

Risks Attached to Government Backed Sub-Prime Security in Korea

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With all the preoccupation with market volatility and sub-prime security induced crises, it is perhaps appropriate to adopt the “house style” contrarian approach and to look through these heightened market uncertainties at some more or less constants, however uncertain those constants may actually prove to be! In the context of the Republic of Korea (RoK), such constants have included regulation, corruption and governance, and last but by no means least, the Democratic People’s Republic of Korea (DPRK). On the northern half of the divided peninsula, the mortgage and credit markets may not be the most developed, and arguably may not even be a twinkle in the Dear Leader’s eye, but scope for collateral damage remains undiminished.

So what has the DPRK been up to? The usual testy shuffle forwards, then sideways and now backwards, almost squaring the circle in time-honoured tradition!

After much prevarication, the DPRK, somewhat surprisingly at the time, signed up to a six party agreement to discontinue its nuclear program in return for energy aid and diplomatic and security guarantees. Decommissioning duly began; in early summer, the DPRK handed over details of its plutonium production program and symbolically demolished a cooling tower at Yongbyon, the assumed principal nuclear facility. Thereupon the DPRK expected immediate removal from the US list of states sponsoring terrorism, just like that. Removal however, was not forthcoming. The US was rather more hesitant wanting to delay such action until completion of decommissioning and acceptable verification thereof. Additionally, the 18,000 page document handed over by the DPRK was apparently light on uranium enrichment capability, nor did they disclose numbers of nuclear weapons and details of the DPRK role in nuclear proliferation. In the last few days, North Korea has apparently begun to reassemble facilities at Yongbyon. Forwards, sideways, and....

In July, in tragically ludicrous circumstances reminiscent of cold war encounters, a middle-aged housewife from South Korea, Ms Park Wang-Ja, was shot dead whilst on a visit to Mt Keumgang in the North. The visiting party was staying at a hotel near the beach on the east coast before their assault on the mountain, and the unfortunate lady had inadvertently strayed into restricted territory during a dawn stroll around the hotel. Mt Keumgang is one of a number of mountains on the Korean peninsula of great emotional significance in the Korean psyche, exerting a near electro-magnetic draw on the populace at large. Hermetically controlled visits have been permitted by southern tourists since the Inter Korean Summit of 2000 between Kim Jong-Il, the Dear Leader of the DPRK and Kim Dae-Jung, then RoK President. The tourism project sponsored by Hyundai Asan, has seen substantial numbers of visitors generating significant revenues for the North, but priced on a non-negotiable fixed contract, the project saddled Hyundai Asan with huge cumulative losses.

The North characteristically blamed the South for the shooting incident, refused to apologise and instead, demanded an apology from the South. And finally the North claimed that the consequent suspension of visits by the South was a “challenge” to the North!

Now a few weeks later, an altogether more spicy and saucy twist to pan-peninsula relations!

A 34 year old female defector from the North, Won Jeong-Hwa, has been arrested on charges of espionage, allegedly relaying to the North military secrets obtained from a number of Army officers with whom she had been enjoying sexual relations! She goes on trial this month in Suwon, Kyunggi-do.

Won Jeong-Hwa has allegedly been spying for the North for five years, collecting information on military installations and prominent North Korean defectors in the South, including top defector Hwang Jang-Yop, architect of the North's Juche Ideal of self reliance, who defected in 1997, and handing over 100 name cards of South Korean military personnel. She had arrived in the South in 2001 from China, and for five years was seen as a model defector. More latterly, for a period of 18 months, she toured military bases delivering 52 lectures to soldiers on the evils of the communist North, and was seen as a North Korean expert. She used her access to military bases, and wedding agencies, to set up encounters with military personnel and succeeded in seducing 3 or 4 active duty officers and NCO's. She had even been living with one hapless Lieutenant who continued to pass over classified information after becoming aware of her identity.

The story goes that Won served in the North Korean military from 1989 to 1992 and was discharged at 18 years of age following a head injury. Subsequent to her discharge, she was convicted of stealing "5 tons of zinc", an offence carrying the death penalty. She escaped to China and was in hiding for "6 years".

A girl in her late teens, stealing tons of zinc in the DPRK, convicted, escaping and hiding out in China?

In 1998, she returned from China to the DPRK and was recruited by the North's National Security Agency. Her first assignment was back in China, identifying and kidnapping potential Northern defectors for repatriation. In China, now masquerading as an ethnic Korean Chinese, she married a South Korean factory worker before her defection to the South in 2001. They divorced shortly after her arrival.

Since coming to the RoK in 2001, she allegedly returned to China 14 times to report and to receive instructions and US\$60,000 of equipment, including poisoned needles with which to assassinate Southern intelligence agents. The needles were never used. Won was arrested in July, together with her "foster father", a 63 year old man named as Kim who had himself gone to China in 1999 and then defected to the South in 2006 via Cambodia.

The RoK Minister of Defence, Lee Sang-Hee, has appropriately referred to the incident as demonstrating "Pyongyang's unwavering efforts to penetrate our society" and further commented "...their spy activities are rampant..."

And then we have an alternative conspiracy theory, propagated by Professor Toshimitsu Shigemura of Japan's Waseda University in a new book "The True Character of Kim Jong-Il", which claims that Kim Jong-Il died of diabetes in the autumn of 2003, since when stand-ins have substituted at public appearances meeting inter alia Vladimir Putin and Hu Jintao. Following the alleged death of the Dear Leader, the country has apparently been governed by a group of four senior military officers.

It appears that Kim Jong-Il, or possibly whomsoever, did not attend the military parade in Kim Il-Sung Square in Pyongyang on 9th September, marking the 60th anniversary of the founding of the DPRK (a 60th anniversary or birthday is of great significance in the Chinese calendar). His last public appearance was on 14th August, inspecting a military unit. There are suggestions that he may have collapsed on 22nd August and might have suffered a stroke.

Such are the perils of government backed sub-prime security on the Korean peninsula!

How did the markets respond? On Monday 8th September, the leading stock market index in the South, the KOSPI, rose by 5.15%, the largest single day rise of the year, and the futures market triggered a "sidecar" suspension in trading for 5 minutes. The KOSPI closed the day for a year-to-date decline of 22.16% in local currency terms. The Korean won celebrated by strengthening 3.37% against the US dollar, for a year-to-date depreciation of 13.44%. But then the excitement of the day might just have had something to do with the Fannie and Freddie bailouts and... government backed security.

Then the market gave up much of its gains in the following two days. All sounds like status quo in these volatile times!