



**MULTI-DIMENSIONAL SECURITY
COOPERATION
BETWEEN RUSSIA AND SOUTH KOREA:
PROGRESS AND OBSTACLES**

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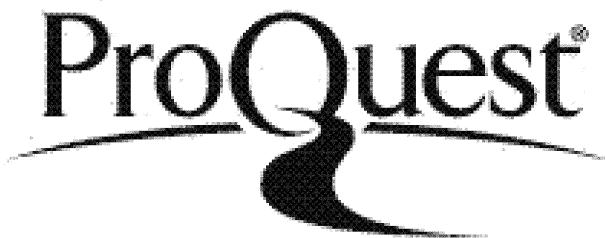
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Abstract

This thesis explores the progress in, and the obstacles obstructing, the building of comprehensive security between Russia and South Korea since diplomatic relations were established in 1991. It focuses on oil and natural gas projects, linking the Trans-Siberian and Trans-Korean Railroads, industrial development in the Nakhodka Free Economic Zone, fishery cooperation, and the arms trade, and examines whether these five aspects of cooperation serve to contribute to building Russian-South Korean bilateral and regional economic security.

The study pays particular attention to three aspects of security: definitions of economic, comprehensive and regional economic security, the security building process between states, and security threats. The thesis argues that in order to establish a favourable bilateral and regional economic security environment, bilateral and multilateral cooperation is essential because it generates trust and confidence between nation states.

Although Russia and South Korea have emphasized both traditional and non-traditional security cooperation, the focus of the security building process has gradually changed from traditional military and strategic concerns to non-traditional economic dimensions. The two countries have been engaged in enhancing bilateral and regional economic security in the regions of the Russian Far East and the Korean peninsula since 1991.

The thesis argues that energy, transport networks, the Free Economic Zone project, fishery cooperation, and the arms trade all have the potential to enhance comprehensive bilateral security and further regional economic security in Northeast Asia. However, Russian-South Korean economic cooperation has been hampered by a number of obstacles, including domestic factors on both sides, and external factors such as the unresolved North Korean nuclear issue. In each of the five projects studied, the obstacles have been greater than the progress that has been made. In sum, the obstacles have prevented Russia and South Korea from fulfilling their potential for creating a cooperative comprehensive security relationship.

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Abbreviations

ADB	Asian Development Bank
AIDS	Acquired Immunodeficiency Syndrome
APC	Angarsk Petrochemical Company
APEC	Asia Pacific Economic Cooperation
ASCOPE	ASEAN Council on Petroleum
ASEAN	Association of Southeast Asian Nations
BAM	Baikal-Amur Mainline
BCM (BM ³)	Billion Cubic Meters
BISNIS	Business Information Service for the Newly Independent States
BP	British Petroleum
CEDIGAZ	International Center for Information on Natural Gas
CIS	Commonwealth Independent States
CNPC	Chinese National Petroleum Corporation
COMECON	Council for Mutual Economic Assistance
CPSU	Communist Party of the Soviet Union
EAGC	East Asia Gas Corporation
EBRD	European Bank for Reconstruction and Development
EEZ	Exclusive Economic Zone
EIA	Energy Information Administration
EIU	Economist Intelligence Unit
ESCAP	Economic and Social Commission for Asia and the Pacific
EU	European Union
EXIM	The Korea Export-Import Bank
FAO	Food and Agriculture Organization
FBIS	Foreign Broadcast Information Service
FER	Far East Railroad
FEZ	Free Economic Zone
GDP	Gross Domestic Product
IEA	International Energy Agency
IGCC	Integrated Gasification Combined Cycle
IMEMO	Institute of World Economy and International Relations
IMF	International Monetary Fund
IUU Fishing	Illegal, Unreported and Unregulated fishing
KAFIC	Krai Administration Fishing Industry Committee
KAL	Korean Airlines
KEDO	Korean Energy Development Organization
KLDC	Korean National Land Development Corporation
KMMAF	Korean Ministry of Maritime Affairs and Fisheries
KNOC	Korea National Oil Corporation
KOGAS	Korea Gas Corporation
KOTRA	Korea Trade Investment Promotion Agency
KTX	Korean Trail Express
KWP	The North Korean Workers Party
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas

LWRs	Light-Water Reactors
mb/d	Millions of Barrels per Day
M tonnes	Million Tonnes
NATO	North Atlantic Treaty Organization
NMD	National Missile Defense
NPT	Non-Proliferation Treaty
NTK	New Telephone Company
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
PSA	Production Sharing Agreement
RSPP	Russian Union of Industrialists and Entrepreneurs
RFE	Russian Far East
RP	Russia Petroleum
SALT II Treaty	Strategic Arms Limitation Treaty II
SAMS	Surface to Air Missiles
SEIC	Sakhalin Energy Investment Corporation
SIDANKO	Siberian Far Eastern Oil Company
TCM	Trillion Cubic Meters
TCR	Trans Chinese Railroad
TEU	Twenty-foot equivalent units (One 20 feet container)
TKR	Trans Korean Railroad
TMD	Theatre Missile Defense
TNK	Tyumen Oil Company
TSR	Trans Siberian Railroad
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNCTC	United Nations Center of Transnational Cooperation
UNEXIM Bank	United Export Import Bank
VPC	Volume of Permissible Catch
WMD	Weapons of Mass Destruction
WTO	World Trade Organization

Chapter 1. Introduction

The objective of this thesis is to examine the progress that has been made and the obstacles to the establishment of comprehensive security cooperation between Russia and South Korea since the inauguration of diplomatic relations in 1990. Bilateral relations between Russia and South Korea are examined from the point of view of multi-dimensional security, focusing on regional economic security cooperation. The thesis focuses on six aspects of cooperation between Russia and South Korea: oil and natural gas projects, linking the Trans Siberian Railroad and the Trans Korean Railroad, industrial development in the Nakhodka Free Economic Zone, fishery cooperation, the arms trade, and the North Korean factor. Russian-South Korean bilateral relations illustrate three important aspects of security studies: states' perceptions of security, security cooperation between nation states, and security threats to further security cooperation.

The thesis employs the term "comprehensive security," encompassing regional economic security, as the main conceptual framework to examine security cooperation between Moscow and Seoul, since "comprehensive security" includes both the traditional political and military dimension, and the non-traditional regional economic dimension. It applies these concepts to the six case studies and also aims to identify what the security threats are.

Specifically, the thesis explores how the focus of the regional security cooperation building process between Russia and South Korea has evolved since the establishment of diplomatic relations. I argue that the two countries have put equal emphasis on both traditional and non-traditional security cooperation. However, the focus has gradually changed from the traditional to a non-traditional dimension. In other words, in recent years, both countries have been engaged in enhancing regional economic security in the regions of the Russian Far East and the Korean peninsula respectively, specifically focusing on energy security, fishery, constructing a transport network, creating a free economic zone, and nuclear proliferation issues. Moreover, the chapter on the arms trade between Russia and South Korea illustrates that even in this field, non-traditional security, that is, enhancing national economic security interests, has been paramount. The role of North Korea in Russian-South Korean bilateral security relations also provides an interesting perspective

within the comprehensive security framework, since it is viewed not only as a traditional security threat, but also as an economic security enhancing factor in the long term.

This thesis illustrates that in order to establish a favourable regional security environment, bilateral and multilateral cooperation among nation states is essential because regional economic security cooperation provides an opportunity to generate trust and confidence between nation states.¹ However, I argue that bilateral relations between Moscow and Seoul have developed quite slowly because both have underestimated the importance of regional economic security. As a result, the two countries have failed to cultivate full trust in each other,² and neither side has had the motivation to deal with existing domestic obstacles such as the inherent economic difficulties of the Russian Far East, and the reluctance of the South Korean government and private sector to invest in the long term. I also contend that bilateral security cooperation between the two countries has been hampered by external factors such as the North Korean nuclear issue and the dominating role the US has been playing in the Northeast Asian region.

A case study of Russian-Korean bilateral relations is relevant to the fields of both comparative politics and international relations. Despite their geographical proximity and their geo-strategic importance to each other, the study of Russian-South Korean relations has been superseded by relatively more important relationships such as Russia-China, Russia-Japan, US-South Korea, Japan-South Korea or China-South Korea, in the past few decades. However, their bilateral relations should not be underestimated, considering Russia's desire to be part of the Northeast Asian regional community, and the complexity of the relations among major states in Northeast Asia.

The study of Russian-Korean bilateral relations also reveals how Moscow and Seoul have redefined their security policy objectives, and how their perceptions of each other have evolved. When Gorbachev normalized relations with the South in the late 1980s, it was a great departure from previous Soviet foreign policy. Prior to this, North Korea, as a member of the socialist world, was viewed as a natural ally of the Soviet Union. Moreover, the Soviet leadership appeared to believe much of its own propaganda that South Korea was merely a puppet of Washington. Gorbachev's "New Thinking" concerning the Korean

¹ Ralph A. Cossa and Jane Khanna, "East Asia: Economic Interdependence and Regional Security," *International Affairs (Royal Institute of International Affairs)*, Vol. 73, No. 2, April 1997, pp. 219 and 234.

² Gilbert Rozman, Mikhail G. Nosov, and Koji Watanabe, *Russia and East Asia: the 21st Century Security Environment* (London: M.E. Sharpe, 1999), p. 217.

peninsula demonstrated that Soviet foreign policy would no longer be conducted on the basis of ideology, but on the basis of economic considerations.

Bilateral Russian-South Korean relations also show how Russia is redefining its foreign policy priorities. Trade talks and a number of long term economic projects between the two countries suggest that economic security concerns have become a major priority of Russia's foreign policy in the region. Furthermore, Moscow-Seoul rapprochement has more far-reaching implications in international relations. A study of Russian-South Korean relations also provides insight into the broader forces shaping the formative stages of Russia's international behaviour towards other great powers in the Asia-Pacific region. Throughout history, the Kremlin has played 'the Korean card' to put pressure on Japan and China, or the United States, and it has clearly displayed an interest in a greater political role for East Asia. On the other hand, South Korea looked to the Russian connection as a counter-balance to American, and Chinese and Japanese influence in the Korean peninsula, and as an instrument for deterring North Korea. In this sense, bilateral relations should be viewed within the context of a regional security framework.

In this chapter, I shall give a brief historical overview of the relationship between Russia and South Korea since history provides clues to the direction of Russian-South Korean multi-dimensional security cooperation. This chapter also examines the strengths and weaknesses of the existing literature on Russian-South Korean relations, and explains how my analysis builds on, and at times diverges from previous studies, offering a new interpretation. The final section of the chapter sets out the structure of the thesis.

1. Historical overview

The establishment of diplomatic relations between South Korea and the Soviet Union in September 1990 signalled a turning point in the history of East Asian international relations at the end of the twentieth century. The hostility that had existed between the two states for forty-five years disappeared in a brief span of time. In the Soviet-South Korea rapprochement in the late 1980s, the figure of Gorbachev, combined with structural factors such as the Sino-Soviet and American-Soviet rapprochements, played a significant role, although it is often hard to separate one factor from another. This section gives a brief

historical account of the approach towards the Korean peninsula of Gorbachev, Yeltsin and Putin.

1.1. Gorbachev's South Korean policy

Gorbachev created many possibilities for radical change in Soviet-Korean relations since he gave Korean policy very special attention. According to Alex Pravda, “the *perestroika* years [saw] some movement towards co-operation and even embryonic partnership on regional and global problems to strengthen general international security.”³ Gorbachev’s attempt to revitalize Soviet foreign policy included the adoption of a set of principles which he called the ‘New Political Thinking’. As Margot Light notes, “although they primarily concern relations between the superpowers, they include a new emphasis on interdependence and on the need for flexibility in foreign policy. The Soviet leadership has also declared that the Soviet Union should diversify its foreign relations, in particular so that they are not seen through the prism of Soviet-American relations.”⁴ To accomplish this, Gorbachev paid particular attention to Korea. His New Thinking on the Korean peninsula comprised of an acceptance of the reality that there was a powerful state in the south of the peninsula, which possessed its own political weight in the Asia-Pacific community; recognition that the dangerously escalating tension on the Korean peninsula should be reduced; and the determination to seek resolutions to the national problems of the entire Korean people.⁵ Prior to Gorbachev, South Korea had been vilified as a repressive dictatorship and a puppet of the United States. Contacts with South Korea were banned, and any objective information that might portray it in a favourable light was discouraged. Gorbachev was the first Soviet leader to acknowledge that South Korea’s rise to regional power status was sustained by its rapid economic growth.⁶ After meeting South Korean President Roh Tae Woo in San Francisco on 4 June, 1990, Gorbachev stated that

we could not, for obsolete ideological reasons, continue opposing the establishment of normal relations with his country, which showed an

³ Alex Pravda, “Conclusion,” in Alex Pravda and Peter J. S. Duncan, eds., *Soviet-British Relations Since the 1970s* (Cambridge: Cambridge University Press, 1990), p. 245.

⁴ Margot Light, “Anglo-Soviet relations: political and diplomatic,” in Alex Pravda and Peter J. S. Duncan, eds., *Soviet-British Relations Since the 1970s* (Cambridge: Cambridge University Press, 1990), p. 120.

⁵ *Speech by Mikhail Gorbachev in Vladivostok, 28 July 1986* (Moscow: Novosti Press Agency Publishing House, 1986), pp. 35-36.

⁶ Oleg Davidov, “Soviet Policy Toward the Korean Peninsula in the 1990s,” paper presented at the 10th international conference on “New Changes in International Order and the Roles of South and North Korea,” organized by the Korean Association of International Relations, Seoul, August 1990, p. 6.

exceptional dynamism and had become a force to be reckoned with, both in the Asia-Pacific region and in the wider world.⁷

Gorbachev's decision to improve relations with South Korea can be explained by Soviet domestic economic needs. As in the case of his Western policy, the Soviet economic crisis was the main incentive for improving relations between the Soviet Union and South Korea. The Soviet Union badly needed consumer goods and managerial skills, and it targeted the newly industrialized countries in an effort to promote the integration of the Soviet Far East and the Siberian region into the Asia-Pacific economy.⁸ South Korea's economic dynamism attracted Gorbachev's attention and was the most crucial factor in his re-evaluation of South Korea's standing in Soviet foreign policy priorities.

Gorbachev's New Thinking toward the Korean peninsula was also influenced by traditional security concerns. From Moscow's perspective, changing Soviet policy toward the Korean peninsula could enhance Soviet national security in the Asia Pacific region by reducing tension on the peninsula, and lowering the probability of a direct Soviet-American clash in the event of a crisis. Ever since the Korean War, the peninsula had been considered a potential hot spot that could draw the superpowers into direct confrontation.⁹

South Korea's *Nordpolitik* was clearly also a turning point that accelerated the pace of Gorbachev's changing policy toward South Korea. As South Korea's domestic politics changed during 1987 and 1988, a whole set of new opportunities for the society emerged. Newly elected president Roh Tae Woo's *Nordpolitik* foreign policy attracted Soviet attention towards South Korea. It aimed at improving South Korea's economic and other ties with communist countries, while at the same time bringing North Korea out of isolation. The main purpose was to enhance South Korea's security while potentially undercutting North Korea. It stemmed from Roh's short-term goal of staging a successful 1988 Seoul Olympics without the North's interference.¹⁰ Roh's declaration was well received by

⁷ Mikhail Gorbachev, *Memoirs* (New York: Doubleday, 1996), p. 702.

⁸ Yoke T. Soh, "Russian Policy toward the Two Koreas," in Peter Shearman, ed., *Russian Foreign Policy Since 1990* (Boulder: Westernview Press, 1995), p. 184.

⁹ Charles E. Ziegler, *Foreign Policy and East Asia: Learning and Adaptation in the Gorbachev Era* (Cambridge: Cambridge University Press, 1993), p. 110.

¹⁰ In June 1983, Korean Foreign Minister Lee Bum Suk declared that normalizing relations with the Soviet Union and China was a formal objective of South Korean diplomacy. It was called *Nordpolitik*, after the West German *Ostpolitik* policy with the USSR and Eastern Germany. See Don Oberdorfer, *The Two Koreas* (Reading: Addison-Wesley, 1997), p. 187.

Moscow. In his September 1988 Krasnoyarsk speech, Gorbachev expressed a willingness to develop economic relations with South Korea. In addition, he proposed multilateral discussions on reducing the threat of military confrontation in areas adjacent to the shores of the USSR, China, Japan, and the two Koreas.¹¹ In short, Soviet-South Korean rapprochement in the later 1980s was the successful consequence of both Gorbachev's New Thinking and Roh's *Nordpolitik*.

From the South Korean perspective, rapprochement with the Soviet Union was a development of immense importance. First, Seoul gained wider international recognition. Previously, with the Soviet veto in the UN Security Council and Korea divided, it had been very difficult to improve South Korea's standing in the international community. Once the Soviet veto was removed, Seoul was admitted into the UN. Even when Pyongyang declared that the entry of South Korea into the UN would perpetuate the division of Korea, the Soviet position remained firm: South Korea's entry would not prevent Korean reunification. Moreover, with the participation of Soviet and Chinese athletes in the Seoul Olympics, they turned out to be even more successful than the 1980 Moscow and 1984 Los Angeles Olympics. Thus Seoul received more attention and gained a great deal of prestige in the eyes of the international community.

Second, the establishment of Soviet relations with South Korea clearly deprived North Korea of the undivided support of its original sponsor, its most important source of economic and military assistance and guarantor against American power, as provided by the 1961 Soviet-North Korean treaty. Moreover, the meeting of the General Secretary of the Communist Party of the Soviet Union with the President of South Korea meant the legitimization of the Seoul government virtually everywhere and "the final collapse of North Korea's long-standing effort to wall off the southern regime from communist nations."¹²

From the Soviet perspective, among other benefits that the Soviet Union received from improving relations with South Korea, economic aid was the most significant. Whether or not the need for economic assistance was his primary incentive, Gorbachev did receive a \$3 billion loan from President Roh. South Korea was becoming the Kremlin's most valuable partner. Apart from the aid, the Soviet Union was the first great power to establish diplomatic relations with both Koreas and this enabled it to play a potentially

¹¹ Hak Joon Kim, 1991, pp. 68-85, and p. 74.

¹² Oberdorfer, p. 210.

mediating role between the two Koreas. Gorbachev successfully turned South Korea's imperialistic and brutal image of the Soviet Union into the perception of a close neighbour.

In my opinion, the pace of the rapprochement was too rapid. The Korean government, in particular, was in a hurry. President Roh's pressing goal was to host the Seoul Olympics successfully during his presidential term without any North Korean interference. To accomplish that goal, cooperation with the North's allies such as the Soviet Union and China was essential. Hence, the Soviet Union participated in the Olympics and two years later, after establishing diplomatic relations, it received a \$3 billion loan. According to one later criticism, Seoul bought diplomatic relations with Moscow for \$3 billion.¹³

Once both sides had achieved what they intended, the further development of relations was quite slow because their foreign policy objectives were virtually exhausted, especially on the Korean side. Moreover, the unresolved, and perhaps the most acute issue -- the shooting-down of the Korean Air Lines aircraft -- continued to haunt discussions between the two sides. South Korea demanded public apologies and additional information on the fate of deceased passengers. Moscow did not want to apologize for incidents that had occurred during past regimes and no new facts seemed to be available. Moreover, the reluctance of the South Korean private sector to invest in the Soviet Union and anti-Soviet sentiment among South Koreans frustrated and disappointed the Kremlin leaders. In the end, the absence of further foreign policy initiatives, the collapse of the Soviet Union and the deep domestic crisis in Russia created new uncertainties to relations between Moscow and Seoul.

¹³ Interview with a visiting Korean Russian specialist in Washington, DC, 20 December, 1997; Pyongyang responded with a bitter denunciation in *Nodong Sinmun*, under the headline, "Diplomatic Relations Sold and Bought With Dollars." Citing past promises from Gorbachev and Shevardnadze not to recognize South Korea, the article declared that "the Soviet Union sold off the dignity and honour of a socialist power and the interests and faith of an ally for \$ 2.3 billion (the amount of a reported South Korean economic cooperation fund for Moscow.) The article was written under the by-line of "commentator," a designation given only to the most authoritative statements from North Korea's ruling hierarchy. In January 1991, Soviet Deputy Prime Minister Yuri Maslyukov's mission to Seoul resulted in an agreement to supply a further \$ 1.5 billion in loans to finance Soviet imports of Korean consumer goods and industrial raw materials, and \$500 million for the financing of plants and other capital goods. Together with the \$1 billion bank loan obtained by Deputy Foreign Minister Igor Rogachev, the total was \$ 3 billion, all of which was to be repaid. See also Oberdorfer, p. 217, and pp. 225-227.

1.2. Russian-South Korean relations during the Yeltsin presidency

During 1991 and 1992, Yeltsin's foreign policy toward the Korean peninsula leaned heavily towards South Korea. Since the failed coup in 1991, Russian relations with North Korea had deteriorated steadily, partly as a consequence of Russia's growing ties with the South and partly as a result of Pyongyang's covert nuclear programmes. In fact, Russia joined with the international community in pressuring North Korea to open up its nuclear programme to inspection.

In November 1992, Yeltsin paid a state visit to Seoul to formalize and strengthen links between the two countries. He emphasized his support for peaceful reunification through North-South dialogue and claimed that Russia had already stopped supplying offensive arms to the North. Yeltsin and Roh signed the Treaty on Basic Relations between the Republic of Korea and the Russian Federation¹⁴ proposing to base their bilateral relations on the common ideals of freedom, democracy, and commitment to a market economy.¹⁵ During his address to the South Korean National Assembly, Yeltsin claimed that the 1961 Soviet-North Korea Friendship and Mutual Assistance Agreement would either be abolished or greatly revised. With regard to the 1961 Treaty, when the then new Korean President, Kim Young Sam visited Moscow in June 1994, Yeltsin assured him that amendments to the Treaty would no longer oblige Russia to side with North Korea in the event of a conflict.¹⁶

Since 1996, however, Moscow's policy toward the Korean peninsula has changed dramatically. Yeltsin discovered that his pro-South policy, following Gorbachev's approach, produced no real further enhancement of relations with South Korea, while it incurred the loss of relations with Russia's previous ally, North Korea. The Kremlin decided to balance relations between Seoul and Pyongyang, and to restore old ties with North Korea. This clearly suggests Russia's attempt to regain regional power status on the peninsula, while manoeuvring between the two Koreas. In reality, Yeltsin's new policy proved to be rather difficult because Moscow discovered itself in the awkward position of projecting its image toward the two hostile Koreas simultaneously.

¹⁴ *Treaty on Basic Relations between the Republic of Korea and the Russian Federation*, 19 November, 1992, published by the Ministry of Foreign Affairs and Trade, Republic of Korea, 14 June, 1993

¹⁵ *Rossiskaya Gazeta*, 20 November, 1992, pp. 1 and 3; and Vasily Koronenko, "In Seoul, Yeltsin Proposes 23 projects for Economic Cooperation with South Korea," *Izvestiya*, 19 November 1992, quoted in *The Current Digest of the Post-Soviet Press*, Vol. 44, No. 46, 1992, pp. 15-16.

¹⁶ Chikahito Harada, *Russia and Northeast Asia* (New York: Oxford University Press, 1997), pp. 65-66.

In contrast to the period of honeymoon relations between the Soviet Union and South Korea under Gorbachev, Russian-South Korean relations under Yeltsin were quite difficult. Although a degree of mutual understanding and friendship between the states was retained, especially before 1996, there was considerable uncertainty in the political relations between Russia and South Korea. The main reason was that there was no long-term substance to their friendly relations.¹⁷ For both sides, there were no serious and urgent problems or issues of concern. Once the immediate short-term political and economic goals had been achieved, Seoul-Moscow relations stagnated. Presidents Kim Young Sam and Boris Yeltsin had to arrange “the interface of the two nations to have it pay off, that is, to have the relationship rise high enough to benefit both sides,”¹⁸ and they found this very difficult to accomplish.

The Russian domestic political crisis also had a significant impact on Russian-South Korean relations. The new Russian government was too preoccupied with internal problems, and any energy left for diplomacy was devoted to relations with the other successor states and with the West. It was believed that the future of the democratic, anti-communist, Russian state depended on the West for disarmament, aid, models of development and investment, access to international organization like G-7, and help in fighting organized crime. As a result, Russia’s policies toward Korea (and Asia as a whole) lost their momentum.

From the South Korean perspective, once the Soviet Union disintegrated in December 1991, President Roh’s Soviet policy, and particularly, his decision to provide \$3 billion in credits to an unstable government, came under attack in Korean domestic politics.

Russia’s economic crisis also undermined Russian-South Korean relations. Despite Yeltsin’s hope that relations with South Korea would help to transform the Russian economy, trade and economic activities between the two countries remained limited throughout Yeltsin’s term.¹⁹ South Korean businessmen complained about the harsh conditions of the Russian market in terms of the extremely slow reshaping of property relations, ambiguous legal provisions concerning the rights of foreign investors, widespread organized crime, the unsettled political situation, weak infrastructure, and the taxation

¹⁷ Andrew A. Bouchkin, “Russia’s Far Eastern Policy in the 1990s,” in Adeed Dawisha and Karen Dawisha, eds., *The Making of Foreign Policy in Russia and the New States of Eurasia* (New York: M.E.Sharpe, 1995), p. 74.

¹⁸ Ibid.

¹⁹ For example, although Russian trade with South Korea increased by 30 % from \$0.95 billion in 1992 to \$1.25 billion in 1995, it accounted for only 1 % of Russia’s total trade turnover in 1995. See Harada, p. 66.

system. They were particularly concerned about Russia's inconsistent application of exchange rates to trade, and arbitrary restrictions on exporting natural resources.²⁰ While South Korean investors were supposedly more willing to take risks than their cautious Japanese counterparts, there were many better investment opportunities than Russia, such as Uzbekistan and Kazakhstan. In short, as far as direct capital investment in the Russian Far East was concerned, it turned out to have no immediate value for Korean investors.²¹ Moreover, Seoul's IMF economic crisis in 1997-1998, which was considered the second largest turmoil in its history since the Korean War, made economic cooperation between the two countries even more difficult. Following the economic crisis, as Ferdinand notes, many Korean banks became insolvent and Korean business sectors did not have sufficient capital to invest in Russia.²²

One of the main reasons for the slow development of Russian-South Korean economic cooperation was Russia's inability to pay its international debt. Moscow's decision to postpone the payment due for its \$3 billion loan produced a negative reaction in the Korean government and business community. Despite requests and explanations from the Russian government, Seoul froze the remaining half of the loan, and the opposition in Russia used the opportunity to attack the ruling party in Russia for tremendous miscalculations in its foreign and economic policy. "Russians, in turn, showed displeasure at fluctuations in Seoul's behaviour in the economic sphere, its unreliability, and the dishonesty of some Korean businessmen."²³ After seemingly endless talks on this issue, the two sides finally agreed in April 1995 that Moscow would pay, over a four-year period, \$450.7 million in overdue principal and interest in the form of deliveries of various raw materials, including nonferrous metals, as well as civilian helicopters and military hardware.²⁴

In short, Russia's image in South Korea was severely affected by its political instability and poor socio-economic conditions. More importantly, after the disintegration of the Soviet Union, Russia's weakness in international affairs and its inability to influence North Korean behaviour reduced its political value in the eyes of the South Koreans. Seoul

²⁰ *Korean Statistical Yearbook*, (Seoul: National Statistical Office, Republic of Korea, 1993), pp. 300-301.

²¹ Bouchkin, pp. 75-76.

²² Peter Ferdinand, "South Korea," in Peter Burnell and Vicky Randall, eds., *Politics in the Developing World* (Oxford: Oxford University Press, 2004), p. 380.

²³ Evgeniy Bazhanov and Natasha Bazhanov, "The Evolution of Russian Korean Relations," *Asian Survey*, Vol. 34, No. 9, September 1994, pp. 789-791.

²⁴ *Maeil Kyongje Shinmun*, 22 April, 1995, p. 5.

discovered that Moscow had lost practically all leverage with Pyongyang. For example, Moscow was excluded from a number of higher-level negotiations in the Korean peninsula. In the spring of 1996, the joint South Korean-US announcement of proposed four-power talks with North Korea and China to deal with ongoing problems on the peninsula came as an insulting slap in the face to Moscow.

Due to these factors, the cordial atmosphere of Russian-South Korean bilateral relations deteriorated. Both governments complained about a number of problems and overall attitudes toward each other. Contention grew over the Russian moratorium on fishing in the central part of the Sea of Okhotsk. In 1993 the Russian Foreign Ministry rejected demands by certain South Korean officials that Moscow renounce the military clauses in the Soviet-North Korean alliance treaty of 1961. South Koreans were also disappointed with the conclusion of a special state committee in Russia that Moscow could not be held responsible for the shooting down of KAL007 in 1983. The South Korean media called it a Cold War position, and Seoul demanded partial material compensation for “the unforgivable destruction” of the airliner. Yet the Russian government limited itself to expressing apologies. South Koreans also complained about the discharge of nuclear waste by Russia in the Far Eastern seas, and Seoul was distressed by the Kremlin’s sudden cancellation of a high level economic meeting in May 1994.²⁵ Moreover, the diplomatic relations between the two sides were further exacerbated by the reciprocal expulsion of diplomats on espionage charges in 1998, a dispute over the relocation of the Russian embassy in Seoul, and Russia’s decision to return North Korean migrants to China.²⁶

²⁵ Bazhanov, E., and Bazhanov, N., pp. 790-791.

²⁶ In July 1998, a South Korean counsellor at the South Korean Embassy in Moscow was expelled from Russia on espionage charges. South Koreans immediately reciprocated by expelling a Russian counsellor in Seoul. This incident highlighted tense relations between Moscow and Seoul intelligence agencies over collecting intelligence activities. Indeed, this incident along with several other issues created the worst diplomatic crisis in the late 1990s between the two sides in the history of their relationship. It also well illustrated a widening gap, in terms of perception and interests, between the two sides. See Elizabeth Wishnick, “Russian-North Korean Relations: A New Era,” in Samuel S. Kim and Tai Hwan Lee, eds., *North Korea and Northeast Asia* (Lanham: Rowman & Littlefield Publishers, 2002), pp. 150-151. See also Seung-Ho Joo, “Russia and Korea: The Summit and After,” *The Korean Journal of Defence Analysis*, Vol. 13, No. 1, Autumn 2002, p. 115.

1.3. Putin's policy towards South Korea

After a decade of drift, Putin has made some substantial progress in developing relations with South Korea, and the Korean peninsula has become a higher priority issue in Russian foreign policy than in the half a century since the Korean War.²⁷ There are two differences between his policy towards the Korean peninsula and that of his predecessors: he has improved Russia's relations with North Korea and he has used the energy card in the Russian Far East.

Putin's overall foreign policy concept reflects his policy toward the Korean peninsula. His emphasis on both economic security and multipolarism has had an impact on his policy towards the Korean peninsula.

First, economic priorities emerged as one of the most distinctive and important features of Putin's foreign policy. Bobo Lo maintains that although Gorbachev and Yeltsin claimed that Russian foreign policy should be directed principally at promoting the wealth of the nation and the well-being of its citizens, "this message appeared increasingly formalistic and devoid of meaning."²⁸ On the other hand, "Putin has demonstrated the interest and commitment to transform a rhetorical allegiance into a genuine economization of Russian attitudes towards the world."²⁹ In other words, Putin has emphasized the importance of Russia's economic integration in the two most dynamically developing areas in the world —Western Europe and Northeast Asia. According to Lo, the economic dimensions of Putin's foreign policy concept comprise the following four key elements:

- 1) a direct linkage between an active foreign policy and domestic socio-economic transformation and prosperity
- 2) a campaign to integrate Russia into ongoing international processes
- 3) the profit motive

²⁷ On 20 April, 2005, during a meeting with the new South Korean envoy to Russia Kim Jae-sup and several other diplomats, Putin stated that South Korea was a top diplomatic priority for Russia in the Asia-Pacific region. See Georgi Toloraya, "President Putin's Korean Policy," *The Journal of East Asian Affairs*, Vol. 17, No. 1, Spring/Summer 2003, p. 33, and *Yonhap News Agency*, 20 April, 2005.

²⁸ "Konseptsya vneshej politiki Rossijskoi Federatsii," *Nezavisimaya gazeta*, 2 July, 2000, p. 6; and see also Bobo Lo, *Vladimir Putin and the Evolution of Russian Foreign Policy* (London: Blackwell, 2003), pp. 51-52.

²⁹ Lo, pp. 52-53.

4) the interrelationship between geo-economics and geopolitics, between Moscow's pursuit of economic objectives and its continuing ambitions to project itself at a regional and global level.³⁰

Putin's emphasis on regional economic issues made it convenient for Russia to deal with both Koreas simultaneously. Moreover, energy diplomacy became an important instrument to promote economic recovery, to participate in the global economy, to maintain Russia's geo-strategic influence, and to improve the international security environment. Putin has used Russia's energy resources as an instrument in relations with both Koreas, suggesting that "Russia's natural resources can become the linchpin of large projects and sinewy networks of pipelines in Northeast Asia."³¹

Second, Shearman notes that the term multipolarism has been frequently used by Russia's foreign policy community during Putin's period. Although it can be traced back to when Andrei Kozyrev was foreign minister, it is most often associated with Russia's more recent foreign policy decisions. In Shearman's account, "this term has symbolized a more hard-line stance in Russia, indicative of a move away from a western-oriented approach."³² Putin appears to use the term to denote his balance of power perspective, and in its relations with Northeast Asia, particularly with China, Russia has opposed US hegemony in this region. At the same time, "multipolarism also reflects more recognition of Russia's weak stance in the overall global distribution of power."³³

Putin's effort to maintain balanced relations with both Koreas indicates that Russia is once again seeking to influence a region of strategic importance. Putin wants to upgrade Russia's image, and to exercise influence in the region. Specifically, he is clearly hoping to promote Russia's role as an objective mediator in the Korean peninsula, this time emphasizing more of the regional economic security dimension. He has encouraged both Koreas to participate in trilateral economic cooperation, focusing on specific long-term economic projects such as the oil and gas pipeline building projects, the establishment of an industrial park in the Nakhodka FEZ, and linking the TSR and the TKR projects.

³⁰ Ibid., p. 53.

³¹ Gilbert Rozman, "When Will Russia Really Enter Northeast Asia?" in Wolfgang Danspeckgruber and Stephen Kotkin, eds., *The Future of the Russian State: A Sourcebook* (New York: Columbia International Affairs Online, 2003), p. 2.

³² Peter Shearman, "Personality, Politics and Power: Foreign Policy under Putin," in Vladimir Tikhomirov, ed., *Russia After Yeltsin* (Aldershot: Ashgate, 2001), pp. 236-237.

³³ Ibid., p. 237.

Putin was the first Russian leader to pay an official visit to North Korea. His renormalization policy with Pyongyang should be seen in terms of his balance of power perspective, and an effective demonstration of multipolar diplomacy.³⁴ It clearly gives Russia some influence and leverage over the Korean peninsula. The North Korean leader Kim Jong Il's Trans-Siberian rail journey across Russia in August 2001 dramatized the intensifying ties between Pyongyang and Moscow.

Although Putin has normalized relations with Pyongyang, he did not want to risk losing his political and economic ties with the South. And, surprisingly, his radical concept of trilateral cooperation was well received by both the North and the South. He aimed not only to achieve economic benefits through trilateral relations, but also to bring North Korea into the Northeast Asian regional society and maintain stability in the Korean peninsula.³⁵ Amid the uncertainty of inter-Korean affairs, Putin used the strategically effective energy instrument, as well as offering other economic incentives for cooperation. It is important to note, however, that Putin's balanced approach towards both Koreas was only possible because the two South Korean leaders, Kim Dae Jung and Roh Moo Hyun, pursued their "sunshine policy"³⁶ toward North Korea. In short, Putin's new foreign policy, the Moscow-Pyongyang rapprochement, and improved inter-Korean relations all contributed to favourable circumstances for Russia's influence and cooperation vis-à-vis the two Koreas.³⁷

Kim Dae Jung and Roh Moo Hyun were willing to enhance relations with Russia. As a result, bilateral Russian-South Korean relations have become more important in the last few years. Russia and South Korea have aimed not only at dealing with the North Korean nuclear issue, but also at working through high and low level contacts in the hope of improving the flow of information and reducing the chance of misunderstanding between the two countries.

Putin and the South Korean President Kim Dae Jung gradually improved the estranged and stagnant relations between the two countries, engaging in political activities

³⁴ The former Russian foreign minister Kozyrev is reported to have told the BBC that Putin's visit to North Korea was a very good diplomatic move. See *Ibid.*, pp. 237-238.

³⁵ Toloraya, p. 42.

³⁶ The Sunshine Policy is the mainstay of the Republic of Korea's North Korea policies aimed at achieving peace on the Korean Peninsula through reconciliation and cooperation with the North. It is not a simple appeasement policy in that it pursues peace on the basis of a strong security stance. The Government recognizes reality—the reunification of two Koreas will not be achieved in the near future as the two sides have been facing off in conflicts and confrontation for more than half a century. The Government believes that settlement of peace and coexistence is more important than anything else at the present time.

³⁷ *Ibid.*

such as an exchange of high government officials as well as parliamentary delegations.³⁸ Putin's visit to Seoul on 26-28 February, 2001 confirmed that Moscow's relations with Seoul was given one of the highest priorities in Russian foreign policy in the Asia-Pacific region,³⁹ and resulted in a joint statement that primarily aimed at encouraging economic cooperation between the two countries. The two sides also agreed that the 1992 joint Declaration on the Denuclearization of the Korean peninsula and the 1994 Geneva Agreed Framework should be implemented to remove the nuclear threat on the Korean peninsula and the heads of state vowed to cooperate on projects which would continue to ease inter-Korean tensions.⁴⁰ After the new Korean President Roh Moo Hyun was elected, bilateral relations improved even further.

Putin and the two Korean leaders laid out two aspects of security cooperation between the two countries: 1) regional economic security cooperation focusing on long term economic projects; and 2) the traditional security aspect of the stability of the Korean peninsula, primarily the solution to North Korea's development of nuclear weapons. With regard to the latter, during the Moscow summit between Putin and Roh on September 21, 2004, the two leaders agreed to cooperate closely in multinational talks to persuade North Korea to abandon its nuclear weapons programmes. They also confirmed that they would cooperate in the fight against international terrorism and the proliferation of weapons of mass destruction.⁴¹

According to a 10-point joint statement in Moscow,⁴² Roh and Putin aimed at facilitating bilateral economic projects including linking railways, building oil and gas related projects, the creation of a Russian-Korean industrial complex in the Nakhodka Free Economic Zone, and the transfer of Russian space technology. In addition, a dialogue on energy cooperation has been particularly active under Putin and Roh.

The enhanced diplomatic relations between Putin and the two Korean leaders have clearly contributed to projecting a favourable image of Russia among the South Korean

³⁸ The Embassy of Russia in Republic of Korea, Briefing on Political Cooperation, on <http://www.russianembassy.org/english/political.html>, accessed on 28 April, 2005; *The Korea Herald*, 12 June, 2001; and see also Seung-Ho Joo, "ROK-Russian Economic Relations, 1992-2001," *Korea and World Affairs*, Vol. 25, No. 3, Fall 2001, p. 391.

³⁹ *The Korea Herald*, 12 June, 2001; and see also Joo, 2001, p. 391.

⁴⁰ *Korea-Russia Joint Declaration by Kim and Putin*, Seoul, 27 February 2001, released by The Ministry of Foreign Affairs and Trade, Republic of Korea.

⁴¹ *Yonhap News Agency*, 21 September, 2004; *Korea-Russia Joint Declaration by Roh and Putin*, Moscow, 21 September 2004, released by The Ministry of Foreign Affairs and Trade, Republic of Korea; and *Korea Times*, 17 February, 2005.

⁴² *Ibid.*

business community. In 2003, for example, the volume of bilateral trade was the highest in the 14 years of Russian-South Korean diplomatic relations. The growth in the volume of trade in 2003 was 27.3 percent and reached \$4,181 billion.⁴³ In 2004, trade turnover was even higher, reaching a record high of \$6 billion.⁴⁴ In fact, many South Korean private enterprises have actively pursued the development of their business in Russia.⁴⁵ An agreement dealing with the problem of Russian debt to South Korea reached during the 2004 summit was another important step in improving bilateral trade and economic relations. This agreement created the basis for resuming cooperation in the banking sector. As a result, the South Korean Export-Import Bank began financing South Korean exporters through Russian commercial banks.⁴⁶

Nevertheless, despite the efforts by Putin and Roh to upgrade relations between the two countries, there still remain a number of obstacles that hamper multi-dimensional security cooperation. The six chapters following Chapter 3 will provide an analysis of these obstacles. But first we need to examine existing studies of the Russian-South Korean relationship and the next section of this chapter will attempt to demonstrate their strengths and weaknesses and to indicate how my thesis will build upon and enhance them.

⁴³ "South Korean Ambassador Predicts Record Trade with Russia," *Interfax News Agency, Diplomatic Panorama*, 29 December, 2004. It is interesting to note that although the combined value of South Korean investments to Russia was not that large (\$205.7 million), in 2003 there was a steep increase in investment. In 2003, the Russian economy received \$44.6 million in direct investments from South Korea, compared with \$3.6 million in 2002. See also *Agence France Presse*, 19 August, 2004.

⁴⁴ *Ibid.*

⁴⁵ For example, one of the South Korean conglomerates, LG and the First Deputy Chairman of the Moscow regional government, Alexei Panteleyev agreed to establish an electronics factory in Russia. The LG group also began constructing an oil chemical plant in Tatarstan worth more than \$1 billion, while another South Korean conglomerate, the Lotte group, started construction on a \$300 million big business-hotel center in Moscow. It was reported that LG also set up two electronics research centers in St. Petersburg Engineering University and the Moscow State University. See *Digital Times*, 21 April, 2005; and *Hankook Ilbo*, 21 September, 2004.

⁴⁶ *Ibid.*

2. Previous studies of Russian-South Korean relations

The study of Russian-South Korean relations is a relatively recent phenomenon in the International Relations literature. Although Soviet and Russian foreign policy studies began to grow in the early 1970s and developed further in the late 1980s, much of the work relies heavily on secondary materials. Books on Russian policy toward Korea are generally introductory, and articles are mostly policy-oriented descriptive studies containing little International Relations theory or, indeed, any conceptual framework. One reason for this is that few Korean specialists on Russia have a background in International Relations theory. Moreover, Soviet studies is relatively new in South Korea because the study of Communist states was, for many years, discouraged for ideological reasons in South Korea. In addition, following the collapse of the Soviet Union, Korean academics' interest in Russia declined dramatically. Moreover, since South Korea was never a high priority in the Soviet foreign policy agenda (even in Northeast Asia, the Korean peninsula has always been a lower priority in Soviet and Russian policy than China or Japan), western political scientists paid little attention to the relations between the two countries. Western studies of Russian foreign policy change have focused primarily on relations with the United States and Western Europe, or the Near Abroad.

There is, nevertheless, a small body of work devoted to the subject, primarily in the form of chapters in edited volumes, or small sections of chapters on Russian policy toward Northeast Asia. A common tendency in these works is to examine South Korean and Russian objectives in pursuing rapprochement, to offer a chronological account of their relations and to speculate about future prospects. What is lacking is an analysis of why relations have developed so slowly. More importantly, few scholars base their studies on an explicit conceptual framework. However, a few collections of essays have attempted use International Relations theory, and in the survey that follows, I shall divide the works that I examine into historical, international relations theory, regional, trilateral and security approaches.

2.1. Descriptive historical narrative approaches

Perhaps the commonest approach to the study of Russian-South Korean relations is the use of a descriptive historical narrative account. Several scholars have examined how Russian-Korean relations fluctuated historically from the late Korean Choson Dynasty and Czarist Russia in the nineteenth century to the recent Putin period. For

example, Shipaev analyzed the Soviet decision-making process under Gorbachev concerning rapprochement with South Korea, focusing on the change in Russian perceptions of South Korea from viewing it as America's puppet regime to accepting it as a legitimate foreign policy partner. He argued that the beginning of economic relations between Russia and South Korea was a direct consequence, and clear evidence, of the change in Russian perceptions, but he neither provided a theoretical framework nor a deep analysis for the study of those perceptions.⁴⁷

Vladimir Li offered an historical account of Russian diplomatic efforts toward the Korean peninsula, covering the history of Russian-Korean relations, the plight of the Korean minority in Russia, and current foreign policy issues. He argues that Russian attitudes towards Korean issues have had profound implications for the region for more than a century. In particular, his discussion of the history of ethnic Koreans in Russia adds a new dimension to the study of Russian policy toward Korea by underscoring the historical roots of Russia's role in Northeast Asia as well as the domestic importance of the Korean question. Li believes that it makes no sense for Russia to develop relations with South Korea at the expense of North Korea, given that the North Korean borders and its stability are of critical importance for the Russian Far East.⁴⁸

Yoke T. Soh's account of Moscow's evolving policy toward the two Koreas is confined to the period from July 1990 to July 1994. He argued that the Russian stance towards Korea was directed towards a complete break with the communist dogmas that had previously influenced Soviet decision-making. Russian foreign policy makers increasingly began to focus on the growing domestic economic and political crisis. As a result, most of the foreign policy issues with which they were concerned involved efforts to acquire aid and investment from technologically advanced capitalist nations such as South Korea.⁴⁹

In a recent conference presentation, Alexander N. Fedorovsky, divided a decade of Russian experience with the Korean peninsula into three periods: 1) under Gorbachev; 2) the beginning of reforms in Russia from 1991-1995; and 3) the period of balanced foreign policy under Yeltsin and Foreign Minister Primakov from 1996-

⁴⁷ Viktor I. Shipayev, "A New Russian Perception of South Korea," in Il Yung Chung, ed., *Korea and Russia Toward the 21st Century* (Seoul: The Sejong Institute, 1992), pp. 113-142.

⁴⁸ Vladimir Li, *Rossiya i Koreya v geopolitike Evrazeiskogo Vostoka* (Russia and Korea in the Geopolitics of the Eurasian East), (Moscow: Nauchnaia Kniga, 2000.)

⁴⁹ Yoke T. Soh, "Russian Policy toward the Two Koreas," in Peter Shearman, ed., *Russian Foreign Policy Since 1990* (Boulder: Westview Press, 1995), pp. 181-200.

1998.⁵⁰ While this work illustrated each of the three stages well and compared Russian objectives, it lacked a conceptual framework and offered more of a trend analysis. In general, these historical approaches lack both a comparative analysis between each period, and a conceptual framework through which to study the subject.

2.2. International Relations theory approaches

A small minority of academics, including Eun Sook Chung, Charles E. Ziegler, Amy Goldman and Hongchan Chun, have attempted to apply International Relations theory to the study of Russian-South Korean relations. Chung attempted to identify the overall policy implications for South Korea of Russian policy by examining the domestic roots of Russian foreign policy in transition.⁵¹ Chung's analysis uses a conceptual framework of a nexus linking domestic politics and foreign policy. However, she fails to explain exactly how the Russian domestic situation is related to its policy toward Korea.

Chung also approaches Russian foreign policy toward South Korea in the context of national identity questions. She applies one of Russia's most popular national identity debates in the mid 1990s, the Eurasian vs. Atlantic debate, to the case of Russian-South Korean relations. The debate, according to Chung, culminated during the December 1993 election campaign, in which a significant number of candidates criticized the existing foreign policy for being unduly subservient to the United States and advocated a balanced approach that paid more attention to the East. She sees the call for a shift in emphasis in Russia's foreign policy as a trend moving away from "Atlanticism" to "Eurasianism." In my opinion, however, there are weaknesses in interpreting Russian policy towards South Korea as an example of Eurasianism. In geographical terms, Eurasianism is only indirectly connected to the Asia-Pacific region. When critics of Russia's Atlanticism used the term to denote their preferred policy orientation, they mainly had in mind the "near abroad," that is, the newly independent states that emerged from the former Soviet Union. They also argued that it would not be desirable for Russia to be drawn into a North-South and anti-Islamic confrontation, which broadly designates the developing areas in Russia's backyard. While in the past,

⁵⁰ Alexander N. Fedorovsky, "Russian Policy and interests on the Korean Peninsula," Stockholm International Peace Research Institute (SIPRI) Conference presentation paper for "Russia and Asia-Pacific Security," International House of Japan, Tokyo, Japan, 19-21 February 1999.

⁵¹ Eunsook Chung, "Russia's Foreign Policy in Transition: Policy Implications for South Korea," in Il Yung Chung, ed., *Korea and Russia Toward the 21st Century* (Seoul: The Sejong Institute, 1992), pp. 287-327.

the term Eurasianism was used to denote extreme anti-Western trends in Russian thinking, in the current debate it is not primarily directed against the West, but appears to call for a more realistic policy, rather than a strategic change. We should not, therefore, necessarily expect that Russia's foreign policy priority would shift to the Asia-Pacific region as a result of this debate.

Ziegler's work, *Foreign Policy and East Asia*, highlights the dynamics of Soviet Policy toward both Koreas in the 1980s, and he uses the concept of learning in foreign policy by exploring the link between Gorbachev's domestic reforms and the radical transformation of Soviet relations with Korea in the 1980s. According to Ziegler, Soviet policy toward North and South Korea offers a useful case study of learning in foreign policy because although international factors may have played a role, it was pressure for domestic change, and economic reform in particular, which had had the greatest impact on new Soviet thinking. He briefly traces the history of Soviet relations with Korea, highlighting the extent to which ideology impeded foreign policy learning under Stalin, Khrushchev, and Brezhnev. He argues that Soviet relations with North and South Korea exhibited a unique facet of foreign policy learning in that Moscow's stubborn support for the rather uncooperative Kim Il-Sung regime was dictated less by ideology than by other foreign policy failures, namely, the Sino-Soviet split and the East-West conflict. Soviet Korean policy was also conditioned in large part by simple bureaucratic inertia. This position became increasingly untenable in the 1980s as South Korea's economic development far outpaced that of the North. With economic cooperation replacing military confrontation as the centrepiece of Soviet foreign relations, Seoul emerged as both a model and a potential partner for the Soviet Union, whereas Pyongyang's value further diminished as the Soviet Union and China moved toward normalization.⁵²

Goldman, on the other hand, focused on the political pressures and economic incentives behind South Korean policy in Russian-Korean bilateral relations. According to her analysis, the cooperative business-government structure, with its synergy of state and entrepreneurial goals, has been the primary factor in South Korea's aggressive moves to strengthen relations with the Soviet Union and Russia. She argued that South Korean economic policy toward the Soviet Union was predicated on political goals, and implemented by a cooperative business-government structure. A wide range of enterprises and industrial corporations representing various political goals and economic interests engaged in a lively debate over the national advantages to be gained from

⁵² Charles E. Ziegler, *Foreign Policy and East Asia: Learning and Adaptation in the Gorbachev Era*, 1993.

increased ties with the Soviet Union as a whole or with its various republics. She maintains that in dealing with the Soviet Union, “*Chaebol*” or South Korean conglomerates acted in unison with the state, partly due to the controls imposed on trade and investment. South Korean private sectors also had positive incentives to pursue Soviet contracts -- in addition to the short-term profit motive, companies saw an early entrance into Soviet markets as a shrewd long-term strategy. Her analysis is particularly useful in providing clues to the future direction of economic relations between South Korea and the post-Soviet states.⁵³

The work of Chun and Ziegler lies firmly within the framework of realism: both emphasize that Russia’s national interests were driving foreign policy decision-making. Although these national interests were not clearly stated, and perhaps were not thoroughly understood by many in Moscow, they represented the outlines of a third route between the old Soviet foreign policy and the policy preferred by Washington. Pride in Russian distinctiveness, as neither European nor Asian but somehow superior to both, seems to have emerged as a central element of Russian foreign policy. Moreover, they noted that Moscow’s Korean policy reflected broader trends that were influencing Russian foreign policy. Russia was clearly not returning to the former Soviet policy style since it did not have the military capability for such policies. But, more importantly, Russian officials realized that little would be gained by a heavy-handed approach in East Asia. Chun and Ziegler suggested that the best strategy seemed to be a more flexible combination of political and economic instruments while maintaining sufficient military strength to preserve control of Russia’s historical frontier regions. Russia’s recent Korea policy, that is, restoring ties with North Korea while expanding links with the South, indicates that Moscow has a strong desire to be accepted as a major power in Northeast Asia.⁵⁴

2.3. Regional approaches: Russian policy toward Northeast Asia

A few scholars approach the subject from a regional aspect, discussing Russian relations with South Korea as part of Russian relations with Northeast Asia more broadly. In my opinion, the regional approach may help to understand Russia’s overall

⁵³ Amy Rauenhorst Goldman, “The Dynamics of a New Asia: The Politics of Russian-Korean Relations,” in Tsuyoshi Hasegawa, Jonathan Haslam, and Andrew Kuchins, eds., *Russia and Japan: an unresolved dilemma between distant neighbours* (International and Area Studies, University of California at Berkeley, 1993), pp. 243-275.

⁵⁴ Chun, Hongchan and Charles Ziegler, *The Russian Federation and South Korea*, prepared for presentation at the 27th National Convention of the American Association for the Advancement of Slavic Studies, Washington, DC, 26-29 October, 1995.

policy toward the region, but since Russian objectives toward China, Japan, and the two Koreas are different, a region-wide account suffers from over-generalization of Russian policy.

Leszek Buszynski examined Russian policy towards Northeast Asia as the interplay between the aspirations expressed by government leaders, parliamentary figures, prominent academics, and journalists, and actual results. He distinguishes between three levels of Russian interests — global, regional, and bilateral. In terms of global interests, the Russian leadership has sought diplomatic balance against the US; at the regional level, it has pursued economic and security integration, while at the bilateral level, it has sought specific benefits from its relations with China, Japan, and South Korea. He argues that at the regional level policy aspirations have been frustrated by Russia's difficult economic conditions and the tendency to treat it as an outsider. Although Russia has benefited from an improvement of bilateral relations with China, Japan, and South Korea, these gains do not yet translate into an improved position at the regional level.⁵⁵ Although he provides interesting insights, Buszynski fails to suggest any specific reasons for Russia's unsuccessful diplomacy in this region. Furthermore, his discussion of Russia's bilateral relations with each of the Northeast Asian countries is simply a chronological description of events, without linking them to the reasons for Russia's weak status.

Duckjoon Chang similarly explains Russian relations with South Korea within the framework of the possibilities and constraints of cooperation between the Russian Far East and the Northeast Asian countries. He set out three reasons for the Russian Far East's difficulty in cooperating and integrating further with other Northeast Asian countries, and considers the future prospects for cooperation. First, foreign investment and other cooperative measures between the Russian Far East and its neighbours have never been satisfactory. Second, economic difficulties in the Russian Far East have aggravated racist and xenophobic attitudes, which in turn have been exploited by local politicians, much to the chagrin of potential foreign investors. Third, the recent financial problems in Japan and South Korea have had a negative impact on the Russian Far East's efforts to integrate further. While he criticizes the Russian Far East's irrational business practices and excessive bureaucratic red tape, he contends that if the Russian Far East launches international cooperation projects centred on selected areas—

⁵⁵ Leszek Buszynski, "Russia and Northeast Asia: aspirations and reality," *The Pacific Review*, Vol. 13, No. 3, 2000, pp. 399-420.

such as a triangular type of economic cooperation between Russia and both South Korea and North Korea—the prospects for success would increase.⁵⁶

Han-ku Chung also maintained that a democratic Russia on the one hand, and regional stability in which the United States maintained a moderate level of superiority on the other, constitute the two pillars essential for continued cooperation between South Korea and Russia. He reviewed what prompted each side to make overtures to the other and what objectives they would continue to pursue in their relations. He also examined whether these objectives could be achieved amidst the changes that have been taking place in Russia and the international environment in East Asia.⁵⁷

Ziegler's work "Russia and the Emerging Asian-Pacific Economic Order," also examined Russia's cooperation with the Northeast Asian regional economy, particularly the efforts made by the Russian Federation towards establishing closer ties with the Asian-Pacific economic order. He argues that very little has been accomplished in terms of Russian participation in Asian-Pacific multilateral organizations. Although a few bright spots exist in Russia's bilateral economic ties, most notably with China, Taiwan, and South Korea, he believes that Russia's chaotic domestic situation will seriously constrain efforts to integrate into the Asian-Pacific economic order.⁵⁸ This work includes only a few sentences about Russian-South Korean bilateral relations. Furthermore, it offers a broad analysis and does not provide a detailed explanation of what hinders Russia's integration into the regional economy. All of the authors mentioned in this section make valuable and interesting points about bilateral Russian-South Korean relations but, given the edited volume format, there is not enough space to deal with the issue in depth.

2.4. Trilateral approaches: Moscow, Pyongyang, and Seoul

In recent years, in parallel with the renormalization of Russian-North Korean relations, several academics, including Alexandre Y. Mansourov, Seung-Ho Joo, Jaenam Ko, Alexander N. Fedorovsky, Jeoungdae Park and Jaeyoung Lee, have focused on trilateral relations between Moscow, Pyongyang, and Seoul. Mansourov notes that the best way to characterize the evolution of Russian policy towards the Korean peninsula

⁵⁶ Duckjoon Chang, "The Russian Far East and Northeast Asia: An Emerging Cooperative Relationship and its Constraints," *Asian Perspective*, Vol. 26, No. 2, 2002, pp. 41-75.

⁵⁷ Han-ku Chung, "The Future of Russo-Korean Relations," in Il Yung Chung, ed., *Korea and Russia Toward the 21st Century* (Seoul: The Sejong Institute, 1992), pp. 411-434.

⁵⁸ Charles E. Ziegler, "Russia and the Emerging Asian-Pacific Economic Order," in Ramesh Thakur and Carlyle A. Thayer, eds., *Reshaping Regional Relations: Asia-Pacific and the Former Soviet Union* (Boulder: Westview Press, 1993), pp. 85-100

under Putin is to look at triangular relations among Moscow, Pyongyang, and Seoul.⁵⁹ In his recent article, “*Russia and Korea: The Summit and After*,” Joo provided a rather optimistic view regarding future multilateral cooperation between Russia and South Korea, emphasizing the importance of trilateral economic relations between Moscow, Pyongyang, and Seoul. His work explored Putin’s new foreign policy goals and principles toward the two Koreas, focusing on the Putin-Kim Jong Il summit and Putin’s diplomatic initiatives toward Korea. He also concluded that if Russia and the two Koreas jointly pursue projects such as the Iron Silk Road project, the Nakhodka industrial complex plan, and the Irkutsk gas pipeline project, the remnants of the Cold War on the peninsula are likely to melt away.⁶⁰ He fails, however, to define the specific elements that are delaying current economic cooperation.

The same is largely true of Ko’s “*Pyongyang’s Opening and North-South-Russia Cooperation*,” and Fedorovsky’s “*Russian policy and interests on the Korean Peninsula*.” Both provide rather optimistic views of trilateral economic cooperation, arguing that trilateral cooperation will not only promote the national interests of all participating countries but also significantly contribute to ensuring peace and stability in Northeast Asia. According to Ko, North Korea’s policies toward South Korea and the settlement of major issues in the Korean peninsula are the decisive factors for successful trilateral cooperation. Fedorovsky emphasizes the importance of economic reforms in Moscow, Pyongyang, and Seoul, since the realization of market reforms in Russia, the transformation of North Korea’s administrative economy in the direction of a market economy, and the liberalization of the South Korean economy could provide the basis for long-term efficient cooperation, and contribute to regional stability. On the other hand, political and economic stagnation or regression in any of the countries would undermine political and security stability in the region.⁶¹ Yet, although both academics warn that there are formidable obstacles hindering the implementation of these trilateral economic cooperative projects, neither offers a detailed analysis of these obstacles.

Park and Lee give a relatively detailed assessment of the present state of industrial cooperation between Moscow and Seoul, in terms of mutual investment, technological cooperation, cooperation in resource development, and transport cooperation. They highlight several reasons for the decreased industrial cooperation

⁵⁹ Alexandre Y. Mansourov, “*Russian President Putin’s Policy Towards East Asia*,” *The Journal of East Asian Affairs*, Spring/Summer 2001, Vol. 15, No. 1, pp. 59-62.

⁶⁰ Joo, 2002, pp. 103-127.

⁶¹ Jae-nam Ko, “*Pyongyang’s Opening and North-South-Russia Cooperation*,” *Korea Focus*, Vol. 9, No. 3, May-June, 2001, pp. 63-81; and Fedorovsky, “*Russian Policy and interests on the Korean Peninsula*”.

between the two sides, stressing the importance of trilateral economic cooperation.⁶² Their approach is business oriented and takes no account of foreign policy analysis or International Relations. In general, all the works based on trilateral approaches lack a deep analysis of the specific elements that threaten trilateral relations.

2.5. Security Approaches

Several scholars apply the concept of security to bilateral relations between Moscow and Seoul. However, few of them either define or analyze the term. For example, Peggy Falkenheim Meyer's article, "Russia's post-Cold War Security Policy in Northeast Asia" deals with Russia's security relations with Northeast Asian countries. She examines the debate between traditional security and economic concerns, yet she merely sets out descriptions of the political and military events and does not establish a link between security and Russia's relations with China, Japan, and the two Koreas.⁶³

Moreover, most security approaches focus on the traditional concept of security and they are still firmly within the paradigm of Cold War analysis, in spite of the fact that as the importance of relations between Moscow and Seoul gradually waned, the two countries had extreme difficulty in finding shared diplomatic interests especially in relation to traditional security concerns. Indeed, the traditional security concept has been mentioned less and less during bilateral talks, especially since South Korea adopted its sunshine policy toward North Korea in the late 1990s, in conjunction with the end of the Cold War. Furthermore, most academics fail to clarify whether they are referring to traditional or non-traditional security.

For example, Suck-ho Lee examined Russian relations with South Korea from both the historical and the geo-strategic perspective, while discussing security cooperation and security goals from the late 19th century. He maintained that security cooperation between Russia and Korea has never been successful or satisfactory. Although he uses the concept of security, his analysis is mostly based on traditional security concerns rather than non-traditional security concerns, separating economic cooperation from traditional security aspects. On the other hand, he recognizes that economic difficulties on both sides represent major threats to their national securities. He argues that while Moscow expects Seoul to help the Russian economy, Seoul does

⁶² Jeongdae Park and Jaeyoung Lee, "Industrial Cooperation between Korean and Russia," *Journal of Asia-Pacific Affairs*, Vol. 3, No. 2, February 2002, pp. 47-71.

⁶³ Peggy Falkenheim Meyer, "Russia's Post-Cold War Security Policy in Northeast Asia," *Pacific Affairs*, Vol. 67, No. 4, Winter 1994-1995, pp. 495- 512.

not want the burden of Russia's economic problems.⁶⁴ In short, the literature based on the concept of security lacks proper definitions of security and it fails to identify the constitutive elements of security cooperation with reference to Moscow-Seoul relations.

3. Limits of the existing literature and the contribution of this thesis

It is interesting to observe that, in terms of Russian and the Korean foreign policy objectives, despite the different approaches taken by different scholars, they virtually all reach the same conclusions. First, from the traditional security point of view Moscow has been eager to obtain influence on the Korean peninsula, while South Korea wants Moscow to help ease the tensions in the relations between the two Koreas. In the economic sphere, Moscow wants closer cooperation with Seoul in order to obtain capital investments, while Seoul is interested in accessing Russian natural resources and expanding its current export markets.

Moreover, most of the studies interpret the improvement in Russia's bilateral relations with all the countries in Asia as part of one overall Soviet/Russian objective in East Asia. When it achieved détente with the United States, the Soviet Union/Russia began to mend its relations with other Asian countries as well. A further objective is considered to be increasing Soviet/Russian economic cooperation with, and involvement in, the dynamic Asian economy. The Soviet Union/Russia was badly in need of foreign capital and technology to keep Gorbachev's economic reforms moving. Situated close to the Russian Far East, South Korea was an excellent potential economic partner for Moscow.

It is also clear that very few scholars use a theoretical approach to understand Russian-South Korean relations; it seems that theory and the case of Russian foreign policy toward Korea have not been integrated with each other. In most cases, International Relations theory and the empirical detail of Russian-South Korean relations have been treated as separate areas of study. Moreover, scholars rarely define the terms that they apply in their studies. One reason why scholars have not been tempted to apply International Relations theory to their study of Russian-South Korean relations may be Russia's inherently weak situation in Northeast Asia, and the

⁶⁴ Suck-ho Lee, "Korea and Russian Security Cooperation: Incentives and Obstacles," in Il Yung Chung, ed., *Korea and Russia Toward the 21st Century* (Seoul: The Sejong Institute, 1992), pp. 235-286.

comparative low priority each country's foreign policy agenda assigns to the other.

Eunsook Chung points out that

after examining changing trends of new Russian foreign policy over the several years, the study of Russian foreign policy implications for the Russian-South Korean relations is a rather difficult job, because without any concrete substance in Russian-Korean diplomacy, it seems that there is virtually no indication that the changes in the new Russian strategy have any direct impact on Russia's relations with South Korea.⁶⁵

She argues that when scholars speak of "accommodation" or "assertiveness" in Russian diplomacy, they usually have in mind Russia vis-à-vis the US and NATO, or Russian policy towards Japan and China. And "for those Russians who express strong feelings of anti-Westernism, South Korea was considered to be a country with which to cooperate as long as it was beneficial to Russia's national interests vis-à-vis the West."⁶⁶

We have also seen that Russian-South Korean relations are often only briefly mentioned within the context of Russia's overall policy toward Northeast Asia. This is primarily due to the fact that Russia's thinking about, and its policy towards, the Asia-Pacific area are to a large extent in flux at present. Russian policy analysts and decision makers have been slow to adapt and respond to the unprecedented transformation of the international environment and, by and large, still deem the Russian presence in Asia as mainly designed to affect the balance with the West—especially in view of the perceived need to counteract NATO's drive eastwards or US hegemony in global politics—by securing closer ties with major Northeast Asian powers such as China. As Baranovsky notes, assessing the Northeast Asian region still remains a formidable task for Russia, particularly because "perceptions and concepts developed for the realities of Euro-Atlantic politics are simply inadequate for understanding the intricacies of the Northeast Asian landscape and its Russian component."⁶⁷ Moreover, the analysis of

⁶⁵ According to her, Paul Kennedy at Yale University expressed a similar view during his lecture in Seoul on "Korea in the 21st century" co-sponsored by *The Korea Economic Daily and Institute for Global Economics*, 5 January, 1994; and see also Eunsook Chung, "Russia in a Changing International Environment," in Il Yung Chung and Eunsook Chung, eds., *Russia in the Far East and Pacific Region* (Seoul: The Sejong Institute, 1994), p. 392.

⁶⁶ Eunsook Chung, "Russia in a Changing International Environment," p. 392.

⁶⁷ Vladimir Baranovsky, "Russia and Asia: challenges and opportunities for national and international security," conference paper prepared for Russia and Asia-Pacific Security initiated by Stockholm International Peace Research Institute (SIPRI), Tokyo, 19-21 February, 1999, p. 1.

Russia's geopolitical interests and strategy in the region has been based on immediate pressures and responses. This means that the problems of Russia's security relations with the Northeast Asian countries have been viewed in the short-term rather than from a longer term perspective.⁶⁸

In short, there remains much work to be done in bridging the gap between our understanding of the bilateral relations between Russia and South Korea, and the study of International Relations. Scholars need to provide a detailed analysis of the fundamental problems in the relationship, and they also need to formulate a relevant conceptual framework. In an attempt to bridge this gap, this thesis seeks to explain bilateral relations within the framework of comprehensive security cooperation, analyzing the elements of shared common interests. Accordingly, this thesis seeks to show how important the concept of comprehensive security is, especially regional economic security, with regard to a proper understanding of bilateral relations between nation states in the Northeast Asian region. Second, it seeks to provide a detailed analysis of what hinders further security cooperation, investigating specifically the major economic projects that have been proposed since the establishment of diplomatic relations in 1991. Finally, as will be discussed in detail in Chapter 2, this security approach, and specifically broadening the concept of security, seeks to provide a way of linking areas of theory and analysis within International Studies that are normally isolated from each other, including international relations theory, international political economy, area studies, and strategic studies.⁶⁹ The structure of the thesis is set out in the following section.

4. Structure of the thesis

Chapter 2 deals with the concept of multi-dimensional security cooperation and its relevance to bilateral Russian-South Korean relations, offering a critical examination of the main theories of comprehensive security with the intention of showing that regional economic security is the core of the concept. Specifically, this chapter argues that bilateral Russian-South Korean relations reflect three important aspects of security studies at the regional level: states' perceptions of security, security cooperation between nation states, and security threats that disturb security cooperation. The final

⁶⁸ Ibid.

⁶⁹ See the definition of comprehensive security in Barry Buzan, *People, States and Fear* (Boulder: Lynne Rienner Publishers, 1991), p. 372.

section of the chapter illustrates specific features of comprehensive security cooperation between the two countries, focusing on regional energy security, linking transportation networks, the Free Economic Zone, fishery as a part of natural resource management security, the arms trade, and the North Korean factor.

Chapter 3 charts the development of energy security cooperation between Russia and South Korea from the regional perspective, focusing specifically on the Kovykta gas pipeline project and the Sakhalin oil and gas project, and their implications for Northeast Asian energy security and each nation's economic security. This chapter illustrates how diverging political goals and complementary economic interests have driven Russian and South Korean bilateral energy cooperation and focuses on the obstacles to the development of energy cooperation between the two countries.

The aim of Chapter 4 is to examine the development and the problems of the Trans Siberian Railroad (TSR) and the Trans Korean Railroad (TKR) linking project from the aspect of regional economic security, focusing specifically on the debate regarding the obstacles and opportunities of the project. The chapter begins with a brief examination of the historical background of the TSR. To fully understand the importance of this project for bilateral Russian-South Korean relations, the chapter assesses the political, economic, and regional implications of transportation linkage. The chapter contends that this project has the potential to enhance bilateral regional economic security cooperation between Russia and South Korea because economic synergy can be created by transportation links, by eliminating barriers, and promoting cross border interactions.

Chapter 5 analyzes how the Russian-South Korean industrial park project in the Nakhodka Free Economic Zone (FEZ) has developed in the last 15 years, examining specifically why it has been so slow to develop. The chapter demonstrates that the troubled economy of the Russian Far East and the Russian FEZ's overly politicized structure are the chief factors that delayed the project. This chapter argues that the Nakhodka FEZ cooperation has the potential to promote bilateral Russian-South Korean economic security and facilitate regional economic security in Northeast Asia, particularly since the Nakhodka area has recently become more of an energy and transportation hub in the Northeast Asian regional economic integration process.

Nevertheless, the reality is that the project has stalled due to the scepticism and obstacles.

The aim of Chapter 6 is to examine progress and problems of fishery cooperation between Moscow and Seoul as an aspect of regional economic food security. The chapter examines the importance of Russian Far East fishery to South Korea, focusing primarily on the pollack quota dispute, and cuttlefish and saury fishing zone disputes. It examines the fundamental causes of illegal fishery in the Russian Far East and explains why illegal fishing is becoming a problem that hinders fishery cooperation between Russia and South Korea. The final section of the chapter assesses the implications of fishery diplomacy for bilateral and regional economic security.

Chapter 7 reviews the development and obstacles to military security cooperation between Russia and South Korea, primarily focusing on the arms trade. It offers a unique perspective of the arms trade, departing from the traditional political and military security interpretation and seeing it instead from a non-traditional economic security approach. It begins with a general discussion of the Russian arms trade in the post Soviet period, and then focuses on the two arms trade projects called “Brown Bear” projects. The chapter considers the implications of the arms trade for bilateral Russian-South Korean relations and illustrates how the arms trade can enhance both the traditional and non-traditional national security of Russia and South Korea.

In Chapter 8, the North Korean factor in bilateral Russian-South Korean relations is considered from the multi-dimensional security perspective. To examine whether the North Korean issue is a threat to security cooperation threat or a security enhancing factor, this chapter pays particular attention to the evolution of Moscow’s approach toward Pyongyang under the three different Kremlin leaders, Russia’s stance on North Korea’s nuclear aspirations, and Moscow’s views about Korean reunification. The final section of the chapter highlights why the Pyongyang factor is a pivotal question in bilateral Moscow- Seoul security relations and concludes that North Korea’s ambition to build nuclear weapons hinders economic security cooperation between Moscow and Seoul from a traditional security perspective. Conversely, however, trilateral economic cooperation involving North Korea can strengthen the economic security of all three states.

The final chapter assesses the utility of the concept of multi-dimensional security cooperation as a framework for studying bilateral relations and the prospects for Russian-South Korean bilateral relations.

In respect of transliteration, I have used the British Standards Institute system, except for personal and place names which have an established usage in English, or where the sources I have cited use a different transliteration system.

Chapter 2. Comprehensive security

1. The concept of security

The term “security” is generally ambiguous in content and in format: is it a goal, an issue-area, a concept, a research programme, or a discipline? There is no single concept of security; “national security”, “international security”, and “global security” refer to different sets of issues and have their origins in different historical and philosophical contexts.¹ Accordingly, the field of security studies has been the subject of considerable debate in recent years. Attempts to broaden and deepen the scope of the field beyond its traditional focus on states and military conflict have raised fundamental theoretical and practical issues. Critics who oppose broadening the concept of security to include new parameters, such as environmental problems and criminal and similar activities, have argued that doing so creates conceptual confusion, and that the term insecurity becomes a grab-all category into which just about every human ill, from war, to environmental degradation, to AIDS, becomes indiscriminately lumped together. Although they admit that these issues are of critical importance, they “see no compelling analytic rationale for discussing them under the rubric of security.”² At the same time, even scholars who defend traditional security studies against those who wish to broaden the concept, increasingly recognize the need for closer links between non-traditional issues such as political economy and security studies. Stephen Walt, for example, highlights economics and security as an important area of new research for security scholarship after the Cold War.³

Harris and Mack note that Northeast Asian states tend to conceptualize security more broadly than has traditionally been the case in the West. They argue that Western security analysts have too frequently ignored non-Western security theory and practices.⁴ Ramesh Thakur also believes that in the post-Cold War era, East Asian states frequently implement broad conceptions of security that have new economic and environmental dimensions in addition to the more traditional military and political

¹ Helga Haftendorn, “The Security Puzzle: Theory-Building and Discipline-Building in International Security,” *International Studies Quarterly*, Vol. 35, No. 1, March 1991, p. 3.

² Stuart Harris and Andrew Mack, “Security and Economics in East Asia,” in Stuart Harris and Andrew Mack, eds., *Asia-Pacific Security: The Economics-Politics Nexus* (Canberra: Allen & Unwin Australia Pty Ltd, 1997), p. 4.

³ Walt, 1991, p. 227, quoted in Michael Mastanduno, “Economics and Security in Statecraft and Scholarship,” *International Organization*, Vol. 52, No. 4, Autumn 1998, p. 853.

⁴ Harris and Mack, p. 4.

concerns.⁵ According to Krause and Williams, the concept of national security does not simply represent a reaction to objective conditions: “It is built on a series of political and epistemological choices that define what is considered security.”⁶

The objective of this thesis is to broaden the concept of security, and apply it to the case of bilateral relations between Moscow and Seoul. I argue that the concept of comprehensive security, and, more specifically, bilateral and regional economic security, might most appropriately describe the current bilateral relations between Russia and South Korea. However, whereas in previous studies on security, academics have concentrated primarily on the institutional approach, or the formal framework of the security structure, this thesis focuses on the security building processes between two nations. Moreover, instead of looking at the link between economic dependence and security threat, as previous security analysts who have treated them as separate issues have tended to do, this thesis seeks to approach the security concept as a mixture of the two factors. In this chapter I shall primarily focus on the following three aspects of security: nation states’ perceptions of security, the security building process, and potential security threats.

The chapter begins by defining comprehensive security and economic security and indicating their relevance to the thesis topic, concentrating on the regional economic aspects of comprehensive security. It then deals with comprehensive security and economic security at two levels: the Northeast Asian regional level and the level of bilateral Russian-South Korean relations. The final section of the chapter highlights the specific features of the comprehensive security cooperation between Moscow and Seoul which will be examined in detail in the following six chapters.

2. The relevance of Comprehensive Security

Although security has traditionally been viewed in military and political terms, the rise to prominence of new global issues has led to a broadening of the concept.⁷ As Buzan points out, “national security...cannot be properly comprehended without bringing in the actors and dynamics from the societal, economic and environmental

⁵ Ibid.

⁶ Keith Krause and Michael C. Williams, “Broadening the Agenda of Security Studies: Politics and Methods,” *Mershon International Studies Review*, Vol. 40, No. 2, October 1996, pp. 233-234.

⁷ Alan Dupont, *The Environment and Security in Pacific Asia* (New York: Oxford University Press, 1998), Adelphi Paper 319, Introduction part.

sectors.”⁸ This means that traditional geo-strategic considerations no longer dominate the foreign policy agenda and arguments about ensuring security through economic arrangements are now gradually gaining strength.⁹ In short, the notion of security has acquired a more comprehensive, multi-dimensional character. To quote Buzan again,

The concept of security binds together the individual, regional and system levels and various sectors so closely that it demands to be treated in an integrative perspective. Some sense can be made of individual, national and international security, and of military, political, societal, economic and environmental security as ideas in their own right. Yet a full understanding of each can only be gained if it is related to the others. Attempts to treat security as if it was confined to any single level or any single sector invite serious distortions of understanding.¹⁰

In Northeast Asia, in particular, the military dimension is increasingly supplemented by issues of economic and environmental security. Although the western media often argues that the North Korean nuclear crisis might cause military confrontation in this region, there has been no military conflict in the region since the Korean War in 1950.¹¹ The North Korean nuclear crisis cannot be considered without paying some attention to other aspects of security. It can be argued, for example, that one reason why North Korea has attempted to acquire nuclear capability is in order to resolve its domestic energy crisis and to receive economic assistance from the US. Comprehensive security, combining traditional political and military aspects, and non-traditional economic and environmental security, might be the most appropriate term to explain the current security cooperation between nation states in the Northeast Asian region. Other similar terms that have been used to describe comprehensive security are multidimensional security and total security.¹² The concept of multidimensional security should be

⁸ Barry Buzan, *People, States and Fear* (Boulder: Lynne Rienner Publishers, 1991), p. 363.

⁹ Kosuke Oyama, “Japanese Energy Security and Changing Global Energy Markets: An Analysis of Northeast Asian Energy Cooperation and Japan’s Evolving Leadership Role in the Region,” prepared in conjunction with an energy study sponsored by The Center for International Political Economy and The Petroleum Energy Center and The James A. Baker III Institute for Public Policy, Rice University, May 2000, p. 3.

¹⁰ Barry Buzan, *People, States and Fear*, p. 363.

¹¹ J. Mohan Malik, “Conflict Patterns and Security Environment in the Asia Pacific Region—The Post-Cold War Era,” in Kevin Clements, ed., *Peace and Security in the Asia Pacific Region* (Tokyo: United Nations University Press, 1993), p. 51.

¹² Desmond Ball, *Strategic Culture in the Asia-Pacific Region (With Some Implications for Regional Security Cooperation)*, Working Paper No. 270, Canberra, April 1993, pp. 16-17.

distinguished from that of multilateral security, which simply means security cooperation among more than two countries.

The concept of comprehensive security was first officially introduced as the major instrument of national security planning by the Japanese government in the late 1970s and early 1980s, and was also elaborated by ASEAN. “In contrast to the strong military orientation of the Western-derived concept of traditional security, comprehensive security stresses non-military means of achieving and maintaining security.”¹³ As Alan Dupont notes, the concept of comprehensive security particularly emphasizes the economic aspects of national security in addition to traditional political and strategic dimensions.¹⁴

According to the Japan Defence Agency, the promotion of diplomacy for peaceful purposes and measures to ensure energy and food supplies are indispensable to the existence of any country. Therefore, in order to achieve national security, it is necessary to incorporate every measure, both military and non-military, in a comprehensive and coordinated way.¹⁵ The Japanese approach towards comprehensive security highlights that good relations with neighbouring states are central to a state’s comprehensive security policy. Moreover, for states like Japan which are highly dependent on the outside world for key resources, the security of access to such resources has long been a central objective of state security planners. Accordingly, Japan seeks to maintain a favourable international environment. Yet, “since the peace constitution prevents the possibility of using military power as an instrument of statecraft, Japan can only pursue its security goals by political, diplomatic and economic means.”¹⁶ In this sense, a state’s trade and foreign direct investment policies, which create regional interdependency, and official development aid policy (notably in Japan’s case), have a security dimension.

Several ASEAN states including Indonesia, Malaysia, and Singapore, along with Australia, have also subscribed to a comprehensive view of security. In fact, the ASEAN approach goes further than the Japanese approach in emphasizing the non-

¹³ Pauline Kerr, Andrew Mack and Paul Evans, “The Evolving Security Discourse in the Asia-Pacific,” in Andrew Mack and John Ravenhill, eds., *Pacific Cooperation: Building Economic and Security Regimes in the Asia-Pacific Region* (Canberra: Allen & Unwin, 1994), p. 252. Kerr, Mack and Evans refer to this traditional security approach as ‘common security.’

¹⁴ Alan Dupont, “New Dimensions of Security,” in Denny Roy, ed., *The New Security Agenda in the Asia-Pacific Region* (London: Macmillan Press, 1997), p. 35.

¹⁵ In order to give effect to the concept of comprehensive security, the Japanese government established a Council of Ministers Concerned with Comprehensive Security within the Cabinet in December 1980 for the purpose of holding consultations on economic, diplomatic and other measures requiring comprehensiveness and coherence from the standpoint of national security. See *Defense of Japan 1985*, (Japan Defense Agency, Tokyo, 1985), p. 58.

¹⁶ Kerr, Mack and Evans, p. 254.

military aspects of security policy. For example, in contrast to the conventional concept that equates security with a nation's capability to defend its territory against external threats, Indonesia's experience since independence has shown that the term security indicates all aspects of national life including ideology, politics, the economy, religion, society, culture, and the military.¹⁷

The ASEAN concept of comprehensive security operates at three levels: intra-state, intra-ASEAN, and between ASEAN and the rest of the region. The strong domestic focus in ASEAN's comprehensive security thinking is not surprising. Both Malaysia and Indonesia, for example, are ethnically and culturally divided societies and each has endured years of civil strife. For them, a "comprehensive security policy at the national level promotes national resilience, nation building and political stability."¹⁸ The goal is to secure the state against dissident sectors of civil society. While the military plays a role in this process, political, social, and economic policy is far more important. However, the intra-ASEAN and regional levels of ASEAN's comprehensive security approach are more relevant to my thesis than the domestic level.

Comprehensive security plays an important role in enhancing intra-ASEAN security. The non-military approach is particularly important to ASEAN because there are unresolved conflicts between ASEAN states, which national defence planners must take into account. Kerr, Mack and Evans argue that many of these issues are so sensitive that it would be unthinkable to place them on the agenda of any military security dialogue. Therefore, whereas "NATO defence planners could engage their adversaries in frank debate about fundamental security concerns, in ASEAN this is almost impossible—and is certainly avoided."¹⁹ They argue that "the need to avoid discussion of sensitive military issues suggest another reason why ASEAN's comprehensive security approach is so different from the military oriented approaches of the West."²⁰ Comprehensive security minimizes the military dimension of security in intra-ASEAN relations, while putting more emphasis on non-military factors such as political dialogue, economic cooperation, and interdependence. This has been a successful strategy over the past three decades. While many old tensions remain, they are now relatively

¹⁷ Ball, p. 17.

¹⁸ Kerr, Mack and Evans, p. 252.

¹⁹ For example, Kerr, Mack and Evans point out that prudent Singaporean defense planners have to take seriously the possibility that one day they could be involved in military hostilities with Malaysia—and vice versa. Their military contingency planning will reflect this fact. But these are issues, which, for obvious political as well as military reasons, security planners cannot openly discuss with each other. See Kerr, Mack and Evans, p. 252.

²⁰ Kerr, Mack and Evans argue that non-sensitive military issues can certainly be discussed and military cooperation can take place to a certain level. What cannot be dealt with are such issues as the military contingency plans of the ASEAN states. See *Ibid.*, p. 253.

marginal in comparison with the webs of cooperation and the bonds of common interest which have been built up over the years. Moreover, as cooperation and interdependence within the sub-region increase, the costs of military conflict increase—creating a further incentive to avoid it.²¹ The case of ASEAN also illustrates that economic growth in the region enhances regional security. According to Wanandi, “a link between national development and security has some parallels with the argument that democracies do not go to war with each other.”²²

Comprehensive security tends to be complex, multidimensional, and transnational in form and impact. It stretches the boundaries of traditional thinking about security to include economic and environmental issues. According to Dupont, it ranges “from concerns about international financial flows and market access, to food scarcity, resource depletion, global warming, transnational crime, illegal migration, virulent new strains of diseases, and a host of other issues not previously associated with security and foreign policy.”²³ These issues together form the core of what Fred Halliday calls the new security agenda.²⁴

3. Economic Security

It can be argued that economic security is the core of the comprehensive security concept. However, economic security means different things to different people with the consequence that there are a number of different approaches and different definitions. This makes the concept so broad as to be somewhat unmanageable. Buzan, for example, notes that economic security seems to refer to “some concrete condition, a state of being that could actually be achieved, and which therefore represents a realistic and rational political goal.” Yet, “with the exception of the basic requisites for individual survival, this perception is false. The idea that economic security represents an absolute value with wide application is an illusion, and the pursuit of it is the pursuit of a chimera.”²⁵ In fact, economic security is relative and it involves contradictions and trade-offs. “Almost nothing can be gained without something of comparable

²¹ Ibid.

²² Jusuf Wanandi, “Security Issues in the ASEAN Region,” in Karl Jackson and M. Haidi Soesastro, eds., *ASEAN Security and Economic Development* (Berkeley: Institute of East Asian Studies, University of Berkeley, 1984), quoted in Kerr, Mack and Evans, p. 253.

²³ Dupont, pp. 35-36.

²⁴ Fred Halliday, “International Relations: Is There a New Agenda?”, *Millennium Journal of International Studies*, Vol. 20, No. 1, Spring 1991.

²⁵ Buzan, *People, States and Fear*, p. 235.

importance being lost. Distinctions between threatening and normal behaviour are exceptionally difficult to draw....”²⁶

Traditional security analysts have tended to separate traditional political and military security from economic issues, even when they recognize that these two areas are inherently connected.²⁷ According to Cossa and Khanna, it is practically impossible and may even be dangerously naive, to try to separate economic, political, and security issues in East Asia. Almost all political and security decisions have some economic implications, and economic considerations increasingly influence political and security decisions.²⁸ This thesis attempts to combine the two concepts.

In short, economic security is a complex mixture of economic and security concerns.²⁹ It can, for example, refer to those aspects of trade and investment which directly affect a country’s ability to defend itself: freedom to acquire weapons or related technology, reliability of supplies of military equipment, or threats of adversaries acquiring a technological advantage in weapons. The main objective of economic security is to protect domestic supplies, technologies, and markets.³⁰ Achieving it requires the maintenance of economic growth; open sea lines of communication; free and fair trade practices; and access to finance, markets, and natural resources.³¹

Buzan’s analysis of economic security at the state level, which includes the nation state’s ‘survival’ and ‘adaptability,’ is particularly useful in understanding the objectives of economic security. Buzan emphasizes that the key concept for economic security is “survival.”³² “If the economic criteria for security are raised beyond that, then complex issues arise about the impact of reduced vulnerability on economic efficiency, and thus in the longer term about the state’s ability to improve, or even hold, its position in the international system.”³³ He argues that the national equivalent of basic human needs has two elements. The first is that like individuals, states require ready access to the means necessary for their survival. Unlike individuals, states may contain much or even all of what they need to sustain themselves in terms of agricultural production sufficient to supply essential industry. If states like Japan and South Korea do not possess sufficient resources, then access to trade becomes an

²⁶ Ibid.

²⁷ Ming Wan, “Wealth and power,” *Harvard International Review*, Vol. 18, No. 2, Spring 1996, p. 20.

²⁸ Ralph A. Cossa and Jane Khanna, “East Asia: Economic Interdependence and Regional Security,” *International Affairs (Royal Institute of International Affairs)*, Vol. 73, No. 2, April, 1997, p. 223

²⁹ Vincent Cable, “What is international economic security,” *International Affairs*, Vol. 71, No. 2, April 1995, p. 308.

³⁰ Ibid., p. 305.

³¹ Malik, p. 51.

³² Buzan, *People, States and Fear*, p. 241.

³³ Ibid.

essential part of their basic economic security concerns. Like individuals, their survival depends on interaction with a wider environment. Under these circumstances, disruption of supply threatens the power, welfare, and possibly the political stability of the state. Thus "the logical security strategies are to ensure continuity of supply by expanding the state to incorporate the necessary resources, or by cultivating stable trading systems, and to buffer vulnerabilities by stockpiling essential goods."³⁴ Buzan also emphasizes the importance of states' adaptability to the international system at the regional level and cooperation between states. He contends that the internal physical construction of states is highly variable and continuously changing. Therefore, "the survival of a state depends on adapting towards the most advanced and successful practices elsewhere in the international system. Failure to adapt, or even relative slowness at doing so, means a steady loss of power, and a steady rise in vulnerability for those that have been more successful."³⁵

Most conventional treatments of economic security have concentrated on the degree to which national security is threatened by dependence on external sources of technology, raw materials, food and fuel.³⁶ In my opinion, however, most security analysts have approached the problem from the standpoint of relations which have already been established between countries and have interpreted disruptions to existing supplies as threats to economic security. I argue that economic security means more than simply protecting the existing domestic economy from disruption of supplies. I intend to stretch the definition of economic security to the processes of discovering new economic opportunities through establishing a new transportation network infrastructure, diversifying energy resources, expanding fishery zones, and importing advanced military and space technology. Perhaps these issues are not necessarily immediate threats to states, but they are clearly important economic security concerns in the long term.

Economic security is an important concept because governments do not treat national economies only as a means of enriching their citizens. Hawtrey points out that "the major concern of the state is prestige. The means to prestige is power. Power is

³⁴ According to Buzan, for stockpiling arguments, see Richard H. Ullman, "Redefining Security," *International Security*, Vol. 8, No. 1, 1983, pp. 139-150; and see also Buzan, *People, States and Fear*, p. 242.

³⁵ Buzan, *People, States and Fear*, p. 242.

³⁶ Cable, p. 313.

economic productivity capable of being applied as a force.”³⁷ Buzan also argues that economic factors play a role in determining the power of states and their domestic stability and cohesion. Moreover, “they can affect the prospects for regional integration, which can influence how a given security complex evolves.”³⁸ Huntington goes further and suggests that “economic activity... is perhaps the most important source of power and, in a world in which military conflict between major states is unlikely, economic power will be increasingly important in determining the primacy or subordination of states.”³⁹ For this reason, gaining access to vital raw materials has long been an important item of the agenda for national security planners.

The interdependent nature of the global economy is closely related to the emergence of the concept of economic security. According to Buzan, “the international economy as a whole is ... powerfully tied together by patterns of trade, production, finance, communication and transportation.” It is part of the complex pattern of interaction among states. Buzan adds that economic activity becomes an important factor because it forces states to interact with each other, and thus provides a major behavioural force within the international relations.⁴⁰

In this sense, perhaps the key to economic security relations between nation states is the market network, which, in Buzan’s words, “comprises a complicated interlacing of transportation, communication, credit, and contracts.”⁴¹ When it functions smoothly, some actors will do well, and others badly, depending on what leverage their assets afford them, and how efficiently they play their hand. But if the market network itself is disrupted, then nearly all the actors in the system end up worse off.⁴²

4. Comprehensive security and regional economic security in Northeast Asia

Regional economic security was a relatively unknown concept to Northeast Asian countries, including South Korea, until quite recently. In fact, in the past the Northeast Asian region has tended to be resistant to collective security schemes. To quote Robert Manning,

³⁷ Charles Kindleberger, *Power and money* (London: Macmillan, 1970), quoted in Vincent Cable, “What is international economic security,” *International Affairs*, Vol. 71, No. 2, April 1995, p. 308.

³⁸ Buzan, *People, States and Fear*, p. 202.

³⁹ Samuel Huntington, “Why international primacy matters,” *International Security*, Vol. 17, No. 4, Spring 1993, p. 72.

⁴⁰ Buzan, *People, States, and Fear*, pp. 230-232.

⁴¹ *Ibid.*, p. 249.

⁴² *Ibid.*

Unlike in Europe, in this region, the United States and the Soviet Union, while dominant factors, were part of a larger equation that included China, Japan, and Korea. Nor has there ever been a single common threat. Instead, there were myriad (largely separate) security concerns varying from country to country and sub-region to sub-region.⁴³

According to Buzan, although the Northeast Asian states grew to be considerable economic powers during the Cold War, their international relations were constrained and shaped by the Cold War. Even though these constraints have almost disappeared, the Northeast Asian states have no real experience of relating to each other on terms defined largely by the local dynamics of regional relations and it remains to be seen what the regional patterns of security relations will be. Buzan thinks that traditional regional rivalries will probably reassert themselves among the great powers of the Asia-Pacific,⁴⁴ and, in contrast to the situation in Europe, “the resulting conflicts will be unmediated by traditions and institutions of cooperation.”⁴⁵ I would argue that the latent suspicions are strongly associated with nationalism and historical experiences. Past conflicts of interests and balance of power relations between neighbouring states clearly hinder the idea of a regional security structure in Northeast Asia. Buzan points out that it is quite rare to find two adjacent states within the region that do not have either serious unresolved issues between them or active processes of securitization. There is “no shared cultural legacy, few traditions of international cooperation, and a worrying number of strong nationalisms.”⁴⁶ These factors are reflected in the current regional security concerns in the region: disputes over territory and control of sea-based resources.⁴⁷

As Young-sun Song notes, there is no experience of multilateralism except that imposed through Chinese or Japanese hegemony and there has been relatively little multilateral security cooperation among Northeast Asian countries until quite recently.

⁴³ Robert Manning, “The Asian Paradox: Toward a New Architecture,” *World Policy Journal*, Vol. 10, No. 3, 1993, p. 56.

⁴⁴ Barry Buzan, “The Post-Cold War Asia-Pacific Security Order: Conflict or Cooperation?” in Andrew Mack and John Ravenhill, eds., *Pacific Cooperation: Building Economic and Security Regimes in the Asia-Pacific Region* (Canberra: Allen & Unwin, 1994), p. 145.

⁴⁵ Andrew Mack and John Ravenhill, “Economic and Security Regimes in the Asia-Pacific Region,” in Andrew Mack and John Ravenhill, eds., *Pacific Cooperation: Building Economic and Security Regimes in the Asia-Pacific Region* (Canberra: Allen & Unwin, 1994), p. 13.

⁴⁶ Buzan and Waever, *Regions and Powers: The Structure of International Security*, p. 174.

⁴⁷ Jonathan D. Pollack, “The Evolving Security Environment in Asia: Its Impact on Russia,” Stockholm International Peace Research Institute (SIPRI) Conference presentation paper for “Russia and Asia-Pacific Security,” International House of Japan, Tokyo, Japan, 19-21 February 1999.

In fact, Northeast Asian states have generally preferred to resolve their problems through bilateralism rather than multilateralism.”⁴⁸

However, the importance of regional economic security has been evident in Northeast Asia since the end of the Cold War. As we have seen, in the Asia Pacific region security tends to be defined in much broader and more comprehensive terms. Non-military security threats, including economic and environmental threats as well as challenges to national integrity and internal stability, are regarded as being at least as important as military threats. As a result, as Ball states, “security planning involves the coordination of various aspects of national policy, including economic and diplomatic aspects as much as military capabilities and plans, into a more comprehensive or multi-dimensional posture for protecting and enhancing national security.”⁴⁹

The role of economic development as a major contributing factor to security has been a particular focus in this region. Economic development has been pursued by states in the region as a means of reducing perceived threats to regime stability.⁵⁰ The region’s economic success also contributes to ameliorating potential inter-state conflicts, and it has become a major unifying factor in the region, while reshaping the interests, outlook, and conceptions of security of a new generation of decision makers. Manning notes that

The new logic of geo-economics, and the imperatives flowing from the paramount importance attached to commercial and technological capabilities, is pitted against the traditional logic of geopolitics: new requirements for partnership versus lingering suspicions and old ideas of nationhood.⁵¹

Almonte adds that “the success of the regional economies creates a situation in which mutual security no longer depends on arms and alliances but on peaceful commerce and integration in the East Asian community.”⁵² In other words, the logic of geo-economics expands the definition of “comprehensive security,” beyond the military balance to

⁴⁸ See Young-sun Song, “Prospects for U.S.-Japan Security Cooperation,” *Asian Survey*, Vol. 35, No. 12, December 1995, pp. 1096-1097, and Gerald Segal, “Keeping East Asia Pacific,” *Korean Journal of Defense Analysis*, Vol. 5, No. 1, Summer 1993, pp. 23-24.

⁴⁹ Ball, p. 16.

⁵⁰ Stuart Harris, “Conclusion: The Theory and Practice of Regional Cooperation,” in Andrew Mack and John Ravenhill, eds., *Pacific Cooperation: Building Economic and Security Regimes in the Asia-Pacific Region* (Canberra: Allen & Unwin, 1994), pp. 259-260.

⁵¹ Manning, p. 60.

⁵² Jose T. Almonte, “A strategic framework for policymakers in Asia,” Keynote address to the Defense Asia Forum 1997, Singapore, 15 January 1997, quoted in Cossa and Khanna, p. 224.

include other issues such as economic development, the environment, and refugee flows.⁵³

In more specific terms, as the final section of this chapter will show, energy issues, control of sea-based resources, the establishment of Free Economic Zones, and transnational transportation linking projects all provide the basis for comprehensive security cooperation between states in the Northeast Asian region. These regional economic projects also clearly minimize potential military confrontation in the region, while boosting each state's national economic security. For example, as will be illustrated in chapter 7, trilateral economic cooperation among Russia, North Korea, and South Korea clearly has the potential to contribute to reducing the potential for a nuclear crisis in the region.

5. Russia's approach to comprehensive security in Northeast Asia

Regional security is not a new preoccupation of Russia; it was also the concern of the Soviet Union. As Duncan notes, "the principal aim of the foreign policy of the Soviet Union was to seek to guarantee the security of the state."⁵⁴ The political and strategic importance of Asian countries stemmed from their geographical position, near to the frontier of the USSR.⁵⁵ Since the disintegration of the Soviet Union, the weak status of Russia and the lack of diplomatic initiatives in the Northeast Asian political environment have meant that the only way that Russia can raise its profile in Northeast Asia is to be integrated into the dynamic Northeast Asian economy. Russia's several energy projects, fishery cooperation—whether operating on a legal or illegal basis—and other transportation network building projects provide seemingly attractive incentives to Northeast Asian countries.

Although regional security in the Russian Far East region was a concern to the Soviet government, they perceived the problem in terms of military security. Since the collapse of the Soviet Union, however, there have been few traditional security threats in the region except for the potential North Korean nuclear crisis. Nevertheless, Russia is faced with enormous non-traditional security threats in the region. Economic crisis has been perceived as a serious threat, for example, and so has the large influx of Chinese migrants into the Russian Far East. In other words, Russia's current major

⁵³ Manning, p. 60.

⁵⁴ Peter J.S. Duncan, *The Soviet Union and India* (London: The Royal Institute of International Affairs, 1988), p. 3.

⁵⁵ *Ibid.*

concern in the Far East is regional economic security and it will remain a concern for the foreseeable future. As Rozman, Watanabe, and Nosov note, without economic recovery and development, there can be no lasting security in Russia, and without the integration of the Russian Far East and eastern Siberia into the regional economy of Northeast Asia, any recovery in Russia would be limited and unsustainable.⁵⁶

Despite its vast natural resources and economic potential, the region has remained an economically and socially troubled part of Russia. This is primarily due to the fact that for many years Russia's foreign, economic, and trade policies were oriented towards Europe. The Russian Far East was mostly considered a source of raw materials for industry located in the European part of Russia. During the Soviet period and up until the early 1990s, as Supian and Nosov note, the economic security of the region was mostly provided by government allocations aimed at strengthening the military potential of the Far East. "The most populated parts of the huge territories of the region remained special military zones: their economy was not integrated into the economic activity of the region, and was subject to no economic laws whatsoever."⁵⁷ But as federal control began to weaken, there came a drastic reduction in the economic ties between the Far Eastern and European parts of Russia. Russia as a whole, and Russia's Far East in particular, had not been involved in the process of integration into the Asia-Pacific region.

Russian leaders now realize that Russia's integration into the Northeast Asian economy is essential for the future security of this region. They emphasize the fact that Russia has two-thirds of its territory in Asia and that the Russian Far East conducts 90 percent of its trade with China, Japan, and Korea. Despite the fact that the region is very rich in deposits of mineral resources, as Sato, Tian, and Koh note, the cost of development is much higher than in other regions, and Moscow alone is not capable of providing the Far East region with the necessary development funds. In other words, Russia's proposed Far East development programme has been in serious danger due to insufficient financing. Moreover, the continuing outflow of population threatens the region's future developmental potential. The population is expected to decrease by 8.9 percent in 2010, compared to the 1996 figures. This situation appears even more serious when it is compared to the situation in neighbouring regions of China, where economic development has been quite active. Such a contrast in development has

⁵⁶ Rozman, Nosov, and Watanabe, p. 224.

⁵⁷ Viktor B. Supian and Mikhail G. Nosov, "Reintegration of an Abandoned Fortress: Economic Security of the Russian Far East," in Gilbert Rozman, Mikhail G. Nosov, and Koji Watanabe, eds., *Russia and East Asia: the 21st Century Security Environment* (London: M.E. Sharpe, 1999), p. 69.

clearly generated an unfavourable environment for the economic security of Russia's Far East.⁵⁸

The key to development in Russia's eastern regions is massive foreign investment in natural resources, which demands a particularly high level of trust and a secure institutional framework. Only the joint efforts of neighbouring Northeast Asian countries can facilitate the process of restructuring the regional economy, and create the conditions for the involvement of the Far East in the dynamic economy of Northeast Asia. Specifically, the implementation of a number of huge economic projects—including oil and natural gas pipeline projects, the Nakhodka Free Economic Zone project, the Trans-Siberian Railroad (TSR), and Trans-Korean Railroad (TKR) linking project—is only possible with the active participation of the Chinese, Japanese, and South Korean governments, as well as private sector investment. Multilateral cooperation is an essential instrument for lowering political tensions between the states in this region. In other words, as Supian and Nosov note, the creation of a solid and long-term base for economic cooperation will clearly help to solve political problems between Russia and other countries.⁵⁹ The bilateral relations between Moscow and Seoul are best viewed in this regional context.

However, although traditional security concerns, which focused on protection against external military threats, have declined in importance and economic concerns have gradually begun to influence Russian security policy, the Russians are not ready yet to integrate fully into the Northeast Asian regional economic community. Indeed, there has been a growing concern about protecting Russian autonomy. This has resulted in a lack of consensus regarding the direction in which Russia should be heading.⁶⁰

It is fair to add that the foreign direct investment environment in the Russian Far East has been hampered not only by Russia's ambivalence about economic security, but also by its patchy reform. As Sato, Tian, and Koh note, the Soviet belief in the importance of economic autarky still tends to prevail among some Russian policy makers. In other words, foreign economic relations are still sometimes perceived on the basis of traditional security considerations rather than of economic efficiency.⁶¹ Despite the urgent need for foreign direct investment, for example, the Russians have been

⁵⁸ Tsuneaki Sato, Chun-Sheng Tian, and Il-Dong Koh, "Homemade Risks": The Economic Security of Russia in East Asia," in Gilbert Rozman, Mikhail G. Nosov, and Koji Watanabe, eds., *Russia and East Asia: the 21st Century Security Environment* (London: M.E. Sharpe, 1999), pp. 110-111.

⁵⁹ Supian and Nosov, p. 97.

⁶⁰ Peggy Falkenheim Meyer, "Russia's Post-Cold War Security Policy in Northeast Asia," *Pacific Affairs*, Vol. 67, No. 4, Winter 1994-1995, p. 495.

⁶¹ Sato, Tian, and Koh, p. 120.

worried about the increasing influence of foreign capital. The Russians fear that neighbouring Asian states will take advantage of Russia's weakness, by purchasing land and natural resources, gaining ownership of Russian companies, seizing Russian jobs, and manipulating terms of trade. However, Russian protectionism undermines Russia's economic security.⁶² Moreover, both Russians and foreigners admit that the rule of law does not operate in the region of the Russian Far East. Illegal activities by local criminal gangs and arbitrary and prohibitive tax policies clearly threaten the investment environment.

In short, the Russians have been slow to develop the Russian Far East even though they have publicly announced that they welcome Northeast Asian investment in the region. For example, the Northeast Asian energy specialist, Paik Keun Wook, points out that a new energy and natural resource nationalism is prevalent in the Russian Far East and East Siberia.⁶³ This delays the implementation of oil and gas pipeline projects in the Asia Pacific region. Although the Russians realize that joint energy projects could be the pivotal instruments for developing the Russian Far East in the long term, they are cautious about implementing these projects. In effect, they appear to be confused about whether to put their traditional security concerns first or whether to make the new non-traditional security concerns a priority.

6. Comprehensive security and economic security in bilateral Russian-South Korean relations

The economic interdependence of the Northeast Asian region as a whole has increased and become more important as the economies of the individual states have grown and their demand for new sources of energy and food increases each year.⁶⁴ The bilateral relations between Moscow and Seoul form part of this interdependent regional system. The main goal of their bilateral relations is to enhance their common regional economic security interests. Since "security dynamics are inherently relational," as Buzan and Waever point out, they need to establish patterns of partial or temporary cooperation.⁶⁵

⁶² Rozman, Nosov, and Watanabe, p. 224.

⁶³ Interview with Keun-Wook Paik, Associate Fellow, Sustainable Development, The Royal Institute of International Affairs, London, UK, 23 February, 2005.

⁶⁴ Gerald Segal, "How insecure is Pacific Asia?," *International Affairs*, Vol. 73, No. 2, 1997, pp. 241-242.

⁶⁵ Barry Buzan and Ole Waever, *Regions and Powers: The Structure of International Security* (Cambridge: Cambridge University Press, 2003), p. 43.

In fact, however, economic security cooperation between Moscow and Seoul has already faced a number of obstacles. Buzan identifies economic security cooperation threats as emanating from either “external forces attacking the interaction flows of trade, investment and finance” or “internal instabilities arising from the operation of the market itself.”⁶⁶ As each of the following chapters demonstrates, the main threats to Russian-South Korean economic security cooperation stem from the following three factors: Russian domestic problems, particularly the problems that have arisen in relation to the transition in the Russian Far East; a lack of political will on the part of South Korea; and external factors such as the North Korean problem and the policy of the United States.

As we have seen, Russia’s security perceptions of the Korean peninsula have been evolving, but the change has not sufficed to overcome the obstacles to economic cooperation with South Korea. From the South Korean perspective, the main obstacles to developing regional economic security cooperation with Russia stem from South Korea’s general perception of Russia as an insignificant regional actor and its inexperience with the concept of regional economic security. As will be illustrated in the chapter on the North Korean factor, the major diplomatic incentive in establishing relations with the Soviet Union stemmed from traditional security concerns: that is, it was intended to check and isolate North Korea in Northeast Asia. In other words, while the primary Soviet concern was to improve economic relations with South Korea, particularly in the form of a substantial hard currency loan, South Korea put more emphasis on its political and strategic interests. However, after discovering that Russia no longer had any substantial leverage over North Korea, South Korean political leaders no longer perceived Russia as an important foreign policy priority. As a result, South Korea’s overall interests in Russia diminished significantly.

Therefore, although the South Koreans perceive that Russia, with its massive natural resources, particularly oil and natural gas, in the Russian Far East, could be an important long-term economic partner, they have been reluctant to take any risks in return for immediate short-term benefits. For example, compared to the active Japanese and Chinese lobbying for access to Russia’s oil and natural gas pipeline routes in the last few years, both the South Korean government and private sectors have pursued an extremely passive policy. In short, the inexperience of both Russia and South Korea in regional comprehensive security cooperation has been a major obstacle to further economic cooperation.

⁶⁶ Buzan, *People, States and Fear*, p. 250.

There is a further potential threat to regional security in Northeast Asia and that is North Korea's pursuit of nuclear weapons. It is interesting to note, however, that rather than threatening regional economic security cooperation, the North Korean factor may enhance it. As the chapter on North Korea will demonstrate, even though in the short term the North Korean nuclear crisis has acted as an obstacle by delaying economic cooperation between Moscow and Seoul -- including the TSR and TKR linking project, and the natural gas pipeline project -- in the long term, once the nuclear issue has been settled, North Korean cooperation could turn out to be a crucial factor in eventually facilitating economic security cooperation between Moscow and Seoul. Given the fact that in recent years the interests of Russia and South Korea have not necessarily been in conflict over North Korea, and that economic cooperation between Russia and North Korea has already taken place with regard to the borders between the two countries, North Korea's role in the regional economic security building process is much more significant than it currently appears to be.

7. The specific features of comprehensive security and regional economic security cooperation between Moscow and Seoul

7.1. Energy Security

Energy security is an important element of bilateral and regional economic security today. It is a strategic factor in ensuring the economic development and stability of states. Because of the "increasing importance of traded energy, increasing dependence on Middle East Oil, no sign of slackening demand rise, continuing volatility of oil prices, and environmental and sustainability concerns,"⁶⁷ energy issues are an increasingly important part of the security agenda in international relations in general.

Energy security is defined as the securing of reliable and affordable energy supplies that are sufficient to support social, economic, and military needs, while at the same time being environmentally sustainable.⁶⁸ More specifically, "in a state which

⁶⁷ Philip Andrews-Speed, "Energy Security in East Asia: A European View," presentation material at the Symposium on Pacific Energy Cooperation 2003, Tokyo, 12-13 February, 2003.

⁶⁸ Hyun Jae Doh, *Perspectives and Measures for Energy Security in the 21st Century*, Abstract, published for Korea Energy Economics Institute, December 2003. Willrich defines energy security as, first, the guarantee of sufficient energy supplies to permit a country to function during a war; and second, and more broadly, the assurance of adequate energy supplies to maintain the national economy at normal levels. He argues that the first definition is too restrictive, and the second too permissive and expansive. Therefore, he proposes that for most purposes, the definition of energy security as the securing of reliable and affordable energy supplies that are sufficient to support social, economic, and military needs, while at the same time being environmentally sustainable is the most plausible approach. See Mason Willrich, *Energy and World Politics* (New York: The Free Press, 1975), p. 66.

enjoys energy security consumers and their governments are able to believe that there are adequate reserves from sources at home or abroad, and production and distribution facilities available to meet their requirements in the near future, at costs that do not put them at a competitive disadvantage or otherwise threaten their well-being.⁶⁹ In other words, energy security requires the ability to obtain reliable supplies of essential natural resources at affordable prices.⁷⁰ Energy insecurity arises when the welfare of citizens or the ability of governments to pursue their other normal objectives are threatened, either as a result of physical failure of supplies or as a result of sudden and major price changes.⁷¹ In this sense, it can be argued that energy security constitutes an important part of economic security because it is the core prerequisite for sustainable development.⁷²

One way to estimate the level of energy security is to measure the extent to which a country is dependent on particular types of energy and whether these can be obtained within its territory or must be imported. In the latter case, a second question emerges relating to the level of the dependency, the diversity of foreign sources, the relative vulnerability of the source areas to political turmoil, and hostile control. Similar questions apply to transportation routes and carrying systems. In the end, the energy security of a state is evaluated by its level of self sufficiency and its ability to adapt to temporary and prolonged supply interruptions without serious economic and military consequences.⁷³

A useful distinction can be made between energy importing and exporting countries. An importing country is primarily concerned with the security of its energy supplies. However, each importing country tends to view foreign energy supplies as more or less vulnerable to interruption.⁷⁴ Although interruptions, disruptions, and manipulations of existing supply arrangements can be caused by accidents and natural disasters, they are more vulnerable to potential political instability, economic coercion,

⁶⁹ Robert Belgrave, Charles K. Ebinger and Hideaki Okino ed., *Energy Security to 2000* (Boulder: Westview Press, 1987) p. 2.

⁷⁰ Robert J. Lieber, "Energy, Economics and Security in Alliance Perspective," *International Security*, Vol. 4, No. 4, Spring 1980, p. 141, and for a more detailed discussion and definition, see also David Deese, "Energy: Economics, Politics, and Security," *International Security*, Vol. 4 No. 3, Winter 1979/80, pp. 140-142.

⁷¹ Belgrave, Ebinger and Okino, p. 2.

⁷² Doh.

⁷³ Paul B. Stares, "Introduction and Overview," in Paul B. Stares, ed., *Rethinking Energy Security in East Asia* (Tokyo: Japan Center for International Exchange, 2000), p. 22.

⁷⁴ Willrich, p. 66

military conflict, and terrorist acts.⁷⁵ These concerns apply not only to the source of energy supplies but also to the routes and means by which they are transported.⁷⁶

Energy exporters, on the other hand, are preoccupied with access to markets and security of demand. An exporting country may view energy security as national sovereignty over its energy resources, or it may view it more broadly as sovereignty over resources plus guaranteed access to foreign markets.⁷⁷ Moreover, an exporter may view security as sovereignty plus market access plus financial security for the assets it receives in exchange for energy raw materials. An exporter may adopt, as a result of sovereignty over its basic raw materials, a concept of energy security that includes guaranteed access to foreign markets. In short, demand security may be as important to energy exporters as supply security is to importers. As Willrich notes,

This raises possibilities for mutually beneficial negotiations between exporters and importers, based on overlapping areas of interest in stability and equilibrium. In addition to sovereignty and market access, an exporter may extend the concept of energy security to cover financial security for the investments made with its export earnings. This scenario may seem exaggerated but energy resources below ground are a precious national heritage. Once extracted, that heritage can easily be lost by an improvident government or eroded by inflation.⁷⁸

In Northeast Asia, new security concerns are emerging with regard to energy use, energy security, and the sustainability of economic growth. At present, China, Japan, and the two Koreas are desperately searching for economically rational, diversified, and reliable supplies to support their energy needs. Russian oil and natural gas in the Far East region represents a potential new source of supply to the Northeast Asian states, providing them with the opportunity to diversify their energy supplies both geographically and in terms of energy mix, thereby promoting competition and protecting the environment.⁷⁹ In particular, Russia's natural gas could provide an

⁷⁵ See both Daniel Yergin, "Energy Security in the 1990s," *Foreign Affairs*, Vol. 67, No. 1, 1988, pp. 111-132; and Stares, p. 22.

⁷⁶ Stares, p. 22.

⁷⁷ Willrich, p. 94.

⁷⁸ Ibid., p. 95.

⁷⁹ Vladimir I. Ivanov and Mitsuru Hamada, *Energy Security and Sustainable Development in Northeast Asia: Prospects for U.S.-Japan Coordination*, Article for Economic Research Institute for Northeast Asia, Niigata, Japan, p. 6, on <http://gsti.miis.edu/CEAS-PUB/200013Ivanov-Hamada.pdf>, accessed on 4 December, 2004.

alternative to coal and oil for power generation. As a fuel, it is cleaner than oil and coal, since it produces no sulphuric discharges and much less carbon dioxide.⁸⁰ Thus the oil and natural gas pipeline projects on which Russia is currently engaged in Northeast Asia have great strategic importance for enhancing not only Russia's economic security, but also that of South Korea, and of Northeast Asia as a whole. Regional energy cooperation would facilitate a reconfiguration of political and economic ties, with Russia moving into a position of advantage.

From the Russian energy security perspective, the export of oil and natural gas resources to its Northeast Asian neighbours constitutes a potentially important engine for Russia's economic development and foreign policy goals. Russian foreign policy goals in the energy sector include attracting foreign investment to help stabilize and develop Russian energy resources, increasing Russian investment in foreign exploration and development projects, and providing various services for Russia's foreign energy sectors. Ivanov suggests that Russian energy diplomacy generally tends to envisage three broad areas of activity: bilateral and multilateral relations with other countries, participation in international organizations, and selective cooperation with transnational corporations.⁸¹ President Putin, in particular, views energy diplomacy as an important means to promote economic recovery, to participate in the world economic system, to maintain Russia's geo-strategic influence and to improve the international environment.⁸² From the Russian perspective, energy diplomacy represents a tool to restore Russia's international status. But justifying the development of vast sources of energy is difficult without linking feasibility assessments to large neighbouring markets and investment funds from external sources. In the past, the Russian gas sector has put great emphasis on its European markets and has been meticulous about maintaining Russia's image as a reliable partner of the West. Improving relations with Northeast Asian countries in energy resource development might be a realistic way to secure capital investment and credits from the interested Northeast Asian governments and private sectors, and from the international financial institutions in the future.⁸³

In particular, Russia's export of energy could facilitate the investment of Japanese and South Korean capital and technology in Russia's oil and gas sector.⁸⁴ As

⁸⁰ Ibid.

⁸¹ Vladimir I. Ivanov, *The Energy Sector in Northeast Asia: New Projects, Delivery Systems, and Prospects for Co-operation* North Pacific Policy Papers 2 (Vancouver: Program on Canada-Asia Policy Studies, Institute of Asian Research, University of British Columbia, 2000), p. 32.

⁸² Feng, Ding and Li, p. 1.

⁸³ Ibid.

⁸⁴ Amy Myers Jaffe and Robert A. Manning, "Russia, Energy and the West," *Survival*, Vol. 43, No. 2, Summer 2001, p. 143.

far as South Korea is concerned, access to Kovykta and Sakhalin oil and natural gas is crucial for enhancing its economic security, given that the demand for oil is increasing steeply, as is the dependence on overseas sources. The CIA lists South Korea as the world's fourth largest oil importing country after the USA, Japan, and Germany.⁸⁵ South Korea has a vested interest in diversifying its energy supply sources, and its proximity to the Russian Far East would lead to a drop in the cost of transporting energy sources.

Nevertheless, a number of problems and obstacles still hinder energy security cooperation in the region. As Ivanov and Hamada note, the competing interests of energy producers, national regulations, and contending energy projects present numerous challenges to the concept of energy security.⁸⁶ However, I argue that the main obstacle to energy security cooperation in the Northeast Asian region is the lack of confidence between Russia and the Northeast Asian states, including South Korea. For example, the proposed Kovykta gas pipeline project remains uncertain because the Russian government has been indecisive about what route to choose and whether Kovykta gas should be used for export or for domestic purposes. This makes it very difficult to bolster the confidence of Northeast Asian investors in the Russian government.⁸⁷

In Northeast Asia, moreover, concerns have been raised about the potential vulnerability of the extensive network of oil and gas pipelines that are either under development or still in the planning stage.⁸⁸ As Kent Calder notes, some pipelines are likely to pass through areas now considered to be politically volatile. Besides the risk of short-term dislocations from terrorist attacks and other threats, the pipelines will also give the countries that host them the potentially vital leverage to disrupt or cut them entirely in crisis and war.⁸⁹ For example, the unresolved North Korean nuclear issue as well as territorial disputes among Northeast Asian countries, such as the dispute over the Kuril Island, may interrupt supplies. This makes creating an institutionalized

⁸⁵ See The CIA World fact book, Global oil consumption and production, www.MarkTaw.com, on http://www.marktaw.com/culture_and_media/politics/GlobalOil.html, accessed on 20 April, 2005.

⁸⁶ Ivanov and Hamada, p. 9.

⁸⁷ Petr Vinokurov, "Problems of Energy Cooperation and Energy Security in North-East Asia," The report for a seminar Problems of Energy Cooperation and Energy Security in North-East Asia by the Carnegie Moscow Center, 19 February, 2004..

⁸⁸ See Keun-Wook Paik, and Jae-Yong Choi, *Pipeline Gas in Northeast Asia: Recent Development and Regional Perspective* Briefing No. 39. (London: Royal Institute of International Affairs, 1998); and Mark J. Valencia, and James P. Dorian, "Multilateral Cooperation in Northeast Asia's Energy Sector: Possibilities and Problems," in Michael Stankiewicz, ed., *Energy and Security in Northeast Asia*, Policy paper No. 36 (Berkeley: University of California Institute on Global Conflict and Cooperation, 1998).

⁸⁹ Kent E. Calder, "Energy and Security in Northeast Asia's Arc of Crisis," in Michael Stankiewicz, ed., *Energy and Security in Northeast Asia*. Policy Paper No. 35 (Berkeley: University of California Institute on Global Conflict and Cooperation, 1998).

multilateral energy cooperative structure necessary in Northeast Asia. Moreover, I argue that Russia's refusal to build the Kovykta gas pipeline project and its delayed oil pipeline route decision between China and Japan can be viewed as contributing to energy insecurity in the Northeast Asian region.

7.2. Linking Transport Networks as an element of regional economic security

As Buzan, Waever, and Wilde note, the low cost of transportation and communication provides an incentive for regional economic security cooperation.⁹⁰ Economic growth is enhanced by trade, and hence by physical access to large markets for products and raw materials.⁹¹ In this sense, by integrating markets and improving resource allocation through production and trade, the linkage of railroads ensures regional economic security. In fact, "without an efficient inter-local transportation, production and sales remain restricted to the immediate vicinity of the individual settlements and cannot surpass the subsistence level."⁹²

Border regions represent spatial discontinuities. In many cases, the border functions as a barrier to communication, thereby disrupting the smooth flow of information in space. "Border regions have also induced a fragmentation of market areas, along with a duplication of services, resulting in diseconomies of scale and scope that reduce the region's development potential and efficiency."⁹³ Accordingly, transport links play a crucial role in eliminating barriers and promoting cross-border interaction. They also contribute to promoting states' international expansion and prestige, as reflections or expressions of broader national economic and political capabilities.⁹⁴ Transport links are, as John Ross notes, pivotal to a nation's market at both the national and global level. In the last several decades, globalization and intensified competition in world trade have not only emerged from the liberalization of trade policies in many countries, but also from major advances in communication,

⁹⁰ Barry Buzan, Ole Waever, Jaap de Wilde, *Security: A New Framework for Analysis* (London: Boulder, 1998), p. 113.

⁹¹ Michael Frybourg and Peter Nijkamp, "Assessing Changes in Integrated European Transport Network Operations," in Kenneth Button, Peter Nijkamp, and Hugo Priemus eds., *Transport Networks in Europe: Concepts, Analysis and Policies* (Cheltenham: Edward Elgar, 1998), p. 17.

⁹² Bonn F. Voigt, "Transport and Regional Policy: Some General Aspects," in W.A.G. Blonk, ed., *Transport and Regional Development* (Westmead, England: Saxon House, 1979), p. 5.

⁹³ Suarez Villa, L., M. Giaoutzi and A. Stratigea, "Territorial and border barriers in information and communication networks: a conceptual exploration," *Tijdschrift voor Economische en Sociale Geografie* (Journal of Economic and Social Geography) 1992, 1 XXXIII 2. Amsterdam, quoted in Fabienne Corvers and Maria Giaoutzi, "Borders and Barriers and Changing Opportunities for Border Regional Development," in Kenneth Button, Peter Nijkamp, and Hugo Priemus eds., *Transport Networks in Europe: Concepts, Analysis and Policies* (Cheltenham: Edward Elgar, 1998), p. 291

⁹⁴ John F. L. Ross, *Linking Europe: Transport Policies and Politics in the European Union* (London: Praeger, 1998), p. 3 and 32.

countries, but also from major advances in communication, transport, and storage technologies.⁹⁵

According to Frybourg and Nijkamp, “railroad linkage is not just a sum of links and nodes, but an infrastructure configuration that is operated to provide services through one or several operators.”⁹⁶ In other words, railroad functions include not just the purely physical shipment of goods and persons but are a “value added process” where economic values are added.⁹⁷ White points out that, “the construction of railways may be accompanied by a dramatic change of attitude and a reorientation of economic activity towards the market, because railway construction and operation stimulate competitive activities and mobility of factors of production.”⁹⁸

However, the positive impacts of transportation infrastructure do not derive from the creation of physical facilities, but from the services generated by operators.⁹⁹ For many shippers and passengers, perhaps the most important criteria for the choice of transport are travel costs and time. Travel costs, regardless of distance, primarily depend on volume as a result of scale advantages, while travel time depends on distance, speed, and frequency. There is a natural tendency to seek transport routes and methods that ensure large volumes at both the least cost and most speed.¹⁰⁰

The nature of railway linkage operations tends to make it an attractive area of foreign investment and such investment enables foreign investors to familiarize themselves with the opportunities for other investment in the country.¹⁰¹ In short, “there are links between transport supply and the resultant openness of a region.”¹⁰² Most importantly, from the regional economic security perspective, as Frybourg and Nijkamp argue, “investment programs in a transport network should not be based on individual projects, but on the economic synergy created by network operators in an interconnected infrastructure.” In other words, railroad linking projects in general must be viewed as “a cohesive set of links between population concentrations or economic

⁹⁵ Frybourg and Nijkamp, p. 17.

⁹⁶ Ibid., p. 15.

⁹⁷ Ibid., p. 20.

⁹⁸ Colin M. White, “The Concept of Social Saving in Theory and Practice,” *Economic History Review*, Vol. 29, No. 1, February 1976, p. 92.

⁹⁹ Frybourg and Nijkamp, p. 16.

¹⁰⁰ Ibid., p. 20.

¹⁰¹ White, C., 1976, p. 92.

¹⁰² Hugo Priemus, Kenneth Button and Peter Nijkamp, “European Transport Networks: A Strategic View, in Kenneth Button, Peter Nijkamp and Hugo Priemus eds., *Transport Networks in Europe: Concepts, Analysis, and Policies* (Cheltenham, UK: Edward Elgar, 1998), p. 5.

activity centres (the so-called nodes), which serve to provide all services that are necessary for an efficient transport of persons, goods, or information between nodes.”¹⁰³

In Europe, “rail links [played] a key role in transcending boundaries, solidifying the European market and fostering pan-European cooperation.”¹⁰⁴ In a similar way, the project to link the TSR and the TKR could become a vehicle for the economic development of the areas through which it runs. The social and economic situation in the Russian Far East, in particular, very much depends on the level of technical and economic development of the transportation network. The regional transport system is thus considered one of the basic elements of the economy of the region and can contribute to the development of the Russian Far East economy.¹⁰⁵ Moreover, both Russia and South Korea would gain from railroad linkage; South Korea by gaining access to Europe via the link and Russia by gaining access to the Northeast Asian economic community.

7.3. The Nakhodka Free Economic Zone and economic security

The creation of the Nakhodka Free Economic Zones (FEZ) is relevant to building up national and regional economic security in the region. The FEZ is an innovative and effective method of attracting foreign investment and, as such, it is one of the most significant institutional innovations in international economic relations in the past few decades.¹⁰⁶

The term ‘Free Economic Zone’ can be traced back to medieval ‘city-states’ and ‘free merchant cities.’ More traditionally, FEZ refers to “a part of sovereign national territory designated in which goods of foreign origin can be stored, sold, or bought free of usual customs dues, such as duty-free marketplace or a warehouse situated within national borders but regarded as being outside the frontier for fiscal reasons.”¹⁰⁷ In a modern sense, the term is used widely and often loosely, becoming confusing because

¹⁰³ Frybourg and Nijkamp, p. 17.

¹⁰⁴ Ross, p. 64.

¹⁰⁵ Boris Dynkin, “Comments on the Regional Railroad Network and Power Grid Interconnection,” Presentation at Far Eastern State Transport University, Khabarovsk, Russia, for Second Workshop on Power Grid Interconnection in Northeast Asia, Shenzhen, China, 6-8 May, 2002, on <http://www.nautilus.org/energy/grid/2002Workshop/materials/Dynkin.pdf>, accessed on 6 March, 2004.

¹⁰⁶ S.A. Manezhev, “Free Economic Zones and the Economic Transition in the Chinese People’s Republic and Russia,” *Russian and East European Finance and Trade*, Vol. 31, No. 2, March-April 1995, p. 76, translated by Arlo Schultz from “Svobodnye ekonomicheskie zony v perekhodnoi ekonomike KNR i Rossii,” *Rossiiskii ekonomicheskii zhurnal*, 1993, No. 7, pp. 80-87.

¹⁰⁷ Andrei Kuznetsov, “Promotion of Foreign Investment in Russia: An Evaluation of Free Economic Zones as a Policy Instrument, joint ventures and free economic zones in the USSR and Russia,” *Russian and East European Finance and Trade*, Vol. 29, No. 4, Winter 93/94, p. 56, originally published as Working Paper No. 24, 1993, Leuven Institute for Central and East European Studies.

of its various statuses and objectives.¹⁰⁸ Perhaps the most accurate definition of the term FEZ is a territory, where there are favourable conditions for the economic activities of foreign investors, joint ventures, and for domestic enterprises and citizens.

‘Free economic zone’, ‘industrial free zone’, ‘special economic zone’ are used interchangeably to name various forms of economic zones such as ‘customs free zone’, ‘banking zones’, ‘export processing zones’, ‘free trade zones’.¹⁰⁹ The term ‘special economic zone’ is the most common and accurate definition because it literally explains that a certain territory enjoys a special status. Yet, in the Russian context, the term FEZ is the most commonly used. During the Soviet period, up until 1990, the term ‘*zona svobodnogo predprinimatel’stva*’ (zone of free entrepreneurship) was used.¹¹⁰

The main features of FEZ include “tariff free imports, bilateral foreign trade regulations, tax incentives, minimal bureaucratic requirements, moderate trade union activities, favourable industrial relations and an infrastructure that meets the requirements of internationally operating firms.”¹¹¹ Countries seek to achieve the following economic security objectives through a FEZ:

- 1) to support the export oriented industrialization of a country;
- 2) to attract foreign capital;
- 3) to create employment;
- 4) to generate new sources of foreign currency income;
- 5) to promote the transfer of technology and know-how;
- 6) to develop economic links with its own domestic economy such as the improvement of the branch structure of production and regional socioeconomic development;
- 7) to train skilled technical and managerial personnel.¹¹²

There are reportedly more than a thousand FEZ in the world today. The world’s first modern FEZ appeared in the Irish city of Shannon in 1959 and it was created to overcome the economic crisis following the closure of the international airport at

¹⁰⁸ Ibid.

¹⁰⁹ United Nations Center of Transnational Cooperation (UNCTC) ed., *The role of Free Economic Zones in the USSR and Eastern Europe*, 1990.

¹¹⁰ Dirk Faltin, *Regional Transition in Russia: a study of the free economic zone policy in the Kaliningrad region*, Ph. D thesis (London: the London School of Economics and Political Science, 2000) pp. 111-142.

¹¹¹ Ibid.

¹¹² United Nations Conference on Trade and Development (UNCTAD), *Consideration of Host and Home Countries Policies and Measures to Promote Foreign Direct Investment, Including Export Processing Zones and Special Economic Zones. Export Processing Zones: Role of Foreign Direct Investment and Developmental Impact*, Report by the UNCTAD Secretariat, Geneva, TD/B/WG. 1/6, p. 5, quoted in Faltin, p. 113, and see also Manezhev, 1995, p. 76-77.

Shannon.¹¹³ Until recently, it has been regarded as one of the most effective zones in terms of both attracted investments and the number of operational businesses and several developing countries copied the Shannon FEZ in the 1960s.¹¹⁴ The creation of the Chinese FEZ in the late 1970s highlights a significant new stage of FEZ development. China was the first communist country to establish the FEZ and it was adopted as an instrument of market transformation and the opening up of the Chinese command economy. More importantly, the Chinese version was much more comprehensive than previous FEZ in that it was aimed not only at the development of manufacturing but also at agriculture, tourism, commerce, and real estate development. By the early 1990s, four special economic zones with an overall territory of 526 square km were attracting about 20 percent of the foreign instrument inflow to China, and they produced over 7 percent of the country's export value.¹¹⁵ Stimulated by the success of China's economic reform with the aid of special economic zones, the Soviet leadership decided to create similar zones in the Soviet Union. Many different types of FEZ evolved in the Soviet Union and then Russia in the last few decades such as free trade zones, enterprise zones and technological parks, export producing zones, and special economic zones. Each type had its own logic of development.¹¹⁶ The Nakhodka FEZ was planned to consist of technological parks, free customs and export oriented industrial production zones, and joint ventures, as will be discussed in chapter 5 in detail.

As Sato, Tian, and Koh note, Russia needs both to stop the increasing structural distortion toward the production of petroleum and natural resources and to prevent the disintegration of its scientific- technological potential. The development of a South Korean industrial park in the Nakhodka Free Economic Zone could help it do this, by attracting foreign direct investment from the South Korean private sector, particularly in the manufacturing sector.¹¹⁷

From the South Korean regional economic security perspective, the FEZ is a promising means to expand South Korea's new export markets. This would decrease South Korea's current dependence on Chinese markets in the region. Above all, the

¹¹³ "Free Economic Zones in Russia," *the Voice of Russia*, 14 October, 1999 (Russian Economy and Business Online), on http://www.vor.ru/Russian_Economy/excl_next48_eng.html, accessed on 1 May, 2004.

¹¹⁴ Between 1966 and 1970 Puerto Rico, India, Taiwan, the Philippines, the Dominican Republic, Mexico, Panama, and Brazil established FEZ. See Faltin, pp. 111-142.

¹¹⁵ Sergei Manezhev, "Free Economic Zones in the Context of Economic Changes in Russia," *Europe-Asia Studies*, Vol. 45, No. 4, 1993, p. 610.

¹¹⁶ Kuznetsov, pp. 48-49.

¹¹⁷ Sato, Tian, and Koh, p. 120.

successful operation of the Nakhodka FEZ would create more than 30,000 new jobs for Russians and South Koreans in the region, and could even attract North Korean labour.

The Nakhodka FEZ project is also very important for regional development and international cooperation in Northeast Asia. It would encourage the three factors -- foreign investment, cross-border movement, and social trust -- that Gilbert Rozman identifies as being key to regional integration.¹¹⁸ South Korea's industrial park project in the Nakhodka FEZ would link Russia with its neighbours while attracting many more Asians to work on the Russian side of the border. Russia's abundant natural resources and land, Chinese and North Korean labour and South Korean and Japanese capital and technology are excellent ingredients for multilateral cooperative action.¹¹⁹

7.4. Fishery and regional economic security concerns

The relationship between fishery and security is relatively new, and it might be contested by traditional security scholars. In fact, fishery issues are becoming a part of the security agenda in international relations. There is a steadily growing tendency in international relations to recognize the key role that fisheries play in economic development, food security, poverty alleviation, human health, and the national security agenda in a wider sense.¹²⁰

The fishery security agenda includes fish stocks, the size of catch quotas, the identification of areas and species that can support continued fishing, and consideration of appropriate regional measures.¹²¹ In particular, illegal fishing is rising to the forefront of national and regional security concerns. According to the FAO, illegal fishing is defined as illegal, unreported, and unregulated fishing (IUU fishing). Indeed, IUU fishing and its impact on resource sustainability is a matter of great international concern.¹²²

In other words, fishing is a larger issue than purely fishing, and fishery diplomacy requires a regional approach. First, a basic characteristic of all wild stock fisheries is that they are a common-property natural resource to be managed collectively.

¹¹⁸ Gilbert Rozman, "When Will Russia Really Enter Northeast Asia?" in Wolfgang Danspeckgruber and Stephen Kotkin, eds., *The Future of the Russian State: A Sourcebook*, New York, Columbia International Affairs Online, 2003.

¹¹⁹ Tetsu Sadotomo, "Cooperation for Peace and Development in Northeast Asia: Functionalist Approaches," *The International Journal of Peace Studies*, Vol. 15, No. 1, 1994, on http://www.gmu.edu/academic/jips/vol1_2/Sadotomo.htm, accessed on 15 May, 2004.

¹²⁰ *The State of World Fisheries and Aquaculture*, Food and Agriculture Organization of the United Nations (FAO), Rome 2002.

¹²¹ Johnston and Valencia, p. 147-148.

¹²² D. Doulman, FAO Fisheries Department, in *The State of World Fisheries and Aquaculture*, FAO, Rome 2002.

Many fish stocks cannot be managed by a single state. Like other common-property resources such as water and air, they can also be used without cost by economic enterprises. Many ocean resources and activities such as fish, fishing, pollutants, environmental protection, sea lanes and shipping are both transnational and transboundary in character. Moreover, there are many areas that can be claimed by two or more countries, such as the high seas.

Second, it is extremely difficult to solve fishery disputes simply on the basis of bilateral negotiations. In the case of Northeast Asia, there is an interplay among the various bilateral fishery relations in the Northern Pacific. For example, Russian-Japanese relations have implications for Russian-Korean and Japan-Korean fishery relations. Any bilateral arrangement may affect other relations and interests because they share the same area and use the same pool of marine living resources.¹²³

Fishery is also a regional economic security concern in Northeast Asia because conflict more than cooperation has often been the characteristic of fishery diplomacy in the region. For example, as fishery diplomacy between Russia and South Korea, Russia and Japan, and Japan and South Korea has illustrated, the issue in dispute has often been the ownership of a stock or fishing area. In short, “a fishery dispute is a conflict of interest, and conceptions of rights and prestige fuel the controversy.”¹²⁴ Moreover, the lack of open conflict does not necessarily mean that states in the area are, or will remain, totally satisfied with the compromises that sustain the stability of the fishery regime. Nor does the status quo suggest that states do not perceive gains in fishery policy and management that could be obtained at acceptable costs.¹²⁵

Throughout the Asia-Pacific region, economic security concerns are broadening to include food scarcity and access issues, most notably with regard to fishery resources. For an estimated one billion Asians, fish is the main source of protein and fishing supports more people in Asia than in any other region of the world. Over half the world’s fish catch is taken in Asian waters, and five of the top ten fishing nations are in Pacific Asia. For most states in the region, therefore, the relationship between food security, ecological damage, and conflict is most evident at sea.

During the 1990s, illegal fishing, territorial or Exclusive Economic Zone (EEZ) encroachments, and maritime incidents in Northeast Asia became increasingly common.

¹²³ Zou Keyuan, “Sino-Japanese joint fishery management in the East China Sea,” *Marine Policy*, Vol. 27, No. 2, March 2003, pp. 125-142.

¹²⁴ Arild Underdal, *The Politics of International Fisheries Management: The Case of the Northeast Atlantic* (Universitetsforlaget: Oslo, 1980), pp. 41-42.

¹²⁵ Johnston and Valencia, p. 152.

The risk of significant political and military confrontation over competition for diminishing fish and other marine resources emerged as a genuine security issue for China, Japan, Russia, and the two Koreas. Each of these countries relies heavily on other countries for the supply of food, natural resources, energy, and many other materials indispensable to national existence. If interruptions in fish supply caused by reducing the size of the fish catch quota result in fishing zone disputes, this could severely disrupt their national economies.¹²⁶ To ensure their security of supply, each country has established a requirement to secure the safety of maritime traffic through surveillance and escort operations to an extent of 1,000 nautical miles.¹²⁷

However, this region has shown signs of environmental degradation caused by coastal pollution, overfishing, and the unsustainable exploitation of other forms of living marine resources.¹²⁸ As Dupont asserts, “food is destined to have greater strategic weight and import in an era of environmental scarcity.”¹²⁹ The problem is that ensuring the continued supply of fish involves increasing the protection of fish stocks and other marine resources. The depletion of fish species is a major concern. Fish stocks in the Yellow Sea, and the South and East China Seas, for example, fell significantly during the 1990s.¹³⁰ As traditional fishing grounds are exhausted, competition for remaining stocks intensifies. In the later 1990s, countries which once welcomed foreign fishing fleets restricted their access and quotas, while fishing nations became much more protective of their own resources. For example, the fishing quotas of countries such as Japan, South Korea, and Taiwan, which rely heavily on fish as a dietary staple, were cut significantly by a new international fishery agreement. Consequently, their trawlers have been forced to travel to the South Pacific to make up the shortfall.¹³¹

As fishing fleets grow and venture further into the Pacific, the area of ocean open to international fishing is shrinking. A large percentage of the marine resources of the Western Pacific are either claimed or contested. Consequently, “the frequency and

¹²⁶ Cable, p. 313.

¹²⁷ Desmond Ball, “Arms and Affluence: military acquisition in the Asia Pacific Region,” *International Security*, Vol. 18, No. 3, Winter 1993-1994, pp. 90-91.

¹²⁸ Dupont, *The Environment and Security in Pacific Asia*, p. 50.

¹²⁹ Ibid., pp. 56-57.

¹³⁰ Ibid.

¹³¹ For example, Japan, which relies heavily on fish as a dietary staple, was allowed to catch 1.2m tons’ worth in the 200-mile US FEZ in 1981; by 1988, quotas had been cut virtually to zero. South Korea and Taiwan have suffered similar reductions, and their trawlers have been forced well in to the South Pacific to make up the shortfall. See Dupont, *The Environment and Security in Pacific Asia*, p. 51.

seriousness of incidents at sea have steadily increased as foreign trawlers have illegally encroached into other countries' EEZs and territorial waters. Gun battles have broken out between the navies of regional states intent on defending the activities of national fishing fleets or preventing perceived territorial violations.¹³² Russia, China, Japan, and South Korea are highly concerned about the increasing number of illegal activities in the North Asia Pacific, such as piracy, smuggling, and unlicensed fishing. Indeed, "this concern has generated new requirements for maritime surveillance capabilities and maritime constabulary operations."¹³³

The Russian Far Eastern fishing zone and Okhotsk sea area are of major importance to South Korea. Marine products from the Russian fishery zone, particularly pollack, saury and cuttlefish, comprise an important national dietary supplement for South Korea and ensuring future supplies is an important aspect of South Korea's economic security.

7.5. Arms trade and economic security

Although the arms trade is usually considered as simply a military issue, Chapter 7 will show that it is related to the maintenance of national economic security in the case of Russian-South Korean bilateral relations. As Desmond Ball explains, recent trends in military acquisition in the region demonstrate that "some of the most significant factors are entirely non-military, such as the availability of economic resources, or the perceptions of prestige attendant upon high-technology aerospace programs."¹³⁴

After the disintegration of the Soviet Union, the arms export trade was perceived as the means not only to enable financially troubled Russian military-industrial complexes to survive, but also to facilitate the revival of the entire national economy. Many Russian specialists had been concerned about the impact of the collapse of the defence industry sector on Russian politics, the economy, and society. The impact of the expected loss of jobs would be especially severe in Siberia and the Russian Far East where defence enterprises were often the sole industry. Defence ministry officials were also concerned that the closing of plants and design bureaux would affect the research and development of new technologies, which would exacerbate the decline of the

¹³² Ibid.

¹³³ Ball, pp. 90-91.

¹³⁴ Ball, pp. 16-17.

Russian military.¹³⁵ Few of Russia's specialized production facilities were amenable to conversion to civilian use, and restructuring those that were would require enormous funds.¹³⁶ Military and industry specialists emphasized that the only way to avert this possible disaster would be by means of a systematic effort to rebuild the volume of Russian arms exports on a commercial basis. Therefore, the Russian government established a central trade organization to handle and promote the export of military weapons, and it considered measures that would allow enterprises to market their military hardware abroad independently. For example, a draft directive allowed Dementiev Moscow Aircraft Production Enterprises to market MiG-29s in 1992.¹³⁷

Moreover, given the enormous state budget deficit, exports of military products could serve as an important source of financing the structural reorganization of the Russian economy. Russian weapons, which incorporate the latest scientific and technical advances, are one of the few Russian industrial products that are in high demand abroad and can earn hard currency. Akshintsev notes that "arms exports...serve as an important indicator of the competitiveness of the Russian defence industry's products."¹³⁸

Thus Russia's arms exports not only generate hard currency revenues for various economic contingencies, but also help to slow down the painful process of dismantling military-industrial complexes. But like Russia's oil and gas exports, they are also important Russian revenue-generating export items in the current Russian economy. The arms trade, along with oil and gas exports, has become a significant source of hard currency for Russia, while sustaining employment and the continued existence in the military industrial infrastructure. In the case of Moscow and Seoul, the arms trade has been used primarily as part of the Russian debt repayment scheme to South Korea.

7.6. The North Korean factor

North Korea plays an important role in the multi-dimensional security cooperation between Moscow and Seoul. This thesis examines whether North Korea represents a threat to their security cooperation, or whether it is a security enhancing factor in Russian-South Korean relations and argues that although it is a traditional

¹³⁵ Robert H. Donaldson and John A. Donaldson, "The Arms Trade in Russian-Chinese Relations: Identity, Domestic Politics, and Geopolitical Positioning," *International Studies Quarterly*, 2003, 47, p. 713.

¹³⁶ S. Akshintsev, "Eksport rossiiskogo vooruzheniya: problemy i puti ikh resheniya (Russian Arms Exports: Problems and Ways to Resolve Them)," *Voprosy ekonomiki*, 1994, No. 6, pp. 92-103.

¹³⁷ "Arms export agency forming," *Aviation Week & Space Technology*, Vol. 136, No. 22, 1 June, 1992, p. 17; and "Russia may allow weapon market to export products independently," *Aviation Week & Space Technology*, 15 June, 1992, Vol. 136, No. 24, p. 34.

¹³⁸ Akshintsev, pp. 92-103.

security threat, it also has the potential to boost regional economic security. North Korea's refusal to fully enter the international framework of nuclear nonproliferation is an urgent traditional security concern for both Russia and South Korea. In this regard, the main security objectives of the two sides with regard to the North Korean issue coincide; they are the prevention and deterrence of a nuclear threat.

Nevertheless, as will be discussed in detail in chapter 8, the North Korean question involves much more than nuclear proliferation. On the one hand, North Korea's own economic insecurity has contributed to its attempts to develop nuclear weapons, while on the other hand, economic security cooperation between Russia and South Korea is hampered by North Korea's domestic economic crisis. North Korea's willingness to participate in the railroad and natural gas pipeline projects would undoubtedly strengthen the national and regional economic security of both Russia and South Korea. It would also improve North Korea's economy, increase the stability of the Korean Peninsula and facilitate the reunification of Korea.

As the past experience of ASEAN's relations with then non-members Cambodia and Vietnam suggests, a pariah state such as North Korea in Northeast Asia, has the potential to act either as a deterrent to, or as an incitement for greater bilateral and regional economic security in Northeast Asia. Further, the participation of North Korea could contribute to the development of a regional comprehensive security system. For example, in the case of ASEAN, the Vietnam-Cambodia conflict made the development of ASEAN very difficult. Despite many attempts on the part of ASEAN to mediate, the conflict remained stalemated. Indeed, Vietnam viewed ASEAN as a party to the conflict. When the war ended, what preoccupied ASEAN most was securing the membership of Cambodia and Vietnam in the organization. This would realise its goal of creating 'one Southeast Asia' with both the tangible and symbolic benefits this entailed for a common identity, market and security. Having Cambodia and Vietnam in the organization, it was thought, would allow ASEAN to help manage any problems which might eventually arise. The promise of membership in a Northeast Asian regional economic security system could similarly be used as an incentive to bring some influence to bear on events in North Korea. In other words, North Korea could play the same role in Northeast Asia as Cambodia and Vietnam did in relation to ASEAN.¹³⁹

The chapters that follow offer a detailed analysis of the cooperation between Russia and South Korea in these areas.

¹³⁹ See Conciliation Resources, <http://www.c-r.org/accord/cam/accord5/peou.shtml>), accessed on 28 December, 2005. I am grateful to Margot Light for drawing my attention to this site.

Chapter 3. Energy Security Cooperation

Introduction

Energy cooperation is one of the important aspects of Russian-South Korean relations. This chapter deals with the progress and obstacles of Russian-South Korean energy cooperation. The chapter also examines whether these energy projects could contribute to building Russian-South Korean economic security on a bilateral and regional basis. Bilateral energy cooperation between the two countries is deeply rooted in Northeast Asia's traditional and imperative energy demands and security issues. The Sakhalin and Kovykta Gas projects show both how seriously Russia and South Korea deal with their energy security issues, and the potential for energy trade between the two countries.

Russian-South Korean energy relations are complementary in the sense that several ongoing energy projects in the Russian Far East have the potential to enhance their bilateral economic security. These projects could help Russia become a regional player in the Northeast Asian community, while at the same time they could also help South Korea to solve its domestic energy shortage and to diversify its energy market. Moreover, energy cooperation extends beyond simple bilateral relations. Multilateral energy cooperation could contribute to building regional economic security, by promoting Northeast Asian regional economic integration. Accordingly, the chapter argues that energy diplomacy issues should be dealt with within a multi-cooperative framework which includes China, Japan and North Korea, as well as South Korea and Russia.

However, the development of energy projects has been extremely slow and there have been no substantial benefits or concrete outcomes. Further, some of the progress such as the LNG gas trade in Sakhalin has not met the energy requirements for South Korea or Northeast Asia. Most of all, the Kovykta gas pipeline project is stalled at this stage. And other obstacles continue to hamper building bilateral and regional energy security in the region.

The chapter begins with a discussion of the overall energy situation in Northeast Asia. It goes on to assess Russia's energy export potential in the Russian Far East, focusing on the Kovykta and Sakhalin gas projects, and examining Russia's possible role as an energy provider to Northeast Asian countries. And then it deals with the obstacles obstructing the energy cooperation between Russia and South Korea. The

final section of the chapter assesses the implications of energy cooperation for bilateral and regional economic security cooperation.

1. The energy situation in Northeast Asia

1.1. The demand for natural gas

Northeast Asia has been one of the fastest growing energy markets over the past 30 years. As a result of population and income growth, the demand for energy has risen rapidly in recent years in the region, and this trend will persist in the foreseeable future, with demand growing at a higher rate than in other parts of the world. Accordingly, “the energy sector in the region continues to change rapidly in response to increasing demand, resource availability, environmental concerns, changing technology, the need for regulatory reform, and sector restructuring to attract investment capital to fund supply infrastructure.”¹

Currently, most of Northeast Asian oil imports come from the Middle East and Asian dependence on Middle East imports is expected to increase in the future. Long term projections for China’s economic growth, the possible unification of Korea, and the increase in energy consumption more generally, lead Northeast Asian countries to consider that diversification of their energy supplies is essential. The development of energy projects in Central Asia and the Russian Far East, therefore, provide Northeast Asian states with good options for increasing and securing their energy supplies.

The extensive environmental deterioration that will be caused by coal burning in China provides the incentive to look for nearer and more competitive sources of natural gas in the Russian Far East. Regional demand for this efficient, plentiful, and clean-burning fuel is increasing the momentum to produce, trade, and utilize natural gas. Demand is increasing in the region for cross-border supplies via both pipelines and Liquefied Natural Gas (LNG) ships.² For example, demand for natural gas has been rising by 9.3 percent per year since 1970.³ Northeast Asia is a net importer of gas, and imports could increase sharply in the 2010-20 period.⁴ For example, Japan, South

¹ APEC ENERGY DEMAND AND SUPPLY OUTLOOK 2002, Asia Pacific Energy Research Center,

² Peter Ross, “Gas Pricing,” Workshop by Director, Wimbledon Energy for 11th Annual Seminar on Gas Pricing at Kuala Lumpur, 8-10, December 2003.

³ This has not only been the product of the rapid economic development of the region, but also due to a desire to diversify away from oil following the shocks in the 1970s and a growing appreciation of the economic and environmental benefits of natural gas. See Peter Cleary, “Development of East Siberian Gas for Export to China and Korea Markets,” Presentation by President, BP Gas Power & Renewables Korea for Sakhalin & North Asia Oil, Gas & Pipelines 2003, Seoul, Korea, 12-13 November, 2003.

⁴ APEC, p. 5.

Korea, and Taiwan accounted for 68 percent of global LNG imports in 2002.⁵ Many experts predict that the demand for gas will grow particularly strongly in China and Korea, increasing from 25bcm in 2003 to almost 50bcm by 2020 in Korea, and from 30bcm in 2003 to more than 160bcm by 2020 in China.⁶ In Korea, moreover, natural gas and heat consumption is expected to increase almost 2.5 fold over the forecast period, while the consumption of oil, at present the main fuel used in Korea, is expected to decline from 47 percent in 1999 to 20 percent in 2020.⁷ It is estimated that gas reserves and undiscovered resources will be sufficient to meet consumption needs.⁸ The International Center for Information on Natural Gas (CEDIGAZ)⁹ estimates that natural gas reserves and resources are approximately four times the cumulative world consumption forecast until 2020.¹⁰ This means that a huge volume of natural gas has yet to be discovered.¹¹

Russia, as the world's first natural gas and second oil exporting country, is the obvious energy supplier to satisfy Northeast Asian demand. Although natural gas reserves are distributed more evenly across regions than oil, the majority of gas reserves are located in the former Soviet Union and the Middle East, which have 72 percent of total remaining reserves. There are also reports that of undiscovered resources, 50 percent are expected to be in these regions.¹² Yet Russia currently exports almost all of its gas and much of its oil to non-Asian economies, mainly to Europe. For the most part, this is due to the lack of a hydrocarbons transportation infrastructure in Northeast Asia.¹³ In order to meet growing demand for natural gas, infrastructure development requiring massive investment is crucial.¹⁴

1.2. The development of Natural Gas in Northeast Asia

There are relatively well-developed facilities for reception, re-gasification, and distribution of LNG in Northeast Asia, particularly in Korea and Japan, which are

⁵ "Global Liquefied Natural Gas Markets: Status and Outlook/ LNG Importers," *Energy Information Administration (EIA)*, on <http://www.eia.doe.gov/oiaf/analysispaper/global/importers.html>, accessed on 9 September, 2005.

⁶ Cleary.

⁷ APEC, p. 42.

⁸ Ibid., p. 64 and *BP Statistical Review of World Energy 2001*.

⁹ International Center for Information on Natural Gas, a Paris-based gas industry information agency

¹⁰ CEDIGAZ Natural Gas in the World: 2001 Survey.

¹¹ U.S. Geological Survey, World petroleum Assessment 2000, Washington, DC., 2000, quoted in International Energy Agency (IEA)(2000) and Energy Information Administration (EIA).

¹² APEC, p. 64.

¹³ Konstantin V. Simonov, "Projects of Eastern Siberia Development," Speeches by Deputy Director, The Center for Current Politics in Russia for International Seminar on Policies and Strategies toward Korea-Russia Energy Cooperation, Vladivostok, 7 October, 2003.

¹⁴ APEC., p. 51.

heavily dependent on imported LNG supply. Since demand for natural gas will continue to grow, more LNG facilities are planned. For example, it is reported that in Japan new storage tanks capable of holding 3.8 million m³ of LNG are to be built by 2006, and Korea is planning to build additional capacity for 3.7 million m³ by 2010.¹⁵ Securing shipping and LNG terminal capacity are essential, particularly for the growing short-term and spot trades.¹⁶ It appears that the LNG market has begun developing into a spot delivery market and spot LNG trade is expected to grow rapidly in the Asia-Pacific market, with the majority of gas trade still anchored on long term contracts.

Compared with the well-developed trans-border transmission lines and local distribution networks in North America and Europe, the Northeast Asian region lags far behind in the development of pipeline infrastructure. The natural gas market in Asia is largely restricted to LNG. However, since the end of the Cold War, and especially in the 2000s, serious plans have been developing to construct a natural gas pipeline connecting Japan, China, Korea, and possibly Mongolia and North Korea with Sakhalin and eastern Siberia.¹⁷ A great deal of investment has already been made and is being considered by major global oil companies including Exxon Mobil, Royal Dutch Shell, and BP, with the additional participation of the Japanese, Korean, Chinese, and Russian private sectors. For example, the Kovykta project, if completed (a feasibility study is still being carried out), will be the largest single project in the world with an estimated development cost of US \$23 billion on the Russian side. Another major plan is the Sakhalin project that will supply gas and oil to Japan and Korea and potentially to other Asia Pacific markets.¹⁸

2. The energy situation in Korea

In the last few decades, Korea has been one of Asia's fastest-growing and most dynamic economies. South Korea has very few indigenous energy resources and the gap between its petroleum consumption and production is particularly wide. It imports a great proportion of energy products (and all of its oil needs). Since 1999, for example, Korea has consistently been the world's fourth or fifth largest importer of crude oil and

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Tsutomu Toichi, "Energy Security in Asia and Japanese Policy," *Asia-Pacific Review*, Vol. 10, No. 1, 2003, p. 47.

¹⁸ APEC, p. 66.

the second largest importer of liquefied natural gas.¹⁹ Natural gas continues to be the fastest growing energy source because it is both convenient to use and environmentally friendly.

Table 1 South Korea's Projected Long-term Energy Demand by Source

	2001 (Actual)	2011	2020	(Unit: 1,000 tonnes)
Coal	45.7	60.2	62.6	
Petroleum	100.4	125.4	139.6	
LNG	20.8	33.2	48.0	
Hydro	1.0	1.2	1.2	
Nuclear	28.0	43.5	52.0	
Total	198.3	259.3	311.8	

Source: Ministry of Commerce, Industry and Energy, Seoul Korea, October 2003²⁰

As Table 1 shows, LNG demand is projected to grow by 4.5 percent per annum. According to APEC's report, its industrial use will rise by 6 percent per annum, while its residential and commercial use will rise by 4.4 percent up to 2020.²¹ The annual growth in natural gas use reached as high as 47 percent in the 12 years from its introduction to 1999, and is expected to expand by 5 percent per year. Accordingly, the share of gas in South Korea's energy demand increased to 7.4 percent in 1999 from a mere 0.2 percent in 1987 and is anticipated to reach over 10 percent by 2020.²² The rapid expansion of South Korea's natural gas industry from 1987 to 2002 stemmed from two factors. First, South Korea established a nationwide trunk pipeline network, and second, the Korean government gave price incentives to encourage expansion of the use of gas in Korean cities.²³

At the same time, oil dependency is projected to fall from 55 percent in 1999 to 45 percent by 2020. The use of oil as a source of energy is still expected to grow 2.4 percent annually, but at only one third of the pace of the increase from 1980 to 1999. In other words, natural gas has been and will remain the fastest growing energy source. As Figure 1 demonstrates, natural gas will expand faster in the transformation sector than

¹⁹ In 1999, South Korea was the fourth, and in 2004 the fifth largest importer of crude oil after the USA, Japan, China and Germany. It was the ninth largest oil consuming country after the US, China, Japan, Germany, Russia, India, Canada and Brazil. The largest LNG importer is Japan. See "Top World Oil Producers, Exporters, and Importers 2004" *Infoplease* on, <http://www.infoplease.com/ipa/A0922041.html>, accessed on 8 September, 2005; and APEC, p. 171.

²⁰ Jung-Gwan Kim, "Korea-Russia Energy Cooperation," presentation material at Ministry of Commerce, Industry and Energy, South Korea, 7 October, 2003.

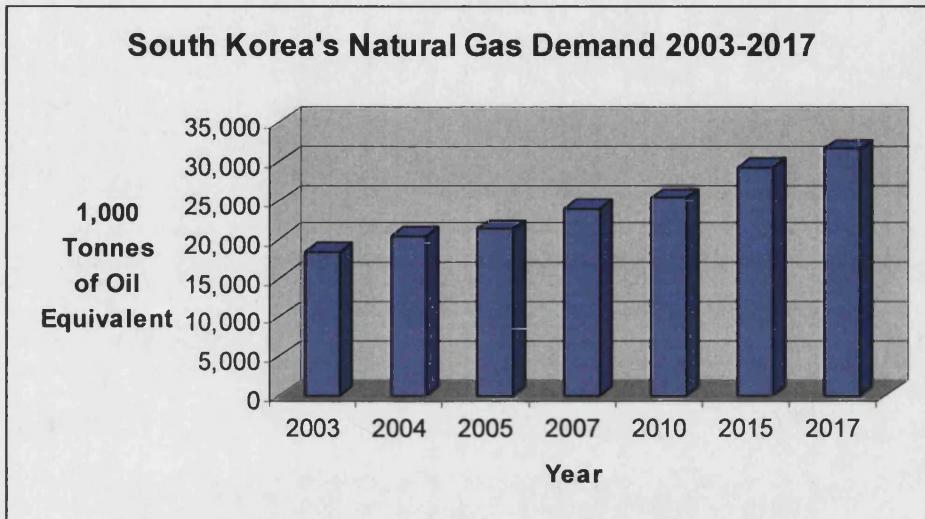
²¹ APEC, p. 172.

²² *Ibid.*

²³ Keun-Wook Paik, "Natural Gas Expansion in Korea," in Ian Wybrow-bond and Jonathan Stern, eds., *Natural Gas in Asia: The Challenges of Growth in China, India, Japan and Korea* (Oxford: Oxford University Press, 2002), pp. 226-227.

for final use, with annual growth rates of 5.4 percent and 5.0 percent, respectively, and will maintain a share of well over 40 percent in the next 20 years or so.²⁴

Figure 1 South Korea's Natural Gas Demand 2003-2017



Source: Ministry of Commerce, Industry and Energy (Seoul Korea, December 2004)

Energy cooperation between the two Koreas has often been discussed by the South Korean government, because its primary goal in the energy dimension appears to be an integrated system across the Korean peninsula. Korea has also actively participated in Northeast Asian energy cooperation, which combines the interests of both energy-consuming and energy-producing economies in the region while raising the possibility of interconnecting power and gas networks. In creating a Northeast Asian economic multi-framework, perhaps including North Korea, the Korean government can fulfil its goal of constructing an energy system linked to the Asian continent.²⁵

South Korea has diversified its energy sources in recent years to enhance its energy security. It introduced a natural gas plan in the late 1980s to promote the use of natural gas.²⁶ In these circumstances, it is clear that Russia's natural gas in Siberia and Sakhalin is an attractive source for the South Korean natural gas market.

²⁴ South Korea's Annual Natural Gas Report, December 2004, Ministry of Commerce, Industry and Energy, Seoul Korea; and APEC, p. 173.

²⁵ APEC, p. 175.

²⁶ Ibid., p. 176.

3. Russia's role in the Northeast Asian energy market

Russia has abundant natural energy resources, and possesses almost the largest of the world's proven reserves of natural gas (33 percent of the world total), 4.7 percent of the world's proven oil reserves and 16 percent of the world's coal reserves.²⁷ The energy industry accounts for approximately 30 percent of Russia's GDP.²⁸ Being more than self sufficient in all hydrocarbon fuels, Russia exports substantial volumes of natural gas and liquid hydrocarbons to areas outside the former Soviet Union.²⁹ Oil and gas exports comprise 55 percent of total merchandise exports in 2005. In 2001 Russia became the world's second-largest oil exporter after Saudi Arabia. According to RosStat figures, in 2004 Russia exported 56 percent (257m tons, or 5.2m b/d) of its crude oil production.³⁰ The relative weight of the energy sector in the national economy will be maintained in the next two decades.

Russia's energy policy aims to strengthen the position of Russia in international energy markets, to gain non discriminatory access to international markets and advanced technologies, and to stimulate foreign investment.³¹ The creation of a favourable investment climate for domestic and foreign investors is a prerequisite to achieve these aims. The Russian Energy Strategy estimates investment needs in the order of US \$40 to \$70 billion over the period from 2001 to 2020.³²

Energy exports, especially in natural gas and liquid fuels, with special emphasis on petroleum products, will be maintained at a high level. Russia can diversify its energy exports by penetrating East Asian energy markets and increasing its supply of oil and products to the United States.

Russia is particularly interested in developing its Eastern Siberia and Sakhalin natural gas fields. Whereas the oil sector has become increasingly competitive since privatization in the early 1990s and the onset of consolidation after 2000, the gas sector continues to be dominated by the state-controlled gas giant Gazprom. Although Gazprom controls one-third of the world's natural gas reserves, it has not faced the kind

²⁷ Ibid., p. 211.

²⁸ 2005 Russian Report, The Korea Export-Import Bank (EXIM Bank), 9 August, 2005.

²⁹ Eugene M. Khartukov, "Russia," in Paul B Stares, ed., *Rethinking Energy Security in East Asia* (Tokyo: Japan Center for International Exchange, 2000), p. 152.

³⁰ "Russia: Business: Industry overview, Russia: Energy provision," Economist Intelligence Unit (EIU) Views Wire, 20 April, 2005, on http://www.viewswire.com/index.asp?layout=display_article&doc_id=488217648, accessed on 10 September, 2005.

³¹ Alexey M. Mastepanov, "O perspektivakh osvoeniya gazovykh resursov Vostochnoi Sibiri I Dal'nego Vostoka," Presentation by the Deputy Head of Gazprom for International Seminar on Policies and Strategies toward Korea-Russia Energy Cooperation, Vladivostok, 7 October 2003.

³² "Russian Energy Survey: 2002," International Energy Agency (IEA), Paris, 2002.

of market pressures that have prompted the recovery in oil output. Gas output peaked at 643bn cu meters in 1991 and then fell gradually to 561 cu meters in 2002. It has been rising since then, reaching 591bn cu meters in 2004, and the government plans to increase gas output to 950bn cu meters in 2005, backed by US\$4.5bn investment spending on prospecting and expansion.³³

Gazprom exported 181bn cu meters in 2004, with a year-on-year rise of around 15 percent in exports to Europe, its largest and most lucrative export market. It uses its export earnings to subsidize loss-incurring domestic sales, at around 20 percent of world market prices. Since cheap gas powers much of Russia's industrial sector and keeps household energy bills low, the government has been reluctant to liberalize domestic gas prices. This has starved Gazprom of the investment capital needed to replace its declining west Siberian fields with new ones in the far north and east, and to build new storage and transportation facilities.³⁴

Russia aims to increase its oil exports to the Asia Pacific region from 3 to 30 percent, and its gas exports from 0 to 15 percent in the future.³⁵ Yet given the existing transportation infrastructure, energy exports are still mostly designed for Europe and as such can only indirectly influence Northeast Asian energy markets.³⁶ In the longer term, however, Russia can play a very important role in shaping cooperative energy schemes in Northeast Asia. Several existing and planned energy projects in the Russian Far East and eastern Siberia will enable Russia to increase its supplies of fuel and electricity to Northeast Asia.³⁷

The Russian Far East (RFE) has about 30 percent of Russia's coal deposits, half of which can be mined in open pits. Oil, natural gas and hydropower sites are abundant and widely dispersed, capable of producing annual exports of crude oil to 15 million-25 million tons (Mt), and providing 30 billion-50 billion cubic meters (bcm) of natural gas a year to neighbouring Asia Pacific countries.³⁸ East Siberia contains 20 percent of proven natural gas reserves in the world today. The natural gas supply from this basin

³³ Although Gazprom has access to foreign borrowing to fund its capital expenditure, its investment plans are affected by high levels of debt and continued uncertainty about gas market reform. The government hopes that the removal of the “ring-fence”—which limits foreign share ownership in the company—will finally allow Gazprom to raise much-needed investment capital. See “Russia: Business: Industry overview, Russia: Energy provision,” EIU, op. cit.

³⁴ Ibid.

³⁵ Mastepanov.

³⁶ Khartukov, p. 152.

³⁷ Ibid.

³⁸ Billion Cubic Meter (bm³)= BCM. See Stephen White, “Is Russia a Country in the Globalization Era? (With special reference to the Far East),” Presentation prepared for a conference: The Regional Cooperation of Northeast Asia and Russia’s Globalization for the 21st Century, Seoul, Korea 22-24 June 2003; and Khartukov, p. 141.

could potentially be as much as 130 bcm in 2020, which is equivalent to the level of Russian exports to Europe today.³⁹ Moreover, over 3 million tons of oil was produced in Sakhalin in 2002, and up to 45 million tons are forecast to be produced annually after 30 years. Oil production development in East Siberia and the Russian Far East would increase Russia's production level up to 95 million tons of oil annually after 30 years.⁴⁰

So far, the most successful upstream developments in the Russian Far East are the Sakhalin-1 and Sakhalin-2 projects, which will be discussed in detail in the later part of this chapter. Overall crude oil production levels for Sakhalin are estimated at 0.7 million barrels per day (Mb/d) in 2020, with corresponding export volumes of about 0.5Mb/d. Production figures for East Siberia are estimated at 0.8 Mb/d in 2020 with probable export figures of 0.4 Mb/d. The eastern part of Russia as a whole could supply the Asia-Pacific market with up to 0.9 Mb/d in 2020 under favourable pricing conditions. Natural gas production is expected to start around 2010, though transport remains the main problem to be overcome.⁴¹ At the beginning of 2002 the state oil transport company, Transneft, announced a plan to build a 3,765km oil pipeline on an Angarsk-Khabarovsk-Nakhodka route with a capacity of one Mb/d by 2008-2010, which could carry oil from the West Siberian fields and the prospective deposits in East Siberia.⁴²

In short, the Russian Far East has the potential to reshape energy flows in Northeast Asia and also to redefine the region's geopolitical relationships. Russia cannot be ignored in the "new geopolitics of energy" because of its current enormous energy production and export potential.⁴³ From the Korean perspective, as long as Russia's natural gas projects provide competitive terms and guarantee stability of supply, Russia is clearly an extremely attractive potential energy supplier.⁴⁴

³⁹ Cleary.

⁴⁰ Simonov.

⁴¹ APEC, p. 215.

⁴² Ibid.

⁴³ John V. Mitchell, *The New Geopolitics of Energy* (London: Royal Institute for International Affairs, 1996), p. 61.

⁴⁴ Hong Shik Jeon, "Review of Gas Industry in Korea and requirements from future LNG contracts," Speech by Vice President for LNG Purchase Division, Korea Gas Corporation, for International Seminar on Policies and Strategies toward Korea-Russia Energy Cooperation at Vladivostok, 7 October, 2003.

4. The development of Russian-South Korean energy cooperation

4.1. The Kovykta Gas Field (Irkutsk)

The Kovykta natural gas field in Eastern Siberia has proven reserves of 2,000 billion m³ per year production for 30-40 years. As the frontrunner among the three energy projects (the other two projects are the Sakha Republic Chayandinsk gas and Sakhalin Island offshore gas fields), the development of this field could become the keystone in energy cooperation with East Asian economies in the next two decades.⁴⁵

The Siberian gas development plan between Russia and South Korea dates back to the late 1980s. In January 1989, Chung Ju Young, founder of the Hyundai Group (Korean Conglomerate), proposed running a gas pipeline from Sakha to South Korea through North Korea. Following a November 1992 summit between President Yeltsin and President Roh Tae Woo, a South Korean consortium was set up, and the South Korean government authorized the Korean Gas Corporation (KOGAS) to negotiate the project. At the end of 1995, Moscow and Seoul completed a preliminary study of the technical and economic feasibility of Sakha gas development. Under the agreement, a 6,600 km (4,125 miles) natural gas pipeline would extend from Sakha through Khabarovskii and Primorskii krais. It was expected that the annual output of gas would total 30 to 45 billion m³, 15 to 28 billion m³ of which would be exported to the Korean peninsula. This project was supposed to be shared between Russia (70 percent) and foreign investors (30 percent). The North Korean government approved the transit of the gas pipeline through its territory because the project would be economically beneficial. The total cost of the project was estimated at between US \$17 and \$23 billion, with supplies to last fifty years.⁴⁶ South Korea, however, decided not to continue with a full feasibility study because the project did not seem to produce much profit. Instead, South Korean interest shifted to the Kovyktinskii gas field near Irkutsk.

The Kovyktinskii gas condensate field, containing an estimated 870 billion m³ of gas and 400 million barrels of condensate, was discovered in 1987.⁴⁷ The Russian company Sidanko is the main shareholder, along with Irkutsk oblast, Irkutskenergo,

⁴⁵ Keun-Wook Paik, "Pipeline Gas Introduction to the Korean Peninsula," Report Submitted to Korea Foundation, Korea Foundation Project 'Energy and Environmental Cooperation in the Korean Peninsula, January 2005, p. 1 and APEC, p. 215.

⁴⁶ *Rossiskaya gazeta (Ekonomicheskii Soyuz Supplement)*, 30 March, 1996, 11 in Foreign Broadcast Information Service (FBIS), Daily Report/ Soviet (DR/SOV) (96-084-S).

⁴⁷ Seung-Ho Joo, "ROK-Russian Economic Relations, 1992-2001," *Korea and World Affairs*, Vol. 25, No. 3, Fall 2001 Research Center for Peace and Unification of Korea, p. 383.

Angarsk Refinery, and East Asia Gas Co (EAGC).⁴⁸ In July 1996, the EAGC, a subsidiary of the Hanbo Group, announced that it had purchased 27.5 percent (US \$25 million) of Russia Petroleum (RP)'s equity shares and that it would promote early development of East Siberia's oil and gas reserves.⁴⁹ As a result, the Hanbo group became the largest shareholder of RP (46.1%). UNEXIM bank (United Export Import bank) and Sidanko were the other two other major shareholders (25%), the latter having acquired by that time a 46.1 percent stake in the Angarsk Petrochemical Company's (APC), one of RP founders.⁵⁰

After the Hanbo Group went bankrupt, it sold off a large part of its equity share in RP to Sidanko, which then sold it to British Petroleum (BP) as part of a deal between BP, Sidanko, and UNEXIMbank. In 1997, BP renewed its interest in the Kovykta project by becoming a shareholder of Sidanko. In November 1997, Sidanko and BP established a strategic alliance to develop this project.⁵¹ Meanwhile, EAGC now has just a 7.5 percent share of a potential project to deliver natural gas from Siberia to China.⁵² The South Korean consortium conducted an eight month preliminary feasibility study on the Kovykta gas field starting in December 1996 which proved that the project would be economically profitable to South Korea.⁵³ In December 1997, Korea, Russia, Japan, China, and Mongolia agreed to develop natural gas fields in Siberia. In February 1999, Russia Petroleum and the Chinese National Petroleum Corporation (CNPC) signed a general agreement on carrying out a feasibility study on the Kovykta gas project. In November 1999, KOGAS joined the agreement.⁵⁴ In November 2000, RP signed a new trilateral agreement with CNPC and KOGAS over a feasibility study in Beijing. Total gas output and exports to China and South Korea were to amount to 30-35 bcm and 10 bcm respectively. South Korea also proposed North Korea's participation in the project.⁵⁵

It is expected that it will take about 5 to 6 years to develop the gas fields and construct the 4,100 km gas pipeline, which may link Irkutsk in Russia, Ulaanbaatar in

⁴⁸ Keun-Wook Paik and Jae-Yong Choi, "Pipeline Gas Trade between Asian Russia, Northeast Asia Gets Fresh look," *Oil and Gas Journal*, August 18, 1997, pp. 41-45.

⁴⁹ Ibid.

⁵⁰ Nodari Simonia, "Russian Energy Policy in East Siberia and the Far East," *The Energy Dimension in Russian Global Strategy*, Report Paper (The James A. Baker III Institute for Public Policy, Rice University, October 2004), p. 5.

⁵¹ Ibid.

⁵² Chongbae Lee and Michael J. Bradshaw, "South Korean Economic Relations with Russia," *Post-Soviet Geography and Economics*, Vol. 38, No. 8, 1997, pp. 463-464.

⁵³ Korea Gas Corporation (KOGAS), "The Irkutsk Natural Gas Project," January 2000, on <http://www.kogas.or.kr/homepage/news.htm>, accessed on 15 February, 2004.

⁵⁴ Joo, "ROK-Russian Economic Relations, 1992-2001," p. 384.

⁵⁵ *Nezavisimaya Gazeta*, 9 September, 2000; *Vedomosti*, 3 November, 2000; and Simonia, p. 9.

Mongolia, Beijing in China and Pyongtaek near Seoul. However, the Mongolian route was ruled out by the Chinese authorities in 2002, even though it appeared the most competitive price option.⁵⁶

As South Korean-North Korean relations improved, South Korea also proposed that the pipeline should pass through North Korea. In February 2003, Gazprom chief Alexei Miller visited Seoul to discuss KOGAS's proposal to build the China-North Korea-South Korea pipeline to Pyongtaek.⁵⁷ However, TNK (Tyumen Oil Company) and BP, which had merged in 2003 giving the new company TNK-BP a 62.89 percent stake in RP, strongly opposed the route through North Korea because of high costs and political risks. South Korea eventually abandoned the idea and stuck to the original plan to lay the pipeline on the bottom of the sea between China and South Korea.⁵⁸

South Korea's total investment in this project is projected to be approximately US \$12 billion: US \$5 billion for developing the gas fields and US \$7 billion for the pipelines. Once completed, the Kovykta gas field will be able to provide a total of 20 million tons of natural gas to China, Russia, and Korea annually for 30 years, possibly beginning in 2008.⁵⁹ South Korea will receive 7 million tons of gas annually, a third of its total national gas demand. It would also mean that Korea would purchase natural gas at a price 22 to 25 percent lower than the current import price for liquefied petroleum gas (LPG).⁶⁰

Nevertheless, although the project was initiated in 1995, it is still awaiting approval from the Russian government. According to Paik, the main obstacle is Gazprom's reluctance to sell gas to Northeast Asian nations and this stems from new Russian nationalist views about protecting its natural resources in the region.⁶¹ He adds,

If Gazprom changes its stance and agrees to pursue the earliest pipeline gas supply to China and Korea, the earliest introduction will be between 2010 and 2012. If Gazprom fails, however, to make a compromise on its plan of directing the gas pipeline to Nakhodka, the earliest introduction will be

⁵⁶ Interview with Keun-Wook Paik, London, 12 June, 2005.

⁵⁷ *Kommersant-Daily*, 27 February, 2003.

⁵⁸ Simonia, p. 11.

⁵⁹ South Korea is seeking to bring 7 million tons of natural gas a year while China is planning 14 million tons. See *Yonhap News Agency*, 17 September, 2004.

⁶⁰ Seung-Ho Joo, "Russia and Korea: The Summit and After," *The Korean Journal of Defense Analysis* Vol. 13, No. 1, Autumn 2001, Korea Institute for Defense Analysis (KIDA), Seoul, Korea, pp. 124-125.

⁶¹ Interview with Keun-Wook Paik, Chatham House, London 21 February, 2005.

closer to 2020, as the LNG expansion in the region will not save a large proportion of the gas market for the pipeline gas easily [sic].⁶²

Gazprom, which does not participate in the Kovykta project, clearly has less incentive to develop this field, whereas it strongly advocates foreign participation in the Sakhalin-2 project in which it recently acquired 25 percent of the assets of Shell, the main shareholder of Sakhalin-2. Gazprom responded negatively to the Kovykta gas field feasibility study agreement that RP, CNPC and KOGAS signed in Moscow on 14 November 2003, arguing that priority should be providing gas to Russian consumers. And in January 2004, during a meeting with Viktor Vekselberg, TNK Board Chairman, Alexei Miller, declared that Gazprom would not permit the field to be developed outside its control. It maintained that instead of building an export pipeline, it was necessary to build gas and chemical facilities first and then to export the final products to Asian markets.⁶³

4.2. Sakhalin Project

The Sakhalin oil and gas projects are based on decades of Russia-Japan exploration efforts. South Korea has not participated in any of the Sakhalin projects until recently. The total resources of Sakhalin, including both inland deposits and those of the continental shelf, are 3,360 billion m³ of natural gas and 1,285 Mt of oil and gas condensate combined, along with 935 Mt of oil.⁶⁴ As Michael Bradshaw notes, it is difficult to count the number of Sakhalin projects because their status varies, ranging from Sakhalin-2 which is currently producing oil offshore, to speculative acquisition of offshore acreage from companies without the technical capacity to develop offshore fields.⁶⁵ Sakhalin-1 and Sakhalin-2, which are the first generation of Sakhalin projects, have declared commerciality and are now at the development and delivery stage.⁶⁶ Proven reserves of Sakhalin-1 include 324 Mt of oil condensate and 420 billion m³ of gas condensate.⁶⁷ And reserves of Sakhalin-2 include 600 Mt (4.5 billion barrels) of

⁶² Paik, "Pipeline Gas Introduction to the Korean Peninsula," January 2005, p. 1.

⁶³ Simonia, p. 11.

⁶⁴ Vladimir I. Ivanov, *The Energy Sector in Northeast Asia New Projects, Delivery Systems, and Prospects for Co-operation* North Pacific Policy Papers 2 (Vancouver: Program on Canada-Asia Policy Studies, Institute of Asian Research, University of British Columbia, 2000), p. 16.

⁶⁵ Michael Bradshaw, "Prospects for Russian Oil and Gas Exports to Northeast Asia from East of the Urals," Presentation paper for the conference: The Regional Cooperation of Northeast Asia and Russia's Globalization for the 21st Century, Seoul, Korea 22-24 June 2003, p. 6.

⁶⁶ These two projects were the forerunner of Production Sharing Agreements (PSA), according to Bradshaw. See Bradshaw, p. 6.

⁶⁷ Ivanov, pp. 16-17.

crude oil and condensate, and gas condensate of more than 700 billion m³.⁶⁸ The total estimated cost for Sakhalin-1 and Sakhalin-2 are US\$15.2 billion and \$10 billion respectively.⁶⁹

Among the 6 Sakhalin projects, the Sakhalin-2 project has made most progress. Its fields are approximately 15 kilometres off the northeast coast of Sakhalin in waters frozen for five to six months of the year. The Sakhalin-2 project comprises two fields: Piltun-Astokskoye, primarily an oil field, and Lunskoye, predominantly a gas field with recoverable reserves of 185 million tons of oil and 800 billion cubic meters of gas.⁷⁰ “The Sakhalin-2 oil reserves are equal to more than one year of total crude oil exports from Russia at the current level of around 2.5 million barrels per day. The vast gas reserves represent nearly five years of Russian gas exports to Europe, or enough to supply current global LNG demand for four years. This proven resource base will supply more than 9 million tones of LNG for at least 25 years.”⁷¹ Between 1999 and 2004, the project produced over 60 million barrels of oil. Oil from Sakhalin-2 is exported to China, Japan, the Philippines, South Korea, Taiwan, Thailand, and the US.⁷²

The Sakhalin-2 project was the first production sharing agreement (PSA) signed in Russia and the first to go into production. The first phase of oil production took place in the summer of 1999, and it was the first offshore oil production in Russia. By the end of 2002 more than 38 million barrels of oil had been produced and exported.⁷³ The project is operated by Sakhalin Energy and its shareholders are Royal Dutch Shell (55 percent), Mitsui (25 percent) and Diamond Gas Sakhalin, a subsidiary of Mitsubishi (20 percent).⁷⁴ South Korean companies are involved in the project and it is the first energy project that Russia and South Korea have developed. The earliest that gas will be available to be sent from Russia to Korea is projected to be in either 2007 or 2008.⁷⁵

⁶⁸ Sakhalin Energy, April 2003.

⁶⁹ Ivanov, pp. 16-17.

⁷⁰ *The Russian Oil and Gas Report*, 1 October, 2004.

⁷¹ Sakhalin Energy, April 2003.

⁷² *Prime-Tass Business News Agency*, 26 August, 2005.

⁷³ Sakhalin Energy Investment Company (SEIC) 2002, *The Road Ahead: Sakhalin Energy Review 2002*, p. 9.

⁷⁴ *The Russian Oil and Gas Report*, 1 October, 2004; and *Prime-Tass Business News Agency*, 26 August, 2005.

⁷⁵ “South Korea to receive Sakhalin gas in 2008,” *Business CustomWire*, 16 November, 2004; and Abraham Bernstein, “Sakhalin II LNG Project: A Strategic Source of Natural Gas for Northeast Asia,” Presentation by General Manager, Northeast Asia Sakhalin-II LNG Marketing Services for the International Conference: Sakhalin & North Asia Oil, Gas & Pipelines 2003, Seoul, Korea 12-13 November 2003.

The Sakhalin-2 gas will be the closest source of LNG to Korea, taking only 2 to 3 delivery days.⁷⁶

In fact, South Korea's interest in Sakhalin gas dates back to 1994 when the South Korean government and companies showed interest in initiating LNG supplies from the Lunskoye gas field, the centrepiece of Sakhalin-2 development. However, serious discussion of the project only became possible in 2000. The Sakhalin regional governor Igor Farkhutdinov maintained that the Sakhalin region was interested in supplying gas to Korea and Shell, which has a 55 percent equity stake in Sakhalin Energy, has lobbied hard to secure an early commitment from the Korean government. Due to the privatization drive in Korea's gas industry, however, the Sakhalin Energy Investment Corp's (SEIC) lobbying to penetrate Korea's gas market was not successful.⁷⁷ Nevertheless, the Korean government and private sectors have continued to negotiate deals with Russia for this project.⁷⁸ Samsung Heavy Industry, for example, signed a contract on 29 May, 2003 for the construction and installation of two platform topsides valued at approximately US \$500 million. The construction of the Lunskoye Platform topsides were 89 percent complete as of the end of August, 2005.⁷⁹ Another Korean company, Poong Lim, is engaged in infrastructure work on Sakhalin Island, including the building of Sakhalin Energy's project office as a major sub-contractor.

In August 2004, KOGAS invited bids for the long-term supply of 5.3mt/y of LNG to replace its current contract with ExxonMobil for gas from Indonesia which is due to expire in 2007.⁸⁰ SEIC's bid was included in the short list of five potential supply sources. Sakhalin Governor Ivan Malakhov⁸¹ stated that 80 percent of the profit from LNG should remain at the disposal of the regional authorities. According to John Barry, the head of Shell Russia, SEIC's contract with KOGAS, the largest single LNG buyer in the world, would be the largest contract for LNG supplies it had signed.⁸² SEIC's bid was successful and in February 2005, it won a tender to supply 1.5mt per annum of LNG from Sakhalin 2 for 20 years to KOGAS.⁸³

⁷⁶ The estimated distance from Prigorodnoye LNG Terminal to Tong Yong is 1062 miles (2.2 days by LNG ship); and to Incheon is 1385 miles (2.7 days). See Bernstein.

⁷⁷ Paik, "Pipeline Gas Introduction to the Korean Peninsula," January 2005, p. 19.

⁷⁸ Bernstein.

⁷⁹ *Sakhalin Energy*, Archives, Project Updates, August 2005, on http://www.sakhalinenergy.com/news/nws_updates.asp, accessed on 7 September, 2005.

⁸⁰ *The Russian Oil and Gas Report*, 1 October, 2004.

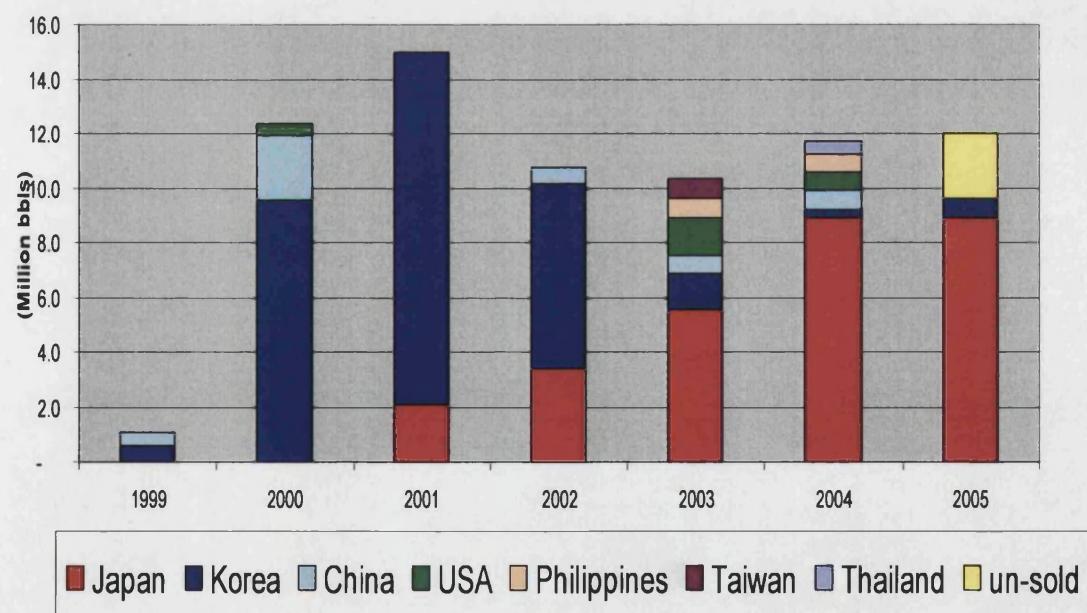
⁸¹ Igor Farkhutdinov died in a helicopter accident in 2004, and Ivan Malakhov is his successor. I am grateful to Keun-Wook Paik for giving me this information.

⁸² Ibid.

⁸³ Glada Lahn and Keun-Wook Paik, "Russia's Oil and Gas Exports to North-East Asia," Report from Sustainable Development Programme, Chatham House, April 2005, p. 5; In its tender, Korea also chose

On 7 July 2005, Gazprom agreed to swap assets in return for entry into the Sakhalin 2 project.⁸⁴ Gazprom would take 25 percent equity in the Sakhalin 2 project and, in return, Shell would take 50 percent of equity in the Zapolyarnoye oil field, which is located in Western Siberia and is owned by Gazprom. According to Paik, this development strengthened the chance of SEIC's LNG supply contract (1.5mt/y) with KOGAS.⁸⁵ Having won the tender in February 2005, Sakhalin Energy finally signed the long-term Sales and Purchase Agreement for 1.5 mt per annum of LNG for 20 years to KOGAS in July 2005. This was the first long-term agreement between Russia and South Korea for the supply of energy. LNG will be supplied from Sakhalin Energy's 9.6 mt per annum LNG plant, which is under construction at Prigorodnoye at Aniva Bay on the south Sakhalin Island. This will be the first LNG plant to be built in Russia and construction work on the plant is now more than 65 percent complete.⁸⁶ It should be noted, however, that the price of gas from Sakhalin-2 remains high, even if it has the advantage that South Korea can import gas from Russia during winter from a comparatively short distance.⁸⁷

Figure 2 Vityaz Crude Oil Sales by destination since 1999 (Status: 19 August, 2005)



Source: SEIC, 19 August, 2005

Yemen LNG and Malaysia LNG for supplies. Through the three sources, the Korean company will import total 5 million tons per year from 2008. See *International Oil Daily*, 18 July, 2005.

⁸⁴ *Nihon Keizai Report*, 27 November, 2004; and *Moscow Times*, 29 November, 2004.

⁸⁵ Paik, "Pipeline Gas Introduction to the Korean Peninsula," January 2005, p. 19; *International Oil Daily*, 18 July, 2005; and *Interfax News Agency*, 20 July, 2005.

⁸⁶ *Interfax News Agency*, 20 July, 2005.

⁸⁷ Keun-Wook Paik, Telephone Interview, 6 September, 2005, London, UK.

Meanwhile, as Figure 2 shows, South Korea also imports crude oil from SEIC. SEIC has exported a total of 32 million barrels of "Sakhalin Vityaz Crude Oil" (this is the brand name) to South Korea since 1999. This is 45 percent of SEIC's total sales so far. Korea was a foundation customer and took the majority of oil in the first few years of production. In the last few years, however, the Japanese have offered higher prices for the oil than the Koreans, resulting in the Japanese acquisition of larger volumes of oil. As Figure 2 indicates, Korea and Japan are the two main importing countries of Sakhalin oil due their geographic proximity to Sakhalin Island. Sakhalin oil is considered to be light and sweet (low in sulphur) with a high middle distillate yield, which means good quality for refineries for producing diesel and kerosene.⁸⁸

4.3. Comparison between the Kovykta and Sakhalin projects

While LNG projects require substantial investment in liquidification and re-gasification, they are flexible because an LNG buyer can choose between many suppliers. The LNG trade generally tends to be based on long-term contracts, although a spot market has emerged recently. It also enables customers to use existing facilities. On the other hand, pipelines are rather inflexible. They require substantial reserves at one end to sustain and fill the pipeline, and a significant market at the other to justify the investment. Once built, they cannot be moved and they lock the seller and buyer into a long-term relationship. It is even more complicated when the pipelines cross international boundaries. However, LNG and pipelines projects are complementary in that smooth development of the LNG could facilitate pipeline discussions too, in the end. In this regard, the Sakhalin-2 seems to be more attractive, more promising, and less vulnerable to the South Korean government at this stage than the Kovykta project. Nevertheless, a combination of the Kovykta and Sakhalin projects would be the ideal case for the Korean energy market. If this proves impossible, however, I would argue that the Sakhalin LNG projects are ultimately more realistic options to the South Korean government and business sector than the pipeline projects in Siberia. As Paik emphasizes, it is highly likely that the Kovykta project would be developed only if the delivered Kovykta pipeline gas price is competitive with that of Sakhalin LNG.⁸⁹

⁸⁸ Alan McCavana, Phone Interview with Export Manager, Sakhalin Energy Investment Corporation, 9 September, 2005.

⁸⁹ Keun-Wook Paik, "Natural Gas Expansion in Korea," 2002, p. 228.

4.4. Other energy projects

Energy cooperation has become the core of the South Korean-Russian diplomatic agenda in recent years. For example, President's Roh's trip to Moscow on 21 September 2004 was mainly a quest for energy supplies.⁹⁰ During the summit, Putin and Roh signed a total of US \$4 billion worth of primarily oil contracts. The biggest was a \$3 billion project between LG, South Korea's second largest conglomerate, and Tatneft, Russia's sixth largest oil producer, to construct an oil refinery and petrochemical complex in Tatarstan. This project involves the construction of a new polystyrene and polyethylene plant in Nizhnekamsk with a throughput capacity of 7 million tones of oil per year.⁹¹ According to Interfax, Export-Import Bank of Korea (EXIM) signed a memorandum with the government of Tatarstan to open a \$1.3 billion credit line. The state-owned Vneshtorgbank also signed a \$50 million deal with the EXIM to finance acquisition of Korean equipment by Russian companies. Samsung also signed a \$500 million, 10-year deal with Russia's Alliance Group to modernize a refinery in Khabarovsk, which was partially backed by a \$50 million finance deal between the EXIM and Sberbank. The third deal, between Rosneft and Korea National Oil Corporation (KNOC), was a \$250 million agreement to explore Kamchatka and Sakhalin Island oil reserves in a 60,000-square kilometre area. The two companies plan to set up a joint venture by the end of 2005, and drilling at various sites will be carried out before August 2008.⁹² South Korea expects to secure 1.7 billion barrels of oil reserves from the deal.⁹³

Despite the numerous projects, the development of cooperative Russian-South Korean energy projects has been extremely slow and there have been few substantial benefits and concrete outcomes so far.

5. Obstacles

As Peter Cleary, President of BP Gas Power & Renewables Korea, outlines, there are four major requirements to establish energy security cooperation in the region: “1) political will for regional cooperation, 2) the right partnership to deliver major projects, 3) enormous investment in infrastructure and supply, and 4) simulation of

⁹⁰ *The Economist Intelligence Unit Business Asia*, 4 October, 2004.

⁹¹ *Itar Tass news agency*, 21 September, 2004; and *Interfax News Agency*, 21 September, 2004.

⁹² *Yonhap news agency*, 23 February, 2005.

⁹³ *Reuters*, *Ap*, and *Moscow Times*, 22 September, 2004.

market development.”⁹⁴ I would argue that Russian-South Korean bilateral and multi-lateral energy security cooperation in Northeast Asia has been delayed because of the relative underdevelopment or the absence of these requirements, but other factors such as the persisting problems of the Russian Far East and the Northeast Asian energy pattern also present obstacles.

5.1. Bilateral problems

Most importantly, the price of gas determines the pace and time of the development of the gas pipeline and LNG project, as well as the will of foreign investors. As long as the delivered pipeline or Sakhalin LNG gas price is competitive with that of LNG from either the Middle East or Southeast Asia, there is a high possibility that Russia’s gas supplies will be developed. If it is not competitive, the incentive for developing the Russian pipeline gas and LNG will remain low. And the problem is that, despite the advantage that Sakhalin’s LNG enjoys in terms of delivery distance and its winter usage potential, there is doubt that the delivered price of Sakhalin gas will be competitive with gas from Yemen and Indonesia.⁹⁵

The development of the Kovykta and Sakhalin gas projects has also been affected by the general sluggishness of Russian-South Korean bilateral diplomatic relations and trilateral relations among Russia, North Korea, and South Korea. In the late 1990s, the financial crisis that Russia and South Korea both suffered contributed to delaying energy cooperation between the two countries.⁹⁶ Later one of the possible Kovykta pipeline routes through North Korean territory, which was suggested by the South Korean government in 2003, was ruled out primarily because of the unresolved North Korean nuclear crisis.

It is also clear that active government policies in favour of gas are essential for the market penetration of gas. The trans-border gas projects in the Russian Far East will not materialize unless they receive the active political support of all the states involved. For example, the South Korean government has not actively promoted the use of Russian oil and gas, especially the Kovykta pipeline gas project or other South Korean-Russian projects. Governments set the rules and partly determine the costs and benefits of economic activities.⁹⁷ State authorized third-party access or open access to essential facilities such as LNG terminals, pipelines, and storage allows both suppliers and

⁹⁴ Cleary.

⁹⁵ Keun-Wook Paik, Telephone Interview, 6 September, 2005, London, UK; and the head of Shell Russia John Barry stated that Sakhalin-2 plant will be able to supply more gas in winter than in spring, and this is what Korea needs. See also *The Russian Oil and Gas Report*, 1 October, 2004.

⁹⁶ Park and Lee, pp. 61-62.

⁹⁷ APEC, p. 70.

consumers easier access to the gas market. This facilitates the substitution of natural gas for other fuels. Governments could also promote competition between gas suppliers, and thus force existing facilities to be used more efficiently and thus reduce gas supply costs. Increased competition produces higher profits for facility owners, while inviting more participants to the market.⁹⁸ Although a number of energy agreements were reached during the summit between Putin and Roh in 2003, in general, diplomatic relations between Moscow and Seoul have been stagnant and have not facilitated greater cooperation in energy projects.

Another problem is South Korea's inexperience in doing business in Russia. This has made South Korean policy makers concentrate on short-term deals rather than long-term projects and has led to reluctance among Korean business circles to invest in Russia. In other words, Korean business sectors have been relatively preoccupied with selling consumer goods and making short term profits.⁹⁹ Thus, most of the trade with and investment in Russia has been limited to very few export categories. The concentration on exports has meant that the possibility of effective cooperation in developing Russia's great potential energy resources has been neglected until quite recently when KOGAS and Sakhalin Energy concluded a long-term LNG contract in July 2005.

The cultural dissimilarity between the two countries, the lack of information about Russia among South Koreans, and the absence of South Korean experts on the Russian economy has further slowed down the pace of energy cooperation between the two countries. In Korea, energy specialists, in particular, are virtually non-existent, especially those capable of resolving complex government-related issues and administrative litigation, familiar with energy regulatory rules. South Korea's recent Sakhalin oil scandal illustrates its inexperience and lack of strategy in dealing with the Russians. On 30 April 2005, South Korean prosecutors issued an arrest warrant for a senior railway official in connection with a failed Russian oil deal which cost the state-run railroad agency millions of dollars. Wang Young-yong, a director at the state-run Korea Railroad, was suspected of pursuing the project without properly investigating its profitability. In 2004 Korea Railroad had agreed to invest in an oil project on Russia's Sakhalin Island, and had paid a deposit of US \$6.2 million to the Russian investment

⁹⁸ Ibid.

⁹⁹ Korea's investment policy in Russia is being carried out in a form characteristic of developing countries: export of finished consumer goods and predominance of small short-term investment by small and medium enterprises. See Jeongdae Park and Jaeyoung Lee, "Industrial Cooperation between Korea and Russia: Current Situation and Prospects," *Journal of Asia Pacific Affairs* Vol. 3, No.2, February 2002, Asia-Pacific Research Center, Hanyang University, pp. 60-63.

group Alfa-Eco. The Russian government later denied approval for the project, and the Korea Railroad withdrew from the contract. In April 2005 Alfa-Eco announced that, according to the terms of the agreed contract, it would return only US \$2.7 million to the Korea Railroad. The Board of Audit and Inspections of Korea accused the railroad agency of causing damage to the nation by jumping into the project without legal basis or survey of profitability, not to mention any appropriate internal decision making process.¹⁰⁰ Although this incident had nothing to do with government-to-government miscommunication, it fuelled a general scepticism about the energy infrastructure in the Russian Far East among the Korean public and the private energy sectors.

In short, South Korean investors have been sceptical about investing in Russia because of the unstable political and economic situation and Russia's patchy reform. Direct foreign investment is the key to developing the Russian Far East. Russia's investment climate is crucial because the combination of taxes, tariffs, laws, and regulations determines the extent and speed of such investment flows. In general, a sound legislative and regulatory base in the energy sector promotes standardization, certification, and better licensing of energy market participants, while changing legislation and an unstable tax regime act as disincentives to developing effective businesses.¹⁰¹ Russia has failed to provide the legal and institutional infrastructure for external economic transactions. It needs a more efficient cost accounting system, price reforms, a freely convertible rouble and a bureaucracy that is easier to deal with.¹⁰²

More specifically, institutional barriers such as Russia's production sharing agreements concern investors.¹⁰³ In the upstream operations of oil and natural gas, although a production sharing agreement law has been adopted, it is always subject to revisions at the Russian government's convenience. Russia has not been particularly successful in energy price reform, nor has it made a dramatic improvement in corporate transparency and energy efficiency or in ensuring proper safeguards against the adverse environmental effects of increased energy production and use.¹⁰⁴ Regulatory reform has

¹⁰⁰ *The Associated Press*, 18 April, 2005.

¹⁰¹ APEC, pp. 211-215.

¹⁰² Joo, "ROK-Russian Economic Relations, 1992-2001," 2001, p. 373.

¹⁰³ APEC, p. 116.

¹⁰⁴ "IEA Commends Russian Efforts on Energy Security, Calls for Full Implementation of Reforms," *Russian Energy Survey 2002*, International Energy Agency (IEA)/PRESS (02)05, Moscow, 6 March 2002, on <http://www.iea.org/new/releases/2002/Russia.htm>, accessed on 28 September, 2003.

also been slow and this has deterred potential investors¹⁰⁵ In short, for long-term investments, political risks are still high for foreign investors.¹⁰⁶

Most importantly, the Kremlin has recently become reluctant to encourage foreign participation in the Far Eastern energy projects, especially in the eastern Siberian gas pipeline project. Instead, it has promoted Gazprom's involvement in every gas project. For example, as the suspended Kovykta project shows,

China and South Korea were highly concerned that the Kremlin had appointed Gazprom as coordinator of all gas projects in the country, making it unclear whether business negotiations should be held with RP or Gazprom. And the situation was aggravated by the fact that the working groups had not met for almost six months.¹⁰⁷

Gazprom's recent objection to developing the Kovykta project and its attempts to divert foreign investors' attention to the Sakhalin project indicate that the Russians have begun to pursue a protectionist energy policy.

5.2. The limits of the Russian Far East: underdevelopment and harsh environment

The inherent problems of the Russian Far East also contribute to delaying energy cooperation in the region. Despite its vast energy resources, the Russian Far East still faces a severe energy crisis because of its poor infrastructure and ineffective economic policies. The lack of a land based transportation infrastructure connecting this region with the country's major fuel sources in Siberia and European Russia means that only summer seaborne transportation is possible. Moreover, long haul deliveries of liquid and solid fuels are too costly because of high railroad tariffs and sea freight costs. Ever since the *perestroika* period in the 1980s, the Russian Far East has been considered Russia's most vulnerable and least protected region in terms of energy supplies. The major southern cities often still experience cut offs of electricity and hot water during

¹⁰⁵ The transition from a regulated to a competitive market is difficult. Challenges abound, and there is no one size fits all remedy. The difficulty with regulatory reform is that, unless it is well planned and executed, it may well lead to more problems than it solves. See APEC, p. 116

¹⁰⁶ Ibid., p. 211.

¹⁰⁷ Simonia, p. 9.

winter.¹⁰⁸ The Russian Far East has also suffered serious depopulation; since 1991, the region has lost nearly 1 million of its estimated 8 million inhabitants.¹⁰⁹

The harsh environmental conditions hinder the development of the region's energy resources. Climatic and operating conditions in the Far East regions are extremely tough. From October to June, these conditions are characterized by an ice cover exceeding 2 meters (m), icebergs up to 20-m thick, frequent typhoons, currents with widely varying directions, and low air temperatures. Developing energy fields under such conditions requires technologically advanced and capital intensive ice resistant fixed platforms for drilling and production and underwater pipelines protected against icebergs.¹¹⁰

It is important to point out that the harsh environmental conditions often create an unexpectedly wide gap, in terms of project cost, between the initial feasibility study and the actual process. In July 2005, for example, Yuzhno-Sakhalinsk executives at the Sakhalin-2 project announced that the project might cost US \$20 billion, twice as much as expected, partly because of overruns and delays caused by the failure of the company to properly model the geology of the area, and to prepare for the effect of ice on the pipeline.¹¹¹ Sakhalin Energy Chief Executive, Ian Craig, agrees that the company underestimated ice-related working limitations during the operational setup of the platforms: "Speed is greatly reduced by sea freeze in winter... and time is cost without detailing the overruns."¹¹² According to Guyt, Sakhalin Energy's pipeline manager, insufficient data led to a decision to reroute a subsea pipeline, leading to more overruns. Following a late-2003 survey, Sakhalin Energy announced in April 2004 that ice was formed even deeper into the seabed than previously expected. As a result, the pipeline would have to be buried to greater depth, which implied the use of more powerful and expensive equipment. Guyt added that Sakhalin Energy had relied on old data that underestimated the depth. In short, the harsh climatic conditions contributed to a delay in gas production.

The chronic economic, social, and political underdevelopment of the region remains a problem affecting the development of future energy markets. Rozman lists

¹⁰⁸ Khartukov, p. 142.

¹⁰⁹ "Russia Demographic Trends Up to Year 2015," *Moskva Zdravookhraneniye Rossiskoy Federatsii*, 2 March-April 1999, pp. 27-32, translated in *Foreign Broadcasting Information Service* (FBIS) January 2, 1999, pp. 1-8.

¹¹⁰ Khartukov, p. 145.

¹¹¹ Benoit Faucon, *Dow Jones Newswires*, in "Shell Ties Woes of Russia Project To Lack of Data," *The Wall Street Journal Europe*, Vol. 23, No. 157, 12 September, 2005.

¹¹² Ibid.

five negative tendencies that hinder the area's further economic development. They include:

Localism flirting with separatism, including threats to revive the short-lived Far Eastern Republic of the early 1920s; near domination by organized crime in a region already criminalized by Stalin's labour camps; xenophobic paranoia about international conspiracies; dictatorship by local demagogues; and an economically inspired population exodus -- an inviting vacuum for nearly overpopulated China.¹¹³

The economically depressed Russian Far East is represented by only 4 percent of the Russian Duma seats but covers 36 percent of Russia's territory.¹¹⁴ The loss of federal support has further eroded what was once a relatively prosperous region. Some sceptics believe that the future of the region is bleak. Moreover, the current Russian nationalism in the region, often seen in the form of anti-Chinese rhetoric or fear of Asian dominance, may undermine the potential for energy cooperation with Northeast Asian states.¹¹⁵

5.3. Regional problems

In order to keep its value as a source of energy, natural gas needs to be competitive against other forms of energy, and to be accessible to consumers. In this regard, "supply infrastructure, technologies for utilization and supply, development of markets for gas products and services, and facilitating policies and regulations at both domestic and international levels are essential."¹¹⁶ The development of local distribution networks is particularly crucial for natural gas markets to form and for projects to proceed. However, efficient distribution networks are lacking in the region.

There is no denying that both bilateral and multilateral energy cooperation within Northeast Asia has the potential to bring shared prosperity. While taking advantage of the diverse energy profiles of each country based on economies of scale, they can advance the frontiers of cooperation in areas such as trans-boundary power interconnections, natural gas pipeline networks, joint use of existing supply

¹¹³ Rozman, p. 5; Viktor Larin, "‘Yellow Peril’ Again? The Chinese and the Russian Far East," in Stephen Kotkin and David Wolff, eds., *Rediscovering Russia in Asia: Siberia and the Russian Far East* (Armond, NY: M.E.Sharpe, 1995), pp. 296-299; and John J. Stephan, *The Russian Far East: A History* (Stanford: Stanford University Press, 1994), p. 3.

¹¹⁴ Tom Wuchte, "Northeast Asia's Forgotten Worry: Russia's Far East," *Pacific Focus*, Vol. 16, No. 2, Fall 2001, p. 47.

¹¹⁵ Wuchte, p. 48.

¹¹⁶ APEC, p. 69

infrastructure, transfer of technology and know-how, and joint exploration and development of energy resources.¹¹⁷ However, energy cooperation among Northeast Asian nations is a relatively new phenomenon. Northeast Asia has no general economic or institutional arrangements like the European Union, ASEAN, OPEC, the European Energy Charter, or the ASEAN Council on Petroleum (ASCOPE). Until recently, what arrangements there were, were based on bilateral relations rather than a multilateral framework.¹¹⁸ Political tensions, cultural, ethnic and institutional obstacles, as well as economic differences among the Northeast Asian states had compelled each country to cope individually with its own energy problems while blocking the development of an effective regional system of energy security.¹¹⁹ Some experts suspect that the competing national goals for energy projects might still lead to tension rather than cooperation.¹²⁰ Moreover, there are currently no common legal and institutional frameworks for energy collaboration in Northeast Asia.¹²¹ Only Russia and Japan have signed the European Energy Charter and the Energy Charter Treaty¹²², and South Korea and Japan are the only members of the International Energy Agency (IEA) in the region.

Although Northeast Asian countries believe that energy projects in the Russian Far East could play a crucial role in integrating the Northeast Asian community and promoting regional energy cooperation, at the same time they also each fear that the access of other Northeast Asian countries to Russian energy supplies will lead to their own exclusion. For example, China is clearly concerned about the possibility of exclusive access by Japan to future supplies from Russia, whereas Japan has a similar concern about China. Many of the projects under consideration are oriented to the Chinese market. Russia also worries that if China becomes the monopoly consumer of Russian energy resources, it will come to dictate the price of Russian energy resources.¹²³ As for South Korea, it is afraid of possible disruptions in pipeline supplies through North Korea and China. In short, Northeast Asian states are unlikely to allow Russian oil and gas to dominate Northeast Asia's energy markets.¹²⁴ It is more likely

¹¹⁷ Ibid., p. 116.

¹¹⁸ Khartukov, p. 176.

¹¹⁹ Ibid.

¹²⁰ Valencia, Mark J., and James P. Dorian, "Multilateral Cooperation in Northeast Asia's Energy Sector: Possibilities and Problems," *Energy and Security in Northeast Asia: Supply and Demand; Conflict and Cooperation*, Integrated Gasification Combined Cycle (IGCC) Policy Paper 3 February, 1998, pp. 41-58.

¹²¹ Khartukov, p. 176.

¹²² Ibid.

¹²³ Boris Saneev, "Kovykta, Yakutia and Sakhalin Energy Project: Barriers and Solutions," Speech at International Seminar on Policies and Strategies toward Korea-Russia Energy Cooperation, Vladivostok, 7 October, 2003.

¹²⁴ According to Khartukov, neither Russia's gas exports (even at maximum possible levels of 50 bcm/y-70bcm/y in the 2020s) nor its crude supplies (up to 20 Mt/y-30 Mt/y) can replace East Asia's traditional

that Russia will become 'a key supplementary supplier' able to counterbalance the traditional Middle Eastern sources of Northeast Asian energy imports.¹²⁵

In my opinion, rather than focusing on either the supply or the demand side, it would make more sense to broach a multilateral energy framework in the Russian Far East on the basis of the region's energy importers and exporters, since experience suggests that any attempt to enhance energy security by focusing on one side turns out to be unsustainable in the end. Multilateral cooperative frameworks involving both exporters and importers are more advantageous because they reinforce stability and support economic development.¹²⁶ As Ivanov points out, although the size of the market for natural gas in the Russian Far East is not small, it is not large enough to justify the construction of the infrastructure for a major pipeline. A more serious problem is that the multi-billion dollar funds needed for such large-scale projects are simply not available either inside Russia or inside Korea.¹²⁷ Therefore, it is necessary to diversify the export markets for Russian energy resources in Northeast Asia with the active involvement of China, Japan, the United States, two Koreas, and other nations, possibly Mongolia.

6. Implications of energy cooperation for bilateral and regional economic security

As chapter 2 illustrated, energy issues are becoming a part of the economic security agenda in international relations because energy plays an important role in economic development and national security. Russia's abundant oil and gas resources have the potential to contribute to enhancing its bilateral economic security relationship with neighbouring states and regional economic security more broadly because it is based on a long term vision of energy security interests and economic efficiency. Indeed, energy cooperation is regarded as one of the most promising and most frequently discussed issues in diplomatic relations between Russia and South Korea in recent years.

Ensuring access, not only to the resource base of oil and gas but also to the transport networks delivering them, has been the primary focus of energy policy and

sources of energy imports. Thus energy imports from the Russian Far East should not be regarded as the long-awaited panacea for all of East Asia's energy problems. See Khartukov, pp. 176-177.

¹²⁵ Ibid., p. 177.

¹²⁶ Examples of such multilateral frameworks include the Council for Mutual Economic Assistance's energy programmes and trade protocols, the Caribbean's San Jose Pact, and the ASEAN Council on Petroleum and its Petroleum Sharing Agreement. See Kharutkov, p. 177.

¹²⁷ Ivanov, p. 33.

energy security in South Korea as well as other Northeast Asian nations.¹²⁸ In this sense “a greater reliance on regional sources of energy will insure against disruptions, serve competitive pricing, and help promote cleaner energy.”¹²⁹ Ivanov suggests the following elements for bilateral and regional energy security requirements in the region:

- 1) the diversification of the sources of supply to avoid disruptions and price shocks; 2) the promotion of market-based principles of energy use to lower costs; 3) attention to environmental impacts at all stages of energy production and use; 4) an integrated approach to delivery systems and efficiency of energy use; and 5) multilateral cooperation to secure supply of energy.¹³⁰

For China, Japan, and the two Koreas, Russian oil and gas provide enormous opportunities to solve their energy shortage problems and thus diversify their existing energy markets. Russian energy is more attractive, particularly considering two geopolitical factors: the current instability in the Middle East and China’s rising demand for oil for its fast growing industries.

Russian oil and gas pipeline projects also have the potential to contribute to strengthening its own economic security and its position in the region. Since the dissolution of the Soviet Union, Russia has wanted to become a pivotal regional player in Asia. President Putin clearly hopes to upgrade Russia’s prestige and influence on the Korean peninsula by promoting its role as an objective mediator. Although Russia has often been portrayed in South Korea as a waning political and economic force since the end of the Cold War, it simply cannot be ignored in the new geopolitics of energy.¹³¹ With its enormous energy production and export potential, Russia has an economic interest in expanding its energy markets on the Korean peninsula as well as in the Asia Pacific region. It is important to understand that the energy issue is also gradually replacing the previous ideological confrontation that was characteristic of the Cold War in the formation of a new security paradigm in the Asia Pacific. As a result, Russia, not the United States, is cast in the leading role in the Northeast Asian security paradigm.

¹²⁸ Fereidun Fesharaki, “Energy and the Asian Security Nexus,” *Journal of International Affairs*, Vol. 53, No. 1, Fall 1999, p. 86.

¹²⁹ Ivanov, p. 28.

¹³⁰ Ivanov, p. 28.

¹³¹ Mitchell, p. 61.

Figure 3 The Russian Oil and Natural Gas Pipeline proposals in Northeast Asia



Source: *Economist*, 11 July 2004

Moreover, as Figure 3 shows, energy cooperation between Russia and South Korea cannot be viewed simply in bilateral terms but must be considered within the regional energy security framework since China and Japan are also involved in energy projects in the Russian Far East. Russia's oil and gas pipeline projects in Eastern Siberia as well as the Sakhalin projects are aimed at attracting Chinese and Japanese energy import markets. Accordingly, the Chinese and Japanese governments have shown their economic and strategic security interests in the Russian energy sector in the last few years by actively lobbying for access to pipeline routes.

For example, as we have seen in section 4.2, oil from Sakhalin 2 is exported to China, Japan and South Korea, etc.¹³² The Kovykta project has been under evaluation by BP and CNPC since the mid-1990s, with the idea of transporting the gas by pipeline to northeast China. And the Chinese government considers it one of the most economically viable overseas gas projects.¹³³ A major Russian oil pipeline is also planned to extend from Tayshet in the Irkutsk region to Nakhodka. As one aspect of its energy strategy for the period until 2020, the Russian government decided on 13 March, 2003 to build an oil pipeline in Northeast Asia.¹³⁴ The Russian government had initially considered three alternative routes for the pipeline: from the Eastern Siberian city of

¹³² Prime-Tass Business News Agency 2005, 25 August, 2005.

¹³³ Philip Andrews-Speed, Xuanli Lao and Roland Dannreuther, *The Strategic Implications of China's Energy Needs* (New York: Oxford University Press, 2002), p. 63.

¹³⁴ "Angarsk- Nakhodka pipeline, a priority of Russian energy strategy," The International Association of Independent Tanker Owners for Safe Transport, Cleaner Seas and Free Competition (INTERTANKO), 23 May, 2004, and "Japan ready to invest in Nakhodka pipeline," Alexander's Gas and Oil Connections, Vol. 8, No. 9, 14 March, 2003.

Angarsk either to the Chinese city of Daqing with a capacity of 30 million tones of oil per annum, or to Nakhodka with a capacity of 50 million tones of oil per annum. The third option was to build the Angarsk Nakhodka pipeline with a link leading to Daqing.¹³⁵ China and Japan both campaigned actively to win access to Russian oil pipelines, and in December 2004 it appeared that Japan's bid for the Nakhodka route had succeeded over the Daqing China route. While avoiding dependency on a single market, the Nakhodka route would fit better into Putin's plan to develop the Russian Far East, capable of supplying domestic markets as well as foreign buyers.¹³⁶ However, as of February 2005, Putin had not completely ruled out the Chinese route option, and continued to negotiate pipeline route options with both countries.

Although South Korea is not currently involved in the Eastern Siberian oil pipeline project, future energy cooperation between Russia and South Korea, particularly in terms of an Eastern Siberian gas pipeline route, is affected by this project. It is important to understand that from the geographical perspective, none of the bilateral energy agreements for new pipeline routes actually take into account the whole region. The problem is that it is extremely difficult to solve pipeline route disputes in the region simply on the basis of bilateral negotiations, because there is an interplay among the various energy relations in the region. For example, Russian-Japanese and Russian-Chinese energy relations have implications for Russian-Korean energy relations. Any bilateral arrangement may affect other relations and interests because they share the same area and use the same pool of energy resources. Therefore, a multilateral and regional approach is much needed in the energy diplomacy between Russia and South Korea.

Moreover, from a regional economic security perspective, Northeast Asian regional integration depends upon shared economic, political, and ideological interests. Given that economic interdependence is essential for regional economic security cooperation, the Kovykta, Sakhalin gas, and Eastern Siberian oil pipeline projects clearly have the potential to promote greater regional integration in Northeast Asia by achieving each nation's energy security interests. For example, Russian oil and gas projects in the region require an expensive cross-border delivery infrastructure. This

¹³⁵ Russia's pipeline monopoly Transneft backed the Nakhodka project, while Russia's major oil company Yukos supported the pipeline to Daqing. See "Japan ready to invest in Nakhodka pipeline," Alexander's Gas and Oil Connections, Vol. 8, No. 9, 14 March, 2003; and "Russia prefers oil Angarsk-Nakhodka pipeline with a branch in Daqing," *Informatsionno-analiticheskii tsentr <Mineral>* 16 October, 2003, on www.eng.mineral.ru, accessed on 20 June, 2004.

¹³⁶ Ibid.

means that the problem of financing the projects is complex and finding a solution will be closely related to the ability of governments to cooperate. Moreover, there are other important issues that need collective evaluation and assessment, including regional energy efficiency and the potentially adverse region-wide environmental impacts of expanding energy consumption. In short, both secure and sustainable energy use in Northeast Asia can be achieved only through a comprehensive and multilateral approach.

Despite the potential for contributing to bilateral and regional economic security, the reality is that the energy projects have not emerged as a substantial functioning unit of economic activity so far. There have been many talks and proposals in the last decade about oil and gas pipeline routes. However, other than the Sakhalin projects, eastern Siberian oil and gas projects have either ceased to exist or have developed slowly due to Russia's protectionist energy policy and its domestic petroleum industry interests, South Korea's lack of an energy strategy, the Northeast Asian competition for Russia's oil and gas pipeline routes, the unstable situation in the Korean peninsula, insufficient financing for the development of the Russian Far East, and the lack of multi-lateral institutional arrangements in Northeast Asia. Most of all, the competitiveness of Russia's oil and gas prices in the Northeast Asian energy market is debatable. Moreover, the Kovykta gas pipeline project is stalled and, although the Sakhalin project is progressing, the scale of production remains insignificant at this stage. This means that despite its great potential, energy cooperation between Russia and Northeast Asia, including South Korea, has not developed as fast as anticipated. Although it is clear that energy pipeline issues are transnational, there is insufficient understanding and consideration of the transnational and interdependent character of energy diplomacy. What currently passes for national, and particularly regional energy policy, is primitive both conceptually and analytically. The major obstacle is an inability to formulate and implement energy policy as an integrated whole, balancing the overall interests of the nation and the region in both the short and long term. As a result, Russia's oil and gas projects have so far established neither bilateral nor regional economic security.

Chapter 4. Transport Network Cooperation: The Trans-Siberian and Trans-Korean Railroad Linking Project

Introduction

The project to link the Trans-Siberian Railroad (TSR) with the Trans-Korean Railroad (TKR)¹ in which the two countries are currently engaged is one of the key aspects of Russian-South Korean relations. This chapter examines the progress, problems, and prospects of the TSR and TKR linking project. Its main purpose is to investigate whether this project could contribute to building Russian-South Korean economic security relations and regional economic security.

Russia has the potential to be a “great transit power” in the 21st century by serving as a transportation bridge between the European and Asian markets. The TSR is the key to fulfilling this potential. Korea’s geographical location between the Eurasian continent and the Asia Pacific Ocean offers a similar potential. When the Korean peninsula was divided, South Korea became a virtual island cut off from the mainland by communist North Korea, and relying on shipping to send cargo either around Asia and via the Suez Canal, or to the Russian Far East where it is trans-shipped onto the TSR.

This project fits into the concept of regional economic security and traditional geo-strategic security. The project envisages train shipments across North Korea with the goal of providing South Korea with a rail link to Europe to transport its exports. The project could be the overture for the development of regional economic integration in Northeast Asia, and the keystone to promoting economic links between Northeast Asia and Europe. Moreover, from a traditional security perspective, it could also serve to reduce tension in the Korean peninsula and, in the longer term, facilitate the Korean reunification process (see Chapter 8).

However, the project has been delayed and there have been no substantial benefits or concrete outcomes so far. The chapter concludes that despite the optimistic views of the potential of this railroad link to contribute to comprehensive security, current obstacles clearly impede the two countries’ bilateral and regional economic

¹ The Trans-Korean Railroad (TKR) means the V-shaped two tier Korean railway lines, the Kyongui Line and the Kyongwon Line. The Kyongui Line stretches along the regions near the west coast and is set to be connected to the Trans-Chinese Railroad (TCR). The Kyongwon line is located on the east coast and is set to be connected to the Trans-Siberian Railroad (TSR).

security building process. I argue that the main obstacle to railroad linkage cooperation between Moscow and Seoul lies in external factors: namely the unresolved North Korean nuclear crisis.

I will begin with a brief examination of the historical background of the TSR before turning to the development of the project, and the debate regarding the obstacles and opportunities the project presents. The final part of the chapter examines the implications of this transport network for bilateral and regional economic security.

1. Background of the TSR

The completion of the TSR greatly affected the history of the Russian empire, the Soviet Union, and modern Russia by opening up Siberia. The TSR was built by the last Russian Tsar, Nikolai II, to link Russia's eastern and western regions and it began to make Siberia accessible to commercial transport in the late nineteenth century.² Its construction began in 1891, on the initiative of Russian Minister of Finance, Sergei Witte, and was completed in 1905. The purpose of building it was

- 1) to assert the metropolitan government's control of its far-flung eastern possessions
- 2) to counter private initiatives and foreign influences in the borderlands
- 3) to restrain the aspirations of Siberia's regionalist intelligentsia for greater autonomy from the centre.

Witte aimed both to unify the nation and to end Russia's domination by European ideology and industry.³ Imperial Russia attempted to use the railway not simply as a means of transportation and industrial development, but as an instrument for accelerating the colonization and Russification of northern Asia, particularly in the newly acquired Far Eastern provinces.⁴ In fact, as Steven Marks asserts, during the tsarist Russia period the economic advantages the railroad brought to Siberia were questionable. From a strategic perspective, however, "the construction of a railroad

² Stephen White, "Is Russia a Country in the Globalization Era? (With special reference to the Far East)," Presentation prepared for a conference: The Regional Cooperation of Northeast Asia and Russia's Globalization for the 21st Century, Seoul, Korea 22-24 June, 2003.

³ Steven G. Marks, *Road to Power: The Trans Siberian Railroad and the Colonization of Asian Russia 1850-1917* (London: I.B. Tauris & Co Ltd Publishers, 1991), pp. 1-8, and 220-226; and Allan Wood, "Road to Power," *Business History*, Vol. 34, Issue 4, November 1992, pp. 1-10.

⁴ Marks, pp. 1-8, and 220-226; and Wood, p. 111.

capable of transporting troops to the Pacific and effecting the annexation of northern Manchuria was a major contributory factor to the outbreak of war with Japan.”⁵ In short, in Imperial Russia, commerce, industry, and economic growth were not ends in themselves; they were subordinated to the necessity of state.⁶ Imperial Russia refused to take suggestions and financial assistance from foreign entrepreneurs, opting to use only its own domestic financial resources because it feared foreign influence on Siberia and the Russian Far East.⁷ It is ironic that 100 years later, the TSR has become an important economic instrument to attract private and foreign investment, as well as a tool to promote Russia’s regional integration.

⁵ Marks, p. 222.

⁶ Ibid., p. xii, and preface.

⁷ Sergey Sigachyov, “How Trans-Siberian Railroad Was Built,” *Trans Siberian Railroad- Historical Review*, 31 January, 1999, on <http://www.geocities.com/MotorCity/Speedway/4283/dates.htm>, accessed on 25 March, 2004.

Figure 4 Trans-Siberian Railroad in the early 20th century



Source: Map of Trans-Siberian Railroad, Map information drawn from a book *Atlas Aziatskoi Rossii*, SPb, 1914, on http://images.google.com/imgres?imgurl=http://frontiers.loc.gov/intldl/mtfhtml/mfdev/trans_sib.jpg&imgrefurl=http://frontiers.loc.gov/intldl/mtfhtml/mfdev/map_TrSib.html&h=431&w=600&sz=85&tbnid=TAUe_eoyKIJ:&tbnh=95&tbnw=133&hl=en&start=3&prev=/images%3Fq%3Dtrans%2Bsiberian%2B railroad%26svnum%3D10%26hl%3Den%26lr%3D%26sa%3DG, accessed on 3 December, 2005.

The original TSR line began at Chelyabinsk, and ran toward the east through Omsk, Novosibirsk, Krasnoyarsk, Irkutsk, and Chita. It also passed through Manchuria, before re-entering Russian territory and ending at Vladivostok. The Manchurian section of the line is known as the Chinese Eastern Railroad. Direct railroad connection between Chelyabinsk and the Pacific Coast was established in October 1916.⁸ The present TSR branches off from the original line at Chita to follow, roughly, the Amur and Ussuri rivers and reaches Vladivostok by way of Khabarovsk; it lies entirely in Russian territory. The length of the Moscow-Vladivostok run is 9,310 km. The TSR now has several branch lines, notably the line connecting Omsk with Yekaterinburg. An entirely new railway line, the Baikal-Amur main line (BAM), was constructed between 1974 and 1989 as a means of unlocking its potential and that of Siberia as a

⁸ Ibid.

whole.⁹ A branch from the TSR to Ust-Kut connects with the BAM. TSR is also linked with the Turkistan-Siberia Railroad.¹⁰

More substantial development of the TSR was done during the Soviet period and many of the TSR projects implemented were devised by the Committee of the Siberian Railroad. The relative importance of railways in the Soviet transportation system is indicated by the fact that in 1937, 90 percent of all freight was carried by rail, whereas only 8 percent was transported by waterway and 2 percent by truck.¹¹

Shipment of cargo by the TSR between the Far East and Europe began in the 1920s. The first commercial use of low capacity containers dates back to 1933, and for almost forty years little changed in terms of the size and quality of containers, or their uses. The turning point for containerization and delivery was during the ninth five-year plan (1971-75), when container shipments expanded 1.7 times to 66.5 million tons, and palletized ones increased 2.5 times to 170 million tons. Container shipments by the TSR were considerably enhanced in 1971 by the official inauguration of the Trans-Siberian Land Bridge for the movement of high-capacity units between Europe and the Far East, with Japan's participation.¹² 78 percent of the total cargo to Europe from Japan was transported through Nakhodka port. By the end of 1981, with the addition of South Korea, Hong Kong, Singapore, Thailand, and infrequent customers including Australia and New Zealand, the number of customers using the TSR had increased. Total cargo volumes had increased to almost 100,000 loaded twenty ton equivalent units, slightly more than half of which went from Japan to Europe.¹³

Prior to recent developments linking the TSR and the TKR, the TSR and Korea shared a rather tragic history during Stalin's purges in the 1930s. In 1937, ostensibly for reasons of security, innocent ethnic Koreans were abruptly transported from Primorskii in the Soviet Far East to Central Asia. Under Soviet Army command, 200,000 Koreans were carried in 1,800 TSR cargo wagons, 40 people to a wagon. During the three to four week journey, approximately 2,000 of them are reported to

⁹ White, S., 2003.

¹⁰ "Trans-Siberian Railroad," *The Columbia Electronic Encyclopedia*, 6th ed. 2003, Columbia University Press.

¹¹ Frederick V. Field, *An Economic Survey of the Pacific Area: Part II Transportation* by Katherine R.C. Greene International Secretariat, Institute of Pacific Relations, 1941 Shanghai, p. 20.

¹² *Izvestiya*, 31 March, 1981; and Victor L. Mote, "Containerization and the Trans-Siberian Land Bridge," *Geographical Review*, Vol. 74, No. 3, July 1984, p. 305.

¹³ Mote, p. 305.

have died of cold, hunger, disease, and train rollover accidents.¹⁴ Food shortage and sanitary conditions aggravated mortality.¹⁵ It is ironic that almost 70 years later, the TSR is becoming a key instrument in enhancing relations between Russia and South Korea while carrying Korean manufactured goods to Central Asia, Russia, and Europe.

2. The development of the project to link the TSR and TKR

The project to link the TSR and TKR was first proposed by the Russian Ministry of Railways in October 2000,¹⁶ and in December 2000, Russia and South Korea agreed to hold an official railroad ministry meeting involving North Korea for the first time.¹⁷ The plan is to connect the Khasan station on the Russian border with North Korea and the North-South Korean border via the 800 kilometre-long-TKR.¹⁸ Along with the gas pipeline projects, it is one of the most promising areas of discussions between Russia and South Korea,¹⁹ and since the gas projects require multilateral-cooperative efforts from China, Japan, the United States, possibly Mongolia and other multinational oil and gas companies, it probably has a better chance of early completion on condition that the North Korean nuclear crisis is resolved.

Following a feasibility study on 28 August, 2001, performed at Khasan station, the final Russian stop on the TSR, Korean experts were apparently satisfied with the state of equipment and computerization on the Russian side.²⁰ On 30 August 2001, a seven-member Korean delegation also visited Novosibirsk, a major TSR station, and St. Petersburg, through which Asian cargo transits to Finland and other northern European countries.²¹ On 3 September 2001 Russian and South Korean railway officials discussed establishing a joint commission with North Korea to consider extending the

¹⁴ *Chosun Il bo*, “Stalin Hanin Kang Je I Ju,” (The Tragedy of Stalin’s Forced Korean Immigration), 2 February, 1992, p. 11.

¹⁵ *Lenin Kichi* (Ethnic Korean newspaper in Central Asia), 17 August, 1989, p. 4.

¹⁶ Svetlana Kuzmichenko, Vladivostok, The Business Information Services for the Newly Independent States (BISNIS), US Department of Commerce, Representative, Survey on Railroad Projects in the Russian Far East, on <http://www.bisnis.doc.gov/bisnis/isa/010921rail.htm>, accessed on 6 March, 2004.

¹⁷ 2003 Annual Report of Russian-Korean Relations, The Korean Ministry of Commerce, Industry and Energy.

¹⁸ “Fadeyev says linking Trans Siberia to Korea cost over \$2 billion,” *Prime-Tass Business News Agency* 2004, 17 February, 2004.

¹⁹ Alexander Losyukov, Speech by the former Russian Deputy Foreign Minister on the eve of a meeting of Russian and South Korean foreign ministers on 16 November, 2003, Moscow, 15 November, 2003 quoted in *Agence France Presse*, 15 November, 2003. See also Yong-kwan Yun, speech by South Korean Minister of Foreign Affairs and Trade at the opening ceremony for a new building for the South Korean Embassy in Moscow, 17 November, 2003, on Briefings of Ministry of Foreign Affairs and Trade Republic of Korea, 18 November, 2003, on http://www.mofat.go.kr/en/rel/e_rel_view.mof.

²⁰ Anatoly Medetsky, “Russia, South Korea hold Trans-Siberian talk,” *Vladivostok News*, 7 September, 2001 on <http://vn.vladnews.ru/Arch/2001/ISS273/News/News02.HTM>, accessed on 22 March, 2004.

²¹ *Ibid.*

TSR across the Korean peninsula.²² They agreed to develop projects for laying broad-gauge railways and constructing an inter-modal cargo terminal in South Korea, as well as an office of Russia's Railway Ministry in Seoul, while South Korea would assign a railroad expert to its embassy in Moscow. In December 2001, Seoul and Moscow set up a railroad cooperation committee responsible for preliminary jobs such as a geographical survey, the revision of tracks, the improvement of railroads in North Korea, and securing enough cargo on the railroad. In July 2002, Russian Foreign Minister Igor Ivanov visited Seoul, and discussed the TSR and TKR linking project further.²³ Russia and South Korea also arranged two international railroad conferences in Novosibirsk in November 2002 and in Seoul in December 2003. The Novosibirsk conference dealt with the prospects of economic, scientific, and technical cooperation between the two sides, as well as the importance of creating a Eurasian regional community.²⁴ During the Seoul conference in 2003, Konstantin Komarov, the president of Siberia Transportation University, emphasized that an exchange of experts from the three countries was necessary, not only at the government but also at the academic level.²⁵

In January 2004, the South Korean Railroad invented a special maintenance free freight train that can survive severe cold weather up to minus 50 degrees Celsius, in preparation for the link to the TSR. According to Won Ki Park, manager of the railroad car division at the Korean Railroad, the company is currently working on two projects: a cargo transfer system and inventing machinery for changing tracks, since Korean and Russian tracks are different.²⁶

According to Vladimir Pechyorin, the spokesman for Russia's Railway Ministry, trains in North Korea travel at a speed of no more than 30 kilometres per hour because there is no gravel to reinforce the old rail embankment.²⁷ The primary task at this stage, therefore, is to upgrade the North Korean railroad, but this can only be achieved if the relations between North and South go smoothly.

So far, perhaps the visit by the North Korean leader, Kim Jong Il, to Moscow via the TSR in August 2001 can be regarded as one of the highlights in the railroad linking

²² One Vladivostok spokesman for Russia's Railway Ministry said on 30 August, 2001 that South Korea wants to join the project extending the Trans-Siberian Railroad to its ports through the communist North. See Medetsky, 2001.

²³ Medetsky, 2001; "S. Korea, Russia to Set Up Committee for Linking Railways," *Xinhua News Agency*, 11 October, 2001; and "Russia to continue cooperation for Korean Peninsula peace," *Xinhua News Agency*, 26 July, 2002.

²⁴ "Novosibirsk hosts conference on linking Trans-Siberian railroad to railways in South and North Korea," *Pravda. RU*, 5 November, 2002, on http://english.pravda.ru/region/2002/11/05/39133_.html.

²⁵ *Hankuk Economics Newspaper*, 17 December, 2003.

²⁶ Joon Seok Hong, "Korean Railroad Report," *Seoul Economics Newspaper*, 16 January 2004.

²⁷ Medetsky, 2001.

project.²⁸ Following the visit, Russian Railways Minister Nikolai Aksyonenko and North Korean Railways Minister Kim Yong Sam signed a cooperation agreement.²⁹ A month later a delegation of Russian railway specialists, including railway engineers, designers, bridge construction engineers, and land surveyors, visited North Korea to collect technical information for the feasibility study.³⁰ In 2002, Russia agreed with North Korea to link the North Korean stretch of the TKR with the TSR. In August that year Kim Jong Il took another TSR trip to Russia, where he discussed with Putin the need to link the TSR.³¹ In December the three countries agreed to hold a trilateral railway ministers meeting. During a second negotiation between North Korean and Russian railways officials in April 2003, the two countries failed to agree on the issue of rail tracks and locomotives.³² Nevertheless, on 23 October 2003, 100 Russian experts from the Far East Railroad (FER) resumed their survey of North Korean railroads.³³ In December 2003, North Korea and Russia reported that they had completed their joint land surveys for the modernization of the North Korean east coast railroad, focusing primarily on railroad bridges and their piers.³⁴ Finally, in July 2004, they agreed to modernize the railroad between Rajin, North Korea's northeastern-most port city, and Khasan, the final stop on the TSR.³⁵

Another important event was the first railroad expert conference that took place in Moscow on 28-30 April, 2004. This was the first meeting between representatives of non-government organizations from each of the three countries, and it provided a basis for trilateral railroad cooperation.³⁶

On the Russian side, the Economic Development and Trade Ministry is now in charge of constructing the plan for the project.³⁷ On the South Korean side, the Korea Rail Network Authority, which was established in January 2004, is directing the project

²⁸ Kim Jong Il took the same train route that his father had taken more than a decade before. See "DPRK Top Leader Kim Jong Il On Way to Moscow by Train," *Xinhua News Agency*, 26 July, 2001.

²⁹ Alla Startseva, "Work Starts on Seoul Rail Link," *Moscow Times*, 16 August, 2001.

³⁰ Kuzmichenko.

³¹ Sergei Blagov, "North Korean, Russian ties firmly on track 2002," *2002 Asia Times*, on <http://www.atimes.com/atimes/printN.html>, accessed on 6 March, 2004.

³² Kuzmichenko.

³³ *Itar Tass*, 20 October, 2003, quoted in *Dong-A Il bo* (Korean Newspaper), 20 October, 2003, and *Chosun Il bo* (Korean Newspaper), 28 October, 2003.

³⁴ "North Korea, Russia Complete Joint Rail Link Survey," *BBC Monitoring International Reports*, 31 December, 2003.

³⁵ *Hankook Ilbo*, 12 October, 2004.

³⁶ Won Yong Sung, "Nodaetongryongui Bang Ruh Uuiwa Han-Ruh Kyotong hyupryukui Kwaje (The Implications of President Roh's visit to Russia and what is to be done for transport cooperation?)" Report material from seminar, Center for Logistics, Transport economics & Northeast Asian Studies, The Korea Transport Institute, 11 October, 2004, p. 34.

³⁷ *Prime-Tass Business News Agency* 2004; Alla Startseva, "Yakovlev: Railways Ministry's Days Numbered," *The St. Petersburg Times*, 5 August, 2003, on http://www.sptimes.ru/archive/times/890/news/b_9986.htm, accessed on 9 April, 2004.

in collaboration with the Ministry of Foreign Affairs and Trade, the Ministry of Construction and Transportation, the Korean National Railroad, and the Korean Railroad Research Institute. Russia and the two Koreas plan to set up an international consortium as the next step. Although Pyongyang and Seoul had agreed on September 1, 2000 to reconnect the railway link between Seoul and Shinuiju in North Korea, little action has yet been taken to implement the project, mainly due to the unresolved North Korean nuclear crisis.³⁸ In December 2004, the railroad project stopped when North Korea ceased negotiations on construction because the US toughened its policy toward North Korea.³⁹

There are two possible connecting routes for the TSR-TKR link: Seoul-Pyongyang- Khasan and Seoul-Wonsan-Khasan. As Figure 5 shows, the TSR could be linked to either the Kyongui line (Seoul-Shinuiju) or the Kyongwon line (Seoul-Wonsan) in the Korean peninsula.⁴⁰

Figure 5 Trans-Korean Railroad



Source: Ministry of Construction and Transportation, Seoul Korea, 2005.

³⁸ *Financial News*, 7 January, 2004; *Prime-Tass Business News Agency* 2004; and *Chosun Ilbo* (Korean Newspaper), 28 October, 2003 and 19 February, 2004.

³⁹ Stephen Blank, "Russia's Ups and Downs in the Korean Nuclear Negotiations," *Jamestown Foundation Monitor, Eurasia Daily Monitor*, Vol. 2, No. 162, 18 August, 2005.

⁴⁰ Shinuiju is a city in northwestern North Korea, capital of North P'yongan Province. The Kyongui line was constructed by Japan in 1906 to facilitate their colonial rule on the Korean peninsula and their advance into Manchuria; Wonsan is a southeastern North Korean port city.

The Kyongui line leads to Europe via China and Mongolia, whereas the Kyongwon line connects to Europe via Siberia. Russia favours the restoration of the Kyongwon line because this will create more transportation revenues and facilitate the economic development of the Russian Far East.⁴¹ The railroad was initially meant to run from Seoul to Shineuiju, but, during his visit to Russia in 2001, Kim Jeong Il changed the route to follow the Kyongwon line on North Korea's eastern coast instead of the western coast Kyongui line, which links directly to Russia without crossing China.⁴² If reconnected, the line would link South Korea's eastern port city of Kangnung across the demilitarized zone to North Korea's eastern coastal city of Chongjin via Wonsan in the North. The South Korean government announced in March 2004 that it would invest US \$7 billion by 2015 to develop the South Korean eastern coastal line to directly connect the TSR as part of its policy to "improve national goods distribution channel policy."⁴³

The Russian Ministry of Railways will invest in the reconstruction of the railway in North Korea if it is guaranteed that the annual cargo volume from South Korea and tariffs will be equal to the transit railway tariffs in China. Russia will have to rebuild and electrify 930 km of railway (Russian standard-1,520 mm track width) in North Korea and clear a border territory near South Korea of mines. Russia is also planning to build a highway along the railway in North Korea. The construction will be completed by the Far Eastern Railways and the estimated construction period is 2 years, at a cost of about US \$250 million, and a payback period of 3-5 years.⁴⁴

If the TSR passing through North Korea and linking the Korean Peninsula with Europe is completed, it will take approximately 17 days to transport cargo from Japan to Finland, compared with 30 days in the case of maritime transport.⁴⁵ The annual capacity of the route is estimated at 500,000 containers.⁴⁶ Only 5 percent of 1 million containers, hauled yearly between the Asia Pacific region and Europe, currently travel by the TSR.⁴⁷ Moreover, once a single road corridor connecting South Korea, North

⁴¹ Marat Abulkhatin, "Moscow, Pyongyang Contemplate Mine-Clearing Operations Near DMZ," *Itar Tass*, October 31, 2000 in Foreign Broadcast Information Service (FBIS), Daily Report/Soviet (DR/SOV) (2001-1031).

⁴² Startseva, *Moscow Times*, 16 August, 2001.

⁴³ *Financial News*, 2 March, 2004; and 16 January, 2004.

⁴⁴ Kuzmichenko.

⁴⁵ Costs would be significantly reduced. The TSR can cut the delivery time from the 30 to 40 days required for sea transport to 13 to 18 days. See "Foreign Investors Keen on Inchon FEZ," *Hankook Ilbo* (Korea Times), 19 November, 2003; and Medetsky, 2001.

⁴⁶ Medetsky, 2001.

⁴⁷ In 2001, The TSR transported 45,000 containers from east to west. See Anatoly Medetsky, "Trans-Siberian link to S. Korea criticized," *Vladivostok News*, 30 July, 2002; and Medetsky, 2001.

Korea, China, Russia, Kazakhstan, and Europe is operational, the TSR could handle up to 10 percent of all 'Eurasian' cargo turnover.⁴⁸ According to Son Hok-rae, the director of South Korea's National Railroad Department, South Korea could also use the link to import natural resources from Siberia and the Russian Far East.⁴⁹

3. Obstacles

Although the benefits of linking the TSR and the TKR are clear, a number of obstacles are delaying the project.

3.1. Economic dimension

One of the major problems at this stage is financing the project. Russian and Korean experts discussed the project's financing and technical aspects during the first railroad conference in Moscow on 28-30 April 2004. The initial estimate was that it would cost US \$250 million. However, the final estimate, which included upgrading the North Korean track and computerizing signal systems, turned out to be more than US \$2.5-3 billion.⁵⁰ In February 2004 Russian Railroad Minister, Gennady Fadeyev, announced that Russia had already spent US \$13 million to repair North Korean routes.⁵¹ Igor Pikan believes that the project might require an additional \$3 to \$5 billion to upgrade railway equipment and to expand seaports and stations so that they can accommodate the expected increase in rail traffic.⁵² According to a Russian diplomatic source, Russia was expected to allocate some 4 billion roubles for the project, one billion roubles of which had already been spent on repairing a 28 kilometre section of the TSR.⁵³ The Russian Ministry of Railways has sought investment from US companies, as well as reportedly establishing an international consortium for the reconstruction of North Korean routes.⁵⁴ The Korean Construction and Transportation Ministry has declared that it would cost an estimated US \$236 million dollars to restore the Seoul-Wonsan line. The South Korean government is also considering loans from international financial institutions including the Asian Development Bank (ADB) and

⁴⁸ "Fadeyev says linking.....," *Prime-Tass Business News Agency* 2004.

⁴⁹ Medetsky, 2001.

⁵⁰ According to Russia's railway ministry, it could cost more than \$3.26 billion (103 billion roubles). See Valery Agarkov, "South Korea, Russia work on Asia-Europe transport corridor," *Itar Tass News Agency*, 27 February, 2004; and Blagov.

⁵¹ *Kookmin Il bo* (Korean Newspaper), 19 February, 2004.

⁵² Pikan is a General Director of the audit-consulting group Business Systems Development, which is working with Russian government on reforming the railways industry. See Startseva, *Moscow Times*, 10 June, 2003.

⁵³ "Russia, Korea to negotiate financing terms for railroad project in May," *Interfax News Agency*, 16 January, 2004.

⁵⁴ Kuzmichenko and *Kookmin Il bo*, 19 February, 2004.

the United Nations (UN) Economic and Social Commission for Asia and the Pacific (ESCAP).⁵⁵ In short, the cost of this project is higher than expected.

3.2. Technical difficulties

Another obstacle is old equipment and machinery. The Russian railways, especially in the Far East, have a shortage of rolling stock, and loading and unloading equipment. Moreover, having been built in the late 19th and early 20th century, the structure and facilities of the TSR are old and worn out, especially on the stretches crossing East Siberia and the Far East where there were fewer upgrades during the Soviet period. The line crosses mountainous terrain with steep inclines and small radius turns. In places, the track is laid over permafrost and becomes deformed as the ground thaws. Design limitations make modernization, such as lengthening station tracks to allow longer trains, difficult.⁵⁶ The Russian Ministry of Railways has estimated that it needs 760 billion roubles (about US \$26 billion) for machinery and to modernize equipment.⁵⁷ It is seeking domestic and foreign private investment for the project,⁵⁸ and has designed a privatization plan which envisages a joint stock company 'Russian Railways' with corporate management. At the end of a 3-phase reform, about 50 percent of the rolling stock would belong to private companies which would also be responsible for repair work, cargo and passenger transportation. The plan was approved by the Russian government in June 2004.⁵⁹

On the North Korean side, the tracks need to be upgraded, and the signal systems need to be computerized. The North Korean region through which the railway runs is also very mountainous, and the tracks are in very poor condition.⁶⁰ According to South Korean transportation experts, "even though the railway in North Korea looks fine, the structure is weak with huge accidents always possible due to a lack of electricity and aging facilities. North Korea's railways are known to allow a speed of 20-30 km per hour in mountainous regions."⁶¹ In short, the North Korean railroad has to be completely reconstructed.

⁵⁵ "South Korea, Russia Agree to Link Railways," *People's Daily Online*, 10 September, 2000, on http://fpeng.peopledaily.com.cn/200009/10/print200000910_50195.html, accessed on 20 February, 2004.

⁵⁶ Vladimir Kontorovich, *Will the Far East Remain Part of Russia? Long-Run Economic Factors* (Plainsboro, NJ: Commands Economies Research, Inc., July 1999), pp. 91-93.

⁵⁷ Kuzmichenko.

⁵⁸ Ibid.

⁵⁹ Ibid., and see also JSC Russian Railways, on http://www.eng.rzd.ru/static/index.html?he_id=353, accessed on 1 January, 2006.

⁶⁰ *Vladivostok News*, 30 July, 2002.

⁶¹ *Hankook Ilbo*, 12 October, 2004.

3.3. North Korean participation

The most important factor that determines the success of this project is North Korea. The opening up of North Korea is a prerequisite for the realization of the TSR-TKR link project. The relationships between Pyongyang and Seoul and, more importantly, between Pyongyang and Washington are, therefore, the key variables in deciding the pace of further development of the project. These relationships create as many opportunities as they do constraints. For example, the project gained momentum following the historic summit between the leaders of North and South Korea on 15 June, 2000. The summit reduced tension in the Korean peninsula and created an attitude of peace and cooperation. Three months later, South Korean President Kim Dae Jung and Putin agreed to implement the proposal to link the TSR and TKR during the UN “Millennium Summit” in New York.⁶² They also agreed to establish sub-committees on transportation under the existing Korean-Russian Joint Economic Commission for this project.⁶³

At other times the North Korean factor has played a negative role in the trilateral railroad cooperation. In particular, the project has been substantially delayed by the inter-Korean dispute over North Korea’s nuclear programme.⁶⁴ The situation in the Korean peninsula has been exacerbated by President Bush’s hard line policy towards North Korea and North Korea’s hostile response. The project came to a halt in November 2004 because North Korea refused to hold the second trilateral expert negotiation on railroad construction in Pyongyang because of US policy.⁶⁵ According to the Russian Railways Minister Gennady Fadeyev, “work on the Russian side is nearly completed, but until now it had been anyone’s guess when the mercurial North Korean leader Kim Jong Il would allow his nation’s infrastructure to be tied to South Korea’s. The last major hurdle for the project was getting the Koreas to agree to connect their networks.”⁶⁶

Moreover, it is not clear how the project will be viewed by international freight firms and insurers as South Korea is still technically at war with North Korea.⁶⁷ When ESCAP conducted a feasibility test of the various rail links from the Far East to Europe in 2003, it left out the TSR-TKR link because of the unstable political situation on the

⁶² Duckjoon Chang, “The Russian Far East and Northeast Asia: An Emerging Cooperative Relationship and its Constraints,” *Asian Perspective*, Vol. 26, No. 2, 2002, p. 55.

⁶³ *Hankyore* (Korean Newspaper), 26 February, 2001.

⁶⁴ Losyukov.

⁶⁵ *RIA Novosti*, 10 August, 2005.

⁶⁶ Startseva, *Moscow Times*, 10 June, 2003.

⁶⁷ Blagov, “North Korean, Russian ties firmly on track,” 2003.

Korean peninsula, especially following the North Korean nuclear crisis. It may turn out that the proposed route is not competitive with other transport routes that can start marketing for international shipping companies in 2004.⁶⁸

3.4. Problems within Russia

There are also a number of obstacles on the Russian side. The railroad project must be viewed in the broader context of the regional development of the Russian Far East. As we have seen in previous chapters, since the break up of the Soviet Union the lack of sound legal, socio-economic, and financial infrastructures has hindered the development of international trade and foreign investment in the Russian Far East. By the 1990s, for example, the Russian Far East had not yet developed a coherent legal framework with transparent rules for domestic and foreign investment or joint ventures. The major complaints aired by existing and potential foreign investors in the Russian Far East include the arbitrary and irrational tax structure, an unclear and constantly changing regulatory environment, and inadequate protection of property rights.⁶⁹ There is also a great deal of bureaucratic red tape including complex and tricky importing processes and high duties, and the lack of reliable information about the market and statistics and this damages economic cooperation between the Russian Far East and other states.⁷⁰

Another serious problem is the backwardness of financial infrastructures. Due to weak inter-bank ties, in the 1990s wire transfers of funds from and to the Russian Far East were quite often hampered or delayed.⁷¹ Clearly, foreign exchange and international financial instruments were insufficient in this region. These problems, coupled with the lack of security for high-value goods and high railroad tariffs, have discouraged foreign companies from using the TSR to transport exports bound for Europe. And as discussed above, aging machinery and unpredictable electrical and water supplies reduce the attractiveness of the Russian Far East ports as well.⁷²

⁶⁸ *Hankuk Economics Newspaper*, 24 October, 2003; and Bum Hee Hahn, *Seoul Economics Newspaper*, editorial, 23 November, 2003.

⁶⁹ Dr. Trevor Gunn, Director of Business Information Service for the Newly Independent States (BISNIS) at the United States Department of Commerce International Trade Administration, Washington DC, USA, Telephone Interview, 22 April, 2004.

⁷⁰ In a survey, a majority of South Korean companies pointed to bureaucratic red tape such as tricky customs inspection processes, high export-import duties, and lack of relevant information and transparency as major barriers to investment. See *Segye Ilbo* (Korean Newspaper), 27 February, 2001 and Chang, p. 62.

⁷¹ Chang, pp. 62-63.

⁷² Judith Thornton and Nadezhda N. Mikheeva, "The Strategic of Foreign and Foreign Assisted Firms in the Russian Far East: Alternatives to Missing Infrastructure," *Comparative Economic Studies*, Vol. 38, No. 4, 1996, pp. 85-119.

One of the potential problems that might slow down the pace of the development of the project is strikes, such as by the coal miners. During the country's biggest miners' strikes in 1990, coal miners blocked the TSR. And since 1998, the railway has been the frequent target of strikers.⁷³

Another important concern for the project is the potential for cargo robbery by railroad thieves. Transportation by railroad has often faced the danger of thieves elsewhere in the world.⁷⁴ There is a much higher risk on the world's longest railroad than anywhere else, particularly considering its remoteness in the eastern part of Siberia. Theft has increased substantially on the TSR in recent years, and many shippers have stopped using Russian Far East (RFE) ports simply for this reason. Many Russian and foreign shipping companies coordinate their own cargo security in RFE ports, railway road, and customs.⁷⁵ Pikan, addresses the importance of cargo safety, saying that "it is very important for the Russian Railways Co. to provide relevant quality and safety, referring to the new company that is taking over the assets of the Railways Ministry."⁷⁶ The head of the transport committee of the Russian Chamber of Commerce, Vitaly Yefimov, points out that "although the TSR and TKR linking project has obvious cost and time advantages, most companies, especially those from Japan and South Korea, may still prefer the sea route because it is much safer."⁷⁷ Moreover, according to a Korea Trade Investment Promotion Agency (KOTRA) report, the current compensation for cargo damages or loss has not been established in Russia.⁷⁸ Thieves have also targeted railways for cable and rail tracks in Russia.⁷⁹ A shortage of freight cars, an

⁷³ Anatoly Medetsky, "Siberian Coal Miners Give Malyshkin Short Shrift," *The Moscow Times*, 10 March, 2004; and "How Korea's New Railroad Will Change Northeast Asia," *Stratfor.com*, 1 August, 2000, on http://www2.gol.com/users/coynerhm/whyinterKorea_rail.htm accessed on 6 March, 2004.

⁷⁴ Park Jeong Kyu, Interview by the former manager of Korean shipping insurance company, Seoul, Korea, 20 July, 2004.

⁷⁵ Irina Konstantinova, "Pacific Rim Countries Transit Cargo Attraction to the Primorsky Krai Ports and the Trans-Siberian Railroad," Vladivostok, 17 December, 1999, U.S. & Foreign Commercial Service and the U.S. Department of State, 2000, on <http://www.bisnis.doc.gov/bisnis/country/000118route.htm>, accessed on 6 March, 2004.

⁷⁶ For the first time in 138 years, since late 2003 the Russian Railways Ministry does not exist any longer. The Railways Ministry has split up the ministry's regulatory and commercial operations to foster competition in the industry, with the government retaining direct control of the former. The Railways Ministry's regulatory functions have been absorbed by the Transport Ministry since the new Russian Railroads Co., which took over its commercial operations, was established. See Alla Startseva, *The St. Petersburg Times*, 5 August, 2003.

⁷⁷ Startseva, 2003

⁷⁸ Suck Yung Kim, *Cargo News*, 1 August, 2002, on <http://www.cargoneews.co.kr/gisa/200208/020801-3.htm>, accessed on 8 February, 2004.

⁷⁹ Joseph McCann, "Russian thieves target airports, railways for cable, rail tracks," *American Metal Market*, Vol. 108, No. 125, 29 June, 2000, p. 7.

unpredictable rail operation system, a supertax charge for the collection of empty containers, are other problems on the Russian side.⁸⁰

3.5. Problems within South Korea

The main obstacle to the project in South Korea is the general lack of will on the part of the government and Korean private enterprise. Whereas the Chinese and Japanese governments have been very active in investing in projects in the Russian Far East, both expertise and the will to implement the projects are lacking amongst Korean policy makers. Until the September 2004 Moscow summit between Putin and Roh, this resulted in a rather pessimistic view about investing in Russia among Korean government officials and the business community. Despite the impetus provided by the summit, both foreign policy makers and businessmen still tend to look more at short-term benefits rather than at long-term investment when dealing with Russia. Moreover, the recent domestic political turmoil in Korea has further hindered the development of bilateral or multilateral projects between Russia and South Korea. The impeachment of Korean President Roh Moo Hyun in March 2004 divided South Korea and distracted Koreans from the potentially profitable investment opportunities in the Russian Far East.⁸¹ Since Roh actively supported a pro-North Korean policy, after his impeachment virtually all the negotiations between Seoul and Pyongyang came to a halt. Furthermore, South Korea has been experiencing political, social, and economic chaos originating from inherent regionalism, the ideological rift between generations, and evident societal divisions. Some political scientists argue that South Koreans are more sharply divided now than at any point since the restoration of democracy in 1987.⁸² Since Russia has relatively low priority on the Korean foreign policy agenda, several Russian-South Korean projects which were underway have been delayed.

4. Sceptics and optimists

Sceptical and optimistic groups argue diametrically opposite things about the potential advantages of the railway link. As a result of all the obstacles described in section 3, sceptics doubt that the project will bring economic benefits or help bring about Korean unification. They argue that the planned link may not be cost-effective

⁸⁰ Kim, *Cargo News*, 1 August, 2002.

⁸¹ Lee Jin Hyun, The Korean Ministry of Foreign Affairs and Trade, the Director of CIS Division, Interview conducted in Seoul, Korea, 28 March, 2004.

⁸² Anthony Faiola and Joohee Cho, "Divided S. Koreans Impeach President," *Washingtonpost*, 12 March, 2004, p. A12.

for a number of reasons. First, South Korea is highly likely to have to move businesses to China or Southeast Asia to lower production costs in future years. This will make sea routes more advantageous than the TSR.⁸³ In 2002 Hisako Tsuji, a senior Japanese economist at the Economic Research Institute for Northeast Asia, argued that the project was simply a political game which was used by former South Korean President Kim Dae Jung to maintain his regime and help his party win the presidential election in 2002. She predicted that Kim Dae Jung would disappear from politics after the elections, “and no-one knows what new scenarios there will be.”⁸⁴ It is also interesting to note that in 2001, Russian officials were quite pessimistic about the revival of rail links with North Korea. In March 2001, for example, Railways Minister Gennady Fadeyev maintained that linking the TKR and TSR posed a “huge political risk” that required substantial investment. Later, however, he called the project the most promising one in the region.⁸⁵

Second, the cost of sea transportation is steadily decreasing. In 2002 the rates charged by Russian railroads for container transit were still higher than those of ocean shippers.⁸⁶ The cost of sending cargo from Busan to Finland by ship for example, was US\$ 2,100 per 40 foot container, much lower than the \$2,800 charged for the TSR route.⁸⁷ According to Vladimir Kontorovich, faster delivery of goods with a high value-to-volume ratio may explain the higher cost of overland transport.⁸⁸ The pessimists estimate that the lower cost of sea transportation may depreciate the advantage of the shorter train journey of 20 days compared with 35 days by sea. Moreover, cargo would travel 500 kilometres within South Korea, and South Korea’s railroad rates are more expensive than sea rates. It is also not clear what fee North Korea would charge.

Third, cargo would have to be transferred onto different types of train cars in Russia because Russian tracks are wider than the Korean tracks.⁸⁹ As Table 2 shows, Russian track widths are 1,520mm, whereas both South and North Korean track widths

⁸³ Medetsky, 2002.

⁸⁴ Tsuji made the comments on the sidelines of an international conference in Vladivostok on 24-25 July, 2002. The conference discussed the role of TSR and the project to link it with the South Korean railway system. See *Vladivostok News*, 30 July, 2002.

⁸⁵ Blagov.

⁸⁶ Vladimir Kontorovich, “Economic Crisis in the Russian Far East: Overdevelopment or Colonial Exploitation?” *Post-Soviet Geography and Economics*, Vol. 42, No. 6, 2001, p. 405. Kontorovich is a Professor of Economics at Haverford College in the USA.

⁸⁷ *Vladivostok News*, 30 July, 2002.

⁸⁸ Kontorovich, 2001, p. 404.

⁸⁹ *Vladivostok News* 30 July, 2002; and Kuzmichenko.

are 1,435 mm.⁹⁰ The same problems occur when the cargo crosses into Europe, since it has to be reloaded onto European standard gauge rail cars or trucks.⁹¹

Table 2 Track widths and Voltages

	S. Korea	N. Korea	Russia	Belarus	Poland	Germany	(Unit: mm, V)
Track Width	The Standard Gauge (1,435)		The Broad Gauge (1,520)		The Standard Gauge (1,435)		
Voltage	25,000AC	3,000DC	25,000AC		3,000DC	15,000AC	

Sources: Korea Russia Friendship Express: the Ministry of Foreign Affairs and Trade, the Ministry of Construction and Transportation, Korean National Railroad, and the Korean Railroad Research Institute, 2004.

This may cause delays and it suggests that there is no significant difference between the TSR and sea routes in terms of door-to-door delivery time between the Far East and Europe.⁹² Another likely problem will be aggressive lobbying by shipping companies whose business is directly connected to sea transportation and Korean air freighters.⁹³ The pessimists estimate that the current cargo volume from the Far East to Europe via the TSR, 100,000 TEU,⁹⁴ is barely one percent of the 140,650,000 TEU of cargo by sea,⁹⁵ and this suggests that there is unlikely to be a dramatic shift from sea routes to the TSR in the near future.

However, there are already indications that the development of the TSR route has caused the decline of several ports in the southern Russian Far East. There is also a possibility that South Korea's domestic seaports, particularly the Busan port, will decline in the longer term because, train cargo volumes will increase and the business of the seaports that currently handle 90 percent of all cargo in Korea will diminish.⁹⁶

Optimists argue equally strongly that the project could provide Korea and Russia with the perfect opportunity to become notable transit powers in the longer term. They maintain that, since trains can move faster than ships, and the overland route from the

⁹⁰ Korean Railroad Report, *Seoul Economics Newspaper*, 16, January 2004.

⁹¹ Kontorovich, 2001, p. 405.

⁹² In the early 1990s, a train took on average 14 days to go from Nakhodka to Brest, on the western border of Belarus. A ship from Japan to Rotterdam took an average of 26 days. However, the full door-to-door delivery time between Japan and Germany was estimated to be 28 days via the Trans-Siberian, and 30 days by sea. And sea carriers are capable of sustaining a transit time of 24 days from Japan to Rotterdam, thereby eliminating the land bridge's advantage. See European Bank of Reconstruction and Development (EBRD), Railway Sector Survey of Russia, Belarus, Ukraine, and Kazakhstan. Summary Report, London, January 1993, p. 25, quoted in Kontorovich, p. 405.

⁹³ Alla Startseva, "Korean Rail Link a Potential Watershed," *Moscow Times*, 10 June, 2003.

⁹⁴ Twenty-foot equivalent units (One 20 feet container).

⁹⁵ *Hankuk Economics Newspaper*, 24 October, 2003.

⁹⁶ Kuzmichenko.

Far East to Western Europe is shorter, transit by TSR and TKR can save more time between supplier and consumer than by sea route.

Table 3 Comparisons between the TSR route and Sea routes (from South Korea to Western Europe)

	Distance (1,000km)	Transportation (Days)	Transportation Costs (US \$1,000)
The TSR route	12.4	18	1.2
Sea Routes	19.2	26	1.4
Saving efficiency by the TSR	-6.8	-8	-0.2

Sources: Ministry of Railway Transport of Russian Federation, *Transsiberian Mainline in the 21st Century*, 2001.

Table 4 Comparisons between the TSR route and Sea routes (From South Korea to Finland)

	Distance (1,000km)	Transportation (Days)	Transportation Costs (US \$1,000)
The TSR route	10.9	12.5	1.2
Sea Routes	22.8	28.0	1.8
Saving efficiency by the TSR	-11.9	-15.5	-0.6

Sources: Ministry of Railway Transport of Russian Federation, *Transsiberian Mainline in the 21st Century*, 2001.

Depending on origin and destination, the rail route is approximately 13,400 kilometres (8,375 miles) long, compared to 20, 750 kilometres (13,000 miles) by sea through the Suez Canal, 23,200 kilometres (14,500 miles) through the Panama Canal, or 27,000 kilometres (16,900 miles) around the Cape of Good Hope.⁹⁷

Second, optimists argue that the new rail line would fundamentally change the nature of trade and industry not only at the regional, but also at the global level. The creation of a greater Eurasian railway system could reshape economic relations between Northeast Asian states as well as their relations with Russia and Europe. South Korea has already begun to define the Korean peninsula as the hub of the region, with spokes leading out to Russia, China, and Japan.⁹⁸ Faced with growing competition from China, the South Korean government is also seeking to strengthen its economic security by developing the port of Busan as a hub for Northeast Asia for primarily sea transport and potentially as part of the TSR-TKR project, comparable to the role of Singapore in

⁹⁷ According to Mote, the ocean route enjoyed the advantage of relatively inexpensive water transportation from the 1930s through the 1970s, but this advantage has now been offset by other factors. See Mote, pp. 307-308.

⁹⁸ The Korean government is also very interested in linking the TKR and the Trans Chinese Railroad (TCR). See Han Kyu Kim, *Pressian*, 17 February, 2004.

Southeast Asia. Busan is already the world's fifth container port and third largest trans-shipment centre, making it an ideal trans-shipment point for cargo moving to and from North America and Europe. Currently, South Korea is in the process of constructing a new port that will increase its container capacity by 150 percent by 2011, and also a FEZ in Busan.⁹⁹

The restoration of both the Kyongui line and the Kyongwon lines would make it possible to establish a V-shaped TKR running through Europe via Trans-China Railroad (TCR) and TSR, which could diversify Korean export markets by involving Eastern and Western Europe, and Central Asia. This would relieve Korea's overdependence on the United States market which has almost reached its expansion limit, and the potential Chinese market. The period of shipment will be reduced by one-third off the current time if the TSR connects with Slawkow, in southern Poland, which is the main gate to Western Europe by way of Katovice. Dong Shik Seo, manager of the Eastern Europe and the Commonwealth Independent States (CIS) division of the Korean car company, Kia, claims that the TSR provides the company with a great deal of competitiveness. According to the estimate of the optimists (including Chang Ho Chung, manager of Kia's Polish branch), the total time of shipping from the South Korean harbour Pyongtaek to Poland via Hamburg is 2 months in total, whereas it will take only 20 days via the TSR. The optimists estimate that shipping costs via the TSR (US \$1,200 per container) are 30 percent lower than those of the sea route (\$1,600).¹⁰⁰ In short, the rail link will help South Korea position itself as the vital link to connect Europe to Asia and via the Pacific, even to North and South America.

Third, the rail link would assist the industrial development of a reunified Korea; South Korea is already developing parts of western North Korea and the rail link would facilitate these activities by allowing the rapid and efficient transportation of materials, finished goods, and equipment between South Korean businesses and their affiliates and factories in the North.¹⁰¹

Consequently, the optimists argue, all participants would gain from the project to some extent. South Korea would also reduce the time delivery from/to Europe by 30 percent and the transportation cost of a 40-foot container by US \$400.¹⁰² According to

⁹⁹ William Armbruster, "Busan Grows Up," *Commonwealth Business Media, Journal of Commerce*, 4 July, 2005.

¹⁰⁰ *Hankuk Economics Newspaper*, 16 December, 2003.

¹⁰¹ *Stratfor.com*, 1 August, 2000.

¹⁰² Kontorovich, 2001, p. 404.

the KOTRA report, the total annual TSR cargo volume is expected to be more than 5-7 million tons, and South Korea can save from US \$7.70 up to \$17 million per year.¹⁰³

Table 5 The TSR Costs

(Unit: US\$)

Arrival Departure \	Japan		South Korea		China	
Container capacity (ft)	20	40	20	40	20	40
Germany (via Brest)	1,370	2,380	1,225	2,180	1,520	2,470
Finland (via Buslovskaya)	1,350	2,170	1,210	1,980	1,495	2,295
Moscow	2,080	3,520	1,990	3,510	2,075	3,220
Europe (via St.Petersburg)	1,570	2,460	1,410	2,270	1,690	2,590

Sources: Ministry of Railway Transport of Russian Federation, *Transsiberian Mainline in the 21st Century*. 2001.

South Korean estimates also suggest that North Korea would gain US \$100 million per year in railway fees if the connections become operational.¹⁰⁴ The former North Korean leader Kim Il Sung showed a keen interest in the railroad project during his lifetime and reportedly told a Belgium labour party leader visiting Pyongyang shortly before his death in 1994 that the project would bring the North much profit.¹⁰⁵ Optimists estimate that North Korea and Russia would receive up to 12 million tons of transit cargo (about 600,000 40-foot containers).¹⁰⁶ In addition, the railroad project would give Northeast Asian countries' easier access to East Siberian and Russian Far Eastern natural resources and markets. South Korea already ranked as the number one trading country in the Primorski region at US \$3.7 billion in 2001, which was 21 percent of the total trade in the region, slightly surpassing China. It is increasing its annual trade volume by 27 percent.¹⁰⁷ South Korea has also shown interest in developing the eastern side of the Ural Mountains as a potential commercial area.¹⁰⁸ At the UN Millennium summit in New York in September 2000, President Putin maintained that there would be a quantum leap in many fields, including the

¹⁰³ Korea Trade Investment Promotion Agency (KOTRA) Report, 2001.

¹⁰⁴ *Stratfor.com*, 1 August, 2000.

¹⁰⁵ "Creation of Silkroad of Iron," *Korea Times*, Editorial, 8 August, 2000.

¹⁰⁶ Kuzmichenko.

¹⁰⁷ In the Primorskii region, the South Korean investment (US \$ 12.3 million) occupied 15.7% of total foreign investment (\$ 78.6 million) in 2001. See Kim, *Cargo News*, 1 August, 2002.

¹⁰⁸ The TSR, 2003 Righters Company, CEO Report, Seoul, Korea, on <http://www.ceoreport.co.kr>, accessed on 6 March, 2004; and Kim, *Cargo News*, 1 August, 2002.

construction of fibre-optic cables for telecommunication, energy, and power.¹⁰⁹ According to the KOTRA report, the rail project would also boost shuttle trading activities.¹¹⁰ Furthermore, it would benefit tourism, once the TSR was connected to the new Korean Trail Express (KTX), which started to run at a speed of 300 km/h in March 2004.¹¹¹

Optimists also argue that, in addition to economic benefits, in the longer term the TSR-TKR linking project can ease the tension and facilitate the reunification process of the Korean peninsula. The project could serve as material investment for unification. As Nodari Simonia, director of the Institute of World Economy and International Relations (IMEMO) points out, economic homogeneity provides the basis for unification, as in the case of Germany and Vietnam.¹¹² It is clear that unification cannot be achieved without the substantial growth of the North Korean economy. The railroad project would contribute to gradually opening up North Korean society since it would give the North Korean population more mobility and promote changes in its socio-economic structure.¹¹³ Russian economists predict that North Korea would receive approximately US \$1.5 billion per year from TSR-TKR link cargo transit, but apart from direct economic benefits, the project would also provide a basis for other industries to develop in North Korea.¹¹⁴

According to the optimists, the real beneficiary of the railway linking project would be Russia. The project could substantially alter the balance of world trade by allowing Russia to complete its most important transportation project since the country was united by the TSR more than 100 years ago.¹¹⁵ It would also help the reconstruction of the Russian Far Eastern economic infrastructure and aid it to become a regional economic player in the Asia Pacific.

During the Soviet period, the TSR was one of the shortest transit routes from the Far East to Western Europe and it transported 100,000-150,000 containers annually. After the collapse of the Soviet Union and, more particularly, during the economic crisis of the late 1990s, the Russian Far Eastern ports and the TSR were subject to a number of severe problems. As a result, there was a decrease in the commerce with Russian Far

¹⁰⁹ *People's Daily Online*, 10 September, 2000.

¹¹⁰ KOTRA Report, 2001.

¹¹¹ *Kookmin Il bo*, 1 March, 2004.

¹¹² Simonia, p. 198.

¹¹³ Ibid.

¹¹⁴ *Russia in APEC and in the Asia Pacific Region (APR)* (eds., I.D. Ivanov, and M.I. Titarenko), 2001, p.

¹⁴⁷, quoted in Simonia, p. 198.

¹¹⁵ Startseva, *Moscow Times*, 10 June, 2003.

East ports and in TSR cargo volumes as many Asian consignors shifted from the TSR to the longer but safer sea route to Europe. Over the past decade, the TSR volume declined from 139,000 containers per year to 20,000 containers per year.¹¹⁶ The proportion of all container transportation from Asia-Pacific to Europe carried by the TSR fell from 5-6 percent to 0.7 percent in the mid-90s.¹¹⁷ However, Russian access via the TSR to Busan, a busy but relatively cheap harbour, would contribute to enabling TSR cargo volumes to increase.

There is some evidence to support the views of the optimists. The Russian Ministry of Transportation is reported to have invested a significant amount of money in the modernization of the TSR, namely US \$2.5 billion in 2000, \$3.7 billion in 2001, and \$4.9 billion in 2002.¹¹⁸ Transportation time has also been reduced and the customs and general service system has been improved, compared with the mid 1990s.¹¹⁹ As a result, the total cargo volume from Vostochny to Europe via the TSR increased 57 percent in 1999.¹²⁰ In 2000, the TSR cargo volume increased by up to 32,900 containers.¹²¹

Table 6 Korean and Japanese Cargo Volume via the TSR¹²²

		(Unit: TEU)								
		1991	1992	1993	1994	1996	1997	1998	1999	2000
Trade Cargo	S. Korea	10,644	18,628	25,253	29,814	34,302	36,409	41,168	29,685	30,882
	Japan	25,990	13,380	13,569	10,474	8,678	6,693	5,068	4,926	
	Total	36,634	32,008	38,822	40,288	42,980	43,102	46,236	34,611	
Transit Cargo	S. Korea	15,004	10,838	12,705	12,982	26,731	21,653	11,298	14,373	27,807
	Japan	55,576	44,129	31,008	16,337	8,487	8,035	7,287	7,770	
	Total	70,580	54,967	43,713	29,319	35,218	29,688	18,585	22,143	
Total	S. Korea	25,648	29,466	37,958	42,796	61,033	56,062	52,466	44,058	58,689
	Japan	81,566	57,509	44,577	26,811	17,165	14,728	12,355	12,696	10,344
	Total	107,214	86,975	82,535	69,607	78,198	72,790	64,821	56,754	69,033

Sources: Korea Russia Friendship Express; the Ministry of Foreign Affairs and Trade, the Ministry of Construction and Transportation, Korean National Railroad, and the Korean Railroad Research Institute, 2004.

¹¹⁶ Konstantinova.

¹¹⁷ This figure for the share of containers that travel between Asia and Europe annually seems to contradict the figure on p. 113. The discrepancy arises from the differences in viewpoints of the pessimists and optimists, as addressed at the beginning of the section 4 on p. 119. Jeongdae Park, and Jaeyoung Lee, "Industrial Cooperation between Korea and Russia: Current Situation and prospects," *Journal of Asia-Pacific Affairs*, Vol. 3, No. 2, February 2002, p. 57.

¹¹⁸ *Vedomosti*, 2 May 2001 and 2 November 2001; and Simonia, p.189.

¹¹⁹ Park and Lee, p. 57.

¹²⁰ KOTRA Report, 2001.

¹²¹ V.I. Ishaev, *International Economic Cooperation: Regional Aspect*, (Vladivostok: Dalnauka, 1999), p. 91; and S.Y. Eliseyev "Information on Trans-Siberian Trunk Line and Contemporary Trans-Siberian Service," quoted in Park and Lee, p. 57.

¹²² The Ministry of Foreign Affairs, the Ministry of Construction and Transportation, Korean National Railroad, and the Korea Railroad Research Institute gives the total figure for the volume of Japanese cargo transported by the TSR in 2000, but does not differentiate between trade and transit cargo

In 2003 TSR cargo volumes reached a peak of almost 100,000 containers.¹²³ In addition, shipment costs via sea routes and the TSR from the Russian Far East almost equalized. The amount of time taken to process cargo has been reduced and customs payments have been equalized across Russia. The Russian Ministry of Transportation, in collaboration with the Ministry of Internal Affairs, has also implemented a cargo safety protection policy.¹²⁴ Sergei Guriev, a railways expert at the Center for Economic and Financial Research in Moscow, argues that Russia will now be able to compete successfully against the Korea-Rotterdam-Berlin sea route by charging similar prices while bringing containers from East Asia to Europe in 12 to 14 days instead of 30 to 35 days.¹²⁵

The time of shipment via the TSR from Asia to Europe has also shrunk to 9 days from the previous 14-15 days due to the introduction of express container trains.¹²⁶ Perhaps the most important issue in railroad transport systems these days is speed.¹²⁷ The railroad industry throughout the world has focused on projects such as high speed tracks or high speed trains. In April 1998, a project on demonstration express container trains that run along the Nakhodka- Eastern-Bekasovo and Nakhodka-Eastern-Brest routes reported running speeds of more than 1150 km/day. The demonstration train claimed to be able to deliver transit containers from Nakhodka-Eastern to Brest in 9 days and 6 hours. At the same time, on the Krasnoyarsk railroad the demonstration container train experimented with the use of satellite control systems for establishing train locations (with an accuracy up to 100 m in real time). In October 2000, a new movement schedule for express container trains was introduced on the TSR. The average running speed increased to 950 km in a 24-hour period.¹²⁸ Consequently, exports from the Urals Metallurgical plants are to be shipped via the Russian Far Eastern ports rather than via the Baltic Sea ports.¹²⁹

¹²³ *Chosun Il bo*, 28 October, 2003.

¹²⁴ According to Simonia, not a single violation has been reported in this sphere since 1999. See Simonia, p. 189; and Konstantinova.

¹²⁵ Startseva.

¹²⁶ Konstantinova and Boris Dynkin, "Comments on the Regional Railroad Network and Power Grid Interconnection," Presentation at Far Eastern State Transport University, Khabarovsk, Russia, for Second Workshop on Power Grid Interconnection in Northeast Asia, Shenzhen, China, 6-8 May, 2002, on <http://www.nautilus.org/energy/grid/2002Workshop/materials/Dynkin.pdf>, accessed on 6 March, 2004.

¹²⁷ A.A.J. Nederveen, J.W.Konings and J.A.Stoop, "Globalization, International Transport and the Global Environment: Technological Innovation, Policy Making and the Reduction of Transportation Emission," *Transportation Planning and Technology*, Vol. 26, No. 1, February 2003, pp. 46-47.

¹²⁸ Dynkin.

¹²⁹ Konstantinova.

Moreover, the electrification of the entire 6,000 km TSR was completed in December 2002.¹³⁰ This means that it can work as a unified system with electric trains, while increasing the volume of traffic by up to 40 percent.¹³¹ The electrification of the TSR makes it possible to transport cargo of up to 100 million tons per annum in volume, including 200 thousand international transit containers from Europe and Asia.¹³²

Russia has also carried out maintenance work on the railway stations on the borders with Mongolia, China, and North Korea, while modernizing container terminals capable of processing 40 feet containers. In order to increase the safety of trains, container terminals have been equipped with load-lifting mechanisms and special forklift trucks for 40-foot containers. 36 TSR stations now have terminals for operations with large capacity cargo containers, including 13-40 foot containers.¹³³ Repair and maintenance facilities have also been built along the TSR route.¹³⁴

As a counter-argument to the pessimistic views of the potential of the TSR, Dynkin insists that rail transport has a number of advantages over sea transport:

- First [it] has a higher level of ecological reliability, since railroad electrical thrust is much safer than any of even the most reliable working media of seagoing vessels.
- Second, speed gain delivery is completely obvious: 2-3 times. There is no need for accumulating 20-50 thousand piece containers waiting for ship parties that takes 10-15 days. The distance of transportation is shorter in comparison with the sea and the main advantage is that the speed of railroad transport is considerable higher.
- Third, the sea and intermodal cargo transportation usually include 6-10 loading and unloading operations. For each of them working media and labour resources expenditures are required, load-lifting mechanisms are

¹³⁰ The TSR main road is entirely electrified: the Bikin-Guberovo section (83km) was electrified in 2000; the Sibirstevo-Sviyagino section (95km) in 2001; and finally the Sviyagino-Ruzhino segments were completed in 2002. See Dynkin and Simonia, p. 190.

¹³¹ It took 74 years to finish installing the equipment that allows powered trains to run along the entire line. The last 109-mile section was finished in December 2002. See “A Buzz Across Siberia,” *The Christian Science Monitor*, 30 December, 2002, on <http://www.csmonitor.com/2002/1230/p20s03-comv.html>, accessed on 15 March, 2004; and “Putin in Far East to discuss energy and transport,” *Business Custom Wire*, 26 February, 2004; and “Trans-Siberian Railroad now Electrified,” *United Transportation Union, The Voice of Transportation Labor*, 26 December, 2002, on http://www.utu.org/worksites/detail_news.cfm?ArticleID=4941, accessed on 17 March, 2004.

¹³² Dynkin

¹³³ Ibid.

¹³⁴ Khazan station, for example, was equipped with necessary mechanisms, loading/discharging installations, rearrangement of carriages of freight cars, etc. See Simonia, p. 190.

necessary, and each operation of this kind possesses great probability of damage or loss of load.

- Fourth, the “Europe-Asian Pacific Ocean Region-Europe” connections concern mostly container loads; this means that the container itself more than comprises 50 percent of the cargo weight. The sea vessel weighs from 20 to 50 thousand tons. Therefore the weight of transportable payload by sea should take approximately 30 percent, while on the railroad it is about 60 percent.¹³⁵

Most of all, the rail route is much less dependent on climatic conditions than sea routes.

According to recent estimations, the cost advantages of shortening the delivery period to 17 days for one 20 foot container with a load value of US \$50 thousand from the countries of Northeast Asia to Europe can be US \$300. Furthermore, shortening the period of container lease due to the decrease of load delivery time to 17 days will make it possible to save an additional US \$100- \$150.

Table 7 Times and Costs by Different routes

(Unit: US \$, days)

	Trans Siberian Railroad		Sea Routes		Trans Chinese Railroad	
	Costs	Times	Costs	Times	Costs	Times
Busan-Warsaw	1,188	18	2,250	28-31	1,590-1,710	36
Busan-Moscow	1,822	15	2,130	30	1,950	31
Busan-Tashkent	1,950	23	2.050	29	2,400	26

Sources: Ministry of Railway Transport of Russian Federation Magazine, GUDOK, 19 April, 2000.

Also, in 1998, the transit TSR tariff was US \$1,460 for one 20 foot container, whereas the sea tariff via the Suez Canal was US \$1,650 for the same container.¹³⁶ In 2001, the number of transit containers via the TSR also doubled to about 40,000 containers, in comparison with less than 20,000 annually in the 1990s.¹³⁷

From a technical perspective, a number of modernization processes including railroad automation have taken place since 2000. A digital communication network was introduced which accommodates the centralized coordination of the entire system much

¹³⁵ Dynkin.

¹³⁶ Konstantinova.

¹³⁷ Kuzmichenko.

more easily.¹³⁸ New information control systems were implemented to control the location of cargo. The newly introduced satellite navigation systems and fibre-optical cable runs allow all train movements to be monitored throughout the TSR tracks. Thus operators are now able to distinguish the destination and departure origins and the consignors of each carriage easily, as well as the exact train location.¹³⁹ To improve customer service quality, modernized united transportation centres and the building of the fibre-optic lines of communication were built.¹⁴⁰ As a result of this technical modernization, freight trains are now able to reach maximum speeds of 90 km per hour, while passenger and intermodal container transportation can reach over 120 km per hour.¹⁴¹ This clearly illustrates that the delivery time has been significantly reduced and thus transportation costs overall have also been reduced.

5. Implications of railroad linkage for economic security

As Teymuraz O. Ramishvili, Russian Ambassador to South Korea notes, along with the energy projects discussed in Chapter 3, the railroad project is the crucial factor to maintain traditional and non-traditional regional security on the Korean peninsula.¹⁴² A regional transport system is considered one of the most important elements of economic security in the region. As discussed in the chapter 2, “the construction of railways creates a dramatic change of attitude and a reorientation of economic activity towards the market, because it eliminates barriers and promotes cross-border interaction by stimulating competitive activities and mobility of factors of production.”¹⁴³ The TSR and TKR linking project has the potential to secure national economic interests and serve longer term regional political security purposes. Through it, both Russia and South Korea could become transit powers, and South Korea’s port city, Busan, could become the hub of Northeast Asia. North Korea would gain economically if the project were to be realized, and Russia would emerge as a regional economic player as a result of easier access to the Asia Pacific market.

Furthermore, the project could contribute to enhancing regional and global economic security because it would integrate Eurasian, European and East Asian

¹³⁸ Simonia, p. 190

¹³⁹ Izvestiya, 8 September, 2001; *Nezavisimaya gazeta*, 23 October, 2001; and Simonia, p. 190.

¹⁴⁰ Dynkin.

¹⁴¹ Ibid.

¹⁴² The Embassy of Russia in the Republic of Korea Press Briefing, *Yeon hap News*, 4 March, 2004.

¹⁴³ Colin M. White, “The Concept of Social Saving in Theory and Practice,” *Economic History Review*, February, Vol. 29, No. 1, 1976, p. 92.

markets, and improve resource allocation through production and trade. The project offers a tremendous opportunity to diversify the markets of the countries through which the railroad passes. As the debate between sceptics and optimists suggests, estimates of shipping costs and journey times fluctuate according to different sources and destinations. Nevertheless, there is no denying that in most cases, the TSR route is highly likely to save transportation costs and time in the longer term. From a traditional security perspective, linking the railroads has the potential to contribute to the stability of the Korean peninsula since it could ease the tension and further facilitate the reunification of Korea.

The railroad project is also perhaps the most immediately achievable cooperative scheme between Moscow and Seoul, considering the progress that has been made and the optimistic views discussed previously in this chapter. The great advantage of the TSR and TKR linking project is that it does not require new infrastructure, especially when compared with the project that Russia and Japan are currently discussing to link the TSR and Japan through the island of Sakhalin using either tunnels or bridges.¹⁴⁴

As we saw in section 3, however, despite the progress that has been made and optimism about the project's potential, there are still a number of obstacles on both the Russian and South Korean sides. These include Seoul's divided policy toward Pyongyang, outdated TSR facilities, the questionable comparative advantage of using the TSR route rather than sea transportation, delays and high tariffs in cargo processing, and cargo theft. Above all, considering that the transport sector is subject to numerous political and institutional constraints,¹⁴⁵ the difficulty of opening the North Korean society turned out to be the major deterrent to economic security cooperation between Russia and South Korea. The project virtually ceased to make progress after December 2004, and the unresolved issue of North Korea's nuclear weapons continues to resurface and delays the realization of the project. In short, these obstacles have hindered the bilateral and regional economic and political security building process.

The inability to link the railroads means that not only the physical network, but also potential cooperation in services, has not been realized. Thus, plans to integrate markets, improve resource allocations, and provide low cost transportation have not been implemented. Without a linked land transportation route between East Asia and

¹⁴⁴ John Parker, "Alternate Route: Russia wants Trans-Siberian Railway to be Europe's intermodal link with Japan," *Traffic World*, Vol. 265, No. 33, August 13, 2001, p. 29.

¹⁴⁵ Peter Nijkamp, "Globalization, International Transport and the Global Environment: A Research and Policy Challenge," *Transportation Planning & Technology*, Vol. 26, No. 1, February 2003, p. 2.

Europe through Eurasia, spatial discontinuities exist, most of all, blocking South Korea's potential for transit power in the region. In short, the project has not emerged as a regional transportation system which contributes to the economic security of the region. As a result, transport network cooperation between Moscow and Seoul has not so far fulfilled its potential to contribute to the two countries' economic security, to regional economic security more broadly, or to traditional regional security in Northeast Asia.

Chapter 5. The Nakhodka Free Economic Zone Cooperation

Introduction

The Nakhodka Free Economic Zone (FEZ project) in which the two countries are currently engaged has the potential to become one of the key aspects of Russian-South Korean relations. This chapter reviews the progress that has been made and the problems facing the Nakhodka FEZ cooperation between Russia and South Korea in the last 15 years. The chapter argues that the Nakhodka FEZ project has the potential to strengthen bilateral and regional economic security because the main objective of establishing the FEZ was to promote regional development and regional economic integration. The successful operation of the FEZ, as a form of “market network” between states which is regarded as the core of economic security, has the potential to enhance the common regional economic security interests of Russia and South Korea, as well as of other participating states. However, the project has been delayed and there have been no substantial benefits or concrete outcomes until now. The main obstacle hindering the FEZ cooperation is the Russian government’s tardiness in ratifying the project. I argue that the Russian government’s reluctance to sign the agreement stems primarily from the complicated Russian domestic political situation, which is overwhelmingly a political power struggle between centre and periphery in the Russian Far East. At present, the obstacles are preventing the Russian-South Korean relationship from fulfilling its potential as a cooperative economic security relationship.

The chapter begins with an account of the background of the Russian FEZ. An examination of the development of the Nakhodka FEZ and the obstacles obstructing the construction of a Russian-South Korean industrial complex in the Nakhodka FEZ, will follow. The chapter pays particular attention to the reasons for the Russian federal government’s reluctance to ratify the creation of the industrial complex over the past 15 years, within the framework of the general problems of Russian FEZ policies. The final section of the chapter assesses the implications for bilateral and regional economic security cooperation.

1. Free Economic Zone in Russia

The FEZ was one of the most popular and controversial instruments of the attempted open economic policy in the former Soviet Union and then Russia. Reform-oriented members of USSR President Gorbachev's administration first began to promote the concept of FEZ during the late 1980s as a means of facilitating Soviet economic integration into the world economy.¹ The primary intention of the establishment of a FEZ was to enhance the competitive edge of the periphery in attracting foreign investment, while promoting hi-tech research. Specifically, Russia sought to develop the FEZ for the following reasons:

- 1) facilitating the transfer of high technology and foreign investment
- 2) encouraging balanced regional development and the growth of employment
- 3) promoting exports and import substitution
- 4) increasing foreign exchange earnings
- 5) developing transcontinental transit communications
- 6) upgrading management and training
- 7) initiating different approaches to transition from a centrally planned, closed economic system to a market-type open economy.²

Accordingly, in the early 1990s Russia's regional governments began to discuss the establishment of FEZ in the regions with the Federal government. The regions were granted the authority to establish and regulate such zones on their territories. Between July and September 1990, the Russian Supreme Soviet, legitimized FEZ status for 11 regions, including Leningrad, Vyborg, Nakhodka, Kaliningrad, Sakhalin, Altay, Kemerovo, Novgorod and Chita regions, Zelenograd, and the Jewish Autonomous Region. Approximately 150 different regions in Russia requested approval to create FEZ in their jurisdictions in 1991. The local governments viewed these zones as a way to overcome the economic crises in their regions, caused by the lack of federal funding and subsidies. Each of these zones was granted virtually identical sets of tax benefits

¹ "Free Economic Zones," Russia-Economic & Trade Overview-Part 2 (2), *Business Information Service of the Business Information Service for the Newly Independent States (BISNIS)*, US Department of Commerce, 1996-98, on http://home.swipnet.se/~W-10652/BISNIS_2.html, accessed on 3 May, 2004.

² *Svobodnye ekonomicheskie zony i zony svobodnogo predprinimatel'stva v RSFSR. Sbornik dokumentov*. Moscow, 1991 (mimeo), pp. 2 and 12, quoted in Sergei Manezhev, *Post-Soviet Business Forum, The Russian Far East* (London: Royal Institute of International Affairs, 1993), p. 26.

and they seemed to symbolize a counterbalance to the centralized system of economic management.³

All companies registered in Russian FEZ were granted resident status and a generous set of benefits. In particular, foreign goods imported to a FEZ territory were exempt from customs duties and quotas, and Russian goods were considered exports, which meant that the exporter could obtain a VAT refund. Moreover, foreign citizens working in a FEZ were granted simplified entry into Russia. Further, FEZ related amendments to the Tax Code fully exempted residents from tax on profits during the first three years of their operation in a FEZ. The shelved 2002 draft FEZ bill also provided that “regulatory acts worsening conditions for FEZ residents will not be enforced during the whole term of FEZ status.”⁴ Among the restrictions applicable to FEZ residents, the most prominent were a ban on the conclusion of any deals that were not connected to entrepreneurial activities on the territory of the FEZ and, for national security reasons, deals that involved the defence industry.⁵ All customs duties and taxes were payable when goods left a FEZ.⁶

Despite the initial enthusiasm, the majority of Russian FEZs have not been successful, first because of a careless policy of imitating foreign models, and second, because of conflict between the central government and local authorities. Most of the newly-established FEZs turned out to be inactive and when Part II of the new Russian Tax Code came into force in 2001, FEZs lost their privileges and virtually ceased to function.⁷ Kaliningrad and Nakhodka were the only survivors of the first group of FEZ established in the 1990s.

It was on 22 July 2005 that a law on the establishment of special economic zones was finally adopted and it came into effect on 27 August 2005.⁸ In November

³ Vladimir Samoylenko, “Government Policies in Regard to International Tax Havens in Russia,” *Special Report*, International Tax & Investment Center, December 2003, p. 4.

⁴ Maxim Rubchenko, Ekaterina Shokhina, and Sergei Shoshkin, “Incubators for Change or Black Holes?,” *Economics and Finance*, #28 (335) 22 July, 2002, on <http://eng.expert.ru/economics/28incuba.htm>, accessed on 1 May, 2004.

⁵ “The Russian Establishment of Free Economic Zone,” Korea Trade Investment Promotion Agency (KOTRA) Report 2000.

⁶ Rubchenko, Shokina, and Shoshkin.

⁷ Part two of the Tax Code of the Russian Federation No. 117-FZ of 5 August, 2000 (with the Amendments and Additions of 29 December, 2000; 30 May; 6, 7, 8, August; 27 November, 2001). See also Rubchenko, Shokhina, and Shoshkin.

⁸ Federalnyi zakon Rossiskoi federatsii ot 22 iyuliya 2005 g. N 116-ФЗ. Ob osobikh ekonomicheskikh zonakh v Rossiskoi federatsii. Opublikobano 27 Iyuliya 2005, *Rossiskaya gazeta*, 27 July 2005, on <http://www.rg.ru/2005/07/27/ekonom-zony-dok.html>, accessed on 30 December, 2005. (The Russian

2005 six regions including the Zelenograd Raion in the city of Moscow, the city of Dubna in Moscow Oblast, the city of Elabug in Tatarstan Republic, the city of St. Petersburg, and Tomsk and Lipetsk oblasts, were given permission to establish FEZ. The 2005 law defines a Special Economic Zone as a part of the Russian Federation where special favourable conditions for business apply. After it took effect on 27 August 2005, all special zones and FEZs established prior to its enactment ceased to exist, except for two zones in Kaliningrad and Magadan.⁹

The new 2005 federal law on SEZ states that the Russian government can establish two types of Special Economic Zone for no more than 20 years. These are industrial production zones and technical innovation zones. In the SEZ territories, foreign manufactured goods will be subject to a free customs zone, which means they can be imported and used without payment of customs duties or VAT, and without economic restrictions applicable in Russia. Russian- manufactured goods in the SEZs will be subject to a special export regime, which involves paying excise tax but not export customs duties. Additionally, there are certain benefits in the Tax Code, the Customs Code, the Land Code and other legislative acts Presidential decree 855 of 22 July 2005 states that a new Federal Agency for management of Special Economic Zones will administer the SEZs.¹⁰

2. The Nakhodka Free Economic Zone

The Free Economic Zone in Nakhodka was established in 1990. It includes Nakhodka city, the port of Vostochny, and the surrounding rural mining district whose centre is the town of Partizansk. It comprises an area of 4,579 km², and is enclosed by sea and forest. More than 4,000 enterprises and 88,600 workers are reported to operate in the FEZ.¹¹

Vladivostok was initially considered for the FEZ because it was the largest port in the Russian Far East. In a speech in Krasnoyarsk in 1988, Gorbachev announced that special joint enterprise zones with a preferential system for tariffs, licensing of foreign

Federation Law on Special Economic Zones in the Russian Federation, No. 116-FZ of 22 July 2005, published on 27 July, 2005). I am very grateful to Margot Light for drawing my attention to this site.

⁹ RFE/RL Newsline, Vol. 9, No. 221, Part I, 29 November 2005. I am also grateful to Margot Light for drawing my attention to this site.

¹⁰ Rossiskaya gazeta, 27 July 2005.

¹¹ Of these, 16,500 are employed in industry, 1,200 in agriculture, 600 in construction, and 27,900 in transport and communications. See Nikolai Fedorov, "The Businessman's guide to Nakhodka and the Free Economic Zone," Report by Chairman, Administrative Committee Nakhodka Free Economic Zone (AC FEZ), on <http://FEZ.nakhodka.ru/legal.htm>, accessed on 18 May 2004; and Foreign Trade List, on <http://www.kigam.re.kr/mrc/korean/file/East/chapter9.htm>, accessed on 1 May, 2004

economic transactions, and taxation, would be created in the Russian Far East. Joint ventures operating in the zones would pay reduced rates for the use of Soviet natural resources and labour. Although he did not mention any specific site for the zones, he reportedly told former Japanese Prime Minister Nakasone that Vladivostok was being considered for open city status. The USSR Maritime Minister Yuriy Volmer reported in April 1989 that preparations to open the port to foreign vessels were in progress.¹² However, the Soviet Pacific Fleet Command and the Defence Minister, Dmitry Yazov, strongly resisted the proposal, emphasizing that, in the event of a FEZ being established in Vladivostok, the relocation of naval assets would almost certainly have an adverse effect on Soviet war fighting ability and reduce flexibility.¹³

Along the entire coast of the Russian Far East, there was no location with more favourable potential than Nakhodka and which could be developed at a comparable cost. Nakhodka's location with easy access to both the Trans Siberian Railroad (TSR) and sea transportation; warehousing facilities such as four large ice free ports (as Table 8 shows) processing 18 million tons of cargo per year; and a relatively better ecological situation and lower criminal levels than in the rest of the Russian Far East made it an ideal gateway to the markets of Russia and the Commonwealth Independent States (CIS).¹⁴

Table 8 Nakhodka's Port Complex: four major ports

Name	Tasks
Vostochny Port	Handling containers, coal, metals, grain, and many other products
Nakhodka Commercial Port	Handling timber, metals, cars, food products, equipment, etc.
Nakhodka Oil Trans-shipment Port	Handling oil and oil products
Nakhodka Fishing Port	Handling fish products and seafood as well as meat and butter

Source: The Businessman's guide to Nakhodka and the Free Economic Zone, Report by Chairman, Administrative Committee Nakhodka Free Economic Zone (AC FEZ), on <http://FEZ.nakhodka.ru/legal.htm>, accessed on 18 May 2004.

¹² "A Time for Action, a Time for Practical Work—M. S. Gorbachev's Speech in Krasnoyarsk," *Pravda*, 18 September, 1988, p. 3; and G. Alimov, "Vladivostok Will Be Open to All," *Izvestiya*, 4 September, 1988, p. 2.

¹³ FBIS, DR/SOV, 3 November, 1988, pp. 3-4; and Scott Atkinson, "The USSR and the Pacific Century," *Asian Survey*, Vol. 30, No. 7, July 1990, pp. 632 and 644.

¹⁴ Victor Semenovich Gnedilov, Interview by Mayor of Nakhodka City, 30 October, 2002, "Where Russia meets Asia," *World Investment News, Multimedia Information Company 2004*, on <http://www.winne.com/vladivostok/vi006.html>, accessed on 5 May, 2004; and Atkinson, p. 633.

Nakhodka also already possessed a considerable number of foreign ties. The ports had links with 42 countries around the world, and were capable of processing raw materials rather than simply transporting them. It was also linked by regular liner service to Niigata in Japan, and had trade links with the Japanese especially with regard to fishing activities. Nakhodka was one of the major ports for the Soviet Pacific fishing fleet, which had a series of joint ventures with Pacific countries including the United States.¹⁵

Until March 1994, the Nakhodka FEZ offered an impressive number of privileges to foreign investors and those hoping to export from various parts of the world to Nakhodka. According to the Mayor of Nakhodka, a large amount of foreign investment was made and trade accelerated significantly. In 1992, there were approximately 540 joint ventures in the Nakhodka FEZ, which was more than in the rest of the Russian Far East.¹⁶ However, on 1 July 1993, the Congress of People's Deputies and Supreme Soviet adopted a customs code that did not include the term FEZ. The Congress of People's Deputies and Supreme Soviet initially considered the first draft of the law on FEZ, which proposed the creation of two types of zones -- free customs zones and export-oriented industrial production zones. However, the Russian government opposed the new law because it was working on a major tax reform proposal, which aimed at eliminating various existing tax benefits and exemptions, and at the same time establishing much lower tax rates applicable to all business entities nationwide. The government sought to eliminate FEZ and other tax havens in Russia or to substantially limit the economic and legal privileges enjoyed by those territories. Therefore, it issued new regulations aimed at *de facto* eliminating zones that had already been established.¹⁷ In March 1994, Nakhodka was stripped of the majority of its privileges, retaining only very minor privileges. However, Nakhodka continued to receive financing from the Russian government up to 1997.¹⁸ Following the 1996

¹⁵ "Nakhodka, the Free Economic Zone and the Administrative Committee," National News Service, at <http://www.nns.ru/gallery/stos/nah02.html>, accessed 1 May, 2004.

¹⁶ Victor Semenovich Gnezdilov, Interview by Mayor of Nakhodka City, 30 October 2002, "Where Russia meets Asia," *World Investment News, Multimedia Information Company 2004*, on <http://www.winne.com/vladivostok/vi006.html>, accessed on 5 May, 2004.

¹⁷ See Samoylenko, p. 5.

¹⁸ Svetlana J. Vkhoreva, "The Development of Free Economic Zones in Russia," *The Economic Research Institute for Northeast Asia (ERINA) REPORT*, Vol. 38, February 2001, Niigata, Japan, p. 2.

presidential election, more funds were provided for the further development of the Nakhodka FEZ.¹⁹

The development of the Nakhodka FEZ was initially aimed at fulfilling the following three objectives:

- 1) Infrastructure development, in particular the supply of water and electricity; household and industrial sewage and water treatment system; the upgrading and construction of roads, in particular on the Nakhodka-Artem-Vladivostok route, the route between the FEZ and the Chinese border, and the Nakhodka-Vostochny Port-Khavarovsk route and the routes to the Vladivostok International Airport in Artem and the Zolotaya Dolina airfield.
- 2) Enhancement of the transport/transhipment hub functions within the Vostochny Port Development area.
- 3) Establishment of industrial sites and parks in the form of Export Processing Zones or other specific purpose industrial estates.²⁰

The primary resources in the Nakhodka FEZ are fish and other marine products, along with timber and mineral resources including granite, basalt, gold, coal and mineral water. This provides the Nakhodka FEZ with enormous economic opportunities to develop its fishing, fish processing, ship repair, shipping, and coal mining industries. The Partizansk district includes a large agricultural region and one can observe a trend of a gradual increase in the food industry, whereas timber processing is declining.²¹ For example, food industry production in the Nakhodka FEZ rose to constitute a 94 percent share in the total volume of products of the city in 1999.²² In the first half of the 1990s, services such as trading, warehousing, telecommunications, banking, and insurance improved markedly.²³ The goods that are exported from the Nakhodka FEZ include fish and sea food, mineral fuel, chemical products, timber, and ferrous and non-ferrous

¹⁹ According to Mayor Gnedilov, Nakhodka processed up to 35 million tons of cargo in 1991 and by 1992 a million Japanese containers had been processed in Vostochny port. However, only 12 million tons of cargo and 30 thousand containers were processed in 1998. Things improved after Putin's election as president and 25 million tons of cargo and 100,000 containers were processed in 2001. See Gnedilov's interview; and "Free Economic Zones," *BISNIS*, US Department of Commerce on http://home.swipnet.se/~W-10652/BISNIS_2.html, accessed on 3 May, 2004.

²⁰ Fedorov.

²¹ Ibid.

²² "Industrial Sector Indexes in the Nakhodka FEZ," 1999, Industry, AC FEZ Nakhodka, on <http://FEZ.nakhodka.ru/industry.htm>, accessed on 17 May, 2004.

²³ Fedorov.

metals. These products are exported mainly to Japan, China, Vietnam, Hong Kong, and South Korea. It is interesting to observe, however, that while the volume of exports increases, currency receipts diminish due to the increasing costs of production and transportation. The Nakhodka FEZ imports food products, mineral fuel, chemical products, cars, and machinery from Japan, China, South Korea, and the United States.²⁴ China, Japan, and South Korea are major trading partners both for export and import.

The Nakhodka FEZ also attracted local and foreign capital before 1994. In addition to the 19 local industrial enterprises including Vostochny Port, Primorsk Shipping, and Nakhodka Commercial Port, there were more than 460 foreign enterprises from more than 20 countries including the United States, United Kingdom, Japan, China, Hong Kong, and South Korea in 1994.²⁵ Most of them were joint ventures, engaged in transport, telecommunications, construction, timber, and fisheries industries and their products and services were exported to 12 countries, primarily Japan, China, and the US.²⁶ In particular, as Table 9 suggests, American, South Korean and Chinese investors have penetrated key strategic sectors such as industrial parks, sea transport, and telecommunications.

Table 9 Foreign Investment Trends

Country	Strategy	Sector
USA	Control sea transport, in particular to the American West Coast	Transport, Real Estate, Industrial Parks
South Korea	Market access to the Russian Far East, Russia, Northern China, and North Korea	Real estate, Telecoms, Car Assembly, Transport, Industrial Parks
China	Access to the Pacific and market access to Russia and the Russian Far East	Trade, Hotel & Restaurants, Transport
Japan	No clear strategy	Transport, Herbal Medicine, Trade

Source: The Businessman's guide to Nakhodka and the Free Economic Zone, Report by Chairman, Administrative Committee Nakhodka Free Economic Zone (AC FEZ), on <http://FEZ.nakhodka.ru/legal.htm>, accessed on 18 May 2004.

Since two industrial park projects were to be created, major developments were expected in light industrial manufacturing. The South Korean Techno-park

²⁴ "Industrial Sector Indexes in the Nakhodka FEZ," Industry, 2004; "Foreign Economic," Nakhodka Free Economic Zone (AC FEZ), 24 June, 1999, on <http://FEZ.nakhodka.ru/foreign.htm>, accessed on 18 May, 2004.

²⁵ Vikhoreva, p. 3.

²⁶ Fedorov.

development project for export-oriented enterprises and the US Techno-park have been under negotiation for several years.²⁷

However in the second half of the 1990s, most of the 100 percent foreign owned companies found it difficult to remain in the Nakhodka FEZ due to the unstable investment environment and the abolition of the privileges. Thus these companies shifted their focus from processing to simple trading activities, or left the region. For example, whereas the amount of share capital that foreigners wanted to invest in 1992-1993 was US \$640 million, the registered capital of enterprises with foreign investment in 2001 was only US \$64 million.²⁸ The financial crisis in August 1998 caused the departure of more foreign companies from the Nakhodka FEZ, while aggravating the financial infrastructure of the FEZ.

Nevertheless, telecoms continued to boom in the region even in the second half of the 1990s. International digital satellite communications were installed in this area as joint ventures including Nakhodka Telecom, a joint venture with Britain's Cable & Wireless; the Russo-Japanese joint venture Vostok Telecom; and a Korean joint venture, Rokotel. The Russian-South Korean investment into ROKOTEL is already profitable with only some 5,000 subscribers. As a result, even if the Russian-Korean Industrial Park does not materialize, ROKOTEL will, according to company management, be able to operate profitably.²⁹ In 1999, the EBRD awarded a US \$17 million credit to the New Telephone Company (NTK), which was owned by Korea Telecom, to improve its ability to provide mobile and stationery phone service in the region. Korea Telecom began its business in this region in 1997, and is regarded as one of the most successful investment cases, holding 50 percent of market share in the Primorski region.³⁰

Despite the declining trend and less promising future of the Nakhodka FEZ in the second half of the 1990s, the establishment of the South Korean-Russian Industrial Complex in the Nakhodka FEZ continued to be considered one of the few possible ongoing activities in the Nakhodka FEZ after 1994.

²⁷ Foreign Trade List, on <http://www.kigam.re.kr/mrc/korean/file/East/chapter9.htm>, accessed on 1 May, 2004.

²⁸ Vikhoreva, p. 3.

²⁹ Fedorov.

³⁰ "Russia Economy: Far East's prospects improve a little, but not enough," *Economist Intelligence Unit (EIU) Viewswire*, 14 May, 1999, on http://www.viewswire.com/index.asp?layout=display_print&doc_id=1064679706, accessed on 11 September, 2005; and "Keubbusanghanun Russia Sijangkwa Wuriui Daeeung Chunryak (Rising Russian Market and Our Strategy)" Report by Oh Young Il, April 2005, LG Economic Institute, p. 14.

3. The South Korean-Russian Industrial Complex in the Nakhodka FEZ

3.1. The First Stage: 1992-1996

The first agreement to consider building an Industrial Complex in Nakhodka was reached in November 1992 during the South Korean-Russian summit in Seoul. The South Korean Industrial Complex project in Nakhodka FEZ had initially been proposed by the South Korean government in early 1992. The main purposes of the project were, first, to improve the future of ethnic Koreans who had been deported from the Russian Far East by Stalin in 1937 and now wanted to return to Primorski Krai, and second, to promote a long-term Korean investment strategy in the Russian Far East.³¹

In 1992 and 1993 a working group conducted a feasibility study, and agreement on the creation of an industrial complex in Nakhodka was reached during South Korean President Kim Young-Sam's official visit to Moscow in 1994. A basic agreement was signed between the state-funded Korean National Land Development Corporation (KLDC) and the Nakhodka Free Economic Zone Administration. Moscow and Seoul agreed that Russia was to grant a land lease of 330 hectares to the KLDC for 49 years.³² Total investment was expected to reach US \$0.8 billion. At the first meeting of the South Korea-Russia Joint Committee on May 19 1994, the KLDC announced that South Korea would build an industrial complex on a 330 hectare site in Nakhodka FEZ.³³

On March 23, 1995, a memorandum on joint construction of the Industrial Complex was signed between the leaders of the Nakhodka FEZ and KLDC. Russia agreed to lease the land for 50 or 70 years and to provide basic facilities, including electricity and water. Russia also pledged tax privileges, and promised to simplify customs regulations and give Seoul exclusive rights to use Vostochny Port. More than 100 South Korean firms were expected to rent lots from the corporation, and participate

³¹ Leonid Vinooradov, *Itar Tass*, 23 March, 1995; "The Nakhodka FEZ Russian Korean industrial complex agreement finalized," the Korean Ministry of Commerce, Industry and Energy Briefing, 31 May 1999; and Korea Trade-Investment Promotion Agency (KOTRA): *Siberia and Russian Far East Investment Guide* (Seoul: Sekwang Moon Wha Sa, 1995), p. 214.

³² Seung-Ho Joo, "ROK-Russian Economic Relations, 1992-2001," *Korean and World Affairs*, Vol. 25, No. 3, Fall 2001, p. 381; and Seung-Jo Joo, "Russia and Korea: The Summit and After," *The Korean Journal of Defense Analysis*, Vol. 13, No. 1, Autumn 2001, pp. 118-119; ARTICLE 5, Agreement between the government of the Russian Federation and the government of the Republic of Korea for the establishment of the Russia Korea Industrial Complex in the Nakhodka Free Economic Zone, 28 September, 1995 on <http://FEZ.nakhodka.ru/RKIC.htm>, accessed on 1 May, 2004.

³³ Jeongdae Park and Jaeyoung Lee, "Industrial Cooperation between Korea and Russia: Current Situation and Prospects," *Journal of Asia-Pacific Affairs*, Asia-Pacific Research Center Hanyang University, Vol. 3, No. 8, February 2002, p. 56; and BBC Summary of World Broadcasts, Part 3 Asia Pacific; Weekly Economic Report, 18 May, 1994.

in the construction of a technological park.³⁴ KLDC also announced that South Korea would establish approximately 200 industries in this area (150 light industry and agricultural factories), and produce electronic goods, foodstuff, lumber processing, and light industrial products including wood products and textiles. According to Article 11 of the agreement between Moscow and Seoul, Korean commercial banks would be allowed to open in the Nakhodka FEZ in accordance with the laws of the Russian Federation.³⁵

In May 1995, KLDC established its own subsidiary called the Industrial Complex Development Office in Nakhodka city, the main functions of which included: 1) to conclude a long-term lease agreement; 2) to proceed with the preparation and development of the project; 3) to attract investors and sublease developed lots to Tenant Companies; 4) to construct and operate on-site infrastructure, buildings, and facilities in the industrial complex; and 5) to provide necessary services for the operation of the project. The KLDC subsidiary was allowed to participate in the financing and construction of the buildings and welfare facilities for the technical experts and workers of this complex. Moreover, it was also entitled to lease or sell the buildings or facilities.³⁶

President Yeltsin signed Decree No. 365 on March 9, 1996 on certain measures to stimulate investment activity in the Nakhodka FEZ and this further facilitated the project. The decree granted the construction of the Russian-Korean industrial complex the status of a federal level programme. Russia agreed to finance the project and also to increase rail and air transit carriages of containers along the Asia-Europe route. The Russian Finance Ministry allocated \$25 million annually for the development of the Nakhodka FEZ project in March 1996.³⁷

The law on industrial complexes in the Nakhodka FEZ was passed by the Primorsky Krai Duma in September 1995. According to the law, the developers of infrastructure would enjoy a regional profit tax holiday for a five year period starting from the first declared profit, if the Nakhodka FEZ bid was accepted by the Russian

³⁴ *Itar Tass*, 23 March, 1995; *World Trade News*, *Financial Times*, 24 March, 1995, p. 5; *Reuter Textline*, 23 March, 1995; and *Akaha*, 1996, p. 104.

³⁵ *Reuter Textline*, 23 March, 1995, and *Radio Free Europe/Radio Liberty (RFE/RL)*, 9 July, 1999, on <http://www.rferl.org/newsline/1997/07/090797.asp>, accessed on 2 May, 2004; "Korean Technopark for the Nakhodka Free Economic Zone," based on the 5th associated meeting on cooperation between Far East and Siberia, Russia, and the Korean Republic, on <http://www.zrpress.ru/97/N6/REG-T-E.HTM>, accessed on 1 May, 2004; and ARTICLE 11, Agreement between the government..., 1995.

³⁶ ARTICLE 3, Agreement between the government..., 1995; and *Chosun Ilbo*, 16 March, 1996.

³⁷ Administrative Committee (AC) Free Economic Zone (FEZ) Nakhodka, Legal Base, on <http://FEZ.nakhodka.ru/legal.htm>, accessed on 18 May 2004; and Natalia Gurushina, "Nakhodka Free Economic Zone Gets State Support," RFE/RL, on <http://www.rferl.org/newsline/1996/03/260396.asp>, accessed on 3 May, 2004.

federal government. For the following five years 50 percent of the nominal profit tax would be levied and after that tax would be levied at 75 percent of the nominal rate. Project participants would also be free from the taxes paid into the territory road fund and profits re-invested into the engineering and social infrastructure of the Nakhodka FEZ would be free from tax. The law also indicated that there would be a special procedure for obtaining town planning approval and acquiring licenses for construction works from the local FEZ administration.³⁸

Based on this law, Moscow and Seoul agreed to establish a Supervisory Council on an equal basis. Its primary task would be to make appropriate recommendations to the KLDC and the Nakhodka FEZ Administrative Committee (AC) regarding the execution of obligations within the scope of the agreement and to review the rules made by the Nakhodka FEZ AC. The council would include the same number of members from the two countries including the federal executive authorities, local government, the Nakhodka FEZ AC from Russia, the Korean government, KLDC, and KLDC subsidiary from South Korea.³⁹ The South Korean Foreign Ministry announced on March 16, 1996 that negotiations would focus on the establishment of some 200 light industry enterprises. In May 1996, both sides agreed to finalize conditions on lease and price.⁴⁰ Despite all these agreements and plans, no construction actually took place.

3.2. The Second Stage: 1999-Present

Since 1996 little progress has been made on the South Korean-Russian Industrial Park project. The South Korean President Kim Dae-Jung re-instituted the project during his visit to Russia in May 1999, but in an altered version. In a new agreement "On the creation of the industrial complex in Nakhodka free economic zone", the two countries contracted to build a techno-park of 20 instead of 330 hectares in nearby Vostochny Port. This project was expected to produce goods worth US \$2 billion each year.⁴¹ Both parties reaffirmed that the KLDC would lease the site for 49 years and build the infrastructure, while the Nakhodka authorities would construct infrastructure

³⁸ AC FEZ Nakhodka, Legal Base, on <http://FEZ.nakhodka.ru/legal.htm>.

³⁹ ARTICLE 12, Agreement between the government..., 1995.

⁴⁰ Among the 200 Korean light industries, wood processing and sewing industries which were already based on Primorski krai were expected to enter the Nakhodka FEZ. See Feodr Solomartin, Interview with the director of the Nakhodka AC FEZ, quoted in *Segye Ilbo*, 12 February, 2001. See also *Chosun Ilbo*, 16 March 1996; Jamestown Monitors, 18 March, 1996; and Reuter Textline Lloyds List, 24 March, 1995.

⁴¹ Park and Lee, p. 56; Leszek Buszynski, "Russia and Northeast Asia: aspirations and reality," *The Pacific Review*, Vol. 13, No. 3, 2000, p. 414; Fedorov; Joo, "ROK-Russian Economic Relations, 1992-2001," 2001, p. 382; and Joo, "Russia and Korea: The Summit and After," 2001, pp. 118-119.

outside the complex. The KLDC would then lease the site to Korean firms. The agreement also called for the Russian government to offer preferential tariffs and simplify administrative procedures for the construction and operation of companies.⁴² South Korea planned to complete the construction within 6 years. South Korean manufacturing companies in the complex would be given a 50 percent tax reprieve on Value Added Tax from the day of their registration until the date of their declaration of the first profit. Korean companies would, however, be allowed to export only 50 percent of their output.⁴³ In December 1999 the South Korean parliament officially ratified the construction of the Nakhodka FEZ.⁴⁴

Since the Russian federal government has not yet ratified the 1999 agreement, the Nakhodka industrial park project has been substantially at a standstill despite all the negotiations and efforts made by various groups over a period of almost 15 years. So far, the project has been limited to cargo processing and telecommunications.⁴⁵ During a meeting between the chairman of the International Affairs Committee of the Russian Duma, Konstantin Kosachev, and the South Korean Foreign Minister, Ban Ki-Moon, in 2004 in response to South Korea's enquiry over the delay in ratifying the agreement signed in 1999, Kosachev confirmed that the government had not yet submitted the agreement to the State Duma.⁴⁶

In fact, in public at least, Putin has shown a great deal of interest in developing the Nakhodka FEZ project, whereas Yeltsin had relatively pessimistic views on the economic benefits of FEZ. Putin has called for tax law reform and state support for enterprises that want to invest in the FEZ and believes that the TSR-TKR linking project discussed in Chapter 4 would facilitate the development of the Nakhodka project since it would mean that South Korean enterprises and North Korean labourers could be supplied much more easily and quickly.⁴⁷ During talks with President Roh at an APEC meeting in May 2005, he also promised that he would arrange the ratification of the project immediately.⁴⁸ However, the agreement has still not been ratified by the

⁴² "Business in Asia Today: S. Korea, Russia to Set Up in Industrial Complex," *Asia Times*, 29 May, 1999, on <http://www.atimes.com/bizasia/AE29Aa07.html>, accessed on 5 May, 2004.

⁴³ Agreement on the establishment of Korean Russian Industrial Park in the Nakhodka FEZ between Republic of Korea and Russia (Korean version), The Korean Ministry of Foreign Affairs and Trade, 28 May 1999; and *Yonhap*, 27 March, 1999 and 24 July, 2000.

⁴⁴ Korea Research Institute for Human Settlements (KRIHS) Policy Brief, Vol. 68, 16 August, 2004, p. 5.

⁴⁵ Ya P. Baklanov, *Geography of Primorsky Territory* (Ussuri: Pacific Institute of Geography, Far Eastern Branch, Russian Academy of Sciences 1997), on <http://www.fegi.ru/prim/geografy/naxodka.htm>.

⁴⁶ *Itar Tass*, 25 May, 2004.

⁴⁷ "The Russian Establishment of Free Economic Zone," Korea Trade Investment Promotion Agency (KOTRA) Report 2000.

⁴⁸ *The South Korean President Roh's Speech from the report following the return of APEC meeting*, 16 May, 2005, Ministry of Foreign Affairs ad Trades, Seoul, Korea.

Russian government. As a result, the industrial park project has not yet produced any concrete results or benefits.

4. Obstacles

As we have seen, the establishment of a South Korean industrial complex in the Nakhodka FEZ, which had been agreed upon at the November 1992 summit meeting, was altered at the May 1999 summit. The size of the complex was markedly reduced from the originally planned 330 hectares (3.3 million square meters) to 20 hectares (200,000 square meters).⁴⁹ The number of foreigners working in the Nakhodka FEZ has been steadily decreasing over the past few years. Slightly over 900 foreign nationals are reportedly working in various branches of the municipal services, 9 times fewer than ten years ago when about 8,000 foreigners were seeking jobs in Nakhodka. According to the Press Center of the Nakhodka Mayor's office, about 80 percent (more than 700) of the foreign workers in Nakhodka at present are Chinese nationals, while about 150 come from North Korea. Moreover, many local officials have resigned or left the Nakhodka FEZ Administrative Committee and its size has been significantly reduced since 2000.⁵⁰

To understand the problems in developing Nakhodka, it is essential to look at the broader context of Russia's FEZ policy since the collapse of the Soviet Union. Reducing the territory of the FEZ has been a common phenomenon for each surviving FEZ in Russia. More importantly, the problem of the Nakhodka FEZ project has been caused overwhelmingly by domestic factors on the Russian side rather than by the international relations between Russia and South Korea. As Kuznetsov explains, the FEZ is a rather mature phenomenon of the international economy and "the success of the FEZ depends on complex economic, social, and geographical factors in effect within the country and abroad."⁵¹ In the case of Nakhodka, the success of the FEZ depends on cooperation between the federal government and the local authority. Similar types of problem have plagued virtually every FEZ in the Russian Federation. The following

⁴⁹ "The Nakhodka FEZ industrial park negotiations settled," The Korean Ministry of Commerce, Industry and Resources Briefing, 6 April, 1999, and "The Nakhodka FEZ negotiations resumed," The Korean Ministry of Commerce, Industry and Resources Briefing, 29 March, 1999.

⁵⁰ Business newspaper "Zolotoy Rog" (Golden Horn), Vladivostok, Primorsky #24, 1 April, 2003, on <http://www.zrpress.ru/2003/024.ecnt.htm>, accessed on 30 May, 2004; and Vinogradov, 2003.

⁵¹ Kuznetsov is a fellow of the Leuven Institute for Central and East European Studies, Belgium. See Andrei Kuznetsov, "Promotion of Foreign Investment in Russia: An Evaluation of Free Economic Zones as a Policy Instrument, joint ventures and free economic zones in the USSR and Russia," *Russian and East European Finance and Trade*, Vol. 29, Issue 4, Winter 93/94, originally published as the Leuven Institute for Central and East European Studies, Working Paper No. 24, 1993, pp. 48-49.

section analyzes why the Russian government has been reluctant to pass the law on FEZ and why the FEZ policy has been unsuccessful.

4.1. Lack of a long term strategy

First, Russia simply does not have a well thought-out, long-term strategy for the development of FEZ and the economic role of the FEZ has never been thoroughly defined.⁵² In general, the development of FEZ is neither a quick nor a straightforward process, since it requires legislation and experience.⁵³ Yet, impatient for results, the Kremlin leadership “changed their FEZ policies frequently in response to disappointing outcomes of previous initiatives, without allowing for the necessary time lag between FEZ policy changes and results.”⁵⁴ This is very different to the Chinese FEZ policy. For example, China’s Kunshan FEZ was set up in 1985, but its success only became obvious more than 10 years later. This example of Chinese gradualism did not appeal to the impatient Kremlin leaders.⁵⁵ Unlike the Chinese FEZ policy, which is larger and more comprehensive, the Russian FEZ policy has not been consistent at all. The FEZ privileges in Russia have been based on *ad hoc* policy in response to its domestic economic and political situation. According to Ellman, officials at all levels in Russia exercised the freedom they gained during perestroika to further their personal interests.⁵⁶ Moreover, when FEZ privileges have been given to local areas or to particular groups, they have been used as a reward for political loyalty or to avoid a short-term economic crisis.

4.2. Conflict between centre and periphery

The Russian federal government has been reluctant to sign legal agreements with virtually all the FEZ in the Russian Federation since the early 1990s. Its reluctance to ratify the creation of FEZ stems originally from the conflict between the central government and the periphery that was characteristic of the Yeltsin presidency. FEZ was part of the deep conflict of interest between Moscow and the local authorities, in

⁵² Sergei A. Manezhev, “Free Economic Zones and the Economic Transition in the Chinese People’s Republic and Russia,” *Russian and East European Finance and Trade*, March-April 1995, Vol. 31, No. 2, 1995, p. 80, translated by Arlo Schultz.

⁵³ See the speech by Sergei Dudnik, Chairman of the Administrative Committee, Nakhodka FEZ, from National News Service, on <http://www.nns.ru/gallery/stos/nah01.html>, accessed 1 May, 2004.

⁵⁴ Michael Ellman, “China’s Development Zones—Learning From Their Success,” *Transition*, The World Bank/ The William Davidson Institute, Vol. 9, No. 6, December 1998, p. 7.

⁵⁵ Dirk Faltin, *Regional Transition in Russia: a study of the free economic zone policy in the Kaliningrad region*, Ph. D thesis (London: the London School of Economics and Political Science, 2000), p. 111; and Ellman, p. 7.

⁵⁶ Ellman, p. 7.

particular with regard to the division of jurisdiction between the local authorities and the centre. In the past, there have also been political conflicts within the area at the local level between the former Primorskii Krai governor, Yevgeny Nazdratenko and Chairman of the Krai Duma, Sergei Dudnik. As Manezhev stresses, “the idea of the FEZ in Russia became a tool in the struggle to redistribute power and resources within the framework of the so-called “sovereignization” of the former union republics.” He notes that the creation of FEZ was actively used by both republican leaderships as well as by regional leaders. When they authorized the creation of FEZ, the government and Supreme Soviet of Russia delegated wide-ranging and previously centralized governmental functions and economic rights to local authorities.⁵⁷

Finding a rational balance between central coordination and local initiative has been particularly difficult since the early 90s. It is almost impossible to reach a consensus since there is a natural discrepancy between regional and central economic interests. In theory FEZ possesses a high degree of economic autonomy and, therefore, potentially poses many threats to the national economic regime, such as “disintegration, the reallocation of resources at the cost of other regions, and environmental and social problems.”⁵⁸ The regional authorities’ demands for additional funds and for greater administrative and economic autonomy means a corresponding decline in the federal government’s economic power.⁵⁹ The initial official plans to promote FEZ in Russia received a very favourable response from the regions since the prospect of opening up the regional economy within a short period of time and obtaining additional financial resources through importing capital had great appeal to local leadership.

From the perspective of the federal government, it is extremely difficult to meet both local and national needs, especially when it comes to redistributing centralized funds in favour of FEZ through state budget allocations or tax-credits.⁶⁰ With regard to the Nakhodka FEZ, this exacerbates a larger problem. Moscow fears losing control in the area, given the fact that Asian influence brought about by the increase in Chinese migration, is becoming a possible threat to this region. The federal government is also rather sceptical about the potential economic advantages of the Nakhodka FEZ and is cautious about transferring its authority to the local government. Perhaps, as Kuznetsov suggests, the central government would prefer the zones to remain technology intensive

⁵⁷ Manezhev, 1995, p. 78.

⁵⁸ Kuznetsov, p. 48.

⁵⁹ Manezhev, 1995, p. 83.

⁶⁰ Sergei Manezhev, “Free Economic Zones in the Context of Economic Changes in Russia,” *Europe-Asia Studies*, Vol. 45, No. 4, 1993, p. 618.

production sites, which was their initial design, instead of expanding further, which might perhaps move them beyond the control of the central government.⁶¹

The Chinese, by contrast, have been exceptionally successful in managing centre-periphery relations while creating the special rights enjoyed by zonal authorities in China to promulgate local legal acts and approve foreign investment projects autonomously. These special rights permit flexible variation between the scope of central and local managerial functions depending on the zones' actual economic performance and general situation in domestic and international markets.⁶² Manezhev also points out that the Chinese FEZ policy makers attempted to promote 'inland associations', including every legal form of direct business cooperation between zonal and non-zonal enterprises both within and outside the territories of the zones.⁶³

However, Russian FEZ policies have failed to balance central-local relationships. For example, there is no denying that the St. Petersburg, Kaliningrad, and Nakhodka FEZ are important national and regional industrial centres. Yet, as Manezhev notes, they all lacked commitment to supply the domestic market. Moreover, they provided little opportunity for the central government to exercise practical influence on the determination of the local development programme, or the regulation of foreign investors' activities, confining the managerial role of the central government at best to consultancy functions alongside local and foreign entrepreneurs. Occasional discussions about compromising between the local administration of the FEZ and the Russian federal government were limited to the development of natural resources and there was no attempt to implement joint decision making.⁶⁴

In short, as a result of continual conflict between the Kremlin leaders and local authorities, the Russian approach towards the FEZ has been too politicized. As Manezhev emphasizes, "the status of the FEZ has been characterized by their high degree of dependence on current political conditions, the nature of which cannot be generally said to favour the development of FEZ."⁶⁵ At the same time, in a number of instances the lack of transparency in the administrative and financial relations between FEZ and the federal government made the implementation of promising investment

⁶¹ *Report on Analysis of Economic Situation in the Russian Far East and Siberia and Russian-Korean Cooperation*, (Seoul: The Research Project for the Globalization in Russia's Regions at Hankuk University of Foreign Studies, December 2003), p. 63; and Kuznetsov, p. 54.

⁶² George T. Crane, *The Political Economy of China's Special Economic Zones* (New York: Armonk, 1990), pp. 54-55.

⁶³ Manezhev, "Free Economic Zones in the Context of Economic Changes in Russia," 1993, p. 618.

⁶⁴ Ibid.

⁶⁵ Manezhev, 1995, p. 83.

projects difficult. This contributed to the substantial underdevelopment of economic, legal, and organizational infrastructures. Since the central government delayed passing the necessary laws, the tax privileges did not come into operation and the infrastructure was not constructed. This deterred foreign investment and, as a result, most of the FEZ's had to scale down their plans.

4.3. The lack of infrastructure

A clear and explicit infrastructure programme is critically essential in promoting the FEZ in the international arena. The host country must show evidence of seriousness of intentions through such a programme. This would reduce investment risk and hence lead investors, including South Korean investors, to increase their business activities. In the case of Nakhodka, however, preparations for the requisite infrastructure for industrial parks were insufficient.⁶⁶ There was very little policy coordination between Moscow and the local authorities. Moreover, the Russian government has failed to provide good services such as water, sewage, electricity, and other energy sources to the FEZ. For example, although the seaports, railways, and roads conditions in the Nakhodka area are in relatively good condition, water and power lines, as well as water drainage and sewage are underdeveloped. Providing good services is sometimes more important than tax reductions for attracting foreign investment and their absence has clearly reduced the attractiveness of the region.⁶⁷ In China, the Kunshan FEZ did not offer superior tax concession but focused on providing good services. In the Nakhodka case, the Russian government was supposed to be responsible for providing the infrastructure outside the industrial complex and yet there have been no substantial improvements in this area.⁶⁸

4.4. The lack of a legal framework

The successful development of the FEZ also depends on the establishment of special customs and stable taxation regimes for foreign investors.⁶⁹ However, Russia's legislation lags behind its economy, and this had led to the abandonment of FEZ in

⁶⁶ *Vladivostok News*, No. 163, 20 March, 1998; and Chang Duckjoon "The Russian Far East and Northeast Asia," *Post-Soviet Geography and Economics*, Vol. 37, No. 3, 1996, pp. 175-194.

⁶⁷ Park and Lee, p. 56; Judith Thornton and Nadezhda N. Mikheeva, "The Strategies of Foreign and Foreign Assisted Firms in the Russian Far East: Alternatives to Missing Infrastructure," *Comparative Economic Studies*, Vol. 38, No. 4, 1996, pp. 85-119; and Chang, 1996, pp. 175-194.

⁶⁸ Ellman, p. 7; and Ok-Kyung Jung, "Economic Cooperation between South Korea and Russia's Far East," *Journal of Economic Policy*, Vol. 2, No. 4, 2000, p. 166.

⁶⁹ Svetlana Kuzmichenko, *Commercial News Update From the RFE- June 2003*, July 2003, on <http://www.bisnis.doc.gov/bisnis/bisdoc/0307news Vlad.htm>, accessed on 1 May, 2004.

Russia.⁷⁰ The government and the parliament issued a sequence of decrees, directives, and orders designed to facilitate and precipitate the establishment of the FEZ, yet none of them has ever been implemented in reality. The only privilege that the zones could actually offer the foreign investor before 1994 was a 50 percent cut in trade tariffs.⁷¹ As we have seen, in the case of Nakhodka, the Russian Federal government has not ratified the agreement that was signed on 28 May 1999 between Presidents Yeltsin and Kim Dae Jung, and ratified by the South Korean parliament in December 1999.⁷² This means that a comprehensive legal framework for the functions of FEZ in general, and the Nakhodka FEZ in particular, did not exist and the status and functions of this type of organization were not clearly defined until July 2005.

Despite the fact that a law on industrial complexes in the Nakhodka FEZ was passed by the Primorsky Duma in September 1995, nobody has been able to enjoy the privileges it provided. In 1996, a total of 9 FEZs acquired the status of industrial complexes, yet none of them have begun operation. The authorities of the FEZ and foreign investors were hoping that a federal law on FEZ would be passed by the State Duma in its third reading and approved by the Council of the Federation. However, the former President, Boris Yeltsin rejected the law and sent it back to the State Duma. As we have seen, it was only in July 2005 that the law was finally adopted and it came into effect on 27 August 2005.⁷³ In November 2005 six regions were given permission to establish FEZ, but Nakhodka was not included in the list.⁷⁴

Why is a law so important for the creation of the Nakhodka FEZ? The creation of a FEZ is an overwhelmingly 'investment-intensive process.'⁷⁵ Providing investors with stable legislation is key to the success of the development of FEZ. In particular, the legal basis of the FEZ is directly related to the tax privileges investors can expect. The submission of a successful FEZ application to the Federal government is perhaps the most urgent and important task for the Nakhodka FEZ project at this stage.

Conversely, the lack of legal framework leads to inconsistent tax policies.

Foreign investment has been discouraged by the federal government's current tax policy.

⁷⁰ "Free Economic Zones in Russia," *the Voice of Russia*, 14 October, 1999 (Russian Economy and Business Online), on http://www.vor.ru/Russian_Economy/excl_next48_eng.html, accessed on 1 May, 2004.

⁷¹ Kuznetsov, p. 54.

⁷² Business newspaper "Zolotoy Rog" (Golden Horn), 2003.

⁷³ "Law on Special Economic Zones," *International Financial Law Review*, November 2005, on <http://www.iflr.com/?Page=10&PUBID=33&ISS=20856&SID=595028&TYPE=20>, accessed on 30 December, 2005. See also "Economic Zones Become Law in Russia," *Kommersant*, July 25, 2005, on <http://www.kommersant.com/page.asp?idr=1&id=595896>, accessed on 30 December, 2005. I am very grateful to Margot Light for drawing my attention to this site.

⁷⁴ *RFE/RL Newsline*, Vol. 9, No. 221, Part I, 29 November 2005.

⁷⁵ Manezhev, 1995, p. 80.

The lack of tax and custom benefits for companies involved in the project clearly diminishes investment incentives. Moreover, raising barriers to trade such as unexpected increases in tariffs leads to a significant contraction in the volume of trade.⁷⁶ From the Russian perspective, as Manezhev points out, the major problem is that the special tax and other benefits for foreign investors restrict profit sharing for the Russian side.⁷⁷

Although the Russian Federation had designated the Nakhodka area as a FEZ with tax breaks in 1991, the zone offered tax breaks only at the Krai level.⁷⁸ The Russian parliament needed to adopt the law on FEZs before the full range of tax privileges could be offered. In fact, up to this point, discussions of the project between Russia and South Korea had been limited to infrastructure and the details such as the dates of construction, the rate of the lease, specific tax privileges, etc remained to be established.⁷⁹ As Fedorov notes, prior to the commencement of construction, it is essential for both Seoul and Moscow to agree to a memorandum on the interpretation of the three articles of the Agreement between the government of the Russian Federation and the government of the Republic of Korea on the establishment of the Russia-Korea Industrial Complex in the Nakhodka Free Economic Zone which deal with “the status of FEZ administrative committee, or some other entity replacing it” of the industrial park project. However, the Korean side will only review the three articles after the Nakhodka FEZ bid has been selected by the Russian federal government.⁸⁰ As we have noted, the Nakhodka FEZ was not selected among the six regions which won the right to create Special Economic Zones on 29 November 2005, so the project is on hold.

4.5. Crime and Local Mafias

Foreign investment in the Nakhodka area has also been discouraged by local criminal activities, notably around port areas. Russian mafias are involved in virtually every business that the FEZ is hoping to promote, including illegal trade in fishing, timber, and other natural resources. For example, although regional officials hoped that the holding of an APEC investment conference in September 2002 would call attention to investment opportunities in the Russian Far East in general, a number of contract

⁷⁶ Bharat R. Hazari and Pasquale M. Sgro, “Free Trade Zones, Tariffs and the Real Exchange Rate,” *Open economics review* 7, 1996, Kluwer Academy Publisher, p. 201.

⁷⁷ Manezhev, *Post-Soviet Business Forum, the Russian Far East*, 1993, p. 28.

⁷⁸ *Vladivostok News*, No. 163, 20 March, 1998, quoted in Chang, 1996, pp. 175-194.

⁷⁹ Agreement on the establishment of Korean Russian Industrial Park in the Nakhodka FEZ between Republic of Korea and Russia (Korean version), The Korean Ministry of Foreign Affairs and Trade, 28 May 1999.

⁸⁰ Fedorov.

killings of regional officials and business people around the time of the international meeting did little to enhance Nakhodka's reputation.⁸¹ Indeed, "abundant natural resources, weapons depots, ports, and a thriving business in fake identity cards and passports have made the Russian Far East especially attractive to criminal gangs. Crime and corruption are interrelated problems in the region."⁸² According to a report by the Nakhodka Prosecutor's Office, more than 148 million roubles (\$8 million) has allegedly been misused since 1991 in the form of squandering and large scale fraud.⁸³

Moreover, in Vladivostok not far from Nakhodka, Chechen gangs allegedly run several major smuggling operations in fishing and stolen cars. It is also reported that Central Asian drug smugglers have begun moving their operations to Vladivostok.⁸⁴ Foreign investors are unlikely to be willing to put up with the high risks in the region unless substantial law enforcement efforts are made to protect their safety.

⁸¹ For example, one month after the APEC conference, in October 2002, a lawyer working for the Vladivostok mayor's office and an opposition politician in Nakhodka were severely injured in attacks believed to be attempted murders. Moreover, Nakhodka businessman Viktori Aksinin was shot dead at his apartment door, and Vladimir Tsvetkov, governor of the gold-rich Magadan Oblast, was gunned down in Moscow. See Tamara Troyakova, U.S. Department of Commerce, "Trade and Investment Barriers in the Russian Far East," January 2003.

⁸² James Clay Moltz, "Core and Periphery in the Evolving Russian Economy: Integration or Isolation of the Far East?" *Post-Soviet Geography and Economics*, Vol. 37, No. 3, 1996, p. 184.

⁸³ *Vladivostok News*, No. 181, 4 December, 1998.

⁸⁴ Troyakova.

5. Implications for bilateral and regional economic security

The successful development of the Russian-South Korean industrial project in the Nakhodka FEZ is important not only for the two countries' economic security, but also for regional economic development and economic integration. The Nakhodka FEZ project has the potential to be mutually complementary in enhancing the economic security of Seoul and Moscow. It could become a highly competitive site for the processing of wood, sea, and mineral resources where Russia's fundamental technology, labour and natural resources could be efficiently utilized. Russia definitely needs South Korean investment for the economic development of the Russian Far East. If the US \$800 million Russian-South Korean industrial complex in the Nakhodka FEZ is established, this region could turn into the first Russian FEZ with an export orientation.⁸⁵ Moreover, given that Russia needs to stop increasing the structural distortion in its economy towards fuel and raw material production and to prevent the disintegration of its scientific and technological potential, the development of an industrial park in the Nakhodka FEZ could provide a means of developing the manufacturing sector in Russia.

The project clearly also has the potential to enhance South Korea's economic security. It can help to solve present domestic economic problems such as high wages, shortage of labour, and high real estate prices, while becoming a geo-strategically important gate for exporting Korean goods to Europe, China, Central Asia, and Russia in the longer term.⁸⁶ South Korea also wants to help its medium and small-sized companies advance into FEZ and then use it as a gate to move forward into other sectors of the Russian and Central Asian countries. The project offers a tremendous opportunity to diversify Korean export markets, relieving Korea's overdependence on Chinese markets in the region. More importantly, apart from attracting new foreign investment, a Russian-Korean industrial complex would create nearly 30,000 new jobs inside and outside the FEZ.⁸⁷ For example, former coal miners from Partizansk and ex-servicemen from Fokino are likely to benefit from the new employment opportunities.⁸⁸

⁸⁵ "South Korea May Become Source of Big Capital Investments into Russian Economy," *RIA Novosti*, 22 September, 2004.

⁸⁶ "Nakhodka," *Segye Il bo*, 13 February, 2001; and KOTRA, 1995, p. 214

⁸⁷ "Free Economic Zones in Russia," *the Voice of Russia*, 1999.

⁸⁸ According to Dudnik, many coal miners lost their jobs when mines shut down in the Partizansk area, while a large number of servicemen have been discharged from the Russian army. See Radio Free Europe/ Radio Liberty (RFE/RL) Russian Federation Report, 2 June, 1999, on <http://wwwrferl.org/reports/russianreport/1999/06/15-090699.html>, accessed on 2 May 2004.

The Nakhodka FEZ project also has the potential to contribute to regional economic security. As discussed in Chapter 2, Russian leaders realize that Russia's integration into the Northeast Asian economy is essential for the future economic security of region. Balassa defines economic integration as "the creation of formal cooperation between states; the movement towards a free-trade area, a custom union, a common market, an economic union, or complete economic integration."⁸⁹ The Nakhodka FEZ seeks to build a region that can exploit the capital and technology of Japan and South Korea, the natural resources and the land of the Russian Far East, and the abundant and cheap labour of north-eastern China. Participating countries acknowledge that cross-border economic activities and local collective action would be the most efficient mechanism for building regional economic security. Since geographical proximity is usually expected to increase economic interaction, the Nakhodka FEZ is a particularly appropriate location for economic cooperation. Geographical proximity also minimizes transaction costs, reduces transport time, eases travel for executives and managers, and allows for face-to-face interactions.⁹⁰

Despite the potential for contributing to bilateral and regional economic security, the reality is that the Nakhodka FEZ project has not emerged as a functioning unit of economic activity. As a result, it has generated scepticism as to the potential for further cooperation. As we have seen, the potential of the Nakhodka FEZ project was hindered by patchy reform and the conflict between centre and local leadership over FEZ policy on the Russian domestic side. The short-term benefits the Nakhodka FEZ can offer to both countries have not yet been well defined and, at times, have been contested by the Russian federal government.⁹¹ Russia's clumsy FEZ policy, together with its overly politicized FEZ structure, has delayed ratification of the project. I suspect that even when Nakhodka is given permission to create a FEZ, the agreement will have to be renegotiated between Seoul and Moscow.⁹² In the worst case scenario, Nakhodka will

⁸⁹ Ballassa, Bela, *The Theory of Economic Integration*, (London: Allen & Unwin, 1961), quoted in Shaun Breslin and Glenn D. Hook, "Micoregionalism and World Order: Concepts, Approaches and Implications," in Shaun Breslin, ed., *New regionalism in the global political economy* (London: Routledge, 2002), p. 12.

⁹⁰ Breslin and Hook, pp. 9-10.

⁹¹ Elisa Miller and Alexander Karp, eds., *The Russian Far East: A Business Reference Guide*, Fourth Edition 1999-2000 (Seattle: Russian Far East Update, 1999), p. 171.

⁹² *Report on Analysis of Economic Situation in the Russian Far East and Siberia and Russian-Korean Cooperation*, pp. 63-64.

fail to get permission and the initial FEZ plan will disappear without being implemented.⁹³

With the lack of both central support and a firm legal base, the Russian FEZ has been little more than a bargaining instrument in the negotiations between different levels of government, mostly between the centre and local authorities.⁹⁴ As a result, having failed to establish a substantial market network between Russia and South Korea, the core element of economic security, the Nakhodka FEZ project has not so far contributed to bilateral and regional economic security.

⁹³ Unlike the relatively optimistic view of Russian officials until recently, the Korean side has been pessimistic for some time. See, for example, Kim Eun Chong, the manager of the foreign business department of KLDC and an anonymous official from the Korean Ministry of Industry, Commerce and Energy, quoted in "Nakhodka," *Segye Il bo*, 13 February, 2001.

⁹⁴ Faltin, pp. 111-142.

Chapter 6. Fishery Cooperation

Introduction

This chapter reviews the progress and problems of fishery cooperation between Moscow and Seoul. Its main purpose is to investigate whether fishery diplomacy between the two states could contribute to building Russian-South Korean economic security relations and regional economic security. Since the establishment of diplomatic relations in 1990 and a fishery agreement in 1991, South Korea has fished in Russian waters according to fishery quotas based on a bilateral fishery pact. Busan, the second-largest South Korean city and the country's major port city, has become one of the most attractive ports to Russian fishery operators because of its proximity to the Russian Far East and its marine capabilities. Most importantly, this relatively small but flourishing fishery trade is seen as one of the few successful aspects of the relatively stagnant Russo-South Korean diplomatic relations.

Nevertheless, many problems still exist. Russia's policy of reducing pollack catch quotas, its unpredictable policy concerning fishing rights charges, its inconsistent policy of barring South Korean fishing boats from fishing in the Russian fishery zone, and illegal sales of fish have obstructed fishery cooperation. In particular, illegal fishing activities and the size of the catch quotas are becoming serious diplomatic issues between the two countries. The chapter argues that the criminalization of fishery commerce in the Russian Far East, involving countless public officials, enterprises, and mafias, has generated illegal fishing and resulted in overfishing and the depletion of stock. To prevent overfishing, the Russian government has reduced the catch quotas over the last decade. Illegal fishing activities in the Russian Far East have also become a regional security concern.

The chapter concludes that illegal fishing activities and quota disputes stem from the Russian Far East's troubled transition to democracy and a market economy. Some of the features of the troubled domestic fishery situation in the Far East are a decrease in reported fishery production, export increases, illegal trading, overfishing, incomplete legislation on fishery, and institutional conflict between the centre and periphery over control of resources. Above all, the clumsy Russian legal system, a highly politicized fishery quota-allocation system, a confiscatory tax regime, and the lack of law enforcement agencies in the Russian Far East have all facilitated illegal fishery activities.

More important, given that fishery issues are transnational and trans-boundary, the chapter also illustrates that the international and regional dimensions are not negligible. Since the bulk of fishery products are unloaded in the port of Busan, it is mainly Korean consumers that fuel this commerce and South Korea must also assume some responsibility for the illegal trade. Moreover, South Korea's unsuccessful negotiation strategy in fishery diplomacy with Japan and China has increased its dependence on fishing in Russian waters. The chapter concludes that despite the potential of Russia's fishery resources to contribute to economic security, current obstacles clearly impede the two countries' bilateral and regional economic security building process.

The chapter begins with an examination of the importance of the Russian Far East fishery to South Korea. It then deals with major developments in fishery diplomacy, focusing on the pollack quota dispute, cuttlefish dispute, and the saury case. In the third section, the fundamental causes of illegal fishery in the Russian Far East are examined within both the Russian domestic and the regional dimension, and the argument that illegal fishing is the main problem for fishery diplomacy between Russia and South Korea is set out. The final section of the chapter assesses the implications of fishery diplomacy for bilateral and regional economic security.

1. The Importance of Russian Far East Fishery to Russia and South Korea

The Korean fishery industry has long played an important role as an exporting industry as well as a national food industry. Moreover, it plays a critical social, cultural, and economic role in Korea. Fishery products are Korea's main protein source, which is essential for the nation's food and health, as well as for the Korean food culture. Because of Korea's geographic situation — surrounded by three seas and with more than 3000 islands — fishery is a core industry that supports the national economy while playing a critical role in developing local areas.

Nevertheless, the Korean fishery industry currently faces great challenges. They include debates within international institutions such as the World Trade Organization (WTO), the Organization for Economic Cooperation Development (OECD), and the UN Food and Agriculture Organization (FAO) on the reduction or abolition of fishery subsidies that provoke trade distortion and negatively influence sustainable resources, as

well as the reform of the fishery order in Northeast Asia.¹ If overseas fishing grounds and fishery investment are not acquired, the amount of deep-sea fishing is also expected to decrease as a result of the reduction of fishing grounds and the difficulty in securing fishing grounds because of the coming into effect of the UN Convention on the Law of the Sea.² Moreover, as a result of the new Korea-Japan and the Korea-China fishery agreements reached during the last decade, the amount of inshore fishery production has been steadily decreasing. In this regard, the Russian fishery zone provides a bonanza for the South Korean fishing industry because of its vast and rich marine products and fishery resources.

When the Soviet Union collapsed, Russia's fishing industry was the world's fourth largest, following Japan, the United States, and China. It still accounts for nearly 25 percent of the world's production of fresh and frozen fish and about one-third of the global output of tinned fish. The Russian Far East fishery resources are particularly important for South Korea because the bays and islands of the area offer promising sites for marine agriculture, including fish farming and the cultivation of marine products. The Russian Far East is Russia's most important fishing region, providing nearly two-thirds of the total catch of Russia. Most fish catching and processing is carried out in four regions: Primorsky Krai (49 percent), Kamchatskaya Oblast (25 percent), Sakhalin Oblast (16 percent), and Khabarovskiy Krai (7 percent). Most fish and seafood is harvested within a domestic 200-mile zone that includes the western Bering Sea, the Sea of Okhotsk, the seas around the Kuril Islands, the waters east of Kamchatka, and the East Sea. The main fish products caught in this region are Alaska pollack, Okhotomorskaya herring, salmon, and crab.³

Fishery, timber, and fuel are the three industries that dominate in the Russian Far East, constituting 80-85 percent of total exports from the region. The export volumes of fish and fishery products increase every year. For example, they accounted for over 40 percent of the region's exports in 1995, compared with about 20 percent in 1985.⁴ As Vladimir Putin argued in a speech in Vladivostok on June 24, 2004, the fishing industry

¹ Myong Sop Pak and Moon Bae Joo, "Korea's Fisheries Industry and Government Financial Transfers," *Marine Policy*, Vol. 26, No. 6, November 2002, p. 429.

² The import and export trends of Korean fishery products during the 1990s show that exports gradually increased in the early 1990s, but constantly decreased after 1995. On the other hand, imports of fishery products constantly increased. See Pak and Joo, pp. 429-435.

³ Elena Tarrant, "The Russian Far East Fishing Industry," *The Business Information Service for the Newly Independent States (BISNIS) Report*, US Department of Commerce, on <http://bisnis.doc.gov/bisnis/country/9902fis2.htm>, accessed on 24 July, 2004.

⁴ Sergei Manezhev, "The Russian Far East," in David Dyker, ed., *Investment Opportunity in Russia and the CIS* (Washington, DC: The Brookings Institution, 1995), p. 242.

in this region is a potentially very prosperous business.⁵ Russian fish and fishery products are the second largest export item to Japan and the fourth largest to South Korea, as Table 10 illustrates.⁶

Table 10 Top 5 Russian Exports to South Korea, 2003

Item	Price (millions of US \$)	Variation on 2002 (%)	Composition (%)
Aluminium	303.8	19.7	13.4
Steel (Scrap iron and alloyed steel)	298.2	37	13.2
Oil	239.9	41.0	10.6
Fish	164.0	61.2	7.3
Nickel	147.9	283.7	6.5

Source: KOTRA, 2003

The international and regional dimensions of the Russian Far East fishery are even more significant. In the 1990s, the region lost many of its markets in the former Soviet republics and high railroad tariffs cut off western Russian markets too.⁷ This made the industry reorient itself toward foreign consumers, notably Northeast Asian nations. Japanese, Korean, Chinese, and American governments and private sectors have been more active in the fishing industry than in any other sector of the Far Eastern economy.⁸ In fact, the Japanese seafood import market, the largest in the world, has been dependent on output from Russia's Far East for several decades, as has the South Korean seafood import market. China and South Korea also serve as centres for transit and reprocessing of Russian seafood. King Crab, salmon, pollack, saury, and scallops are also exported from this region to Asia, North America, and Europe. It is reported that in many cases, American fishing companies resell fishing products to Japan and

⁵ "Russia's Fish Trade Has Gone to the dogs," *Business Report*, 24 June, 2004, on <http://www.businessreport.coza/index.php?fArticleId=2124630>, accessed on 17 August, 2004.

⁶ The largest export from the Russian Far East to Japan is aluminium. Other items include industrial wood and timber, coal, oil, gold and diamonds. See KOTRA, *Annual Report 2003*; and Manezhev, 1995, p. 249.

⁷ *Sectors of Industry: Fishing*, on <http://www/kigam.re.kr/mrc/korean/file/East/fishing.htm>, accessed on 29 June, 2004.

⁸ Allison notes that, although this is a difficult measurement to quantify because the activity is often not only unrecorded but also very diverse (bilateral and multilateral treaties, direct fishing, commercial and government credits, scientific exchanges, chartered vessels, and vessel management support are all part of the picture), it is doubtful that this statement would be disputed by anyone who has tried to compare the situation with other Russian Far East industries. However, from the standpoint of foreign financial investment and employment, it is highly likely that the oil and gas sector on Sakhalin and in the Russian Far East will soon surpass the fishing industry, if it has not already done so. See Anthony Allison, "Sources of Crisis in the Russian Far East Fishing Industry," *Comparative Economic Studies*, Vol. 43, No. 4, Winter 2001, p. 92.

Korea.⁹ Moreover, ships with foreign flags can fish in Russia's Exclusive Economic Zone (EEZ)¹⁰, but only if the flag belongs to a country that has signed a bilateral fishing agreement with Russia, such as Japan or South Korea. Since the United States does not have a bilateral agreement with Russia and does not allow Russian ships to fish in US waters, some US companies team up with a Russian partner and reflag their vessels.¹¹

Meanwhile, apart from direct fishing by foreign vessels, joint ventures have been the most common phenomenon to be established in the Russian Far East fishery arena, and they tend to be established at both the legal and illegal levels. Joint ventures provide good opportunities for the South Korean fishing industry. In fact, everywhere in Russia, including in the Far East, the fishing industry needs technical upgrading, better management, higher-quality products, and improved domestic and external marketing.¹² Joint ventures with foreign firms could satisfy these needs. They provide Russia with foreign technology and capital markets, while giving foreign partners access to deep-sea processors and Russian fishery resources. In most cases, foreign companies often lease or sell their vessels in exchange for fish products.

Following the passage of the Soviet joint venture law in 1987, fishery joint ventures were established with partners in Japan, the United States, Hong Kong, Australia, Vietnam, and South Korea.¹³ In 1998, 12 of the 120 seafood enterprises in the Primorskii territory were joint ventures with foreign investment. One-quarter of their production was exported, primarily to Japan, the United States, and South Korea.¹⁴ Japanese and South Korean fishing companies actively pursue joint ventures in the Russian Far East, primarily because of the decline of stocks in their own zones and their exclusion from former fishing grounds in distant waters now under the jurisdiction of other countries.¹⁵ In South Korea, Busan-based companies are particularly actively involved in joint ventures. In most cases, they seek suppliers of live and frozen crab

⁹ Elisa Miller and Alexander Karp, *The Russian Far East: A Business Reference Guide, Fourth Edition, 1999-2000* (Washington, DC: Russian Far East Advisory Group, 1999), p. 115.

¹⁰ According to the widely accepted Law of the Sea (Maritime Law), each nation that borders the ocean may claim as an Exclusive Economic Zone (EEZ), which extends offshore for 200 nautical miles (370km/230miles). Resources within an EEZ belong to the nation that claims it. See Encarta Encyclopedia, 1993-2003 Microsoft Corporation.

¹¹ Miller and Karp, p. 122.

¹² Douglas M. Johnston and Mark J. Valencia, "Fisheries," in Mark J. Valencia, ed., *The Russian Far East in Transition: opportunities for regional cooperation* (Boulder, CO: Westview Press, 1995), p. 147.

¹³ Tsuneo Akaha, "US-Russian Fishery Joint Ventures: A Curse in Disguise?" paper presented at the Monterey Institute of International Studies, July 1993; and Judith Thornton, "The Exercise of Rights to Resources in the Russian Far East," in Michael J. Bradshaw ed., *The Russian Far East and Pacific Asia: unfulfilled potential* (Richmond: Curzon, 2001), p. 114.

¹⁴ "Investment Opportunities in Primorsky Territory, Russian Federation," Tumen River Area Development Programme, 1998 Tumen Secretariat UNDP, on <http://www.tradp.org/textonly/ioprime.htm>, accessed on 23 November, 2001.

¹⁵ Johnston and Valencia, p. 147.

such as snow crab opilio and blue and red king crab, and sell fishing gear and packaging containers. Korean companies have also been active in such services as the selection and supply of crab-processing equipment and plastic containers for crab cooking and transportation.¹⁶

2. The Development of Fishery Diplomacy between Russia and South Korea

South Korea has been fishing for Russian pollack in the Sea of Kamchatka since the late 1960s. Since the establishment of diplomatic relations in 1990 and the fishery agreement in 1991, South Korea has also been able to fish in the Sea of Okhotsk according to fishery quotas based on the South Korean–Russian fishery pact.¹⁷ South Korea has fished for mostly pollack, king crab, cuttlefish, cod, and saury in this region.

Meanwhile, South Korea has become a convenient place for Russian fishery markets and fishery operators to conduct business during the last decade. High taxes and duties, along with burdensome regulations and inefficient port procedures in the Russian Far East, have caused many Russian fishery operators to keep their foreign-built vessels out of Russian Far East ports. Even crew changes are often done at sea or in foreign locations.¹⁸ Foreign countries tend to offer more favourable terms of payment and a better infrastructure and service for the crew and vessels.

Since the collapse of the Soviet Union, one of the fundamental economic changes in the Russian Far East fishery has been the new terms of payment. While income and cash flow were secure during the Soviet period, the new market-based economy proved to be the opposite. Because of this economic situation, many of the land-based fish-processing companies and traders suffer from a lack of working capital. Nilssen and Honneland maintain that sellers have normally had to accept terms of payment that include, among other things, extensive credit. This is less attractive for the fishing companies, which have been struggling to generate and maintain an acceptable cash flow. None of them can afford to allow extensive credit on their sales.¹⁹

¹⁶ *Russian Fish Report*, Monthly Fisheries News From Russia, Issue No. 1 (76), January, 2003, p. 6.

¹⁷ Briefing, 10 August, 2000, International Cooperation Department, Korean Ministry of Maritime Affairs and Fishery, on http://www.kmi.re.kr/daily_update/html/alim/200008/alim200008104.htm accessed on 28 July, 2004, and *Report on Analysis of Economic Situation in the Russian Far East and Siberia and Russian- Korean Cooperation*, (Seoul: The Research Project for the Globalization in Russia's Regions at Hankuk University of Foreign Studies, December 2003).

¹⁸ Allison, p. 80.

¹⁹ Frode Nilssen and Geir Honneland, "Institutional Change and the Problems of Restructuring the Russian Fishing Industry," *Post-Communist Economies*, Vol. 13, No. 3, 2001, pp. 323-324.

Moreover, a great number of active Russian fishing vessels were either purchased or significantly upgraded abroad, which also represents a substantial investment made away from Russia. What drove them toward foreign harbours was that the newly purchased or renovated vessels were carrying a latent tax burden to the Russian state on the sum of the investments. In fact, the tax burden, which is 25 percent of the investment value, was not activated as long as the vessel was located abroad or at least avoided calling at a Russian port. Thus, Russian fishing boats were highly reluctant to deliver their catch to Russian ports.²⁰ This is one reason why, because of its proximity to the Russian Far East and its marine service capabilities, Busan has become the most convenient port for Russians over the last decade. Drydocks in Busan have been full of Russian vessels, and business hotels have hosted Russian fishing industry entrepreneurs.²¹

Despite rapidly developing fishery-related activities between Russia and South Korea, a number of problems have arisen. Russia's policy of reducing the pollack catch quotas, of unpredictably raising fishing right charges, of inconsistently barring foreign fishing boats from fishing in the Russian fishery zone, as well as the illegal sale of fish by the Russian mafia are the major problems. In particular, since the late 1990s, Russia has continued to reduce the South Korean pollack catch quota significantly, and this has had a devastating impact on the Korean fishery industry. Given that pollack is one of the most popular fish in the Korean diet, and that South Korea depends on the Sea of Okhotsk for 90 percent of its total domestic pollack consumption, it is no exaggeration to say that this quota dispute threatens South Korea's national economic security.²²

2.1. The Pollack Quota Dispute

The Sea of Okhotsk as a whole contains perhaps the richest stock of Alaskan pollack in the world. It is fished by Russia, South Korea, China, Taiwan, and North Korea, as well as Poland, Panama, and Bulgaria.²³ The special fishery zone called the "Peanut Hole" in the Sea of Okhotsk has been a very important area for these countries. The Peanut Hole is an oblong, 35-by-300 mile window in the central Sea of Okhotsk lying outside of, but surrounded by, the 200 nautical mile exclusive economic zone

²⁰ Ibid., p. 324.

²¹ A little Russian town, the so-called "*Ulitsa Texas*" was even set up in the area of Busan, in order to cater to Russian fishermen and shuttle traders.

²² "Korean fishery diplomacy fails," Editorial, *Busan Ilbo*, 17 December, 2001, on <http://www.pusanilbo.com/news2000/html/2001/1217/040020011217.1005...>, accessed on 28 July, 2004.

²³ Japan also fishes in this area but not for pollack.

(EEZ) of Russia and Japan's Hokkaido.²⁴ The Peanut Hole is particularly important to South Korea because this is the area where most fishery conflict between Seoul and Moscow arises. South Korea's pollack catch there of 200,000 metric tons in 1993 was almost twice as much as its catch in the surrounding Russian EEZ for the same period (107,000 tons). This pollack supplied half of its domestic demand.

The fishery conflict between the two countries over pollack in 1992 and 1993 is particularly important because it illustrates the key problems of fishery diplomacy. The problems persist and are highly likely to occur again in the future. In May 1992, South Korea concluded an agreement with Russia for the acquisition of 155,400 tons of pollack from the Peanut Hole in 1993, a reduction of nearly 25 percent from 1992. However, in January 1993 a price dispute arose between the two over Alaskan pollack. Seoul proposed US \$470 per ton for importing pollack but Moscow demanded \$530. Negotiations failed and Seoul feared cancellation of its 155,400 ton annual fishing quota for pollack. In mid-February, Russia prevented not only South Korea but all other countries as well from catching pollack in the Peanut Hole for ecological reasons to prevent overfishing. Simultaneously, the Russian State Committee for Fisheries²⁵ submitted a proposal to parliament that it declare the Sea of Okhotsk should be declared an ecological disaster area, barring even Russians from fishing there. Seoul protested that Russia could not unilaterally make such a declaration, since the area was high seas and thus such a ban required agreement through multilateral negotiations. South Korea argued that a unilateral ban would be a violation of the Law of the Sea.²⁶

In March, 1993 Russia changed its previous position and agreed to hold multilateral negotiations on the issue with South Korea, Japan, China, Poland and other relevant countries. Indeed, South Korea reportedly held unofficial meetings with other countries to discuss the upcoming negotiations and to propose safe fishing operations and conservation of fishery resources in this area. At that time, South Korea allegedly still had 31 fishing boats in the Sea of Okhotsk, six more than under the previous bilateral agreement. South Korea indicated its willingness to remove all the boats in

²⁴ Johnston and Valencia, p. 161.

²⁵ Following the collapse of the Soviet Union, the Soviet Ministry of Fishing Industry was immediately transferred to the Ministry of Agriculture in 1992 and then re-established as an independent agency, the State Committee for Fisheries in 1996. This committee coordinated Russia's approach to fishing at the federal level until 2004. The March 2004 Presidential Decree abolished this committee and transferred the State Committee's functions to the Ministry of Agriculture. See more details in Geir Honneland, "Fisheries Management in Post-Soviet Russia: Legislation, Principles, and Structure," *Ocean Development & International Law*, Vol. 36, No. 2, April-June 2005, pp. 179-194. See also <http://www.apec-oceans.org/economy%20profile%20summaries/russia-draft.pdf>, accessed on 12 January, 2006; and http://www.government.gov.ru/data/static_text.html?he_id=1052, accessed on 10 January, 2006. I am very grateful to Margot Light for drawing my attention to these three sources.

²⁶ FBIS-EAS, 24 February 1993, p. 26, and 26 August 1993, p. 19.

order to make negotiations easier.²⁷ Nevertheless, the Russian parliament again reversed its position on 16 April, 1993 and adopted a resolution banning all fishing boats inside Russia's EEZ from June onwards. Russia also called on Japan, South Korea, Poland, and China to join in a three year moratorium on fishing in the Peanut Hole. The Russian deputy prime minister, Alexandr Shokhin, stated that Russia would use naval vessels to enforce the ban and would consider all foreign fishing vessels in the area poachers. Russia set a fine of US \$400,000 dollars for poaching in the Russian sea zones²⁸ and reportedly arrested some foreign fishing vessels, including Chinese and Polish trawlers, in the Peanut Hole in 1993.²⁹

After consulting with other involved countries, South Korean Foreign Ministry officials criticized Russia on the grounds that its request for a moratorium was not based on scientific evidence. On 18 April, all of South Korea's vessels were still in the Sea of Okhotsk.³⁰ In late May and early June, following multilateral talks with China and Poland, South Korea agreed to resume fishing in the Peanut Hole but to voluntarily reduce its pollack catch by 25 percent until talks with Russia in October. This was a 25 percent reduction of South Korea's 1993 quota, which was already a 25 percent reduction of its quota from the previous year. Russia protested against this agreement. Boris Yeltsin delivered a letter to President Kim Yong Sam to stop South Korea fishing in the area, since Russian fishermen had by then turned the dispute into a domestic political issue. As a conciliatory gesture, Russia offered South Korean companies permission to purchase Russian catch quotas in compensation.³¹

In August 1993, the pollack dispute generated great political concern in the overall diplomatic relations between the two countries. On 6 August 1993, South Korea reiterated that, despite threats of retaliation from the Russian side, it would resume fishing in the Peanut Hole.³² Russia then declared that it would withhold the repayment of a US \$1.47 billion loan from the South Korean government.³³ Later in August South Korea resumed fishing in this region. Fishing was urgent for South Korea because its

²⁷ FBIS-EAS, 9 March 1993, pp. 24-25.

²⁸ *New York Times*, 1 August 1993, p. 9 and FBIS-EAS, 21 April 1993, p. 26.

²⁹ *Russian Far East Update*, August 1993, p. 3; Johnston and Valencia, p. 163; *New York Times*, 1 August 1993, p. 9; and FBIS-EAS, 21 April 1993.

³⁰ FBIS-EAS, 21 April 1993, p. 26, and 26 April, 1993, p. 39; and *Russian Far East Update*, August 1993, p. 3.

³¹ See FBIS-EAS, 14 June, 1993, p. 8; 6 August 1993, p. 19; and 26 August 1993, p. 19.

³² A South Korean Foreign Ministry official stated at the time, "We will stick by last May's agreement with other countries to reduce our catch by 25 percent, but Russia has no right to declare a unilateral ban because the area is outside its economic zone. We repeat that South Korea and other countries should make an objective joint survey to see how serious the depletion is and decide on further actions." See FBIS-EAS, 6 August 1993, p. 19 and 10 August 1993, p. 23.

³³ Ibid.

quota in the Bering Sea of 70,000 tons was exhausted by then. South Korea then announced that it would be willing to accept 40,000 tons of pollack from anywhere in the Russian EEZ, but this proposal was also turned down by Russia. The South Korean sense of urgency was heightened by the fact that August-September is the height of the pollack season.³⁴

A diplomatic summit between the two countries on 27 October, 1993 did not produce a solution for either side. South Korea claimed that its ships had not been fishing in the area since April, and that it had consequently lost around \$100 million, while Russia emphasized that foreign poaching in all its waters cost it \$700 million annually, a figure which may be a conservative estimate. Further talks on 20 November also produced no results.³⁵ Nevertheless, on 10 January 1994 South Korea was finally able to resume pollack fishing within the Russian EEZ, with 32 vessels from 16 companies taking part. Moscow permitted the foreign vessels to begin fishing because it did not want to miss the pollack season entirely. Seoul and Moscow agreed to set the price of the fish. However, no actual agreement was reached over the Peanut Hole, and Russia continued to protest foreign poaching in this area.³⁶ Nevertheless, the dispute died down and normal fishery relations were resumed.

Another important fishery conflict between the two countries occurred during 2002 and 2003. In November 2002, they reached an agreement on the number of South Korean fishing boats, time, and procedures of catching fisheries in the Sea of Okhotsk, yet once again, they failed to agree on fishery catch quotas. Even though the total allowance catch of pollack, cod, saury, and cuttlefish was settled, the proportion of private-auction quota, government-to-government quota, and domestic population industry quota was not finalized in Russia. It is reported that the Russian Ministry of Economic Development and the Russian State Committee for Fisheries debated the issue of quota proportions. The Ministry of Economic Development supported an increase in the private-auction quota, whereas the State Committee for Fisheries supported increases in the government-to-government quota and the domestic population quota.³⁷

Moreover, in November 2003, Russia eventually reduced the Korean fishery quotas by 20 percent in the Russian fishing zone. According to the annual report of the Korean Ministry of Maritime Affairs and Fisheries (KMMAF) in 2004, Russia set South

³⁴ Ibid., p. 33.

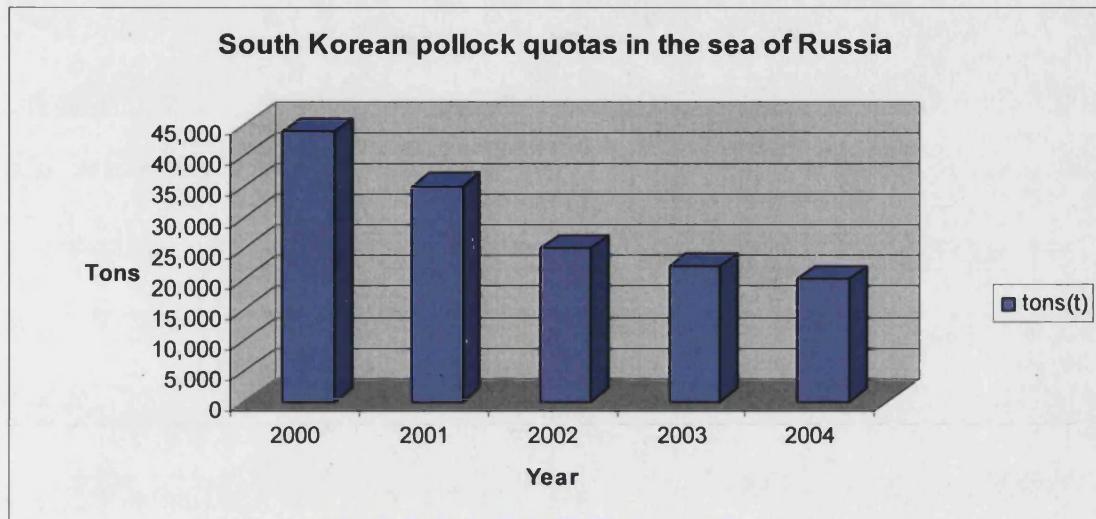
³⁵ FBIS-EAS, 29 October 1993, pp. 21-22, and 16 November, 1992, pp. 30-31.

³⁶ FBIS-EAS, 22 December 1993, p. 33, and Johnston and Valencia, p. 164.

³⁷ *Kukche Sinmun*, 26 November, 2002, on http://www.infofishnet.co.kr/user/nes/html/nes_mns_sel.jsp?idx=700&ipag..., accessed on 28 July, 2004.

Korean fishery quotas at 39,950 tons (t): pollack at 20,000t, Pacific saury at 10,000t, cod at 2,650t, and cuttlefish at 7,300t. The 20,000t of pollack were 2,000t less than the 2003 quotas. These figures demonstrate that quotas for four kinds of fish had decreased by 22.9 percent. In particular, as the figures in the table indicate, the pollack quotas have been reduced every year since 2000.³⁸

Figure 6 South Korean Pollack Quotas in the Sea of Russia



Source: Korean Ministry of Maritime and Fisheries, *Annual Report 2004*

According to KMMAF officials, Korea claims to have reduced its number of fishing boats by 10.7 percent, from 168 to 150, in 2004.

Compared with the situation a decade ago, negotiations between the two countries no longer develop into seriously heated disputes. Even though the pollack quotas have decreased over the last few years, the actual numbers are not very serious, as one of the officials from the KMMAF has stated.³⁹ However, many fishery specialists contend that as Russia raises the pollack price every year, this will have a devastating impact on the Korean domestic pollack market price in the long term. This is highly likely to be problematic given the fact that 90 percent of Korean total domestic pollack are fished exclusively in the Russian Far East sea zone, and the scale of the Korean domestic pollack industry is quite large, reaching US\$1,000 billion.⁴⁰ Nevertheless, the two sides agreed to conduct joint research on pollack in the Sea of

³⁸ Statistics, Korea Deep Sea Fisheries Association, 6 April 2004, Seoul, Korea; *Kyonghyang Shinmun*, 30 November, 2003; *Segye Ilbo*, 30 November, 2003; and *Chungang Ilbo*, 30 November, 2003.

³⁹ "Korean Fishery Diplomacy Fails," editorial, *Busan Ilbo*.

⁴⁰ *Ibid.*

Okhotsk in 2004.⁴¹ Russia continues to award South Korea higher quotas than it awards to other North Asian nations, including Japan and China, in the last several years.⁴²

2.2. The Dispute over Fishing Right Charges for Cuttlefish

South Korea began to catch cuttlefish in the Sea of Okhotsk in 1999. South Korean fishing boats in this region have increased from 44 boats in 2000 to 75 boats in 2004. However, on May 9, 2004, cuttlefish negotiations came to a stalemate because Russia began to charge an extremely high price for cuttlefish fishing rights. According to the negotiation committee, Russia allegedly asked for US \$140 per ton, which was exactly twice the 2003 price, whereas South Korea offered US \$72.50. Even though both parties agreed to finalize a deal at US \$78, Russia did not issue fishing rights to South Korea for a month, for no apparent reason. This led to a one-month delay for many Korean cuttlefish fishermen to fish in this region.⁴³

2.3. The Saury Dispute

The case of the saury dispute illustrates that Japan plays a very important role in fishery diplomacy between Russia and South Korea. The saury dispute is a political dispute in that Russia gave South Korea permission to fish for saury in the Kurile area, the sovereignty of which is disputed by Russia and Japan. The dispute became a three-sided diplomatic wrangle and threatened to disrupt relations between the countries involved.

On 10 December 2000, South Korea reached an agreement with Russia to allow 26 South Korean boats to fish for 15,000 tons of saury around the southern Kuriles between 15 July and 15 November 2001, for a fee of US\$850,000.⁴⁴ Having lost rich saury fishing grounds in the Sanriku area as a result of the 1998 South Korea-Japan Fisheries Agreement, South Korean boats had fished for saury in the southern Kuriles since 1999. South Korea caught nearly 13,000 tons of saury in 1999 and more than

⁴¹ *Kyonghyang Shinmun*, 30 November, 2003.

⁴² *Susan jun moon kookne news* (Fishery Chain News), 24 March, 2001, on http://www.fishchain.com/kr/news/d/20010327_67.asp, accessed on 28 July, 2004.

⁴³ *Hankook ilbo*, 16 June, 2004, on <http://kr.news.yahoo.com/service/news/ShellView.htm?ArticleID=20040616...>, accessed on 29 July, 2004, *Maeil Shinmun*, 2 July, 2004, on <http://kr.news.yahoo.com/service/news/ShellView.htm?ArticleID=20040707...>, accessed on 29 July, 2004, and *Jinju I news*, 5 May, 2004, on <http://jinju.enews.co.kr/detail.php?number+254146>, accessed on 28 July, 2004.

⁴⁴ Mark J. Valencia and Young Hee Lee, "The South Korea-Russia-Japan fisheries imbroglio," *Marine Policy*, Vol. 26, Issue 5, September 2002, pp. 337-339.

14,000 tons in 2000 in the southern Kuril area.⁴⁵ In 2000, however, the Russian government adopted a more transparent resource-allocation procedure by converting the private commercial quota system into an auction system and by strengthening government control over the allocation of fishing rights to foreign countries. The South Korean fishing companies and government were concerned that this decision would hurt the domestic saury industry since the saury catch in the southern Kuriles consisted of one-third of the total saury consumption of South Korea. During the 10th South Korean-Russian fisheries commission meeting in December 2000, Seoul secured an intergovernmental agreement on saury which would meet the goals of the domestic saury industries. Both Seoul and Moscow emphasized that the agreement was made on a commercial basis.⁴⁶

Tokyo strongly resisted the agreement on the grounds that it would undermine Japan's claim to the Kuril Islands and it put pressure on Seoul to abrogate the agreement. When South Korea refused, Japan revoked its agreement to permit South Korean saury boat fishing in its EEZ off the northeastern Japan-Sanriku area beginning on June 19, 2001. After a series of negotiations between the two countries, South Korea discontinued its fishing contacts with Japan, as well as abandoning planned bilateral fishery talks, posing a threat to Japanese crab fishing. It was reported that Japan offered to permit the operation of South Korean boats in its waters only if South Korea would officially recognize the Kuril area as part of Japan's EEZ and thereafter seek permission from Japan to fish there. South Korea refused, arguing that it did not want to be drawn into territorial disputes between Russia and Japan. Seoul maintained that the controversial areas were within Russia's EEZ, and thus Japan had no rights in this region and proposed that Japan should offer an alternative fishing site in exchange for South Korea giving up its commercial agreement with Russia.⁴⁷ Japan declined, contending that Seoul was trying to gain increased access to Japan's EEZ fishery resources. In the course of the debates over this dispute between Seoul and Tokyo, Japan came to a compromise with Russia over the saury issue by offering to prevent its fishermen from poaching in Russian waters as a means of increasing Russian tax revenues. Japan also declared that it would provide financial support to protect fishery resources in the area.⁴⁸

⁴⁵ Ibid.

⁴⁶ Ibid.

⁴⁷ "Japan to Oppose South Korean Fishing of Russian Held Isles," *BBC Monitoring, Asia Pacific Political*, 19 June 2001; and "South Korea Protest Japan's Fishing Ban," *Xinhua News Agency*, 19 June, 2001.

⁴⁸ "Japan: Russia Not to Give Third Parties Fishing Rights Near Disputed Islands," *BBC Monitoring Asia Pacific-Political*, 5 October, 2001.

In 2001, South Korea eventually had to give up saury fishing in the South Kuril area because of an unexpected fishery agreement between Russia and Japan. Moscow and Tokyo agreed to prevent other countries from fishing in the southern Kuril area. Because of the South Korean government's continued protests, Prime Minister Koizumi and President Putin refrained from signing a formal agreement on the issue at the APEC summit in October 2001. Putin promised Kim Dae Jung at the same meeting that Russia would grant an alternative fishing zone and quotas to South Korea. Although South Korea received a substitute fishing zone from Russia after a series of protests, its productivity and profitability allegedly fell below the zones in the South Kuril.⁴⁹ The saury incident clearly harmed the existing fishery relations between Moscow and Seoul.

In the resolution of the dispute, each of the three countries gained and lost both politically and economically. South Korea's interest was to secure its saury supply and to protect its companies' interests. Indeed, Korea was a victim of the territorial disputes between Russia and Japan. However, South Korea did regain its access to the Sanriku area, and even negotiated a deal for 20,000 tons of saury in the northern Kuril for 2002. Thus even though South Korea lost to Japan in this fishery conflict, it gained more fishing quotas than Japan from Russia. Russia's interest was more economic. Yet, once the deal with South Korea was struck, Russia was faced with the problem of national sovereignty and pride. Although it had not revoked the existing South Korean fishing quota, it accepted Japan's condition that it should cease allocating fishing quotas to foreign countries in the southern Kuriles. From a financial perspective, Russia was the true winner, since it collected compensation of about US\$3 million in fees directly from Japan that it would have collected from South Korea and the Ukraine. Moreover, Russia extracted from Japan an agreement to exercise greater control over the smuggling of crabs into Japan, and thus it gained significant revenue for the Russian Far East, not to mention the fees from South Korea for fishing elsewhere.⁵⁰

In short, the saury dispute clearly illustrates that given the complicated political relations in Northeast Asia, fishery disputes can damage international relations. This

⁴⁹ South Korea negotiated a deal for 2002 for 20,000 tons of saury in the northern Kuriles. Although the quota was increased from the 15,000 tons in 2001, it was not clear that there were sufficient fish there to fill the quota. South Korea also agreed to pay US \$183 per ton for up to 25,000 tons of Pollack caught in the Bering Sea, although that fee was 10.2 percent higher than it was in 2001. See "Korean Fishermen Agree to Pollock Catch Fees in Russian Waters," *Asia Pulse*, 1 January, 2002; Valencia and Lee, pp. 342-343; *Moornwha Ilbo*, 8 December 2004; and National Fishery Scientific Institute, newspaper briefing, on http://www.nfrda.re.kr/news/scrap/scrap_read.php?cod=2&idx=2409, accessed on 28 July, 2004.

⁵⁰ Valencia and Lee, pp. 337-343.

ought to serve as a reminder to fishery policy makers to consider the international political ramifications of their decisions.⁵¹

3. Causes of the disputes in Russian-South Korean Fishery Relations

This section contends that the problems of fishery diplomacy between Russia and South Korea stem from the difficulties that the Russian Far East fishery has faced since the collapse of the Soviet Union. These include the decrease in reported Russian fishery production, export increases, illegal trading, overfishing, incomplete legislation on fisheries, and institutional conflict between the centre and periphery over the control of resources.

The two main problems of fishery diplomacy between Seoul and Moscow -- the size of the pollack catch quota disputes and the illegal fishing trade -- are closely connected to the transitional and chaotic situation in the post-Soviet Far Eastern fishing industry. There is no denying that illegal fishery has generated overfishing in the region. The depletion of fishery resources has reached dangerous levels because of overfishing and, as a result, the Russian government started auctioning fishing quotas in 2001 to regulate the catch.⁵² It is crucial, therefore, to examine the factors that have caused illegal fishing activities in this region.

3.1. Illegal Fishing

Illegal fishing in the Russian Far East falls into two general categories: illegal fish sales directly from Russian fishing ships and illegal fishing by foreigners in the Russian zone. Both foreign and domestic ships carry out two forms of illegal fishing: poaching and driftnetting. The environmental impact of illegal fishing, particularly driftnetting, in the region is extremely serious. It causes disruption of the age structure and genetic composition of the stock and has a deleterious effect on marine ecosystems.⁵³

In the 1990s, illegal fishing and unreported fish exports accounted for two-thirds of the Russian Far East's revenue. In 2004, Putin stated that nearly 80 percent of the Russian fish trade is illegal, without going through and breaking internationally agreed

⁵¹ Ibid.

⁵² The output of tinned fish fell by some two-thirds in 1992-1997. The decline continued in the late 1990s, and in 2001, the total catch was 3.7 million tons, down 9.1 percent from 2000. See *Agriculture, Country Profile Russia 2004*, the Economist Intelligence Unit Limited 2004, p. 43.

⁵³ Natalia S., Mirovitskaya and J. Christopher Haney, "Fisheries Exploitation as a Threat to Environmental Security," *Marine Policy*, Vol. 16, No. 4, 1992, p. 252.

quotas. Russian police allegedly caught 500 tons of illegal marine products between May and June 2004. During this period, most illegal products consisted of caviar and salmon.⁵⁴

Illegal fishing has not only led to the depletion of marine resources in the Sea of Okhotsk and the northern Pacific Ocean but it has also complicated diplomatic relations between Russia and its neighbouring countries. In particular, illegal fishing is the most serious factor that affects Russian and South Korean fishery diplomacy. It clearly hinders the sustainable development of a state-based fishery trade. This underground fishery activity also obstructs the Russian government's collection of some share of the resource charges into the central or regional budget. Furthermore, it creates incentives for corruption and tax evasion.

There have been several reports of Russian ships, not built or licensed for fishing, engaging in the illegal sale of fish to Japan, China, and Korea. There is a report, for example, that Russian fishermen have sold Kamchatka crab in Sapporo for 1,500 yen per kilo, which is much cheaper than the normal price in Japan but much more than its price in Russia.⁵⁵

Even though the technical efficiency of the Russian fleet has improved, the reported catch has declined since its reported peak in 1988, and the share of high-value products such as salmon and crab, has decreased.⁵⁶ According to Thornton,

The decline in production reflects the overfishing phenomenon, which is highly related to the high price of fish catch quotas and illegal fishing. The decline in measured production reflects a growing volume of Russian catch, which is delivered offshore and goes unrecorded by Russian customs authorities.⁵⁷

Indeed, official fishing data in the Russian Far East are not really reliable although they indicate some trends. Fish catches in Russia are underreported, some say by 50 percent or more. For example, a large proportion of the fish that is transferred to foreign vessels

⁵⁴ *Susanmul suchul chugan jungbo* (Marine Products Export Weekly Information), 1 August, 2004, Kyungsang Namdo Fishery Production Department, on <http://www.provin.gyeongam.kr/-Agr-fish/export/sea.htm>, accessed on 28 July, 2004; and "Russia's Fish Trade Has Gone to the Dogs," *Business Report*, 24 June, 2004.

⁵⁵ Galina S. Vitkovskaia, "Lawlessness, Environmental Damage, and Other New Threats in the Russian Far East," in Gilbert Rozman, Mikhail G. Nosov, and Koji Watanabe eds., *Russia and East Asia* (London: M.E. Sharpe, 1999), p. 183.

⁵⁶ *Ibid.*

⁵⁷ Thornton, p. 114.

on the high seas is simply not reported because it is fished illegally.⁵⁸ Japanese trade statistics report a roughly 50 percent higher catch than Russian data.⁵⁹ According to an official estimate in 1996, the Far Eastern crab catch declined to 73 thousand tons, and in 1997 it was reduced again to 63 thousand tons. However, the fact is that the crab catch in 1997 was 180 thousand tons, almost all of which was sold, legally or illegally, to Japan.⁶⁰ Statistics on Japanese import of fishery products are five times higher than those showing Russian export of the same to Japan. One might argue that this is perhaps related to strict Japanese customs rules. Yet, I would submit that a significant quantity of illegal sales from the Russian side is the primary reason. The same problem also applies to the export of Russian fish to Korea and China.⁶¹

There is no doubt that illegal sales of fish and overfishing have contributed to the depletion of fish stocks in this region. Moreover, the consequences of overfishing are extremely serious since it can result in the permanent depletion of fish stocks. If overfishing alters predator-prey relationships or the genetic diversity of the target species, it causes a long-term change in the species composition, from higher-value species to smaller, low-value fish. Taken to the extreme, this will result in the domination of "trash fish" with little or no commercial value.⁶² When this happens, the higher-value species is considered to be driven to commercial extinction, since so few of the species remain that it is too expensive to fish for them.⁶³

It appears that a number of mafias are running major smuggling operations in the region. This has become a serious issue that hinders smooth fishery relations between Russia and its Northeast Asian fishery partners. The Russian mafias consist not only of gangsters but also border guards, military personnel, custom officials, fisheries inspectors, procurators, and fishermen and fishing firms. In October 1999, for example, it was reported that Russian border guards had been cooperating with fish smugglers for more than two years by transmitting information about the times and

⁵⁸ Miller and Karp, p. 115.

⁵⁹ See Viktor Tkachenko and Ernst Chernyi, "Department of Abuse: Fisheries Department," *Sovetskii Sakhalin*, No. 45, 11 March, 1998, p. 2, quoted in Thornton, p. 116.

⁶⁰ "Granitsa vostoka" (Eastern border), *pogranichnik*, March 1998, p. 15, quoted in Viktor B. Supian and Mikhail G. Nosov, "Reintegration of an Abandoned Fortress," in Gilbert Rozman, Mikhail G. Nosov, and Koji Watanabe eds., *Russia and East Asia* (London: M.E. Sharpe, 1999), p. 81.

⁶¹ Supian and Nosov, p. 81.

⁶² John R. Beddington and R. Bruce Rettig, *Approaches to the Regulation of Fishing Effort, Food and Agriculture Organization (FAO)*, Fisheries Technical Paper No. 243, Rome, 1983, p. 29.

⁶³ Gareth Porter, "The Role of Subsidies in the Global Fisheries Crisis," *Fisheries Subsidies Overfishing and Trade*, United Nations Environment Program (UNEP), Switzerland, August 1998.

zones in which patrols were to take place.⁶⁴ In fact, border guards and custom officials are often quite impoverished because of extremely low wages and, in the 1990s, because of significant delays in payments from Moscow caused by the chronic federal budget deficit. Wage arrears have clearly generated general resentment within the ranks of Russia's armed forces and security organs. As Williams argues,

Under such difficult economic conditions the potential material benefits including cash, alcohol, valuable seafood products and women in extreme cases, derived from participating, either actively or passively, in this illicit trade have proved too tempting for the struggling members of Russia's armed forces, law enforcement agencies and even fisheries scientists.⁶⁵

These criminal groups trade not only fish and marine products but also Japanese and Korean used cars, narcotics, weapons, women, and they even smuggle illegal aliens (mostly Iranians) into Japan.⁶⁶ Given the wealth produced from this illegal trade, criminal organizations in Japan and Korea, often working in cooperation with the Russian mafia, are also actively involved.⁶⁷ The Russian mafia is said to be influential in the entire process, from the distribution of quotas to the sale of fish and marine products in Japan and Korea. It also has been reported that Japanese and Korean organized crime groups make advance payments for quotas and establish bank accounts, sometimes through third parties, for the laundering of profits. According to Korean police reports, in October 2003, 23 Korean fishery-related personnel were arrested for illegally transferring money to Russian mafias. In 2003, one of them allegedly imported 17,000 tons of marine products, primarily pollack and crab, from Russian mafias, at a cost of US \$200 million.⁶⁸ There are indications that efforts to regulate fishing more strictly have created strong opposition from entrenched interests, sometimes leading to deadly retaliation.⁶⁹ Without hard data, it is difficult to quantify just how widespread the influence of criminal organizations actually is in this commerce. Nevertheless, it is undeniable that organized criminal groups in Russia, Japan, and South Korea are

⁶⁴ "Border Guard Personnel Cooperating in Smuggling," *Japan Sea Network Online*, 328, 13 October 1999; and Brad Williams, "Criminalization of Russo-Japanese Border Trade," *Europe-Asia Studies*, Vol. 55, No. 5, 2003, p. 717.

⁶⁵ Williams, p. 717.

⁶⁶ Jongil Kim, "Stop Korean and Russian Mafias," *Korea Financial News*, 24 November, 2003; B. Yupychev, "Rybnye mafiozy dvukh stran nashli obshchii yazyk. Spetssluzhby Rossii I Yaponii poka net," *Sovetskii Sakhalin*, 25 May 1994, p. 2; and Williams, 2003, pp. 712-713.

⁶⁷ Andrei Belov, "Kani no Baburu (4-5), (the Crab Bubble), unpublished manuscript, p. 2, quoted in Williams, p. 713.

⁶⁸ Kim, *Korea Financial News*, 24 November, 2003; and Belov, p. 2, quoted in Williams, p. 713.

⁶⁹ See footnote 81 in Chapter 5.

involved, sometimes operating in coordination with local fishermen and sometimes independently.

Illegal fishing by foreign ships in Russian fishing zones is also becoming a serious issue. Maritime border violations by Asian fishing boats poaching in this region are common and often develop into political, economic, and security issues among Russia and the neighbouring countries engaged in these activities. Since the early 1990s, Russia has made some efforts to resist fishing by Polish, Chinese, and South Korean ships in the open part of the Okhotsk Sea. An agreement has been reached to halt fishing in the area by ships from China and South Korea. Yet, attempts to prevent Polish ships from fishing, for example by denying them the right to stock up in Russian ports, immediately created a situation in which private Russian companies appeared ready to provide the Polish fishing boats with all necessary provisions directly in the fishing areas, which are legally neutral waters. There has been extensive Russian coverage of Japanese and Chinese fishing boats violating Russian territorial boundaries and provoking patrol boats to fire on them, even after agreements had been reached that were meant to prevent this sort of skirmish.⁷⁰ In short, attempts to regulate fishing have led to corruption or to conflicts, both of which are considered threats to national security.

Since illegal fishing is the primary reason for the fishery disputes between Russia and South Korea, it is important to analyze the fundamental causes of illegal fishing activity in the Russian Far East. There can be little doubt that it results from post-Soviet Russia's troubled transition to a market economy. Among the contributory factors, perhaps the single most important one has been the commercial legal framework that regulated the fishing industry. Until recently, most of the laws and regulations relating to the Russian fishing industry had been formulated in the Soviet era. The poaching of fish and marine products and the smuggling of these goods into foreign ports by fishermen virtually did not exist at that time. This means that the laws covering these activities were either nonexistent or inadequate. Williams points out that this legislative gap remained unfilled when the fishing industry and foreign trade were deregulated during the early 1990s. In other words, the commercial legal framework was simply unable to keep up with the rapid developments taking place in the deregulated Russian fishing industry in the early 1990s. It sometimes changed up to 10

⁷⁰ Rozman, Nosov, and Watanabe, p. 214 and 220.

times per year in an effort to catch up with reality.⁷¹ Accordingly, the legal definitions of poaching and smuggling differed, depending on the particular enforcement agency carrying out the investigation. This hindered efforts at inter-agency coordination. Fines and other penalties could not match the financial gains to be made from this illegal commerce and thus failed to act as a deterrent to poachers and smugglers.⁷²

A second contributory factor is the system for allocating fishing quotas, which is perhaps the most frequently discussed issue in both the Russian fishery industry and fishery diplomacy in the Russian Far East. Since privatization, access to fish in the Russian 200-mile zone has been based on contracts or quotas. Access of foreign ships, including Japanese and Korean ships, is negotiated annually on a bilateral basis. Domestic allocations are determined in an administrative process. Rights have been supposed to reflect the size of the past catch of a firm or region. Nevertheless, lobbying and side payments have perhaps been the most important element in granting fishery contracts and quotas. The Russian State Committee for Fisheries has given itself an allocation. Territorial governments receive separate quotas in two forms: some governments, such as Chukotka, have established commercial firms to exercise their quotas, others resell their fishing rights to domestic or foreign bidders.

In fact, the quota distribution system is closely related to Russia's commercial legal framework. By the late 1990s, the fishery quota system had gradually increased and evolved into a highly politicized and complicated structure. The quota allocation is a multi-step process. The State Committee for Fisheries in Moscow examines regional fishing quota applications. The quota-allocation process is as follows: first, quota seekers must submit applications to the Regional Administration Fishing Industry Committees, which consider them and then draft general quota applications and forward them to the Russian State Committee for Fisheries.⁷³

Harvest recommendations are decided on the basis of data collected by the Russian Scientific Research Institute on the Fishing Industry and Oceanography and a regional fisheries science centre called the Regional Scientific Research Institute on the Fishing Industry and Oceanography, which are the main consultants to the Russian State Committee for Fisheries. Based on these recommendations, the Russian State

⁷¹ Interview with the former head of the Sakhalin administration's Department of Foreign Economic Relations, Vitalii Elizar'ev, Yuzhno-Sakhalinsk, 23 August 2001, quoted in Williams, p. 715.

⁷² Ibid.

⁷³ Quota applicants are required to specify the following items: the species of fish or seafood the company plans to catch, the quantity for every vessel, fishing gear, and the area of catching and terms of catching. See Tarrant.

Committee for Fisheries allocates quotas for every species in all basins of Russia every calendar year. Quotas are constrained by inter-government agreements with North and South Korea, China, Poland, and other countries; allocations are required for regional institutes to make prognoses for the following year. The quota document is called the *volume of permissible catch* (VPC). The quotas are forwarded to the Ministry of Agriculture and the State Committee on Environmental Protection and approved by these two organizations before being sent to the prime minister for final approval.⁷⁴

Following the prime minister's approval, the recommendations are passed on to the regional administration for distribution among companies, sometimes through an intermediary industry association. Fishing vessels are finally issued with a fishing ticket according to a number of criteria, including the type of vessels owned by each company, historical catch levels, the vessel operator's record in tax and wage payments, its importance as an employer and social service provider, and any record of fishery violations.⁷⁵ It is interesting to note that among many other factors, quota allocations are usually, but not always, based on the historical ability to catch fish. Disputes sometimes occur between regions. For example, Sakhalin sometimes accuses Primorye of gaining a quota allocation greater than its fair share. Territories with ethnic minorities, such as the Koryak Autonomous Okrug and Chukotka Autonomous Okrug, receive fishing quotas regardless of their proven ability to catch fish in an effort to provide them with special help.⁷⁶

However, despite this long and complicated procedure, the formal criteria listed above are not substantially determining factors, since favouritism and unfair practices occur. Moreover, other informal factors, such as family ties, political connections, and bribery, appear to be more influential. As Allison argues,

Such a complex system, particularly the possibility to move between quota categories, or even to create new special quotas, and to treat the criteria and rules for each category subjectively, has created a high potential for corruption in the allocation process.⁷⁷

⁷⁴ Ibid.

⁷⁵ For details of the process, see Allison, p. 73, and Williams, pp. 715-716.

⁷⁶ Miller and Karp, p. 121-122.

⁷⁷ Allison, p. 73. See also Clarence G. Pautzke, Russian Far East Fisheries Management, North Pacific Fishery Management Council Report to Congress, 30 September, 1997, pp. 30-37, on http://www.fakr.noaa.gov/npfmc/summary_reports/rfe-all.htm, accessed on 25 July, 2004.

The final arbiter for quota distribution, however, is always the State Committee for Fisheries in Moscow.⁷⁸

In December 2000, the Russian government introduced a new quota distribution system, called “open auction”. There were three reasons for this change: to maintain complete control over the fishing industry; to resolve the problem of insufficient funding for fishery enforcement agencies; and to eliminate some of the incentives for corruption that were inherent in the existing system. Under the new system, open auctions are held periodically in Moscow for different species of fish and marine products and the highest bidder receives the right to fish for a given quota. The first auction was reportedly held in February 2001.

Yet because of the extremely high prices at which the quotas are sold, the new system did not put an end to poaching and smuggling. For example, the initial starting price for one type of crab quota being auctioned was \$2.20 per kilogram, but bidding escalated the price and it ultimately sold for \$12.70.⁷⁹ Therefore, the only way that many local fishermen can participate in the auctions is with financial support, either from foreign companies, notably Japanese and South Korean, or from local mafias. In the case of foreign support, debts are typically paid with fish and marine products. Purchasing expensive quotas often drives local fishing enterprises into considerable debt. The only way they can pay off their debts is to catch more fish than initially allocated by their quotas and to sell these products illegally in foreign ports, mainly in Hokkaido, where they allegedly fetch a higher price.⁸⁰ This leads to overfishing. The problem is aggravated by the fact that any Russian enterprise, regardless of its location or type, can participate in the auctions as long as it is financially secure.⁸¹ This means that those who have little knowledge of the local fishing industry and the environmental concerns posed by overfishing are able to purchase quotas.⁸²

The third factor that causes illegal fishing and underground fish market activities in the Russian Far East is Russia’s confiscatory tax regime.⁸³ In the past, Russian entrepreneurs had approximately 50 different taxes to pay, the full amount of which often exceeded their total profits.⁸⁴ This not only encouraged tax evasion but also led local fishing enterprises to engage in poaching to remain financially viable.

⁷⁸ Miller and Karp, p. 122.

⁷⁹ *Rybak Sakhalin*, 3 May 2001, quoted in Williams, p. 716.

⁸⁰ *Yuzhno-Sakhalinskaya gazeta*, 25 July 2001.

⁸¹ *Sovetskii Sakhalin*, 1 October, 2001; *Gubernskie vedomosti*, 15 May 2001.

⁸² Williams, p. 716.

⁸³ *Ibid.*

⁸⁴ East Asian Analytical Unit, Department of Foreign Affairs and Trade, Australian Government, *Pacific Russia: Risks and Rewards* (Canberra, EAAU, 1996), p. 52.

Burdensome regulations and inefficient port procedures have created a situation in which many Russian vessels are effectively based in South Korean and Japanese ports, mainly Busan and Hokkaido. From there they venture into Russian waters to catch fish and then sell them on the open seas. This makes it difficult for Russian authorities to apprehend them.⁸⁵ The tendency of fishery enforcement agencies not to inspect Russian-registered ships has also increased illegal fishing.⁸⁶

A fourth, and perhaps the most direct, cause of illegal fishing is the decline and poor financial resources of Russia's armed forces and law enforcement agencies. Russia's law enforcement agencies depend primarily on the state for financial support to combat poaching and smuggling. Without financial assistance from the government, it is virtually impossible to stop illegal fishing activity. Law enforcement agencies have only a limited number of inspection vessels and no aircraft or helicopters. Moreover, because of chronic fuel shortages and maintenance problems, patrol vessels are often forced to remain tied up in port.⁸⁷ Furthermore, law enforcement agencies receive their wages from Moscow and, in the past, the chronic federal budget deficit has led to significant payment delays. Given their difficult economic situation, rather than apprehending poachers, struggling members of Russia's armed forces, law enforcement agencies, and fishery scientists have been attracted by the potential material benefits derived from participating in illegal trade, such as cash, alcohol, and valuable seafood products, to join in their activities.

The drastic decline in federal subsidies has left government regulatory agencies in a very difficult situation. On Kamchatka, for example, as elsewhere in the Russian Far East, there are reports of illegal fish trading by the agency responsible for enforcing fishing regulations, Kamchatrybvod.⁸⁸

The fifth factor that has contributed to illegal fishing is the power struggle between the federal and local governments over fishery resources. This has clearly created considerable opportunities for corruption and illegal fishing. On 1 January, 1998, for example, the primary responsibility for monitoring and enforcing fishing

⁸⁵ East West Institute, *Russian Regional Report*, 7, 13, and 3 April 2002, p. 8, quoted in Williams, pp. 716-717.

⁸⁶ *Hokkaido Shimbun*, 11 April 1997, p. 31.

⁸⁷ According to one report, border patrol vessels receive only six tons of fuel per year. See *The Sakhalin Times*, 17-31 January 2002, No. 16, <http://www.sakhalintimes.com>; and Williams, p. 717.

⁸⁸ In the autumn of 1994, a correspondent for Russian Far East Update reported that when Kamchatrybvod ran out of money for its operations, it was allowed a quota of 8,000 tons instead. Selling the fish would enable Kamchatrybvod to earn revenues to continue operations. Later it was charged with selling much more fish than its initial quotas to joint ventures for export, thus earning revenues that could easily be hidden in offshore accounts. See Josh Newell and Emma Wilson, *The Russian Far East: Forests, Biodiversity Hotspots, and Industrial Developments* (Tokyo: Friends of the Earth-Japan, 1996), p. 167-168.

quotas was transferred from the Moscow fishing enforcement body, Glavrybod, to the border guard. Members of the industry questioned whether the border guard would, in fact, provide more effective enforcement, since it, too, faced wage and payment arrears from the federal government. Since then, sources in the fishing industry have reported incidents of theft of catch and other forms of hold-up involving individuals in the border guard.⁸⁹

In August 1998, the Russian State Committee for Fisheries announced that 15-20 percent of allowable catch of certain valuable species, such as salmon, sturgeon, and crab, would be offered to the highest bidder at regional auctions. It promised to consult the statistics of trading partners to monitor the illegal export of fish. Industry observers countered that changes that give auctioneers a better measure of the true value of access, might increase rather than reduce corruption. They also pointed out that an annual auction would provide less incentive to undertake specialized investment in the fishery industry than a procedure involving the auction of a license or long-term right to access.⁹⁰

It is important to understand that the current illegal fishery activities in the Russian Far East are not solely a Russian domestic problem. It would be misleading to suggest that it could be resolved immediately if a suitable regulatory framework were established in Russia, since this overlooks the international and regional dimensions, in other words, South Korean, Chinese, and Japanese involvement in illegal fishing and fish sales. It is also the case that Russian fish and its byproducts are being sold by poachers through intermediaries, particularly through businesses established in other states, mostly China.⁹¹ Moscow, local governments in the Russian Far East, and Seoul have taken a number of separate, individual measures, such as arresting Korean and Russian mafias for illegal fishing and money laundering to prevent the poaching and smuggling of fish and marine products. Yet, given the transnational nature of the problem, these initiatives have proved insufficient.

In fact, it is ironic that illegal fishing is one of the few industries in the Russian Far East to attract significant foreign investment. In other words, the reorientation of the fish industry toward export markets has fuelled illegal exports. Considering South Korea's dependence on Russian fishery products, it is mainly Korean consumers who have stimulated this commerce, and South Korea must assume some responsibility for it.

⁸⁹ Thornton, p. 116.

⁹⁰ Ibid.

⁹¹ "Russia's fish trade has gone to the dogs," *Business Report*, 24 June, 2004.

3.2. Korean Fishery Diplomacy

The disputes in the Russian-South Korean fishery relationship stem, in part, from the Korean side. There have been a series of failures over the last few decades in South Korea's fishery diplomacy as a result of clumsy and ineffective policy. Its policy toward Russia has been no exception. The South Korean government lacks fishery information, specialists, and a negotiation strategy. Thus, its policy has always been passive and it has never taken the initiative in fishery diplomacy.

During the saury debate in the South Kuriles in October 2001, for example, South Korea did not have any information regarding what was happening on either the Russian or the Japanese side until Japanese newspapers announced that South Korea would no longer be able to fish in the South Kuriles. It was reported that the South Korean government trusted the Russian government entirely, and believed that Russia would not ban South Korean boats from fishing in the area. South Korea allegedly had only one consultation with Russia on the issue before the incident occurred. Compared with the tenacious Japanese efforts and lobbying in their negotiations with Russia, South Korea did nothing to coax Russian permission to catch saury in the area. On the other hand, Japan clearly presented an economic incentive to Russia to regulate the illegal fishing route and cooperate in fishery resource conservation. Japan promised Russia that it would pay US \$3.5 million for its catch quota.⁹²

South Korea's clumsy and ineffective fishery diplomacy can be attributed to the chaotic situation in its domestic politics. For example, the Minister of Maritime Affairs and Fishery changed six times during former Korean President Kim Dae Jung's five-year term. None of the ministers had the chance to become familiar with the ministry's mission before being replaced. As a result, despite the relatively advantageous geographic position of South Korea, KMMAF has not functioned efficiently.

Although Korean fishery policies in adjacent waters have been under a rigid institutional management regime over the past three decades, failures of the legal arrangements have led to a decline in coastal and offshore fishery resources. In particular, there has been a drastic decline in the stocks of high-value species, illegal fishing activities, overcapacity in some fisheries, environmental degradation of fishing grounds, and international overexploitation on the high seas surrounding neighbouring

⁹² The South Korean government reportedly had five negotiation meetings after the saury incident, but it was too late to reverse Russia's decision. See National Fishery Scientific Institute, *newspaper briefing* 2001, on http://www.nfrda.re.kr/news/scrap/scrap_read.php?cod=2&idx=2728, accessed on 28 July, 2004.

countries.⁹³ Global fishery territories have continued to shrink because of environmental and ecological concerns, and that most states have established strict regulations on foreign fishing vessels. South Korea has failed to cope with these factors.

4. Implications of fishery cooperation for bilateral and regional economic security

As Chapter 2 illustrated, fishery issues are becoming a part of the economic security agenda in international relations because fisheries play an important role in economic development, trade, food security, poverty alleviation, human health, and the national security agenda.⁹⁴ Russia's large fishery zone in the Russian Far Eastern waters and its abundant fishery resources have the potential to contribute to its bilateral economic security relationship with neighbouring states and to regional economic security more broadly.

Ensuring the continued supply of fish and accessing and securing new fishery zones are directly related to South Korea's economic security concerns. The collapse of the Soviet Union, a significant relaxation of military tension in the Asia Pacific, the establishment of diplomatic relations between Moscow and Seoul, and the deregulation of the Russian fishing industry and foreign trade have led to the rapid growth in the fishery and marine product trade between the Russian Far East and South Korea. This relatively small but flourishing trade clearly has the potential to make a valuable contribution to the currently stagnant Russian-South Korean relations. Indeed, there are positive indications in that some consensus has been reached in the course of fishery negotiations, in terms of the number of fishing boats, time and procedures. Fishery cooperation between Russia and South Korea could be the impetus to further economic security cooperation.

Despite the rapid development of fishery activities between the two sides, however, the scale of fishery trading between the two countries has remained relatively small, and there has been rather more conflict than cooperation in the fishery diplomacy between Russia and South Korea and among the states of Northeast Asia. Crucial problems, such as disputes over ownership of a stock or fishing area, have not been resolved and have the potential to resurface in the future. These problems have

⁹³ Seoung-Yong Hong, "Marine Policy in the Republic of Korea," *Marine Policy*, Vol. 19, No. 2, 1995, pp. 99-100.

⁹⁴ *The State of World Fisheries and Aquaculture*, Food and Agriculture Organization of the United Nations (FAO), Rome 2002.

hindered the bilateral and regional economic security building process. Specifically, fishery catch quotas and illegal fishery trade have been major concerns in the fishery diplomacy of the Northeast Asian region. Bilateral fishery cooperation between Russia and South Korea has been hampered by Russia's reduction of the size of South Korean pollack quotas and by illegal fishing. As we have seen, most of these obstructive factors stem from the Russian side, and many of them are associated with Russia's troubled transition to democracy and a market economy. Illegal fishing, in particular, has been a major threat, both direct and indirect, to the diplomatic relations between Russia and South Korea because it is the reason why Russia has reduced the size of South Korean pollack quotas.

Moreover, fishery diplomacy between Russia and South Korea is always vulnerable to conflict even though their current fishery disputes have been resolved. The lack of open conflict does not necessarily mean that either country is, or will remain, satisfied with the compromises that are necessary to sustain the stability of the fishery regime.⁹⁵

Part of the problem is that there is no regime in Northeast Asia to control or mediate fishery disputes. The roles of international fishery organizations are quite limited and, in most cases, fishery diplomacy takes place on the basis of bilateral negotiations. The absence of multilateral maritime regimes often leads fishery talks to be settled on the basis of political calculations by the participating states regarding the rewards and risks, or losses and benefits. It is also important to note that although fishery issues and disputes are clearly transnational, there is insufficient understanding and consideration of the transnational and interdependent character of fishery diplomacy. As Miles points out, "What currently passes for national and particularly regional ocean policy is primitive both conceptually and analytically."⁹⁶ The major obstacle is an inability to formulate and implement ocean policy as an integrated whole, balancing the overall interests of the nation and the region in the both short and long term. According to Valencia, the reason for widespread fragmentation in national policy-making structures and processes for the oceans seems to be the result of the development of ocean uses largely in isolation from each other.⁹⁷

In short, conflicting political considerations, limited institutional authority, disagreements about catch allocations, illegal fishing, problems of enforcement, and the

⁹⁵ Johnston and Valencia, p. 152.

⁹⁶ Edward L. Miles, "Concept, Approaches, and Applications in Sea Use Planning and Management," *Ocean Development and International Law*, Vol. 20, No. 3, 1989, p. 215.

⁹⁷ Mark Valencia, "Regional Maritime Regime Building: Prospects in Northeast and Southeast Asia," *Ocean Development & International Law*, Vol. 31, No. 3, 2000, p. 236.

general lack of ocean policy among Northeast Asian countries, including both South Korea and Russia, all inhibit regional fishery cooperation in Northeast Asia.⁹⁸ As a result, fishery cooperation between Moscow and Seoul has not so far fulfilled its potential to contribute to the two countries' economic security and to regional economic security more broadly.

⁹⁸ William Sutherland and B. Martin Tsamenyi, *Law and Politics in Regional Cooperation: A Case Study of Fisheries Cooperation in the South Pacific* (Taroona, Australia: Pacific Law Press, 1992), pp. 1-3.

Chapter 7. Arms Trade Cooperation

Introduction

This chapter reviews the developments that have been made and the problems facing Russian-South Korean military cooperation, primarily focusing on the arms trade. South Korea has acquired a number of Russian weapons including battle tanks, fighting vehicles, helicopters, missiles, and various other weaponry since 1994. In particular, the two arms trade projects called “Brown Bear projects” highlight one of the most promising aspects of their relationship in recent years. This chapter argues that Russia’s interests in selling weapons to South Korea primarily stem from economic security motives. Yet this does not mean that Russia simply wants to sell its arms to South Korea for commercial purposes as it does to traditional customers such as North Korea, China, India and Iran. The arms trade was used as part of the Russian debt repayment scheme to South Korea. This chapter also demonstrates that there are also traditional security consequences of the Russian-South Korean arms trade.

Compared with the previous four case studies, the arms trade between Russia and South Korea has clearly produced more substantial outcomes, primarily through the realization of the second Brown Bear project, as illustrated in the latter part of this chapter. For example, deliveries of Russian military hardware have contributed to building mutual trust between Moscow and Seoul. The arms trade has led to military and technical cooperation, and it has securitized the economic interests of both countries. In other words, as Russia’s new arms trading partner, South Korea can help to alleviate both the serious depression that occurred in Moscow’s defence industry after the collapse of the Soviet Union, and Russia’s more immediate concern to repay its debt to South Korea. At the same time, the arms trade has enabled South Korea to purchase new hi-tech Russian weapons and space technology at very competitive prices, compared with the relatively expensive Western, predominantly American, prices.

Nevertheless, there are still a number of obstacles in the Russian-Korean arms trade which hinder the establishment of bilateral economic and military security, as well as traditional regional political and military security in Northeast Asia. These include the lack of experience in arms trading on both sides, the bitter history between the two nations, harsh criticism from their respective domestic constituencies, North Korea and the United States, and technical difficulties.

This chapter begins with an account of the trends in Russian arms transfers after the collapse of the Soviet Union. An examination of the development of military cooperation between Russia and South Korea will follow. The chapter pays particular attention to the obstacles that obstruct the arms trade between the two countries. The final section of the chapter assesses the future potential of the Russian-South Korean arms trade.

1. Russian arms transfers after the collapse of the Soviet Union

The arms trade between Russia and South Korea needs to be understood in the context of the Russian arms trade system more generally. For the arms trade between Moscow and Seoul coincided not only with South Korea's new appetite for Russian arms, but also with a serious depression in Russia's defence industry. The first and most obvious rationale for Russia in seeking arms exports was to secure hard currency, and to provide financial support to the defence industry.¹ This section deals with the domestic dimension of Russia's troubled arms trade, primarily focusing on the political, economic, social and psychological implications of the arms trade for Russia, a brief summary of the arms trade during the Soviet period, and the reasons for the depression in the post-Soviet Russian arms trade.

There is no denying that the Russian arms trade clearly lost its political salience at the end of the Cold War. And yet it is still regarded as having the potential to maintain Russian national security at both the regional and the international level and, in the process, to consolidate economic security. Indeed, since the collapse of the Soviet Union, arms exports have become a significant source of hard currency for Russia, along with its oil and gas sales.

The arms trade (arms export, or arms transfer) is important to Russia for political, social, economic, and even psychological reasons. From the economic perspective, arms exports are viewed as a way of bringing the troubled military industrial complex out of its crisis and of saving Russia's scientific and high-tech industrial potential. From a political perspective, they are considered an important political tool to promote Russia's influence in the world, and to boost its international prestige. In the social context, the residents of the closed cities — scientists, engineers, and labourers working in the military-industrial complexes — are a powerful and well-

¹ Alexander A. Sergounin and Sergey V. Subbotin, "Sino-Russian military-technical cooperation: a Russian view, in Ian Anthony, ed., *Russia and the Arms Trade* (Frosunda: Sipri, Oxford University Press, 1998), p. 195.

organized interest group.² Therefore, as Pierre and Trenin note, Russia's arms trade unexpectedly became a matter of everyone's concern and began to influence Russian foreign and defence policy as well as domestic policy in the industrial and social domains.³

During the Cold War, exports of conventional weapons played a crucial role in acquiring and maintaining ideological and political spheres of influence in international politics. Indeed, the trade was largely driven by strategic and political rather than commercial interests.⁴ Both Russia and the US routinely provided ideologically motivated security assistance, while supplying their client states with heavily subsidized and, in many cases, free military hardware and training.

In the 1980s the Soviet Union exported weapons and military technology worth about US \$10 billion annually. Sales reached their peak in 1986, as Figure 7 shows, when they exceeded \$14 billion. Overall, a breakdown of military deliveries and services for the period from 1986 to 1990 illustrates that 40 percent were credit-based, 27 percent were free, or provided under a discounted compensation formula, and only 33 percent constituted transactions for cash.⁵

Since 1991, Russian arms exports have decreased significantly due to a number of factors that are genetically related to post-Cold War and post-Soviet transitional phenomena. As Figure 7 shows, Russian arms exports plunged from \$14.0 billion in 1986 to \$1.34 billion in 1994.⁶

² Andrew J. Pierre and Dmitri V. Trenin, *Russia in the World Arms Trade* (Washington, D.C.: Carnegie Endowment for International Peace, 1997), p. 1.

³ Ibid.

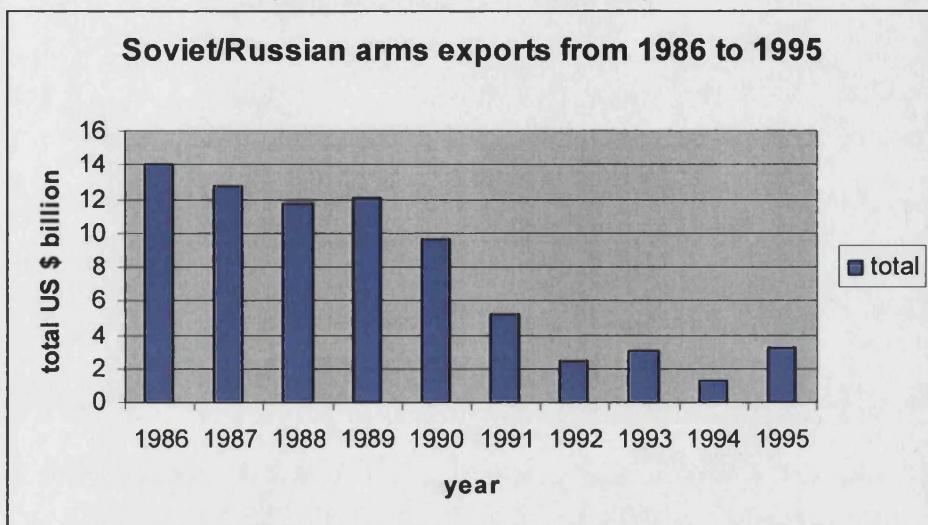
⁴ Baidya Bikash Basu, "Russian Military-Technical Cooperation: Structures and Processes," *Strategic Analysis: A Monthly Journal of the Institute for Defense Studies and Analyses (ISDA)*, Vol. 25 No. 3, June 2001, p. 1, on http://www.ciaonet.org/olj/sa/sa_june01bab01.html, accessed on 21 November, 2004.

⁵ *Conversion in Russia* (Moscow: Interdepartmental Analytical Center, 1993), pp. 65-66, quoted in Igor Khripunov, "Russia's Arms Trade in the Post-Cold War Period," *The Washington Quarterly*, Vol. 17, No. 4, Autumn 1994, p. 79.

⁶ Sergei Akshintsev and Veniamin Zubov, "Exports Launch A Counterattack," *RusData DiaLine-BizEkon News*, 4 November, 1995.

Figure 7 Soviet/Russian Arms Exports, 1986-1995

(Unit: billions of US current dollars)



Source: SIPRI arms transfers database, 5 December, 2005.

The Russian arms industry has been hard hit by a devastating set of circumstances, including:

The overall reduction in international demand for arms, the parallel reduction in what Russia itself can afford to buy, inefficiencies plaguing the transition from a state-run to a commercially run industry, strong competition from US and other European producers, and internationally sanctioned arms embargoes against some previously lucrative clients.⁷

One reason for the reduction in the international demand for arms was the improvement in East-West relations, which was accompanied by a general process of arms reduction in Europe. According to Russian government figures, 2.5 million of 6.1 million employees left the defence sector between 1991 and 1995; in 1996, only 10 percent of the industry's capability was being utilized. A large part of the orders that were placed by the Russian military went unpaid; at the beginning of 1998, the government owed 18.5 trillion roubles to defence enterprises.⁸

A second reason for the reduction in the international arms market was the negotiated settlement of a number of regional conflicts in the Third World. By 1991 the market for arms in the developing countries had already dropped to \$28.6 billion, down

⁷ Stanley Sloan, US Congressional Research Service, *Book reviews of Andrew J. Pierre and Dmitri V. Trenin eds., Russia in the world arms trade* (Washington, DC: Carnegie Endowment For International Peace, 1997).

⁸ Alexander A. Sergounin and Sergey V. Subbotin, *Russian Arms Transfers to East Asia in the 1990s*, SIPRI Research Report, No. 15 (New York: Oxford University Press, 1999), pp. 15-16.

sharply from \$61 billion in 1988. It continued to decline in the immediate post-Soviet years, reaching \$15.4 billion in 1995, before rising again in the second half of the decade, to about \$20 billion in 1999.⁹

Another reason for the reduction in arms sales is the enforcement of international embargoes on arms sales to Russia's traditional large-scale purchasers of arms such as Iraq, Libya, and Yugoslavia. Moreover, many developing countries also reduced their imports of modern weapons systems because of domestic, economic, and financial constraints.¹⁰ In particular, as Gennady Chufrin notes, considering that most of Russia's recent clients are located in Asia, the financial crisis in Asia in 1997 and 1998 also partly explains the slump in the Russian arms trade in the 1990s.¹¹ Russia's debt repayment scheme, which will be discussed in the latter part of this section, can be viewed as another possible cause of the decrease in Russia's arms exports in the 1990s. This scheme forced the government to cut export subsidies and subsequently caused a slump.

Perhaps the most plausible explanation for the reduction in Russian arms sales is that with the end of the Cold War, Russia lacked any ideological grounds to justify exporting its arms. Accordingly, Russian arms export policy shifted from ideologically based to commercially oriented considerations. In more specific terms, as Khrripunov notes, the new Russian arms export policy was aimed at a cash-on-delivery approach and finding new markets, and that meant lifting restrictions on the export of the most state-of-the-art systems and technologies.¹²

As a result, after a steep decline, Russian arms sales began to rise gradually in the second half of the 1990s. Due to tenacious sales efforts, Russia reversed the decline, and once again became a major contender in the international arms market. In 1995, sales were 65 percent higher than in the previous year and Russia actually led the world in conventional arms exports agreements in 1995.¹³ Although cash receipts in 1995 were only about \$3 billion, Moscow claimed that this was still twice the amount that had actually flowed into the budget in 1987, when sales were almost entirely financed

⁹ P. Shenon, "Russia Outstrips U.S. in Sales of Arms to Developing Nations," *The New York Times*, 20 August, 1996.

¹⁰ Akshintsev and Zubov.

¹¹ Chufrin is a researcher at the Stockholm International Peace Research Institute. See Simon Saradzhyan, "The Battle for the Weapons Trade," *The Moscow Times*, 17 November, 1998.

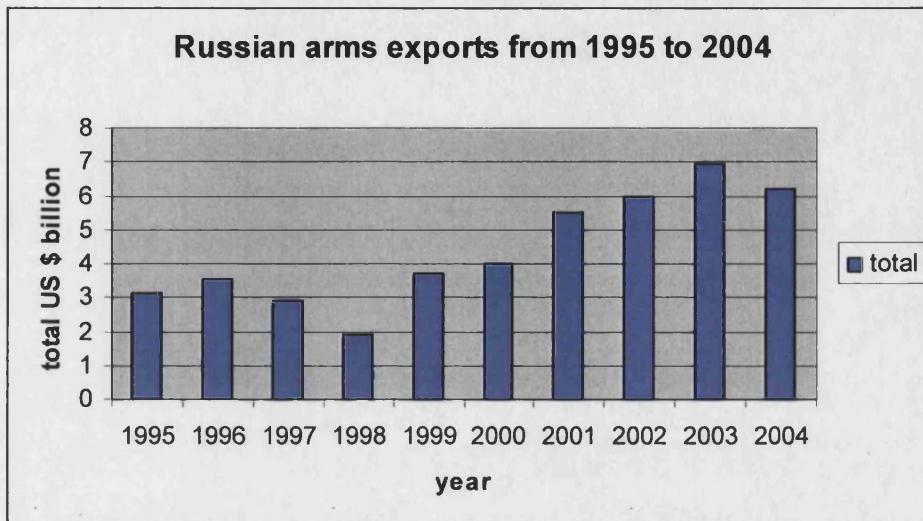
¹² Khrripunov, p. 79.

¹³ Paul Mann, "Russians lead in arms exports, but success regarded as fluke," *Aviation Week & Space Technology*, 2 September, 1996, Vol. 145, No. 10, p. 79.

with soft credits.¹⁴ Arms exports were worth \$3.5 billion in 1996, as Figure 8 shows, more than double the level of \$1.34 billion in 1994.¹⁵

Figure 8 Russian arms export from 1995 to 2004

(Unit: billions of US current dollars)



Source: SIPRI arms transfers database, 10 January and 20 December, 2005.

Russia absorbs about 14 percent of the world arms market, more than France and one-third the level of the US. Moreover, the arms industry accounted for more than half of Russia's manufactured exports in 1998.¹⁶ Indeed, there was a definite demand for Russian arms on the world market, not only from its traditional arms customers including Hungary, India, Slovakia, China, and Vietnam but from India and China, which are currently the largest purchasers of Russian arms and to whom Russia sells virtually everything they seek. As Figure 9 demonstrates, they account for about 70 percent of recent arms sales from Russia.¹⁷

¹⁴ It is interesting to note that despite the Soviet experience with soft credits, Russia has still not moved to a strictly cash and carry basis for its arms sales. Only about 60 percent of 1996 and 1997 revenues were said to have been collected in convertible currencies. See Robert H. Donaldson and John A. Donaldson, "The Arms Trade in Russian-Chinese Relations: Identity, Domestic Politics, and Geopolitical Positioning," *International Studies Quarterly*, Vol. 47, No. 4, 2003, p. 713.

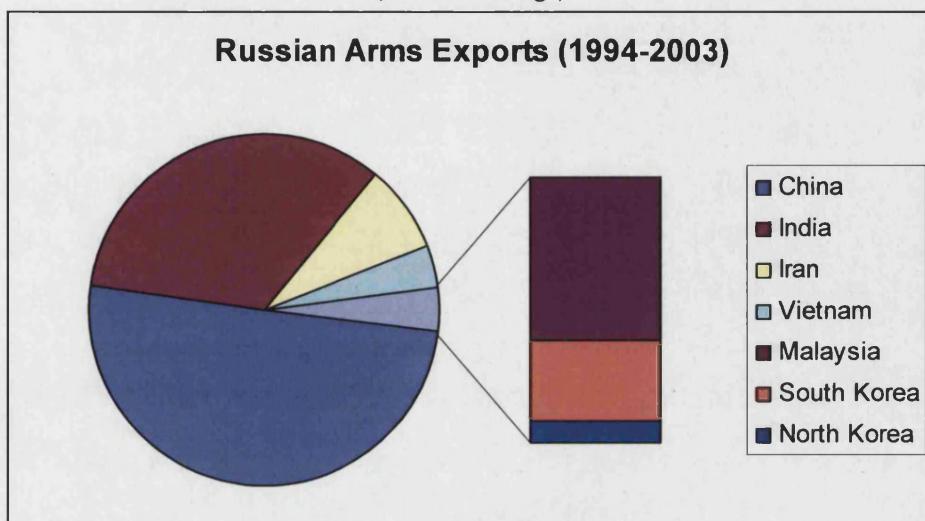
¹⁵ Michael Richardson, "Making Inroads in Asian Arms Market: In Switch, U.S. Allies Consider a Rival," *International Herald Tribune*, Neuilly-sur-Seine, France, 15 March, 1997.

¹⁶ Saradzhyan.

¹⁷ Russia has sold MIG-29 fighters to Hungary, India, and Slovakia, and SU-27 fighters to China and Vietnam. See Akshintsev and Zubov. See also "Russia's Arms Bazaar," *Jane's Intelligence Review*, April 2001.

Figure 9 Russian Arms Export to the World (1994-2003)

(Unit: Percentage)



Source: SIPRI arms transfers database, 10 January, 2005.

However, Russia has also attempted to develop new markets in Asia, South America, and Europe, which in some cases used to be the exclusive domain of western suppliers. These new trading partners include Cyprus, Brazil, Kuwait, the United Arab Emirates, South Korea, and Southeast Asian nations such as Pakistan, Sri Lanka, Indonesia, Thailand, and Malaysia.¹⁸ Figure 9 also demonstrates, however, that Russia's arms sales to new East Asian markets such as Malaysia, Indonesia, and South Korea have been relatively small. Between 1998 and 2002, according to the US Congressional Research Service, Russia signed deals worth \$19.8 billion with developing states, which represented 22.6 percent of all their arms purchases.¹⁹

Although the major reason for Russian arms exports is to boost its declining military industry and increase its hard currency earnings, it is important to understand that Russia has not only been selling its most advanced weapons systems to countries that can afford to pay in hard currency. It has also used arms sales to reduce its foreign debts. Indeed, the arms trade between Russia and South Korea was clearly initiated in this context.²⁰

¹⁸ For example, these include the sales of MIG-29 fighters to Malaysia; BMP-2/3 armoured personnel carriers to Kuwait; Igla anti aircraft launch systems to Brazil. See Akshintsev and Zubov; and see also *BBC Summary of World Broadcasts*, 14 October, 1996, from Russia TV channel, Moscow in Russian 11:30 gmt, 12 October, 1996.

¹⁹ *Moscow Times*, 13 August, 2002, on <http://dlib.eastview.com/searchresults/printarticle.jsp?art=4>, accessed on 19 November, 2004.

²⁰ Russia exported arms to Hungary for the same reason. The Hungarian Ministry of Defense announced in August 1993, for example, that 28 MIG-29 interceptor aircraft were accepted as partial cancellation of former Soviet debts. The cost of the planes, US \$760 million, amounted to about one half of the former

2. The development of military cooperation between Russia and South Korea

The first publicly acknowledged military contacts between Russia and South Korea occurred in 1992 when, for the first time in South Korean history, a South Korean military official and Deputy Chairman of the Chief Staff General Committee, Song Un Sob, visited Russia and agreed to develop bilateral military cooperation. In October 1992, a Russian military delegation led by First Deputy Defence Minister, Andrei Kokoshin, visited South Korea. During the visit, South Korea first mentioned an experimental purchase of Russian military hardware including MiG-29 planes, mines, torpedoes, tank ammunition, and SA-16 ground-to-air missiles.²¹ It was revealed later that in April 1991, following the establishment of diplomatic relations, Russia had offered MiG-29 and MiG-31 aircraft to South Korea, the former at lower than usual prices, in return for consumer goods.²²

During 1992, Seoul considered purchasing some Russian defence firms to operate them as joint ventures in aerospace, advanced materials, electronics, and lasers and genetic engineering. Seoul proposed supplying facilities to commercialize the Russian defence industry. Following their visit to secret Russian defence plants, South Korean officials were very optimistic about joint projects, and about acquiring aerospace technology and composite materials for aircraft. At that time, Russia seemed willing to sell space technology and even nuclear technology to South Korea.²³

The first official visit of a Russian naval squadron to South Korea led by First Deputy Commander Vice-Admiral of the Russian Pacific Fleet, Igor Khmelnov, occurred on 31 August, 1993. A South Korean naval squadron, headed by Commander of the First Fleet of South Korea, Rear Admiral Lee Su Yong, paid a return visit to Vladivostok in September 1993. Also in September 1993, when the Chairman of the South Korean Joint Chiefs of Staff, Yang-ho Lee, visited Russia officially, the two sides agreed to hold joint naval manoeuvres for the first time.²⁴ However, there was little concrete progress in Russian-South Korean military cooperation until 1994.

Substantial military cooperation started in 1994. Since then, their collaboration has included transfers of weapons and military technology, joint naval exercises, and

Soviet trade debt with Hungary. German officials were also quoted as saying in May 1994 that Russia proposed paying part of its debt with deliveries of MIG-29 fighter aircraft. Germany declined the offer. See *RFE/RL Daily Report*, 13 May, 1994.

²¹ *Itar Tass Weekly News*, 15 May, 2000.

²² Sergounin and Subbotin, p. 111.

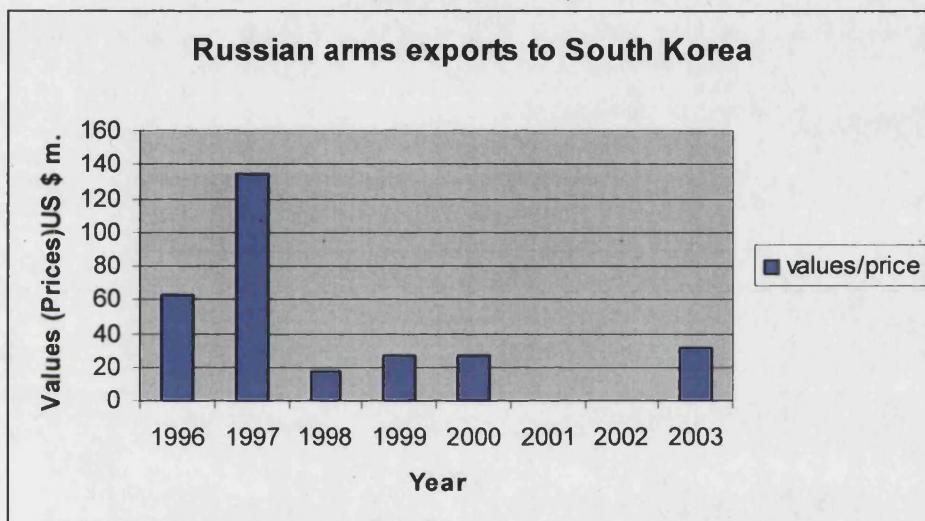
²³ *Ibid.*

²⁴ *Itar Tass Weekly News*, 15 May, 2000.

exchange visits of high-ranking military officers. As the two “Brown Bear” Projects will illustrate, the primary incentives for their military cooperation stemmed from their respective national economic agendas. In other words, Russia used the arms trade primarily in order to repay its Soviet debts to South Korea. As Figure 10 illustrates, Russian arms exports to South Korea peaked in 1997. The arms trade cooperation will continue to meet the two sides’ mutual economic and political interests for the time being, at least until the Russian debt to South Korea is completely cleared.

Figure 10 Russian arms exports to South Korea from 1996 to 2003

(Unit: US\$ million)



Source: SIPRI arms transfers database, 10 January 2005.

The first important arms deal between Russia and South Korea was named the “Brown Bear” Project. It began in 1994 and lasted until April 1997.²⁵ It stemmed principally from economic motives, that is, Russia’s scheme to repay the Soviet debt to South Korea which had been incurred in the late 1980s and the early 1990s by selling weapons and providing additional weapons and spare parts for cash.

In the summer of 1993, Aleksandr Shokhin, the chairman of the Commission for Military and Technical Cooperation, visited Seoul. He offered a package of proposals to sell state-of-the-art military hardware as payment for Russia’s interest on some US \$1.47 billion in loans extended by South Korea since 1988.²⁶ Although in January 1994, the Russian Ministry of Foreign Affairs initially rejected repaying outstanding debts to South Korea by means of military hardware, it accepted Shokhin’s proposal for military

²⁵ Han-Ruh Bangsan Hyupryuk Jaryojip (*Korea-Russia Military Industrial Cooperation Report: focusing on the first and the second Brown Bear project*), South Korean Ministry of Defense, November 2003, Seoul, Korea, p. 41.

²⁶ RFE/RL Daily Report, 23 August, 1993.

and technological cooperation with South Korea, and anticipated a favourable South Korean response.²⁷

According to the Russian armed forces newspaper, *Krasnaya zvezda*, Russia's proposal, was well received by the South Korean government at first, but the deal was suddenly delayed due to resistance from the US defence industry. Specifically, the US government was reported to be highly concerned that Russian Mig-29s and S-300 tactical missile interceptors could successfully compete against US F-16 Ms and Patriots.²⁸ North Korea, Russia's traditional arms purchaser and its former ideological ally, also protested harshly to Russia that a possible deployment of Russian S-300s by Seoul would threaten Pyongyang's long-term military security.²⁹ Finally, due to US pressure, the S-300 was not selected for Seoul's new missile programme to replace the vintage 1950s Nike-Hercules fleet.³⁰

Nevertheless, Moscow finally succeeded in exporting arms to Seoul. On 29 April 1994, the defence ministers of South Korea and Russia signed a memorandum of understanding on bilateral military exchanges. No specific weapons deals were mentioned at that time, but Pavel Grachev, the Russian Defence Minister, reiterated that Moscow was ready for full-scale military cooperation with Seoul.³¹ After a series of talks, Russia and South Korea agreed in July 1994 that Moscow would pay \$450.7 million in overdue principle and interest over a four-year period through deliveries of various raw materials, including nonferrous metals, as well as military hardware.³²

As Table 11 shows, the first shipment of Russian weapons to South Korea, worth \$210 million, began in September 1996. It consisted of BMP-3 armoured personnel carriers, T-80U battle tanks, a METIS-M anti-tank missile, an IGLA anti-aircraft missile, munitions, parts, raw materials, and Ka-32T civilian helicopters.³³ The T-80U tank was regarded as the most up-to-date version of Russian armoured hardware. In 1999, South Korea agreed to purchase an additional 13 BMP-3 carriers and 33 T-80

²⁷ *Ibid.*, 26 January, 1994.

²⁸ *Krasnaya zvezda*, 18 September, 1993, quoted in Khripunov, p. 79.

²⁹ *Korean Defense news*, 28 February-6 March, 1994.

³⁰ The new, SAM-X missile programme had been delayed for many years largely due to public distrust of the US Patriots system's capability. Instead of the Russian S-300, the Patriot Advanced Capability 3 (PAC-3) was chosen. See "Defense Production and R&D, Korea, South," *Jane's Sentinel Security Assessment, China & Northeast Asia*, 26 May, 2004.

³¹ *RFE/RL Daily Report*, 2 May, 1994.

³² Tsuneo Akaha, "Russia and Asia in 1995: Bold Objectives and Limited Means," *Asian Survey*, Vol. 36, No. 1, January 1996, pp. 104-105.

³³ *Han-Ruh Bangsan Hyupryuk Jaryojip*, p. 26; *Itar Tass Weekly News*, 1 July, 1997, on <http://dlib.eastview.com/searchresults/printarticle.jsp?art=8>, accessed on 20 November, 2004; *United Press International (UPI)*, 30 August, 1999; and Viktor Linnik, "New Arms Diplomacy," *The Moscow Times*, 12 November, 1996.

tanks worth \$1.5 billion to offset part of Russia's debt.³⁴ South Korea was reported to be the first state to purchase this armament.³⁵ According to a South Korean defence ministry report, Russia was initially hoping to deliver MiG-29s, KA-50 fighting helicopters, S-300 antiaircraft missiles, and 54 other items to South Korea, whereas South Korea allegedly requested MiG-29s, SMERCH (300mm cannon), TUNGUSKA cannon, BMP-3 armoured personnel carriers, T-80U tanks, and 10 other items. In the course of negotiations, Russia finally refused South Korea's demand for MiG-29, contending that South Korea had to purchase at least 12 MiG-29 fighters as a minimum sales requirement.³⁶

Table 11 Russian Arms Transfer to South Korea in the 1990s

Category	Equipment Type	Quantity	Delivery	Manufacturer	Comments
9M115 Saxhorn AT-7	Anti-Tank Missile	45	1996	Tula	For technical evaluation
9M119 Sniper AT-11	Anti-Tank Missile	396	1996-97	Tula	For T-80U tanks
9M117 Bastion AT-10	Anti-Tank Missile	528	1996-98	Tula	For BMP-3 IFVs
T-72	Main Battle Tank	n/a	1997/98	State Arsenals	
BTR-80	Armoured Personnel Carriers	n/a	1997/98	State Arsenals	
T-80U	Main Battle Tank	33	1997-97	State Arsenals	
9K115/9M115	Air to Ground Missile	40-50	1996	Tula	
Ka-32A/ Helix-C	Helicopter	8	1999-2000	Kamov	For Maritime Police (Coast Guard)
Mi-17	Helicopter	20	1996	Ulan Ude	
BMP-3	Infantry Fighting Vehicles	70	1996-98	State Arsenals	For marines, Three-man crew plus nine other infantry men
Igla-1E	Portable Spy Aircraft Missile System	45	1995-96	Tula	

Source: Jane's Sentinel Security Assessment, China & Northeast Asia, 26 May, 2004; Stockholm International Peace Research Institute Research Report No. 15, 1999; "Defence Products from Russia," *Military Technology* (February 1993), special advertising section; and *Han-Ruh Bangsan Hyupryuk Jaryojip* (Korea-Russia Military Industrial Cooperation Report: focusing on the first and the second Brown Bear project), South Korean Ministry of Defence, November 2003, Seoul, Korea.

According to a South Korean military official, South Korea's requirements in the selection of Russia's arms were, first, that the weapons had to be those that North Korea was currently using and was planning to purchase in the future, second, they had

³⁴ IPS (Inter Press Service)/ Global Information Network, 25 May, 1999.

³⁵ BBC Summary of World Broadcasts, 14 October, 1996.

³⁶ *Han-Ruh Bangsan Hyupryuk Jaryojip*, pp. 26-27.

to be newly invented, and third, there should be no difficulties in terms of their maintenance and operation.³⁷

Four Ka-32 helicopters were also delivered to Seoul during the First Brown Bear project term, as Table 11 shows. One of them was paid for in cash and the other three were supplied in payment of Moscow's debt. Among the military hardware imported from Russia, helicopters were the most popular item to Koreans because of their multi-purpose function. The Ka-32's initial purpose was anti-submarine warfare, minesweeping, fire-fighting, and search and rescue operations.³⁸ However, it has been used for various purposes in every sector of the Korean government including the Ministry of Defence, the Forestry Department, and the Department of Natural Disaster Management. Helicopters have been the chief component of Russian arms exports in the last decade.³⁹

Apart from the arms trade, other forms of military cooperation between Russia and South Korea include joint military exercises, participating in tender activities, training servicemen, mutual visits of high ranking officers, transfer of military technology, and cooperation between the military industrial private sectors.

Since 1996, there have been various types of exchange visits on a regular basis. In July 1996, for example, two South Korean warships, Masan and Chonju, visited Vladivostok to participate in the celebration of the 300th anniversary of the Russian Navy. In 1997, the Russian Pacific Fleet flagship Varyag paid a friendly visit to South Korea.

Joint exercises of the Alpha unit of the Russian Federal Security Service and the special detachment-47 of the South Korean ground forces were held in Moscow in June 1997 to practice different approaches to seizing terrorists and freeing hostages.⁴⁰ In October 2000, Russia and South Korea held their first joint naval exercises about 50 miles off Vladivostok. The two countries simulated the rescue of a civilian vessel in distress in international waters.⁴¹ In 2003, South Korea also sent two ships and

³⁷ Ibid.

³⁸ "Defense Production and R& D, Korea, South," *Jane's Sentinel Security Assessment, China & Northeast Asia*, 26 May, 2004.

³⁹ In 2000, Russia exported more than 7,000 Mil helicopters worldwide at an estimated profit of \$20 billion. According to the Russian state defense export agency, Rosvooruzhenie, one out of every five helicopters in the world was designed by Mil. See "Russia Pushing Military Helicopter Exports," *Helicopter News, 2000 Phillips Business Information, Inc.*, 11 February, 2000.

⁴⁰ *Itar Tass Weekly News*, 5 December, 2000, on

<http://dlib.eastview.com/searchresults/printarticle.jsp?art=52>, accessed on 19 November, 2004.

⁴¹ *Interfax*, 14 October, 2000; Anatoly Medetsky, "Russia, S. Korea, hold joint naval drill," 10 March, 2000, on <http://vn.vlasnews.ru/arch/2000/iss211/text/txt2.html>, accessed on 15 February, 2003.

helicopters to take part in Russia's Vostok-2003 command-post exercise.⁴² Joint exercises between the two navies over the past several years have been effective in enhancing military cooperation. In November 2004, the commander-in-chief of the Russian Pacific fleet, Viktor Fyodorov, expressed deep gratitude to the South Korean navy commander for rescuing wrecked Russian fishing boats, and saving the lives of 71 Russian civilians during a stormy night. It was reported that two South Korean navy ships discovered the wrecked ship, saved the entire crew and took emergency steps to avoid an explosion.⁴³

Collaboration between the two countries was further strengthened by an exchange of high ranking military officials. The Russian Defence Minister, Igor Sergeyev, paid an official visit to South Korea in September 1999, for example, during which Moscow and Seoul agreed to conduct their first joint search and rescue naval exercises in 2000. They also agreed on regular mutual visits of defence ministers and chairmen of their Joint Chiefs of Staff, and to hold annual joint defence policy consultations.⁴⁴ During Sergeyev's visit to Seoul, South Koreans were less enthusiastic about purchasing additional Russian conventional weapons than in the acquisition of highly advanced military technologies. Seoul also encouraged Moscow to participate in international arms tenders in Seoul.⁴⁵ In May 2000, the South Korean Defence Minister, Cho Song Tae, paid a return visit to Russia. He and Sergeyev agreed to establish a direct telephone hotline between the two ministries, to exchange visits of warships, and to increase the number of South Korean military personnel training at Russian military educational institutions.⁴⁶

In November 2002, the Russian Defence Minister, Sergei Ivanov, and his South Korean counterpart, Lee Jun, discussed the establishment of various forms of joint combat training in the Asia Pacific zone. They also reiterated that the two sides would cooperate on the issue of international terrorism and the prevention of the proliferation

⁴² 2003 *Financial Times Information, Global News Wire-Asia Africa Intelligence Wire, BBC Monitoring International Reports*, 11 September, 2003.

⁴³ *The South Korean Ministry of National Defense Briefings*, 22 November, 2004.

⁴⁴ *FBIS (Foreign Broadcasting Information System)*, DR/EAS (0902, 1999); and *Itar Tass Weekly News*, 2 September, 1999, on <http://dlib.eastview.com/searchresults/printarticle.jsp?art=35>, accessed on 20 November, 2004.

⁴⁵ *Itar Tass Weekly News*, 30 August, 1999, on <http://dlib.eastview.com/searchresults/printarticle.jsp?art=3>, accessed on 21 November, 2004.

⁴⁶ Pavel Koryashkin, "Russia, ROK Agree on Defense Ministries Phone Hotline," *ITAR-TASS*, 16 May, 2000.

of weapons of mass destruction. Ivanov reported that more than 60 South Korean military officers had studied in Russian higher educational institutions since 1994.⁴⁷

Russia began to participate in South Korea's international arms tender activities. In 1996, the MiG designers and another Russian jet manufacturer, Sukhoi, represented Russia at South Korea's air force modernization programme Expos (SAS-96) in Seoul.⁴⁸ Sukhoi presented its Su-35, new Su-37 fighter, and Mig-29 in direct competition with the US F-15E fighter and France's Rafale fighter for contracts. Russian officials allegedly left Su-30, Su-35 and Su-37 aircraft in Seoul for South Korean experts to evaluate.⁴⁹

In 2000, the Russian state arms export agency *Rosvooruzhenie* also participated in the tender for South Korea's \$1 billion helicopter programme.⁵⁰ The Russian KA-50 Black Shark helicopter worth US \$15-17 million, and the Mi-28N combat helicopter, were listed among the contenders at the South Korean tender.⁵¹ It was reported that South Korea might become the first country to acquire the Mi-28N.⁵² In 2001, there was another important helicopter tender in Korea, the winner of which was supposed to receive orders worth \$80 million for helicopters to be used by South Korean presidents in future years. Accordingly, Mil offered South Korea its Mi-172 helicopter, an export modification of the modernized Mi-8 helicopter. However, during the tender, the Russian Mil Firm, Bell, and Eurocopter firms dropped out of the competition, and only the British-Italian European Helicopter Industries Company and the US Sikorsky remained as the final contenders. The Sikorsky finally won the tender.⁵³

⁴⁷ "Russian Federation-South Korean military cooperation developing dynamically- DM," *Itar Tass Weekly News*, 11 November, 2002, on <http://dlib.eastview.com/searchresults/printarticle.jsp?art=82>, accessed on 19 November, 2004.

⁴⁸ Elena Denezhkina, "Russian defense firms and the external market," in Ian Anthony, ed., *Russia and the Arms Trade* (Frosunda: Sipri, Oxford University Press, 1998), p. 143.

⁴⁹ More than 100 world leading firms including Lockheed, Martin Marietta, Boeing, Sikorsky, Dassault, British Aerospace, participated in this 7th international Air Show in Seoul, and the American F/A-18E/F, France's Rafale and Russia's Sukhoi Su-35 appeared to be the primary contenders for South Korea's F-X air force modernization programme. See Linnik; and Andrei Ivanov, IPS (Inter Press Service/Global Information Network), 19 November, 1996.

⁵⁰ *Rosvooruzhenie* also works with Seoul in the spheres of electric diesel submarines, air defense systems and aircraft. See *Interfax news agency*, 18 August, 2000; South Korea was also to purchase approximately 100 helicopters, a fairly large order. See also *Vremya Novostei*, 4 September, 2000, in 2000 Agency WPS (What The paper Say), 8 September, 2000.

⁵¹ *Interfax news agency*, 11 September, 2001.

⁵² It was said that the Russian Armed forces did not have this craft in their armory yet. See *Segodnya*, 6 September, 2000.

⁵³ Yun Chung, phone interview with Special Assistant for Defence Policy, Office of Assemblyman Hwang Jin Ha, Republic of Korea National Assembly, 6 January, 2006; and "Seoul-Russia-Armaments," *Itar Tass Weekly News*, 28 February, 2001, on <http://dlib.eastview.com/searchresults/printarticle.jsp?art=43>, accessed on 19 November, 2004.

Russia also cooperated with the South Korean private sector. In October 1996, for example, Russia signed an agreement with the aerospace division of the South Korean Samsung corporations to supply civil and military versions of the Mi-26 helicopter. The *Rostvertol* company was in charge of delivering one Mi-26TS to Samsung Aerospace Corporation in early 1997, followed by four civil and six military Mi-26s in 1998. *Rostvertol* and Samsung Aerospace Corporation also concluded an agreement to cooperate on a feasibility study of the Southeast Asian market and in the supply of the Russian company's products to this region. The two companies also established a servicing centre for Russian helicopters in Southeast Asia, and produced a joint Russian-South Korean helicopter. This was allegedly the first delivery of helicopter equipment designed by the Mil design bureau to South Korea.⁵⁴

Since 1995 a large number of Russian defence industry scientists and engineers have been working on long-term contracts in South Korean private defence enterprises such as Samsung, Daewoo, and Hyundai. It was reported that at least 30 Russian specialists had worked for Samsung in 1995.⁵⁵ The demand for commercial intermediaries of Russian military technology has increased dramatically and their numbers have risen steadily in South Korea. For example, the Defence Seoul 1995 International Arms Exhibition featured two different Russian displays. One was presented by *Rosvooruzheniye*, which successfully demonstrated the S-300V anti missile system. The other display was provided by the *Promeksport* (Industrial Export) firm, which was subordinate to the State Committee for the Defence Branches of Industry.⁵⁶

Moscow's willingness not only to supply manufactured weapons, but also to transfer defence high technology, is the key to enhancing its military and technical cooperation with Seoul. Since the late 1990s, South Korea has adopted a "strategy of pursuit," according to which South Korean industry introduces foreign technologies, thus reducing expenditures on developing its own technologies. Seoul hopes to apply the same principles to high technology arms such as anti-aircraft missiles and reconnaissance satellites. Seoul has also shown great interest in Russia's Su and MiG combat aircrafts which North Korea currently owns, S-300 air defence missile systems, anti ship cruise missiles, and reconnaissance satellites.⁵⁷ In October 2004, the two sides

⁵⁴ Ivanov, A., 1996.

⁵⁵ *The Current Digest of the Post-Soviet Press*, Vol. XIVII, No. 41, 8 November, 1995, p. 24; and *Izvestia*, 10 October, 1995.

⁵⁶ *Ibid.*

⁵⁷ It is reported that North Korea has 30 Mig-29 and 35 Su-25, out of 500 total combat jets. See *Itar Tass*, 27 August, 2002, on <http://dlib.eastview.com/searchresults/printarticle.jsp?art=54>, accessed on 19

reached an agreement on the production of a rocket carrier. According to a Russian press release, Moscow and Seoul agreed that Russia's Khrunichev State Research and Production Space Centre would create a blueprint of the rocket and South Korea would manufacture it. The launch of the rocket is scheduled for 2007 but the details of its technical features are still classified at this stage.⁵⁸

Apart from selling arms, Russia also sold discarded military hardware and weapons to South Korea for the use of metal scrap. In 1995, two heavy aircraft-carrying cruisers the *Minsk* and the *Novorossiisk*, and 32 combat ships of other classes were among the decommissioned Pacific Fleet warships to be cut for metal scrap in South Korea.⁵⁹ Following a debate over whether they should be scrapped in Russia or in South Korea, the ships were delivered intact, and the Russian Defence Ministry reportedly got the full contract sum for the sale of the *Minsk* and the *Novorossiisk*, \$4.58 billion and \$4.3 billion, respectively. Nevertheless, Russian defence officials and analysts complained that the deal was potentially harmful to Russia, since the ships were relatively new and among the most sophisticated and would possibly reveal important military information to South Korea.⁶⁰ The South Korean company that purchased the two cruisers was reported to be the full owner of 44 other decommissioned ships from the fleet. South Korea also purchased 200 decommissioned T-54 tanks as scrap from the Far Eastern Military District in 1995, the first contract valued at \$600,000.⁶¹

One of the least successful aspects of Russian-South Korean military cooperation has been the negotiation of the possible purchase of Russian submarines by South Korea. In 1997, Daewoo Heavy Industries, part of the South Korean conglomerate Daewoo group, sought Russian technical assistance to build a new and larger class of submarines.⁶² In September 1998, the South Korean National Defence Ministry suggested the construction of diesel-electric submarines in 2000 to parliament. South Korea sought to modernize its navy which already possessed nine submarines

November, 2004; and Sergei Golotuk and Yuri Golotuk, "Moscow is ready to share its military secrets with Seoul," *Russky Telegraf*, 3 June, 1998, from Agency WPS (What The Papers Say), 4 June, 1998.

⁵⁸ "Russia, S. Korea to produce rocket carrier," *Xinhua*, 28 October, 2004.

⁵⁹ A large part of the revenue from the sale of the ships for scrap was to be transferred to the fleet's budget to build housing for families of servicemen. See Nikolay Geronin, "Russian Ships for Scrap Only, Says ROK," *Itar-Tass*, 7 April, 1995; and *Izvestia*, 16 June, 1998, pp. 1 and 4.

⁶⁰ Steve Glain, "Korea Aircraft Carrier Deal Prompts Skepticism," *Wall Street Journal*, Seoul, 5 April, 1995, p. A 9.

⁶¹ Oleg Kruchek, "South Korea Finally Gets *Minsk* and *Novorossiisk* Sold to Her a Year Ago," *Segodnya*, Khavarovsk, 25 October, 1995, p. A2.

⁶² Richardson.

very similar to Russian Kilo-class submarines. Russia was willing to participate in the South Korean submarine project.⁶³ During the Moscow foreign minister summit on 25 January 1999, the two sides agreed that Russia would deliver three Kilo-class submarines worth one billion US dollars to South Korea.

However, following a detailed investigation by the South Korean navy in May 2000 and consultations with Russian submarine specialists in August 2000, South Korea decided not to proceed with the contract. The Korean navy announced that the Kilo class submarines were outdated and had difficulty in meeting the inter-operability requirements of the South Korean navy. South Korea purchased a license for submarine production from Germany instead of Russia.⁶⁴ Even before the public announcement, Russia had already discovered that South Korea would decline the submarine project through informal channels. This incident sparked a diplomatic dispute.⁶⁵

A second "Brown Bear" project was proposed by the South Korean National Security Council in November 2000.⁶⁶ Its purpose was fundamentally different from the purpose of the first "Brown Bear" project, since it was intended primarily to make up for the fact that the kilo class submarine deal that had been under negotiation from January 1999 to August 2000 had been unsuccessful. It was also intended to compensate for other Russian proposals that South Korea had declined. For example, Russia had proposed selling SU-35 fighters, TU-334 passenger aircraft, SA-12 missiles, and amphibious aircraft to South Korea in 1999. Seoul declined the proposals because of protests from Washington.⁶⁷ This created a diplomatic problem between Russia and South Korea, as a result of which the South Korean National Security Council decided to resume the arms trade with Russia. Russian debt repayment played a subsidiary part in Seoul's decision to buy Russian arms; half the amount owed for the arms was paid in cash, and the remaining half was written off from the Russian debt to South Korea. The second "Brown Bear" project included Russian military transport and training planes,

⁶³ An interview with Lieutenant General, Nikolai Zlenko, Deputy Director of the Main Directorate for International Military Cooperation of the Defense Ministry, quoted in Agency WPS (What The Papers Say), 11 August 1999.

⁶⁴ *Segodnya*, 9 November, 2000; and *Han-Ruh Bangsan Hyupryuk Jaryojip*, p. 43.

⁶⁵ *Han-Ruh Bangsan Hyupryuk Jaryojip*, pp. 43-44.

⁶⁶ *Ibid.*, pp. 40-52.

⁶⁷ Yekatarina Titova, 'Ko vzaimoi vygode', *Rossiskaya Gazeta*, 29 May 1999; and *Japan Times*, 27 April, 1999.

air tankers, hovercraft, antitank missiles, helicopters, and various other commodities, including aluminium, and war materials.⁶⁸

The second project provided a substantial impetus to bilateral security and political relations. The South Korean government's attempts to resume military talks after several unfulfilled contracts suggest that the military activities also served as a confidence-building process.

As Table 12 shows, South Korea continued to receive \$240 million worth of arms and military hardware from Russia, including 3 T-80U tanks, 30 BMP-3 armoured personnel carriers, 70 METIS-M portable tactical rocket systems, and 50 IGLA portable air defence systems.⁶⁹ The BMP-3 and T-80U had been used for training purposes since their delivery in 1996. However, they were now planned to be integrated as active units into Korea's 3rd Armoured Brigade by the end of 2004.⁷⁰ Moreover, South Korea also acquired a total of 28 civilian helicopters (21 KA-32T and 7KA-32C) from Russia as part of the debt repayment scheme.⁷¹

Arms sales and military technological cooperation between Moscow and Seoul continued in 2001, when Moscow and Seoul signed a memorandum of intention stipulating the delivery to Seoul of Russian military hardware worth a total of \$700 million.⁷² In May 2002, a contract with the MiG Corporation was signed to supply a batch of training aircraft, the delivery of which was to start in 2003. In December 2002, the South Korean Ministry of National Defence announced that it would purchase additional Russian weapons including Metis anti tank missiles, 10 more T-80U, and 30 more BMP-3s by 2006, as part of the second Brown Bear project.⁷³

As Table 12 shows, further arms deals took place in 2003. In September 2003, Moscow and Seoul signed another agreement on outstanding debts of \$2.6 billion, clearing the way for deliveries of weapons worth \$700 million. Russia has also offered the Ka-52K battlefield helicopter to South Korea.⁷⁴ Most recently, South Korea's navy received the first of three Murena-e hovercraft (air-cushion landing craft) worth \$41 million from Russia on November 11, 2005 and is due to receive two more by 2006.

⁶⁸ "Moscow and Seoul agree on Russian Arms Deliveries," ITAR-TASS, 28 February, 2001; Lyuba Pronina, "02' Arms Sales Revenues Top \$ 4 billion," *The Moscow Times*, 16 December, 2002.

⁶⁹ Seung-Ho Joo, "Russia and Korea: The Summit and After," *The Korea Journal of Defense Analysis* Vol. 13, No. 1, Autumn 2001, Seoul, Korea, p. 118.

⁷⁰ "Defense Production and R&D, Korea, South," 2004.

⁷¹ *Hanguk Ilbo*, 8 October, 1999, and Joo, 2001, p. 118.

⁷² Evgenii Moskvin, "Who Will Be Defense Minister?" *Nezavisimoe Voyennoe Obozrenie*, No. 8, February 2001, pp. 1-3, in 2001 Agency WPS (What The Paper Say), 7 March, 2001; and *Financial Times*, USA Edition 1, 14 March, 2001

⁷³ *Itar Tass*, 12 November, 2002, on <http://dlib.eastview.com/searchresults/printarticle.jsp?art=62>, accessed on 19 November, 2004; and "Defense Production and R&D, Korea, South," 2004.

⁷⁴ *Reed Business Information UK*, 7 October, 2003.

South Korea also sent 24 South Korean navy officers to Russia's Naval Education Center and a Khabarovsk shipping dock last May to learn how to operate and maintain the vessels.⁷⁵

Table 12 Russian arms transfer to South Korea in the 2000s

Number of ordered	Category	Equipment type	Year of order	Year of deliveries	Number of delivered	Comments
23	Il-103	Light aircraft	2002	2003	23	Deal worth \$9 m (incl \$ 4.5 m payment of Russian debt to South Korea; for training)
7	Ka-32A/Helix-C	Helicopter	2002	2003	2	Transport version; delivery 2003-2004
30	BMP-3	IFV	2002	2003	6	Delivery 2003-2006
3	T-80U	Main battle tank	2002	2003	1	Delivery 2003-2006
...	AT-13 Saxhorn/9M131	Anti-tank Missile	2002	2003	50	Part of payment for Russian \$209m debt to South Korea

Source: SIPRI arms transfers database, 10 January 2005.

3. Obstacles to Russian-South Korean arms trade cooperation

Moscow and Seoul are still suspicious and wary of each other, primarily because of two extremely bitter historical events: military conflict during the Korean War in 1950 and the shooting down of a Korean civilian aircraft (Korean Air) by a Soviet MiG fighter in 1983. Nevertheless, in February 2001 Seoul decided to begin the Second Brown Bear project, to purchase US \$700 million of Russian arms. Yet despite the promising aspects of the bilateral arms trade, Russia faces a number of obstacles in expanding its arms sales to South Korea. They include technical difficulties including “operational failings in the systems, difficulty in acquiring spare parts, and potentially serious setbacks associated with non-interoperability,”⁷⁶ lack of experience on both sides, the opposition of both the US and North Korean governments, and unfavourable public opinion in South Korea.

⁷⁵ The 105-ton Murena-e, a fast naval vessel with a maximum speed of 55 knots per hour, will be used to salvage aircraft and ships stranded in shallow waters and on wet land and to transport personnel and materials. See *Korea Defense Industry Association*, 7 November, 2005; and *Aerospace Daily and Defense Report*, 8 November, 2005.

⁷⁶ *Jane's Sentinel Security Assessment, China & Northeast Asia*, 26 May, 2004.

3.1. Technical difficulties

Since Russia and South Korea share neither the same arms trade procedure, nor the same arms systems, the two Brown Bear projects are not typical of their bilateral arms trade.⁷⁷ Two sets of technical difficulties explain South Korea's reluctance to import Russian military hardware. One is that the South Korean military has faced difficulty in converting from its US-based weapon system to a new Russian system. The second problem is that the newly acquired Russian military hardware is frequently faulty.

The South Korean Defence Ministry complained about the poor quality of the arms purchased from Russia during the first Brown Bear project, and also about lack of maintenance and chronic delays in deliveries of parts. For example, Seoul purchased 33 T-80U tanks and as many BMP-3 battle infantry vehicles. Yet only 21 of these armoured vehicles were actually operating, due to their poor maintenance condition and delayed deliveries of parts.⁷⁸ Furthermore, South Korea was not the only customer to complain about Russian military hardware. It was reported that in the mid-1990s, Malaysia had to ground six of the seventeen MiG-29 fighters it purchased from Russia due to lack of maintenance and spares.⁷⁹ Moreover, according to South Korean military reports, the Russian submarines purchased by China in the 1990s had to be left at anchor in the Yangzhou River for a significant period due to the delays in deliveries of spare parts. The belief that Russian hardware was generally of poor quality made the South Korean Defence Ministry sceptical about importing Russian weapons.⁸⁰ President Putin apparently issued a strong warning to his government in 2001 to improve the quality of its military production, especially regarding maintenance service and timely deliveries of spare parts to foreign customers.

The second technical problem concerns conversion. South Korea has been the exclusive domain of western military suppliers, predominantly American, for almost six decades and although some Russian experts believed that conversion differences would be easy to overcome, many problems remain. South Korea has experienced technical difficulties, especially regarding the compatibility of navigation, communications, and control systems of Russian and South Korean military hardware during the process of

⁷⁷ Jin Sun Park, "Bulgomsaupul tonghan Kunsagishul hwakbo (Military technology acquisition through Brown Bear Projects), on <http://www.military.co.kr>, accessed on 15 December, 2004.

⁷⁸ Ivan Safronov, "Russia May Liberalize Arms Exports," *Kommersant*, 25 October, 2001; and 2001 Agency WPS (What The Paper Say), 25 October, 2001.

⁷⁹ Ibid.

⁸⁰ Park, J.S.

switching from one weapon system to another.⁸¹ Above all, inter-operability was a particular concern. For example, Russia's anti-tactical ballistic missile system, S-300PMU, did not have an identification friend or foe system compatible with US and Western technologies.⁸² The Russian weapons' incompatibility with the existing American-made landing or radar equipment in South Korea was particularly difficult to overcome. One solution used by South Korea to minimize weapon system incompatibility was to install Korean-made radio systems or other electronic devices in BMP-3 and T-80U vehicles and Korean computers in METIS-M portable tactical rocket systems.⁸³

3.2. Lack of experience

Given the fact that Russian-South Korean military ties have only existed for a decade and the two former enemy states still do not have full confidence in one another, difficulties have arisen between the two sides in the course of negotiations. While Seoul criticizes Russia for not releasing sufficient information about the arms, for example, Moscow complains about the South Korean Defence Ministry's continual requests for more detailed information about the military hardware. A South Korean Defence Ministry official who participated in the negotiation process was quoted as saying that, as a result of the legacy of Soviet arms trade policy which was used as a form of aid to client states, Russia was simply not used to dealing with its new selective customers like South Korea. However, this minor friction can simply be attributed to the overall lack of experience between the two sides.⁸⁴

3.3. US objections

The US administration's objections to South Korea purchasing weapons from Russia were noticed in the mid-1990s, especially following Russia's delivery of T-80U tanks to South Korea. The former Defence Secretary, William Perry, was urgently dispatched to Seoul, for example, where he succeeded in substantially slowing down Russian-South Korean arms trade cooperation. In a public statement in April 1997 during a visit to Japan, former US Defence Secretary, William Cohen, made it clear that the US strongly opposed South Korea's plan to acquire SA-12s, Russia's most modernized tactical air defence system, and S-300 PMU anti-tactical ballistic missile

⁸¹ *Itar Tass news agency*, 7 February, 2001.

⁸² "USA urges South Korea to buy Patriot over S-300V," *Jane's Defense Weekly*, 16 April, 1997, p. 3; and Sergounin and Subbotin, p. 112.

⁸³ Park, J.S.

⁸⁴ *Han-Ruh Bangsan Hyupryuk Jaryojip*, p. 146.

system. Cohen maintained that while it would be preferable that Russian surface-to-air missiles (SAMs) were not actually deployed, the US would not mind if South Korea purchased some S-300PMUs for testing purpose or other kinds of training.⁸⁵ He argued that US concern was due both to the possible risk that the Russian weapons could threaten the US aircraft aviation system, and to US interest in selling American air defences.⁸⁶ Accordingly, he urged Seoul to buy the Patriot air defence system instead of the Russian SAMs. In response to US protests, Russia argued that the US policy was aimed at destroying Russia's arms exports not only on the Korean Peninsula.

US objections to Russian arms sales played a more far-reaching role than just affecting the arms trade between Russia and South Korea. It should be viewed in a global context. Russians strongly believed that the rapid decline of Russian arms sales after the collapse of the Soviet Union resulted from a conscious US effort to force Russia out of the market and achieve dominance in the world arms trade. Russia constantly accused the US of adopting similar tactics to prevent it from selling arms to Columbia, India, Cyprus, Brazil, and Indonesia in the mid 1990s.⁸⁷ The US is even said to have discouraged Russia from selling arms to China since China would eventually use the arms against Russia. Moreover, the US made serious efforts to stop Russia exporting arms to new markets such as Latin America. For example, in 1996 Russia won a tender to supply 10 Mi-17 helicopters to Columbia, overcoming competition from a number of US and European firms. The Americans brought political pressure to bear on Columbia by imposing sanctions and trade isolation, in order to persuade them to cancel the deal with Russia. Russians also protested that the US undertook all possible measures to persuade Brazilians to give up importing Russian MiG-17 aircraft instead of the US made F-16 and F-18 planes in the mid 1990s.⁸⁸ In early 2002, Russia participated in four different international tenders in South Korea, Turkey, Malaysia, and Brazil, hoping that the possible contracts would earn it between \$4.5 billion and \$10 billion hard currency. Russia failed to win the tenders, primarily due to US objections and lobbying for its own defence companies.⁸⁹

⁸⁵ "USA urges S. Korea to buy Patriot over S-300V," *Jane's Defense Weekly*, 16 April, 1997, p. 3.

⁸⁶ Bill Gertz, "Egypt wants to buy high-tech Russian SAMs; Use of U.S. aid for purchase would be illegal," *The Washington Times*, 30 May, 1997.

⁸⁷ In 1997, Russia accused the U.S. of sabotaging \$1.8 billion sale of 40 SU-30 fighter planes to India. See "U.S. Tried To Stop SU-30 Planes' Sale," 1997 Softline Information, INC. Ethnic News Watch, News-India Times, 25 July, 1997.

⁸⁸ A similar situation continued in connection with the proposed sales of the S-300 systems to Cyprus. See Anton Surikov, "A War Against Russian Arms," *Pravda Five*, from Russia Information Inc.-RusData Dialine, Russian Press Digest, 16 January, 1997.

⁸⁹ *Ekspert*, No. 35, September 2002, pp. 26-29; and 2002 Agency WPS (*What The Papers Say*), 26 September, 2002.

With the exception of the deals which formed part of the debt repayment scheme, Russia has also experienced difficulty in competing directly against US military equipment in the 'open' South Korean arms market in recent years. During the international jet fighter tender at Seoul in 2002, for example, Russia's Sukhoi Su-35, Dassault's Rafale, and the Eurofighter Typhoon of a four-nation European consortium were regarded as the most promising three competitors. Sukhoi was very confident that it would win the tender, since it expected less than \$3 billion for the aircraft, while Dassault asked \$4.17 billion, Boeing \$4.4 billion, and Eurofighter \$5.5 billion. However, thanks to US political pressure, US Boeing's F-15K won the contract, which was not only an outdated 1972 vintage model but also about to stop production. The Russian arms export agency, *Rosoboroneksport* complained that the process of selection was strongly biased towards the Boeing company.⁹⁰

In fact, as a result of US pressure, the South Korean Defence Minister organized a second round of the tender and abruptly changed the terms. Price ceased to be the decisive factor; instead, the aircraft's operational compatibility with existing South Korean military hardware and political considerations became the crucial criteria for the selection. These two criteria tended to favour the Boeing. However, the decision to buy the Boeing F-15K had repercussions in South Korea's domestic politics, creating a clear division between the political and military elites. It was virtually impossible to create a national consensus in Seoul on the choice of weapons at that time.

Rosoboroneksport's complaint was echoed by Yves Robin, a Dassault executive in Korea. He accused the Korean military of bias, claiming that political considerations were in conflict with the tender terms. A high ranking officer of the Korean Agency of Defence Development admitted that Seoul was under enormous pressure from the US government and some senior Korean officers revealed that the US behaved extremely arrogantly, threatening Seoul indirectly with plans to stop further sales of any technology to Seoul. There were spontaneous demonstrations in Seoul to protest the government's decision to buy the relatively old US military hardware. It was reported that the Defence Minister was summoned to the parliament to explain and his subordinates were charged with corruption. US pressure led the South Korean government to arrest two members of the tender commission, one was the officer who had denounced US pressure, and the other was the person who had voted for the French

⁹⁰ *Hankook Ilbo*, 11 April, 2002.

proposal. Charged with taking bribes, both lieutenant colonels were imprisoned.⁹¹ Despite the scandal, it was still Boeing that won the tender.

In short, there is no denying that the US does object to its strategic allies buying Russian military hardware. Russia's success in its arms trade with South Korea has been dependent upon its ability to overcome US pressure on the South Korean government.

3.4. North Korean objections

Since 1996, North Korea has also harshly criticized Russia for delivering advanced military equipment to South Korea. Compared to US objections, North Korean protests are not a major impediment to the development of the arms trade between Russia and South Korea. Nevertheless, Pyongyang has publicly criticized Moscow's delivery of weapons to Seoul as "a reckless act fanning the flames of war," stating that "encouragement to crime is a double crime, and Moscow is no less hostile toward North Korea."⁹² At the time of South Korea's procurement of the T-80 tank, North Korea only possessed the T-72, an earlier version of T-80. South Korea also showed a lot of interest in the Su-35 jet fighter, a major North Korean weaponry system that was supplied by the Soviet Union.⁹³ Moreover, South Korea's acquisition of S-300PMU anti-tactical ballistic missile system was aimed at countering North Korea's Scud ballistic missile. Pyongyang, therefore, contends that Moscow's arms export policy toward South Korea is not based on commercial considerations but is instead a grave political and military issue threatening peace and security on the Korean Peninsula. Russia responded to Pyongyang's criticism by arguing that North Korea was not a good market.⁹⁴

⁹¹ *Ekspert*, No. 35, September 2002, pp. 26-29.

⁹² *North Korea Central News Agency (KCNA)*, Pyongyang 08:13 gmt, 30 September, 1996 from BBC Summary of World Broadcasting Corporation, 1 October, 1996.

⁹³ *Han-Ruh Bangsan Hyupryuk Jaryojip*, p. 24; "North Korea lashes at Moscow for weapons exports to South Korea," *Agence France Presse*, 30 September, 1996.

⁹⁴ *Rosvooruzheniye* Deputy General Manager, Mikhail Timkin, argued, "It is not our fault because North Korea is not a solvent country. We now proceed from the premise that we don't have friends, only partners." See Andrei Ivanov, "Disarmament: Russian Small Arms Sales Booming in Asia," *Inter Press Service (IPS)*, 19 November, 1996.

4. Implications for Russian-South Korean security cooperation

This chapter has shown that Russian arms transfers to South Korea represent one of the more promising aspects of their bilateral relationship. Compared with the other economic projects in which the two countries are involved, the arms trade has been by far the most active and substantial. The arms trade illustrates an interesting aspect of comprehensive security in that it is an element of both traditional military and political security as well as non-traditional economic security. Apart from contributing to the traditional security interests of Russia and South Korea, the arms trade, like technology, credit, and energy transfers, contributes to their national economic security interests.

4.1. Economic security dimension

The arms trade between Moscow and Seoul has the potential to enhance their bilateral economic security relations. Many of the factors that affect the arms trade, such as the availability of economic resources, the perceptions of prestige attendant upon obtaining high-technology oriented weapons programmes, and the debt repayment scheme, have little to do with traditional security interests.⁹⁵ South Korea's relations with Russia, for example, are oriented primarily toward acquiring the most up-to-date military hardware and space technologies that cannot be obtained elsewhere. The former director general of *Rosvooruzhenie* stated in 1996 that the Russian arms trade placed emphasis on exporting the most sophisticated state-of-the-art systems:

If previously the Soviet Union did not deliver, as a rule, the newest model of arms to other countries, today Russia sells modern, high-tech models. This is a major difference between Russia's arms exporting policy and the US policy. The US often sells other than best weapons system abroad, and most often sells either used arms or arms which have been in the arsenal for many years.⁹⁶

This gives Seoul the opportunity to choose the most advanced arms and, at the same time, to end its total dependence on the US or West European countries. South Korea hopes to establish domestic production of at least some components of Russian weapons.

⁹⁵ Desmond Ball, "Arms and Affluence: Military Acquisitions in the Asia-Pacific Region," *International Security*, Vol. 18, No. 3, Winter 1993-1994, p. 103.

⁹⁶ Basu.

South Korea can purchase these advanced weapons at competitive prices and this is why the arms trade with Russia enhances South Korea's economic security.

From the Russian perspective, Russia's economic security interests, including expanding its commercial opportunities and its urgent need to pay its debt to South Korea, have dominated its arms trade with South Korea. Russia's domestic economic crisis since the collapse of the Soviet Union has been a serious security concern and arms exports are one of the instruments through which Russia's economic interests have become securitized. Specifically, the economic security incentives of the Russian arms trade are to earn hard currency and improve the balance of payments; to reduce domestic arms procurement costs with economies of scale in production; to sustain employment and maintain the defence industrial infrastructure; to reduce research and development costs for mass-produced arms; and to use military production spin-offs to catalyze other economic, scientific, and technological development.⁹⁷

At a more basic level, arms transfers to South Korea have reduced the South Korean debt burden on the Russian economy. In fact, the Russian arms trade with South Korea, which meant abandoning Russia's long-term international ally, North Korea, suggests that the economic burden had become so pressing that resolving it had become one of Russia's most urgent national security issues.

Moreover, South Korea represented a small, yet entirely new, market, which, in the longer term, has the potential to provide contracts for Russian high technology plants, and make it possible to preserve their scientific and production potential.⁹⁸ Furthermore, the sale of military know-how may turn out to be mutually advantageous. According to *Russky Telegraf*, the Russian Defence Ministry may find it more beneficial to use some components manufactured in South Korea in collaboration with Russian technology than organizing or maintaining their production in Russia itself. In addition, if the arms trade with South Korea is successful, it could promote Russia's high technology products in the South Asian markets too.⁹⁹

Although the hard currency that can be earned from military-technical cooperation with South Korea cannot be compared to the hundreds of millions of dollars that Russia may be able to earn from the realization of its natural gas and oil pipeline projects, gas and oil deliveries simply confirm Russia's status as a major supplier of raw

⁹⁷ Mikhail I. Gerasev and Viktor M. Surikov, "The Crisis in the Russian Defense Industry: Implications for Arms Exports," in Andrew J. Pierre and Dmitri V. Trenin eds., *Russia in the World Arms Trade* (Washington, DC: Carnegie Endowment For International Peace, 1997), p. 19.

⁹⁸ *Interfax Russian News*, 2 March, 2001.

⁹⁹ Golotuk, S. and Golotuk, Y.

materials. Arms and military technology exports, on the other hand, would categorize Russia as a highly technologically developed nation.¹⁰⁰ This means that arms exports could diversify Russia's national export marketing strategy from its energy and raw material orientation to a technology driven strategy.

4.2. Political and strategic security dimension

Russian arms sales to South Korea are also intriguing from a political and strategic security perspective. Political motives have clearly been subordinate to economic incentives, and are of relatively minor strategic significance. Yet arm sales are not negligible with respect to politics and security.

For South Korea, Russian weapons were clearly attractive from a strategic security perspective, since, although North-South relations have improved significantly in the last few years, North Korea remains South Korea's primary enemy state and its potential adversary. The fact that South Korea and China both use the same weapons systems as North Korea places enormous psychological pressure on North Korea which is completely isolated in the Northeast Asian security framework, without any potential ally apart from China. Moreover, South Korea's further acquisition of Russian weapons could present a major threat to North Korean national security.

From the Russian perspective, even though arms transfers have been conditioned more by commercial than geopolitical considerations, Russia could use its arms relationships for political advantage. Military-technical cooperation with South Korea could develop into a long-term strategic partnership, which would create a new balance of power in Northeast Asia favourable to Russia. According to *Rossiskaya gazeta* in 1997, Russia regarded South Korea as a counterweight to Japan's potential expansion of its armed capacity.¹⁰¹ In other words, the further development of military cooperation with Seoul provides Russia with a strategic counterweight to a number of potential threats such as US hegemony, and the rise of Japanese and Chinese power. In short, military cooperation between the two sides enhances not only bilateral economic security relations but also strengthens Russia's relative traditional security position in the Northeast Asian region.

The acquisition of advanced Russian arms would be beneficial to South Korea in the long term because it facilitates its military modernization programme. This may make it possible for South Korea to reduce its conventional armed forces and

¹⁰⁰ *The Current Digest of the Post-Soviet Press*, Vol. XIVII, No. 41, 8 November, 1995, p. 24; and *Izvestia*, 10 October, 1995.

¹⁰¹ *Rossiskaya gazeta*, 26 April, 1997, p. 3.

concentrate on the development of advanced weapons. In this respect, the prospects for joint military research and development of high-tech weapons and aerospace technology projects are very promising.

4.3. Limits and threats

Despite the rapid development of military cooperation activities, however, the scale of the arms trade between the two countries remains relatively small. As we have seen, there are a number of obstacles and a strong military-based Russian-South Korean alliance is highly unlikely to emerge as their shared geopolitical and strategic interests are not urgent and are deterred by the neighbouring states in Northeast Asia.

The arms trade between Moscow and Seoul can hardly be considered traditional arms trading because it has been an integral part of Russia's debt repayment scheme, but this has meant that it has met the two sides' immediate economic security interests by decreasing Russia's debt to South Korea. It is not clear whether the two countries will continue to their arms trade once the Russian debt to South Korea is completely cleared.

Both Russia and South Korea have been extremely careful in gauging the reactions of neighbouring countries, notably North Korea and the United States. For this reason, they have hesitated to announce their arms trade activities in their official diplomatic discourse to either the regional or the international community. Whereas Russia has been more concerned with North Korea's reaction, South Korea has been equally concerned with both governments' reactions. Neither North Korea nor the United States would be satisfied if large scale arms transfers were made from Russia to South Korea. In particular, since South Korea has been an important regular customer of American defence industries, the US government has put pressure on the South Korean government regarding the transfer of Russian arms to Seoul. Moreover, some South Korean, North Korean, Chinese and US defence officials have been highly concerned that Moscow's arms transfer to Seoul might threaten traditional military and political security in the region.

Several of the economic projects in which Moscow and Seoul are involved require North Korean participation, and the arms trade between Russia and South Korea does not facilitate trilateral economic cooperation involving Pyongyang. As a result, it is perhaps too early to say that the arms trade cooperation between Moscow and Seoul will continue to contribute to the two countries' comprehensive security.

Chapter 8. The North Korean Factor

Introduction

This chapter examines the role of North Korea in the bilateral relations between Russia and South Korea. The primary purpose of the chapter is to explore whether the North Korean factor has enhanced bilateral security relations between Moscow and Seoul, or whether it acts as a deterrent. To this end, the chapter assesses the evolution of Russia's policy toward North Korea from the Gorbachev to the Putin era, Russia's stance on North Korea's nuclear weapons programme, and its approach to the issue of Korean reunification.

The primary argument is that North Korea has both a direct and an indirect influence on Russian-South Korean bilateral relations because Russia's relations with North and South Korea are interconnected. Perhaps one of the greatest failures of Russian foreign policy toward the Korean peninsula before Putin came to power was its two-track policy toward the two Koreas. Russian political leaders initially considered that there was no reason to link policy toward North and South Korea since they had different goals and approaches to each of the countries. This was a mistake; the assumption that reducing political, military, and economic ties with Pyongyang would, in the long term, improve relations with Seoul proved to be wrong. In fact, Russia's gradual loss of leverage over North Korea has not been beneficial to improving its relations with South Korea because Russia has lost a political card it could have used in formulating a diplomatic agenda toward South Korea.

The chapter also argues that North Korea has become both a security threat *and* a factor that can potentially boost Russian-South Korean comprehensive security relations. As we have seen in previous chapters, North Korea has sometimes acted as an obstacle to economic cooperation in projects such as the TSR-TKR link and the natural gas pipeline. On the other hand, in the long term, once the nuclear issue has been completely settled, North Korea has the potential to facilitate bilateral relations between Moscow and Seoul, for North Korea will have no option but to make the rational choice of basing its policy on economic motives which would reap it much needed financial assistance. North Korea's involvement in trilateral economic cooperation has the potential to contribute to both bilateral Russian-South Korean comprehensive security and to regional security more broadly. So far, however, North Korea has hindered the establishment of comprehensive security between Moscow and Seoul.

The chapter also illustrates that Russia's role in Northeast Asia is dependent upon the role it plays in North Korea's nuclear crisis and the Korean unification process. Many Russians believe that a democratic, neutral, and unified Korea would meet Russia's interests because it could act as a counterbalance to Japan or China, not only in terms of political and strategic issues, but also as an economic ally. Thus Russia would clearly benefit more from the unification of Korea than any other country surrounding the Korean peninsula.

1. The evolution of Russian policy toward Pyongyang

An understanding of the evolution of Moscow's North Korean policy since the 1980s is essential to comprehend the trilateral relations between Moscow, Pyongyang, and Seoul. For Gorbachev, Yeltsin, and Putin each had different views about North Korea; indeed, in some cases, the same leader had different views at different times. Accordingly, the changes in Russian policy had diverse effects on the trilateral relations among the three countries. This section examines how the trilateral relations have developed under the three different Kremlin leaders.

1.1. Gorbachev's approach

From 1945 to the end of the 1980s, Soviet Korean policy was pursued in the context of the Cold War. However, Gorbachev's New Political Thinking provided possibilities for normalizing relations with former enemy states, including South Korea. Gorbachev believed that Soviet-North Korean relations based on ideology were detrimental to Soviet economic interests, aggravated US-Soviet tension in Asia, and constricted Soviet diplomatic options, particularly with respect to South Korea, a potentially significant economic partner in Soviet economic restructuring.¹ This changed the Soviet position towards North Korea and led to the reduction and discontinuation of political, diplomatic, economic, and military assistance, as provided for in the 1961 Soviet-North Korean treaty.

Gorbachev perceived North Korea as an unsustainable economic burden.² Sino-Soviet détente and the relaxation of US-Soviet tensions had brought an end to Sino-Soviet competition over Pyongyang and diminished North Korea's strategic value to

¹ Elizabeth Wishnick, "Russian- North Korean Relations: A New Era?" in Samuel S. Kim and Tai Hwan Lee, eds., *North Korea and Northeast Asia* (Oxford: Rowman & Littlefield Publishers, 2002), p. 142.

² Gorbachev made this statement upon returning from his trip to Cheju Island, South Korea in April 1991. See "Developing Ties With Far Eastern Neighbours," *Komsomolskaya Pravda*, 28 April, 1991.

Moscow. This reduced Pyongyang's leverage over its two major allies.³ Moreover, Soviet access to North Korean ports and airspace rights were no longer needed as the Soviet military reduced its forces in Vietnam's Cam Ranh Bay and abandoned the goal of power projection into the Pacific.⁴ In short, in the 1980s the Soviet alliance with Pyongyang was neither profitable, nor reliable, nor compatible with enhancing Moscow's status in the Northeast Asian region.⁵

Gorbachev wanted to initiate rapprochement with South Korea. His conversations with a Korean Russian specialist, Kim Hak Joon, illustrate Russia's difficult position within the complicated triangular relationship with the two Koreas particularly well. According to Kim Hak Joon, Gorbachev said that at his first meeting with Kim Il Sung in October 1986:

Kim Il Sung attempted to explain the Korean situation and the international relations of East Asia in the anachronistic Leninist terms, claiming that South Korea is a colony of the American imperialists. Kim tried to persuade me not to move toward the cross-recognition of the Korean peninsula.⁶

When Gorbachev asked what cross-recognition was, Kim called it a "notorious international scheme initiated by American imperialists." It meant "the recognition of the South by the Soviet Union and China in exchange for the recognition of the North by the United States and Japan." Gorbachev defended the idea as reasonable and advised Kim to accept it. Kim was apparently surprised that Gorbachev would advise him to consider the idea favourably. He retorted that such a course would perpetuate the Korean division. Gorbachev sensed that Kim was in the "incurable, outmoded paradigm of dogmatism" and advised him to reform his party and state. Gorbachev told Kim Hak Joon that "Kim disappointed me, and I disappointed Kim."⁷

³ Yoke T. Soh, "Russian policy Toward the Two Koreas," in Peter Shearman, ed., *Russian Foreign Policy Since 1990* (Boulder: Westview Press, 1995), p. 184.

⁴ Hongchan Chun, and Charles Ziegler, *The Russian Federation and South Korea*, prepared for presentation at the 27th National Convention of the American Association for the Advanced of Slavic Studies, Washington, D.C. 26-29 October, 1995, p. 3.

⁵ Suzanne Crow, "Soviet-South Korean Rapprochement," *Radio Liberty Report on the USSR*, Vol. 2, No. 25, 15 June, 1990, p. 5.

⁶ Hakjoon Kim, "The Process Leading to the Establishment of Diplomatic Relations Between South Korea and the Soviet Union" *Asian Survey*, Vol. 37, No. 7, July 1997, pp. 641-642.

⁷ *Ibid.*

At the Kim-Gorbachev summit, Gorbachev also rejected “any effort to force people to join military blocs or groupings” and stressed that Soviet allies bore full responsibility for their own pressing economic problems.⁸ These messages were emphasized repeatedly in Gorbachev’s subsequent foreign policy speeches, including the foreign policy address to the 19th Party Conference in Moscow in June 1988.⁹

Consequently, Kim Il Sung not only found himself under pressure to finance his own military and economic needs, but also to respond, defensively or otherwise, to Gorbachev’s *perestroika*. His response was to promise to guard his people against the ideological poison of capitalism and revisionism.¹⁰ However, although he had faced the challenge of radical alternative policies from the Communist giants before, the economic and (in the Soviet case) political and cultural transformations underway in the Soviet Union and China challenged the fundamentals of his regime.¹¹

The 1988 Seoul Olympics became a further factor contributing to the deterioration of relations between Pyongyang and Moscow. The Olympic Games provided a convenient opening for Moscow to pursue normalized relations with Seoul. The Soviet Olympic committee put together an elaborate cultural programme involving ethnic Korean artists to impress the South Koreans and during the Games, Seoul allowed port visits by Soviet tourist ships to Pusan and Inchon, and permitted Aeroflot to fly into Seoul.¹² Opportunities for trade and cultural exchanges were substantially enhanced through Soviet-South Korean Olympic contacts.¹³ North Korea criticised Russia’s favourable public attitudes toward the South harshly.

Moreover, after Gorbachev and South Korean President Roh Tae Woo held three summit meetings and established diplomatic relations in 1990-1991, Pyongyang

⁸ *Pravda*, 25 October, 1986.

⁹ *Moscow News*, 10-17 July, 1988, supplement, pp. 1-13.

¹⁰ Herbert Ellison, *The Soviet Union and Northeast Asia* (New York: University Press of America, 1989), p. 47.

¹¹ Ellison, p. 47.

¹² Roy U. Kim, “Olympics Could Open Soviet-South Korean Relations,” *Christian Science Monitor*, 20 September, 1988, p. 11.

¹³ The Olympics dramatically altered Russian official, journalistic, and popular attitudes toward South Korea. Until the Gorbachev era, very little information about South Korea had appeared in the Soviet press, and nearly all of it was negative. However, in 1988 there were 195 stories in leading Soviet newspapers and magazines, most of them firsthand accounts by Soviet correspondents. In addition to sports news, the correspondents covered Korean economic achievements, culture, and lifestyle. Remarks by Soviet reporters illustrate the overnight change in attitudes toward South Korea. Vitaly Ignatenko, who served as leader of the Soviet Press at the Seoul games and later became Gorbachev’s press secretary and director general of Tass, the Soviet news agency, said his first visit to Seoul had been a shock to him. “Everything he had read before turned out to be outdated; he arrived into the 21st century.” Vitaly Umashev of *Ogonyok* said, “My vision of South Korea as a Third World country disappeared.” *Pravda*, which had previously depicted South Korea mainly as a bastion of American militarism, called the sports facilities in Seoul “the best in the world.” See Don Oberdorfer, *The Two Koreas* (Reading: Addison-Wesley, 1997), p. 200.

criticized Gorbachev, quite often going beyond the limits of diplomatic etiquette.¹⁴ The third Gorbachev-Roh meeting took place on Cheju Island, South Korea in April 1991 and was the first visit to either North or South Korea by a Soviet head of state. At the meeting, Gorbachev supported Seoul's unilateral admission into the United Nations even if North Korea continued to reject a simultaneous entry. He also urged North Korea to open its nuclear facilities to international inspection and pledged to stop supplying its nuclear power plants with fuel until it took this step.¹⁵

The meeting of the General Secretary of the Communist party of the Soviet Union with the President of South Korea meant the legitimization of the Seoul government virtually everywhere and "the final collapse of North Korea's long-standing effort to wall off the southern regime from communist nations."¹⁶ Pyongyang's reaction was immediate and vitriolic. Soviet media representatives, who had increasingly criticized the North Korean regime, were forced to leave Pyongyang.¹⁷ Nevertheless, Gorbachev did not totally give up relations with North Korea. In response to the country's economic difficulties, the Soviet government issued a moratorium on payment for oil deliveries to North Korea. In April 1991, Moscow and Pyongyang signed an agreement providing for a limited expansion of bilateral trade, new Soviet credits for North Korea, and the repayment of its debt to the Soviet Union in hard currency.¹⁸

1.2. Yeltsin's approach

The collapse of the Soviet Union further aggravated relations between Moscow and Pyongyang. North Korean leaders, who had openly supported the anti-Gorbachev coup, now had to deal with a new pro-Western regime in the Kremlin, which was overtly hostile to the North Korean model of socialism.

Yeltsin's initial approach was no different from Gorbachev's. Before 1996 he pursued relations with South Korea, to the detriment of Russia's ties with the North Korea, but was still hesitant to discard Russia's ties with the North completely. During a visit to Seoul in 1992, he told South Korean leaders that the Soviet-North Korean treaty existed only on paper, offered to share documents about the Korean War, and

¹⁴ Alexander Zhebin, "Russia and North Korea: An Emerging, Uneasy Partnership," *Asian Survey*, Vol. 35, No. 8, August 1995, p. 737.

¹⁵ Hakjoon Kim, 1997, p. 650.

¹⁶ Oberdorfer, p. 210.

¹⁷ Evgeniy Bazhanov and Natasha Bazhanov, "The Evolution of Russian Korean Relations," *Asian Survey*, Vol. 34, No. 9, September 1994, p. 792.

¹⁸ Ziegler, 1993, p. 123.

announced Russia's intention to stop its military aid programme to the North.¹⁹ North Korea, in turn, criticized Yeltsin's reforms, citing Russia to demonstrate to its own population "the fateful consequences of a capitalization of society".²⁰ Yeltsin's foreign policy was particularly resented by North Korean policy makers. His disarmament initiatives and proposals for a nuclear test moratorium coupled with the SALT II Treaty were dismissed in Pyongyang with stinging criticisms. According to a Russian Korea expert, North Korean propaganda portrayed Yeltsin as "a sort of whipping boy, a negative example of the horrors that deviation from socialism brings with it."²¹ Moreover, North Korean leaders did not respond at all to the measures for security and cooperation in Northeast Asia proposed by Yeltsin and the Russian Ministry of Foreign Affairs, while North Korean newspapers enjoyed watching the general decline of Russia's role in world affairs.

Russian authorities had not, in fact, disassociated themselves from what had been said in support of Pyongyang through the early years of fraternal friendship.²² On the contrary, recognizing the negative impact of the normalization of relations with South Korea on Russian-North Korean relations, Deputy Foreign Minister Georgii Kunadze travelled to Pyongyang in January 1993 to discuss the status of the Soviet-North Korean Treaty. Russian officials tried to reemphasize the importance of the Russian-North Korean relationship without endorsing the treaty's mutual defence clause. Consequently, the Yeltsin government chose to prepare a new treaty instead of renewing the 1961 Treaty of Friendship and Cooperation, which was due to expire in September 1996.²³

However, relations between Pyongyang and Moscow continued to deteriorate. Pyongyang was particularly annoyed by Russia's attempts to apply political pressure to abandon North Korea's nuclear scheme. In response, North Korea declared a 50-mile military zone in the Japan Sea that hurt Russia's interests and was considered by the Kremlin to be illegal and liable to provoke military incidents between the two allies. Pyongyang also warned that it would block projects involving Russia and the two

¹⁹ Alvin Z. Rubinstein, *Imperial Decline: Russia's Changing Role in Asia* (Durham, NC: Duke University Press, 1997), p. 164.

²⁰ Andrew A. Bouchkin, "Russia's Far Eastern Policy in the 1990s: Priorities and Prospects," in Adeed Dawisha and Karen Dawisha, eds., *The Making of Foreign Policy in Russia and the New States of Eurasia* (Armonk, NY: M.E. Sharpe, 1995), p. 77.

²¹ Gorgi Bulichev, "Russia's Korea Policy: Toward a Conceptual Framework," *Far Eastern Affairs*, Vol. 2, 2000, p. 7.

²² Bouchkin, p. 77.

²³ The treaty had been renewed every five years since 1971. See Rubinstein, p. 165.

Koreas and harshly criticized Russia's discharges of nuclear waste in the East Sea.²⁴ Further tension arose over human rights issues. Having portrayed the statement by the Russian senior delegate at the forty-eighth session of the United Nations Human Rights Commission as "interference in the internal affairs of North Korea," the Pyongyang regime declared its intention of presenting counterclaims against Russia. Russia's action in granting political asylum to a North Korean postgraduate student in June 1992 and then extraditing him to South Korea was interpreted as contravening the existing legal assistance treaty.²⁵

Economic ties between Russia and North Korea declined significantly during the early 1990s. Trade decreased from \$2.35 billion in 1990 to \$222 million in 1993.²⁶ After 1990, Moscow demanded hard currency repayment for its energy deliveries to North Korea, effectively ending its aid to the country.²⁷ The Yeltsin administration also ended transfers of military equipment and technology to Pyongyang, abandoned cultural and scientific ties, the intergovernmental commission on economic and scientific cooperation ceased to operate, and direct flights between the two countries were cancelled. In response, Pyongyang refused to repay a four billion rouble loan.²⁸ As a result, Deputy Foreign Minister Panov travelled to Pyongyang in September 1994 in an effort to revive flagging economic ties and explain the Russian position on the renewal of the 1961 treaty.²⁹

In 1996, however, Yeltsin's policy toward the Korean peninsula changed dramatically. Yeltsin discovered that his pro-South policy did not enhance his bilateral relations with Seoul while it severely damaged relations with Pyongyang. The Kremlin decided to restore old ties with North Korea so as to balance relations between Seoul and Pyongyang. This clearly suggests that Russia was attempting to regain its regional power status on the peninsula, by manoeuvring between the two Koreas. In reality, however, this proved to be rather difficult because Moscow found itself in the awkward position of having to simultaneously project its image toward the two hostile Koreas.

Yeltsin's balancing act began with the change of foreign minister from Andrei Kozyrev to Yevgeny Primakov in January 1996. Russian-North Korean relations began

²⁴ Bazhanov, E. and Bazhanov, N., p. 793.

²⁵ Bouchkin, p. 78.

²⁶ Vadim Tkachenko, "Russian-Korean Cooperation to Preserve the Peace," *Far Eastern Affairs*, Vol. 2, 1999, p. 29.

²⁷ Seth Singleton, "Russia and Asia: The Emergence of 'Normal Relations'?", in Roger E. Kanet and Alexander V. Kozhemiakin eds., *The Foreign Policy of the Russian Federation* (Houndsills: Macmillan Press, 1997), p. 118.

²⁸ Tkachenko, p. 29.

²⁹ Rubinstein, p. 168.

to improve as Primakov sought to restore the balance in Russia's relations with North and South Korea.³⁰ Deputy Prime Minister Vitaly Ignatenko's visit to Pyongyang in April 1996 contributed crucially to improving relations with North Korea. It was Russia's highest-level official visit to Pyongyang since the collapse of the Soviet Union. During his visit, Russia and North Korea signed three agreements on cooperation in agriculture; they also signed agreements on the North Korean debt problem, the presence of North Korean workers in Siberia and the Russian Far East, and Russia's balance of trade with North Korea.³¹ Bilateral and regional economic relations were restored, political consultations resumed, and Russia also provided food aid to North Korea in 1997.³² When Igor Ivanov succeeded Primakov as Foreign Minister, he announced that "Russia wanted its voice to be heard in the resolution of the most explosive problem in the Asia-Pacific region... thanks to a balanced policy with respect to the two Koreas."³³ In turn, the North Korean Foreign Minister, Kim Young Nam, expressed satisfaction with the increasingly positive development of Russian-North Korean relations.

1.3. Putin's policy

Putin adopted a triangular diplomacy towards both Koreas from the beginning. The normalization process gained substantial momentum when Putin's pursuit of *realpolitik* coincided with Kim Jong Il's new diplomatic opening to the outside world.

In February 2000, Foreign Minister Igor Ivanov visited Pyongyang to sign a new "North Korea-Russia Treaty on Friendship, Good Neighbourliness, and Cooperation," to replace the 1961 security pact that had expired in 1996. The new treaty provided political and legal guarantees to boost cooperation and exchange in all aspects of the North Korean-Russian relationship. The automatic military intervention clause (Article 1) of the 1961 treaty was replaced by a more ambiguous clause which does not obligate Russia to automatic military involvement (Article 2):

In the event of the emergence of the danger of an aggression against one of the countries or a situation jeopardizing peace and security, and in the event

³⁰ Alexander N., Fedorovsky "Russian policy and interests on the Korean peninsula," *Stockholm International Peace Research Institute (SIPRI)* Conference Presentation Paper, International House of Japan, Tokyo, Japan, 19-21, February, 1999.

³¹ *Ibid.*

³² Wishnick, p. 144 and Seung-Ho Joo, "DPRK-Russian Rapprochement and Its Implications for Korean Security," *International Journal of Korean Unification Studies*, Vol. 9, No. 1, 2000, pp. 198-199.

³³ Igor Ivanov, "la Russie et l'Asie-Pacifique," *Politique Etrangere*, February 1999, p. 310, quoted in Wishnick, p. 144.

there is a necessity for consultations and cooperation, the two sides enter into contact with each other immediately.³⁴

In April 2000, Russia also agreed to resume military cooperation with North Korea, although this was limited to upgrading weapons supplied during the Soviet era.³⁵ In July 2000, Putin became the first Russian or Soviet leader ever to visit North Korea and the first leader to be invited by Kim Jong Il. His visit to Pyongyang, before he had paid official visits to Tokyo or Seoul, demonstrated Russia's new priorities. Between 2000 and 2003, Putin visited North Korea three times and South Korea once.³⁶ During an official state visit to Moscow by North Korean Defence Minister Kim Il Chol on April 27, 2001, the two governments signed two military technological cooperation agreements under which Moscow undertook to modernize North Korea's aging Soviet-era weapons systems, provide regular security consultations, and train North Korean military personnel to upgrade and refurbish North Korean military facilities.³⁷

Kim Jong Il's visit to Moscow in August 2001 was the highlight in the newly improved relations between Moscow and Pyongyang. It was only the third overseas trip for the reclusive North Korean leader. Unwilling to travel by air, Kim Jong Il made the six thousand mile journey via the Trans Siberian Railroad. The two leaders discussed international and bilateral issues such as the 1972 ABM Treaty, a new world order, the unification issue, and the pullout of US forces from South Korea and issued a joint Moscow Declaration on August 4, 2001.³⁸

As Samuel Kim notes, the declaration "included trenchant attacks against infringement of state sovereignty under the pretext of humanitarianism and against the US Theatre Missile Defence (TMD) and National Missile Defence (NMD) programmes."³⁹ It made front-page news when Putin announced that the North Korean leader had pledged to eliminate his country's Taepodong missile programme -- a key

³⁴ *Choruchinsun sunlin mit hyupchoe kwanhan choyack* (North Korea-Russia Treaty on Friendship, Good Neighbourliness, and Cooperation), February 2002, Pyongyang, on <http://100.empas.com/dicsearch/pentry.html?i=217484>, accessed on 4 January, 2006 ; and see also Samuel S. Kim, "North Korea and Northeast Asia in World Politics," in Samuel S. Kim and Tai Hwan Lee, eds., *North Korea and Northeast Asia* (Oxford: Rowman & Littlefield Publishers, 2002), p. 37.

³⁵ North Korean defence officials reportedly requested new weapons systems, including fighter aircraft and reconnaissance planes, worth \$500 million, but Moscow refused due to Pyongyang's inability to pay in hard currency. See *NewsMax.com Wires*, 28 April, 2001, on <http://www.newsmax.com/archives/articles/2001/4/27/193941.shtml>, accessed on 15 February, 2003.

³⁶ See A. Torkunov, "The Korean Issue," *International Affairs*, Vol. 49, No. 4, 2003, p. 43.

³⁷ Kim, S., p. 38.

³⁸ *The DPRK-Russia joint declaration* signed by General Secretary Kim Jong Il and President V.V. Putin of the Russian Federation, Moscow, 4 August, 2001, on http://www1.korea-np.co.jp/pk/166th_issue/2001080701.htm, accessed on 10 January, 2006.

³⁹ Ibid.

rationale for NMD -- if the US would provide access to rocket boosters for peaceful space research. Putin also managed to put Kim Jong Il's 'satellites for missiles' offer on the agenda of the G-8 summit meeting in Japan.⁴⁰

During the summit Russia and North Korea agreed to participate in the TSR-TKR linking project. Russia also proposed building a nuclear reactor for North Korea in Primorskii Krai in order to resume its energy cooperation with Pyongyang, as well as modernizing the industrial plants built in North Korea with the help of the former Soviet Union.⁴¹ However, Article 5 of the Moscow declaration noted that Russian participation in the restructuring of the Soviet-built enterprises was contingent on the availability of external financial assistance. North Korea's inability to repay its \$4 billion debt clearly remained an obstacle to any future Russian credits.⁴²

In short, Putin's approach towards North Korea suggested a radical new concept of trilateral cooperation that was eventually accepted by both North and South Korea. As a result, Russia currently enjoys more political credibility in North Korea than under President Yeltsin.⁴³ More recently, Putin invited both Pyongyang and Seoul to join in the celebrations of the 60th anniversary of the Second World War victory on 9 May, 2005. It was also reported that Russia proposed to hold a summit between the North and the South.⁴⁴

2. Russia and the North Korean nuclear weapons programme

North Korea's development of nuclear weapons has posed a great challenge to Russia. The resolution of the crisis is a precondition not only for enhancing bilateral relations between Russia and South Korea but also for successful triangular economic cooperation between Moscow, Pyongyang and Seoul, specifically on the potential oil and gas pipeline projects, and the railroad linking project which is already in the process of development. According to Alexander Fedorovsky, Head of the Pacific Studies at the Institute of World Economy and International Relations, Russia has two main

⁴⁰ Ibid.

⁴¹ *Agence France-Presse*, 2 August, 2001; and "Russia to Play Active Role in Settling Korea Peninsula Problem," *Xinhua*, 10 October, 2000.

⁴² *Itar Tass*, 4 August, 2001.

⁴³ *The Current Digest*, Vol. 55, No. 24, 16 July, 2003, p. 5.

⁴⁴ South Korean government officials state that it is too early to say that a summit meeting between Kim Jong Il and Roh Moo Hyun will happen. See *Dong-A Il bo*, 16 January, 2005, on <http://www.donga.com/fbin/output?from=email&n=200501160136>, accessed on 23 January, 2005.

objectives in relation to North Korea's nuclear programme: strong support for the Six-Party talks, and denuclearization of the Korean peninsula.⁴⁵

On the whole, however, Russia's approach toward the North Korean nuclear issue has been ambivalent. I would argue that Russian ambivalence arises from Putin's pursuit of a balancing policy between Pyongyang and Seoul. Russia has not wanted to jeopardize its relations with either Korea by taking a stance on one side or the other. Moreover, while in the long term, Russia has every interest in preventing North Korea from building nuclear weapons, in the short term, as in the cases of Iran and Iraq, the sale of nuclear technology, along with the export of raw materials, is Russia's best hope for hard currency earnings.

According to an article in the Japanese weekly *Shukan Bunshun*, which purported to be based on a secret Russian General Staff report, 160 Russian nuclear scientists and missile experts spent time unofficially in North Korea's laboratories and specialized centres from 1987 to 1994, helping North Korea create a nuclear bomb. Many of them allegedly changed their names and some took North Korean citizenship.⁴⁶ This put Seoul in a difficult position in dealing with Russia over the North Korean nuclear issue.

Russia's stance on international sanctions against North Korea has also been ambivalent. In 1994, Moscow preferred to resolve the issue by political means and proposed convening an international conference on security problems on the Korean peninsula. With regard to imposing international sanctions on North Korea, Yeltsin insisted on waiting for a decision on his proposed conference. However, he agreed that "if things reach the point where North Korea digs in its heels and moves toward withdrawing from the Non-Proliferation Treaty, we will first warn them, and then impose sanctions."⁴⁷ At that time, Kozyrev also favoured waiting to see whether North Korea withdrew from the Non-Proliferation Treaty (NPT). If they did, he suggested the step by step introduction of sanctions, arguing that "A list of sanctions should be drawn up, and at the same time preparations should be made for an international conference on the Korean Peninsula's problems that we have proposed."⁴⁸ In fact, North Korea did

⁴⁵ Alexander Fedorovsky, Interview during the Chatham House conference "The North Korean Nuclear Issue: Non-Proliferation, South Korean and US Policy," organized by the Asia Programme in association with the United States Discussion Group, 21 February, 2005, Chatham House, London.

⁴⁶ See Sergei Agafonov, *Izvestia*, 27 January, 1994, pp. 1 and 4; and "Did Russia Help North Korea Build Nuclear Bomb?" *The Current Digest*, Vol. 46, No. 5, 1994, p. 12.

⁴⁷ *The Current Digest*, Vol. 46, No. 22, 1994, p. 23.

⁴⁸ See Andrei Kozyrev, Russia's Minister of Foreign Affairs, interviewed by Izvestiya Correspondent Leonid Mlechin, *Izvestia*, 18 June, 1994, pp. 1-2, quoted in "Kozyrev Explains Go-Slow Policy on North Korea," *The Current Digest*, Vol. 46, No. 24, 1994, p. 14.

withdraw from the NPT in 1993. Immediately following its return to the NPT and the resolution of the first crisis in October 1994, however, Kozyrev said that Moscow would not support any sanctions upon which it was not consulted.⁴⁹ In 2003, Russian Defence Minister, Sergei Ivanov, also stated that “North Korea is a sovereign state, we reject any pressure on a sovereign state, and now is the time for active diplomacy.”⁵⁰

Even after North Korea agreed on 19 September 2005 to end its nuclear weapons programme, Russian opinion is divided. For example, Konstantin Kosachev, chairman of the Duma’s International Affairs Committee, emphasizes Pyongyang’s long record of unpredictability, whereas Major General Nikolai Bezborodov of the Duma Defence Committee openly supports North Korea’s right to a peaceful nuclear programme.⁵¹

As Singleton argues, Russia has little interest in becoming a “protagonist” in the dispute between the US and North Korea over international inspections of North Korean nuclear facilities. Nor does it want its policy to become hostage to the unpredictable relations between the two Koreas. On the other hand, Russian exclusion from the negotiation process during the 1993-1994 crisis had seriously undermined its already weak position in Northeast Asia. These concerns led Russia to propose an international multi-party conference on North Korean nuclear weapons of which Russia would be a co-sponsor, i.e. neither a main player nor an isolator.⁵² Russia’s ambivalence can be demonstrated by examining its response to the two North Korean nuclear crises in more detail.

2.1. The first crisis (1993-1994)

When North Korea’s first nuclear crisis broke out in 1993, Russia was absolutely opposed to the presence of any nuclear weapons on the Korean peninsula.⁵³ Moscow viewed the crisis not as a bluff, but as a serious potential threat to Northeast Asian regional security. Yet the Russian Chief of Staff, Colonel General Mikhail Kolesnikov, warned that:

⁴⁹ Stephen Blank, “Russian Policy and the Changing Korean Question,” *Asian Survey*, Vol. 35, No. 8, August 1995, p. 723.

⁵⁰ Sergei Blagov, “Russia’s good graces with North Korea on Trial,” *Asia Times*, 15 February, 2003, on <http://www.atimes.com/atimes/Korea/EB15Dg01.html>, accessed on 15 February, 2003.

⁵¹ Stephen Blank, “Russia Assesses the North Korea Six-Party Agreement,” *Eurasia Daily Monitor, The Jamestown Foundation*, Vol. 2, No. 175, 21 September, 2005.

⁵² Singleton, pp. 102-124.

⁵³ Georgii F. Kunadze (Russia’s ambassador to Seoul)’s remark in 1993. See Radio Moscow, 29 December, 1993; and “Ambassador-Designate to ROK Views Korean Issues,” *FBIS, DR/SOV*, 93-249, 30 December, 1993, p. 16.

The DPRK must not be allowed to feel that its security is compromised at all. A policy of pressuring North Korea and creating a vacuum around it can only have the opposite effect, and incite it to accelerate the creation of nuclear weapons. What is needed is dialogue with Pyongyang. And the way is clear. Not without the participation of Russian diplomacy, it was decided to place seven North Korean facilities under IAEA supervision.⁵⁴

Deputy Foreign Minister Aleksandr Panov, former ambassador to Seoul, also argued that the crisis should be resolved not by coercive measures such as sanctions, but by a conference.⁵⁵

In April 1993 Russia had suspended its 1991 agreement to provide North Korea with three 660-megawatt light water reactors (LWRs), in response to increasing international concern over North Korea's withdrawal from the NPT.⁵⁶ Construction on the \$4 billion projects was nearly complete, and Russia suffered considerable financial loss when the North Koreans then refused to pay Russian firms for their previous work. Sharing an interest in preventing an increasingly weakened and isolated North Korea from acquiring nuclear capability, Moscow cooperated with Seoul and the United States in efforts to prevent proliferation in North Korea.⁵⁷ North Korea reacted angrily to Russia's open support for the American position on the Korean nuclear issue, and publicly accused Russia of dumping nuclear waste in the East Sea.⁵⁸ In 1994, Yeltsin put his multi-party conference proposal to South Korean President Kim Young Sam and President Clinton.⁵⁹ However, the proposal was not well received by any of the relevant states. South Korean Foreign Ministry officials contended that a multi-party conference would only delay the process further and complicate negotiations.

Thus despite their tenacious efforts to participate in the North Korean nuclear negotiation process since the early 1990s, Russia remained a marginal player. During the 1993-1994 crisis, it had a secondary observer's role and in the end, the crisis was resolved on an essentially bilateral basis between North Korea and the United States. According to the October 1994 US-North Korean Agreed Framework, the North

⁵⁴ *Rossiskiye vesti*, 6 April, 1994; and Joint Publications Research Service, *Military Affairs*, 94-013, 13 April, 1994, p. 45, quoted in Blank, 1995, p. 721.

⁵⁵ *Tokyo Shimbun*, 17 April, 1994; and *FBIS, DR/SOV*, 94-088-A, 6 May, 1994, p. 3.

⁵⁶ Joo, 2000, p. 211.

⁵⁷ *Ibid.*

⁵⁸ Evgeniy P. Bazhanov, "Russian Views of the Agreed Framework and Four Party Talks, in *The North Korean Nuclear Program*, eds., James Clay Moltz and Alexandre Y. Mansourov (London: Routledge, 2000), pp. 222-223.

⁵⁹ "Kozyrev Explains.....," *The Current Digest*, Vol. 46, No. 24, 1994, p. 14.

Koreans would give up their nuclear programme in exchange for access to energy technology and economic aid. The US, Japan, and South Korea joined together to create the Korea Peninsula Energy Development Organization (KEDO), which would be in charge of assistance to North Korea. Despite Russia's involvement in North Korea's energy sector, KEDO decided to send two South Korean light water reactors to Pyongyang.⁶⁰ Moreover, in April 1996 the US and South Korea suggested holding four party talks on the North Korean problem including China, but not Russia.

Russia was reluctant to join KEDO not only because of the financial obligations that accompany membership, but also because of its past experience of failed involvement in North Korea's nuclear power programme and perceptions that the US had purposely excluded Russia from playing its rightful role in the project.⁶¹ Moreover, as Snyder notes, Russians have been particularly sensitive to the perceived double standards whereby the US has backed provision of light water reactors to North Korea as part of the agreed framework, while opposing a very similar Russian commercial project with Iran on the grounds that it promotes the possibility of nuclear proliferation.⁶² The Russian government therefore decided not to join the KEDO project. However it did provide information from its earlier site surveys of the area which had been conducted in the 1980s.⁶³

2.2. The second crisis (2002-2005)

The second North Korean nuclear crisis started in October 2002. This time, Russia generally took a relatively negative stance toward North Korea. In response to Pyongyang's withdrawal from the NPT, the Russian Foreign Minister urged Pyongyang to honour its international obligations, and warned that without Moscow's support, Kim Jong Il could suffer the same fate as Saddam Hussein.⁶⁴ Once again, however, Russia faced a dilemma: a hard line policy would undermine the current trusting relationship between Putin and Kim Jong Il, while a soft line would make cooperation with other involved states, including South Korea, impossible.

⁶⁰ Joo, 2000, p. 213.

⁶¹ It was reported that Chinese reluctance to participate stems primarily from concerns that involvement in the project might negatively influence China's bilateral relationship with North Korea or that support for the project may indirectly support expanded US influence on the Korean peninsula. See Scott Snyder, *The Korean Peninsula Energy Development Organization: Implications for Northeast Asian Regional Security Cooperation*, North Pacific Policy Papers 3, Program on Canada-Asia Policy Studies Institute of Asian Research University of British Columbia, Vancouver, 2000, p. 16.

⁶² *Ibid.*, p. 17.

⁶³ *Ibid.*, pp. 16-17; and James Clay Moltz and Alexandre Y. Mansourov, eds., *The North Korean Nuclear Program: Security, Strategy, and New Perspectives from Russia* (New York: Routledge Press, 1999).

⁶⁴ *The Current Digest*, Vol. 55, No. 1-2, 5-12 February, 2003, p. 7.

There are currently three largely different approaches towards North Korea's nuclear ambitions in Russia. One group supports the view that Moscow should join the US-led campaign of exerting pressure on North Korea to force it to rejoin the NPT and to agree unconditionally to abandon its nuclear arms programme. The advocates of this approach emphasize the importance of maintaining the non-proliferation regime, the primacy of international law, and the need to call to order a rogue that has gone too far.⁶⁵ The second group contends that by fully associating itself with Washington's policy, Moscow would leave North Korea no room to manoeuvre, drive it into a corner and fail to achieve the desired result of persuading Pyongyang to abandon its nuclear programmes. Russia would give up its independence in dealing with Korean affairs and, unable to promote its own national security or economic interests, would be forced to accept the American initiatives. Something similar had happened during the first crisis, when Moscow was left out of the Korean settlement. This group suspects that Washington's real aim is regime change in North Korea.⁶⁶

The third, prevailing approach is the view of Russian diplomats that all the participant states should resolve the problem through negotiation, without becoming too obsessed with the question of who is right and who is wrong. Russian diplomats believe that any attempt to persuade North Korea to return unconditionally to the NPT has little chance of success. Furthermore, they claim that Russia must fight for something more than just a place at the negotiating table that will confirm its great power status. It is essential to direct the Six-Party talks toward a real compromise and not allow them to be turned into a diplomatic cover for preparations to bring down Kim Jong Il's regime.⁶⁷ They believe that the collapse of his regime could have dire and unpredictable consequences, especially for North Korea's neighbours.⁶⁸

Putin's government has maintained the third position so far. The Russian government insists that North Korea should not be permitted to possess a nuclear bomb but that the issue must be settled in a way that meets the interests of all the parties concerned. The Russians strongly support the Six-Party Talks on the grounds that this multilateral framework will facilitate direct dialogue between Pyongyang and Washington. Russia has suggested the following specific steps for the Six-Party talks:

⁶⁵ Georgy Bulychev and Aleksandr Vorontsov, *Kommersant*, 16 January, 2003, p. 9; and *The Current Digest*, Vol. 55, No. 1-2, 5-12 February, 2003, p. 8.

⁶⁶ *Ibid.*

⁶⁷ *Ibid.*

⁶⁸ Georgy Bulychev, *Vremya novostei*, 18 June, 2003; and *The Current Digest*, Vol. 55, No. 24, 16 July, 2003, p. 5.

- 1) a mutual simultaneous declaration on North Korea's return to a nuclear freeze and to US readiness to resume supplying heavy oil, continuing with bilateral consultations aimed at agreement on the current status of the agreed framework;
- 2) The US and North Korea list their concerns and demands to each other and exchange views;
- 3) The other four states -- Russia, China, Japan and South Korea -- might join in analyzing these lists and advising Pyongyang and Washington what to do.⁶⁹

According to the Russian proposal, the following minimum requirements are essential for a settlement of the crisis. First, North Korea must return to the NPT. Second, it must also abandon possession of Weapons of Mass Destruction (WMD). Third, the US must guarantee that it will not infringe North Korea's sovereignty and security. The other four states can act as guarantors of the strict fulfilment of these obligations since neither the US nor North Korea has full confidence in the UN or international law. Finally, the US and North Korea could return to full normalization and end hostilities.⁷⁰

Since the beginning of 2003, Putin and the Russian Foreign Minister Ivanov have actively discussed these options and possibilities with the US, North Korea, South Korea and other relevant world leaders.⁷¹ For example, the Russian and South Korean foreign ministries pledged joint efforts in defusing tension over North Korea's nuclear bid on 3 January 2003. The two sides also agreed there was no need to submit the question to the UN Security Council before other possibilities for negotiation had been used up.⁷² During a telephone conversation with former South Korean President Kim Dae Jung on 25 January 2003, Putin reemphasized the importance of continuing the inter-Korean process, such as ministerial-level talks in Seoul between the two Koreas.⁷³ On 18-21 January, 2003, the Russian President's special envoy A. Losuykov personally

⁶⁹ Georgi Toloraya. "President Putin's Korean Policy," *The Journal of East Asian Affairs*, Vol. 17, No. 1, Spring/Summer 2003, p. 49.

⁷⁰ Press-statement of Russian Foreign Ministry Spokesman, N46, 1 December, 2003; Document and Materials of the Russian Ministry of Foreign Affairs, on <http://www.In.mid.ru/brp-4.nsf/english?openview=3.143>, accessed on 14 February, 2005.

⁷¹ "Powell Reconfirms Commitment to South Korean Security," *US Department of State Press release*, 28 March, 2003.

⁷² "Russia, South Korea Pledge Joint Efforts over DPRK Nuclear Tension," *People's Daily*, 6 January, 2003, on http://english.peopledaily.com.cn/200301/06/eng20030106_109603.shtml, accessed on 15 February, 2003

⁷³ Blagov.

delivered a Six-Party Talk proposal to Kim Jong Il. The proposal was also delivered to the US.⁷⁴

The US began to recognize that Russia had a role to play in resolving the crisis. Nevertheless, little progress was made between the beginning of the war in Iraq and February 2005. The North Koreans insisted that they would only pursue direct dialogue with the US, whereas the Americans insisted on dialogue in a multilateral format. Putin continues to support any kind of format that would lead to a constructive solution as long as Russia is part of the negotiation procedure.

However, it was China that set up the six part talks. In an effort to stabilize the rapidly escalating tension between Pyongyang and Washington in 2002-2003, the Chinese convened a trilateral meeting in Beijing among North Korean, US, and Chinese diplomats in April 2003. At that time, the Bush administration's firm refusal to meet bilaterally with the North Koreans created concern that the nuclear crisis would escalate out of control. To engage Washington in subsequent negotiations, the Chinese expanded the talks to include South Korea, Japan, and Russia to reflect the Bush administration's view that the nuclear issue was a "neighbourhood problem" that should include countries from the region with a vested interest in a nuclear-free North Korea.⁷⁵ In August 2003, the Chinese hosted the first round of the Six-Party Talks in Beijing, which provided Russia with the opportunity to act as a potential middle man between the United States and North Korea. Moscow sees the Beijing Six-Party Talks primarily as an opportunity to promote its long-term economic, political, and security interests in Northeast Asia. Moscow's re-emergence as a key player in the Korean negotiations represents a major victory for President Vladimir Putin, who has steadily increased Moscow's attention to Pyongyang since entering office in 2000.

After the most recent episode in the North Korean nuclear crisis in February 2005, Russia reiterated its strong support for Six-Party Talks. For example, in response to North Korea's announcement on 10th February that it is withdrawing from the talks, the Russian Foreign Ministry spokesman, Aleksandr Yakovenko, stated that while "Moscow respects and understands Pyongyang's concerns about its security...nonetheless it wants the country to return to the negotiations."⁷⁶ During the

⁷⁴ Totoraya, pp. 49-50.

⁷⁵ Office of the Press Secretary, The White House, "President Bush Optimistic About Multilateral Talks With North Korea," Washington, D.C., 1 August, 2003, on <http://usembassy.state.gov/Seoul/wwwh41az.html>, accessed on 5 January, 2006.

⁷⁶ RFE/RL NEWSLINE, Vol. 9, No. 29, Part I, 11 February 2005.

Bush-Putin summit in Bratislava on 24 February 2005, Russia once again affirmed that North Korea should not be permitted to possess a nuclear bomb.⁷⁷

In summary, Russia lacked clear-cut goals and a consistent stance with regard to the North Korean nuclear question. However, once Russia began to realize that its power in Korean affairs had been gradually waning, it understood that it had no choice but to follow the approach of the other states involved. As a result, Russia's position on North Korea's acquisition of nuclear weapons has become almost identical to that of the world community. In general, Russia has been very cautious about publicly announcing its own policy and it has often adopted a 'wait and see' attitude while carefully watching what the Americans and Chinese had to say on the issue. This passive policy contributed to its isolation and exclusion from the main negotiations during the first crisis.

In my opinion, North Korea's nuclear programme is aimed against the US or Japan, not Russia and primarily stems from its attempts to negotiate with the US, rather than a desire to achieve great military power status. Recently, during talks between Kim Jong Il and the South Korean Unification Minister, Chung Dong Yong, Kim maintained that North Korea does not want any nuclear capability on the Korean peninsula. Thus North Korea's possession of nuclear weapons is not an immediate security threat to Russia because Putin and Kim Jong Il have maintained relatively good relations. In any case, Russia has only limited influence on North Korea's nuclear programme and it has little choice, therefore, but to pursue a wait and see policy.⁷⁸

3. Russia and Korean reunification

The role of North Korea in Russian-South Korean relations cannot be considered without paying some attention to the question of Korean reunification. Russia may be in a better position than any other great power in the region to contribute to Korean reunification. After all, Japan is worried about the unification of Korea because of Korea's potential military and economic strength, even though it publicly advocates Korean unification. And although the US military is highly likely to remain even in a reunified Korea, the United States might lose some of its military bases in the Asia-Pacific region. As for China, a divided Korea gives it more influence in the region than

⁷⁷ *RFE/RL Headlines*, 25 February, 2005.

⁷⁸ Hanns W. Maull and Sebastian Harnisch, "Embedding Korea's unification multilaterally," *The Pacific Review*, Vol. 15 No. 1, 2002, p. 51.

it would have if a strong, nationalistic and reunified Korea existed, especially one friendly to the US.⁷⁹ Russia, on the other hand, has virtually nothing to lose if Korean reunification takes place. Indeed, given that several of its joint economic projects with South Korea would be both quickly and efficiently achieved with North Korean participation, a reunified Korea could become a strong economic partner in the region. More importantly, a reunified Korea would counterbalance China and Japan from the Russian strategic perspective, since Russia clearly does not want either China or Japan to become a hegemonic power in the region. Moreover, Russian leaders have strongly objected to a foreign military presence on the Korean peninsula including the current US military presence in South Korea. Moscow believes that the foreign policy of a reunified Korea would be independent of the US, and thus more open to expanding cooperative relations with Russia.⁸⁰

According to Grigory Karasin, Moscow believes that Korean unification must be resolved by North and South Korea themselves through dialogue and bilateral cooperation and without any foreign interference.⁸¹ Interestingly, this view is rather different from the views of the two Korean leaders themselves. Both Kim Jong Il and former South Korean president Kim Dae Jung have said that the United States is the most important actor in discussions about Korean reunification. It should also be noted that Russia also sometimes suggests that Korean reunification should be resolved through multilateral dialogue with the participation of all concerned parties including Russia.

3.1. The Soviet Union and Korean reunification

Moscow's support for Korean reunification predates the disintegration of the USSR. However, during the 1950s and early 1960s, Soviet public support for North Korean reunification efforts, by military means or by indigenous revolution in South Korea, was dependent upon the North Korean Workers Party (KWP) dutifully subordinating itself to Moscow. As the Kim Il Sung regime gradually demonstrated its reluctance and then unwillingness to support Soviet policies, Soviet policy shifted; the Soviet Union would only support reunification pursued through bilateral negotiations

⁷⁹ Kim, S., p. 39.

⁸⁰ Jae-nam Ko, "Pyongyang's Opening and North-South-Russia Cooperation," *Korea Focus*, Vol. 9, No. 3, May-June, 2001, p. 76.

⁸¹ Grigory Karasin, former Russian Ambassador to the United Kingdom, 10 March 2004, in response to a question after a lecture at the London School of Economics and Political Science.

and compromise with South Korea.⁸² For example, the Soviet leadership insisted that bringing an end to military confrontation was in the interests of both Korean states, thus indirectly rejecting Pyongyang's claim to be the only sovereign Korean state.⁸³ Moreover, to the chagrin of the North Korean leadership, the Soviet government did not reject former Secretary of State Kissinger's proposal for a four power conference to discuss the Korean problem.⁸⁴ There was no Soviet support for revolutionary activities in the South, which, for Kim Il Sung, had become a necessary prior condition to reunification.

By the 1970s, Soviet views about Korean unification had become very sceptical. As Zagoria argues, the Soviet Union had nothing to gain from a reunification war. A North Korean loss would have profound political and psychological consequences among other Soviet allies and treaty partners. On the other hand, a North Korean victory might lead to an unintended Soviet-American military confrontation, end détente, provoke Chinese intervention, and create Japanese pressure for its remilitarization, all of which would threaten Soviet interests.⁸⁵ Therefore, Moscow had no compelling reasons to support North Korean efforts to unify Korea, much less to risk a war in the process.

3.2. Russian perceptions and policy

In Russian academic circles today, there are three basic prognoses about Korean reunification.⁸⁶ The first group argues that Korean unification will never take place because both North and South Korean political leaders lack incentives for unification. North Korean leaders fear losing political power and social status, while South Korean leaders believe that the cost of unification would shatter the South Korean economy. The second group contends that Korean national identity, although it developed differently in North and South Korea in the last five decades, will be the driving force towards unification. They add that the form it will take is the gradual absorption of the North by the South through economic and human exchanges. The third group argues that the key variable in the problem of Korean unification is the death of Kim Jong Il. They suggest that North Korean leaders after Kim Jong Il will advocate unification as a

⁸² Jane P. Shapiro, "Soviet Policy Toward North Korea and Korean Unification," *Pacific Affairs*, Vol. 48, No. 3, Autumn 1975, p. 340.

⁸³ *Foreign Broadcast Information Service (FBIS): Trends in Communist Media*, 5 November, 1975, p. 23.

⁸⁴ *Ibid.*, 1 October, 1975, p. 2; and *Yomiuri Shimbun*, 9 October, 1975, p. 3.

⁸⁵ Donald S. Zagoria, "Korea's Future: Moscow's Perspective," *Asian Survey*, Vol. 17, No. 11, November, 1977, p. 1110.

⁸⁶ Materials of the "Economic and Social Aspects of Korean Unification," Conference of Russia Scholars, Moscow, Institute of Far East, 11-12, December, 1996.

counter-policy against the previous regime and against party orthodoxy. They emphasize that the US role is crucial in supporting the next North Korean leaders' policies while ensuring North Korea's political and social future.⁸⁷ However, Russian political leaders hope that Korean reunification will be achieved not through the sudden collapse of Kim Jong Il's regime or through military force, but through a peaceful and orderly process of dialogue and cooperation between the two Koreas. The unexpected collapse of the North Korean regime would create a major upheaval on the Korean peninsula leading to immediate serious problems such as a massive exodus of North Korean refugees. It could also generate competition and confrontation among China, Japan, Russia and the US, which could destabilize the Russian Far East and Siberia.

Russia does not have the same stake in a divided Korea that the Soviet Union did. Moreover, neither Russia's separate policy toward the two states nor its new balancing policy between Seoul and Pyongyang has provided any substantial benefit to Moscow. Many Russians believe that a democratic, neutral, and unified Korea would meet Russia's interests both as a political and strategic counterbalance to Japan, China, and the US and as an economic power. They predict that Korean unification will be most likely to be achieved on South Korean terms because the gap in economic and military capabilities between the two Koreas is widening in South Korea's favour and the Stalinist regime in the North is doomed to collapse.⁸⁸

However, the Russian political elite tends to advocate the unification of Korea only under one circumstance, that is, the accommodation of Russia's strategic and economic interests. They are willing to support Korean unification as long as a unified Korea is friendly to Russia and will cooperate with Russia in preventing Japan or China from achieving any kind of hegemony. In general, Russians see the following potential gains from Korean unification: the disappearance of a potential threat of war near the Russian border; the reduction of the armed forces of the two Korean armies and the withdrawal of American troops from the Asia-Pacific region; the elimination of the need to manoeuvre between Pyongyang and Seoul; the creation of more opportunities to solve regional security problems such as nuclear security, ecological security, terrorism, illegal emigration, drug trafficking, and human rights; and the opportunity to develop economic cooperation with a large Korean economy.

⁸⁷ Vasily V. Mikheev, "Russian Policy towards the Korean Peninsula after Yeltsin's Re-election as President," *The Journal of East Asian Affairs*, Vol. 11, No. 2, Fall 1997, Seoul, The Research Institute for International Affairs.

⁸⁸ Seung-Ho Joo, "Russian Policy on Korean Unification in the Post-Cold War Era," *Pacific Affairs*, Vol. 69, No. 1, Spring 1996, pp. 40-41.

4. The role of North Korea in Russian-South Korean relations

As this chapter illustrates, North Korea plays a significant role in bilateral security relations between Moscow and Seoul because Russia's bilateral security relations with North and South Korea are interconnected both directly and indirectly.

The Russian leaders discovered that the implementation of its policy favouring the South but ignoring the North from Gorbachev to the early Yeltsin period not only diminished Russia's influence over North Korea, but also failed to attract Seoul's attention, while, at the same time, it undermined Russian influence in the Northeast Asian region. Russia curtailed its economic, political, and cultural relations with North Korea for almost a decade (from 1987 to mid 1990s), and this only served to ensure Russia's complete isolation from the negotiation process over North Korea's nuclear weapons programme until the recent nuclear Six-Party Talks in 2005.

In short, Moscow-Seoul relations were promising only as long as Russia had leverage over North Korea. Russian political leaders now know that the effectiveness of their Korean policy depends upon their ability to have normal relations with both Seoul and Pyongyang. It is also difficult to imagine how Russia, having uneasy relations with North Korea, could have hoped to cooperate with it, or possibly with a united Korea, actively and effectively to realize the multilateral economic cooperation projects that were discussed in the previous chapters of this thesis.⁸⁹ In this regard, I am strongly convinced that Putin's efforts to renormalize relations with Pyongyang have contributed to enhancing Russian-South Korean relations.

Nevertheless, North Korea still sometimes serves as an obstacle to Moscow-Seoul relations both because of the traditional security consequences of Pyongyang's nuclear weapons programme, and with regard to North Korea's long term economic involvement in Russia-South Korean economic projects and the effect that this has on their economic security. More importantly, these two elements are interrelated: the economic aspect is contingent upon the political one.

4.1. The political and strategic dimension

Until 2001, both Moscow and Seoul considered the North Korean factor the single most important element in formulating their foreign policy priorities toward each other. In other words, the most frequently discussed political issue on the diplomatic agenda between Russia and South Korea was related to North Korea. As Toloraya

⁸⁹ Zhebin, p. 738.

argues, from the beginning of diplomatic relations between Moscow and Seoul, Seoul essentially viewed relations with Moscow mostly through the prism of confrontation with the North on the basis of a zero sum game.⁹⁰ Seoul considered North Korea as its primary political and strategic security threat. This suggests that until South Korea launched its sunshine policy toward the North in 1998, Seoul hoped that the rupture of relations between Russia and South Korea would lead to Pyongyang's further isolation. Seoul wanted to establish relations with Moscow for two reasons. First, in the short term, Seoul wanted to reduce the immediate "military security threat posed by North Korea by alienating it from its most important source of military support." Second, in the long term, "Seoul wanted to enhance its international legitimacy, and eventually promote Korean national reunification by weakening North Korea and forcing it to negotiate on South Korean terms."⁹¹ More specifically, Seoul hoped that Russian influence or pressure would be brought to bear on Pyongyang over the issue of International Atomic Energy Agency inspections.

Russia's formal response has always been to promise to do this, in an attempt to demonstrate that it is a great power and to stimulate Seoul's political interest in the continued pursuit of a closer relationship. Yet in reality, this was not an easy task for Russia. The main obstacle was its 1961 Friendship Treaty with North Korea, under the terms of which Russia was committed to defend North Korea. The Russian government claimed that the 1990 amendments released Russia from any obligation to act except in case of a direct invasion of the North. It was generally expected that the treaty would be terminated when it came up for renewal on 10 September, 1996 yet it was not formally terminated. Moscow sent the North Koreans a draft of a new treaty without a military assistance clause, but the old treaty remained in force until agreement was reached on a new treaty in 2000.⁹²

A second obstacle to putting pressure on North Korea was the fact that Moscow had lost practically all leverage over Pyongyang. As a result, the overall image of Russia in South Korea was downgraded. Moscow was excluded from a number of high level negotiations in the Korean peninsula. In the spring of 1996, the joint South Korean-US announcement of proposed four party talks with North Korea and China to deal with ongoing problems on the peninsula came as an insult to Moscow. The Russians believed that they had acted in good faith in normalizing relations with Seoul

⁹⁰ Toloraya, p. 35.

⁹¹ Sharid M. Shuja, "Russia's Foreign Policy in Asia: Continuities, Changes and Challenges," *Journal of International and Area Studies*, Vol. 6, No. 1, 1999, p. 87.

⁹² Singleton, p. 118.

in 1990, and six years later, South Korea and the US wanted to exclude Russia from their own normalization of ties with Pyongyang.⁹³ This clearly demonstrates that for Seoul, the strategic value of Russia was smaller than that of the Soviet Union. Pyongyang has also claimed that Russia is incapable of promoting the denuclearization of the peninsula.⁹⁴ As Bouchkin notes, Russia's present attempts to involve itself in the problems of the Korean settlement might well be counterproductive.⁹⁵

Thus relations with Russia have become less of a priority for both South and North Korea. By the end of the 1990s, North Korea appeared indifferent to the Russian role on the peninsula, preferring to pursue greater contacts with the US.⁹⁶ South Korean leaders were also less enthusiastic about an expanded Russian role on Korean issues.

4.2. The economic security dimension

Nevertheless, in the late 1990s, South Korean and Russian perceptions toward North Korea gradually began to change. The economic aspect of the North Korean factor, or, in other words, North Korea's willingness to participate in some of the economic projects that Russia and South Korea are currently engaged in, has gradually grown in importance. Since the South Korean government is pursuing a pro-North sunshine policy, improved relations between Pyongyang and Moscow do not necessarily have negative implications for Seoul any more. South Korea has realized that a stable triangular relationship would facilitate Russian-South Korean economic relations and contribute to the acceleration of reunification in the long term. From the Russian perspective, the situation in the Korean peninsula is also critical to Russia's economic and geo-strategic security and to the prospects for the development of the Russian Far East. In this sense, an untroubled North Korean regime is perhaps an important prerequisite for the development of the region.

Furthermore, since Russia has lost most of its political leverage over Pyongyang, recent Russian policy towards North Korea, especially during Putin's term, has been focused on economic rather than political aspects. There are already some indications of Russian-North Korean regional economic cooperation, for example on the Tyumen River project, the proposed Kovykta gas pipeline project, possible plans to build a railroad line joining Khasan and to supply crude oil to an oil refinery in the North

⁹³ *The DPRK Report*, September-October 1996, Institute of Contemporary International Problems, Moscow, on <http://cns.miis.edu>, accessed on 10 March, 1998.

⁹⁴ Bouchkin, p. 77.

⁹⁵ *Ibid.*, p. 76.

⁹⁶ Hong Wan Suk, *Geostrategiya Rossii i severo-vostochnaya Aziya* (Russia's geo-strategy and Northeast Asia) (Moscow: Nauchnaya kniga, 1998), p. 137, quoted in Wishnick, p. 150.

Korean port of Rajin by rail, the use of North Korean labour force in the Russian timber industry in the Russian Far East, and the TSR-TKR linking project. Yet the progress of these projects depends on their ability to attract considerable outside investment, especially from South Korea.⁹⁷ In short, South Korea's capital and technology assistance is much needed.

From the South Korean perspective, the use of the cheap North Korean labour force clearly serves as a factor to boost economic cooperation. The use of the North Korean labour force in various economic projects in the Russian Far East is also highly encouraged by the Russians, in particular because some of them are sent as partial repayment of North Korea's outstanding debt to Russia.⁹⁸

Perhaps one of the most compelling arguments that may attract North Korea to become involved in Russian-South Korean economic cooperation is the potential construction of the Kovykta gas pipeline. In 2002 and 2003, there was a proposal that one alternative to the proposed gas pipeline route from Irkutsk would run through North Korea to South Korea instead of following the Yellow Sea route. This scheme was proposed by the new pro-North South Korean government, Russia, and the US as one incentive to discourage North Korea's development of nuclear weapons.⁹⁹ Since North Korea faces critical energy shortages but lacks the hard currency to import energy, Pyongyang welcomed the idea of a trans-Korean pipeline route which would also give it the benefit of transit revenues. On the other hand, despite the improved political climate in North-South Korean relations, Russia, China and the United States have also been concerned that a trans-Korean route would provide Pyongyang with leverage over gas flows and enable it to threaten other receiving consumer states for political purposes. In addition to these political considerations, there still remain many outstanding questions in terms of the project's economic viability and financing.¹⁰⁰ As a result, this scheme has been put on hold.

4.3. Implications

This chapter has argued that one of the most serious concerns shared by Moscow and Seoul since the establishment of diplomatic relations in 1991 has been the problem of North Korea. The interests of South Korea and Russia are not in conflict with regard to the North Korean issue. From the Russian and South Korean perspective, the North

⁹⁷ Kim, S., p. 40.

⁹⁸ Moltz, p. 203.

⁹⁹ Interview with Keun-Wook Paik, Associate Fellow, Sustainable Development at Chatham House, the Royal Institute of International Affairs, London, UK, 25 February, 2005.

¹⁰⁰ Wishnick, p. 155.

Korean question involves much more than nuclear proliferation and it remains on various political and economic security agendas for both Moscow and Seoul. Yet, despite the importance of North Korea in Russian-South Korean bilateral relations, the chapter has established that Moscow-Pyongyang relations are not as decisive a factor in Russian-South Korean relations as Moscow-Seoul relations were in Russian-North Korean relations, especially during the Gorbachev and early Yeltsin periods.

Despite Russia's effort to correct and balance its foreign policy between the two Koreas after 1996, and particularly after 1999, neither of the two Koreas nor Russia seem to be satisfied with the results of the development of their relations. Traditionally, South Korean leaders had considered Moscow a potential buffer against North Korea. However, as Russia's ambivalence over North Korea's nuclear crisis demonstrates, the Russians have encountered difficulties in deciding what policy they should pursue. This continues to feed South Korean suspicions of Russia.

Cooperation involving Russia and the two Koreas would facilitate the realization of the TSR-TKR and the gas pipeline project. It would undoubtedly strengthen Russia's economic security, as well as that of both North and South Korea, and it would contribute to the stability of the Korean peninsula. However, the reality is that the complicated issue of the nuclear proliferation negotiations, and continued economic stagnation in North Korea have constituted a regional political and economic security threat to Northeast Asia, including Moscow and Seoul. They have also delayed the realization of bilateral economic cooperation between Moscow and Seoul. As a result, the North Korean factor has not so far fulfilled its potential to contribute to the two countries' economic security and to regional economic security more broadly.

Chapter 9. Conclusion

This work has attempted to understand the progress made in, and the obstacles facing, Russian-South Korean bilateral relations and to consider whether the five aspects of cooperation examined in the case studies contribute to building comprehensive security between Russia and South Korea. The thesis demonstrates that although Russia and South Korea have embarked on both traditional and non-traditional security cooperation, the focus of the security building process has gradually changed from traditional military and strategic concerns such as Cold War confrontation and balance of power politics in the region, to non-traditional economic dimensions. These economic security dimensions are concentrated in five cooperative projects: energy security related to the direction of oil and natural gas pipeline routes and LNG trade; railroad network linkages; the establishment of FEZ; the management of maritime resources; and the transfer of military weapons and space technology. Russia and South Korea intended to enhance their bilateral relations and establish their bilateral and regional economic security through cooperation in each of the five projects. However, there is a considerable gap between what has been achieved and what was intended.

First, as chapter 3 illustrates, Russia and South Korea wanted to enhance their energy security by diversifying their energy export and import markets. Thus, they have been discussing energy cooperation since the early 1990s. A project to construct a cross-border gas pipeline, estimated to be able to provide a total of 20 million tons of natural gas to China, Russia, and Korea annually for 30 years, between Kovykta gas field and South Korea through China, was initiated in 1995. However, the project stalled and at present it seems highly unlikely to come to fruition in the foreseeable future. Moreover, although a deal was signed with Sakhalin Energy in July 2005 to supply KOGAS with 1.5 mt per annum of LNG for 20 years, the scale of overall Sakhalin LNG gas trade between the two sides is still insignificant and it is far from sufficient to meet South Korea's energy requirements.

Second, as far as railroad network linkages are concerned, the most immediately achievable transport project linking the TSR with the TKR would clearly provide both Russia and South Korea with the opportunity to meet their objectives to become great transit powers by maximizing their geo-strategic positioning. Chapter 4 explains how the realization of the railroad project would enable the two countries to diversify their commercial markets by improving resource allocation and increasing their trading volumes. Since the project envisages train shipments across North Korea, the Russian

and South Korean governments also hoped that it would contribute to easing the tension in the Korean peninsula and would facilitate the reunification of Korea. So far a number of proposals and feasibility studies have been conducted by both Russia and South Korea. Despite the obvious advantages to both countries and to the Northeast Asian region more generally, however, the project has virtually ceased to make progress since December 2004. Apart from the need to overcome a number of obstacles on both the Russian and South Korean sides, North Korea's withdrawal from the project in December 2004 made it clear that the successful completion of the railroad link requires the prior resolution of the North Korean nuclear problem.

Third, Chapter 5 argues that the successful operation of the Nakhodka FEZ has the potential to enhance the common regional economic security interests of Russia and South Korea, as well as of other participating states, by establishing a market network and promoting regional economic integration. Since 1992, Moscow and Seoul have conducted feasibility studies and set up a number of agreements regarding the size and the lease terms for joint construction of the industrial complex in the Nakhodka FEZ. However, the project has not been ratified by the Russian government. Moreover, the Nakhodka FEZ virtually ceased to exist after a new Russian law on special economic zones took effect on 27 August 2005 and it was excluded from the list of six regions which won their bids to create special economic zones in Russia on 29 November 2005. Despite its potential, therefore, the Nakhodka FEZ project is perhaps the least likely of the cooperative projects examined in this thesis to be achieved.

Fourth, Chapter 6 establishes that fishery cooperation is one of the important aspects of Russian-South Korean bilateral relations because of its potential to meet the economic and food security interests of the two countries. Russia's vast and rich marine products and fishery resources, specifically, its pollack, cuttlefish and saury resources, have been attractions for South Korea's expanding fishing zones. Fishery activities, such as joint ventures between Russian and South Korean private fishing companies, have developed rapidly since 1990. However, the scale of fishery trading between the two countries has remained small. In fact, there has been more conflict than cooperation in the fishery diplomacy between Moscow and Seoul. Crucial problems that have arisen include Russia's reduction of its pollack catch quotas, its unpredictable policy concerning fishing rights charges, and illegal fishing activities. Although some of the disputes have been resolved on an ad hoc basis, the issues have the potential to resurface in the future.

The fifth aspect of cooperation between Russia and South Korea studied in this thesis is the arms trade. As Chapter 7 demonstrates, the two countries have been engaged in the arms trade since 1994. The initial impetus was Russia's concern to repay its debt to South Korea and the serious setback that occurred in Russia's defence industry after the collapse of the Soviet Union. The South Korean government was hesitant at first to purchase Russian arms due to political sensitivity both in the region and in its relations with the US. Nevertheless, the arms trade has enabled South Korea to acquire a number of items of up-to-date military hardware from Russia at very competitive prices, particularly through the two Brown Bear arms trade projects. Indeed, the arms trade between Moscow and Seoul has met the two countries' mutual interests by decreasing Russia's debt to South Korea since 1994. Despite the rapidly developing arms trade between the two countries, however, its scale remains relatively small, constituting only 0.8 percent of total Russian arms exports from 1994-2004, as illustrated in Chapter 7. Moreover, it is questionable whether the two countries will continue their arms trade once the Russian debt to South Korea has been completely cleared.

The gap between the potentially substantial benefits that Russia and South Korea could derive from each of the five projects and the limited progress that has been achieved suggests that although Russian-South Korean bilateral cooperation was motivated by economic security needs, the cooperative bilateral and regional economic security building process has encountered a number of serious obstacles. In each of the five case study chapters, I have identified the obstacles to hampering cooperation in that specific sector. In sum they comprise the following three factors: 1) problems concerning the Russian domestic situation, specifically regarding the course of transition in the Russian Far East; 2) the inexperience of the two states in implementing regional economic security measures and in cooperating in the Northeast Asian region; and 3) external factors such as the North Korean nuclear crisis. These three factors explain the limited progress in Russian-South Korean bilateral cooperation. Let us look at each of the three factors in turn.

First, despite their potential for the economic development of Northeast Asia, cooperation in energy, transport networking, fishery, and in establishing Free Economic Zones, have all been constrained by the unstable political and economic situation in the Russian Far East. Among the most serious problems of the Russian Far East is the lack

of adequate legislation to safeguard investments and ensure future profits. Furthermore, even when the laws exist, the lack of legal enforcement in the region creates the climate for burgeoning illegal activities such as illegal fishing, illegal trade of stolen cars, arms and timber, drug smuggling, acts of contract killings in the Nakhodka FEZ, and cargo robbery on the railroad. Without a strong legal framework, the establishment of a FEZ in the Russian Far East seems to be extremely difficult, as the other cases of FEZs in Russia illustrate. The criminalization of fishery commerce is also rooted in the ill-defined and unenforced legal system, combined with the absence of law enforcement agencies in the Russian Far East and a confiscatory tax regime. These factors have generated a boom in illegal fishing. And illegal fishing, in turn, has resulted in overfishing, causing Russia to reduce the fishing quotas for foreign vessels, sparking a fishery quota dispute between Moscow and Seoul.

The Russian domestic situation also affects centre-periphery relations between Moscow and the regions of the Russian Far East which makes the building up of regional economic security cooperation between the Russia and South Korea problematic. As Chapters 5 and 6 explained, excessive politicization of the FEZs delayed the development of the Nakhodka project and finally reduced the scope of cooperation related to the territorial parameters and the financial and investment scale. As a result, the Nakhodka FEZ barely existed by the time the new law was adopted. Similarly, the highly politicized fishery quota allocation system in the Russian Far East ultimately led to illegal fishing. Moreover, even though the central government believes that the development of the Russian Far East is essential to its long-term economic prosperity, it remains suspicious of close relations between local governments and Northeast Asian countries. Any attempt by regional leaders to seek economic prosperity, such as establishing a FEZ or making local energy deals, is regarded as something that could enhance the independence of local governments from Moscow, decentralize the national economy, and redistribute power. In fact, the power struggle between the centre and periphery over fishery resources created considerable opportunities for corruption and illegal fishing, as illustrated in Chapter 6.

As a result of this suspicion, the central government in Moscow has used several tactics to ensure that the regions are unable to sustain economic cooperation with Northeast Asian countries including South Korea. For example, Moscow's high railroad tariffs, and its inconsistent and unpredictable tax policy in the FEZ, as well as the high tax levied on the energy trade resulted in fundamental questions being asked in South Korea as to whether these economic projects could be economically beneficial in

comparison to alternative options. Finally, and not unexpectedly, these conditions generate sceptical views among potential investors about the benefits of investing in the Russian Far East.

The second factor accounting for the limited progress in Russian-South Korean bilateral cooperation is the relative inexperience of the two states with regard to the concept of regional economic security cooperation, resulting both in South Korea's reluctance to invest in long term economic projects, and in Russia's hesitancy to open its markets fully to foreign investors. Long-term economic projects require substantial finance, investment and technologies. But the two sides have both experienced difficulties in dealing with sensitive issues such as tax privilege negotiations and making the conversions of military weapons systems necessary for the arms trade. The lack of mutual confidence is still very much rooted in the Cold War legacy, and it has resulted in both sides' reluctance to either offer concrete initiatives, or display a spirit of cooperativeness in seeking a compromise during the process of negotiating major projects. For example, each side lodged vociferous complaints against the other about not providing detailed information about the weapons during the arms trade negotiation process.

As a result of the two governments' inexperience in regional economic security cooperation, South Korean business circles have been reluctant to invest in regional projects. The lack of experience also generated a great deal of fear among Russian policy makers who believe that an increase in Northeast Asian influence in the Russian Far East threatens Russia's security. This has led to protectionist thinking among Russian policy makers. As illustrated in Chapter 5, for example, even though the two sides recognized that the establishment of a FEZ in Nakhodka would create enormous job opportunities for regional populations and diversify markets, the Russians and South Koreans remain cautious about developing long-term economic projects.

External factors are also important in explaining the limited progress in Russian-South Korean bilateral cooperation. Chapter 8 illustrates that the North Korean nuclear issue has had a negative impact on economic security cooperation between Russia and South Korea. For example, one of the possible Kovykta gas pipeline routes planned to run through North Korea is highly unlikely to come into existence at this stage. Moreover, although the railway linkage project still seems to be moving in the right direction, it would be facilitated if North Korea were to open up its market and society

further. At the same time, from the traditional military security perspective, North Korean protests against Russia transferring arms to South Korea remains an obstacle to further military cooperation between Moscow and Seoul. Although its protest has no direct effect on arms trade cooperation between Moscow and Seoul, the bilateral arms trade provides a potential excuse for Pyongyang to withdraw from trilateral economic relations among the three countries. In short, trilateral cooperation among Moscow, Pyongyang and Seoul is the most important factor which would promote the further development of multi-dimensional security cooperation between Russia and South Korea. In fact, the reunification of Korea would be a primary contribution to consolidating multi-dimensional security cooperation between Russia and a unified Korea. Because of this, Russia's stance on Korean unification is one of the most important issues in redefining Russian foreign policy in this region.

To a lesser degree, the US has had an indirect influence on Moscow-Seoul relations, particularly with regard to the arms trade and the North Korean factor. The US has had some impact on constraining military cooperation between Moscow and Seoul, such as in the arms trade, naval exercises, and the transfer of space technology. However, it is in relation to the North Korean issue that the US has had the greatest effect. In short, the trilateral relations among Pyongyang, Moscow, and Seoul have primarily been affected by the US Administration's policy towards Kim Jong Il. Indeed, North Korean leaders are more interested in improving relations with Washington than with Moscow. In other words, Moscow-Seoul relations depend in many ways on whether President George W. Bush pursues a tough or a soft policy towards North Korea.

In short, South Korea's active investment, Russia's continued reform in the Russian Far East, and improvements in the political and economic situation in North Korea are the key factors which would facilitate the comprehensive security building process between Moscow and Seoul. Nevertheless, the reality is that the implementation of the projects has been delayed and that some of the projects have ceased to function as a result of the obstacles and the delays. In sum, the obstacles have prevented Russia and South Korea from fulfilling their potential for creating a cooperative comprehensive security relationship. It is, perhaps, even premature to declare that bilateral economic security has been established.

Each of the five cooperative projects not only has the potential to contribute to Russian-South Korean bilateral economic security. They could also contribute to building regional economic security, since Russian-South Korean bilateral relations are an integral part of both traditional and non-traditional regional security issues in Northeast Asia. A regional security system in Northeast Asia would include maintaining a regional balance of power, building regional economic security through integrating markets and establishing a regional energy security framework and a regional fishery regime, and constructing a regional transport network. Given that there have been relatively few imperative diplomatic issues on the agenda between Russia and South Korea, and their respective low priority in one another's foreign policy profile, the Northeast Asian political situation influences Russian-South Korean bilateral relations. In addition to North Korea's role in trilateral relations among Moscow, Seoul and Pyongyang, and the indirect influence of the US, Japan and China also both simultaneously create opportunities and act as constraints in the regional economic security building process between Moscow and Seoul. The energy project, for example, and the formation of the FEZs require multilateral cooperation from China, Japan and the US. Moreover, as illustrated in chapter 6, fishery has become a new regional security concern, as onshore fishery production and deep sea fishing quotas have steadily decreased due to the reduction of fishing grounds, illegal fishery, and the difficulty in securing new fishing grounds.

Thus, the obstacles that prevent the development of Russian-South Korean bilateral relations also clearly hinder the establishment of regional economic security. It is important to understand that the delay in the bilateral cooperative projects cannot simply be explained by the fact that they have only recently been launched. The problems cannot be understood without paying attention to the three factors outlined above. Even though there have been many talks and proposals among the participating countries since the collapse of the Soviet Union, none of the cooperative projects have produced substantial benefits or concrete outcomes. The energy, railroad, and Nakhodka FEZ projects have not succeeded in attracting Chinese, Japanese, or North Korean participation. Trust and confidence among participating countries seem to be extremely difficult to establish and none of the projects have produced the infrastructure development that would generate prosperity in the region. Whether Russian energy could be reliable and affordable still remains questionable among Northeast Asian countries and, as a result, the energy projects have not produced the diversification that might resolve the Northeast Asian energy problem. Nor has the TSR and TKR linking

project created a physical network between the states; the border remains closed, blocking cross-border interaction. The Nakhodka FEZ project failed to attract foreign investment from the Northeast Asian regional economy. And the fishery conflict among Northeast Asian states over catch quotas, fishing rights charges, and territorial fishery zones persists, along with illegal fishing, because of the absence of a multilateral regime to control or mediate disputes. Moreover, as chapter 7 described, the arms trade between Moscow and Seoul may satisfy the immediate economic security interests of Russia and South Korea, but it does not really have any positive implications for regional security. On the contrary, from the traditional regional security perspective, the arms transfers made North Korea feel less secure and, since they act as a counter-balance to Japan, the US and China, they also make them feel less secure and, as a result, they could destabilise the balance of power in Northeast Asia. In short, despite their great potential for enhancing regional economic security, the cooperative projects between Russia and South Korea have not enhanced economic security of the region.

What steps would be necessary to establish bilateral and regional economic security between Russia and South Korea and lay the foundations for regional economic security in Northeast Asia? First, cooperation at the bilateral and multilateral level is, of course, vital. But although this thesis concentrated primarily on bilateral Russian-South Korean relations, a broader Northeast Asian regional economic security system and regional integration would require Chinese, Japanese, and North Korean participation and cooperation among all regional players.

More specifically, Russia would have to ensure that the prices it charged for oil and gas were competitive with those charged by Northeast Asia's existing primarily Middle Eastern oil and gas suppliers. Furthermore, foreign direct investment is the key instrument in developing the energy project and bringing the shared prosperity which would result from the efficiencies produced by a joint energy infrastructure and energy policies. Multilateral cooperation is also essential to enhance energy security in the region. As for the gas pipeline project, the attitude of Gazprom is crucial to the development of a future gas pipeline project; the question is whether Russia would open the gas fields to Northeast Asian countries even though Gazprom does not have any assets in the Kovykta gas fields.

As for the railroad project, the pivotal task for Russia is to make sure that the service and management of the TSR are improved; TSR traffic must move quickly, be

dependable, and be capable of dealing with railroad bandits.¹ On the Korean side, the reconstruction and reconnection of the TKR is essential. More importantly, relations between Pyongyang and Seoul must be improved, as well, of course, as relations between Pyongyang and Washington. The result of the Six-Party talks on North Korea's nuclear programme is the most important element to determining the pace of this project. For this reason, instead of switching shipping completely from sea routes to the TSR, it would be more realistic for South Korea to consider using the Russian land corridor in addition to sea travel for European-bound goods and Russian natural resources, or as a means to develop markets in Siberian regions.

Even though the Russian pipeline scheme in the Northeast Asian region would clearly help Russia to become a regional player, oil and gas exports will not be enough to solidify Northeast Asian ties. To play an active role in the new regionalism, Russia should propose an all around strategy for the region. In this regard, the Nakhodka FEZ project would be very useful. The South Korean government should also adopt a more aggressive policy toward the Nakhodka FEZ industrial park project, not so much because of the economic benefits of the project itself, but for the sake of enhancing bilateral relations.

The growing acceptance of the concept of comprehensive security would clearly be a positive development for fishery diplomacy. Comprehensive security for fishery would mean that security could be achieved through a web of interdependence which would include cooperation in fishery disputes, in combating illegal fishing and in scientific fishery research. Proposals for maritime cooperation should be formulated not against an adversary, but rather to deal with common problems of illegal fishing and overfishing. Indeed, successful cooperation in one endeavour would build the confidence to undertake further cooperation. For this reason, the fishery diplomacy between Moscow and Seoul requires a coordinated response by authorities on both sides of the maritime border. The establishment of a cooperative mechanism within Northeast Asia is essential. Networking between Moscow and Seoul, such as enhancing the Interpol network, is essential to curtail illegal fishing. States should set up sanctions against illegal vessels, such as the adoption of a civil sanction regime based on an administrative penalty scheme.² Above all, the system of quota allocations in Russia must be converted from the current opaque lobbying process to the transparent sale and enforcement of rights to fish. As Supian and Nosov note, it would help if Japanese and

¹ Startseva, *Moscow Times*, 10 June, 2003.

² Judith Thornton, "The Exercise of Rights to Resources in the Russian Far East," in Michael J. Bradshaw ed., *The Russian Far East and Pacific Asia: unfulfilled potential* (Richmond: Curzon, 2001), p. 117.

Korean authorities were to demand that Russian fishermen show their licenses for fishing and export.³

In terms of regional security, the arms trade issue remains rather contradictory, since the objectives of bilateral economic security do not always correspond to those of traditional regional military security. This means that the more the arms trade between Moscow and Seoul develops, the more military security in the region is at risk. As discussed in chapter 7, large scale joint military exercises or the conclusion of a military alliance is highly unlikely between Russia and South Korea. However, the arms trade, particularly in the form of joint military research, defensive military hardware, dual-use technology, or aerospace technology projects should be actively pursued, not so much because of the economic benefits of the arms trade itself, but for its diplomatic contribution to enhancing bilateral relations.

Russia's primary objective in the Korean peninsula has been to maintain or enhance its prestige, and to play a major role in Northeast Asia. In the course of history, Kremlin leaders have always faced the dilemma of whether they should be traditionalists who emphasize the importance of power and military strength in foreign policy, or integrationists who promote harmonious relations with major regional and global actors within the international system. In fact, neither the traditionalists' nor the integrationists' strategy has allowed Russia to play a major role in the Korean peninsula. The reasons for this lie primarily in Russia's relatively weak position in the region, its inconsistent policies, its lack of policy resources, and the low priority of Korea in Russian foreign policy. As a result, Russia's policy has been circumscribed by the external environment. For example, Nicholas II's imperial penetration of the peninsula was checked by Japan's victory in the Russo-Japanese War in 1905, while Stalin's ambition to expand Soviet power in the Korean peninsula was thwarted by the US policy of containment. Soviet policy toward Korea was paralyzed during the Cold War. Moscow refused to acknowledge South Korea's existence, and yet was unable to maintain truly cordial relations with the North, distracted as it was by China. Gorbachev attempted to participate in the Asia-Pacific region with more peaceful strategies, yet this clearly created little more than the image of a weak Soviet Union. Under President Yeltsin, Russia was also sidelined by its two rivals, China and the US, especially over North Korea's nuclear crisis talks. In short, so far Russia's policy has failed to prevent the US from remaining the main actor in the region.

³ "Granitsa vostoka" (Eastern border), *pogranichnik*, March 1998, p. 15.

Hence, throughout history Russia's policy has been reactionary and limited. Russia's position in Korea was based on prestige rather than power, and it has been seen as a problem because it is a potential source of instability, proliferation and pollution in the region. Neither Gorbachev nor Yeltsin had specific policy objectives and plans concerning Korea.

Nevertheless, the new energy deals that Putin has offered to his Northeast Asian neighbours represent more than energy itself, considering that energy security is the primary concern for Northeast Asian regional economic security these days. The energy projects, along with the other large scale economic projects that Russia currently seeks to develop in the region, clearly indicate that the Kremlin leaders themselves understand the importance of regional economic security, and that Russia is willing to be part of the Northeast Asian regional economic community.

Considering that the North Korean nuclear issue and the problem of a divided Korea mean that traditional security concerns still remain important in Northeast Asia, Russia's role in the peninsula is not negligible. Russia could pursue a 'wait and see' policy towards unification or it could actively support unification by playing a crucial mediating role between Seoul and Pyongyang. Russia's drive for influence in the Asia-Pacific region requires it to be proactive, constructive, responsible and dynamic with regard to unification and economic cooperation.

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