



The DPRK's economic exchanges with Russia and the EU since 2000: an analysis of institutional effects and the case of the Russian Far East

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Abstract

This study analyzes the Democratic People's Republic of Korea's (DPRK—or North Korea) economic exchanges with Russia and the European Union (EU) from an institutional perspective. Trade statistics show that between 2000 and 2012, the DPRK conducted more trade with the EU than with Russia, its neighbor and former socialist ally. This observation provokes the following questions: In what way does the institutional environment in Russia and the EU impact on economic exchanges with the DPRK? Why have Russia's economic exchanges with the DPRK remained limited despite a common land border? Of particular interest is the cooperation between the Russian Far East (RFE) and North Korea. What does the institutional set-up in the RFE imply for business opportunities in North Korea? To examine the so far little researched role of the RFE, this study uses quantitative and qualitative data provided by the Russian Federal Customs Service and the district governments of Khabarovsk and Primorye. The findings show that political, legal, and normative factors as well as different business practices impact on economic exchanges with the DPRK in various ways.

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Introduction

This article analyzes the institutional environment and its effect on the Democratic People's Republic of Korea's (DPRK—or North Korea) economic exchanges with Russia and the European Union (EU). Trade statistics show that until 2012, North Korea's trade volume with the EU had been larger than that with Russia (Fig. 1). In 2011, the DPRK's trade volume with the EU amounted to USD 159 million, compared to USD 112.8 million with Russia (KOTRA 2012). This changed in 2012 when Russia and the EU representing 28 member states ranked second and eighth among North Korea's international trading partners (excluding South Korea), respectively.¹ While the decrease of the EU-DPRK trade can be regarded as an outcome of international and EU sanctions, North Korea's comparatively low trade volume with Russia raises the following questions: Why have economic exchanges between Russia and North Korea remained limited in scope and scale despite comparative advantages such as geographical vicinity? In what way does the institutional environment in Russia and the EU impact on economic exchanges with the DPRK? The aim of this study is to solve this puzzle by also analyzing the regional cooperation between the Russian Far East (RFE) and the DPRK. More specifically, what does the institutional set-up in the RFE imply for business opportunities in North Korea?

The DPRK's economic exchanges with Russia and the EU have generally received less scholarly attention than its relations with China and South Korea. Previous research on Russian-North Korean economic cooperation has identified a number of institutional constraints such as the unsettled debt problem (Denisov and Zhebin 2008: 191), outdated business practices of the North Korean partners expecting credit (Trigubenko 2006: 133), and instances of unilaterally modifying agreements (Toloraya and Vorontsov 2015: 59). Moreover, the absence of consulting bodies on the investment environment and on business opportunities in the DPRK (Leshakov 2005: 206) as well as strict regulations for processing US dollar denominated transactions due to US economic sanctions imposed against North Korea (Leshakov 2012: 49) are regarded as reasons for the low level of Russia-DPRK exchanges. Russia's policies towards the DPRK also impacted on the countries' economic exchanges in various ways, both constraining and enabling economic cooperation (Suslina 2006: 118–120). The Moscow-led radical change of its economic cooperation model in the 1990s, i.e., the transition from long-term intergovernmental agreements with clearing account settlement and discounted pricing towards market principles and transactions in hard currency, seriously limited the scope of bilateral exchanges (Zabrovskaya 2003: 121). Conversely, the normalization of political relations in the 2000s laid the basis for further revival of economic cooperation with specific emphasis on a trilateral format involving South Korea (Denisov and Zhebin 2008: 89, 198). In 2014–2015, the Russian government made significant efforts to create a favorable institutional environment ensuring sustainable growth of bilateral economic exchanges (Zakharova 2016: 153–155). Some scholars also stress the Russian businesses' advantage in dealing with the DPRK as a result of its

¹ Official trade with Russia and the EU constituted 1.4% and less than 0.5% of North Korea's estimated total foreign trade, respectively; China remained the DPRK's biggest trading partner with 91.3%.

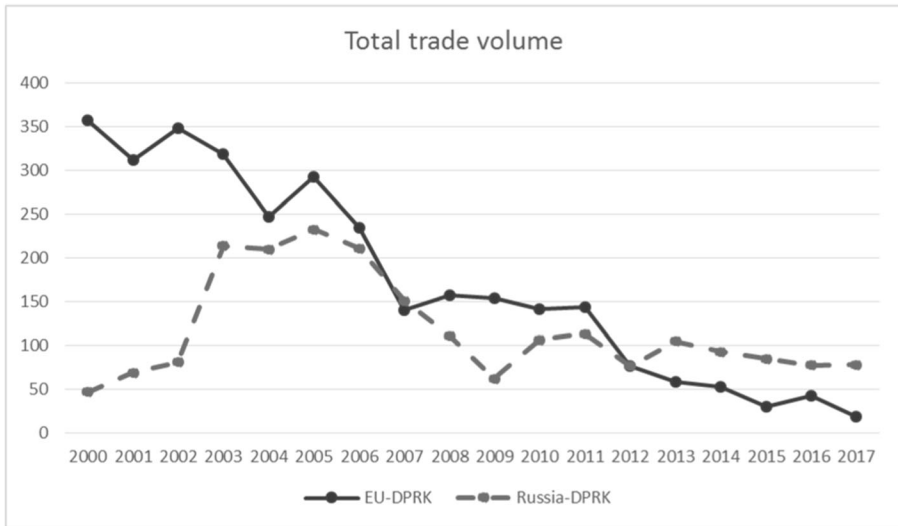


Fig. 1 DPRK's trade with Russia and EU member states, 2000–2017 (in USD million). Source: KOTRA (2001–2018)

historical heritage and Moscow's policies (cf. Toloraya 2016). This aspect is considered to foster a positive mind-set among North Koreans towards Russia, especially in the light of the former's high dependence on China that Pyongyang wants to reduce (Toloraya 2016: 130). Assessing the reasons for the limited EU-DPRK economic relations, authors cite the sanction regime (Haggard and Noland 2017: 94), a relatively high level of uncertainty due to the regulatory environment, legal issues and payment difficulties (Burdelski 2010), logistical challenges such as lack of adequate infrastructure and energy as well as finding a "solid" partner (Roussin and Ducruet 2010).

Before moving on to the discussion on the institutional environment of North Korea's economic exchanges with Russia and the EU a definition of the key term—institution—is provided. According to North, institutions structure all forms of human interactions and are widely considered as "rules of the game" (1990: 3); they constrain and empower actors (Greif 2006, North 1990). Actors involved in economic exchanges with the DPRK are both state-level and non-state organizations such as private companies. Business takes place in an environment that is shaped by various institutions including policies, laws, and business practices. Scott distinguishes between four levels of environment where "institutional forces operate": (1) local, (2) sectoral, (3) national or societal, and (4) transnational (or global) (Scott 2011: 63–71). The focus of this study is on national and transnational institutions. Here, the term "economic exchanges" refers to bilateral trade, investment, labor migration, technical assistance, and humanitarian aid.

The analysis of the institutional environment and its impact on the DPRK's economic exchanges with Russia, the RFE, and the EU is primarily based on quantitative data but also includes qualitative data. Statistics provided by the Russian Federal Customs Service, the International Trade Centre, the Khabarovsk and Primorye district governments, the (South) Korea Trade-Investment Promotion Agency (KOTRA), the EU, and the Organization for Economic Cooperation and Development (OECD) were

supplemented by data published by companies that deal with the DPRK. Qualitative data derived from interviews, conversations, and e-mail exchanges with informants including representatives of both national and regional government in Russia, North Korean diplomats and scholars, Russian business people as well as representatives from the EU Commission and the European Business Association. The focus of the study is on the time period of 2000 to 2017 but is also refers to developments in 2018.

Russia's economic relations with the DPRK

After Korea's liberation from Japanese colonial rule in 1945 and its division, the Soviet Union played a central role in rebuilding the economy in the northern part of the Korean peninsula. Moscow not only provided the young North Korean state with specialists and assistance in different sectors, but also offered favorable prices on strategic materials and a big market for DPRK's export goods. However, bilateral relations nosedived after the USSR established diplomatic relations with South Korea in 1990 and stopped economic assistance to North Korea. Due to the difficult economic situation that both countries faced in the 1990s, the scope of bilateral trade and investment cooperation "naturally" narrowed. Since the 1990s, the institutional environment for economic exchanges has changed and the following paragraph discusses political and legal aspects.

Political and legal framework

The institutional framework for Russia-DPRK economic exchanges saw a revitalization at both national and transnational level as the beginning of the twenty-first century brought an improvement in bilateral relations. In a new intergovernmental "Treaty on Friendship, Good Neighborly Relations and Cooperation" signed in February 2000, the parties agreed to provide the basis for favorable legal, financial, and economic conditions and to actively promote bilateral trade, economic, scientific, and technical relations between Russia and the DPRK. Furthermore, the 2000 Joint Russian-Korean Declaration expressed the intention to revitalize cooperation in various spheres including metallurgy, energy, transport, forestry, oil, gas, and light industries. The modernization of industrial and energy plants built with USSR assistance, such as the Kim Chaek steel plant, the Syngri oil refinery, and the East Pyongyang thermal plant, were prioritized. The Russian government, however, stressed that "it was not in a position to grant aid or credits and that financing for these projects should be sought on a commercial basis" (Toloraya 2002: 155). In 2006, the agreement on investment protection that had been negotiated between Russia and North Korea in 1996 entered into force. To further expand the export of North Korean labor force into Russia, the two countries signed an agreement on temporary employment of their citizens in 2007. Moreover, a major obstacle to an expansion of bilateral economic cooperation—the DPRK's USD 11 billion debt to Russia inherited from the Soviet Union times—was removed in 2014 (cf. Kim DJ 2012: 400). Russia agreed to write off 90% of the debt and to use the remaining 10% to finance development aid projects in education, health care and energy spheres on the DPRK's territory as official assistance of the Russian Federation. To diversify economic ties, an unprecedented number of bilateral contacts took place at both government and regional levels in 2014 and 2015.

Due to high political risks of dealing with North Korea and a general lack of information on its investment climate and business opportunities, the Russian government took the lead in these efforts and assisted local companies by providing them with administrative and informational support. It created a favorable institutional infrastructure, and one organization to be highlighted in this context is the “Intergovernmental Commission on Trade, Economic, Scientific and Technical Cooperation” (IGC) between Russia and the DPRK.² Established in 1991 as a joint commission on trade and economic cooperation and renamed in 1996, the IGC aims at promoting cooperation between the two countries in different economic spheres. It has several subcommittees and working groups and holds meetings of government officials and concerned businesses. The outcome of the IGC meetings in 2014 and 2015 shows that the organization plays a central but so far limited role in creating a more favorable environment for economic exchanges. The IGC meetings identified main problems of bilateral economic relations and offered solutions such as the (short-lived) restoration of bank relations, multiple-entry visa, and plans to create organizations to facilitate business interactions.

First, to make bilateral bank relations less dependent on the US sanctions imposed against the DPRK, Russia and North Korea agreed to account settlements in rubles in all trade transactions. In June 2014, the DPRK Foreign Trade Bank opened its account at the Russian AKB Regional Development Bank (Minvostokrazvitia 2014a), but the cooperation between the two banks did not last long as the Russian partner's license was revoked. Second, to improve the local business environment for Russian companies, the North Korean authorities started to issue multiple-entry visas and promised to grant broad access to the information on the DPRK's laws (Minvostokrazvitia 2014b). Third, Russia and North Korea signed an agreement on international automobile communication and launched working group discussions on building an automobile bridge over the Tumen river, which had been a long-cherished desire of the Korean side to boost bilateral trade (Toloraya 2016: 127). Fourth, the two countries agreed to establish a Business Council under Russia's Chamber of Commerce as a non-governmental body assisting in partner search, considering potential cooperation projects, and advising the government on support measures. Fifth, Russian businesses planned to establish an “international trade house” with an office in Pyongyang as a special commercial mechanism aimed at optimizing bilateral trade relations.

If all the plans had been realized, a three-tier mechanism of Russian authorities' support for business activities in North Korea would have been created: the IGC as the main official body securing Russian interests in negotiations with the DPRK authorities, the Business Council as a mediator between companies and government bodies, and a trade house with an office in North Korea to provide business with permanent on-site support. It was expected that it would take some time for the new institutional set-up to have a real impact on bilateral economic ties but the sanctions imposed by the United Nations Security Council (UNSC) against the DPRK in 2016–2017³ in response

² The Russian side of the IGC is headed by the Minister of Far East Development, currently Alexander Kozlov, (Alexander Galushka until May 2018); the DPRK is represented by the Minister of External Economic Relations, currently Kim Yong Jae, a former DPRK ambassador to Russia.

³ Resolutions 2270 (2016), 2321 (2016), 2371 (2017), 2375 (2017), and 2397 (2017)

to the latter's nuclear and missile tests seriously limited the scope of possible cooperation areas with North Korea.

It has been noted that the implementation of the UNSC resolutions also affects Russian economic interests on the Korean peninsula. Positive developments in the dialog between the DPRK and the USA in 2018, especially the Singapore summit, raised expectations in Russia on certain progress in easing international sanctions against North Korea (Rossiyskaya gazeta 2018). Coupled with South Korean President Moon Jae-in's initiatives on expanding economic cooperation with Pyongyang, it could create favorable conditions for the reactivation of economic ties between Russia and the DPRK with possible advancement of trilateral projects. Therefore, in autumn 2018, Russia called for the UN Security Council to ease sanctions on the DPRK in response to Pyongyang's actions towards denuclearization. The move was not supported by the USA, though, leaving Russia and North Korea in search for non-restricted areas of cooperation. Trade in non-sanctioned North Korean goods (such as medical products made with Ginseng, for example), supply of spare parts for North Korean civilian passenger aircraft from Russia, as well as cooperation in tourism are among them.

Russia-DPRK trade

This paragraph analyzes the economic outcomes of the changing institutional environment in Russia-DPRK relations. At the beginning of the twenty-first century, Russia remained a relatively small trade partner for the DPRK, especially in comparison with China, Japan, and South Korea. Although there was a visible increase in bilateral trade exchanges during 2004–2006 with fuel being the main Russia's export, in 2009, the turnover nosedived to a 10-year low, showing a high degree of volatility. The ambitious target of USD 1.0 billion in trade by 2020 that Russia and North Korea set in 2014 appeared unrealistic unless the Russian government subsidized it. The bilateral turnover kept falling in 2015 and 2016, accounting for USD 84 million and USD 77 million, respectively. In 2017, it stood almost at the same level (USD 77.9 million) but dropped sharply—by 76%—in the January–September period of 2018 (USD 17.4 million compared to USD 73.9 million in Jan.–Sept. 2017) due to the UNSC sanctions.

Figure 2 shows that bilateral trade has been mostly based on exports from Russia to the DPRK. Imports from North Korea accounted for less than 20% of the total turnover. As a result, North Korea has a chronic trade deficit which stood at USD 70.5 million in 2017.

The product structure of bilateral trade consists mainly of Russian fuels. According to the data of Russia's Federal Customs Service, in 2016, North Korea's principal imports from Russia were mineral fuels (mostly coal), oils, and distillation products (84%), products of the milling industry; malt; starches; inulin; wheat gluten (5%), fish and crustaceans, molluscs, and other aquatic invertebrates (3%), while North Korea's principal exports to Russia included fish and crustaceans, molluscs, and other aquatic invertebrates (32%); vehicles other than railway or tramway rolling stock, and parts and accessories thereof (22%); and articles of apparel and clothing accessories, not knitted or crocheted (14%). The UNSC sectoral sanctions against the DPRK passed in 2017 affected the product structure of Russia-North Korea trade. In the January–September period of 2018, Russia's export to North Korea accounted for USD 15.9 million, of which 58% was mineral fuels (mostly gasoline), 20% soya-bean oil, and 6%

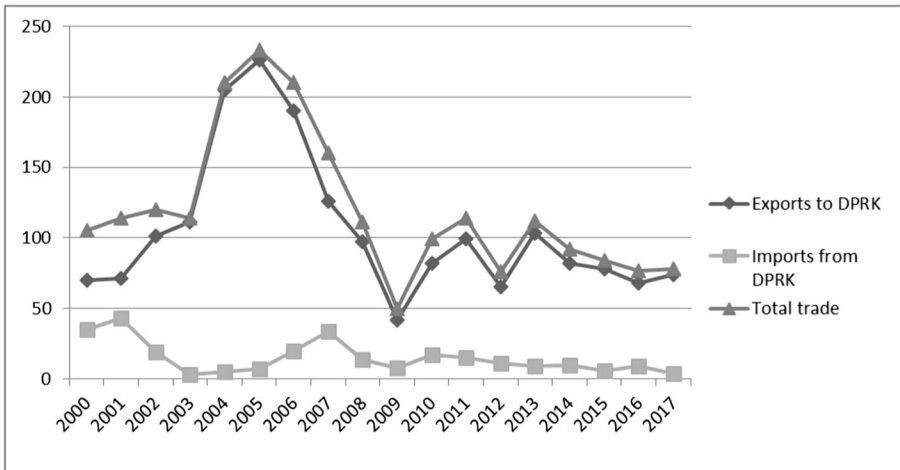


Fig. 2 Bilateral trade between Russia and the DPRK, 2000–2017 (USD million). Source: Federal Customs Service of Russia (2018)

pharmaceutical products. Imports from the DPRK for the same period dropped to USD 1.5 million with 67% of that being musical instruments.

One could argue that with about 1% share in the DPRK's external trade, Russia could barely be considered an important economic partner for Pyongyang. However, Russia's role in the North Korean economy is bigger because of the so-called "indirect trade": Russian goods find their way to the DPRK via numerous Chinese intermediaries and the volume of this indirect trade is often estimated to be bigger than the official bilateral turnover—up to USD 900 million (Lukin and Zakharova 2018: 247). With a new institutional environment, the Russian side planned to redirect those flows into official channels to achieve its ambitious goal for trade increase, but the general lack of trust towards North Korean partners coupled with tightened international sanctions, especially in the financial sector, negatively affected the prospects of that idea. Moreover, as informants pointed out, Chinese companies fearing repercussions due to the international sanctions are no longer willing to play the role of intermediaries between Russian and North Korean entities.

Russia-DPRK investment cooperation

Requests by the DPRK government to Russia to help modernizing the facilities built by Soviet specialists, especially power stations, did not materialize, primarily due to the lack of funding. The main Russian investors abroad are big Russian companies that are used to focus their external investment on reliable assets with guaranteed profit in such spheres as energy, metallurgy, finance, telecommunications, and IT. Even though some niches and opportunities in these areas exist in North Korea, to most Russian corporations, projects involving high political and financial risks are not attractive without solid government support. The state-owned OJSC Russian Railways is so far the only company that received such support and funding; it is involved in the modernization of the DPRK's transport infrastructure from the Russian border to Rajin port. The Khasan-Rajin logistics project is

implemented by the joint venture RasonKonTrans, which was set up in 2008 and is owned by OAO RZD Trading House, a subsidiary of OJSC Russian Railways, and the port of Rajin, with 70% controlled by Russia and 30% by North Korea. The project involved rebuilding a 54-km double-track stretch railway from Russia's Far Eastern border town of Khasan to North Korea's northeastern port city of Rajin, as well as the construction of a freight terminal with an annual capacity of 4 to 5 million tons at Rajin port. Russia invested about USD 300 million in constructing the infrastructure in North Korea.

The renovated section of the railway was officially reopened in September 2013 and the universal freight terminal at Rajin port went into operation in July 2014 (Zakharova 2016: 157). Because the Khasan-Rajin project was excluded from the UNSC sanctions, Russian companies have been able to export coal via Rajin port to China and South Korea since late 2014. In 2014, about 100,000 tons of coal were shipped through Rajin port to China; the volume grew to almost 1,200,000 tons of freight in 2015 and about 1,700,000 tons in 2016. Three shipments of Siberian coal to South Korea took place in November 2014, April–May 2015, and November 2015.⁴ However, due to unilateral sanctions imposed against the DPRK by the Republic of Korea at the beginning of 2016, the South Korean side withdrew from the discussions on joining the Khasan-Rajin project. In the absence of new customers and suspended transit flows of coal from Russia to China in 2018, the operation of RasonKonTrans has been facing new challenges severely affecting Russian economic interests. One of the possible solutions could be the return of South Korea to the project implementation as inter-Korean relations have considerably improved since the beginning of 2018.

In 2014 and 2015, some medium-sized private Russian companies announced their plans to invest in North Korea. The investments were focused mainly on the mining sector and based either on barter arrangements or more complex schemes involving participation of Russian companies in infrastructure and other projects in exchange for access to North Korean mineral resources (Toloraya 2016: 125). The implementation of these projects would contribute to the modernization of the DPRK's outdated transport and industrial infrastructure, providing a profitable activity area for some private Russian businesses.

The DPRK government has also long been seeking for Russian investment into its electric power sector. Due to the lack of funding from the North Korean side, Moscow is much more interested in a bigger project of constructing an energy bridge to South Korea through North Korea. At the same time, some smaller projects, such as supplying North Korea's Rason region with electricity from the Russian Far East, have also been discussed.

A new set of economic sanctions adopted by the UNSC in 2016–2017 did not let the new formula of investment cooperation, i.e., selling North Korean minerals in the international market to guarantee Russian investment into the DPRK's infrastructure and production, show its full potential. With the ban on exports of most mineral resources from North Korea as well as prohibition of foreign investment in joint ventures, all major projects of Russian companies were put on hold.

Although official statistics on the Russian investment stock in the DPRK are not available, estimates by the authors suggest that it accounts for about USD 300 million

⁴ A consortium of South Korean companies—POSCO, Hyundai Merchant Marine Co., and Korail Corp.—was looking at joining the Khasan-Rajin logistics project as one of its shareholders. However, after the DPRK's nuclear tests and rocket launches at the beginning of 2016, South Korea declared its intention to suspend cooperation until there is progress in the denuclearization of North Korea.

that went into the Khasan-Rajin logistics project. North Korean investment into Russia is an even less statistically approachable area. The stock figure probably stands at several million USD with most of it invested into North Korean restaurants and joint ventures inviting migrant workers from the DPRK.

Humanitarian assistance

After the dissolution of the USSR, Russia has not played a significant role in providing humanitarian assistance to the DPRK. However, as a participant of the six-party talks, and fulfilling the October 3, 2007 Agreement on “Second-Phase Actions for the Implementation of the Joint Statement,” Russia provided North Korea with 200,000 metric tons of heavy fuel oil between 2007 and 2009 (Korea North Country Study Guide 2015: 222–223). In the 2010s, Moscow continued to provide humanitarian assistance to North Korea at both bilateral and multilateral (e.g., donating to the United Nations World Food Program) levels. In 2014 alone, Russia’s aid to the DPRK included 50,000 tons of wheat, about 3000 tons of wheat flour, 50 modern fire engines, and equipment sets for field hospitals (Matsegora 2015).

North Korea occupied 4% of total Russian humanitarian aid to foreign countries in 2011–2015 (European Parliament 2016). Since 2014, the annual volume of Russia’s official development assistance (ODA) to the DPRK has exceeded USD 44 million, and aid has become an important part of Russia-DPRK economic exchanges (Fig. 3). In 2016, Russia provided emergency relief in the form of food and diesel oil to those areas in the DPRK that were hit by typhoon Lionrock. This act has been regarded as a demonstration of Moscow’s will to keep friendly relations with its far eastern neighbor. All aid is provided at the state level with no private organizations involved in humanitarian projects in the DPRK. After having discussed the institutional framework for Russia-DPRK economic exchanges at the national level, the attention now turns to the institutional set-up in the Russian Far East.

Doing business with the DPRK: the experience of the Russian Far East

In the Russian Far East (RFE), each district (or Krai) has developed different levels of cooperation with North Korea. The authors selected Primorye Krai and Khabarovsk Krai for closer comparative analysis. Primorye Krai is Russia’s “main gate” to the DPRK and the district could become a crucial area for trilateral cooperation projects between Russia, South and North Korea once the nuclear issue is settled: electricity supply from the RFE’s Kraskino district to Chongjin, construction of an “energy bridge” from Russia to South Korea through North Korea, connection of the Trans-Korean railroad with the Russian Trans-Siberian railroad, and construction of the Trans-Korean gas pipeline. Khabarovsk Krai, particularly Khabarovsk city, had been the RFE’s main political center until the end of 2018 where the representative of the Russian president in the Far East was located and where the RFE’s local government authorities were supervised.⁵ Khabarovsk Krai has developed close political relations with the DPRK.⁶

⁵ In December 2018, the capital of the Far East was moved to Vladivostok.

⁶ For example, the representative of the Russian president in the Far East, Konstantin Pulikovskiy, personally accompanied the then leader of the DPRK, Kim Jong Il, for several days during the latter’s visits to Russia in 2001 and 2002.

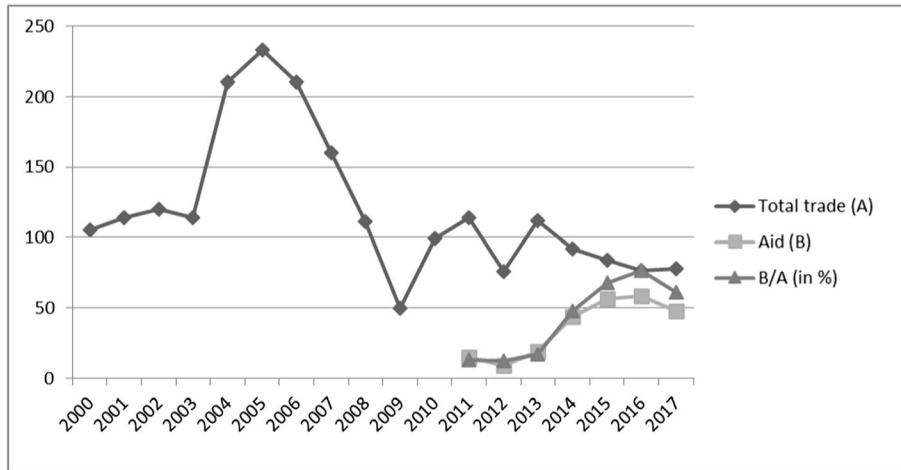


Fig. 3 Russia-DPRK trade (A) and Russian aid (B) in USD million and B/A (in percent), 2000/2011–2017. Source: Federal Customs Service of Russia (2018) and OECD (2019)

Primorye Krai

The district of Primorye with its capital Vladivostok is the only place in Russia that has a common border and a land border transit with North Korea. The Khasan railway station—an important part of the Russia-DPRK Khasan-Rajin logistics project—is located there. Besides, there exists a number of transportation links between Primorye Krai and the DPRK: the air route Vladivostok-Pyongyang, the passenger railroad route “Ussuriysk-Tumangang,” and sea-routes from the port of Vostochniy located in Nakhodka city to a number of seaports in the DPRK, in particular Chongjin, Rason, and Wonsan. A new passenger and cargo sea-route was launched between Vladivostok and Rajin in May 2017. However, geographical vicinity and existing transportation links have limited impact on trade between Primorye Krai and the DPRK: it amounted to less than 20% of total trade between the two countries in 2011–2017.

In 2015, the region’s trade with the DPRK decreased by more than half: from USD 18.4 million to USD 8.37 million (Table 1). Exports shrunk to USD 4.99 million due to reduction in oil products supply. In 2016, the turnover continued to decline. Exports of oil products dropped to USD 1.3 million, while imports increased due to the supply of frozen fish. The 2017 trade turnover showed a slight growth (9.43 million USD). While imports from the DPRK sharply dropped, exports—mainly vegetable oil and fuel—increased significantly by 58%. The surge in exports to North Korea and the growing trade deficit continues to

Table 1 Trade between Primorye Krai and the DPRK (USD million)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Exports to DPRK	n/a	n/a	9.9	12.0	21.5	18.3	6.7	3.9	9.24
Imports from DPRK	n/a	n/a	3.0	1.7	1.9	0.1	1.67	3.1	0.01
Total volume	n/a	n/a	12.9	13.7	23.4	18.4	8.37	7	9.43

Source: Federal Customs Service of Russia (2018)

characterize bilateral trade relations. Surprisingly, the export volume continued to grow in 2018 despite the expansion of sanctions against the DPRK, 12.46 million USD (Jan.–Sept 2018). The greatest part of the exports to DPRK consisted of oil products (gasoline).

Agriculture

In the agricultural sector, Primorye Krai and the DPRK implemented small-scale cooperation projects.⁷ In 2013, North Korea rented 10 ha of land for agricultural production (plant growing) in the Dalnerechenskiy district of Primorye Krai. In 2016, North Koreans ran an experimental agricultural enterprise there. In April 2015, the Russian company “Spasskiy becon” located in the Primorye area agreed with the DPRK to establish a pig-breeding farm in the city of Sariwon in North Hwanghae province. “Spasskiy becon” delivered 700 cattle heads to North Korea for the consequent export of meat to Russia. Although the DPRK government’s objective was to expand agricultural production in the RFE by using Korean labor and equipment, other plans have not been realized until the time of writing.⁸ According to local government officials in Primorye Krai, the main reason is different business practices in the two countries. Most Russian agricultural companies are private ones and local authorities are not allowed to interfere in their activities. For the North Korean companies, the terms and conditions proposed by the Russian side were not suitable and, therefore, no concrete results have been reached as of 2018. The institutional environment hinders large-scale involvement by Russian private companies, and the presence of Chinese agricultural companies offers more favorable conditions. In contrast to North Korea, Chinese businesses not only accept the local “rules” but can also afford making huge investments.

North Korean labor force

Thanks to a more favorable institutional environment, economic exchanges in terms of recruitment of North Korean labor force had been growing until 2016. North Korean labor plays a significant role due to the labor shortage in the RFE, particularly, in the construction sector. Private Russian companies can apply for foreign labor force to the regional government, for example, one thousand men for construction works. If the applicants fulfill their obligations⁹ the regional government seeks approval from the Federal Migration Service in Moscow and other ministries for inviting a certain number of foreign laborers.¹⁰ In 2012, the quota approved by the federal government for North Korean laborers in Primorye Krai was 5831 men. As Table 2 shows, the quota

⁷ During the presidencies of Kim Dae-jung (1998–2003) and Roh Moo-hyun (2003–2008), trilateral agricultural projects involving Russia, North and South Korea were discussed: Russia would provide (grant) its land, North Korea its labor force, and South Korea its technology and funds.

⁸ For example, during a meeting with the Primorye Krai government in 2014, the DPRK’s deputy minister of agriculture, Koh Myon Hee, announced that North Korean agricultural companies were interested in launching new joint projects in plant growing, especially in producing soybean and cereals. The DPRK government showed readiness to rent up to 10–15 thousand ha of land in the RFE, particularly in Vladivostok, Khabarovsk, and Blagoveschensk, the capital city of the Amurskiy area.

⁹ The private company is required to provide the foreign laborers with housing, all necessary immigration documents, a work permit, and a salary.

¹⁰ In April 2016, the FMS was abolished and its duties were incorporated by the federal Ministry of internal affairs.

Table 2 North Korean laborers in Primorye Krai according to sectors (unit: persons)

	2012	2013	2014	2015	2016	2017
Construction	5562	5047	6759	7117	7117	–
Others (agriculture, forestry, fishing, etc.)	269	1165	1175	620	614	–
Total	5831	6212	7934	7737	7331	6100

Source: Primorye District Government

increased to 7737 men in 2015 with remaining at almost the same level in 2016, but falling to the level of 2013 in 2017.

Between 80% and 95% of the North Korean workers were employed in the construction sector. They built some of the infrastructure for the 2012 APEC Forum in Vladivostok, the Far-Eastern Federal University, the international airport of Vladivostok, hotels, etc. Among Russian companies, the demand for North Korean labor force is relatively high because North Koreans are commonly perceived as being very disciplined, diligent, and highly capable of working. Moreover, they do not negatively impact on the criminal situation in Russia, unlike laborers from some other countries. Considering recent threats of international terrorism, this fact has largely been regarded as a crucial advantage of the North Korean labor force. The adoption of UNSC Resolution 2397 that decrees the expulsion of North Korean laborers has also implications for the RFE: 2017 saw a decline of 17% to 6100 persons. By mid-2018, the number of North Korean workers in Primorye Krai was expected to drop to 3000 persons. To guarantee the removal of the remaining North Korean workforce by the end of 2019, federal and local governments have stopped approving and prolonging quotas for North Korean workers since 2018. The implementation of the UNSC resolution impacts on businesses of not only Primorye Krai but also the whole Far Eastern region, especially Khabarovsk and Sakhalin districts. In order to maintain their business activities properly, Russian companies rely more on workers from Central Asia, Vietnam, and Turkey.

Railway passenger and cargo flow

The status of economic exchanges between Primorye Krai and the DPRK is also reflected in the transit of people and cargo. The railway passenger flow is conducted through the transit border point Khasan (Russia)–Tumangan (DPRK). According to statistics of the state-run Russian Railways company, in 2018, the total passenger turnover was 7446 persons, a decrease by 40% compared to 2015 (12,348 persons; 2016, 7424; 2017, 7696). The traffic capacity of the Khasan–Tumangan railway border point is four times bigger than currently utilized; thus, there is more potential for growth.

Since the official opening of the Khasan–Rajin logistics project in September 2013, the Russian Railways not only delivered goods to the DPRK but also, as mentioned above, shipped freight via Rajin port to China and South Korea. In 2015, it delivered 1.2 million tons of cargo by railway to the DPRK. Ninety-four percent of that (1.1 million tons) was Russian coal delivered to Rajin and consequently shipped further

to China or South Korea. In 2016, the Russian Railways increased the delivery of goods through the Khasan-Rajin route up to 1.65 million tons with Russian coal accounting for 1.58 million tons (95.7%) of that. In 2017, the trend of increasing volume of goods mainly consisting of Russian coal continued: of the 1.99 million tons of delivered cargo, 98.9% (or 1.96 million tons) consisted of Russian coal. In 2018, exports of Russian coal were stopped (0.0 tons). Although the Khasan-Rajin route has been exempted from the UNSC sanctions, Russian coal ceased to be imported to China via Rajin port in 2018. According to informants, official documents for the import of Russian coal through Rajin port were not issued by Chinese officials, a fact that some observers have regarded as a form of boycott. Different views exist about the underlying reasons: while some informants suggest that Chinese companies fear being unilaterally punished by the USA, others point to the existence of broader economic and strategic considerations on the part of China. Because the Khasan-Rajin economic corridor remains an important Russia-DPRK joint project, the presence of Russia could be regarded as a threat to Chinese hegemony. This argument is difficult to prove¹¹ and it is worth noting that Chinese companies continue to receive Russian coal from seaports of Primorye and Khabarovsk Krai (Vladivostok, Nakhodka, Vanino). Unless some sanctions (e.g., UNSC Resolution 2371) will be eased, observers do not expect much change.

Khabarovsk Krai

Khabarovsk Krai with its capital Khabarovsk city is another district of the Far Eastern region that has established relations with the DPRK. Compared to Primorye Krai, trade between Khabarovsk Krai and the DPRK is smaller. This fact is particularly owed to the lack of a common border with North Korea. Like Primorye, Khabarovsk Krai does not consider North Korea a key economic partner. As Table 3 shows, bilateral trade between the Khabarovsk district and the DPRK was relatively small and volatile. Between 2009 and 2017, the annual gaps in the turnover were large.

The largest turnover is seen in 2011, USD 2.76 million, which is more than four times of the 2010 level. The main export items were ferrous metals (68%) and construction materials, particularly gravel and crushed stone (17%). In 2012 and in 2013, the trade volume decreased by 3.6 and 8 times, respectively. In 2013, Khabarovsk companies exported oil products (45%) and machinery (55%) to the DPRK. Imports from the DPRK were ready products from ferrous metals. For 2014, Table 3 shows an increase of exports by more than 12 times which was caused by a supply growth of bituminous coal worth USD 1.126 million to the DPRK. Since Khabarovsk Krai expanded construction works in 2014, the demand for construction materials also increased. As a result, Khabarovsk companies imported sand from North Korea which constituted 69% of the total imports. The other 31% of imports consisted of ready products from ferrous metals. In 2015 and 2016, Khabarovsk's exports to the DPRK mainly consisted of seafood. In 2017, the trade volume decreased by 83% and exports to the DPRK consisted of fuel and timber. In the first 9 months of 2018, trade was

¹¹ The situation has been compared to how China dealt with South Korea's decision to deploy US-made anti-missile defense system (THAAD) in 2017. South Korean companies were boycotted and suffered heavy financial losses. However, the role of the Chinese government in the boycott could not be proved.

Table 3 DPRK trade with Khabarovsk Krai (USD million)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Exports to DPRK	0.0213	0.6399	2.7163	0.6	0.0906	1.126	1.2	1.2	0.16
Imports from DPRK	0.0099	0.0039	0.0	0.1456	0.0025	0.1055	0.3	0.0	0.0
Total	0.0312	0.6436	2.7163	0.7456	0.0931	1.2315	1.5	1.2	0.16

Source: Federal Customs Service of Russia (2018)

suspended (0.0 USD) as a result of the newly imposed sanctions against North Korea. The uncertainties and risks related to dealing with the DPRK has prompted local companies in Khabarovsk to do business and seek business opportunities with China along the Russian-Chinese border.

In the past, Khabarovsk Krai and the DPRK have tried to find new ways to boost business.¹² In February 2015, the Khabarovsk area government signed an agreement with the DPRK ministry of external economic affairs on promoting economic cooperation in different spheres. At the municipal level, Khabarovsk city established friendship contacts with the city of Chongjin, North Hamgyong province. In May 2015, a delegation of Chongjin city led by the chairman of the People's Committee visited Khabarovsk city and held talks on boosting economic cooperation between the two cities. The lack of tangible results of these meetings indicates that the implementation of signed agreements demands considerable time due to differences in business practices and sometimes misunderstandings between the partners.

North Korean labor force

According to the data provided by the Khabarovsk district government, the quota for North Korean laborers in the Khabarovsk area was 2244 men in 2013. In 2014, the quota was raised to 2289 men, and to 2300 men in 2015. Although Khabarovsk Krai hosts less North Korean laborers than Primorye Krai, North Koreans play a significant role in the building of local infrastructure. About 80% of them work in the construction sector. There were plans to increase the number of North Korean laborers in the Khabarovsk district up to 2900 men in 2016 but the actual number of North Korean laborers was 2128 men. The demand for construction workers was expected to increase due to new infrastructure projects and the Russian federal program on the development of the city of Komsomolsk-on-Amur into an industrial hub. In Khabarovsk, as in Primorye Krai, existed a relatively high demand for North Korean laborers. However, due to the UNSC resolution, local companies are required to employ laborers from Central Asia

¹² The agricultural sector of Khabarovsk Krai is, so far, not involved in cooperation projects with the DPRK, even though the DPRK minister of foreign affairs, Ri Su Yong, and the deputy minister of agriculture, Koh Myon Hee, during their visits in 2014 showed interest in promoting such cooperation with the local government.

and Vietnam. In 2017, the number of North Korean laborers decreased by 50% to 1100 persons and they are likely to disappear in the Russian labor market until the end of 2019.

As shown above, the RFE plays an important role in the dialog with North Korea. However, the RFE's contribution to trade and investment cooperation with the DPRK remains low due to various institutional factors. First, private Russian companies are not ready to conduct their activities without earning profits and, therefore, are very cautious in dealing with the DPRK. In the eyes of most Russian businessmen, North Korea does not offer attractive economic projects—as opposed to Chinese companies. Second, the nature of the DPRK system requires local companies to coordinate their activities with Pyongyang; independent economic decision-making is, despite some reforms, still very limited. These bureaucratic hurdles impact on the feasibility, efficiency, and sustainability of joint business projects. An exception is the recruitment of North Korean laborers to the RFE; they have a real competitive advantage and the risks for local companies are low. However, the international sanctions require Russia to end cooperation with the DPRK in the area of labor migration by the end of 2019. Third, the RFE companies' role in the trade of strategic goods such as natural resources is limited as this sector is largely controlled by corporations located in Moscow. This requires North Korean trading firms to negotiate business deals in the Russian capital rather than in the RFE. Fourth, the demand for North Korean commodities such as textiles, drinks, and medicine has been low among Russian companies. Fifth, economic ties are unlikely to be expanded through North Korean mineral resources (coal, ores, etc.) even if the sanctions are lifted as Russia itself possesses much more such resources for export trade. Finally, the presence of highly competitive Chinese companies is an important factor that shapes the institutional environment. Suitable business conditions including quick and efficient decision-making procedures, the popularity of Chinese products among Russians, and the growing Chinese demand for locally produced Russian commodities has made China the main commercial partner for the RFE. Organizations such as the Chinese-built trade centers for Russian goods along the Russia-China border in, e.g., Fuyuan, Zhaohe, and Tongjiang as well as in Harbin and Hegang facilitate and foster regional bilateral trade between small and medium enterprises. These institutional parameters explain the RFE's rather insignificant position as a trade partner for North Korea despite the geographical vicinity.

EU's economic relations with the DPRK

The institutional framework for economic exchanges between the EU and the DPRK differs from the previously discussed institutional set-up in Russia-DPRK relations in various ways. In addition to the UNSC sanctions, the EU adopted several autonomous measures that impact on its economic exchanges with the DPRK. The restrictive measures targeting North Korea's economic and financial sectors have led to a—and this is not surprising—decrease in trade between the DPRK and EU member states. Although the EU's humanitarian assistance has been relatively stable, it declined by almost 45% in 2014 and has since remained on a lower level.

Political and legal framework

The basic documents that set the frame for the EU's relations with the Korean peninsula in general and the DPRK in particular are the Council Conclusions of 1999 and 2000. For the EU, the DPRK's compliance and progress regarding central issues of the EU's concern—human rights, the nuclear and ballistic missile program, non-proliferation, and regional security (European External Action Service: [no date](#))—have been a precondition for expanding bilateral cooperation. The institutional environment for EU-DPRK trade is shaped by bans, licensed trade, and quotas that regulate the EU's economic relations with North Korea. First, the EU bans the trade of, among others, key components for ballistic missiles and dual use items, as well as gold, precious metals and diamonds, statues, luxury goods, etc. (European Council [2013](#): 1), as well as seafood and textiles. Second, the export of certain goods requires a license by an official entity such as EU member states' ministries that oversee commerce and business. Third, quotas have also limited the import of North Korean textiles to the EU in the past (European Commission [2004](#)). Moreover, cooperation in the financial sector and between banks has been prohibited.¹³

EU-DPRK economic exchanges

The expansion of the restrictive measures led to a decrease in the trade volume: between 2002 and 2017, trade between EU member states and the DPRK decreased from USD 348 million to USD 11.5 million (KOTRA 2003-2018). Trade declined in 2003 after revelations about North Korea's highly enriched uranium program and since North Korea's first nuclear test in 2006 and its second nuclear test in 2009 (Fig. 4).

Since 2002, both EU exports and imports declined, and at the same time the DPRK's trade deficit has steadily decreased (Fig. 5). In 2011 and 2014, North Korea's trade balance was positive. Between 2010 and 2017, the DPRK exported mineral products worth EUR 240 million, chemicals (EUR 33 million), machinery (EUR 21 million), and textiles (EUR 66 million) into the EU. In the same time period, DPRK imports from the EU included agricultural products and food (EUR 40 million), mineral fuels (EUR 15 million), chemical products (EUR 52 million), and machinery (EUR 70 million) (European Commission [2015](#), [2016](#), [2017](#) and [2018](#)). However, in the years 2014–2017, the trade in mineral fuels was suspended and there was also a sharp decline in the trade volume regarding, e.g., machinery and chemical products.

¹³ Since 2017, the financial sanctions comprise a total ban on financial transactions to and from North Korea as well as money transfers between EU banks and DPRK financial institutions. Exceptions are only granted to activities that are not prohibited by UNSC Resolutions 1718 (2006), 1874 (2009), 2087 (2013), 2094 (2013), 2270 and 2321 (2016), 2356, 2371, 2375, and 2397 (2017). For example, money transfers that relate to food, medical services, and medical equipment as well as for humanitarian and livelihood purposes. Personal remittances amounting to more than EUR 5000 and payments from trade over EUR 15,000 must be reported and approved by national financial authorities (European Council [2017](#)).

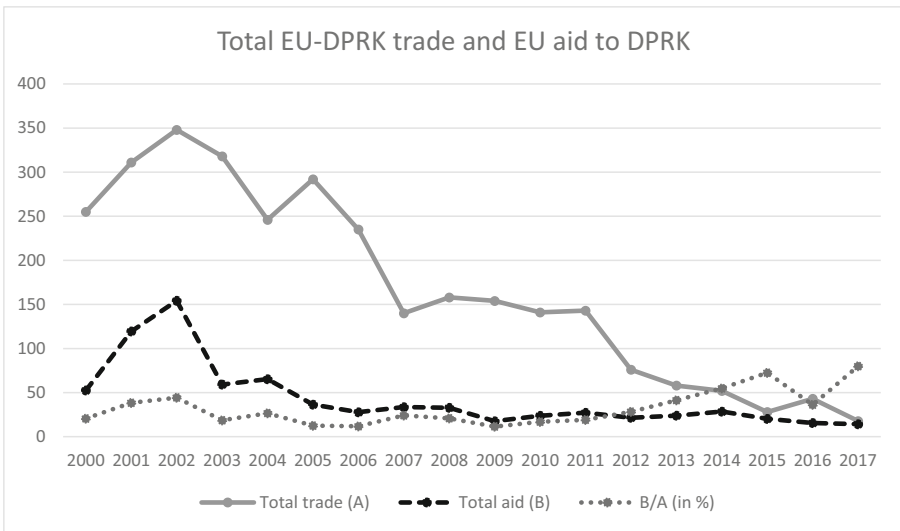


Fig. 4 Total EU-DPRK trade (A) and EU aid (B) in USD million and B/A (in percent), 2000–2017. Source: KOTRA (2001–2018) and OECD (2019)

Among the EU member states, Germany and the Netherlands have been the DPRK’s largest trading partners (Fig. 6). Germany’s rank as the EU’s largest and the world’s fourth largest economy explains its leading position in terms of absolute trade volume. Moreover, German companies received institutional support from, e.g., the German Asia-Pacific Business Association and the Federation of German Industries (Park SJ 2010: 281). In contrast, the relative dominance of the Netherlands in EU-DPRK trade

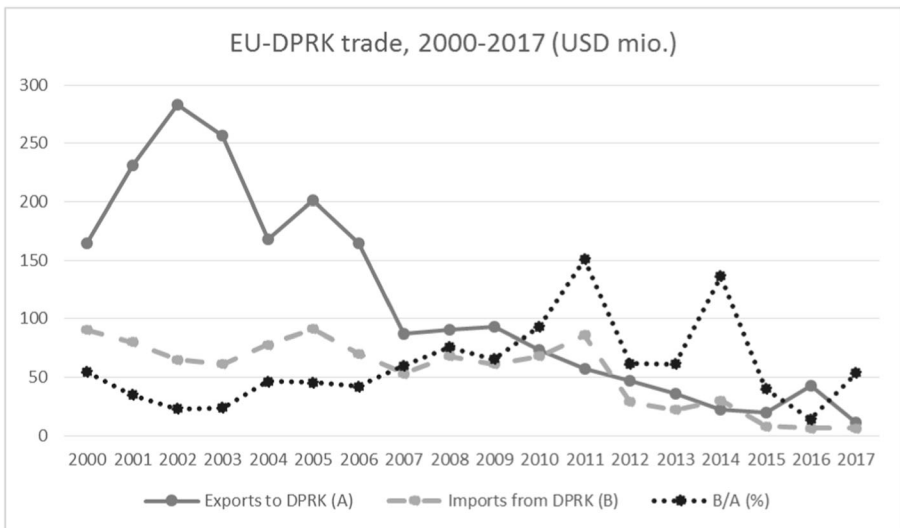


Fig. 5 EU-DPRK trade, 2000–2017 (USD million). Source: KOTRA (2001–2018)

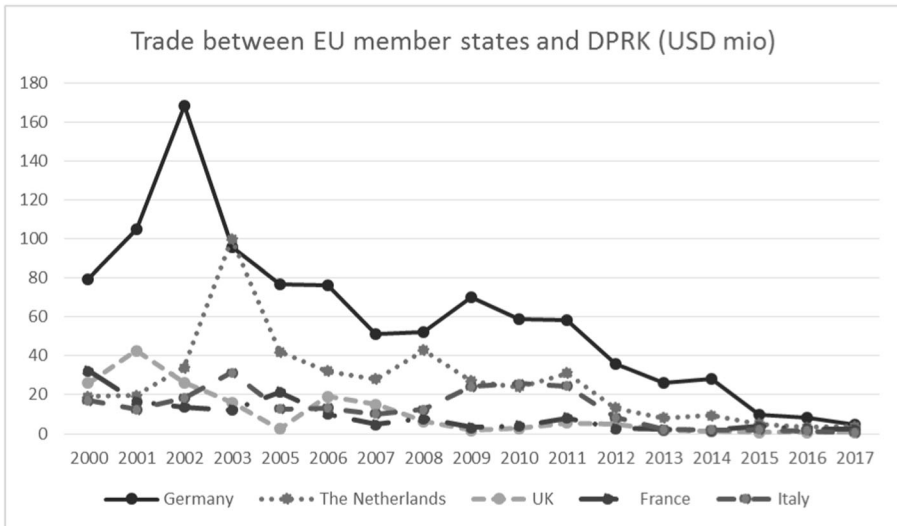


Fig. 6 Total trade between selected EU member states and the DPRK, 2000–2017 (USD million). Source: KOTRA (2001–2018)

relations is more surprising. The Netherlands exported cacao, flowers, pharmaceutical products, textiles, and sport articles to the DPRK and imported minerals and textiles (Tweede Kamer der Staten-Generaal 2013) until further UN sanctions were put in place. The prominent position of the Netherlands is likely related to the port of Rotterdam that is the principle port for EU exports and imports, but further research would be required.

European companies received institutional support by the European Business Association (EBA), a privately run initiative in North Korea, between 2005 and 2015. However, most activities have been halted, owing to political and legal insecurities (esp. protection of private property), the international sanction regime, and a gradual loss of commitment on both sides.¹⁴ Few European companies participated in the international trade fairs in Pyongyang.

Increasing transaction costs and financial risks—the DPRK owes hundreds of million euros to European countries¹⁵—prevent European companies from doing business with North Korea. North Korean workers were hired by companies in Austria, the Czech Republic, Malta, the Netherlands, and Poland (Breuker 2015; Chung and Breuker 2016; Boonen et al. 2016) until the EU prohibited the employment of DPRK citizens in EU member states in 2017.¹⁶ Due to the adoption of further restrictive measures, the institutional environment in the EU increased hurdles for bilateral trade and business with the DPRK.

¹⁴ Author's e-mail communication with the co-founder of EBA, Barbara Unterbeck, October 2, 2016.

¹⁵ According to media reports, the DPRK's debt to Sweden amounts to more than USD 300 million (Roden 2017), to Germany EUR 260 million (Der Standard 2018), and to Finland EUR 30 million (Yle 2017).

¹⁶ For example, Polish authorities issued about 2800 work permits to DPRK citizens between 2008 and 2015; in 2015, 466 North Koreans worked legally in Poland's sectors of shipbuilding, construction, and agriculture (Boonen et al. 2016: 25).

Humanitarian and “light” development assistance

Between 2000 and 2017, EU institutions provided aid totaling USD 395 million; in addition, EU member states' aid to North Korea amounted to USD 379 million (OECD statistics).¹⁷ Although humanitarian assistance has been exempted from the sanctions against the DPRK (e.g., European Council 2002: 8), political developments affected the aid volume (Fig. 4). After the revelations of North Korea's HEU program in 2002, EU aid dropped by 37% (OECD 2016). The second sharp decline of EU grants (47%) in 2006 was primarily the result of the DPRK government's decision to terminate humanitarian assistance. Despite its decrease, EU assistance has become a more significant part in economic exchanges with the DPRK; it constituted about 80% of EU-DPRK trade (2017)—compared to 15.6% in 2000.

The institutional framework for humanitarian aid and light development assistance creates a necessary but narrow space¹⁸ for European non-governmental organizations (NGOs) to support the North Korean population.¹⁹ The EU's Food Security Office that was opened in Pyongyang in 2017 oversees the implementation of EC-funded projects, provides technical input, and coordinates with other donors and aid organizations.

Conclusion

The discussion above showed that the national and transnational levels of institutional environments impact on Russia's and the EU's economic exchanges with the DPRK in various ways. Although the Soviet Union's assistance to the DPRK in the early years of its existence created a solid base for future cooperation, Russia has neither the political will nor the economic resources to sponsor the development of the North Korean economy. Moscow is interested in mutually beneficial commercial projects with North Korea and ready to provide Russian companies with political and institutional support. Despite solving of the DPRK's debt problem which had been considered a major obstacle to bilateral investment cooperation, Russian companies did not rush into North Korea. The process of business opportunities monitoring was interrupted by the significantly strengthened international sanctions regime against the DPRK.

The restrictions introduced by the UNSC resolutions prompted Russia to sever all bank links with the DPRK. The only exceptions are cases approved by the UN and those with diplomatic and humanitarian purposes. In the absence of legal payment systems, prospects to significantly expand direct bilateral trade vanished. More generally, heavily restricted trade and investment opportunities and the unprecedented isolation of the DPRK in the world economic system has reduced the demand for state

¹⁷ EU aid was channeled through bilateral aid agencies (the European Commission Humanitarian Aid Office and the EuropeAid Cooperation Office), UN organizations as well as European NGOs.

¹⁸ International sanctions against the DPRK have implications for the provision of humanitarian aid and impede legal transfers of money. For example, the DPRK Foreign Trade Bank that had served as the main channel for foreign currency transactions is targeted by US sanctions. Money transfers to North Korea through Chinese banks have been curtailed by the Chinese authorities or the US treasury (U.S. Department of the Treasury 2017). In 2016, on request of the Russian UN representative and UNDP, the Russian bank Sputnik CJSC was exempted from the UNSC resolution 1718 (2006) and permitted to conduct transactions in ruble (United Nations Security Council Subsidiary Organs: no date).

¹⁹ Author's e-mail communication with the European External Action Service, 20 December 2017.

assistance to Russian business initiatives in North Korea. Informal institutions facilitating economic cooperation amid international sanctions such as personal or family connections, long-standing mechanisms, and ways of doing business together are not very much developed between Russia and North Korea despite a common border. The DPRK's relations with China are much more advanced in this sphere, resulting in partial redirection of Russia-North Korea trade through channels of Chinese intermediaries. Therefore, it is important to emphasize that official trade statistics do not fully reflect the volume of bilateral goods trade underestimating Russia's economic role for the North Korean economy. However, with the sanctions in place, this situation is not going to change significantly as Russian companies fear being sanctioned and losing money due to dealing with the DPRK.

Apart from the political and legal aspects, the experiences of the RFE show that different business cultures and limited competitiveness of the DPRK companies affect the expansion of bilateral economic exchanges. Despite Moscow's efforts to provide businesses with favorable conditions in dealing with North Korean partners, the DPRK's national institutional environment has not been changing rapidly enough, affecting prospects of some commercial initiatives. Russia's goal to develop its Far Eastern regions, however, is likely to require expanding economic cooperation with North Korea. The Khasan-Rajin logistics project that was exempted from the UNSC resolutions has remained a functioning direction of Russia-DPRK economic ties, although the scale of current operation is seriously limited. The main reason is the US unilateral sanctions against North Korea which scare away prospective Russian customers. However, with Western sanctions in place against Russia, Russian companies are seeking new destinations for cooperation in East Asia, and the DPRK might receive more attention in the future if both governments manage to agree and guarantee suitable business conditions for bilateral transactions. Once international sanctions are lifted, Russia is well placed to play a bigger role in the North Korean economy than it currently does.

With regard to EU-DPRK trade, changes in the institutional environment have resulted in a considerable decrease of the trade volume, and with the expansion of the restrictive measures in 2017 the EU has further minimized its role as a trading partner. Consequently, humanitarian and light development aid has become more significant in the EU's economic exchanges with the DPRK and the EU is likely to maintain this, albeit low level of humanitarian engagement with the DPRK. Whereas Russia managed to exclude the Khasan-Rajin project from the international sanctions, the EU is unlikely to lift trade bans and sanctions, let alone provide technical assistance, in the near future unless there is progress in the denuclearization of the DPRK. Without changes of political and legal aspects as well as business practices, neither Russia nor the EU are likely to become relevant for the DPRK's economic development.

To sum up, the existing national and transnational institutional environments provide only very limited opportunities for economic exchanges with the DPRK. Prospects to significantly expand economic ties with North Korea depend on the solution of political and legal concerns as well as economic incentives. The warming of inter-Korean relations since the beginning of 2018 could lead to a revitalization of projects that were discussed between previous progressive South Korean governments, North Korea and Russia, especially the RFE.

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Compliance with ethical standards

Conflict of interest The authors declare that they have no conflict of interest.

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