
On the Prospects of Trilateral Economic Cooperation Between the Russian Federation, South Korea and North Korea*

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During his recent official visit to South Korea in September 1995, the Chairman of the Government of the Russian Federation Mr. V.S. Chernomyrdin put forward the idea of trilateral economic cooperation between the Russian Federation, South Korea and North Korea, on the basis of industrial facilities created by the former Soviet Union in North Korea. This quite unexpected idea was met with interest in South Korea, since at the time many South Korean state organizations and private companies were working out long-term strategies and plans for economic exchange with North Korea.

Naturally, many South Korean experts, journalists and business people began asking the question: had the Russian side had any preliminary discussions with North Korean authorities on this matter? Chairman Chernomyrdin explained during his press conference in Seoul that this was still just a general idea and that there had been no discussions with North Korea.

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* This text solely reflects the private opinion of the author as a person who has been engaged in research on North Korea for a very long time.

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situation on the Korean Peninsula, the growing need for economic exchanges between the South and the North and by the complementary character of the economies of these three states.

In spite of their continuing anti-South Korean rhetoric in North Korea, it is quite obvious that the N.K. leadership is extremely anxious about their economic crisis, aggravated by last year's floods and poor harvests. The leaders in Pyongyang are looking for a way out of this dangerous situation that is threatening the very existence of the North Korean regime. Probably the only acceptable way for them is to attract foreign capital, at first on a limited scale, in order to revive the North Korean industry, which has fallen into decay over the last several years. Some foreign experts feel that only broad economic cooperation with its nearest neighbours such as South Korea and Russia can give the North Korean economy a chance to survive. It seems to me that the North Korean leaders have gradually begun to realize this idea.

It is also very important that South Korean businessmen have now begun to demonstrate growing interest in studying the North Korean market and expanding economic exchanges with the North Korea, as shown by the numerous public statements by South Korean business leaders concerning future business plans in the North and by the reports of visits to Pyongyang by the representatives of some South Korean firms. To coordinate the activities of private South Korean companies in North Korea, the powerful Federation of Korean Industries (FKI) established a special Committee for Economic Cooperation between the South and North, headed by the Kohap Group Chairman Chang Chi Hyeok at the beginning of 1995.

Judging by the reports in the South Korean mass-media and by interviews with South Korean businessmen, these initial trips and contacts with the North were not as successful as was expected and did not broaden their knowledge on specific features of the North Korean economy, the current situation in North Korean industry, the infrastructure, the professional skill level of the North Korean labor force, and labor conditions in

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the North. Many South Korean business leaders remain very cautious about business in the North because of the uncertain prospects of political dialogue between two halves of Korea and the lack of the necessary legal and institutional basis for economic cooperation.

From the prospect of future economic cooperation with North Korea (both on a bilateral and multilateral bases) the experience of the former Soviet Union and Russia in economic cooperation with North Korea seems to be of some interest to South Korea. The most important aspect of Russia's experience is its good knowledge of the North Korean industrial structure, its economic reserves and potential.

For almost 45 years the former USSR and North Korea were the closest of economic partners. The Soviet Union rendered enormous gratuitous financial support to North Korea, laid the foundation of the heavy and light industries as well as the industrial and social infrastructure, and constructed more than 70 enterprises that are still playing a considerable role in North Korea's economy. At the beginning of the 1990s, plants, factories and electric power stations constructed by the former Soviet Union in North Korea produced about 65% of the country's entire electric energy supply, 40% of the annual iron ore production, 30% of steel, 30% of ferrous metal roll, 100% of aluminium, 11% of pig iron, 25% of coke, 50% of petrochemical products, 13% of chemical fertilizers, 100% of microelectric motors and car storage batteries, and 20% of fabrics.

In order to understand better the possible spheres of economic cooperation between Russia, South Korea and North Korea, let us have a look at the main enterprises constructed by the USSR in North Korea, which may constitute the most promising joint economic projects.

First of all it is necessary to note the huge assistance rendered by the Soviet Union in creating the North Korean electrical energy industry. In the 1950s, Soviet specialists restored the Supung Hydroelectric Power Station (capacity=about 700 MW) and constructed the first thermoelectric power plant in North Korea in Pyongyang (500 MW) in the 1960s. In 1985, the Soviet Union assisted in the construction of the Pukchan Thermoelectric Station (1,600

MW.), the largest in the North, and later, the Soviet Union started work on what would be North Korea's largest energy enterprise, the East Pyongyang Thermoelectric Plant (2000 MW) and nuclear power station. Work stopped, though, in 1992, with about 25% of the equipment yet to be delivered, and all construction was suspended. For the nuclear power station, only a feasibility study was undertaken, with the Russian experts making recommendations on the site for the station. This Russian feasibility study and experience in North Korea has drawn the interest of the U.S. and others and raised the possibility of Russia's participating in the Korean Energy Development Organization (KEDO) project to build light-water reactors (LWRs) in the North.

Among the ferrous metallurgy enterprises, those regarded most promising are the Kimchaek ferrous metal works in Chongjin—the basis of North Korean metallurgy. In the 70's and 80's the Soviet Union rendered assistance in construction such additional facilities at this plant as the oxygene-converter shop, steel-plate hot rolling shop (annual capacity: 2.4 mil. tons) and steel-plate cool rolling shop (capacity: 2.4 mil. tons). The experts consider it quite realistic to increase the steel production capacity of the plant up to 6 mil. tons per year. The Soviet Union also participated in the restoration and reconstruction of the Songjin Steel Mill with an annual capacity of 50,000 tons of steel and 120 thousand tons of rolling.

Anyway the non-ferrous metallurgy enterprises reconstructed by the former Soviet Union, it is worth mentioning the non-ferrous metal works in Nampo. Under Soviet assistance a copper-melting shop, copper and zinc electrolysis shop were constructed, and in 1983 Soviet specialists put into operation a copper deoxygenation shop (capacity: 23,000 tons per year). In the 80's the Soviet Union started construction of a huge aluminium plant in Pukchan, but in the beginning of 90's, the Russian government suspended the work.

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gy is one of the most prospective branches of North Korean industry and North Korean authorities are extremely interested in its modernization and development.

Multilateral cooperation is also possible in the North Korean chemical industry—one of the most developed branches in the North. The Soviet Union rendered technical assistance in the reconstruction of the largest North Korean enterprise—the Hungnam Mineral Fertilizer plant (annual capacity: 1.1 mil. tons). At the

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beginning of 90's the Hungnam plant was producing more than 40 sorts of fertilizers including 100,000 tons of ammonia and 400,000 tons of nitric fertilizers per year.

In Pongun, Soviet specialists constructed a Hydrochloric Acid shop (annual capacity: 10,000 tons) and in Aoji, an ammonia plant with a capacity of 50 thousand tons per year.

The former Soviet Union also laid the foundation of North Korea's petrochemical industry. In the first half of the 70's the oil-refining plant in Ungi was constructed (capacity: 2 mil. tons of crude oil per year). The plant can produce petroleum, kerosene, diesel fuel and heavy oils.

A rather attractive sphere of future trilateral economic cooperation may be the construction materials industry in North Korea. The USSR constructed two large cement plants in the North—the Madong Cement Plant (capacity: 400,000 tons) and a slate shop at the Chonnam Cement Plant.

At the second half of the 70's the Soviet Union and North Korea started economic cooperation on a compensation basis. This meant that the Soviet government granted credits for the construction of enterprises in the machinery industry and North Korea later paid it off by deliveries of these enterprises' production. Under such conditions Soviet specialists constructed an Enameled Wire Plant in Pyongyang (capacity: 550 tons per year), the Taedonggang car storage battery plant (1.1 mil. tons of batteries per year), a microelectric motor plant (1 mil. units per year) and bearing plant in Ryonsong (near Pyongyang) with capacity of 10 mil. units per year. It should be noted that all these enterprises have a complimentary structure. For example, the microelectric motor plant can

produce engines for washing machines and household refrigerators, and enameled wires are used for the production of electric engines.

The North Korean side is also very interested in expanding production of modern metal-cutting lathes at a joint venture plant, established six years ago in Nizhny, Novgorod (Russia) and in Hoechon in North Korea. Russian specialists provided the necessary equipment for production of modern lathes and in 1993 both sides had produced about 2500 lathes. Due to economic problems in North Korea nowadays all the production lines in Hoechon have stopped. According to some estimates, new investments in this joint venture may make it possible to increase the output of these highly competitive metal lathes up to 6,000~7,500 per year.

One of the most urgent problems of North Korean economy is the expansion and modernization of its transport infrastructure. North Korean railroads almost all need huge investments. Nowadays more than 90% of the country's cargo turnover is transported by railroads and 70% of passenger trips are also taken by railroads, but the whole length of the North Korean railroad system is only 6,000 kilometers. The former Soviet Union had started modernization of railroads in the North but later suspended this work. Among the constructed objects were a railway bridge across the Tumen River, a diesel locomotive repair plant and automotive railway station in Pyongyang.

As an important sphere of multilateral cooperation in North Korea we can consider also the radio and telecommunication system created with the assistance of Soviet specialists. In 60's and 70's the former Soviet Union constructed the Radio Center in Pyongyang, a Middle-Wave Broadcasting Station and Radio Related Communication line from Pyongyang to the border of the USSR.

Special attention should be paid to the prospects of cooperation in the modernization and development of the North Korean textile industry. In this sphere the role of the former USSR was rendered during the construction of the Pyongyang textile industrial complex—the largest textile enterprise in North Korea (with capacity of 100 mil. linear meters per year), the Pyongyang silkspinning and

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weaving factory (capacity 10 mil. linear meters), and also the Pyongyang dyeing and blanching factory (capacity 45 mil linear m). Modernization of the textile enterprises in North Korea may become, in my opinion, a sort of "pilot project" of trilateral economic cooperation between Russia, South Korea and North Korea.

A considerable number of North Korean textile factories, previously involved in cooperation with the Soviet Union on a processing basis, are ready to participate in this project. According available information, there are about 25 sewing and knitting factories in North Korea, (in Pyongyang, Chongjin, Hamhung, Wonsan and Sinuiju) with rather skilled workers capable of producing competitive textile goods of high quality.

Depending on the personnel, the annual capacity of these factories is from 0.5 to 3 mil. items and for equipment stock, 150~170 units. Usually the universal stitching machines are made in the former USSR, Czech and Slovak Republics, East Germany and Hungary, the special stitching machines, in Japan (Brother). In Pyongyang there are two factories fully equipped with Japanese machines. All these enterprises are ready for production cooperation, using the "give and take" method of processing raw materials (basic and auxiliary materials, packing), delivered by the customers. These factories deliver their products to Russia (USSR), Japan, Germany, Canada, Hong Kong and Holland. Their working personnel amounts from 800 to 2,500 persons.

According to Russian experts' estimations and calculations, during the first year of cooperation, these enterprises could manage to produce about 3.5 mil items of men's and children's shirts (flannel and mixed fabrics); 1.5~2 mil. items of men's and children's trousers (flannel, mixed fabrics); 0.5~1 mil items of men's and women's light and lined jackets; 3.5~4 mil. items of suits, dresses, dressing-gowns, pajamas, nightgowns, women's blouses, corset articles; and 1~1.5 mil. items of head gear.

The pilot projects of trilateral cooperation on the basis of North Korean textile industry facilities may be performed in different ways. To my mind, one of the most realistic ways is establishing a

trilateral consortium, consisting of a group of interested companies from Russia, South Korea and North Korea. From of the Russian side it could be, for example, a joint stock company "Delaros", that has been specializing for several years in textile processing cooperation with North Korean partners. One of the possible partners from North Korean side could be Unha, a state foreign trade company that has been working for long period in this business. South Korea may be represented, for example, by the Kohap or Daewoo groups. As it was announced earlier, businessmen from these corporations visited Pyongyang at the beginning of 1995 and after these visits Daewoo confirmed its intentions to construct a light industry complex in the North Korean city of Nampo (about nine factories) and to start supplying the first three factories with new-type machinery in the nearest time. On May 17, 1995, the South Korean government officially allowed the Kohap and Daewoo corporations to establish joint ventures in North Korea to make direct investment in the North up to 5 million dollars and to supply equipment to North Korean enterprises. Immediately after the government's decision Daewoo announced its plans to invest \$5.12 million in textile factories' modernization in Nampo. As it was disclosed \$2.87 million is supposed to be invested into men's shirts production, \$1.15 million into jackets and \$1.14 million into boy's clothes production. There is also information that Kohap is going to invest up to \$4.5 million in the North Korean textile industry. Later, in June 1995, the South Korean government also allowed the Hanil Synthetic Fabor Industrial Co. and the Kukje corporation to invest into the North Korean garment and shoe production industry.

It goes without saying that every side—Russian, South Korean and North Korean—is interested in cooperation in the North Korean textile industry. The problem is how to realize this idea. The most serious obstacle on this way is the lack of any channel for political or economic exchange between two Koreas. It is quite obvious that realization of any project of multilateral economic cooperation on the Korean peninsula in the nearest future will largely depend on the situation in South-North dialogue and on the situation in North Korea. Unfortunately, in 1995 there were no

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noticeable changes for the better in inter-Korean relations. At the same time it must be acknowledged that Republic of Korea repeatedly demonstrated its intention to develop and broaden the scale of economic exchanges with the North. North Korean authorities tacitly allowed and sometimes promoted contacts and negotiations between representative of the largest South Korean companies with North Korean state-run foreign trade organizations, but kept on concealing these contacts from the people.

More favorable conditions for multilateral economic cooperation in North Korea were opened due to the recent signing of an agreement between the Korean Peninsula Energy Development Organization (KEDO) and North Korea on the supply of two light water nuclear reactors to North Korea. It is very important for inter-Korean relations that this agreement confirms South Korea's central role in supplying these reactors.

Nevertheless, it is too early to expect right now that Kim Jong-il will make up his mind to open free economic exchanges with South Korea. That is why as a provisional measure given the current stage of inter-Korean relations, the following way of trilateral cooperation in North Korean industry may be considered.

All the reconstruction and modernization works at the North Korean enterprises would be carried out by Russian specialists, who know better the specific features of North Korean industry. On this initial stage, the Republic of Korea could participate by financing the project or delivering necessary equipment and materials (through the Russian side).

Repayment of credits and equipment could be realized by the deliveries of the goods produced at the North Korean enterprises. All these operations would be carried out through the mediation of Russian companies (for example, the above-mentioned Delaros joint-stock company). This Delaros company has the necessary transportation facilities to deliver to Vladivostok goods produced in North Korea. In Vladivostok this company has warehouses where the goods can be checked and tested and then stuffed into

containers for transportation by railroad or sea, depending on destination. Taking into consideration the close distance between Vladivostok and North Korea and the already developed railroad and sea routes between Russia and North Korea, this way of trilateral economic cooperation seems to be rather promising. This scheme also seems to suit North Korean authorities who are still avoiding any direct contacts with representatives of the Republic of Korea.

Economic cooperation between South and North Korea through the mediation of Russia could be used for creating a more favorable atmosphere and could turn to direct and broad contacts between South and North Korean business leaders, which would gradually eliminate the mutual distrust between Seoul and Pyongyang. ■■■