



# Russia-North Korea Economic Relations

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Russia shares a border with the Korean Peninsula, and its declared interest is to maintain peace and stability in the region. During Soviet times, its Korean policy was based on the alliance with the DPRK. After the establishment of diplomatic relations with the ROK in 1990 and the dissolution of the Soviet Union in 1991, the situation changed. Moscow terminated its military alliance and began to actively build ties with the ROK, which damaged its relations with North Korea. However, since the beginning of this century Moscow has been trying to pursue a balanced policy towards the Korean Peninsula, which, its leaders contend, corresponds to the long-term national interests of the Russian Federation.

The current Russian policy is characterized by a high degree of pragmatism. In February 2013 the Russian president approved a new foreign policy strategy, according to which, Russia aims to maintain friendly relations with the DPRK and the ROK based on the principles of mutually beneficial cooperation. Russia declares that it wants to use the potential of these relations to accelerate regional development and to support inter-Korean political dialogue and economic cooperation as an essential condition of maintaining peace, stability and security in the region.

Russia condemns North Korea's nuclear program and is making efforts to achieve denuclearization on the peninsula through dialogue and negotiations. Russia supported and fulfills all the resolutions of the UN Security Council imposing sanctions against the DPRK. However, the government considers that isolating North Korea would not help to solve the problem and makes efforts to engage with Pyongyang in the economic sphere not connected with the DPRK's military programs.<sup>1</sup>

Some Russian experts claim that the political component has been dominating in the two countries' relations of late. Pyongyang regularly supports Moscow's position on a wide range of issues in the international arena. Politically, by strengthening ties with Russia, Pyongyang has been seeking an opportunity to exit from international isolation while maintaining a policy of parallel development of the economy and the nuclear program.<sup>2</sup> At the same time, the Russian government would like to be more active on the Korean Peninsula and understands that improved relations with Pyongyang will make Russia's voice better heard.<sup>3</sup>

Settlement of North Korea's debt to Russia after several years of talks is an obvious confirmation of Russia's interest in developing economic ties with it. For many years Pyongyang did not recognize the debt, regarding the Soviet Union's support as assistance to the "eastern outpost of socialism." Moreover, at the beginning of the 21st century, Russia was writing off massive debts granted by the Soviet Union to some other Asian countries, such as Vietnam and Mongolia. North Korea obviously expected at least the same approach. On September 17, 2012 Russia and North Korea signed an agreement on settlement of North Korea's debt to Russia under loans it had contracted from the former USSR, which came into effect after the law ratifying it was signed by the Russian president on May 5, 2014. The debt was estimated at \$11 billion, including accrued interest, with consideration for the exchange rate of the ruble at the time. Russia agreed to write off 90 percent of it, with the remaining 10 percent (or over \$1 billion) to be credited to the Russian Vnesheconombank's account opened with a North Korean bank. Under the terms of the agreement, this amount can be used to fund joint Russian-North Korean humanitarian (in education and health care) and energy projects.<sup>4</sup> So, basically North Korea can build a school and call it a joint project with Russia claiming reduction of some part of the remaining debt, or it can provide a plot of land for the construction of a pipeline from Russia, and Moscow will "pay" the rent for it from the account of Vnesheconombank.

## THE CURRENT ECONOMIC RELATIONSHIP BETWEEN RUSSIA & NORTH KOREA: BACKGROUND

The USSR played an important role in the process of building the economy of the DPRK. For many years it was a major trade and investment partner for North Korea. However, the break-up of the Soviet Union brought a radical turn in the economic relations of the two countries. Very quickly Russia became a marginal economic partner. A change in the cooperation mechanisms and economic crises in both countries in the 1990s contributed greatly to this decline. With the economic growth of the 2000s, Russia and North Korea started to look at each other with more interest.

Besides security considerations, Russia has important economic goals the achievement of which could be facilitated through cooperation with the two Koreas. The policy aimed at rapid economic development of the country's Far East requires advancing economic relations with other states of Northeast Asia including the DPRK. The North Korean leadership, in turn, tries to move away from excessive economic dependence on China through further expansion of contacts with Russia.<sup>5</sup> One important economic policy under Kim Jong-un is increasing the number of special economic zones in the DPRK and attracting foreign investment into them. Pyongyang realizes a need for diversifying its external economic relations. In doing so, North Korea is trying to prioritize cooperation with Russia over other partners.

From the Russian side, the Far East Development Ministry created in 2012 has become the main power pressing to develop relations with the DPRK. Far East Development Minister Alexander Galushka heads the Russian part of the Intergovernmental Commission on Trade, Economic, Scientific and Technical Cooperation between Russia and North Korea (the Korean part of the commission is headed by Minister of External Economic Relations Ri Ryong Nam). The Intergovernmental Commission (IGC) is the main body responsible for promoting bilateral economic relations. It also has several sub-commissions dealing with specific areas of cooperation such as trade, transport, forestry, interregional cooperation, and cooperation in science and technology. Moreover, there are several working groups created between the regional administrations of Russia and the DPRK's government.

At the IGC's meetings the two countries' delegations comprised of government officials and businessmen to exchange proposals on economic cooperation, discuss current and prospective projects, and identify measures for their implementation. After 2011 there was a three year break in the IGC meetings. Since 2014 regular meetings have resumed. The 6th meeting of the IGC was held in Vladivostok in June 2014 and the 7th took place in Pyongyang in April 2015.

During the IGC meetings the North Korean participants made a presentation on special economic zones of the DPRK. The parties outlined priorities for the expansion of bilateral cooperation in the trade, energy, and natural resource sectors. Exploration of oil and gas in North Korea, participation in the development of mineral deposits, including non-ferrous and rare metals, cooperation in gold mining, manufacturing of goods in North Korea, and joint agricultural projects were among the regularly discussed areas of mutually beneficial cooperation.

In 2014 Russia-North Korea economic relations were given a new impulse. Bilateral visits of high-ranking delegations intensified, and the number of agreements signed in the economic sphere grew. In fact, 2015 was officially declared the Year of Friendship between Russia and the DPRK. A North Korean delegation even took part in the Eastern Economic Forum organized in Vladivostok in September 2015.

In 2014 North Korea demonstrated an unprecedented level of openness and willingness to cooperate in negotiations with the Russians. The DPRK authorities expressed their willingness to create improved business conditions for Russian companies. In particular, they agreed to facilitate the issuing of multiple-entry visas, provide Russian investors with modern communications systems (mobile phones and the Internet), and provide easier access to information on legislation in the DPRK. In the second half of 2014 twelve Russian businessmen received long-term multiple-entry visas to the DPRK for the first time.<sup>6</sup>

The Russian approach to economic cooperation with North Korea is totally different from the model used in Soviet times, which was based on friendly prices and credit. The current policy is to provide administrative and political assistance to mutually beneficial and profitable projects. According to the Far East Development Ministry, cooperation in such economic fields as trade in consumer goods, metallurgy, transport infrastructure, the energy sphere, and mineral resources, as well as education, science, and technology, has the best potential in terms of profit for both sides.<sup>7</sup>

The current status of economic cooperation between Russia and North Korea can be described in four major areas: trade, joint projects (investment cooperation), labor migration, and humanitarian assistance.

## THE CURRENT ECONOMIC RELATIONSHIP BETWEEN RUSSIA & NORTH KOREA: TRADE

In the early 2000s, Russia's trade with North Korea showed an upward trend, increasing from \$105 million in 2000 to \$233 million in 2005. It started downhill in 2006, bottoming out at \$49 million in 2009. In 2010 and 2011, bilateral economic cooperation recovered some lost ground, springing back to \$113.7 million (less than 1.5 percent of North Korea's total foreign trade) in 2011, only to slide back again to \$76 million in 2012.

Experts attributed the Russian business community's sluggish performance in the DPRK to: the few export choices North Korea had on offer; high solvency risks that North Korean companies are suffering and the distrust in which they are held by Russian companies; lack of modern infrastructure; and financial settlement problems precipitated by international sanctions against North Korea. North Korea's debt to Russia, too, had long been a serious obstacle to more extensive economic ties between the two countries.

After the economic contacts between Russia and the DPRK were revitalized in 2014 the two countries' authorities set a goal of \$1 billion in direct trade by 2020.<sup>8</sup> However, bilateral trade accounted only for \$92.8 million in 2014.<sup>9</sup> It is mostly imports from Russia, with North Korea's exports to Russia still insignificant. This imbalance causes North Korea to run a chronic deficit. Between 2005 and 2014, though, the deficit narrowed from \$219.5 million to \$75.6 million, mostly because of the decline in overall bilateral trade.

**Table 1. Russia's Exports to DPRK (unit: \$ thousand)**

Product Label	Value in 2012	Value in 2013	Value in 2014
All products	58,428	103,426	82,157
Mineral fuels, oils, distillation products, etc.	23,298	43,586	33,984
Vehicles other than railway, tramway	74	9,605	17,027
Cereals	637	69	12,954
Machinery, nuclear reactors, boilers, etc.	1,118	22,878	7,865
Wood and articles of wood, wood charcoal	1,003	2,423	3,523
Fish, crustaceans, mollusks, aquatic invertebrates	0	1,003	1,820

**Table 2. Russia's Imports to DPRK (unit: \$ thousand)**

Product Label	Value in 2012	Value in 2013	Value in 2014
All products	11,081	9,291	10,032
Articles of apparel, accessories, not knit or crochet	2,730	3,850	4,699
Machinery, nuclear reactors, boilers, etc.	861	1,131	1,465
Musical instruments, parts and accessories	787	1,281	1,374

Source: ITC calculations based on UN COMTRADE statistics

As can be seen in Table 1 and Table 2, North Korea's principal imports from Russia in 2014 were mineral fuels, oils, and distillation products (41 percent), vehicles other than rail cars, tramways (21 percent), cereals (16 percent), and machinery (10 percent). In the same year North Korea's principal exports to Russia included articles of apparel, accessories, not knit or crochet (47 percent), machinery (15 percent) and musical instruments, parts and accessories (14 percent). In 2015 mineral fuels, lumber, and cereals were among the biggest North Korean imports from Russia. Both sides recognize that they need to work hard on diversifying their trade. North Korea tries to find Russian clients for a wide range of its products – from machinery and minerals to foodstuffs and cosmetics.

At the 7th meeting of Intergovernmental Commission in April 2015 Russia and North Korea signed 16 veterinary certificates for live animals and animal products for export from the Russian Federation to the DPRK. North Korea expressed interest in importing pork and poultry from Russia.

When the Russian government set a goal of increasing direct trade with North Korea it was aware that due to the international and American economic sanctions imposed against the DPRK the country was virtually isolated from the international financial system. There were no North Korean accounts at Russian banks. So, the two sides needed to arrange and facilitate bank transactions. In 2014 Moscow and Pyongyang reached an agreement

on a transition to payments in rubles and establishing cooperation between Russian and North Korean banks, which resulted in opening correspondent accounts in the banks of the two countries.

The first contracts on opening North Korean accounts at Russian banks were signed in June 2014 between the Russian AKB Regional Development Bank and the Foreign Trade Bank of the DPRK. The first settlements in rubles between the assigned banks were conducted in October 2014, facilitating financial transactions for businesses of the two countries.<sup>10</sup> Some Russian companies still do business with North Korea through Chinese banks; there is potential to increase bilateral turnover by redirecting these flows into Russian financial institutions.

Another problem is transportation. To boost trade cooperation between Russia and North Korea it is important to improve logistics between them. The two share only a tiny land border; so all trade between them is conducted by sea, or by rail across a single bridge. However, the North Korean side has long been asking for the construction of a road bridge. In March 2014 the two sides agreed to speed up the preparation of an intergovernmental agreement on international road transport. And in April 2015 such an agreement was signed in Moscow. The prospect of building a floating road bridge between Russia and North Korea at the Khasan border crossing is currently being discussed, and has the support of both the Russian government and the authorities of the Primorsky Territory where the bridge is to be built. The details of the plan are now being discussed by an international working group comprised of the two countries' representatives.<sup>11</sup>

At the beginning of 2015 Russia and North Korea set up the Russia-DPRK Business Council at the Chamber of Commerce of the Russian Federation. Its main goal is to assist businessmen and companies of the two countries in establishing business relations to ensure effective development of trade and economic relations. The first meeting of the Business Council took place on February 25, 2015 and lasted for more than five hours. Among the participants were senior officials of both countries as well as representatives of Russian companies interested in dealing with North Korea. According to the Russian officials, the new mechanism will play a coordinating role for Russian companies, consider their business projects, and submit them to the level of intergovernmental discussion.<sup>12</sup>

Over the course of 2014-2015 Russia and North Korea put several initiatives into motion. Traders from the two countries started to transact in Russian rubles, and a bilateral business council allocated project managers to oversee larger initiatives. Moreover, the two countries agreed in principle to set up a joint trading house, which will aim to further promote trade turnover. The 2nd meeting of the Joint Workgroup on Trade of the IGC took place in December 2015 in Pyongyang, where Russian business leaders declared their intent to launch a number of new projects in the DPRK, for instance, to open a chain of drugstores, several fast food restaurants, and even a taxi company, which will be importing Russian cars.

### **The Current Economic Relationship between Russia and North Korea: Investment and Joint Projects**

Investment-related cooperation between Russia and North Korea has until recently been just taking off. According to data provided by the Russian Ministry of Economic Development, Russia had \$2.552 million in cumulative investments in North Korea in 2008 (almost all of



them in manufacturing) and \$2.505 million in North Korean investments back home. The only large-scale project that Russia has implemented so far is rebuilding the 54-kilometer-long section from Khasan station to port Rajin, North Korea, and building a freight terminal in Rajin for freight transshipments to the Trans-Siberian Railroad. It was launched in 2008 and has increased Russian investment into North Korea to about \$300 million. In 2006, Russia, North Korea, and South Korea called this project the first stage in the restoration of the full length of the Trans-Korean Railroad (its leg running along the eastern coast of the peninsula). Relations between the two Koreas, however, plunged into crisis in 2008, and the ROK stayed away from the project.

Despite the South's withdrawal, Russia and North Korea completed all repair work on the railroad, and the double-track between Khasan and Rajin was

given a trial run in October 2011. In March 2014 a universal freight terminal was built in the port of Rajin. According to the initial business plan, a container terminal was to be built in Rajin, its infrastructure intended for transferring containerized freight brought by ship from South Korea (and other APR countries) to the Russian railroad network. South Korea having withdrawn from the project and no containerized freight traffic expected with certainty, the remaining project participants had no choice but to depart from the original container terminal construction plan and replace it with facilities to transship bulk freight, including coal (from Russia to China and Southeast Asian countries).

South Korea was looking at options to return to the Khasan-Rajin project. During the visit of President Vladimir Putin to Seoul in November 2013 Russia and the ROK signed a memorandum of understanding according to which a consortium of South Korean companies including POSCO, Hyundai Merchant Marine Co., and Korail Corp. would consider an opportunity to join the Khasan-Rajin logistics project. On May 24, 2010 the South Korean government had imposed trade and economic sanctions against the DPRK prohibiting any investment cooperation between the two. Therefore, South Korean businesses could enter this project only through cooperation with Russia, for example, by acquiring part of the Russian share in the joint venture of Russia and the DPRK called RasonKonTrans which operates the infrastructure. Currently 30 percent of the shares in the joint venture are owned by the North Korean side and 70 percent belong to the Russian OJSC Russian Railways Trading House (a subsidiary of OJSC Russian Railways). Part of this 70 percent could be sold to South Korean companies.

Since late 2014 Rajin was mainly used by Russian companies to move coal from Russia to China. In 2014 more than 100,000 tons of coal was shipped through the port. In 2015 the volume grew to almost 1,200,000 tons of freight.<sup>13</sup> The growth of the cargo volume could have been bigger, but declining prices for natural resources, especially coal, had a negative impact on the delivery volumes. The target of RasonKonTrans is to handle about 5,000,000 tons of cargo annually. In 2014 and 2015, Rajin also served as a connectivity point for the transportation of bituminous Russian coal to South Korea. A pilot shipment of 40,000 tons of coal from Siberia to the South Korean port of Pohang through Rajin was carried out in November 2014. In April-May 2015 there was the second test shipment of about 140,000 tons of coal to the South Korean ports of Dangjin, Gwangyang, and Boren. The third batch of coal was delivered to South Korea through North Korea in November 2015. Approximately 120,000 tons of Russian coal and 10 containers of Chinese mineral water were shipped through Rajin at that time.

An agreement on South Korean companies' participation in the Khasan-Rajin logistics project was expected to be signed in the spring of 2016. But after the DPRK's nuclear and rocket launches at the beginning of 2016 the ROK declared its intention to suspend cooperation until there is progress in denuclearization of North Korea.

Russian Railways, which participates in the Khasan-Rajin project, is a state-owned company and, although the whole initiative is implemented on market principles, it has massive support from the state, including a loan from a state bank. However, private Russian companies have started to show an interest. In 2014 Russian company Mostovik made headlines with its intention to invest \$25 billion in the modernization of the North Korean railroad. In the current economic climate Russian firms are very short of money; so the cooperation plan was not based on direct investment from Russia into North Korea. The new formula of cooperation meant that Russian companies would participate in infrastructure projects in the DPRK in exchange for access to North Korean mineral deposits. This "Victory" project planned to extract North Korean minerals, including coal and iron ore, sell them in international markets, and use the funds to guarantee investment in the railroad modernization and other areas. The joint venture between Mostovik and the North Korean ministry was signed in April 2014.

According to Mostovik's CEO Oleg Shishov, the company was looking to develop and upgrade railway infrastructure, factories, plants, and the processing of natural resources. The prospective plan was to modernize 3,500 kilometers of the North Korean railroads (almost half of its railroad grid) and also build new roads around Pyongyang. The first project in this 10-stage effort was to restore the section of the Jaedong-Kangdong-Nampho railway. The groundbreaking ceremony took place at the East Pyongyang Railway Station in October 2014. However, due to internal developments in Russia, there have been no updates on the project's progress since then. In the middle of 2015 Mostovik was officially declared bankrupt. But the main idea of the Victory project, i.e. to extract and sell North Korean mineral resources and invest the profit into Russian companies' projects in the DPRK, became a new, basic formula for the Russian government push for investment cooperation with Pyongyang.

In 2015 more Russian companies declared the start of work in North Korea. Northern Mines Ltd. planned to create a joint venture with the Korean Zinc Industry Association to develop gold and silver deposits in South Hamgyong Province.<sup>14</sup> Sever Group was promoting cooperation with the DPRK in ferrous metallurgy. In the middle of 2015 the company's delegation visited North Korea and agreed on cooperation in cold-rolling production, modernization of the Kim Chak factory facilities, and a production increase in the conversion of pig iron.

North Koreans have recently shown increased interest in the implementation of agricultural projects in the Russian Far East. Since 2011 various options for cooperation with the Amur region; including joint projects for setting up dairy and beef farms, as well as cultivation of grain and soybeans; have been discussed. In the middle of 2013 the consul general of the DPRK in Nakhodka at a meeting with the governor of Primorsky Territory said that North Korea plans to invest \$1 million in processing corn and soybeans as well as to consider joint projects in cattle breeding in Primorye.<sup>15</sup> North Koreans currently have an experimental agricultural enterprise in the Dalnerechensk district of Primorsky Territory.

In 2014 DPRK officials announced that they were interested in renting 10,000 hectares in the



Khabarovsk region to grow vegetables, breed cattle, and set up processing enterprises using Korean labor and equipment. There were reports of possible involvement of investors from the Middle East in the financing of these projects. Most of the products produced in Russia at North Korean agricultural enterprises would then be exported to the DPRK to improve the food situation.

Another important area of bilateral cooperation that has been regularly discussed by Russia and North Korea is electric power production and supplies. Different options are being considered. RAO Energy Systems of the East is looking to supply North Korea's Rason region with electricity. This project is the closest to being implemented as a preliminary feasibility study for it has already been completed. The Russian company's potential customers could include the numerous Chinese companies and joint ventures currently operating in Rason.

A bigger project of constructing an energy bridge to the ROK through North Korea was also discussed. Russia had preliminary talks with such South Korean countries as K-Water, KEPCO, and POSCO, which were interested in participating in this initiative.<sup>16</sup> In December 2015 a group of energy specialists from Russia visited the DPRK, going to East Pyongyang thermal power plant, and Kumyagang and Namgang hydroelectric plants, and holding talks with their Korean counterparts on cooperation aimed at coping with the energy deficit in the DPRK. During that visit an agreement on cooperation in the field of electric power between the governments of the DPRK and the Russian Federation was signed.

## THE CURRENT ECONOMIC RELATIONSHIP BETWEEN RUSSIA & NORTH KOREA: LABOR MIGRATION

North Korea's ties with Russia's Far Eastern areas, particularly the Amur region and the Primorsky and Khabarovsk territories, have held a prominent place in bilateral economic relations. Recruitment of Korean labor for employment in these regions is the most common interregional cooperation. As federal and regional development programs went ahead, they brought a significant increase in labor recruitment from North Korea. North Korean workers are often favored by Russian employers due to their speed and diligence. In 2010, approximately 21,000 North Koreans held jobs in construction, agriculture, forestry, health care, fisheries, and the textile and leather industries. In 2013, Russia raised the quota of North Korean labor to 35,000.

The advance of the North Korean workforce is greatest in the construction sector. During the agricultural off-season, particularly in Primorsky territory, most North Korean workers work in the construction industry. "Currently, Primorye territory features 15 companies that have subcontracted a foundational work force of North Koreans," said a representative from a construction company association there. "It's enough for North Korean workers to be in charge of more than 30 percent of Primorye territory."<sup>17</sup>

In 2015 already 47,364 North Koreans were authorized to work in Russia, according to the Russian Ministry of Labor. There were only two other countries that contributed more foreign workers: Turkey with 54,730, and China leading with 80,662 workers.<sup>18</sup> It has been widely admitted by Russian officials and businessmen that hiring North Koreans is very convenient due to their diligence, discipline, and competitive salaries.

In 2015 the Russian government introduced a new system that requires migrant workers to obtain a work permit, for which they must take a medical exam against contagious diseases, get medical insurance, and present a Russian ID. They also must pass a test in Russian language, culture, and history and receive a certificate. The last part has appeared to be the most difficult. After negotiations North Korea managed to get the rights to open a testing center and issue these certificates on its territory. This obviously made it easier for North Korean workers to collect all the necessary documents for working in Russia.

The ruble devaluation profits in Russia have considerably decreased for the North Koreans, but working in Russia still seems to be a good job for them, and bilateral cooperation in this area is likely to continue and even expand.

## THE CURRENT ECONOMIC RELATIONSHIP BETWEEN RUSSIA & NORTH KOREA: HUMANITARIAN ASSISTANCE

As the economic contacts between Russia and the DPRK intensified, Moscow has delivered several batches of humanitarian assistance to North Korea. In 2014 it included 50,000 tons of wheat, about 3,000 tons of wheat flour, 50 modern fire engines, and equipment sets for field hospitals.<sup>19</sup> In 2015 Russia donated wheat flour worth \$6 million to the UN's World Food Program (WFP) North Korea project, becoming the second largest donor after Switzerland. Another \$3 million donation from Russia to the WFP will be used in the first half of 2016.<sup>20</sup>

## THE OUTLOOK ON RUSSIA'S PROPOSALS FOR FURTHER ECONOMIC ENGAGEMENT WITH THE DPRK

Multilateral projects involving both Koreas have long been central to Russia's economic strategy toward North Korea. The biggest of them are linking the Trans-Siberian Railroad and the Trans-Korean Railroad into an overland transportation route from Asia to Europe, building a gas pipeline across North Korea to South Korea, and supplying Russian electric power to the Korean Peninsula. Even though their economic rationale was evident to all parties, none of these projects has taken off in the trilateral format to this day because of differences between the two Koreas and the situation on the peninsula. A good illustration of this is the situation with the Khasan-Rajin logistics project. After several years of preparation and negotiations South Korea participation in it was halted due to political and military reasons. After Pyongyang's January 6 nuclear test and February 7 long-range rocket launch Seoul declared a new set of unilateral sanctions against North Korea on March 8, 2016, including a ban on vessels entering South Korean waters within six months of visiting the North. The Rajin-Khasan project, which aimed to bring Russian coal to the South through the North Korean port of Rajin, falls under that category.

The project of supplying Russian gas to South Korea through North Korea has been discussed for almost 20 years. After the construction of the main gas pipeline "Sakhalin-Khabarovsk-Vladivostok" was completed in 2011, the infrastructure for building an extension to the Korean Peninsula was ready. North Korea for its part, agreed to provide

land for the construction of a gas pipeline. Russia and South Korea came close to discussing a commercial contract on gas supplies. However, in 2012 the parties were unable to agree on the price of gas; so, now the gas project is also shelved.

The electric power supply project with ROK participation is also likely to be suspended in line with Seoul's current policy of cutting any financial flows into the DPRK. The Russian government will realize that it cannot count on trilateral cooperation in the near future, which will make it even more important to develop economic ties with North Korea if Moscow wants to strengthen its position on the eastern frontier. The institutional base for it has already been laid, as government bodies provide support to Russian businesses. But despite the defining role that the government is playing to stimulate economic relations with North Korea at the present stage, it is important that the initiative is taken by private companies after all the necessary institutional conditions are created and certain experience is acquired.

Russia and North Korea were at the stage of testing new principles and models of economic cooperation looking for a successful result in boosting trade and investment when the DPRK held a nuclear test and a rocket launch at the beginning of 2016. In response to it on March 2, 2016 the UN Security Council adopted Resolution 2270 which contained the harshest-ever sanctions on North Korea. Although Russia supported the resolution, it was not among its main authors and its interests were not fully considered in the new set of sanctions.

Russia supported Resolution 2270 as part of its efforts to prevent proliferation of nuclear weapons, but it managed to exempt its main economic project, i.e. Khasan-Rajin, from it and made sure that the flights between the Russian Far East and North Korea would keep carrying workers which play quite an important role in the Russia's Far Eastern labor market. The restrictive measures will obviously have a negative impact on the prospects of Russia-North Korea economic cooperation and might limit the opportunities to boost bilateral trade. The turnover between Russia and the DPRK is likely to continue falling in the near future, which was a pre-existing trend.

The ban on North Korean exports of coal, iron and iron ore (unless such transactions are determined to be exclusively for livelihood purposes and unrelated to generating revenue for the DPRK's nuclear/missile programs or other activities that constitute UN Security Council resolution violations), and gold, titanium ore, vanadium ore, and rare earth minerals will likely make Russia reconsider its cooperation formula of extracting and selling North Korean mineral resources and investing the profit into Russian companies' projects in the DPRK. However, the two countries' cooperation in the areas unaffected by the new sanctions, such as the Khasan-Rajin logistics projects, energy sector, labor migration, agriculture and trade in other than restricted minerals is likely to continue. RasonKonTrans will keep struggling to find new clients for its services and significantly increase the volume of the cargo handled at Rajin port. Any substantial progress on the Khasan-Rajin project requires the improvement of North Korea's relations with its neighbors, which is unlikely in the near future. At the same time, such mutually beneficial forms of cooperation as recruitment of North Korean labor for working in the Russian Far East have a good chance of expanding giving the DPRK much needed currency to pay for its trade deficit with Russia.

To sum up, there is expected to be some adjustment period in Russia-North Korea economic ties to fit the new international situation and restrictions, but the two countries' line for expanding bilateral relations is likely to be unchanged. So, it will probably take some

more time for Russia and the DPRK to see any substantial results of their efforts in the economic sphere.

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