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The Assassination of Kim Jong Nam

On February 13th, Kim Jong Nam, the older half-brother of Kim Jong Un, the leader of the Democratic People's Republic of Korea (DPRK), was assassinated at an airport in Malaysia. This event offers insights into the "Hermit Kingdom" and shows the audacious nature of the regime.

In this report, we begin with a biography of King Jong Nam. Next, we will recap the assassination. The following section will discuss the context of the murder, including China's difficult relations with North Korea and potential rationale behind the assassination. As always, we will conclude with potential market ramifications.

Who was Kim Jong Nam?

Kim Jong Nam was born in 1971, the grandson of the "Great Leader," Kim Il Song, and the son of Kim Jong Il, referred to as the "Dear Leader." Kim Jong Nam's mother was an actress, Sung Hye Rim. Kim Jong Il never married Kim Jong Nam's mother because the Great Leader disapproved of his son's relationship with the actress. Because of this disapproval, Kim Jong Nam led a cloistered existence, hidden from his grandfather.

At the age of eight, Kim Jong Nam, along with his mother, was sent to Moscow for school. By this time, his mother was considered "unstable" and she essentially abandoned her son. The young man didn't care much for the Soviet Union and eventually ended up in Geneva, Switzerland

for his education. There he lived a low-profile existence learning languages and passing himself off as the son of a diplomat. The young man showed an interest in technology while in Europe.

At the age of 18, he was forced to return to North Korea. He became close to his aunt, Kim Kyong Hui, Kim Jong Il's sister, and uncle, the Dear Leader's brother-in-law, Jang Song Thaek. Kim Jong Nam was given government positions monitoring technology; reportedly, he was instrumental in creating North Korea's intranet.

Still, it became apparent that Kim Jong Il had become jaded with his oldest son. Instead, he lavished attention on his youngest mistress, Ko Young Hee, another actress, and his youngest son, Kim Jong Un, the "Young Marshall."

As the oldest son faded from relevance, he began to travel extensively, spending time in China and Southeast Asia. There was a rather infamous incident in 2001 when Kim Jong Nam, his wife, son and their au pair were detained in Japan. They were trying to enter the country on forged Dominican Republic passports, reportedly to visit Disneyland. After this embarrassment, Kim Jong Nam rarely returned to Pyongyang.

Since 2001, Kim Jong Nam lived under the protection of the Chinese government. It appears that he mostly lived in Macau, although there are reports he also had a residence in Beijing. There have also been reports that he had two separate families in both cities. Chinese security officials dubbed him "Fat Bear"; he was known to be a regular at gambling establishments and

generally lived the life of a playboy. At the same time, there are unsubstantiated rumors that he may have participated in money laundering for the DPRK.

As his health was declining, Kim Jong Il designated his youngest son, Kim Jong Un, as his successor, ignoring the usual dynastic succession of elder sons. On December 19, 2011, Kim Jong Il died of an apparent heart attack.

Overall, Kim Jong Nam was a tragic figure. He was hidden from his grandfather and treated as an illegitimate son. At a young age, he was shipped out of the country and abandoned by his mother. Although the 2001 incident is often cited as the beginning of Kim Jong Nam's downfall, in reality, his father didn't seem all that fond of his oldest son. That fact, more than anything, probably led to his eventual exile.

The Assassination

On February 13th, Kim Jong Nam was loitering in the low-cost carrier terminal at the Kuala Lumpur International Airport when two young women accosted him. Doan Thi Huong, a 28-year-old Vietnamese national, came up from behind him and smeared his face with an oily substance. Almost immediately after, Siti Aisyah, a 25-year-old Indonesian national, wiped Kim Jong Nam's face with a cloth. Kim began to stumble and went to airport officials for help. His condition rapidly deteriorated and he died shortly thereafter.

Malaysian officials quickly took control of the situation by taking the fallen North Korean's body to a morgue and starting an investigation. It was determined that Kim died from a specific nerve agent, VX. This is one of four types of nerve agents and is considered the deadliest of the nerve

agents.¹ Nerve agents work by shutting off the process that allows the body's muscles to relax. Instead, they constantly contract until suffocation occurs.

Although it is possible for non-state actors to make nerve agents,² VX is considered complicated enough that only nation-states have the capability to make this variant of nerve agent. In addition, it appears highly likely that the agent used was the even more sophisticated VX₂, which is a binary weapon. A binary chemical weapon comes in two parts, neither of which are lethal separately; they only become deadly when combined. Slow release variants have also been made. This characteristic makes the weapon militarily useful because soldiers don't need to take extreme care in handling the components until combined. Thus, there is virtually no chance that these chemicals came from outside a government laboratory.

It only takes 10 milligrams (0.00035 ounces) of VX on the skin to be lethal; inhaled, it takes 25-30 milligrams. Thus, it is quite deadly. There is an antidote, atropine, which allows muscles to relax.³

The two young women involved in the attack claim they were duped by North Korean agents who told them they were involved in a reality TV show prank. However, Malaysian officials dispute this assertion. They note that both women rushed to wash their hands after the attack which is the proper protocol. In addition, Malaysian officials claim they have

¹ The other three nerve agents are tabun (GA), sarin (GB) and soman (GD).

² The Japanese doomsday cult Aum Shinrikyo was able to make sarin gas and used it in subways in Japan on March 20, 1995.

³ Soldiers who face the potential for chemical weapons attacks carry injectable atropine as part of their kit.

evidence that the women practiced the attack at shopping malls in Malaysia. It should be noted that Aisyah vomited while in custody, which is a common symptom of nerve gas poisoning. The fact that Aisyah, who was the second assailant, became ill does suggest a binary agent was used. It isn't known if the two women had atropine in their systems, although there has been some speculation that they may have because neither died in the attack.

The fact that they survived is another factor that argues these women were not innocent stooges. If they had been mere pawns, it would have been just as easy to see them perish along with Kim Jong Nam. Although it is rather easy to isolate these attackers from the broader conspiracy, they still would have met with some of the assassination plotters and thus could identify them to security personnel. It is more likely that the two women did have some understanding of what they were doing, but it is also possible they didn't know everything about the attack. Reports indicate Malaysian prosecutors may seek the death penalty for the two assailants.

Malaysian officials were also looking for four North Korean nationals whom they suspected as part of the attack. However, these men apparently left the country shortly after the incident and are presumably back in North Korea.

This assassination was a strong act in one of the few nations friendly to North Korea. Prior to this event, Malaysia allowed North Koreans to visit without visas. That policy has changed since the assassination. In fact, last weekend, Malaysia expelled North Korea's ambassador, one of the most aggressive actions that can occur at the diplomatic level. North Korea tried to bully Malaysia into giving up Kim's body before

an autopsy was conducted, but Malaysia is requiring a family member to either claim the body or send DNA from a family member to prove Kim's identity. Malaysia did conduct the autopsy and determined he was killed by VX, while North Korea has disputed this finding, saying Kim died of a heart attack.

Why was Kim Jong Nam assassinated?

Probably the best way to think about North Korea is that it is like a medieval kingdom. Kim Jong Un has been eliminating potential rivals since taking control of North Korea. We note that the Young Marshall has had a standing execution order on his half-brother since taking power in 2011. In addition, he has executed over 500 officials, including at least 140 senior officials. Notable is that he executed his uncle, Jang Song Thaek, who was considered by some North Korean watchers as the second most powerful man in the country.

It should also be noted that the Young Marshall has reportedly used brutal methods for execution. There have been rumors that "enemies of the state" have met their demise by flame throwers and anti-aircraft guns.⁴ Using VX will likely terrify dissidents living outside the Hermit Kingdom. These brutal methods are seen as a warning to opponents of Kim Jong Un that a horrid fate may await if one falls out of favor with the regime.

Thus, Kim Jong Nam's assassination is part of a young leader's plan to remove any threats to his position. Kim Jong Nam had made some critical comments about his younger brother which some have suggested to be the proximate cause of the assassination, although the existence of a standing execution order indicates that Kim

⁴ <http://www.cnn.com/2016/12/29/asia/kim-jong-un-executions/>

Jong Un viewed Kim Jong Nam as a threat that had to be removed.

Still, the decision to assassinate Kim Jong Nam is risky. First, as noted earlier, Malaysia has been a relatively friendly country; the assassination there is a violation of its sovereignty and is likely to foster a negative reaction. Second, China was protecting Kim Jong Nam. Killing him while under Chinese protection will surely fray relations. So, why did the Young Marshall take this risk?

Although Kim Jong Nam made it clear he had no designs on power, he was always a legitimate contender for the throne given the dynastic regime in North Korea. He had supported economic liberalization similar to China's, and it should be noted that his late uncle, Jang Song Thaek, supported similar measures. Clearly, the Young Marshall is leery of Chinese-style reforms and likely views support for such reforms as potential encouragement to China to support a rival.

Thus, China had an incentive to protect Kim Jong Nam to create leverage over the recalcitrant government in Pyongyang. If conditions deteriorated in North Korea, it would not have been out of the question for China to forcibly remove Kim Jong Un and replace him with his brother. In fact, that may have been acceptable to North Koreans as the action could have been viewed as proper dynastic succession.

Another possibility exists. It is becoming apparent that there are no good solutions to North Korea. The regime has enough conventional weapons to severely damage South Korea. They now have some form of nuclear weapons and are probably just a few years away from being able to deliver them outside of Asia. Threatening Japan and South Korea is possible now. If the country

collapses economically, China will almost certainly face a horrific refugee crisis. Although this has been a worry in South Korea for some time, the 38th parallel is mostly a “no-man’s land” of razor wire and land mines, meaning the safest border to flee toward is the Chinese-North Korean frontier. Finally, China doesn’t relish a South Korean overthrow of North Korea. That would put a long-time American ally on its border, which probably means that U.S. troops are part of that “package” as well. North Korea does have value as a buffer state.

It may be that China has decided it is going to have to live with Kim Jong Un and thus, to make him feel more secure, China may have offered up his half-brother as part of that goal. So, it is possible that China simply let North Korea know that Kim Jong Nam would be unprotected.⁵

It does appear that Chairman Xi has little regard for Kim Jong Un. There have been no official visits by either leader which is unusual in the historical ties between the two nations. We expect China to apply enough economic sanctions to let the Hermit Kingdom know it isn’t pleased, but not so many to threaten its existence. China’s recent decision to suspend coal purchases is likely designed to get the regime’s attention. If it were fully implemented, it would deal the DPRK a serious economic blow. However, there are reports that coal smuggling out of North Korea is rampant, blunting the effectiveness of the sanctions.⁶ Chinese trade represents around 80% to 90% of North Korea’s total trade, so the Hermit

⁵ <https://www.ft.com/content/8d4e4b2a-fdcd-11e6-96f8-3700c5664d30> (paywall)

⁶ <http://www.dailynk.com/english/read.php?catald=nk01500&num=14387>

Kingdom is economically vulnerable to China.⁷

For the U.S., the threat of North Korea having a deliverable nuclear weapon that could strike the American mainland is a frightening prospect. However, there are no solutions to preventing that outcome that are not excessively costly. It should be noted that the Clinton administration was close to attacking North Korea's nuclear facilities in 1994 but interventions by former President Jimmy Carter and the realization that an attack would likely trigger a massive conventional assault on South Korea led the U.S. to avoid a war. The costs of a conflict have increased since then and will likely rise in the future.

Ramifications

Although the assassination of Kim Jong Nam was an audacious act, the market ramifications are probably modest at best.

⁷<https://www.bloomberg.com/politics/articles/2017-02-26/china-s-spat-with-kim-jong-un-shows-difficulties-in-stopping-him>

The bad news is that Kim Jong Un is unstable and clearly feels internal threats. Perhaps over time, as he ages, he may become more secure and open to liberalization. But, the most likely outcome is that North Korea will remain an unsolvable trouble spot.

As such, this means that North Korea will remain a threat to Asian financial assets. We doubt North Korea can effectively engage in nuclear blackmail with the U.S., but it not would surprise us to see increased defense spending in the nations around North Korea to protect themselves from this unstable regime. However, the DPRK has been mercurial for so long that financial markets mostly ignore flare-ups. Thus, the bigger risk is a major shock that could be profoundly bearish for Asian equities, particularly Japan, South Korea, the Philippines and Taiwan.

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