



## Q&A : Kim Jong-Un Surfaces

Asia: Cutting Through the Noise Series Issue VIII

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North Korean leader Kim Jong-un has in recent months engaged in a flurry of diplomatic activity, challenging the global political community's assumptions about his motives and capabilities. Peter S. Kim, Investment Strategist for Mirae Asset Daewoo answers some of the investor inquiries he received following his December 2017 article "North Korea Under the Radar".

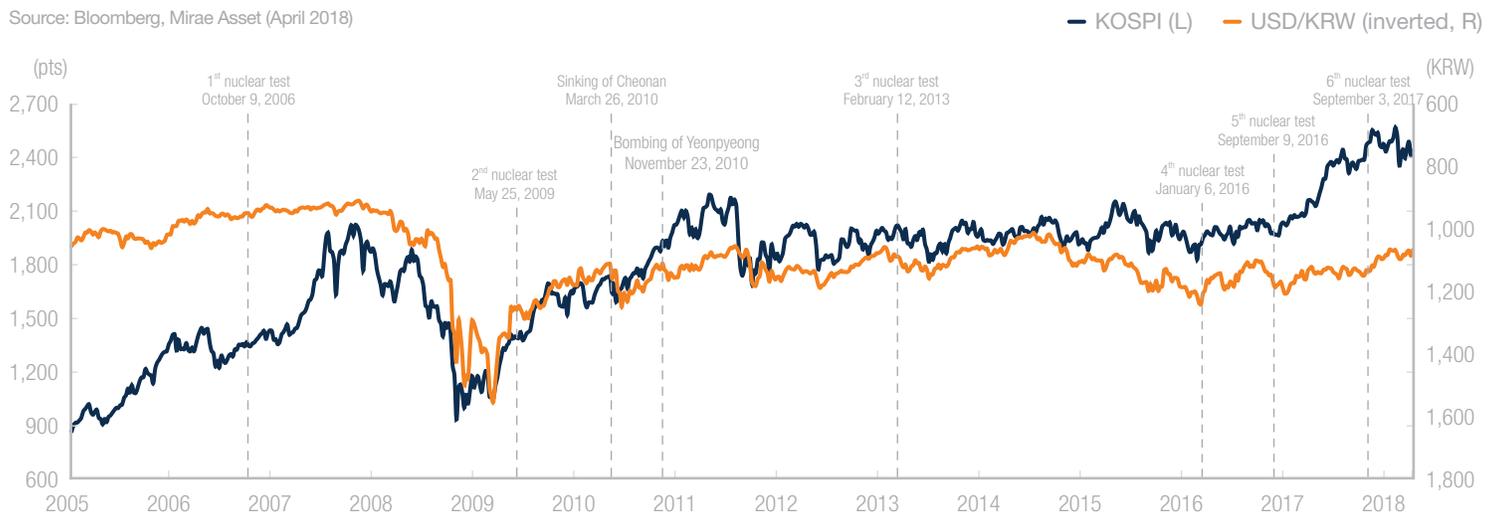
### 1. Why has there been a sudden change of attitude towards Kim Jong-un?

Since his recent meeting with President Xi Jinping in China, Kim

Jong-un has been scheduled to meet President Moon Jae-in of South Korea in April followed by President Donald Trump in May. Kim has never traveled outside of North Korea since assuming power in 2011 as a 29-year old. Even more surprising is his declaration that denuclearization is "consistent" with his and his father's philosophy, providing much hope that this is the beginning of North Korea relinquishing nuclear weapons. The remarkable rise of Kim as a central figure is unprecedented, and this rise was first initiated by the sudden offer to join the Winter Olympics earlier this year.

### Declining Reactions to North Korea's Saber-Rattling

Source: Bloomberg, Mirae Asset (April 2018)



For the past few years, we have been emphasizing that North Korea is implementing a methodical three-stage strategy to garner status as a recognized nuclear nation. The first stage was to establish nuclear capabilities and prove that Kim's regime was no longer under the tight reins of control from China. During the first 12 months of Trump's term, the world has increasingly recognized China's inability (or unwillingness) to stop North Korea's nuclear program. North Korea is now in the second stage of its grand scheme: bilateral negotiations with the US. For the past few decades, the US has refused to hold one-on-one talks with North Korea, insisting instead on six-nation talks comprised of China, Russia, the US, Japan and the two Koreas. As such, Kim has already managed to surpass his father's global status from this planned direct meeting with the President of the US. It appears that North Korea is quickly moving into the third stage of the grand plan: monetization of its nuclear weapons.

## **2. I thought that you had claimed that North Korea wants to disengage with China? If so, why did Kim visit Beijing last week?**

We have argued that a real 'flash point' will not be triggered by North Korea until the completion of its intercontinental ballistic missile (ICBM) program, which would provide Kim with critical insurance against a pre-emptive strike by the US. The ability to launch a nuclear-armed ICBM would make a strike on North Korea an unappealing option, even for Trump. In addition, Kim's latest diplomatic overtures have made it next to impossible for the US to take the military option. Even though North Korea is distrustful of China, its alliance with China is still the main hurdle for a US pre-emptive strike.

It would be premature to conclude that Kim's visit to China is the beginning of warming relations. It is part of the original plan to secure bargaining power by having more suitors. With Trump agreeing to meet Kim, China can no longer claim to be the only meaningful ally to North Korea. The importance of bilateral talks (second-stage) with the US serves many purposes for both Kim and Trump. Since the Korean War, China and the former USSR were both courting North Korea to win over its allegiance. But after the collapse of the Soviet Union, North Korea was left with China as its sole ally, severely reducing North Korea's standing politically. The decline of North Korea since the 1970s proves this point. The new "divide and conquer" approach between China and the US is working nicely in Kim's favor.

From China's perspective, Trump's meeting with Kim threatens to

earn him significant negotiating leverage in China-US trade talks. Since Kim came to power, Xi is reported to have refused a meeting with Kim, instead offering one of his delegates in his place. We think Xi was likely alarmed by the announcement of the proposed summit between Trump and Kim, as it leaves China out of the proceedings and beats him to the punch on a first historic meeting with Kim. The grand reception arranged for Kim in China was a major upgrade from the one offered Kim only a year ago. North Korea's engagement with China pits the US, China, and South Korea against each other.

## **3. Is North Korea sincere about denuclearization?**

With last week's events, we can confirm that Kim is ready to engage with the world for the third and final stage of his plan: monetization of his nuclear arsenal. Kim's condition for denuclearization, as quoted second-hand by China's state-run Xinhua, can have many interpretations: "The issue of denuclearization of the Korean Peninsula can be resolved, if South Korea and the United States respond to our efforts with goodwill, create an atmosphere of peace and stability while taking progressive and synchronous measures for the realization of peace."<sup>1</sup> It is difficult to imagine the US satisfying the above conditions and convincing Kim to give up the program that his regime has worked on for decades.

It would be a mistake to deduce that North Korea's recent friendly gestures are the result of economic sanctions against them. Even the appointment of John Bolton as the US National Security Advisor is unlikely to change Kim's three-stage plan to monetize his weaponry. The stakes for Kim are so high this time that short-term economic hardships will not swerve his resolve to reach his ultimate goal of economic upside. North Korea is known for its traditional strategy of switching between hard and soft negotiating approaches. This strategy is geared toward frustrating counterparts into making greater-than-expected concessions. Ultimately, Xi and Kim enjoy something that Trump and Moon will never have: an open-ended term in power.

## **4. What is Kim's next move?**

Our thesis remains that North Korea is on the path towards becoming a permanent nuclear power, marking a shift in geopolitical power in favor of China, North Korea and even Russia at the expense of US, South Korea, and Japan. The sudden openness of Kim is an indication that he is moving quickly into the third stage of monetizing his nuclear capability. It is also a sign of Kim's confidence

<sup>1</sup> Xinhua Net, "Xi Jinping, Kim Jong Un hold talks in Beijing" (March 28, 2018)

in his standing within his regime and the world. Having Xi, Moon, and Trump court him, all within one month, is proof of respect for someone who was only recently labeled as the despot of a terrorist nation. Kim's long wish list is most likely to include the lifting of economic sanctions and the removal (immediate or gradual) of US troops from South Korea. In return, Kim could cease nuclear tests and ICBM missiles. We are of the view that a deal where North Korea agrees to a reduction of its nuclear armament over the long-term is plausible. Kim could also agree to partial inspection of facilities, perhaps just enough to make Americans feel safer than they did a few months ago.

## 5. What is Kim striving to achieve in the end?

In the past, the Kim dynasty was persistently under threat from external forces. Now with its nuclear weapons program in place, a regime change comes with risks of nuclear conflict, justifying the growing confidence of Kim to engage with the world. Kim now also has unquestioned support from his generals and his people, further underscoring his standing in the world. There is no greater legitimacy as a global figure than to have back-to-back, one-on-one meetings with presidents from the US and China. Over the long-term, North Korean elites believe that China's rise as a global power is made possible in large part by China's nuclearization. Likewise, North Korea believes its journey out of an economic and political wasteland has now begun.

Kim's new-found confidence contains a potential silver lining for Asia. In the past, any liberalization of the North Korean economy risked destabilization of the Kim regime from both internal and external forces. The nuclear arsenal represents the security of Kim's regime, which could lead to the opening of North Korea's economy. This could be the beginning of North Korea's inclusion global trade and finance at long last. This could have positive results for investors and other economies in North Asia.

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