

ON THE PROSPECTS OF TRILATERAL ECONOMIC COOPERATION  
BETWEEN THE RUSSIAN FEDERATION, SOUTH KOREA AND NORTH KOREA

*Note: This is the first of two parts of an edited text written by Dr. Alexander A. Timonin. It solely reflects his private opinion as a person who has been engaged in research on North Korea for a very long time.*

*An Unexpected Proposal*

Only broad economic cooperation with its nearest neighbors can help the North Korean economy survive.

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.

To my mind, this idea did not come forth by chance. The need for the consolidated efforts of Russian, South Korean and North Korean business leaders is caused by the very logic of the current 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.

*The Changing Situation*

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 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 neighbors 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 demonstrating growing interest in studying the North Korean market and expanding economic exchange 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 South Korean private companies in North Korea, the powerful Federation of Korean Industries (FKI) established a special Committee for South-North Economic

Cooperation 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 of South Korean businessmen, these initial contacts with the North were not as successful as was expected and didn't 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 the North. Many South Korean business leaders remain very cautious 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.

### *The Changing Situation*

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 Soviet Union rendered enormous gratuitous financial support to North Korea, laid the foundation of the heavy and light industries and 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 micro-electric 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.

### *A Look By Industry*

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 cap.) in the 1960s. In 1985, the Soviet Union assisted in construction of the Pukchan Thermoelectric Station (1,600 MW cap.), 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 cap.) and nuclear power station. Work stopped, though, in 1992, with about 35% of the equipment yet to be delivered. For the nuclear power station, only a feasibility study was undertaken, with the Russian experts making recommendations on the site. 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.

Note: This ends the first part. The second part will discuss other industries and possible pilot projects or ways of cooperation.

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