one of his main tasks was to amend relations with Pyongyang that had been badly damaged since diplomatic recognition of the South.

During Yeltsin’s second presidency, various forms of bilateral cooperation began gradually to be restored. For instance, from 1996 to 2000 as many as twenty-one agreements, involving economy, investment protection, avoiding of double taxation, were concluded between Pyongyang and Moscow. To further improve relations with North Korea, the new President Vladimir Putin in February 2000 sent his Foreign Minister Igor Ivanov to the DPRK for the signing of the Treaty of Friendship, Good Neighborliness and Cooperation. The exchange of visits by Putin and Kim Chun Il followed suit and had a vivid coverage in the world’s mass media.

Since the early 1990s, most types of economic cooperation between the two countries degraded or came to a virtual standstill. By the mid-1990s, the number of staff of Russia’s Office of trade representative in Pyongyang was reduced to as few as 4 persons while all Russian journalists except one withdrew from the country [Ha, 2002, p.403]. The decline in trade turnover (from \$ 2.6 billion in 1990 to \$ 65 million in 1996) was especially

amazing. As a result, Russia's share in the North's trade turnover plummeted from 61% to 4% during the same period. Later on, the bilateral trade did not demonstrate any sizable growth amounting to only \$ 90 million, \$105 million and 115 million dollars in 1997, 2000, and 2001 accordingly. By Suslina's observation, nowadays, even such distant countries as Saudi Arabia and Greece import more North Korean goods (in value) than the Russian Federation [Suslina, 2001, p.52]. At the same time, legal foundations for trade and economic cooperation between Moscow and Pyongyang have survived and can be used as soon as economic ties are renewed.

Existing Forms and Prospects of Cooperation with North Korea

To be fair, there exist several favorable factors that could support a guarded enthusiasm about the prospects of bilateral economic ties. The both countries possess a long record of cooperation and their technological affinity dates back to their political alliance of old days. For the North's underdeveloped economy, the "made in Russia" products are certainly more attractive than the domestic ones (which cannot be said about the South's customers). Finally, the both countries' direct territorial contact is undoubtedly one more positive factor.

However, these opportunities are by no means translated into a fully-fledged cooperation. According to Vorontsov, there are only three spheres where such co-operation is lasting out: a) joint cultivation of various marine organisms and their processing at the cannery in Sinpho for the export to Russia; b) repairing of Russian vessels in the area of Rason, and c) recreational facilities for the Far Eastern seamen on North Korea's resorts [Vorontsov, 2002, p.55]. In other words, one cannot help defining Russian-North Korean cooperation as extremely narrow.

Since the Communist era there has traditionally existed one more, utterly controversial, form of bilateral cooperation - the use of North Korean manpower for forest harvesting in the eastern parts of the RF. The so called Korean lespromhozy (forest industrial estates) are scattered in Khabarovsk and Maritime kraia, in Amur and Sakhalin oblasts, and new ones are likely to appear in Irkutsk oblast. The industrial performance of North Korean loggers is far from being transparent, and therefore it is little known outside the logging sites. The number of Korean workers is estimated in the region of 12 thousand and, perhaps, will be increased by 2500 or 3000 men, as it was proposed by Kim Jong Il at the time of his meeting with Putin in August 2002.

Economically, such kind of cooperation is convenient for Russia, as a certain share of round wood produced by the Koreans, is given to the Russian part. The DPRK's rulers on its part, have secured a stable supply of imported timber, and used the labor of its citizens as a means to pay off their debts to Moscow. However, the moral aspect of North Korean involvement in the logging sector of Russia's economy has been often - and justly - criticized. As a Russian weekly put it, in the middle of democratic Russia, North Korean lumberjacks lead the life of slaves under the supervision of their own secret services while Russian laws do not work there at all [Kunadze, 2000, online]. Besides, North Korean loggers, at least in some parts of the RFE, have long ago set population against themselves by the barbaric way of tree-felling, depredation of forests and their rough behavior [Kovrigin, 1993, p.191].

By the start of the new millennium Russia was convinced that cornering North Korea would be an erroneous policy because the isolated Stalinist

state would never contribute to ensuring peace and stability in Northeast Asia. President Putin's coming to power has greatly improved the political and psychological climate in Moscow's relations with Pyongyang. The renewal of friendly relations was made certain by the signing of the Treaty on Friendship, Good Neighborliness and Cooperation in February 2000. By the time of Putin's sudden visit to North Korea in 2001, both countries reached an agreement to cooperate in such areas as energy, transportation, forestry, crude oil and gas, and light industries; in addition, they agreed to work together to rebuild industrial facilities constructed with Soviet assistance decades ago [Ko, 2000, p.76]. As a result, prerequisites for the involvement of North Korea in some important bilateral and multi-lateral projects seem surely more favorable than before.

These favorable changes notwithstanding, the present state of North Korean economy hardly makes the country an appreciable partner in terms of conventional trade in goods. The low solvency of North Korean organizations puts strict limitations on the volume of Russian exports. Import from Pyongyang is restricted to a very narrow range of competitive Korean products while most of them are unacceptable for the Russian market because of their poor quality. According to Russian experts' estimates, the short list of acceptable commodities, in a medium-term perspective, includes magnesia clinker, barite, talc, zinc, cement, calcium carbide, car accumulators, electric micro-motors, and some sorts of fruit and vegetables.

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One could, to some extent, expect a not bad performance of the probable Russian direct capital investment into the DPRK's economy, first of all into the so-called free economic zones which had been officially established here. If so, in order to facilitate their future in North Korea, Russian busi-

nessmen need to make some investment just now, before Western companies have founded their strongholds in the country.

Joint Russian-North Korean projects could include those areas of cooperation that had been supposed to be developed long ago but were terminated thereafter. Among projects to be revitalized, certain objects of the former Soviet industrial assistance, improvement of the facilities in the trading port of Rajin, resumption of Russian tourism to North Korea, etc., could be singled out.

Cheap local manpower seems to be the main factor to contribute to the efficiency of the would-be Russian-affiliated ventures in North Korea. On the other hand, this merit can be outbalanced by the fears of inadequate behavior of the country's authorities. There should be real guarantees of safety and favorable treatment of inward Russian investment on the part of Pyongyang. However, the lack of available capital in Russia poses the main obstacle to its involvement in North Korea's economy. That is why it is hardly realistic to expect Russia's major progress in pursuing its economic aims in the North without active participation of South Korea's private funds, i. e. without trilateral cooperation.

III. Economic Cooperation between Russia and Both Koreas

Uneasy Detente between the North and the South and its Repercussions for the RF

Though the current process of rapprochement between Pyongyang and Seoul is not smooth and quick, their confrontation is increasingly getting less tense. Russia actively supports Seoul's policy of "engagement" and has whole-heartedly welcomed the 2000 summit between presidents Kim

Dae-Jung and Kim Jong Il as well as further steps for rapprochement. Obviously, Moscow is preparing itself for an era of unified Korea. In this framework, the opinion of the Korean scholar that Russian policy towards the Peninsula is almost identical with that of the ROK's government seems to be quite well-founded [Ko, 2000, p.81].

The recent political process has created preconditions for an important shift in the economic relations. Trade ties between the two Korean states have been improving; even South Korean direct investments to the north of the 38th parallel have become a reality. Moreover, there have appeared ideas of major international economic projects involving both South and North Korea. Geopolitically and otherwise, Russia could not keep aloof in this process. The nation's experts pay attention that in the framework of the DPRK-RF summits in 2001 and 2002, prospects for trilateral cooperation were on the agenda. In the words by the outstanding Russian scholar N. Simonia, published in a South Korean journal, "Russian leadership, followed by large business, has passed from endless talks and multiple-but-not implemented decisions and decrees to pragmatic, business activity" [Simonia, 2001, p.181]. Simonia and other outstanding authors such as Minakir, Kunadze, etc., discuss several possible objects of multilateral cooperation in which Russia's business community could, in one way or another, participate.

The list of Russian projects where the three states could be involved simultaneously includes:

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七 construction of international gas pipelines from gas deposits of Irkutsk ,
Sakhalin or Yakutia's deposits via the DPRK to the ROK or Japan;
deep reconstruction and modernization of antiquated industrial and infras-
tructure objects;

construction of new industrial facilities on North Korea's territory;
 development of the Tumen international industrial zone;
 delivery of coking coal from Yakutia (Sakha Republic) to the Peninsula;
 construction of Trans-Korean railway with its possible connection to
 Trans-Siberian mainline.

Some of these areas of cooperation have been discussed on the highest political level and seem more realistic for implementation while others are less feasible.

Possible Projects for the Trilateral Cooperation

Laying of gas pipeline from Kovykta deposit in Irkutsk oblast abroad has been a long-term wish of Russian economic planners. Initially, this major project had China as the final destination but after the South Korean industrialists reportedly became interested in its implementation, it could possibly be laid through the territory of China and North Korea to Seoul or beyond. According to the calculations of KhERI, exploitation of Kovykta deposit and some smaller gas deposits in Eastern Russia could secure the volume of export up to 30 or 35 billion cubic meters annually [Minakir, 2002, p.58]. In such a case a considerable part of South Korea's demand could be met with delivery of relatively cheap natural gas from Russia. In his interview to South Korea's TV channels, President Putin estimated the volume of necessary investment in Kovykhta deposit as \$8 billion to \$9 billion [Strana.Ru., 26.01. 2001, online]. The major "drawback" of gas projects from the RFE, involving Korean companies, is the long term of their implementation. According to South Korean experts, the gas field development and construction of pipelines may take no less than 5 or 6 years and the gas can be supplied to Korea by 2008-2010 [Park and Lee, 2002, p.7,

online].

Broad reconstruction and modernization of the antiquated North Korean industry and infrastructure network is one more likely area of the possible Russian involvement. Surely, North Korea has no financial resources to invest in the reconstruction of its dilapidated industrial facilities. In the case of the nation's unification, Seoul will have to carry a tremendous burden while upgrading the North's economy. Soviet experts believe that in order not to make this burden excessive, the level of socioeconomic development of the North needs to be improved gradually. In this context, the Russian side being as the successor of the former Soviet economic machine familiar with the old Soviet technology could be the right partner to dispatch experts and equipment to Pyongyang. President Putin in summer of 2000 made it known that his country, in cooperation with Japan and South Korea, would be able to modernize about 70 DPRK's enterprises which were built with the help of the old USSR and which are presently idle [Ko, 2000, p.71]. For instance, modernization or reconstruction of such facilities as Kim Chak iron and steel works, oil refinery, accumulator plant, Rajin seaport, etc. are usually mentioned in this respect.

The trilateral cooperation in the building of new industrial facilities in the special economic zones apportioned by the Pyongyang government, seems to be less realistic unless the Russians can attract South Korea by their cheap raw materials or opportunities of marketing their products in Russia.

The development of the huge Tumen River Economic Development Area (TREDA), i.e. an international industrial zone at the meeting-point of the boundaries of North Korea, China, and Russia (with the participation of

Japan, the ROK and Mongolia), has been on the agenda of more than 20 formal and informal meetings since the early 1990s [Ha, 2002, p.401]. However, due to unsolved problems of attracting investment, North Korea's ambiguous position, contradictory interests of the parties to be involved, etc., no significant progress has so far been achieved. Russian researchers believe that the idea is not dead and that their country, being unable to invest its own funds into the project, will hardly lose the opportunity to offer its territory, manpower, and transport facilities if outside investors are eventually found.

Prospects of Linking Trans-Korean Railway and Trans-Siberian Mainline

The idea of reconstruction of the Trans-Korean railroad (TKR), dubbed as "the new Silk Road", and its linking with the Trans-Siberian mainline (TSR) seems to have recently overshadowed other possible projects of the trilateral cooperation. Allegedly, the decision to connect the divided nation by a railroad was a result of the historic visit of the ROK's President to Pyongyang in 2000. To put this project's inter-Korean importance aside, when (or if) the works on the territory of the both states are completed, South Korea will be directly connected up to united Eurasian railway network via Russia. Moscow has a keen interest in connecting the both railways. Briefly, the situation and the prospects, from the Russian standpoint, are as follows [for details see: Simonia, 2001 and Lee, Joo-Hee, 2002].

Russian authors argue that all the three parties could greatly benefit if the "new Silk Road" project is implemented. Economically, it is believed, the biggest winner would be the DPRK as it will get a free one-thousand-kilometers modern railway instead of its utterly dilapidated railroads.

Transit payments as a stable source of foreign currency is supposed to be the North's one more benefit. Anyway, the TKR-TSR linkage will greatly help the nation to enhance its shattered economy [Dubrovin, 2001, online].

South Korea's possible gains also seem to be obvious. Thus, it is envisaged that the time of delivery of the ROK's cargoes to Western Europe or European Russia will be reduced twice or more (up to two weeks) when the new surface way is in operation - compared with 1.5 months by sea [Dubrovin, 2001, online]. By the connection of Trans-Sib and Korean railways, transportation costs of Korean products bound for Europe or Russia will be reduced by more than 1/3. Russian observers reckon that the surface traffic of one TEU (20-foot equivalent container) would be cheaper by \$ 600.

Russia's gains depend on the route of the linking to be chosen. If the so called "western route" from Seoul to Sinuiju is finally chosen, trains from South Korea will go through China and then via Kazakhstan or Mongolia, the link with TSR being far away from the Russian Far East. If the "eastern route" prevails, South Korean (and Japanese) cargoes would be carried from Busan to Wonsan and Tumen River (economic zone Rajin-Sonbon), then will reach Khasan (in Russia's Maritime krai) from where the way to Europe will be open. Though both options involve the territory of Russia, the latter would secure much higher revenues from transit payments. Russian experts estimate that the repair of the 930-kilometer-long division from Khasan to the DMZ would take about 2 years and would require about \$ 250 million [Izvestia, 10 April 2000]. But according to Prime Minister M. Kasianov, the "eastern route" could bring Russia an annual income in the region of \$ 3 billion. This is an enormous sum, as at present the total

income from all transit traffic via Russia's territory does not exceed \$1 billion [Gazeta.Ru, 23 August 2002, online]. Meanwhile, by participating in the reconstruction of the North Korean railways, Russia could, at least partially, clear its debt to Seoul.

Supposedly, it was President Kim Jong Il himself who in the summer of 2001 proposed to decide on the route Busan-Wonsan-Khasan, along the eastern coast of the DPRK [Vorontsov, 2002, p.54]. Anyway, a year later, in Vladivostok, as Russian mass media informed, President Putin "nearly persuaded" Kim to embarking on the reconstruction of the DPRK's railways. Soon after the summit Pyongyang asked Russia to help in clearing the demilitarized zone on the 38th parallel of land mines. According to Japanese newspapers, since then both countries' workers (or troops) were carrying out repair work along their respective railroads, and by the start of 2003 completed de-mining the two sets of cross-border transportation corridors [The Japan Times, 29 January 2003, p. 4]. Moreover, North Korea's administration recognized the authority of the so called United Nations Command (UNC) over the transportation corridor linking the two Koreas along the eastern coast, lifting the final hurdle to the project.

Indisputable merits notwithstanding, the reconstruction of TKR with its subsequent linking to Trans-Sib carries serious risks, too. For the North Korean regime, the risk is of political character as the railroad linkage will lead to vigorous advance into the country by the two democratic nations - the ROK and the RF. Daily work of TKR-TSR "land bridge" could result in a gradual erosion of the DPRK's socioeconomic system.

South Korea companies can be worried by the ability of the North's authorities to observe agreements and secure the safety of cargoes bound

for Europe. Not every ROK's businessman will venture to test the new route. If in the early period of its operation there are several serious malfunctions on DMZ-Khasan division, the TKR-TSR reputation could be damaged for a long time ahead. However, the "western route" via China seems to be equally risky for South Korea exporters in this respect.

If South Korean trains start running from Busan to European countries, the turnover of goods in the Russian Far East's cargo sea ports, in all probability, will come down. President Putin, when asked about his opinion, told that if the RF does not embark on the construction of the new route, "our friends in China" will do it instead of us, and the income of Russian cargo seaports will be damaged anyway [Gazeta.Ru, 23 August 2002, online]. It is the peculiarities of North Korea's business practice that can cause real anxiety.

The Russian Federation has had an unhappy experience of the Baikal-Amur mainline (BAM) which is idle today because of lack of cargoes. In the case of TKR-TSR linking, it is South Korea who must guarantee permanent work for the railroad. But so far, there have been no agreements between Seoul and Pyongyang on cargo traffic. One cannot exclude that after Russia finishes reconstruction of the North's railway, Pyongyang will be dragging out its linking with the ROK's roads for an indefinite time, and South Korean exporters will continue using the traditional sea route. The result will be the same if the North, for political or other reasons, closes the Trans-Korean railroad. Russia's human and technology investment, in this case, would prove futile. G. Kunadze, Russia's former deputy foreign minister and former envoy to Seoul, appealing to the old precedent of China Eastern Railroad, has proposed to establish a joint Russian-North Korean company to govern the new railroad, or better entrust the control

over it to the Russian part altogether [Kunadze, 2002, online].

Conclusion

Trilateral economic cooperation on the territory of both Koreas and the Russian Far East could play an important political role as well. To bring various projects to life, it is necessary to put right relationships between both Koreas, to persuade South Korean industrialists to investing capitals in the construction works carried out under auspices of the DPRK's communist government. So, South Korea's funding and North Korea's goodwill and observance of agreements are integral parts of any attempts to get involved into inter-Korean economic relations. Unfortunately, not infrequent irresponsible moves by Pyongyang such as the ejection of U.N. nuclear inspectors, removing the seals from a nuclear reactor and pulling out of the Non-Proliferation Treaty (NPT) that have provoked a real international crisis in 2002-2003 may call at question any well-founded project on the Peninsula.

The Korean vector does not promise to be a smooth business for Russian companies. There are numerous problems that require an individual approach. Russian scholars believe that it is necessary to take into account specific features of the both countries, especially those of North Korea. Commercial organizations of the North are financially very weak and, in addition, totally dependent on the political leadership of the country. The Russian private companies should be prepared to confront cases when the North Koreans fail to fulfil their business commitments. In such cases, Russian business will constantly need political and diplomatic support on the part of the government in Moscow.

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