

## North Korea-Russia Relations: A Strained Friendship

### I. OVERVIEW

North Korea's relations with Russia have been marked by unrealistic expectations and frequent disappointments but common interests have prevented a rupture. The neighbours' history as dissatisfied allies goes back to the founding of the Democratic People's Republic of Korea (DPRK) with Soviet support and the Red Army's installation of Kim Il-sung as leader. However, the Soviets were soon written out of the North's official ideology. The Sino-Soviet split established a pattern of Kim playing Russian and Chinese leaders off against each other to extract concessions, including the nuclear equipment and technology at the heart of the current crisis. Since Vladimir Putin visited Pyongyang in 2000, diplomatic initiatives have come undone and grandiose economic projects have faltered. Russia is arguably the least effective participant in the six-party nuclear talks.

The relationship between Putin's Russia and Kim Jong-il's North Korea has disappointed both sides. Putin has mostly been unable to assert himself as a prominent player in North East Asia, and North Korea has received neither the unalloyed political support nor the economic backing it seeks. Russia has more influence in the region than it did in the 1990s but not enough to change the equation on the Korean peninsula. Opportunities for economic cooperation have been limited, mostly by Pyongyang's refusal to open its economy but also by Russia's fixation on overly ambitious schemes that at best may take decades to realise. China's more nimble investors have moved in much faster than Russia's state-owned behemoths.

Moscow has been conservative in its political dealings with Pyongyang, playing a minor but thus far positive role at the six-party talks consistent with its concerns about proliferation and the risks of DPRK collapse. It regards the denuclearisation of the peninsula as in its interests, has relatively few commercial opportunities in the North and considers its relations with the other nations in the exercise more important in every way than its ties to Pyongyang.

While Russia has shown interest in building energy and transport links through the North, little progress has been made. Rebuilding railways on the peninsula will cost enormous sums, and overcoming the many obstacles will require years of negotiation. Investments have been hindered by the North's unreliability and history of default

on loans. Russia may eventually have to forgive billions of dollars of debt the North cannot repay. Energy is a major mutual interest but pipelines across the North are unlikely to be built soon; Japan and China are expected to be the main markets for Russian energy, while South Korea is reluctant to become dependent on the North for its supply.

Pyongyang wants Russia to balance China's growing influence but appears to recognise that Moscow will never provide the level of support it once did. The North has been keen to discuss economic cooperation but has lacked the political will to reform its economy sufficiently for foreign investment, even from a country as inured to corruption and government interference as Russia. It is equally interested in technical and scientific aid. Russian technology, equipment and "know-how" have featured prominently in the history of both Koreas, and Pyongyang still seeks to resolve its economic problems by scientific and technical solutions. But there is unlikely to be much growth in bilateral cooperation unless the nuclear crisis is resolved peacefully, and the North opens its economy.

This briefing completes Crisis Group's series on the relationships between North Korea and those of its neighbours – China, South Korea, Japan and Russia – involved in the six-party nuclear talks. It examines Russia's aims and ambitions in the region, as well as the responses from North Korea, and is based on both interviews in Russia, Central Asia and South Korea, and analysis of Russian and North Korean statements.

### II. INTRODUCTION

The obvious challenges in trying to understand the doctrines, strategies and intentions of closed systems are compounded when analysing especially the early period of Soviet-DPRK ties, two of the most repressive and reclusive regimes in modern times. However, by charting the history of relations and evaluating the types of cooperation, it is possible to make some sense of the bilateral relationship.<sup>1</sup>

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<sup>1</sup> For earlier Crisis Group reporting on North Korea's relations with other neighbours involved in the six-party nuclear talks, see Crisis Group Asia Reports N°112, *China and North Korea*:

Over six decades the Russia-North Korea relationship has often changed dramatically. Despite many political, military and ideological similarities, Moscow has viewed Pyongyang with suspicion since the Soviet occupation following World War II, primarily due to the cult of personality that developed around Kim Il-sung, who led the North until his death in 1994. North Korea's brand of socialism and its unilateralism in foreign affairs also have been irritants.<sup>2</sup> At various times, major shifts in Russian policy and politics have stimulated the North's mistrust, including the Sino-Soviet split, the September 1990 recognition of South Korea (the Republic of Korea, ROK) and the Soviet Union's dissolution. Yet, Moscow was responsible for creating the North Korean state in 1948 and financially supporting it throughout the Cold War.<sup>3</sup> It transferred technology to the DPRK for development of conventional arms, weapons of mass destruction and ballistic missiles. Despite periods of intense hostility, Pyongyang has remained an ally, repeatedly entering into and reaffirming treaties of friendship and support.

The two countries share only twelve miles of border but their histories have intersected significantly since the close of the nineteenth century. In 1905, Japan defeated Russia in a war over influence in Korea and East Asia. The Soviet Union was allied with the U.S. during World War II but only joined the Pacific campaign against Japan in the last days of the conflict. As the Japanese empire collapsed in August 1945, Korean independence appeared to have been realised. However, the Soviet Union and the United States agreed to establish separate zones on each side of the 38th parallel to manage the surrender of Japanese forces on the peninsula, and they eventually supported the establishment of separate states in 1948.<sup>4</sup>

The Soviets began imposing their ideas on the North, setting up a regime in their own image.<sup>5</sup> Korean

nationalists, struggling with Japanese colonial rule, had formed communist cells in 1918 and established close contacts with Russian Bolsheviks in the 1920s.<sup>6</sup> After liberation and national division, Moscow discouraged political or economic ties between Koreans in the North and South and over domestic objections established a branch of the Communist Party in October 1945, installing Kim Il-sung as chairman.

During World War II, Kim had served as an officer in a multinational unit of the Soviet army near Khabarovsk.<sup>7</sup> He had led a small group of insurgents but was forced to flee to Siberia due to Japanese operations that eliminated most Korean guerrilla leaders. Kim was only one of several factional leaders vying for power in the North but his reputation as a guerrilla commander was key in establishing his nationalist credentials after he returned to Korea in October 1945.<sup>8</sup> He was an early and vocal advocate for setting up the Korean Communist Party but other Koreans had led the domestic communist movement before his return. His first son, Kim Jong-il, was born in Russia near Khabarovsk in February 1942.<sup>9</sup> The high point of early Soviet influence came with the founding of the Democratic People's Republic of Korea in 1948.<sup>10</sup>

By the end of 1949, Kim was determined to unify Korea by force, reporting to Moscow that the southern part of the peninsula was "ready for revolution". Stalin eventually gave his blessing to the invasion, excluding the Chinese from the final decision.<sup>11</sup> The Soviet leader sought to keep the U.S. and China tied up in the war as long as possible.<sup>12</sup>

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Szalontai, *Kim Il-sung in the Khrushchev Era: Soviet-DPRK Relations and the Roots of North Korean Despotism, 1953-1964* (Palo Alto, 2006); and Charles Armstrong, *The North Korean Revolution: 1945-1950* (Ithaca, 2004).

<sup>6</sup> Chong-Sik Lee and Robert Scalapino, *Communism in Korea*, vols. 1 and 2 (Berkeley, 1972); and Armstrong, *The North Korean Revolution*, op. cit.

<sup>7</sup> Szalontai, *Kim Il-sung in the Khrushchev Era*, op. cit.; Dae-sook Suh, *Kim Il Sung: The North Korea Leader* (New York, 1995); Stueck, *The Korean War*, op. cit.

<sup>8</sup> Crisis Group email interview, Andrei Lankov, Seoul, 27 June 2007.

<sup>9</sup> Kim Jong-il was given a Russian nickname, "Yura"; Russian is the only foreign language he speaks, although diplomats give different assessments of his fluency, Crisis Group interviews, Moscow, June and July 2007.

<sup>10</sup> During the first year of Soviet occupation, Stalin ordered the arrest of activist and popular leader Cho Man-sik in the north; when the Soviet 25th Army pulled out late that year, it handed over all weaponry to the Korean People's Army (KPA), along with seized Japanese armaments. Sergei Goncharov, John Lewis, Xue Litai, *Uncertain Partners: Stalin, Mao, and the Korean War* (Palo Alto, 1993).

<sup>11</sup> Ibid.

<sup>12</sup> Conversation between Stalin and Zhou Enlai, 19 September 1952, "Cold War International History Project, North Korea in

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*Comrades Forever?* 1 February 2006; N°100, *Japan and North Korea: Bones of Contention*, 27 June 2005; N°89, *Korea Backgrounder: How the South Views its Brother from Another Planet*, 14 December 2004.

<sup>2</sup> For example, Moscow was particularly displeased by the 1968 seizure of the U.S. Navy's *Pueblo* spy ship without consultation.

<sup>3</sup> The economic relationship resulted in a continuous loss throughout the Cold War but endured for political and security reasons.

<sup>4</sup> Considerable scholarship suggests that Josef Stalin's initial ambivalence towards U.S. recommendations on partitioning Korea during conferences at Tehran, Yalta and Potsdam was not lack of interest but an effort to hide Soviet intentions on the peninsula. For discussion of post-war diplomacy, see William Stueck, *The Korean War: An International History* (Princeton, 1995).

<sup>5</sup> Andrei Lankov, *From Stalin to Kim Il Sung: The Formation of North Korea 1945-1960* (New Brunswick, 2002); Balazs

The conflict, from June 1950 to July 1953, reshaped the North's relations with Russia and China and cemented Korean division.<sup>13</sup> After Stalin's death on 5 March 1953, the Soviets changed their view and began to seek an end to hostilities.<sup>14</sup> An armistice was signed on 27 July 1953, after nearly three million Koreans – a tenth of the population – had been killed, wounded, or gone missing.<sup>15</sup>

During the next five decades, bilateral relations ran hot and cold as national interests diverged on important issues. The Soviet Cold War priority was to maintain power and prestige by supporting allies and resisting the West. Russia's national interests are similar in many ways today, as Moscow seeks influence and respect, while deploying new techniques, such as use of energy resources, to achieve its diplomatic objectives. North Korea's main goals have been constant since 1948: removal of U.S. troops from the peninsula and unification of the country under terms favourable to Pyongyang.<sup>16</sup> But neither country sees the other as a means to realise its own primary goals. Both would rather deal with Washington than each other. Nevertheless, their bilateral relationship has a direct impact on regional and global security and economic cooperation because it affects North Korea's proliferation behaviour.

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the Cold War", Woodrow Wilson International Center for Scholars; and Evgueni Bajanov, "A Russian Perspective on Korean Peace and Security", The Nautilus Institute, 30 July 1997.

<sup>13</sup> At the start of the war, Stalin warned Kim that "if you should get kicked in the teeth, I shall not lift a finger. You have to ask Mao for help". Kim did just that, and in October 1950 Mao's sent an army across the Yalu River; China eventually suffered more than a million casualties. "Cold War International History Project, North Korea in the Cold War", Woodrow Wilson International Center for Scholars, op. cit.; and Crisis Group Report, *China and North Korea*, op. cit.

<sup>14</sup> "Council of Ministers USSR Resolution of 19 March 1953, No. 858-372cc, Moscow, Kremlin", in "Cold War International History Project", Bulletin, issues 6-7, Washington DC, Woodrow Wilson International Center for Scholars (winter 1995/1996), pp. 80-82.

<sup>15</sup> According to the U.S. government, there have been nearly 1,500 major provocations and De-Militarised Zone (DMZ) violations since 1953, with 90 American, over 390 South Korean and 889 North Korean soldiers killed, "Korea Story Brief, KSB", United States Forces Korea Headquarters, briefing slides with scripted commentary, 27 September 2004.

<sup>16</sup> Pyongyang may understand "peaceful unification", differently from Seoul or Washington. The Swedish ambassador to the North recalls the 1975 statement of an official during a banquet congratulating North Vietnam "on achieving the peaceful unification of Vietnam", Erik Cornell, *North Korea under Communism: Report of an Envoy to Paradise* (Oxford, 2002).

### III. POLITICAL ISSUES

The communist ideologies of the Soviet Union and the DPRK diverged in the 1950s, as North Korean socialism, militarism, and *juche* (self-reliance) ideology formed a unique state system.<sup>17</sup> The differences were wide enough to affect foreign policy, as in 1956 when Moscow announced its desire for peaceful coexistence with the West. In the same year, it sent emissaries to Pyongyang to persuade Kim Il-sung to give up power – an episode known as the August Plot. Kim interpreted Moscow's ideological adjustments as weakness and he responded to Soviet pressure by purging rivals aligned with either Moscow or Beijing. The ideological rift also gave Kim further impetus to transform the North from a Soviet satellite into a more independent nation. He aligned it with some Chinese ideological positions in the 1960s but avoided joining Mao Zedong's Cultural Revolution, gave rhetorical support to the Soviets on many international issues and tried to maintain equidistance between his two communist neighbours.<sup>18</sup>

As Khrushchev began de-Stalinisation in 1956, Kim feared a similar development at home. He was further disappointed with what he saw as Moscow's weakness during the 1962 Cuban missile crisis.<sup>19</sup> From December 1962 to 1965, Soviet economic and military aid was suspended.<sup>20</sup> Kim refused to join the Comecon economic grouping and chafed against restrictions on arms transfers. The Sino-Soviet split gave Pyongyang an opportunity to manipulate its neighbours to maximum benefit. Economic aid again became available from both but politically North Korea had broken free of Soviet dominance. Despite being distrustful of Kim Il-sung and his *juche* doctrine, Moscow still considered the North a strategic ally.<sup>21</sup>

Mikhail Gorbachev's rise in 1985 was profoundly unsettling for Pyongyang. Moscow's attention shifted to improving ties with the West and reducing the burden of communist allies such as North Korea. Nevertheless, weapons continued to come in pursuant to earlier commitments, and relations even warmed briefly after Kim's two visits

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<sup>17</sup> When Kim Il-sung announced the *juche* ideology and proclaimed partial independence from Soviet influence on 28 December 1955, Soviet leaders paid little attention. Pyung-Kyun Woo, "The Studies on North Korea-Russia Relations: Accomplishments and Remaining Tasks", *East Asian Review*, fall 2005.

<sup>18</sup> J.M. Ha, "The Soviet Perception of North Korea", *Asian Perspective*, vol. 6, no. 3 (1982).

<sup>19</sup> James Minnich, *North Korea's People's Army: Origins and Current Tactics* (Annapolis, 2005).

<sup>20</sup> Joseph Bermudez, *The Armed Forces of North Korea* (London, 2001).

<sup>21</sup> Bajanov, "A Russian Perspective", op. cit.

to Moscow in the mid-1980s. Between 1988 and 1990, the North requested an additional \$15 to \$20 billion in sophisticated military hardware but was turned down.<sup>22</sup>

Relations changed fundamentally with the end of the Cold War, as North Korea could no longer expect previous aid levels. Matters worsened quickly with Moscow's recognition of Seoul in 1990 and deteriorated further when the North showed support for the August 1991 coup attempt in Moscow. Tensions continued throughout the Yeltsin period.<sup>23</sup> In the early 1990s, as the Russian foreign policy community debated their country's direction, the "Atlanticists" stressed closer ties with the West, while the "Eurasianists" insisted Russia could thrive best by improving relations with the booming Pacific Rim and Middle East.<sup>24</sup> Until 1996 Yeltsin's government pursued an Atlantic agenda and global integration policies associated with figures such as Foreign Minister Andrei Kozyrev. However, the Russian leadership's disappointment with what it considered a lack of reciprocal good-will and aid from the West and a perceived second-class international status resulted in a shift towards the Eurasianist camp.<sup>25</sup>

For Yeltsin, Russia's economic and social needs trumped any ideological considerations, and from 1996 his government strove to balance its ties with North and South Korea.<sup>26</sup> However, the Russian president was wary about dealing with the erratic North Korean regime.<sup>27</sup> In April 1996 the two sides agreed to restore trade and economic cooperation to 1991 levels and to resume intergovernmental commissions and working groups on cooperation in

science and technology, forestry, light industry and transportation.<sup>28</sup> Ties generally improved in the second half of the 1990s, as evidenced by agreements ranging from cultural exchanges to regular contact between the foreign ministries and parliaments. Nevertheless, Moscow's Korea policy decidedly favoured Seoul, as Pyongyang refused to compromise its totalitarian system.

In July 2000, Vladimir Putin became the first Russian leader to visit North Korea, marking the start of a new period in relations.<sup>29</sup> He did not share Yeltsin's view that the North was about to collapse, and he signed an agreement with Kim Jong-il in Pyongyang on economic cooperation.<sup>30</sup> The trip was apparently intended to show the West that Russia was turning back to its traditional spheres of influence.<sup>31</sup> Kim Jong-il reciprocated with visits to Russia in 2001 and 2002. In only two years, the countries had normalised relations, held two summits, reestablished cooperation in several areas, signed a Treaty of Friendship and intensified personal contacts between senior officials.<sup>32</sup>

Russia and North Korea found themselves coming closer together at the start of the new millennium for several reasons. First, the political and economic disappointments of the Yeltsin years taught Moscow to look to its own region for allies. Secondly, Putin wanted Russia's strength restored and image improved. He and Kim appear to share a number of governance beliefs, including strong rule from above. Thirdly, even though the U.S. is crucial to both separately, Pyongyang and Moscow will benefit

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<sup>22</sup> Seung-ho Joo and Tae-Hwan Kwak, "Military Relations between Russia and North Korea," *The Journal of East Asian Affairs*, fall/winter 2001.

<sup>23</sup> When Gorbachev came to power in 1985, Russian-DPRK relations were improving, and the potential for cooperation seemed high. However, the new leader's intentions and initiatives frightened Kim Il-sung and resulted in eventual discord.

<sup>24</sup> Alexander Rahr, "Atlanticists' versus 'Eurasians' in Russian Foreign Policy", RFE/RL Research Report, vol. 1, no. 22 (1992); Alexei Arbatov, "Russia's Foreign Policy Alternatives", *International Security*, vol. 18, no. 2 (fall 1993); and Seung-Ho Joo, "Russia and North Korea, 1992-2006: From Distant Allies to Normal Neighbours", *Korea Observer*, vol. 38, no. 1 (spring 2007).

<sup>25</sup> The change to more "balanced" diplomacy was marked in January 1996 by Yevgeni Primakov, director of Russia's foreign intelligence service since 1991, becoming foreign minister, Alessandra Stanley, "Russian Diplomacy Gets a Wily Spy and Survivor", *The New York Times*, 21 March 1996; and Alessandra Stanley, "Russian Spy Chief Named Foreign Minister", *The New York Times*, 10 January 1996.

<sup>26</sup> Leszek Buszinski, "Russia and the Asia-Pacific Region", *Pacific Affairs*, vol. 65, no. 4 (winter 1992-1993).

<sup>27</sup> Yeltsin did not send condolences after Kim Il-sung's death in 1994, Eugene Bazhanov and Natasha Bazhanov, "The Evolution of Russian-Korea Relations", *Asian Survey*, vol. 34, no. 9 (1994).

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<sup>28</sup> Though the agreement was unrealistic, given both countries' depressed conditions and the North's inability to repay debts, it heralded a new period of high-level dialogue. Seung-Ho Joo, "Russia and North Korea, 1992-2006", in Hyuk-Rae Kim (ed.), *Korean Studies Forum*, vol. 2 (Seoul, 2007).

<sup>29</sup> Crisis Group interview, Alexander Nikitin, Russian Political Science Association, Moscow, 12 December 2005.

<sup>30</sup> Alexandre Y. Mansourov, "Russian-North Korean Relations in the 2000s and Prospects for Multilateral Conflict Resolution on the Korean Peninsula", at "Towards a Peaceful Resolution with North Korea: Crafting a New International Engagement Framework", Korea Institute for International Economic Policy, the Korea Economic Institute, Washington, 12-13 February 2004.

<sup>31</sup> Yoshinori Takeda, "Putin's Foreign Policy towards North Korea", *International Relations of the Asia-Pacific*, March 2006. Moscow was dissatisfied with South Korea, which had not delivered promised investments. Between 1991 and 2000, it invested only \$161 million in Russia. The security establishment which had returned to power in Moscow believed Russia's "strategic ally" in the North had been "betrayed for the sake of futile and senseless economic contacts" with the South. Sergei Borisov, "Facing East," *Transitions*, 14 April 1995; Yoichi Funabashi, *The Peninsula Question: A Chronicle of the Second Korean Nuclear Crisis* (Washington DC, 2007).

<sup>32</sup> Unlike the 1961 treaty, it lacked an automatic defence obligation, and Moscow conditioned aid on debt repayment.

if Washington loses influence in the region. Fourthly, trilateral economic cooperation between Russia, North Korea and South Korea (proposed by Moscow) is of growing interest to all. Moscow and Pyongyang may never again concur ideologically but they have shown levels of pragmatism in recent years that suggest mutual conviction in the benefits of political and diplomatic cooperation.

#### IV. MILITARY ISSUES

The Korean People's Army (KPA) is the fourth largest military in the world, behind those of China, the U.S. and India.<sup>33</sup> Soviet weapons, training and general assistance enabled the North to launch a surprise attack on the South in June 1950. Between 1948 and 1950 the KPA grew to 150,000 to 200,000 personnel, with such weapon systems as T-34 tanks and Yak fighter aircraft. By 1950 it was organised into ten infantry divisions, one tank division with 280 tanks and one air force division with 210 fighter planes.<sup>34</sup> Its early tactical success against the unprepared and outnumbered South Korean army in 1950 was dramatic but the UN intervention, spearheaded by the U.S., thwarted the attempt to unify the peninsula by force.

Just as Kim Il-sung sought to distance North Korea politically and ideologically from the Soviet Union in the years following that war, he also made considerable efforts to create an independent military. Until 1953, the KPA was modelled after the Soviet military, with civilian and military leaders working closely together. Beginning in that year, Kim purged scores of officers and civilians to consolidate his power over the army and the Korean Workers Party (KWP).<sup>35</sup> This led to an ideological, hyper-militaristic and distinctly North Korean military model that was strongly influenced by the guerrilla experiences

of Kim and his partisan comrades.<sup>36</sup> As in other areas of North Korean society, doctrine is inflexible, characterised by top-down decision-making and distrustful of operational flexibility and initiative.<sup>37</sup>

While the Soviet (and Chinese) models were the basis for the KPA's establishment, Pyongyang learned early not to depend wholly on others for military assistance. The desire for self-sufficiency dictated that all aspects, from operations to research and arms production, should be domestic.<sup>38</sup> Between 1951 and December 1962, the KPA followed Soviet conventional warfare doctrine (and enjoyed full Soviet support); subsequently, it began to concentrate on a "people's war" doctrine that assumed enthusiastic help could not be expected from Moscow.<sup>39</sup> While the Soviet military continued to influence North Korean strategic thinking throughout the Cold War, the end of the Soviet Union meant any further support would increasingly be decided by commercial considerations, not ideological or political sympathies. In an international environment where its prosperity is closely linked to regional stability, Moscow is likely to limit its arms sales and technical aid, and favour a non-proliferation agenda.<sup>40</sup>

<sup>33</sup> North Korea is believed to have the most numerous Special Forces, "Military Balance Sheet 2005-2006", International Institute for Strategic Studies, 2006.

<sup>34</sup> Hundreds of Soviet advisers trained the KPA for more than two years; arms were generously supplied. Each division had twelve 122mm howitzers, twenty-four 76mm guns, and twelve 45mm antitank guns. Soviet-supplied tanks were a major asset during the early part of the Korean War. The 105th Armoured Division had 120 modern T-34 main battle tanks. Major Richard Mills, "Assume the Best: The North Korean Campaign of 1950", [www.globalsecurity.org/military/library/report/1990/MRP.htm](http://www.globalsecurity.org/military/library/report/1990/MRP.htm); and Andrew Scobell and John Sanford, *North Korea's Military Threat: Pyongyang's Conventional Forces, Weapons of Mass Destruction, and Ballistic Missiles* (Carlisle, 2007).

<sup>35</sup> This caused the military to resemble more nearly the Chinese model, William LeoGrande and Amos Perlmutter, "The Party in Uniform: Toward a Theory of Civil-Military Relations in Communist Political Systems", *American Political Science Review*, vol. 76, no. 4 (December 1982).

<sup>36</sup> Adrian Buzo, *The Guerrilla Dynasty* (London, 1999).

<sup>37</sup> Control rather than command comes first in DPRK military doctrine, Scobell and Sanford, *North Korea's Military Threat*, op. cit.; and "North Korea's Weapons Programs", International Institute for Strategic Studies, 2005. While the Soviet Union gave considerable military aid, there were fundamental contradictions between Soviet and North Korean conceptions of warfare, for example, the KPA's emphasis on infantry vs. Soviet mechanised doctrine, James Minnich, *North Korea's People's Army*, op. cit.

<sup>38</sup> Of course, total self-sufficiency was unachievable; North Korea has benefited from external support in all periods of its history.

<sup>39</sup> The first time the Soviet Union suspended all military and economic aid to North Korea was in 1962. By 1989, Pyongyang had stockpiled in hardened facilities some 990,000 tons of ammunition (sufficient for four months of combat), as well as extensive quantities of food, petroleum, oil, and lubricants. "North Korea Special Weapons Guide: Doctrine", Federation of American Scientists, 3 March 2000, at [www.fas.org/nuke/guide/dprk/doctrine/index.html](http://www.fas.org/nuke/guide/dprk/doctrine/index.html). Guerrilla warfare, a feature of people's war, became increasingly important in the North's military doctrine. Four military tenets espoused by Kim Il-sung are: arm the entire population; fortify the whole country; train the entire army as a "cadre army"; and modernise weapons, doctrine and tactics in line with *juche* principles. Joseph S. Bermudez, *The Armed Forces of North Korea* (New York, 2001), p. 9; and 장명순, *북한군사연구* [Chang Myōng-sun, *Research on the North Korean Military*] (Seoul, 1999), pp. 126-130.

<sup>40</sup> Russia is also legally limited in its arms shipments and material support by UN Security Council Resolutions 1695 and 1718, which were passed in response to the DPRK ballistic missile exercise in July 2006 and nuclear test in October 2006, UNSC S/RES/1695, 15 July 2006; and UNSC S/RES/1718, 14 October 2006.

## A. CONVENTIONAL ARMS

Soviet World War II experience influenced the KPA's early years, resulting in the transfer of medium and light tanks. Pyongyang now produces tanks domestically, as well as a wide range of former Soviet anti-tank guns,<sup>41</sup> but its pace of research, development and upgrades is slow, so Soviet influence is still evident in outdated systems.

Again with Soviet Cold War help, the navy is one of the world's largest, with between 600 and 800 surface ships and 88 submarines, the latter the world's biggest underwater fleet.<sup>42</sup> Its attack submarine inventory includes several Soviet WHISKEY Class boats.<sup>43</sup> More than half the personnel landing craft are based on the former Soviet P-6 torpedo boat hull. The naval mine inventory is significant, with more than 2,000, mostly early generation Soviet contact and magnetic mines. In recent years, Pyongyang may have sought advanced mines from Eastern Europe, China or Russia.<sup>44</sup>

The Soviets assisted the air force in equipment and training. The DPRK, which does not produce its own aircraft, has significant numbers of Soviet and Chinese light bombers and fighters from the 1950s and 1960s, including the Il-28, Su-7, MiG-15, MiG-17, MiG-19, and MiG-21. In the 1980s the Soviets supplied more modern, all-weather air defence and ground attack aircraft, such as the MiG-23, MiG-29 and Su-25.<sup>45</sup> While Moscow began sending helicopters in the 1980s, the North circumvented U.S. export controls in 1985 to buy 87 Hughes helicopters, which are superior to the Russian models. Thanks to Soviet and later Russian support, the North has one of the densest air defence networks in the world, with over 8,000 anti-aircraft guns.<sup>46</sup> As in ground-force doctrine, airpower thinking reflects Russian influence, including heavy reliance on underground facilities and hardened shelters.

## B. CHEMICAL AND BIOLOGICAL WEAPONS

Kim Il-sung's belief in the operational effectiveness and psychological power of chemical weapons, plus Soviet

technical and scientific assistance in the 1950s and 1960s, created the foundation for an unconventional arsenal. The DPRK is believed to possess large quantities of chemical (nerve, blood, choking and blister agents) and possibly biological (infectious agents) weapons.<sup>47</sup> Its chemical weapons can be delivered via artillery, rocket launchers, mortars, FROG (Free-Rocket-over-Ground) short-range ballistic missiles and aerial bombs. It has at least eight industrial facilities for producing chemical agents, such as sarin, tabun, phosgene, adamsite, prussic acid, and various forms of mustard gas.<sup>48</sup> Pyongyang acceded to the Biological and Toxin Weapons Convention in 1987 but has not signed the Chemical Weapons Convention.<sup>49</sup> Despite the Cold War's end, the DPRK is still influenced by Soviet military doctrine, which assigns chemical weapons a prominent place in offensive military operations. While the precise size cannot be determined, the arsenal is thought to be sizable, but likely old and degraded.<sup>50</sup>

## C. MISSILES

With the knowledge that Pyongyang continues to do research and upgrade its ballistic missile capabilities, the U.S. and others are concerned with the program and the North's proliferation activities. The program began in the 1960s as a strategic priority of Kim Il-sung. The North needed help and reached agreements with Moscow late in the decade to modernise the arsenal.<sup>51</sup> Throughout the 30 years of Soviet-DPRK missile cooperation, Moscow was reluctant to give weapons exceeding very short range.<sup>52</sup> Nevertheless, the North was able to secure technology

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<sup>41</sup> Scobell and Sanford, *North Korea's Military Threat*, op. cit.

<sup>42</sup> South Korea, with fewer ships, is still superior to the North in total tonnage, weapons and sensor technology, *ibid*.

<sup>43</sup> In September 2004, several U.S. government agencies reported that four WHISKEY Class submarines and an unknown number of midget submarines have been deactivated, "Korea Story Brief", op. cit.

<sup>44</sup> "Armies, Korea, North", at [www.online.janes.com](http://www.online.janes.com).

<sup>45</sup> "Air Force, Korea, North", *ibid*.

<sup>46</sup> "Asia-North Korea, Air Force", *Military Periscope*, 1 December 2005.

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<sup>47</sup> North Korea would most likely use these weapons early in a conflict, in order to demoralise and reduce defenders, deny them mobilisation centres and storage areas and force them to destroy facilities and equipment. Chemical and biological weapons, particularly persistent chemical agents, are meant to disrupt command and control elements, major lines of communication, logistics depots, airbases and ports. "North Korea's Special Weapons Guide", Federation of American Scientists, op. cit.

<sup>48</sup> "North Korean Military Posture", Republic of Korea White Paper, 1997.

<sup>49</sup> Joseph Cirincione, Jon Wolfsthal and Miriam Rajkumar, *Deadly Arsenal: Nuclear, Biological, and Chemical Weapons* (Washington DC, 2005).

<sup>50</sup> Eric Croddey, Clarisa Perez-Armendariz and John Hart, *Chemical and Biological Warfare* (New York, 2002); and "Attachment A: Unclassified Report to Congress on the Acquisition of Technology Relating to Weapons of Mass Destruction and Advanced Conventional Munitions, 1 July through 31 December 2003", CIA, at [www.cia.gov/cia/reports/721\\_reports/july\\_dec2003.htm#5](http://www.cia.gov/cia/reports/721_reports/july_dec2003.htm#5).

<sup>51</sup> Scobell and Sanford, *North Korea's Military Threat*, op. cit; Bermudez, "A History of Ballistic Missile Development in the DPRK" (Monterey, 1999).

<sup>52</sup> "Ballistic and Cruise Missile Forces of Foreign Countries", U.S. Congressional Research Services, report, 25 October 1996.

and materials from a variety of sources, while maintaining dedicated indigenous research and development. It may now have 600 or more deployed short-range ballistic missile (SRBMs) and 100 to 200 medium-range (MRBMs).<sup>53</sup> The export of 250 missiles and related parts brought Pyongyang \$580 million between 1987 and 1992,<sup>54</sup> and the North still earns considerable funds from missile-related sales, though exports of complete systems have been in decline since the late 1980s.

#### D. NUCLEAR WEAPONS AND THE SIX-PARTY TALKS

The nuclear tensions still felt today are linked to decades of technical and scientific support Moscow gave, albeit reluctantly at times. World War II and Korean War lessons fuelled Kim's insistence on developing a nuclear option.<sup>55</sup> Moscow helped Pyongyang begin its nuclear program in 1956 as part of a policy to promote technological development in the Soviet Bloc, parallel to the U.S. Atoms for Peace program.<sup>56</sup> In March 1956, Moscow and Pyongyang signed an agreement that enabled about 30 North Koreans to receive training at the Soviet Dubna Nuclear Complex; others went to China.<sup>57</sup> In 1959 the Soviets agreed to provide a 0.1MW thermal critical assembly and a 2.0MW research reactor.<sup>58</sup> Delivered in 1962 and operational by 1967, this reactor became the start of the Yongbyon nuclear complex.<sup>59</sup>

By the 1980s, the North was trying to catch up with nuclear energy development in the South.<sup>60</sup> In 1985, the

Soviets agreed to provide a nuclear power plant with four versions of the water-pressure Vodno-Vodyanoi Energetichesky Reactor (VVER-440), which Russia later switched to three MP-640 type reactors, apparently for safety reasons.<sup>61</sup> Little more than a site survey was done for this project, however, due to political, diplomatic and financial issues, in a tumultuous eight years during which the North stalled, manipulated and rejected international pressure for nuclear oversight.<sup>62</sup> In return for Moscow's aid, the North signed the Nuclear Non-proliferation Treaty (NPT) in December 1985. However, it did not ratify a full-scope safeguards agreement with the International Atomic Energy Agency (IAEA) until April 1992,<sup>63</sup> and disputes over IAEA inspections led to another impasse, with Pyongyang announcing in March 1993 its intention to withdraw from the NPT.

The DPRK "suspended its intention to withdraw from the NPT" in June 1993 and subsequently signed the "Agreed Framework" with the U.S. in October 1994. The agreement provided a roadmap for eventual North Korean denuclearisation and better ties with Washington, but it collapsed in the fall of 2002 when the U.S. confronted the DPRK with accusations of a clandestine uranium enrichment program. The six-party talks aimed at ending Pyongyang's nuclear ambitions, which began in 2003, failed to prevent Pyongyang's nuclear test in October 2006 but have produced a DPRK commitment to denuclearise.

<sup>53</sup> Scobell and Sanford op. cit.

<sup>54</sup> 이대근, "北 스커드 年 100 기 생산가능"/통일부, 국회보고서", *경향신문* [Yi Dae-gün, "North can produce 100 Scud missiles per year/Ministry of Unification, National Assembly Report", *Kyunghyang Daily*], 4 September 1998.

<sup>55</sup> He was also prompted by South Korea's nuclear program.

<sup>56</sup> Alexander Zhebin, "A Political History of Soviet-North Korean Nuclear Cooperation", in James Clay Moltz and Alexandre Y. Mansourov (eds.), *The North Korean Nuclear Program* (New York, 2000).

<sup>57</sup> The Dubna nuclear complex is known also as the Joint Institute for Nuclear Research (JINR), [www.jinr.ru/JINR-info-e.htm](http://www.jinr.ru/JINR-info-e.htm); Valeri Denisov, "The North Korean Nuclear Issue: The Possibilities for Political Solutions Remain", *Analiticheskije Zapiski*, vol. 8, no. 20 (September 2006) (in Russian); and 허만 [], "북핵 뒤에 숨은 4 개 전술", *동아일보* [Hö Man, "Four hidden tactics behind the North's nukes", *Dong-a Ilbo*], 23 March 1994, p. 7.

<sup>58</sup> Michael Mazarr, *North Korea and the Bomb: A Case Study in Nonproliferation* (New York, 1995); Zhebin, "A Political History of Soviet-North Korean Nuclear Cooperation", op. cit.

<sup>59</sup> Moltz and Mansourov, *The North Korean Nuclear Program*, op. cit.

<sup>60</sup> Ibid.

<sup>61</sup> This was a new, large VVER-440 form surface nuclear facility with four energy blocks. Alexandre Y. Mansourov, "The Origins, Evolution, and Current Politics Of The North Korean Nuclear Program", *The Nonproliferation Review*, spring-summer 1995; Vladimir Orlov, "Russian Nonproliferation Policy and the Situation in East Asia", paper presented at the workshop East Asian Security Challenges, Shanghai, 10 April 2001, [www.nautilus.org/archives/nukepolicy/workshops/shanghai-01/orlovpaper.html](http://www.nautilus.org/archives/nukepolicy/workshops/shanghai-01/orlovpaper.html) and Valeri Denisov, "The North Korean Nuclear Issue", op. cit.

<sup>62</sup> Moltz and Mansourov, *The North Korean Nuclear Program*, op. cit. Moscow never delivered the four reactors but under the terms of the U.S.-DPRK Agreed Framework, a U.S.-led consortium was to provide two light-water power reactors at the same site, "Agreed Framework between the United States of America and the Democratic People's Republic of Korea," Geneva, 21 October 1994, at [www.kedo.org/pdfs/AgreedFramework.pdf](http://www.kedo.org/pdfs/AgreedFramework.pdf).

<sup>63</sup> Before the DPRK ratified the safeguards agreement in April 1992, only the Soviet-built 8MW(th) IRT-2000 research reactor and 0.1MW critical assembly were subject to IAEA inspections. These facilities were monitored under a trilateral agreement signed in 1977 by Moscow, Pyongyang, and the IAEA. Jared S. Dreicer, "How Much Plutonium Could Have Been Produced in the DPRK IRT Reactor?", *Science & Global Security*, vol. 8 (2000), p. 275.

Russia is committed to a non-nuclear Korean peninsula and for years proposed multilateral talks to resolve tensions in North East Asia. After being excluded in 1992, 1994, 1996 and 1997, its presence was demanded by Pyongyang at the first round of the six-party talks in August 2003.<sup>64</sup> Russia was brought in because it appeared to have become stronger and more assertive than during the 1990s, and Kim Jong-il wanted it to counterbalance the U.S. For its part, Russia also saw the nuclear crisis as a way to expand its regional influence.<sup>65</sup>

The hardline taken by President George W. Bush toward the North encouraged Russia and the DPRK to seek each other's support but Russia's backing is not unconditional and certainly does not extend to accepting a nuclear-armed North Korea. Moscow has shown solidarity with Pyongyang, signed a new treaty of friendship and cooperation and helped resolve the Banco Delta Asia (BDA) stalemate that had held up the six-party talks.<sup>66</sup> However, it has also boosted its military preparedness in the Far East and joined the U.S.-led Proliferation Security Initiative (PSI).<sup>67</sup>

While the goal of DPRK denuclearisation may be in sight with the breakthrough achieved in February 2007, Russia has been the weakest player at the talks.<sup>68</sup> It seems to have exercised little influence over Pyongyang, failing, for example, to persuade it to resume talks when they broke down, much less to accept Washington's demand for "complete, verifiable and irreversible denuclearisation". Its only noteworthy contribution has been a small but critical involvement in the return of funds held up by U.S. financial sanctions.<sup>69</sup>

Initially reluctant to support strong Chapter VII language imposing binding obligations on North Korea and sanctions until it met UN demands, Russia (and China) ultimately joined the unanimous Security Council in approving Resolution 1718 on 14 October 2006.<sup>70</sup> It made it clear, however, that sanctions should be lifted as soon as the Council's demands were met. This reflected its desire to chastise the North for escalating confrontation but not to push it into a corner from which it could not escape diplomatically. If the six-party talks continue to make progress, Russia can be expected to push for sanctions and the diplomatic isolation of the North to be relaxed.<sup>71</sup>

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<sup>64</sup> The DPRK rejected five-party talks in mid-2003 but proposed six-party talks, including Russia, on 31 July 2003. Kim Jong-il reportedly insisted that Russia be included in a six-party format. Ha Yongchool and Shin Beomshik, "Non-proliferation and Political Interests: Russia's Policy Dilemmas in the Six-party Talks", in Iwashita Akihiro (ed.), *Eager Eyes Fixed on Eurasia: Russia and Its Eastern Edge* (Sapporo, 2007); "Spokesman for DPRK Foreign Ministry on Recent DPRK-U.S. Contact", Korean Central News Agency, 1 August 2003, at [www.kcna.co.jp](http://www.kcna.co.jp); and Seung-ho Joo, "Russia and North Korea, 1992-2006: From Distant Allies to Normal Neighbours", *Korea Observer*, vol. 38, no.1 (spring 2007).

<sup>65</sup> Crisis Group interview, Alexander Nikitin, Russian Political Science Association, Moscow, 12 December 2005.

<sup>66</sup> On 15 September 2005, the U.S. Treasury named the Banco Delta Asia (BDA) in Macau a "primary money laundering concern". Part of the February 2007 deal between Washington and Pyongyang was the release of frozen assets from the BDA. While Pyongyang could have withdrawn the money in cash, its insistence on a wire transfer suggests it wanted to demonstrate its inclusion in the international financial system. The \$25 million was to be transferred through the Bank of China but that institution was unwilling to deal with a bank linked to money laundering. The nuclear deal was on hold for four months until the money was transferred from BDA to the Macao Monetary Authority, to the New York Federal Reserve and on to the Russian Central Bank in Moscow, which paid it to a North Korean account at the Far Eastern Commercial Bank in Vladivostok. Steven R. Weisman, "The Ripples of Punishing One Bank", *The New York Times*, 3 July 2007.

<sup>67</sup> In August 2003, Russia began a week of military exercises in the Far East, the largest of their kind in fifteen years. Seung-ho Joo, "Russia and the Six-Party Talks", *Vantage Point*, 1 June 2004. PSI participants agree to interdict illicit weapons shipments

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by air, sea and land. Based on a "Statement of Interdiction Principles", it builds on previous interdiction measures and multilateral cooperation to stop flows of illicit weapons between states, as well as non-state actors. "Proliferation Security Initiative: Statement of Interdiction Principles", Office of the Press Secretary, the White House, 4 September 2003; and Andrew Winner, "The Proliferation Security Initiative: The News Face of Interdiction", *Washington Quarterly*, spring 2005. The initiative had "more to do with the enormous proliferation risks within the former Soviet republics than a desire by Russia to engage actively in the containment of North Korea, but it still sent a strong signal to Pyongyang", Peggy Falkenheim Meyer, "Russo-North Korean Relations Under Kim Jong-Il", in Young Whan Kihl and Hong Nack Kim (eds.), *North Korea: The Politics of Regime Survival* (Armonk, 2005).

<sup>68</sup> On the talks generally, see Crisis Group Asia Briefing N°62, *After the North Korea Nuclear Breakthrough: Compliance or Confrontation?*, 30 April 2007. On 13 February 2007, three hours before a deal was announced, Deputy Foreign Minister Aleksandr Losyukov told reporters there would be no agreement, Crisis Group interview, Igor Tolstakulakov, Far Eastern National University, Vladivostok, Russia, 11 April 2007.

<sup>69</sup> See fn. 66 above.

<sup>70</sup> During 2006, prior to the North's nuclear test, Russia resisted a strong Security Council stance, advocating a more "balanced", carrot and stick approach. See, for example, "UN resumes debate on N Korea Sanctions", ABC, 7 July 2006, at [www.abc.net.au/news/stories/2006/07/07/1680831.htm](http://www.abc.net.au/news/stories/2006/07/07/1680831.htm).

<sup>71</sup> In the meantime, the impact of the sanctions regime has been questioned. The 1718 Sanctions Committee took six months to agree on its guidelines (any action requires consensus), failed to designate any entities or individuals for targeted sanctions until its June 2007 meeting and lacks the support of an independent expert group to monitor implementation.



## V. ECONOMIC ISSUES

During the Japanese colonial period, most industry was in the northern part of the peninsula but it was destroyed during the Korean War. The DPRK received some aid from China and East Bloc countries but Soviet capital and technical assistance accounted for most of the foreign help in reestablishing an industrial sector. Throughout the Cold War, Moscow was the North's most important economic partner. Ties stayed nearly constant even during times of political discord. From a financial standpoint, Russia's commitment was a net loss: billions of rubles of DPRK debt are still outstanding. But the political and strategic imperatives of the Cold War meant more to Moscow than the financial bottom line. North Korea has never been an easy fit in the global economic system; it has been excluded from international capital markets since the late 1970s, when it defaulted on bank loans.<sup>72</sup>

While it solicits aid, the North at heart is uncomfortable relying on outsiders. Self-sufficiency is the basis of its economic ethos. Both Koreas invested heavily in education during their early industrialisation but the DPRK economy was limited by ideology and mismanagement. Nevertheless, technical progress and economic growth were impressive in the first years; the North recovered quicker than the South from the Korean War, and its economy performed better until the 1970s. But crucial factors hinder its economic potential, such as chronic energy and food shortages, and policies resulting in extraordinary misallocation of human and material resources.

Soviet financial, scientific and technical assistance was critical when the DPRK was recovering from the war in the 1950s and 1960s. However, interests quickly diverged as Moscow sought an international division of labour within the socialist bloc while Pyongyang preferred to establish an autarkic economy. Soviet energy subsidies were essential for North Korean industry but created a disincentive to become more energy efficient and exacerbated the DPRK's economic contraction when they were cut.<sup>73</sup>

Until the late 1980s, the North's factories built with Soviet aid produced all its aluminium, more than 60 per cent of its electric power, 50 per cent of coal and petroleum and petrochemical products, 40 per cent of iron ore and textiles,

and 30 per cent of its steel. More than 2,000 technicians and workers were trained in the Soviet Union; more than 20,000 students studied there; and more than 6,000 Soviet technicians supported the North's development.<sup>74</sup>

The end of the Cold War and demise of the Soviet Union rocked bilateral relations. Moscow's initial decision to turn to the West and develop a market economy drove the two systems further apart. In an economic recession, Moscow demanded repayment in hard currency of DPRK debt.<sup>75</sup> Trade declined, because Russia ended subsidies and insisted upon international commercial terms.<sup>76</sup> These changes, along with devastating environmental conditions, produced serious economic fluctuations throughout the 1990s. In 1990, the value of bilateral trade was \$2.4 billion; in 1998, it had shrivelled to \$65 million.<sup>77</sup>

Between 1992 and 1996, Boris Yeltsin focused on Russian economic development and looked to Seoul for regional cooperation.<sup>78</sup> He was unimpressed with North Korea and ultimately not interested in working with Pyongyang, and this period marked the beginning of a political and economic foreign policy that favoured a more globalised world, not simply bloc alliances.<sup>79</sup> However, Putin's economic trilateralism had its origins in Yeltsin's focus on the

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<sup>74</sup> "Outline of North Korea", Korean Ministry of Unification, 1992; and S.S. Ha, "Russian Policy to the Korean Peninsula: Focusing on the Relations between Russia and North Korea", *Korean Journal of International Relations*, vol. 40, no. 4 (2000).

<sup>75</sup> The bilateral trade volume was already declining before the collapse of the Soviet Union. In 1988 it was 1.617 billion rubles, in 1989 1.4977 billion rubles and in 1990 1.34 billion rubles. In 1991 it shrunk to 400 million rubles. 조명철, "북한과 러시아 사이의 경제협력 현황과 남북경협에 주는 시사점", *정책연구 03-15* [Cho Myōng-chōl, "Economic Relation between North Korea and Russia and its Implication to Economic Cooperation between Two Koreas", *Policy Analysis 03-15*], Korea Institute for International Economic Policy, Seoul, December 2003, p. 81.

<sup>76</sup> The favourable pricing system was scrapped, and barter (re)payment was replaced by a cash system.

<sup>77</sup> E. Wishnik, "Russian-North Korean Relations: A New Era?", in Samuel S. Kim and Tai Hwan Lee (eds.), *North Korea and Northeast Asia* (Lanham, 2002), referenced in Takeda, "Putin's Foreign Policy", op. cit.

<sup>78</sup> Russia had four broad goals in its relations with Seoul: to develop Siberia and the Far East with the South's capital; to establish and strengthen political and military ties in order to enhance its position in North East Asia; to obtain support for a collective security initiative in the Asia Pacific region; and to be formally recognised as a member of the region and integrate its economy throughout Asia. Seung-ho Joo, "Russia and North Korea, 1992-1996: From Distant Allies to Normal Neighbours", *Korea Observer*, vol. 38, no.1 (spring 2007).

<sup>79</sup> Andrei Tsygankov, "Russia Interests and Objectives in East Asia", *Korea Observer*, vol. 37, no. 3 (autumn 2006).

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<sup>72</sup> Stephan Haggard and Marcus Noland, "North Korea's External Economic Relations", Working Paper Series, Peterson Institute for International Economics, August 2007.

<sup>73</sup> Karoly Fendler, "Economic Assistance from Socialist Countries to North Korea in the Postwar Years: 1953-1963", in Han S. Park (ed.), *North Korea: Ideology, Politics, Economy* (Englewood Cliffs, 1996).

Korean peninsula in the late 1990s, albeit with much initial resistance from Pyongyang.

North Korea owes Russia about \$8 billion from Soviet-era loans denominated in rubles at one-to-one with the dollar.<sup>80</sup> There is no prospect of the North ever repaying but other economic links are blocked until the debt is forgiven.<sup>81</sup> In early 2007, Moscow stepped up talks to resolve the issue but no progress has been announced. Although many see debt forgiveness as a “purely symbolic gesture”,<sup>82</sup> delaying it may give Moscow some leverage, perhaps even in eventually obtaining a favourable settlement of its own debt to South Korea.<sup>83</sup> In January 1991, Moscow and Seoul signed an agreement whereby South Korea loaned Russia \$3 billion over three years.<sup>84</sup> Russia transferred arms to offset \$150 million of that debt in the 1990s, and in June 2003, the repayment schedule was renegotiated, with Seoul forgiving \$660 million and Moscow promising to repay the remaining \$1.58 billion over 23 years. Moscow still owes \$1.3 billion.<sup>85</sup>

With Russia concerned these days for economic modernisation and reestablishing its former political power, facilitated by high oil prices, the Putin policy emphasis on cooperation with the Pacific Rim is likely to continue beyond the end of his presidency in 2008.<sup>86</sup> Political reconciliation has been accompanied by new overtures for economic alliances and joint projects, also with the DPRK, whose industries still use Soviet technology and so offer Russian firms opportunities to win contracts for refurbishment.

Bilateral trade reached \$213 million in 2004, an 80 per cent increase from the previous year; exports to Russia more than doubled in 2004 and imports from Russia increased by 75 per cent.<sup>87</sup> Nevertheless, the North’s economy is

trapped: it needs to liberalise and adopt new strategies but the leadership fears ideological contamination; the economy requires foreign currency but relies importantly upon illicit activity. Sanctions and Western diplomatic pressure block aid from international financial institutions. The DPRK needs to motivate its people but has been unable to free itself from the effects of famine, environmental disasters and decades of malnourishment.

While Russia is a potential source of technology and large joint development projects, China’s present economic influence is much greater. Its projects include mineral extraction and a glass factory, even a concession to operate a department store in Pyongyang. The bilateral economic relationship is increasingly conducted on a commercial basis by small Chinese firms.<sup>88</sup> Chinese investment and trade have been increasing while transactions with Russia remain flat. Anecdotal evidence suggests Chinese consumer goods dominate the North’s markets, which has many South Koreans worried the North is becoming an “economic colony”. The relative success of small Chinese firms raises questions about prospects for Russia’s big, state-owned enterprises which seek to enter the North’s market.

## A. ENERGY

High energy prices have given Moscow renewed international weight, not least in North East Asia.<sup>89</sup> The resource-rich Russian Far East, long relegated to peripheral status, now enjoys increased strategic significance in national priorities.<sup>90</sup> It can both promote economic development and serve as a bridgehead to expanded regional influence.<sup>91</sup> In September 2007, the government approved a plan to invest \$92 billion through 2030 to develop and market East Siberian and Far East gas

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<sup>80</sup> “Russia, North Korea close to settling \$8bn debt”, Reuters, 31 January 2007.

<sup>81</sup> Crisis Group interview, Pavel Leshakov, Moscow State University economist, Moscow, 27 June 2007.

<sup>82</sup> Crisis Group interview, Vasily Mikheev, Institute for World Economy and International Relations, Russian Academy of Sciences, Moscow, 9 December 2005.

<sup>83</sup> Crisis Group interview, Alexey Starichkov, Far Eastern National University, Vladivostok, 11 April 2007.

<sup>84</sup> Jae-Nam Ko, “New Direction of Korean-Russian Relations: Toward a Comprehensive Partnership”, ROK Institute of Foreign Affairs, national security policy paper, October 1994.

<sup>85</sup> Seung Ham Yang, Woosang Kim, and Yongho Kim, “Russo-North Korea Relations in the 2000s”, *Asian Survey*, vol. 44, no. 6 (2004), pp. 784-814.

<sup>86</sup> Vladimir Putin, “Rossiya na Rubezhe Tsyacheletiy”, *Nezavisimaya Gazeta*, 30 December 1999.

<sup>87</sup> Seog-Ki Lee, “Northeast Asian Economic Cooperation and Inter-Korean Economic Development”, *East Asian Review*, vol. 18, no. 1 (spring 2006).

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<sup>88</sup> Jae Cheol Kim, “The Political Economy of Chinese Investment in North Korea”, *Asian Survey*, vol. 46, no. 6 (2006), pp. 898-916.

<sup>89</sup> It is the world’s largest gas exporter and second-largest oil exporter, after Saudi Arabia; its gold and hard currency reserves had swelled to \$455.8 billion by mid-November 2007, trailing only China and Japan. “Russia Energy Profile”, U.S. Energy Information Administration, updated 8 November 2007, [http://tonto.eia.doe.gov/country/country\\_energy\\_data.cfm?fips=RS](http://tonto.eia.doe.gov/country/country_energy_data.cfm?fips=RS); and “Russia’s Gold and Currency Reserves Edge Up”, RosBusinessConsulting, 15 November 2007; “Russia’s Kudrin: Gold Reserves to Grow \$150B in 2007 –Report”, Dow Jones Capital Markets Report, 28 November 2007.

<sup>90</sup> The Russian Far East is rich in oil, coal, natural gas, metal ore, nonferrous metals, gemstones, timber, and marine products. Igor Tomberg, “Eastern Siberia and Russia’s New Energy Strategy”, Organisation of Asia-Pacific News Agencies, 25 November 2005; “RUB 50mln Assigned for Drafting Far East Development Strategy”, Itar-Tass, 17 July 2007.

<sup>91</sup> Chang Duckjoon, “Northeast Asian Energy Cooperation and the Russian Far East”, *Korea Focus*, May-June 2004.

reserves.<sup>92</sup> If carried through, it would be an important shift in emphasis for Russian industry, all of whose gas is now exported westward. When projects such as those on Sakhalin Island begin exporting in the next few years, Russia will become a direct energy provider to expanding Asian markets.<sup>93</sup>

Several factors have contributed to strengthening both the Russian Far East and its ties to North East Asia, particularly under Putin's presidency. First, vast distances and consequent high transportation costs make East Asia the natural market for the Far East's resources. Secondly, the elimination of financial assistance from Moscow means the Far Eastern provinces have had to develop new economic ties. Thirdly, the improved relations between Russia and the regional countries, including the two Koreas, as well as Moscow's generally better image in the region, have helped build momentum for economic cooperation.<sup>94</sup> Lastly, China's growing need for energy and the hydrocarbon import dependence of South Korea and Japan have raised the importance of ties with Russia.

Russia and North Korea have been working for several years to develop projects involving renovation of thermal power plants and oil refining.<sup>95</sup> The North will have to pay for this energy – there is no evidence Russia will subsidise a state whose ideology would never let it become an obedient client. North Korea already runs an annual trade deficit of about \$1 billion per year,<sup>96</sup> so the scope is limited. Expensive new infrastructure, such as oil and gas pipelines, is unlikely to be built merely to serve the North's market. The little oil it uses per capita is an indication of the North's weak economy.<sup>97</sup> Because North Korea is not much of a market and there continue to be risks in the inter-Korean relationship, the Russian state gas company Gazprom is reportedly planning to build underwater pipelines to serve the South Korean market rather than use the cheaper overland route.<sup>98</sup>

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<sup>92</sup> Andrei Glazov, "Moscow Approves Gazprom's East Siberia Gas Development Plan", *International Oil Daily*, 11 September 2007.

<sup>93</sup> Russia is already exporting oil from Sakhalin.

<sup>94</sup> Chang Duckjoon, "Northeast Asian Energy Cooperation and the Russian Far East", *Korea Focus*, May-June 2004.

<sup>95</sup> Seog-Ki Lee, "Northeast Asian Economic Cooperation", *op. cit.*

<sup>96</sup> John Garnaut, "North Korea's Balancing Act Just Got Harder", *The Sydney Morning Herald*, 16 October 2006.

<sup>97</sup> In 2006 North Korea, with a population of about 23 million, used 24,000 barrels of petroleum products per day; South Korea, with a population of 49 million, used about 2.2 million barrels of petroleum products per day, over 90 times as much, U.S. Energy Information Administration statistics. The North's gas consumption is non-existent.

<sup>98</sup> "Russia Exports Natural Gas Directly to South Korea", *Dong-A Ilbo* [Daily], 11 July 2007.

The state electricity company Unified Energy System (UES) and the Far East Energy Management company are considering electricity exports to North Korea, but within the context of increasing regional generation that will likely be directed to the larger, more secure China market.<sup>99</sup> Pyongyang is building electrical lines to receive Russian electricity,<sup>100</sup> and cooperative initiatives to build lines connecting Russia with both Koreas are being discussed.<sup>101</sup> Renovation is also underway of facilities such as the Seunglee Chemical Plant,<sup>102</sup> where work done by South Korea could benefit the entire peninsula.<sup>103</sup> A UES official has said Russia might be able to replace supply South Korea originally promised the energy-starved North.<sup>104</sup> This raises a possibility it might be cheaper for the South to subsidise the North with purchases from Russia rather than supply its own electricity. The North might also be paid transit fees in kind with Russian electricity going to the South. But it is hard to see how the North could take much Russian electricity without a special deal.

Projects such as Sakhalin I and II are massive, as are implications for the region,<sup>105</sup> but it is unlikely North Korea, whose energy troubles since the early 1990s have crippled the economy, can take much advantage of the expansion of oil and gas exports in the region, for example, by laying gas piping over its territory to generate fees.<sup>106</sup> North Korea offers little potential market, and investors lack confidence in its reliability as a transit country, so the greatly increased energy trade in North East Asia is

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<sup>99</sup> "Russia to Start Major Power Supplies to China, Korea in 2010", Interfax Energy News Service, 20 December 2005. In April 2002, Chang-duk Jo, the North's vice prime minister, visited Khabarovsk and signed an agreement on the Siberia-Chungjin electricity line project. Seog-ki Lee, "Northeast Asian Economist Cooperation", *op. cit.*

<sup>100</sup> Russia has around 25-28 billion Kwh of electricity available, two-thirds of which is slotted for export, *ibid.*

<sup>101</sup> Russia intends to link two areas of the Valdivostok-Chungjin lines in the first phase of the project and connect the railway to South Korea in the second phase. A Northeast Asian Electricity Linkage Project between the Russian Far East, North Korea, and South Korea is a real possibility. *Ibid.*

<sup>102</sup> A Russian-financed plant built in 1972, it refines Russian crude oil from Nakhodka Port. Since the late 1970s, the plant has been offline due to lack of oil imports and renovations and outdated technology.

<sup>103</sup> Seog-ki Lee, "Northeast Asian Economic Cooperation", *op. cit.*

<sup>104</sup> "UES Considers Electricity Exports to North, South Korea", Interfax News Service, 29 November 2005.

<sup>105</sup> The reserves made accessible by the Sakhalin II project alone are estimated by the operating company, Shell, at about 500 billion cubic metres of natural gas and one billion barrels of crude oil and other hydrocarbon liquids.

<sup>106</sup> Chang Duckjoon, "Northeast Asian Energy Cooperation and the Russian Far East", *Korea Focus*, May-June 2004.

unlikely to play a large role in moving the North off nuclear power.

Natural gas imports could be a tension-relieving alternative to light-water nuclear power plants, and significant gains could be made by maintaining existing thermal power plants and the transmission and distribution systems.<sup>107</sup> But there is little potential for this to be done commercially, when the North already is paying for relatively little oil from Russia by bartering its labour force. Perhaps the most important role Russia might play in this regard is as a less expensive source for the subsidised energy that will be needed for many years to keep the regime from continuing development of nuclear power, though Moscow has not yet offered subsidised energy.

## B. RAIL LINKS

A Trans-Korean Railway (TKR), on the other hand, is a prospect of great interest in both halves of the peninsula. The September 2000 Kim Jong-il/Kim Dae-jung summit agreed to reopen rail links across the De-Militarised Zone (DMZ). The potential is significant not only for peace efforts but also for improving trade efficiency between Asia and Europe via the Iron Silk Road Railway.<sup>108</sup> The latter is a plan Putin has pushed since coming to office to link the Trans-Siberian Railway with the Koreans. It could cut times from South Korea to Europe by more than half and costs significantly<sup>109</sup> but it is far from completion: funding and political will (other than Putin's) are still lacking.

However, work on the Trans-Korean line, which has been blocked for more than a half century, was completed in 2003. Though there were several postponements of the ceremonial rail tests, a key obstacle was overcome in May 2007, when the two Koreas completed tests across the DMZ. During their October 2007 summit, Kim and Roh Moo-hyun agreed to open freight service between Munsan in the South and Pong-dong in the North (about 1km from the Kaesong Industrial Complex) and to expand rail and highway links.<sup>110</sup> Subsequent talks between the prime

ministers and defence ministers confirmed that inter-Korean rail traffic would open in December 2007.<sup>111</sup>

Russia's interest in the inter-continental project has also been partly motivated by China's activity. On 23 August 2003, Putin said, "Russia must build the [Trans-Korean Railroad] for the simple reason that if it does not, then our dear friend China will do it".<sup>112</sup> The first route for the grand scheme, put forth by South Korea in 2000, would connect the Inter-Korean railway first to China via the Seoul-Pyongyang-Sinuiju line and then to the Trans-Siberian railroad in East Siberia. Russia would prefer to use the Seoul-Wonsan-Hasan line, which would connect with the Trans-Siberian in Vladivostok. A third proposal, preferred by China, would cut across from Sinuiju to Beijing before continuing on to Moscow and Europe.<sup>113</sup> A more modest project – to improve the connection between the Russian-North Korean border and the North's Nason (Najin-Sonbong) special economic zone less than 60km away<sup>114</sup> – would be designed to check the growing influence of China, which is building a four-lane highway from its border to Nason.<sup>115</sup>

The route through China would be nearly 2,000km shorter than that through Russia, and China's infrastructure and organisation are better. Many business people in East Asia "think that anything is safer than transporting their cargo through Russia".<sup>116</sup> Many Russians in Vladivostok fear that port will lose business to South Korea's Pusan, which is much more efficient and processes ten times the amount of cargo annually.<sup>117</sup> North Korea may have already decided which route it prefers. During a presentation on the proposed line at the October 2005 Arirang celebration in Pyongyang, the crowd spelled out

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artery for human resources and the distribution of goods", *The Hankyoreh Daily*, 4 October 2007.

<sup>111</sup> "Koreas Agree on Munsan-Kaesong Railway", *Chosun Ilbo*, 16 November 2007; and Brian Lee, "Defence bosses defer discussion on peace zone", *JoongAng Daily*, 30 November 2007.

<sup>112</sup> Quoted in Mansurov, "Russian-North Korean Relations in the 2000s", op. cit.

<sup>113</sup> Takeda, "Putin's Foreign Policy", op. cit.; Takeda, "Open Railways in the East," *Dong-A Ilbo*, 7 August 2006 (in Korean).

<sup>114</sup> Russia is investing in Rajin Port to use it as the distribution centre for the Russian Far East. It has built a bridge across the Tumen River and recently signed an agreement with North Korea to build a railroad from Rajin to Hasan. At a press conference in Vladivostok on 16 June 2007, Vladimir Yakunin, president of Russian Railways, said the company had reached an understanding with Pyongyang for reconstructing the 54km section of railroad, and "this year the modernisation of this section will commence". Some containers will go by sea from South Korea to Rajin, before being loaded on to trains.

<sup>115</sup> Crisis Group interview, Moscow, 27 June 2007.

<sup>116</sup> Crisis Group interview, Vladivostok, Russia, 12 April 2007.

<sup>117</sup> Crisis Group interviews, Vladivostok, Russia, April 2007.

<sup>107</sup> Ibid.

<sup>108</sup> It is possible Pyongyang can generate further income through railroad tariffs, if lines connect South Korea with Russia and China in the future, Haggard and Noland, "North Korea's External Economic Relations", op. cit.

<sup>109</sup> "Russia Proposes Talks with North, South Korea on Rail Link," RIA Novosti, 28 November 2006 (in Russian).

<sup>110</sup> "Improved Infrastructure Leading to Big Changes in Inter-Korean Cooperation", The Korean Overseas Information Service, 15 October 2007; and 최중훈 및 임주환, "남북경제공동체 새 '인력·물류 동맥' 활짝", *한겨레* [Ch'oe Chong-hun and Im Chu-hwan, "North-South economic community: a new broad

with placards the names of cities along the Chinese route.<sup>118</sup>

Russian government estimates put the cost of rebuilding North Korea's railways at \$2 billion.<sup>119</sup> Given that the current track dates from the Japanese colonial era and is a different gauge than that used in Russia, other estimates are as high as \$7 billion.<sup>120</sup> North Korea's deadbeat credit status in international financial circles makes funding such a venture through any market mechanism almost impossible.<sup>121</sup>

South Korean concerns for the overall rail project range from the economic difficulties of guaranteeing the required freight traffic<sup>122</sup> to security fears that the railway would make the DMZ too permeable and the country vulnerable to pressure from the North. In May 2006, the North Korean military refused to guarantee the safety of passengers travelling through the country.<sup>123</sup> Although this was part of an effort to apply pressure on the South at a time of diplomatic tensions, it highlighted the regime's erratic nature and reluctance to open its territory to foreigners. This has amplified South Korean questions about the feasibility of a scheme that Seoul ultimately expects to finance.<sup>124</sup>

### C. LABOUR AND CRIME

During the Soviet era, Pyongyang sent thousands of Koreans to work in Russia, often in terrible conditions and under the guard of North Korean security forces.<sup>125</sup> 1993 and 1995 treaties provided for the North to make 15,000 to 20,000 loggers available to work off Soviet-era debts, and in recent years an additional 10,000 to 15,000 North Koreans have been sent to Russia to work in logging and construction.<sup>126</sup>

North Korean workers are supposed to earn a minimum monthly \$120 to \$170 salary but must bribe supervisors. Many moonlight; Vladivostok newspapers run numerous small ads for Korean labourers.<sup>127</sup> Remittances from workers in the Russian Far East are not significant for the DPRK's balance of payments but after three to five years, many go home with goods bought in Russia for resale. Under agreements, workers in Russia are subject to North Korean law, and there have been reports of abuses, as there frequently are for foreigners working in the country.<sup>128</sup> Demand for workers is likely to rise, given Russia's declining population and growing oil wealth. Russian businesses describe foreign labour quotas as inadequate.<sup>129</sup> While these workers might be influenced by ideas that challenge North Korea's orthodoxy, most are in remote areas where the North's security apparatus maintains tight control.

Pyongyang has long used diplomats and embassies as cover for illicit activities, such as drug trafficking, money laundering/counterfeiting and arms sales. Hundreds of millions of dollars have been generated, which help finance weapons programs as well as the DPRK's chronic balance of payments deficits.<sup>130</sup> While some suggest drug sales are declining, there are also indications of new distribution strategies in major markets such as Russia, China, Japan and South Korea.<sup>131</sup>

## VI. CONCLUSION

The DPRK-Russia relationship, once based on ideology and political necessity, is today grounded in pragmatism. Both countries experienced mismanaged economic

<sup>118</sup> Crisis Group interview, Olga Maltseva, professor of journalism at Far Eastern National University, 12 April 2007, Vladivostok.

<sup>119</sup> Crisis Group interviews, Seoul, February 2007 and Vladivostok, April 2007.

<sup>120</sup> Crisis Group interviews, senior Russian diplomat, Seoul, 16 February 2007 and Oleg Kiriyanov, Seoul correspondent for *Russian Gazette*, Seoul, 30 March 2007.

<sup>121</sup> Crisis Group interview, Seoul, February 2007.

<sup>122</sup> Crisis Group interview, Alexey Starichkov, Far Eastern National University, Vladivostok, Russia, 11 April 2007.

<sup>123</sup> "Koreas discuss first train over border in 57 years," Reuters, 14 March 2007.

<sup>124</sup> Crisis Group interview, Eom Gu-ho, Hanyang University, Seoul, 24 May 2007.

<sup>125</sup> Haggard and Noland, "North Korea's External Economic Relations", op. cit.

<sup>126</sup> Since it keeps most wage payments, acting through proxy companies, the contract worker scheme is potentially lucrative for Pyongyang. Logging, fishing and construction jobs may

earn it \$5 million to \$20 million annually. Larisa Zabrovskaya, "Economic Contacts between the DPRK and the Russian Far East: 1992-2005", *International Journal of Korean Unification Studies*, vol. 15, no. 2 (2006).

<sup>127</sup> Crisis Group interviews, Vladivostok, April 2007.

<sup>128</sup> Crisis Group interview, Alexander Lukin, Moscow State Institute of International Relations, 14 December 2005.

<sup>129</sup> Crisis Group interview, Russian businessman, April 2007.

<sup>130</sup> For an introduction to North Korea's illicit activities, see Sheena Chestnut, "Illicit Activity and Proliferation: North Korean Smuggling Networks", *International Security*, vol. 32, no. 1 (summer 2007), pp. 80-111; Dick Nanto and Raphael Perl, "North Korea Crime-for-Profit Activities", Congressional Research Service Report, 16 February 2007; Jay Solomon and Jason Dean, "Drug Money: Heroin Busts Point to Source of Funds for North Korea", *Wall Street Journal*, 23 April 2003; and "Global Illicit Drugs Trends 2003", UN Office on Drugs and Crime, 2003.

<sup>131</sup> David Asher, "The North Korea Criminal State, Its Ties to Organised Crime, and Possibility of WMD Proliferation", Nautilus Institute Policy Forum Online, www.nautilus.org.

policies and intense economic strain following the end of the Cold War. While they continue to diverge ideologically, there has been a slow realignment of their diplomatic and economic interests, which is likely to continue. Neither sees the other as vital to its national interests but they have some similar concerns. North Korea needs a resolution of the nuclear crisis to get aid and better relations with the U.S. Russia needs regional stability to encourage economic projects among neighbours and to continue rebuilding its global prestige.<sup>132</sup>

Having gone through a chill in the 1990s, the two old allies have started to benefit from their common interests. The recent diplomatic successes at the six-party talks could be the first step to denuclearising the peninsula and finally concluding the Korean War. North Korea's economic troubles might be moderated by Russia's support in energy, transportation and direct aid. North Korean professionals could begin travelling again to Russia to gain experience and scientific know-how, and Russian businesses could benefit from refurbishing North Korea's industrial infrastructure. Despite the considerable mutual economic and political interests, however, progress is likely to be inhibited by lingering suspicions and hesitancy to seize opportunities.

**Seoul/Brussels, 4 December 2007**

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<sup>132</sup> D.H. Lee, "Research on the development of the relations between North Korea and Russia: Focusing on Kim Jong-Il and Putin Summit Talk in 2000-2002", *Unification Policy Studies*, vol. 11, no. 2, (2002); and P.G. Woo, "Chosun: the Soviet Unification and the Relations between North Korea and Russia", *Zeitgeist*, vol. 7, Spring 2005.

APPENDIX

MAP OF NORTH KOREA



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## **International Headquarters**

149 Avenue Louise, 1050 Brussels, Belgium • Tel: +32 2 502 90 38 • Fax: +32 2 502 50 38  
E-mail: [brussels@crisisgroup.org](mailto:brussels@crisisgroup.org)

## **New York Office**

420 Lexington Avenue, Suite 2640, New York 10170 • Tel: +1 212 813 0820 • Fax: +1 212 813 0825  
E-mail: [newyork@crisisgroup.org](mailto:newyork@crisisgroup.org)

## **Washington Office**

1629 K Street, Suite 450, Washington DC 20006 • Tel: +1 202 785 1601 • Fax: +1 202 785 1630  
E-mail: [washington@crisisgroup.org](mailto:washington@crisisgroup.org)

## **London Office**

48 Gray's Inn Road, London WC1X 8LT • Tel: +44 20 7831 1436 • Fax: +44 20 7242 8135  
E-mail: [london@crisisgroup.org](mailto:london@crisisgroup.org)

## **Moscow Office**

Belomorskaya st., 14-1 - Moscow 125195 Russia • Tel/Fax: +7-495-455-9798  
E-mail: [moscow@crisisgroup.org](mailto:moscow@crisisgroup.org)

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