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## Geo-political developments (Part 1)

Mushtaq Khan, October 2, 2017

The direction and pace of current global events will change the status quo. President Trump's UN speech on September 19<sup>th</sup> was provocative and unsettling. In our view, two issues have been stirred up, which are likely to play out in the coming month. The war of words between the US and North Korea cannot be ignored, while President Trump's condemnation of the nuclear deal with Iran, could be a tipping point for global change.

While many are shocked at the behavior of the US President, the internal checks-and-balances on executive power, will take time – and political will – to remove President Trump. Furthermore, one must realize that President Trump's unabashed nativism has gained traction within the US – so while the world would like to see him leave, many Americans would not. It would be a mistake to discount President Trump's ability to upset American norms, and how this impacts the global order. Trump's election victory in November 2016, reveals that there is appetite for disruptive change. Furthermore, as the list of Trump's policy failures mounts (but doesn't appear to deter his behavior), we expect him to double-down instead of finding common ground.

In a sense, Donald Trump's divisiveness is his greatest strength.

The reservations that global leaders have about President Trump, reveal that a bi-polar world order is being shaped. In some ways, this evolution to a more balanced global order, would actually suit a significant number of American citizens. The latent isolationism in US history is not only a fact, but could be surfacing as US government policy. In the two issues listed above, one should reconsider America's resolve to be the global policeman, and its ability to retain its dominance of global trade and capital flows.<sup>1</sup>

Some people have decided that Trump's presidency is the beginning of the end of the US Empire – we do not agree. If anything, his presidency could signal a shift towards a bi-polar world. Furthermore, we do not think this change in the global status quo has to be as disruptive or drawn-out as some think. Given the population growth since the start of the 20<sup>th</sup> century, and its impact on global weather patterns, big changes are likely to take place in a short period of time.

In our view, the US will not become a spent force, as did the Roman, Spanish, French and British Empires – continental US is effectively a large island, with bountiful access to raw material, cutting-edge human capital and technology. What is more likely, is for the US to become more introverted and allow other global powers (specifically China) to carve out their spheres of influence.

Our next paper will be about the P5+1 Iran nuclear deal, which President Trump has promised to scuttle.

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<sup>1</sup> The US wars in Iraq and Afghanistan have drained resources without any tangible results – this is money that could have been spent in the less developed parts of continental America. In terms of the global dominance of the US Dollar (which allows the US to penalize any country it wishes unilaterally), this is something that most of the US electorate is unaware of, and perhaps uninterested in. It would be quite straightforward to craft a political narrative that justifies this change in course.

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## The North Korea – US Standoff

### North Korea vs President Trump

The nuclear test conducted by North Korea on September 3<sup>rd</sup>, has ratcheted up the standoff with the US. With both President Trump and Kim Jong-un trying to outdo each other's threats, a return to the status quo is no longer possible. China and Russia are stakeholders in this standoff, but their common stance runs counter to America's strategy. Hence, President Trump effectively by-passed them when he threatened (on 21<sup>st</sup> September) to tighten unilateral financial actions against any company (or financial institution) that is found to violate trade sanctions imposed on North Korea.<sup>2</sup>

What has fallen off the media radar, is that both President Putin and Premier Xi had proposed a “freeze-for-freeze” solution, whereby North Korea would agree to freeze its nuclear program in exchange for the US and South Korea halting their annual military exercises on the Korean peninsula. The fact that these countries have not raised this issue again, can perhaps be linked to the brow-beaten support offered by the Japanese and South Korean leaders, when President Trump announced the new measures. Both leaders were given an opportunity to voice their support for Trump's decision, after which the press was summarily asked to leave the room.

While President Trump boasted that China's central bank has agreed to stricter financial diligence, we do not believe that this will translate into stricter economic sanctions than what the UN decision has stated. The most binding constraint – oil imports into North Korea to be reduced by 30% – will remain in place. Experts believe this will not impede North Korea's nuclear program, but will simply be passed on to the North Korean people in terms of greater hardship.

President Trump's September 19<sup>th</sup> UN speech, has further aggravated the situation. He threatened to “totally destroy North Korea”, and mocked Kim Jong-un by calling him “Rocket man”. In a subsequent Tweet (dated September 23<sup>rd</sup>), President Trump responded to a UN speech by the North Korean Foreign Minister, by calling Kim Jong-un the “Little Rocket man”, and suggested that they (the Foreign Minister and Kim Jong-un) wouldn't be around for “much longer”. This language can be expected from Donald Trump, but there are repercussions that need to be understood:

1. By threatening a UN member with total annihilation (specifically the North Korean leader and his Foreign Minister), President Trump has shown that he is unwilling to tone down his warlike rhetoric. The speech also shows that Trump is still playing to his base – *Rocket man* sounds similar to *Crooked Hillary*; *Lyin' Ted*; *Little Marco*; *Low-Energy Jeb*; etc. I expect President Trump to defend his blunt rhetoric by claiming that he cannot wear different hats to suit different people, and his focus on Americans reflects his *America First* rhetoric.
2. The speech before the UN General Assembly, clearly shows his total disregard for the collective will of the UN membership. President Trump also took a swipe at the UN for being too dependent on US financing. More specifically, he instructed the leadership of member countries to focus on their individual sovereignty, and not rely on multilateral forums.
3. This Trumpian double-down is likely to have angered both China and Russia. While Japan and South Korea appear to be reluctant partners in President Trump's bravado, China and Russia are unable to assert themselves in this heightened tension. And,

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<sup>2</sup> Clearly, President Trump was not satisfied by the 15-0 UNSC vote to impose stricter economic sanctions against North Korea. The only concession that the US Treasury has made, is to say that the stricter monitoring will be forward-looking, and will not prosecute past transactions.

4. While the North Korean leader may ignore the *Rocket man* reference, he will certainly use the strong language to prove that his country faces an existential threat and its people must be ready to defend his regime, even if this means the use of nuclear weapons. It also makes the economic and financial sanctions easier to deal with by stoking patriotic zeal in the face of an imminent threat.

### What's at Stake for Key Countries?

US: Wants an immediate freeze on North Korea's nuclear program, coupled with on-the-ground verification by the IAEA. The US fears a North Korean ICBM strike capacity. Unlike the Cold War's mutually assured destruction (MAD) with Russia, which maintained a tense stability for more than four decades, the lop-sided power equation between the US and North Korea, makes it more likely that something could happen (i.e. some US bases/cities could come under attack, while North Korea is totally wiped out). Having said this, the US does not want to be seen negotiating with this "rogue" nation as an equal, which means formal bilateral talks are highly unlikely. This means the US has to allow others to negotiate a settlement. The only downside, is that the US would lose its supremacy in leading the eventual unification of Korea.

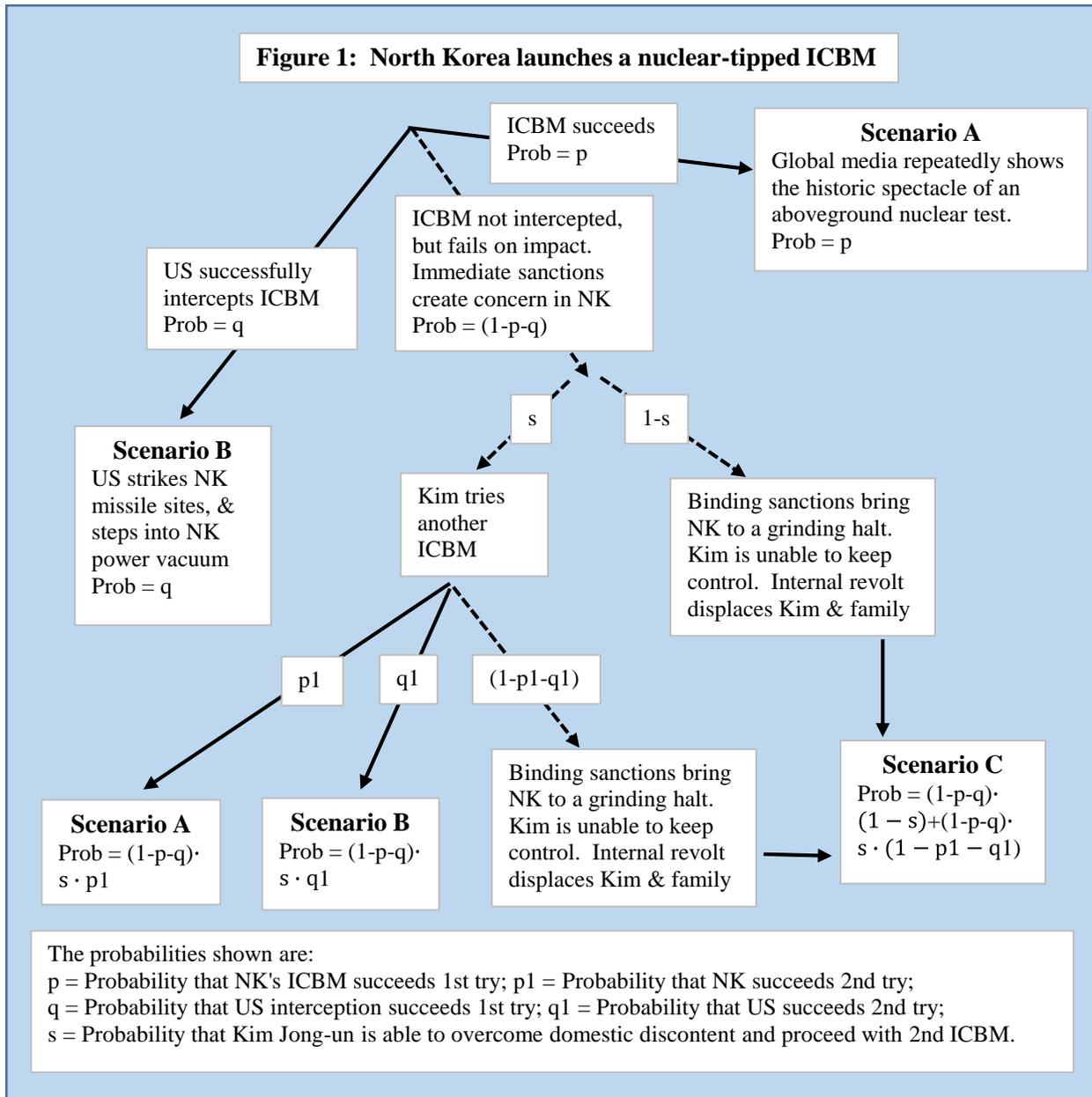
China: Does not want a collapse of the North Korean regime, which could create a pretext for the US (and South Korea) to step into the vacuum. China says it is worried about the potential inflow of North Korean refugees if the country's economy collapses, but deep down, it wants the US to withdraw its military presence from the Korean peninsula and South China Sea. In our view, China would be willing to allow the UN to drive the unification of the two Koreas.

South Korea: Does not want an armed conflict on the Korean peninsula. It is rightly concerned about the inflow of North Korean refugees if Kim Jong-un's regime collapses. South Korea also has the most to lose if a miscalculation (by either the US or North Korea) triggers an armed exchange in the peninsula.

North Korea: Sees its nuclear strike capability as the only deterrent against a US attack. Kim Jong-un's iron-grip on the country implies that North Korea should be able to take the economic pain from the UN sanctions, which means he is unlikely to freeze his nuclear program. From Kim Jong-un's perspective, the nuclear brinkmanship with the US is his only option for survival.

We expect another North Korean nuclear/missile test in the immediate future. In our view, raising the stakes in the US-North Korea standoff increases the chances of an accident. For example, North Korea could fire warning shots against US bombers, or the US could try and intercept a North Korean missile.

On September 23<sup>rd</sup>, the North Korean Foreign Minister threatened to test an H-bomb somewhere in the Pacific Ocean. In this two-man standoff, it appears unlikely that either will show restraint, or that other stakeholders will risk their sovereign reputation by trying to intervene, only to be ignored by both the US and North Korea. The fact that it has become a direct exchange between the US and North Korea, serves Kim Jong-un (who has always demanded direct talks with the US), and President Trump, who will use this standoff to prove to his base just how tough he is.



### What could happen?

Although the possibility of an aboveground nuclear test appears far-fetched, given what has happened so far, we think it is actually quite likely. Mainstream media coverage has not downplayed the probability of this event, but it falls short by simply stating that it is quite possible that both the US and North Korea could “stumble into a war.” In our view, a possible armed exchange is likely to follow a sequential pattern, where the first move by North Korea (testing a nuclear-tipped ICBM), could elicit distinct responses from the US and the global community.

**Figure 1** start with the premise that North Korea launches a nuclear-tipped ICBM to target an isolated part of the Pacific Ocean. The following points summarize the possibilities and the sequence of events that could follow:

1. North Korea succeeds with its ICBM test (**Scenario A**);
2. North Korea fails:
  - a. The US is successful in intercepting the ICBM, which will surely embolden the US to strike North Korean missile sites, and decapitate Kim Jong-un's regime. The US surgical strike is viewed as a full blown attack, which means North Korea retaliates with conventional artillery against South Korea (starting with US military bases and then perhaps Seoul). This is shown as **Scenario B**.
  - b. The North Korean ICBM is not intercepted, but fails on impact. The world is shocked by North Korean intent, and stiffer sanctions are immediately imposed with a clear signal that this is against Kim Jong-un's leadership, and not the people of North Korea. This allows for two possibilities:
    - i. Kim Jong-un is able to maintain control of the country, and demands a second ICBM launch after assessing what went wrong:
      1. The second ICBM succeeds (**Scenario A**);
      2. The US is able to successfully intercept the 2<sup>nd</sup> ICBM, and then attacks North Korea (**Scenario B**).
    - ii. Kim Jong-un is unable to keep control of his regime. An internal revolt is instigated by senior officials of the North Korean Army, which is able to assassinate Kim Jong-un. The new North Korean leadership appeals for negotiations with the US and global powers to resolve the nuclear standoff. This leads to **Scenario C**, but without a full-blown war.

**Scenario A** means Kim Jong-un is vindicated, but North Korea remains isolated from the global order. However, the US is unnerved, and despite the global condemnation, North Korea is able to get the US to sit across the negotiation table with the UN and key global players as intermediaries. The two sides commit to a no-first strike policy, in exchange for some easing of UN sanctions – North Korea also demands that annual US-South Korean military exercises cease. To temper the tension, South Korea agrees to a *sunshine policy* interface with North Koreans. The US retains a military presence in South Korea, and the world heaves a sigh of relief.

**Scenario B** is the most destructive of the three scenarios. A successful interception creates an opportunity for the US to strike the North Korean missile threat and also target its leader. This escalates into an armed exchange, as the North Koreans respond militarily. The possible death-toll on both sides could be significant. Since the US takes this initiative, it intervenes in North Korea to fill the power vacuum. There is a possibility of an armed insurgency against the US presence, but the US is able to quell the insurgency. With support from South Korea, America moves towards the unification of the two Koreas. China and Russia protest, but with a toothless UN, they are unable to stop the US. This creates a 21<sup>st</sup> century Cold War between the US and China – across the Korean border.

**Scenario C** is the most palatable. At best, the failed launch of the ICBM triggers an internal revolt that dislodges Kim Jong-un, and the new leadership signals its willingness to engage the world (especially the US) to resolve the nuclear standoff. At worst, it entails a heavy human cost even without a US strike – in this scenario, Kim Jong-un holds onto power, but the nation suffers under the sanctions (e.g. enforced authoritarian control, and as the winter approaches, the lack of supplies could lead to famine). Eventually, the North Korean Army launches a coup, and signals its willingness to resolve the standoff. We expect a unification of the two Koreas, but this would be overseen by the UN and regional powers. We expect the government of the united Korea to maintain strong ties with China, both because of its geographic proximity to China, and also the latter's economic might.

As shown in **Figure 1**, the three scenarios are either uncomfortable to contemplate, or seemingly improbable. **Scenario C** is preferable, with the provision that the North Korean Army decides early on to topple Kim Jong-un. It also shows our view that the North Korean ICBM, and the US effort to shoot it down, would *both* improve in the event of a 2<sup>nd</sup> launch. This actually increases the likelihood of **Scenarios A** and **B** being realized.

Playing with the probabilities in **Figure 1**, if we assume the US becomes more effective in intercepting the ICBM ( $q \uparrow$ ), this actually increases the probability of **Scenario B** at the direct expense of **Scenarios A** and **C**. This is disconcerting as it increases the chances of a full-blown war in the Korean peninsula. However, this makes sense, as it reveals that if the US is more secure about its ability to knock out North Korean ICBMs, the US is more likely to strike North Korea to end the nuclear threat and Kim Jong-un's regime.

On the other hand, if North Korea is more successful in its ICBM test ( $p \uparrow$ ), this reduces the probability of **Scenario B**, which is the worst outcome. So if one would like to minimize the possible deaths in this nuclear standoff, one would want the North Korean ICBM test to succeed!

Finally, if Kim Jong-un's ability to conduct the 2<sup>nd</sup> test is lower (or  $s \downarrow$ ), this increases the probability of **Scenario C**, which (in the larger scheme of things) is the preferred outcome. Hence, one should hope the Kim Jong-un's generals are as wary of their leader, as mainstream media and others, are wary of President Trump.<sup>3</sup>

## Conclusion

We are accustomed to thinking that a good outcome is when the *bad guy* is arrogant and incompetent, and the *good guy* is enterprising and ultimately successful. However, our analysis proves the absolute opposite – it shows that a negotiated settlement or tougher sanctions would be a better outcome. This is partially based on history (what actually happened in the Korean War, and how the North Koreans view the US, and vice versa), and also how the geo-political game is very different from the days of a Red China and the Soviet Union. In our view, US support was required to keep countries safe from communism, but modern-day China and Russia are not really the “communist” threat they once were.

In the 21<sup>st</sup> century, US military presence around the world no longer serves the purpose it once did. Furthermore, there is a growing constituency of American voters who would rather shift resources away from foreign shores to Middle America. President Trump's victory says a lot about how the US is changing. In this scenario, a bipolar world would be better for global stability, which means the US should begin dismantling its military presence in East Asia to resolve the current nuclear standoff.

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<sup>3</sup> While being critical of your country's leadership can be taken for granted in democracies, this would not work in North Korea.