



Leading Up to the Hanoi Summit

February 2019

Trump Under Pressure

Recently we have seen a unique friendship developing between Donald Trump and Kim Jong-un of North Korea. Since the first summit in Singapore back in June last year, Trump has been criticized from many fronts for falling into a familiar North Korean strategy. For many decades North Korea has perfected the art of frequently making and then breaking promises as a way to maximize its bargaining power while giving up very little in return. Despite the criticisms, Trump choosing to meet with Kim while refusing to meet with China's Xi Jinping on trade is notable as it could indicate that Trump believes North Korea may help him reverse the decline in his approvals rating more than a trade truce with China can. US-North Korea summit can also serve as a convenient distraction from his problems at home.

North Korea Lagging Behind its Communist Allies

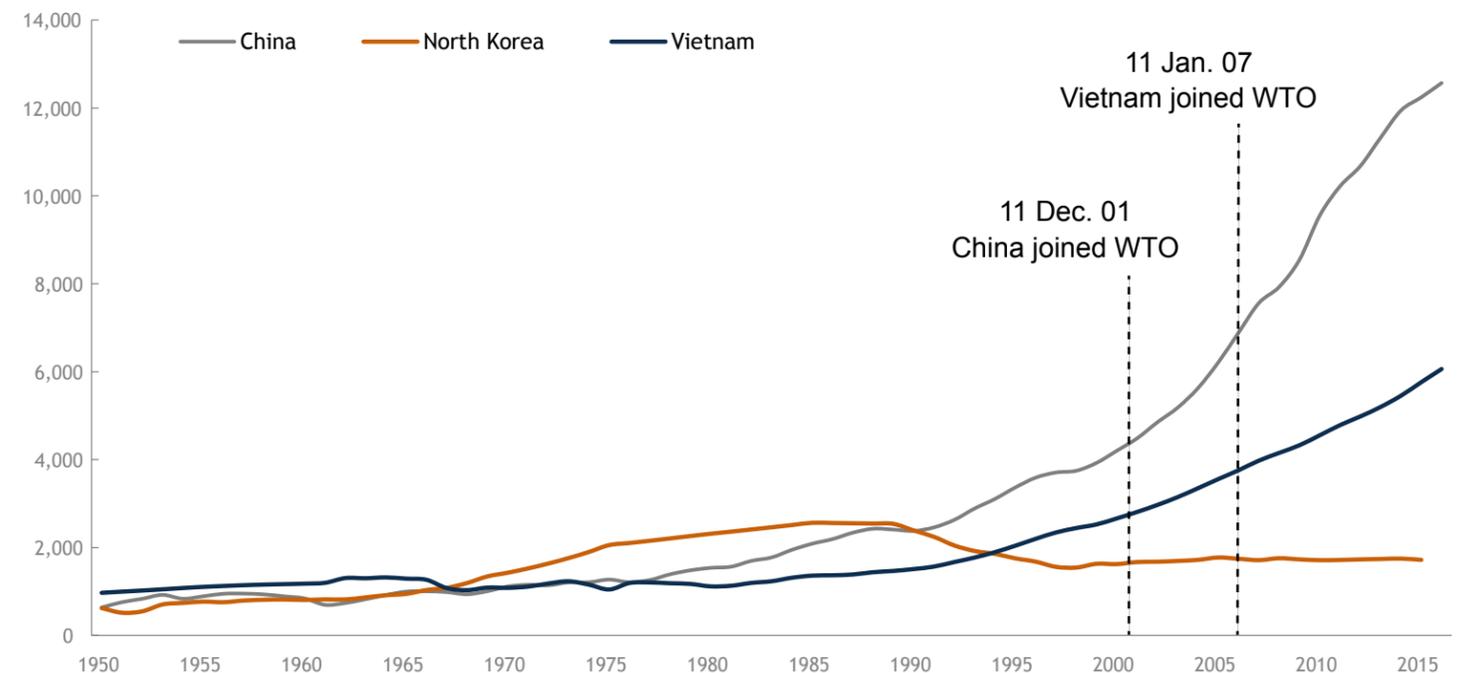
Considering Kim's aspirations to learn from the successful transformation of a closed communist nation to a booming economy, the choice of Vietnam is also interesting to us. We believe Kim's choice for Vietnam as the second nations to visit outside of China is highly deliberate and is consistent with our thesis that North Korea will continue to seek allies besides China for maximum political and economic leverage. Regardless, the summit will not change our view that North Korea will continue its pursuit of becoming a legitimate nuclear nation. Until then, the US-North Korea summits serve as a propaganda machine not only for Kim but increasingly for Trump as well.



Source: Gallup, Financial Times

GDP Per Capita

(2011 int'l dollars)



Source: Maddison Project Database

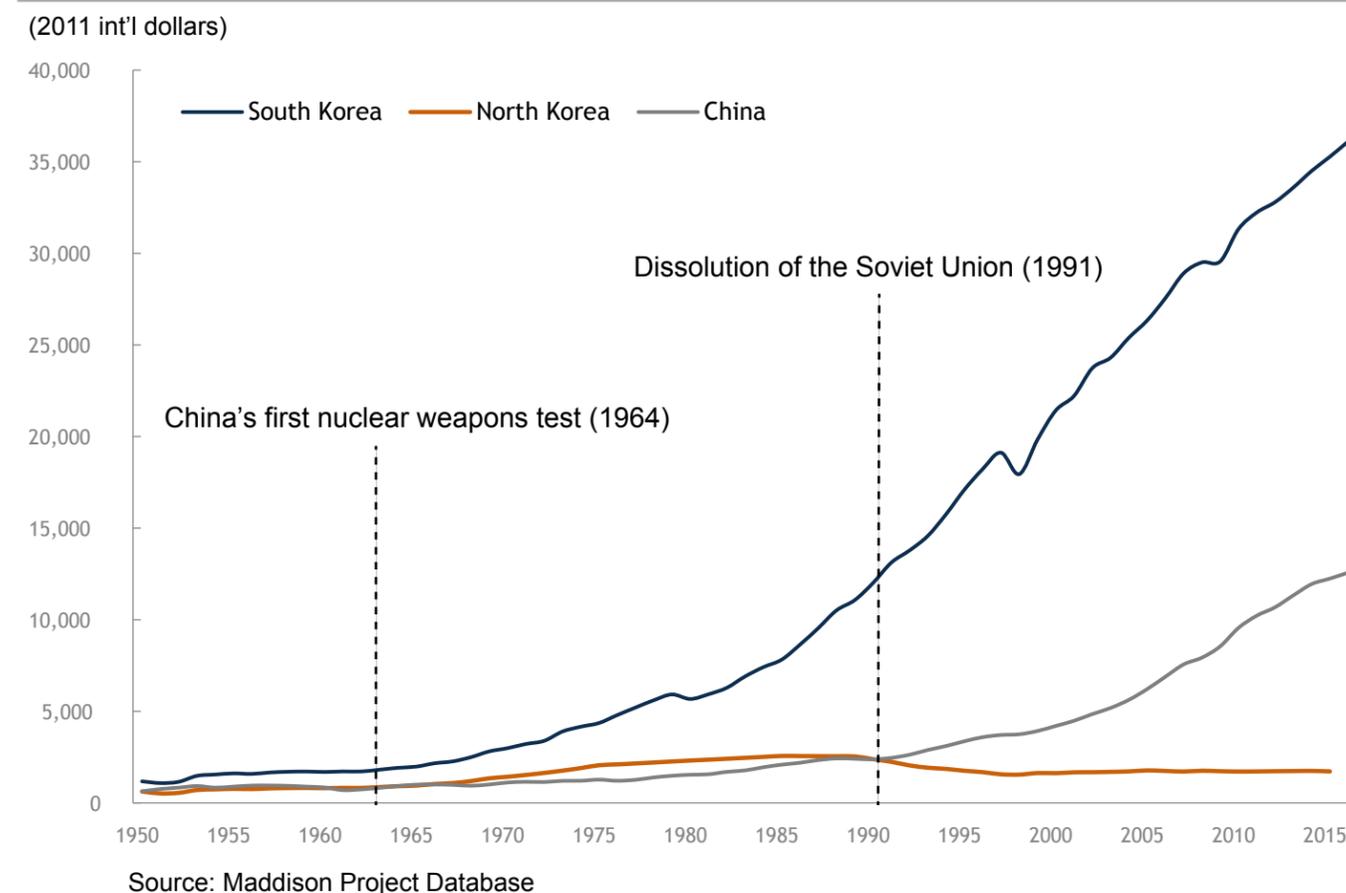
Looking Back at 2018

The US-North Korea summit in Singapore was a nice distraction from market woes in 2018. Somewhat unbelievably, Kim Jong-un emerged as a comforting source of consistency and policy transparency. Within 12 months, he went from being an unpredictable despot to a rising global figure. As Kim continues to mount a charm offensive, his US counterpart is the one proving to be somewhat volatile. Still, since the summit, North Korea has been playing a familiar game: engaging in an endless cycle of broken promises that gradually leads to a shift in bargaining power to the North Korean regime.

Looking Ahead

North Korea has strategically positioned itself between the US and China. With the deteriorating relationship between the two superpowers, North Korea is likely to become a critical negotiating point in the coming years. Notably, during Kim's recent visit to China, he was feted with the grandest welcome enjoyed by any leader visiting China in recent memory. At the beginning of 2018, there were whispers of a US-led "bloody nose" strike on North Korea. But unless US-China relations deteriorate to catastrophic levels, an attack on North Korea now appears almost impossible. By the end of this year, Kim may have a few more countries on his side besides China and South Korea. Could Vietnam be the next ally for North Korea after this summit?

GDP Per Capita



“Kim Jong-un’s greatest challenge is avoiding a US-led military attack when the world realizes that he has no intention of giving up the hard-earned nuclear arsenal”

Contributors

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