

# 북한 NORTH KOREA: Q&A SUMMARY

EXPERT SPEAKER ROADSHOW  
24-25 AUG 2017, LONDON

# NORTH KOREA ROADSHOW 24 TO 25 AUG 2017, LONDON

*Hosted by Maybank Kim Eng Securities UK*

Maybank Kim Eng Securities UK hosted a special North Korea roadshow with two high-profile North Korean defectors in London. This event was to share insight on what is happening around the North Korean peninsula in light of recent military tensions between the DPRK and the United States, and more broadly the geopolitical quagmire that also includes China, South Korea and Japan.

**Mr Kim Joo-il**, an ex-Army Captain with the DPRK military, and **Mr Han Jin-myung**, an ex-diplomat at the DPRK Embassy in Vietnam - our two guest speakers - offered unique insight into the strategic thinking of North Korea's regime. For further details, please refer to our North Korea Factbook.

In the next few pages, we have summarised the Q&A of the most discussed topics with institutional investors related to North Korea.

#1

# NORTH KOREA & THE KIM FAMILY

## WHAT ARE THE BIGGEST MISPERCEPTION THAT OUTSIDERS HAVE ABOUT NORTH KOREA?

1. Kim Jong-Un is mad and 'out of control' without any strategic calculations
2. North Korea is close to China and politically controlled by China
3. Current nuclear tensions with the US are not planned out and without a tactical game plan
4. People in Pyongyang would revolt if they only had real access to outside information
5. North Korea is not governed by a well-oiled and highly sophisticated government machine
6. The DPRK regime wants to be part of South Korea if enough cash is offered
7. If the chance was given, every North Korean would probably want to defect

## HOW FIRM IS KIM JONG-UN'S POWER GRIP ON NORTH KOREA?

He is firmly in power as the official leader of the DPRK. However, he still needs another 3-5 years to fully control the government bureaucracy which is still largely filled with technocrats and ministers from the Kim Jong-il era. Most of these bureaucrats are in their 70's. Kim Jong-un is only 32 years old and the youngest junior government officials are in their late 40's. He is in the process of replacing key government positions with his people but it will take him another few years to take full control of the government machine.

## WHAT HAPPENS IF KIM JONG-UN GETS ELIMINATED?

In such an unlikely event, there won't be an immediate capitulation to the US and South Korea. There is a wider power group of various parties (KWP, the Army, Security Services) that run the country alongside KJU who won't simply give away control (unless they feel that their security and interests are being protected). Should KJU get unexpectedly eliminated, they will probably find another Kim to symbolically continue the legacy leadership. They will most likely put into leadership Kim Jong-chul, KJU's older brother (whom Kim Jong-il didn't like and pick as the next leader of the DPRK as he was considered being "too weak and too effeminate" according to his father).

## HOW 'MAD' IS KIM JONG-UN?

KJU is not as mad as some of the Western media portray him to be. All of his acts, including the recent provocations, are strategically planned and timed. He is always being consulted by his senior government advisors that also were active during the Kim Jong-Il and Kim Il-Sung years.

#1

# NORTH KOREA & THE KIM FAMILY

## WHAT DO AVERAGE NORTH KOREANS THINK ABOUT KIM JONG-UN?

The general population were largely unaware of his existence before he got picked for leadership by his late father. However, once he came into power expectations were high that his foreign upbringing would bring about political and economic reform. Most of those hopes have been dashed by now. North Koreans were also shocked and dismayed when KJU executed his uncle. If Kim Il-Sung was genuinely revered, and Kim-Jong-il disliked (largely for the mismanagement of the economy) but still feared, there is certainly a noticeable lack of respect (as much as you can without getting sent to the gulags) for KJU. People that are within trusted circles often call him by his name without the official Dear Leader title or even 'fatty' which would have been unimaginable for Kim Jong-il (punishable by death). Having said that, the public propaganda is that KJU has made the home economy the biggest priority of the government so people are still hopeful that livelihoods will improve.

## WHAT HAPPENS IF KIM JONG-UN GETS ELIMINATED?

According to sources close to the power centre in the DPRK government, KJU was initially very ambitious and keen to reform his country. He apparently had heated confrontations with his late father accusing him of letting hundreds of thousands die of starvation and running an oppressive, poor and backward state. However, once KJU was himself in power and tasked to run the state, he quickly learned that North Korea's systems and deeply entrenched interest groups (including his own family) cannot allow any imported reform, whether that may be Western-style of Chinese-modelled, as the political structure would simply collapse once outside capital and information not controlled by the DPRK government would reach North Korea's masses.

There are however signs that he wants to be a different leader. He is visibly putting the domestic economy first as a top priority (unlike his father's Military First policy) and has already initiated a range of new projects - from market reforms, amusement parks or ski resorts - with mixed results. Another example is his frequent appearances with his wife Rhee Seol-ju. KJU is the illegitimate child of Kim Jong-Il's third mistress, a fact that reportedly has angered him throughout his adolescent years. He has apparently told his close circles that he wants to have "a proper, respectable First Lady" as his wife with whom he would make public appearances, unlike his father or his grandfather. So there is some evidence that KJU tries to be a different leader from his father. However, fundamentally he is still running a Stalinist, oppressive regime and will not compromise anything that would risk an end to his governance of North Korea.

#2

GEO-  
POLITICS

## HOW WILL CURRENT TENSIONS PAN OUT? IS NORTH KOREA WILLING TO RISK FULL-OUT WAR AGAINST THE US AND SOUTH KOREA?

The North Korean government fully knows that it cannot afford a war against South Korea, let alone the US as that would spell the end of the KJU regime. The strategy is to blackmail the US and other neighbouring countries into as many concessions as possible through brinkmanship sabre-rattling. The North Korean leadership is calculating that the US (G1), China (G2), Japan (G3) and South Korea (G10) cannot simply go to war over North Korea (G197) as they collectively have too much to lose.

North Korea, on the other hand, has relatively speaking very little to lose from escalation tactics and will continue to threaten the US and South Korea. The calculation also is that Donald Trump needs a symbolic win abroad and that both sides could benefit from a 'middle ground compromise', either for real or perceived. That would be most likely in the form of North Korea halting its nuclear programme in exchange for lifted sanctions or direct cash support. However, North Korea is highly unlikely to give up its nuclear arsenal.

## BEHIND THE HOSTILE STAND-OFF, ARE THERE ANY BACKCHANNEL CONVERSATIONS GOING ON BETWEEN NORTH KOREA AND THE US?

Yes, according to our intelligence we believe that there are informal negotiations being held in Canada between these two parties. It is also noteworthy that a number of hostages that got released from North Korea were intermediated out of Canada.

## CAN THE STALEMATE BE BROKEN? IF SO, WHAT WOULD BE THE TIMELINE TO WATCH?

He is firmly in power as the official leader of the DPRK. However, he still needs another 3-5 years to fully control the government bureaucracy which is still largely filled with technocrats and ministers from the Kim Jong-il era. Most of these bureaucrats are in their 70's. Kim Jong-un is only 32 years old and the youngest junior government officials are in their late 40's. He is in the process of replacing key government positions with his people but it will take him another few years to take full control of the government machine.

## TO WHAT DEGREE IS CHINA IN CONTROL OF NORTH KOREA?

Very little, if not almost nothing. North Korea is very distrustful of China and the average North Korean also feels very little affinity towards China, either political or social. North Koreans feel that China is doing the very bare minimum to keep North Korea on a financial lifeline, and has otherwise done little to support the country or lift it out of poverty. One example is the Great Famine during which 2 million North Koreans died of starvation. China back then did little to assist North Korea. The relations between China and North Korea are based on clinical self-interest. North Koreans also follow the *Juche* (self-reliance) philosophy and are taught that any dependence on any foreign state (including South Korea which they view as a puppet state of the US) results in betrayal and loss of independence. Of note, whereas South Korea and the US conduct annual joint military drills, North Korea and China have never exercised joint military operations the last 40 years. Xi Jinping also expressed last week his frustration in his dealings with North Korea.

China is important for North Korea as it represents its economic lifeline. There is very little direct cash aid from China into North Korea. However, China accounts for 70-80% of international trade for North Korea which keeps the country afloat. International sanctions (which are also endorsed by China) do not really hurt North Korea as most of the trade with China is not done at the state level, but has been moved down to Chinese SOE or Chinese provincial enterprise levels thus making it difficult for such activities to be captured into any official data (let alone be detected by the international community). China could, if it had the political will, easily crack down on these trade activities by simply fining, prosecuting, or arresting these enterprises that continue to trade with North Korean counterparties (mostly run by either the DPRK Army or the KWP). Obviously, China has not done so as it does not want the North Korean regime to collapse.

## WHAT DOES THE NORTH KOREAN REGIME THINK OF DONALD TRUMP?

1. DT makes more decisions single-handedly without building strategic consensus both abroad (e.g. South Korea, Japan, China) or domestically, especially when compared to his predecessors.
2. DT is more short-term minded and also suffers from low approval ratings at home, which plays into North Korean tactical interests.
3. DT reacts immediately to any provocations or direct challenges. This makes it easier for North Korea to manoeuvre around the US. The US government was already forced to issue a wide range of conflicting comments on North Korea, thanks to DT's various ad-hoc statements on North Korea.
4. DT is generally speaking less interested in US direct involvement in foreign affairs, including Asia (e.g. the withdrawal of TPP or his comments on 'expensive' US military garrisons in South Korea). The tensions around North Korea are complex which may not suit his personal priorities.

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#2

# GEO- POLITICS

5. DT has a P&L approach to foreign affairs and geopolitics with a mindset of direct costs and profits in regards to US strategic interests. For example, he has mentioned several times that both South Korea and Japan are hosting US troops for their respective interests only (with little consideration of strategic interests in North Asia for the US) and that US troops should pull out if these 'expenses' are not compensated for.
6. DT has shown that he broadly views the North Korea issue as a simple tactical stand-off between the US and China without detailed analyses of the regional nuances and strategic sensitivities, hence why he initially even consulted the views of Xi Jin Ping last year. This makes it easier for North Korea to play the bigger countries off against each other.

## WHAT IS NORTH KOREA'S REACTION TO THE ELECTION OF PRESIDENT MOON JAEIN IN SOUTH KOREA?

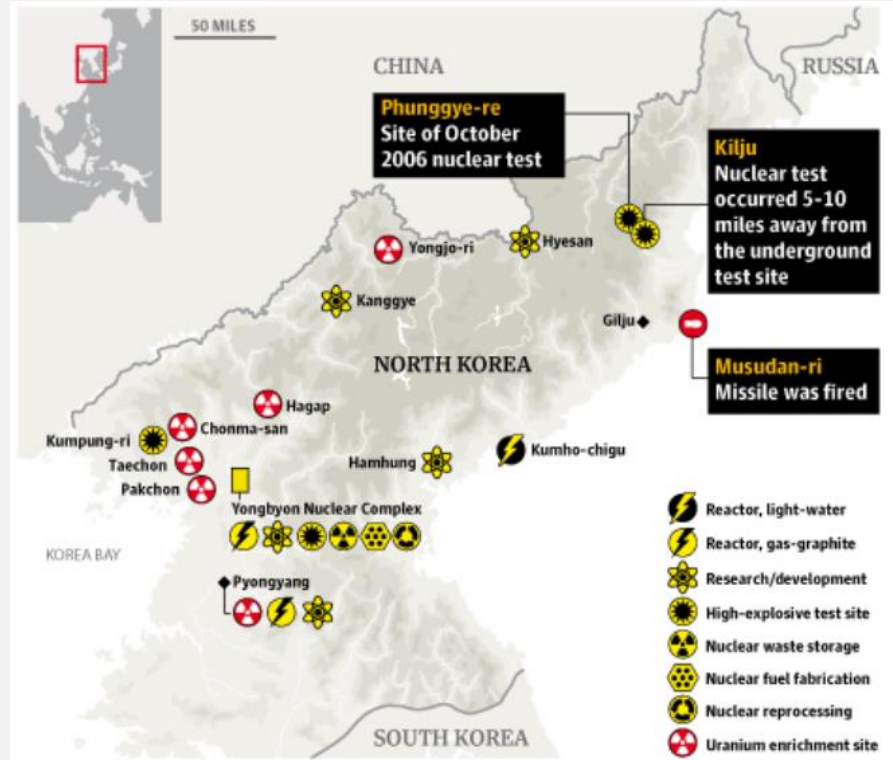
The North Korean regime may benefit from a less bellicose South Korean government (assuming that a centre-left government in Seoul will continue to pursue the Sunshine Policy). However, KJU and his regime are largely agnostic to who is in power in South Korea as they trust neither centre-right nor centre-left parties anyway. Their belief is that political affiliation in a capitalist and democratic society won't make a material difference to North Korean interests as those are incompatible with Pyongyang's state structure. However, North Korea tries to maximise friction within South Korean society to hinder policymaking and counter-measures against the DPRK.

## HAS KIM JONG-UN STRENGTHENED HIS DIPLOMATIC EFFORTS AFTER HE CAME INTO POWER?

He is trying to broaden North Korea's diplomatic reach. A good example of this are the ambassadorial appointments over the last two years. The diplomatic posts for important target countries have been upgrade with senior government officials that have backgrounds either in the army or the Korean Workers Party.

### CAN THE US 'PRECISION-STRIKE' NORTH KOREA'S NUCLEAR FACILITIES?

No, not really. The vast majority of North Korean nuclear facilities are literally all positioned across the Chinese borders. Please refer to the image below. This is to make precision strikes impossible as any nuclear fallout would spill into mainland China. North Korea also strategically put its nuclear facilities close to China's most developed industrial regions, the 3 North Eastern provinces, to ensure that an armed conflict would hurt China's economy equally hard (nuclear explosions, mass refugees, logistical bottlenecks, etc).



### HOW EFFECTIVE IS NORTH KOREA'S ARMY AGAINST SOUTH KOREA? CAN THEY WIN A WAR AGAINST THE SOUTH (BARRING THE USE OF NUCLEAR WEAPONS)?

In terms of number, North Korea looks like a formidable threat to the South. However, most of North Korea's military equipment - especially tanks, artillery and fighter jets - are outdated Soviet-era weaponry which would not be a match for South Korea's high-tech and highly mechanised armed forces. Another big problem is the chronic shortage of fuel for the DPRK armed forces which makes a long-term armed conflict against South Korea untenable. The reason why the DPRK always overreacts against joint military drills between South Korea and the US is mainly because of strategic fuel reserves.

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When the US and RoK armed forces move divisions across the border, DPRK armed forces have to defensively move accordingly, which depletes annual reserves of scarce fuel resources. This is why North Korea shoots missiles into the East Sea or corresponds with provocations when these joint US-RoK drills commence. North Korea has thus for a long time focused on asymmetric warfare, such as nuclear arms technology, chemical weapons, terrorism and cyberattacks. Whilst the North Korean regime understands its inferiority to South Korea in terms of military prowess, they also believe that South Koreans do not have the political will or risk appetite to go into any armed conflict.

### HOW STRONG IS THE MORALE AND DISCIPLINE OF THE AVERAGE NORTH KOREAN SOLDIER?

Generally speaking the morale and discipline of the average soldier has deteriorated for two reasons. First, the Great Famine showed that even frontline soldiers went into starvation despite Kim Jong-Il's proclaimed Military First policy. Secondly, many soldiers are forced into other economic activities to make ends meet. Some run second jobs and some simply run a black market economy within their barracks (by, for example, stealing military truck oil or food rations and selling them on). However, as hardships continue, many also believe that they suffer one way or another, ie domestically at the home front or by going into war with South Korea. A lot of soldiers believe that a war with South Korea could break the stalemate and bring about better living conditions in the long-term. Many of them genuinely believe that they are better and fiercer combatants than their South Korean enemies.

### HOW EFFICIENT ARE NORTH KOREA'S CYBER-TERROR UNITS? DO THEY REALLY EXIST?

North Korea's cyber units are state-sponsored and well-advanced. They are directly run by the army and leading North Korean military academies run specialist departments that produce personnel for cyber units each year. They specialise in intelligence, decoding, industrial espionage, hacking (including developments of high-tech viruses), financial fraud, ID theft, counter-propaganda (especially during elections in South Korea), and more. These are several cyber unit bureaux run separately by the Military and the security apparatus. There are also two offshore cyber unit centres that are run in China and India. North Korea's cyber terrorism capacity is considered to be very advanced. It is widely accepted that, for example, Sony Pictures got hacked in 2014 by North Korea for its release of the film 'The Interview' where Kim Jong Un was satirised. Several South Korean government agencies and domestic financial institutions have also been hacked into over the last few years.

## HOW IS THE ECONOMY DOING UNDER KIM JONG-UN?

Expectations by average North Koreans were very high when KJU first came into power, mostly due to his overseas upbringing and early hopes that he would be a reformist. However, his various attempts to induce 'controllable reform' into the economy have not had any material effects. The execution of his uncle Jang Sung-Taek who was pro-China and a reformist further dampened any early excitements about Kim Jong-Un. Having said that, it is however evident that KJU prioritises and cares much more about the economy compared to his father Kim Jong-Il who pursued the 'Military First' policy which ultimately led to a deeper recession and the Great Famine in the mid-90's.

KJU's provocations against the US are mostly based on desperate efforts to stop international economic sanctions and to break away from the country's single dependency on China when it comes to the economy. KJU's regime knows that their long-term survival can only be guaranteed with a stronger domestic economy and international recognition of the DPRK. They are, perversely, attempting to bring the US to the negotiation table for such aims by increasing escalations and provocations. The North Korean perspective is that previous demands and efforts over the last 10 years have not been met with any serious responses from the US and that it is now an opportune time to pursue its tactical goals. Please refer to Q&A on Donald Trump on pages 5 & 6.

## WHAT DO NORTH KOREANS DO WITH THEIR DISPOSABLE INCOME?

There is no 'disposable income' to speak of as most people struggle to make ends meet. In a Socialist centrally-planned economy system, there is not supposed to be any surplus income anyway (as production, distribution and consumption are all to be perfectly planned and matched). All 'extra' consumption happens in the black markets and is usually for basic goods (as opposed to, say, luxury items). The North Korean real economy is practically dollarized already. People make all of their important payments (including bribes or government kickbacks) in US dollars.

#5

# LIFE IN NORTH KOREA

## WHY IS THERE NO ARAB SPRING IN NORTH KOREA? TO WHAT DEGREE ARE RESIDENTS IN PYONGYANG EXPOSED TO THE OUTSIDE WORLD?

People that have decent access to the outside world are the privileged 2.5 million residents of Pyongyang (or 4 million if one includes the regime's loyal classes nationwide). They watch South Korean dramas or listen to K-Pop regularly but are, ironically, the most opposed to regime change in North Korea. They fully understand that South Korea is a much more advanced and prosperous country but this means little to them.

They fear that any collapse in the regime would trigger:

1. A change in their status (especially their control of the country)
2. A loss of their personal wealth
3. Possible retributions by the masses (including mob lynching)
4. Them becoming second or third-class citizens in a unified Korea

On the other hand, the general population have very limited or no access to outside information. They live in Middle Ages conditions (moving around in ox carts or no electricity after late evening hours..), have only access to state-television (one channel only) or state-radios (one channel only), and are generally more occupied with their daily livelihoods and don't care much about politics. The relatively more informed populations reside in the border areas to China or in port cities, however they form a minor percentage of the overall population and would not risk their privileged status (trade and smuggling) by criticising or revolting against the government.

## NORTH KOREANS SHOW DRAMATIC EMOTIONS AROUND THEIR DEAR LEADER ON STATE TELEVISION. ARE THOSE EMOTIONS GENUINE OR FAKED?

They are genuine which will look bizarre to outsiders. This is also incomprehensible to outsiders that have never grown up in a Stalinist dictatorship where institutionalised brainwashing from age 4 is part of everyday life. If KJU was to be assassinated, for example, the general thinking of the masses would not be one of joy, but most would be more worried and think "who is going to look after our country and our livelihoods now?!"

## IS THERE RELIGIOUS FREEDOM IN NORTH KOREA?

No. Any religion, especially underground Christian churches in North Korea are feverishly persecuted by the North Korean regime. The indoctrination of the general population works because the *Juche* ('self-reliance) state philosophy is put above anything else. Religions would undermine dependency on the state and the ruling family. There are, however, official state-licensed priests, evangelical ministers, Buddhist monks who are all state employees and just for show.

The Q&A section is a translation by Patrick Han at Maybank Kim Eng Securities UK. For any comments or inquiries please contact the MKE Securities London desk or Patrick at [phan@maybank-ke.co.uk](mailto:phan@maybank-ke.co.uk).

## EDITOR'S NOTE

All of the listed comments in the Q&A section by our North Korean expert speakers are direct translations of their statements and represent their own personal views.

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