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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, seek economic and political cooperation. In these 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 to promote the goals set by the Six-Party Talks?

The second phase of North Korea's denuclearisation process is officially completed.

Under the deal with the People's Republic of China, Republic of Korea, Russia, Japan and the United States, in June 2008 Pyongyang filed a nuclear activity declaration and 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 People's Republic of Korea (DPRK) from the State Sponsors of Terrorism list and lifted the application of the Trading with the Enemy Act. All five members of the Six-Party Talks are now expected to deliver to North Korea almost a million tons of heavy fuel oil as compensation for lost energy production.



Cooling tower explodes at Yongbyon

The is that these actions will solve the North Korean nuclear dilemma by providing North Korea with the energy it will miss as a result of dismantling. Nevertheless, the third stage of North Korea's denuclearisation does not seem to be off to a smooth start. The DPRK Foreign Ministry complains that it has disabled 80 per cent of its main nuclear complex but has received only 40 per cent of the promised energy shipments. Pyongyang now threatens that it will only move on to the next phase of the denuclearisation 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 long been championing the motto of a “strong and prosperous nation”, is understandable. The January 2008 Joint Editorial promised that the government would focus on the economy. However, skyrocketing international prices on fuel and grain have already caused unprecedented hikes in food prices in North Korea. The previous year's crop was largely destroyed by the disastrous hurricane that, in combination with the closure of international aid agencies, 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 apparent progress on the international stage the North Korean leadership

is likely to face serious domestic problems.

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 lead to the collapse of its centrally planned economy. The country did, however, endure the “Arduous March” (better known abroad as the “Silent Famine”) which cost millions of North Korean lives. The leadership assumed that one meal per day would keep the majority of population weak but loyal, as long as the state machinery and military-industrial complex maintained an ample supply of energy. Fortunately for Pyongyang, the 1990s brought record low oil prices to which the secret of DPRK survival can be attributed.

Whether Kim Jong-il is able to rescue his nation again from looming catastrophe depends in part 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), one of the world's largest oil reserves (approx. 50-100 billion barrels), and produces 1 trillion kwh of electricity annually.

Recently, the sharp rise of oil and gas prices has enabled Moscow to utilise its energy reserves to achieve domestic and foreign policy goals. The nationalisation 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 decisions on the direction and length of new pipelines, high-voltage power lines, and railways, literally shaping a 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 becoming a 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?



In the long run, only Russia can provide access to affordable energy resources. In this light, relations between Russia and North Korea will become a key to solution of the regional security problem. But 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 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 affecting fundamental changes. 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 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 will 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. Three thousand tons of flour has already arrived from Russia. Generous humanitarian aid 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 USD per barrel and heading higher, the industrialised but impoverished DPRK economy is trapped.

Imports of crude and refined oil historically came from Russia or China at "friendly" prices. With the end of Cold War confrontation and 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-il to trade his precious 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 13 February 2007 promised 1 million tons of fuel oil to North Korea in exchange for its nuclear programs. However, this amount of oil 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 imports or to pay considerably more for fuel importation.

Currently, most of North Korea's oil is imported

from China. This is 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 for approximately 25 per cent of its total imports, and North Korea's trade deficit with China. [3] How much of this oil is sold and how much donated is a state secret, but given North Korea's poor economic standing it is clear that this trend cannot continue indefinitely without causing tensions in relations between Beijing and Pyongyang.

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

North Korea has little to expect from Japan. The Liberal Democratic Party of Japan sought to upset any accord with the Pyongyang which did not lead to the immediate return of surviving or

deceased Japanese citizens kidnapped by 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 normalisation 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 food and energy issues are ostensibly being addressed the denuclearised North Korea will be significantly weaker and more 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 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.

Russian 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 devalued 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 capitalisation and it will grow even stronger, many experts predict, as the industry is swiftly re-nationalised. "Russia's economy is about oil," explains Natalia Orlova, chief economist at Moscow-based Alfa-Bank. [6] In 2006, oil and gas were estimated to account for 65 percent of Russia's exports and 60 percent 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 USD, more than in the entire Euro zone. [7]



Russian oil and gas lines, 2007

Russia's energy holdings 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. However, the Kremlin and state bureaucracy promptly intervened, jailing the beleaguered oligarch and redirecting the pipeline 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 degree of autonomy, making the coordination of common goals for the region very difficult. [9] Thus, development projects that would benefit such provinces are in Moscow's interest. Still it was primarily the international policy factor that played the major role in influencing the final decision to direct the oil pipe on the Russian coast of the Pacific.

In a sideline meeting at the 2005 Asia-Pacific Economic Cooperation (APEC) forum in Busan, Russia's President Vladimir Putin met with then Japanese 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 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 would start after the launch of the first stage and, therefore, cannot be commissioned before 2015 or even 2017. In the meantime, oil will be delivered to consumers by railway.

Russia's natural resources have already become a crucial factor for regional economic development. Along with access to Siberian oil, China and Japan are vying for Russian natural gas. 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" – testifies 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 a suitable price, which until now has stopped 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 neighbours also suggests that any cooperation between Russia and North Korea will be based on a purely economic factors. Deputy Director of the Russian 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 the 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 in lieu of a pipeline transit fee. [14]

Nevertheless, despite enthusiasm for the idea, it seemed clear that running a pipeline through an impoverished and rapidly nuclearizing North Korea was risky. 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. 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 (West Sea) to South Korea; Pyeongtaek. 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 Gazprom took control over this project in 2005, it started changing the terms 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 liquefied natural gas in South Korea (only 13 percent of energy consumption) were blamed for the failure of this project. [16]

The prospects for the export of Russian electric 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 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 the 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 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 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 lieu 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] The tense international atmosphere surrounding North Korea's nuclear ambitions continues to adversely affect the prospects of Russian energy supply 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 the DPRK have been improving. The DPRK's importation of refined oil from Russia saw its first increase in 2002-2003 (from \$20 million to \$96 million) and was caused by the beginning of US-DPRK nuclear confrontation and the subsequent demise of the 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 their first results, oil products dominated Russia's exports to the DPRK with 63 percent. The rampant corruption in both countries also let a trickle of Russian oil to be smuggled to North Korea. [18]

In 2006, Russia was the DPRK's third largest trade partner after China and South Korea, accounting for 9 percent of the \$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 curtailment of trade with the North. At the time of North Korea's nuclear test in October 2006, Russia's statistics showed that petroleum exports had dropped 91.1 percent from 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 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 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, specialising 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 assembled the heavier North Korea's dependence on imported fuel, engine oils and other petrochemical products.

The importance of DPRK's the Rajin-Seonbong Special Economic Zone to Russia's national

interests continues to grow. The state-run monopoly OAO Russian Railways is currently upgrading its connections with North Korea in Khasan-Tumangang, investing at least 1.75 billion roubles (\$72 million) in the 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 could be sent via its territory to Central Asian and European markets. Pyongyang seems to endorse these plans and other Russian initiatives but has not committed any financial resources. [21]

Eighty percent 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 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 oil has to be obtained through a chain of federal bureaucratic structures from the oil-rich areas of Eastern Siberia. Instead of money, the local governments agree to receive the labour of North Korean workers.

North Korean labourers 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 labourers, of whom North Korean labourers 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 started paying for oil imported from Russia by dispatching thousands of labourers. Following strong demand from local companies, in 2006 regional authorities of Primorsky Krai agreed to issue 5,000 more working visas to North Koreans. [22] This openness is in contrast to local government policy that normally restricts the entry of labour from China.

DPRK citizens are sent to Russia work as woodcutters and builders but some have also found work in the agricultural and marine industry. 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 curb these programs due to the complexity of the matter, including the refugee issue.

Among the most difficult but negotiable issues in the way of Russia-North Korea cooperation is the problem of external debt. During the Soviet era

the DPRK incurred a 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 the Republic of Korea, Moscow received a \$3 billion three-year loan from Seoul. 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 toward the 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 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 open the way to broader cooperation between Russia and the two Koreas, and simplify Russia's energy cooperation with China and Japan.

Conclusions

In the 1990s, the DPRK leadership must have hoped that Russia's assistance would help restore their economy as it had in Soviet times. However, the new market economy in Russia provides little room for Soviet-type sponsorship, leaving North Korea in an energy and transportation crisis. [24] Lack of interest from 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 important roles 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 exports labour and agricultural goods and the latter exports electrical energy, oil, and raw materials.

As it was in the last century, rail remains a symbol of Russia's power in the region. By extending its transportation network and pipeline infrastructure, 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 and economic reasoning, not ideological considerations.

For communist North Korea, whose reclusive leadership is bogged down 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 the leadership in Pyongyang. The risks are too high to start any other major capital investment without a significant change in the regime's attitude.

Indeed, the potential of a reformed North Korea in the newly emerging map of economic interests could 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-il might create conditions for socio-economic revitalisation of the North that will be a positive contribution to the eventual unification of the Korean peninsula.

Moscow is learning lessons too. Russian strategists already realise that North Korea might play an important role as a regional balancer if it managed to reconcile with its ideological enemies and rivals. The contiguous powers would probably accept this as long as the balancer is genuinely neutral and independent. Such a pivotal role would perfectly satisfy the ambitious DPRK that already claims as a 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 moved toward 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 labour, and South Korean capital and technology. The objectives of this policy – to revive and modernise 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 an economically integrated system in Northeast Asia.

In this light, Russian-Korean relations can be seen as replete with opportunities that can benefit each of them. The new administrations in the Kremlin and Seoul's "Blue House", together with a new generation of leaders in Pyongyang, can radically change the political climate in the region. A strengthening of economic relationships between the three countries could

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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Notes

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