
Roadblock Removed—The Issue of North Korean Debt to Russia Settled



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Recommended Citation

Georgy Toloraya, "Roadblock Removed—The Issue of North Korean Debt to Russia Settled", NAPSNet Policy Forum, June 29, 2012, <https://nautilus.org/napsnet/napsnet-policy-forum/roadblock-removed-the-issue-of-north-korean-debt-to-russia-settled/>

by Georgy Toloraya

June 29, 2012

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CONTENTS

- [I. Introduction](#)
- [II. Article by Georgy Toloraya](#)
- [III. Nautilus invites your responses](#)

I. Introduction

Georgy Toloraya considers the implications of Russia's recent decision to forgive 90% North Korea's 11 billion dollar debt (USD). According to reports, the remainder will be transferred to the Russian Vnesheconom bank account at the North Korean Bank of Foreign Trade, to be used for projects that will promote the development of educational and health care systems and the energy industry. Toloraya notes that the absence of the debt problem will make financial arrangements for future projects, like the proposed gas pipeline, easier, but that the fate of such projects now depends on Seoul's position, not on Pyongyang's credit rating.

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II. Article

"Roadblock Removed—The Issue of North Korean Debt to Russia Settled" by Georgy Toloraya

The Russian Ministry of Finance in June announced that the Russian-North Korean negotiations for the repayment of North Korean debts had resulted in the signing of a joint protocol in Pyongyang (to be approved by the government), which will finalize negotiations that have continued for many years. This is a major milestone for bilateral relations, but not for any possible breakthrough in economic reforms or political settlement. The North Korean debt, which stood at about 5 billion rubles by the time its servicing was stopped in 1990 when the bilateral payments were transferred to hard currency base, now totals (with accrued interest) about US\$11 billion. This debt was accumulated as a result of loans the Soviet Union granted the DPRK for industrial projects and military supplies, as well as to finance the trade imbalance.

After the break-up of the USSR, North Koreans at first declined to recognize the debt, explaining that was a sort of Soviet investment into "protecting the Eastern flank of the Socialist system". Only in the course of President Putin's first meeting with Kim Jong Il in 2000 was the problem acknowledged. Later negotiations resulted in Russia proposing much of the same terms as was the case with other former socialist countries, which were required to make minimal payments. However, the DPRK's position was not to pay a penny in cash. Russian negotiators were not insistent either, realizing that little to no money or meaningful resources could be gotten from the impoverished neighbor. Furthermore, the settlement of the debt would give the DPRK a formal right to ask for new credits (such as the construction of nuclear power plant in accordance with a still valid agreement, which was signed in 1985). The political effect of such a solution was not taken into much account in the Finance ministry of the Russian government.

The negotiations were given a new boost after Kim Jong Il and President Medvedev's meeting in August 2011. It was a painfully slow process, but finally a solution was found. Likely, it has something to do with North Korea's desire to establish an alternative to their increasing economic and political dependence on China, by making a welcome gesture to Russia. According to reports, 90% of the debt is to be written off (this is more favorable terms than in was the case with some other debtor countries), while the remainder will be transferred to the Russian Vnesheconom bank account, which is opened at the North Korean Bank of Foreign Trade, to be used for the projects that will promote the development of education, health care systems and the energy industry. It should be noted, that although such projects would be technically considered to be Russian direct investment, in fact, North Korea will play a decisive role in determining these projects and their sequence - while the actual financing would depend on availability of North Korean money in the bank.

However, while this is an important measure to remove the roadblock impeding Russia-North Korean economic relations, I do not expect any significant moves soon afterwards, given the economic crisis in the DPRK and the reluctance of Russian investors to venture into a country sanctioned by international rules. Had this agreement been reached earlier while the 6-party talks

were underway, Russia could have received considerable diplomatic benefits by demonstrating through example how to successfully engage North Korea. Now it is only a part of the efforts by Moscow to normalize relations with Pyongyang and to have more leverage in Korean affairs in the wake of the break-up of multilateral diplomatic process. The absence of the debt problem will of course make the financial arrangements for future projects, like gas pipeline construction, easier, but the fate of such projects now depends on Seoul's position, not on Pyongyang's credit rating.

IV. Nautilus invites your responses

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