

North Korea Under the Radar

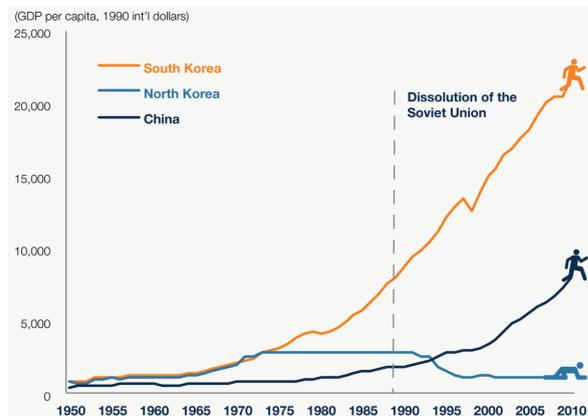


Are You Invested in Asia?

A Tale of Three Histories

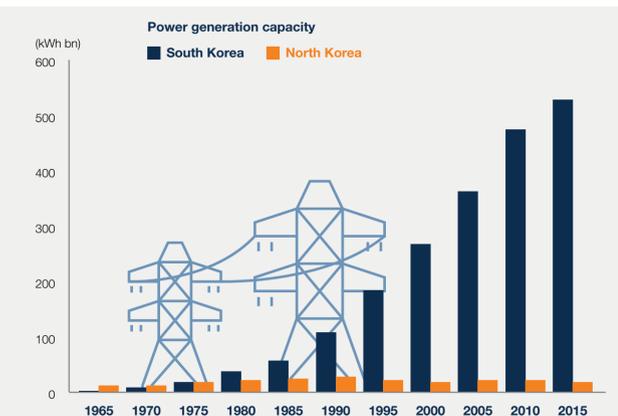
- While South Korea roared ahead with its export-driven model from the 1970s and China enjoyed unprecedented economic growth from embracing free trade and financial market liberalization in the past few decades, North Korea remains a hermit kingdom mired in poverty.

North Korea Left Behind by Its Neighbors



Source: Maddison Project Database (2017)

No Sign of China's Infrastructure Projects for North Korea

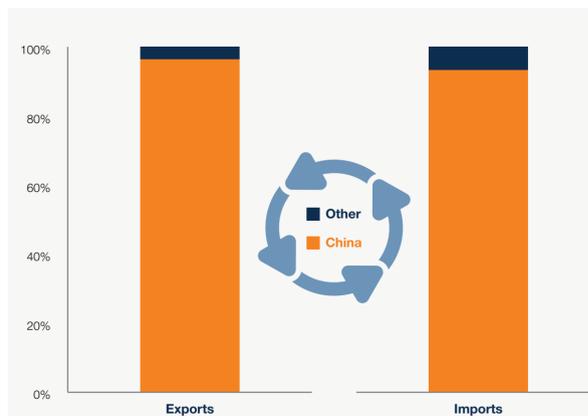


Source: Statistics Korea (2017)

The Complex Relationship with China

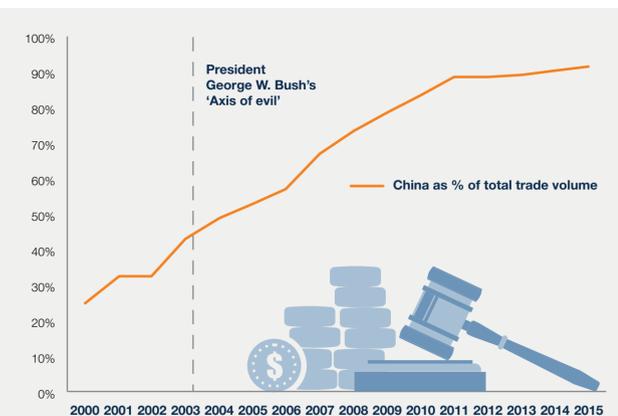
- Since the Korea War armistice was signed in 1953, China has been the de facto caretaker of North Korea, safeguarding a finely balanced peace on the Korean peninsula. However, what is underestimated about this relationship is its degree of lopsidedness.
- China's role as guardian provides the country with major political leverage without fundamentally benefitting North Korea.

North Korea's Dependence on China



Source: Statistics Korea (2017)

US Trade Sanctions Make North Korea Reliant on China

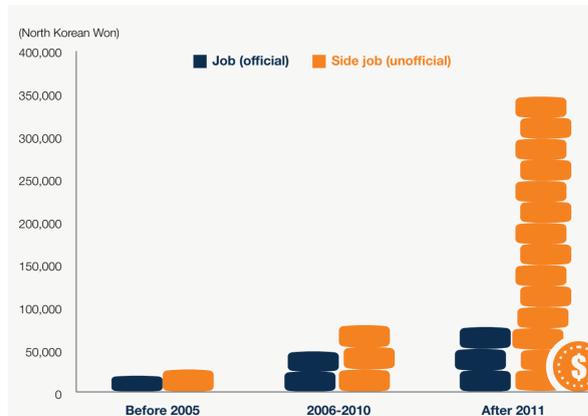


Source: Statistics of Korea (2017)

North Korea's Economic Resilience

- Despite sanctions and a reduction in aid from China, there are signs pointing to on-the-ground, market-driven progress in the economy.
- We believe that there is a hidden strength to North Korea's economy, as Kim Jong-un establishes strong support via economic reforms centered on building up the middle class.

Kim Embracing Capitalism?



Source: Korea Development Institute (2017)

Means of Living

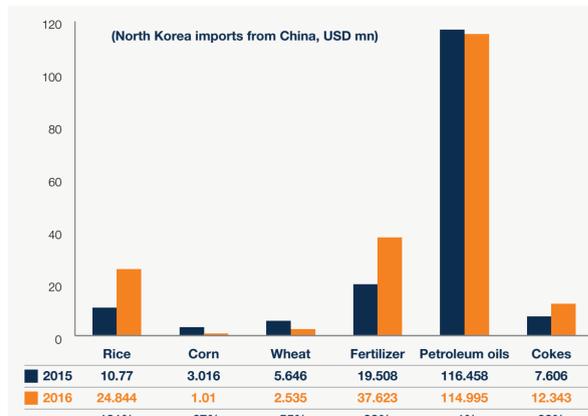


Source: Korea Development Institute (2017)

Geopolitics and Game Theory

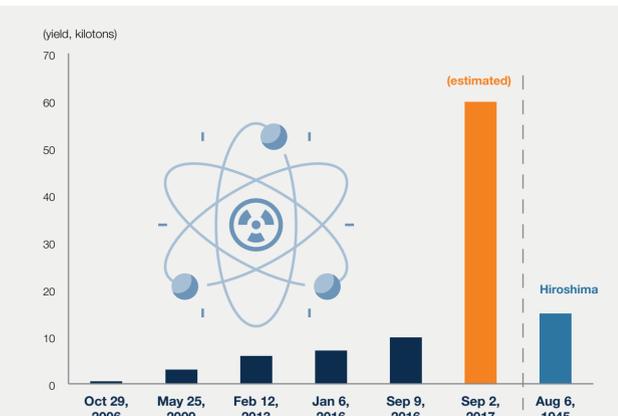
- Even as China is the largest trading partner, North Korea is playing the long game, seeking to capitalize on the elevated rewards from weaponization of nuclear ICBMs to achieve maximum bargaining power during any negotiations.
- The ultimate objective of the North Korean regime is to reach a settlement granting the country recognition as a legitimate nuclear nation and the unlimited economic upside from the lifting of sanctions.

Increasing Imports From China



Source: Korea International Trade Association (Accessed in 2017)

North Korea's Nuclear Progress



Source: CSIS, Mirae Asset Daewoo Alpha Strategy Team (2017)

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