Is North Korean leader crazy?

GLOBAL ECONOMY

Chang Se-moon
Chief economist,
Gulf Coast Center for Impact Studies

North Korean leader, Kim Jong-un, has been described as crazy, insane, a lunatic, a madman, a psychopath, and worse. My opinion is that he is none of the above.

He is just as rational as we are. The problem is that we simply do not have a full understanding of his personality.

It is important to know more about him so that we can be better prepared to deal with future aggressions from, and negotiations with, leaders of North Korea.

Understanding the personality of North Korean leaders is especially important because the North Korean political system might best be described as family totalitarianism in which the country is headed by a supreme commander, who is succeeded by a son or daughter of the commander.

In family totalitarianism, leaders surrounding the dictator are a flock of supporters whose primary objective is to sustain their privileges by ensuring the absolute power of their dictator. Any fair-minded leader yearning for liberty and justice is likely to be left outside of the flock.

Psychological analysis of Kim Jong-un is sparse, but Paul Vale of the Huffington Post states that Kim Jong-un is "a young man trying to prove himself while suffering an inevitable deep sense of psychological threat that he will be perceived as weak and inadequate by others within the regime."

Psychology professor Ian H. Robertson of Trinity College Dublin describes Kim Jong-un the following way according to a report in www.psychologytoday.com.

"Kim Jong-un is behaving rationally. The survival of his dictatorship depends on maintaining a sense of threat from the outside world, and empowering his impoverished people with images of military power. Kim Jong-un is sane, not a psychopath. He made good friends while in school in Switzerland. His family and supporters created the extraordinary personality cult through complete control over the media, education, and civic life."

According to Prof. Robertson, North Korean leadership's aggression and threats are a rational strategy within the confines of their logic. What kind of logic could that be?

To explore the logic of Kim Jong-un, let me introduce a 2009 article by Frederick L. Coolidge and Daniel L. Segal, published in the Behavioral Sciences of Terrorism and Political Aggression journal.

In the article, authors describe the personality of Kim Jong-il, who is the father of Kim Jong-un, as suffering from the big six personality disorders: sadistic, antisocial, paranoid, narcissistic, schizoid, and schizotypal, as well as schizophrenia and psychotic thinking.

On-line dictionary, www.onelook.com, defines sadistic as "getting pleasure from hurting or being cruel to someone else"; antisocial as "showing a lack of care for other people or for society in general"; paranoid as "worrying that people do not like you and are trying to harm you"; narcissistic as "characteristic of those having an inflated idea of their own importance"; schizoid as "frequently changing from one opinion or attitude to another that seems completely different"; and schizotypal as "fear that one may be seen as mad if he or she is too forthcoming."

Finally, schizophrenia is defined as "a serious mental illness in which the way that you think and feel is not connected with what is really happening," while psychotic is defined as a person who has a mental illness "that makes you act strangely or believe things that are not true."

I am not sure how much of these psychological traits of his father the younger Kim Jong-un inherited, assuming that this characterization of Kim Jong-il is accurate.

The key question relates to how South Korea should prepare for future negotiations.

I will try to answer the question, when I make a presentation on the issue during an Aug. 29 conference sponsored by the Yonsei Institute for North Korean Studies.

Emerging economies running out of steam

GLOBAL ECONOMY

Mauro Guillen
Wharton School professor of management
Emilio Ontiveros
Universidad Autónoma de Madrid professor

A few weeks ago the International Monetary Fund (IMF) issued an update to its World Economic Outlook report warning that global economic growth would be about 3.1 percent in 2013, the same rate as in 2012. The most important dynamic engine of growth over the last decade — the emerging economies — are slowing down.

In some cases, like Brazil's, the reduction has been dramatic. The IMF blamed "infrastructure bottlenecks, capacity constraints, slower external demand growth, lower commodity prices, financial stability concerns, and, in some cases, weaker policy support."

The BRICS (Brazil, Russia, India, China and South Africa) have come to account for half of global growth, compared to one third a decade ago. During the global financial crisis, they continued to grow, thus compensating for the recession in Europe and the United States.

A new era was ushered in as the original BRICS economies came to rank among the top 10 in the world. Most importantly, their companies started to invest and make acquisitions abroad in addition to exporting from the home country.

Thus, the evolution of the emerging world affects the global economy in a major way.

The most worrisome slowdown is the one taking place in China, whose economy underwent a remarkable transformation since the country's entry into the World Trade Organization in 2001. China has become the world's second-largest economy and the largest exporter after sustaining growth rates above 10 percent for more than a decade.

The entire world is now hoping that China's growth does not fall below 7 percent. It is possible that this year it will reach the official target of 7.5 percent, but there are many imbalances and tensions to deal with.

The economies that are dependent on Chinese imports are greatly exposed.

These include exporters of intermediate inputs and of machinery like Germany, Japan, South Korea and Taiwan, and exporters of energy and commodities. Perhaps the most urgent problem in China has to do with the banking sector, which is afflicted by years of rapid credit expansion.

For its part, India may not be able to grow more than 5 percent this year, while Brazil and Russia will grow only half as much.

Overall, emerging economies will grow at about 5 percent, the lowest rate in a decade.

In turn, the slowdown will reduce the rate of expansion of the global middle class, which was meant to set the global economy on a renewed path toward sustained development and growth.

Some experts hope that other emerging economies such as Indonesia, Mexico, Nigeria, Turkey, Thailand or Vietnam may replace the BRICs as the engines of growth, but they lack the size to alter global dynamics in the same way, and they are already richer, which reduces their potential contribution to global growth.

Perhaps a crucial point to keep in mind is that the reformist zeal of policymakers and politicians in emerging economies will suffer as a result of the slowdown.

Efforts at modernizing institutions and removing obstacles to development may falter. Social support for reforms is likely to erode, and protests could become more frequent.

Future growth rates will depend to a great extent on today's reforms.

Extending the benefits of growth to additional segments of the population will require decisive action now. And the developed economies should help by avoiding protectionist temptations.

INSIGHT

What if US starts tapering in September?

ASIAN ECONOMY

Ronald Man
HSBC economist

September will be an exciting month for Korea watchers. The U.S. Federal Reserve meets on Sept. 17-18, with some expecting it to start tapering its quantitative easing program. If this happens, capital may flow out of Korea as it did back in June when the Fed first hinted at tapering by year-end.

In turn, some argue that the Bank of Korea may need to ease financial pressures by tightening monetary policy. We disagree. There are three reasons why we believe the central bank will refrain from hiking its policy rate if the Fed starts to reduce its monthly asset purchases.

First, Korea's trade surplus is big enough to offset potential capital outflows. Although global trade levels have been weak and have weighed on Korea's export growth, import growth has been even weaker.

In part, this reflects the fact that roughly 40 percent of Korea's imports are directly used for export production. Looking into the details, we found that the decline in Korean imports was driven by slowing capital goods and industrial materials and fuels.

There is another factor at play. Commodity prices have fallen on the back of weak global demand. The average cost of oil is down by roughly 6 percent in the first half of the year compared to the same period in 2012. Consequently, the overall amount of money flowing into Korea through the trade channel has actually increased, which will help mitigate balance of payment risks.

Second, tapering of asset purchases by the Fed merely represents a slowdown in the rate of liquidity injection. Our U.S. economists expect monthly asset purchases to start being reduced in December and to come to a halt only in mid-2014.

Until then, more money will be pumped into the global financial system. Outright tightening by the Fed, at least in the form of rate hikes, remains off the table. This suggests that monetary conditions in the U.S. will remain accommodative over the foreseeable future, suggesting that fears over the magnitude and impact of potential capital outflows from Korea are overdone.

Related to this point, there is Japan. We calculate that the sheer scale of the Bank of Japan's asset purchase program will offset U.S. tapering and support a net increase in global money supply through 2014. Signs of money filtering from Japan into the region have already emerged, with investments by Japanese companies picking up notably in ASEAN economies.

As liquidity continues to seep out of Japan, global monetary conditions will remain loose and this reduces pressure on the Bank of Korea to hike rates sooner than it would like.

Third, Korea's economic activity remains weak. The latest economic data shows that Korea entered the third quarter on a soft note. Panelists from our HSBC Korea PMI survey pointed toward lower demand from China and the U.S. export growth in July, while posting a seemingly comforting rebound on a year-on-year basis, had actually declined from the previous month.

We expect Korea's GDP to grow only 2.4 percent in 2013, which is below our estimated trend rate of 3.4 percent, so the Bank of Korea is likely to keep monetary policy accommodative.

The downward trend in economic data suggests that concerns over rate hikes in Korea are premature. If economic activity fails to bounce back, even more support may be needed. But on the fiscal front a second supplementary budget is unlikely to be announced this year.

The recent tax reforms unveiled by the Ministry of Strategy and Finance signals the government's determination to fulfill President Park Geun-hye's campaign pledges and maintain fiscal prudence. As such, if Korea needs an extra boost, eyes will be back on the Bank of Korea.

Taken together, we maintain our view that monetary policy will stay accommodative for an extended period, whether the Fed tapers in September or December. Provided economic data improves gradually, we expect the next move by the Bank of Korea to be a 25 basis point hike in the third quarter of 2014.