

North Korean Crisis



Why China will effectively turn Pyongyang into a puppet

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**Mike Newman
President & CEO
Analogica K.K.**

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Executive Summary

China now has all the geopolitical excuses to turn North Korea into a protectorate

Why North Korea matters to China

Think through the logic. China does not want to lose the strategic buffer North Korea provides. Beijing doesn't want US friendly forces right on its border. How to make a bad situation work for China? Bite the bullet and effectively install a protectorate in North Korea. Kim Jong Un has been brazenly telling the world to shove its diplomacy thinking the decades old practice of threats will keep on working. He's wrong. China has an effective carte blanche to fill the geopolitical void and the world will not shed a tear over North Korea by China doing so. Rarely is the opportunity to install a puppet given a green light.

Trump

It should come as no surprise to China that the West is against Trump taking action for no other reason than he is Trump. It is a strange world where many of America's long-term allies are backing the other side. Trump is merely filling the geopolitical vacuum left by his predecessor. Trump is absolutely right to consider taking an increasingly dangerous threat off the table and China knows it is no longer dealing with a political powderpuff as they did under Obama.

Four reasons

Still China wins in many ways by turning North Korea into its own administration;

First, it won't be Trump,

Second, China will not be condemned for removing the threat and installing its own puppet,

Third, China keeps the strategic geographical buffer and

Fourth China gets to show itself a proper force to be reckoned with in the Asia Pacific region by taking a credible threat off the table.

Annexation of North Korea

While no credit will be given to Trump for forcing China's hand, be sure that an effective annexation by China will be a major win for him too. Constant pressure on China and other nations has effectively pushed China into a position where she has no choice but to act. Sure, North Korea will most likely retain the name and the sovereignty but China's military becomes a form of blue helmets administering Pyongyang's every move. Kim Jong Un is on borrowed time. Sometimes long used strategy outstays it's welcome. The biggest issue that the West must weigh is that of delivery capability. Over time Kim's missiles have become more sophisticated in range, accuracy and payload. While crude in comparison with the superpowers there comes a threshold where it is good enough to do considerable collateral damage.

Financial market reaction?

How will financial markets react? While they may sell off initially expect them to rally hard if China pulls off regime change with precision. Surely Kim will soon get the 'horse's head in the bed' scenario handed to him anytime soon from Beijing. It is the only viable solution which actually works remarkably well for China. Markets are not expecting this.

Likely positive

Electromagnetic Pulse (EMP) – a threat?

EMP EMP is probably best understood in the 007 film ‘Goldeneye’ when Spectre steals a Russian EMP system and threatens to wipe out global financial records after the villain has transferred billions into his bank account.

How EMP works It is interesting to see the word EMP or electromagnetic pulse be used in lexicon of North Korea’s arsenal. The reality is that EMP is a by-product of a nuclear explosion. It isn’t a special EMP weapon per se. In lay-man’s terms the neutrons which produce gamma radiation emitted from the detonation of a nuclear device collide with the earth’s magnetic field leading to create a surge or an EMP which overloads the voltage in standard electric items. Many power grids have ‘surge protection’ built in.

Space more worrying EMP as a weapon is more relevant in space. Much of the US military backbone comes from a vast array of spy and military satellites which allows smart bombs and cruise missiles to be delivered into the mailbox of a target with such precision and connect communication and command between land, sea and sky.

EMP resistant satellites Much of the modern US satellite hardware is EMP resistant but it isn’t “bulletproof” to space junk. If Kim was able to detonate a nuke in space it could knock out some of the network. Apart from the billions invested in satellites we need to understand just how seriously America regards space as a sanctuary. Around 5 years ago the Chinese fired a missile to shoot down one of their older satellites. Apart from the advancement in Chinese technology which was of concern to the US it was also the amount of space junk from floating shrapnel that could damage US assets in space. If Kim hits satellites in low orbit he also risks taking out Russian and Chinese satellites too. This would limit this as an option.

Star Wars We only need to go back three decades when Reagan spoke of Star Wars in the 1980s. The point to weaponise space such that rogue enemy ICBMs could be taken out in the outer atmosphere.

Tokyo The point here is simple. Should Kim Jong Un threaten to drop an H-Bomb on Tokyo he leaves such a massive exposure to himself. US satellites remain active and he would be defeated in no time by military reprisals. There would be no way that China could stand by and back him were he to make such an attack. Therefore, it is in the Chinese interest to take care of matters before any escalations.

UN Sanctions

UN Sanctions UN sanctions have been ineffective. China buys 70% of North Korea’s exports and provides 50% of its food. China is responsible for 80% of the rogue state’s imports. China is the life blood.

The step up in UN sanctions will do little to curb Kim’s enthusiasm for firing missiles. Even if China and Russia oppose his actions it will be of little consequence.

Clamping down on Chinese banks that deal with North Korea will be far more effective in limiting his activities.

Japan's Maizuru fleet is fully active in the Sea of Japan

Japan's Maizuru base

The Maizuru Regional District Command is responsible for defending the central part of the Sea of Japan, from Akita Prefecture in the north-east of Honshu down to Shimane Prefecture, in south-western Honshu. It participated in the search for and subsequent chase of two North Korean 'spy ships' that were found around the Noto Peninsula in 1999. A detachment of SH-60J Sea Hawk patrol helicopters from the Tateyama, Chiba Prefecture air base has been deployed to Maizuru. The Maizuru District HQ depends on the underwater surveillance stations at Wakkanai, Rebun Island and Matsumae at the northern end of the Sea of Japan, and in the Tsushima Straits at the southern end, to keep track of any submarine movements.

All Aegis ships At sea

I happened to be passing through the JMDF Port of Maizuru in Kyoto, Japan (the red pindrop in Fig.1) last week and noticed that all her destroyers were at sea. Note Maizuru is the closest naval base to North Korea's east coast. Maizuru has three destroyers the *JDS Atago*, *JDS Shimakaze* and *JDS Myoko*. The *Atago* and *Shimakaze* carry the SM-3 anti-ballistic missile system which theoretically can shoot down Kim Jong Un's rockets.

Fig.1 Japan's Marine Self Defence Force base Maizuru



Source: Google Maps

Missile test history

NK missile tests

Kim Jong Un has been a prolific tester of missiles. North Korea has 3 main nuclear missile launch sites (Musudan-Ri, Punggye-Ri and Tongchang-Ri) among the fourteen nuclear facilities ranging from R&D, power generation, mining and refined fissile material production. A surgical strike would be difficult to achieve without North Korea getting away a few missiles itself.

Fig.2 North Korean Missile Testing



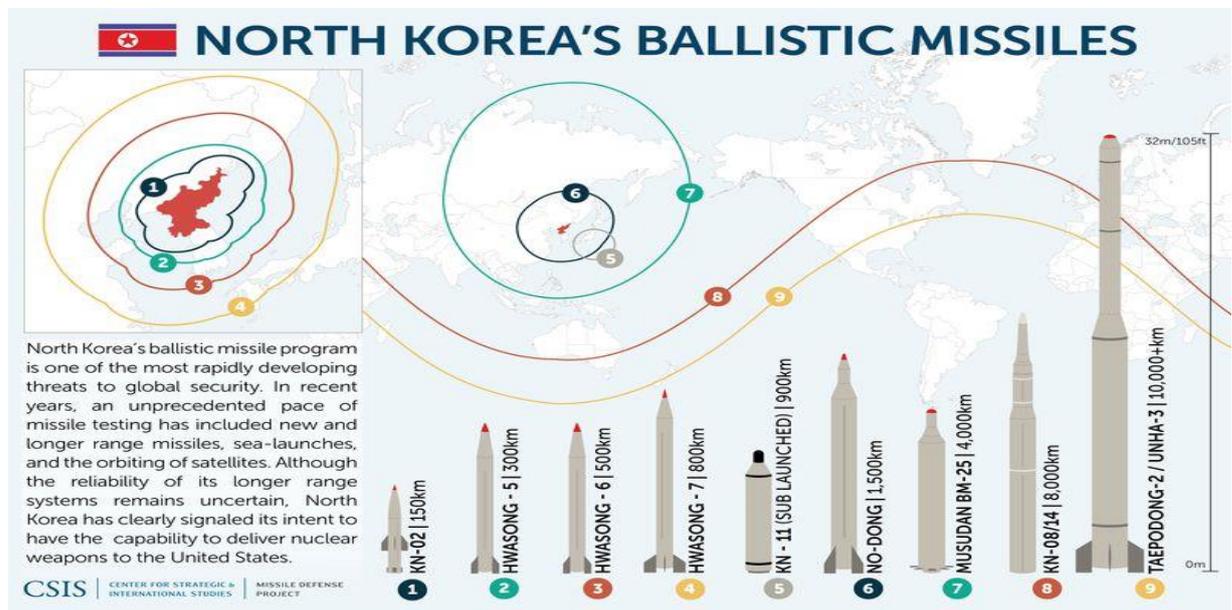
Further missile tests

Further tests

The threat of further missile tests is still high. Some pundits suggest that Kim Jong Un will send an ICBM over Tokyo on North Korea foundation on Saturday September 9th. Such a provocation is likely to raise serious tensions. More worryingly is the exceptionally busy commercial airline corridor around Tokyo which could create a whole new set of unintended risks. Note that around one-third of Kim Jong-Un's 54 launches in the past three years have failed. That is also not a good statistic to be testing across Japan's shores.

Of most interest has been the KN-08/14 series which seem to have a three stage capability which has overcome some of the problems that have beset the longer range Taepodong-2.

Fig.3 North Korea's Ballistic Missile ranges

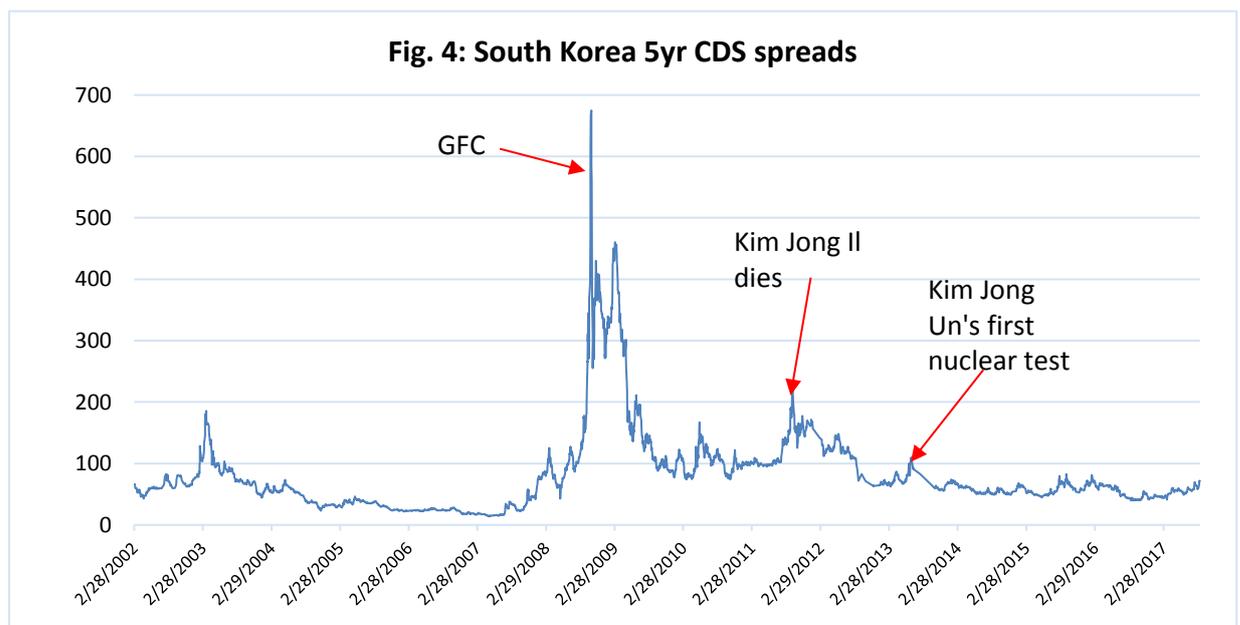


Source: CSIS Missile Defense Project

Follow the Money

Korean CDS

Korean 5 year CDS spreads have been an indicator of how the local markets feel about North Korean military activity. At present the spread is 71bps below the 100bps on Kim Jong Un's first nuclear test and well below the 200bps on the death of his father. At present markets do not seem overly concerned.



Source: Custom Products Research

Summary

In summary, we view that China is best positioned to benefit from the geopolitical football of North Korea. Tokyo's economy is 125x the size of North Korea. The relative damage would be immense should Kim let loose his arsenal on Tokyo.

China realises that Kim's technological curve is improving and should it get too far advanced it would also cause problems for China to bring him to heel. More than North Korea's belligerence is the concern that Trump may carry out his promise to strike which would present the worst of all worlds for them. Having a reunified Korea would potentially put US friendly forces right on its border. This is the last thing China wants. The best option is to move to remove Kim Jong Un and put in a puppet which keeps the status quo albeit with a de-nuclearised Pyongyang.

China can virtue signal at ending a potentially nasty conflict and receive little complaint from the rest of the world. Ironically China's move is likely to send markets roaring not crashing. Best of all China sends a message it is a force to be reckoned with in Asia Pacific.

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Contact

Tokyo

Michael Newman
President & CEO

Analogica KK

☎ +81-80-4446-8200

✉ mcn@analogica.jp

Office Locations

Headquarters

942 Win Aoyama
2-2-15 Minamiaoyama,
Minato-ku, Tokyo
Japan 107-0062

Tokyo

17/F Roppongi Hills North Tower
6-2-31 Roppongi,
Minato-ku, Tokyo
Japan 106-0032