ASIAN IDEAS

CHINA GROWTH SLOWDOWN BOTTOMING

19 October 2004

Without any fanfare the latest numbers suggest that China's growth slowdown is bottoming. This is positive for Asian equities and for commodities. Recent volatility was misplaced: the prospects of a hard landing in the next year are virtually zero. Investors should expect a steady but not spectacular improvement in the data coming out over the next three months. We expect a feeling that China is returning to the normality that prevailed in 2002 before growth took off in 2003. The one area we would sell is steel.

Steel: Take Profit Ahead of 20-30% 2Q05 Spot Price Falls

- We Remain Long-Term Bulls on Steel But....
- Seasonal Weakness is Likely to Pull Down Prices in 2Q05
- Therefore Lock In Profits (30% Since May)
- North American Mini Mills Our Favourite Short

China: No Hard Landing In Sight

- Stronger For Longer Remains Our View
- Strength Seen Emerging From September/October Data
- Return to China Trades: Especially Commodities

Oil: Asian Impact Still Not Priced

- 60% of New Demand
- Can Use Up Spare Global Production Capacity by 2006-7
- Price Rallies Will Follow Any Post-Record Correction

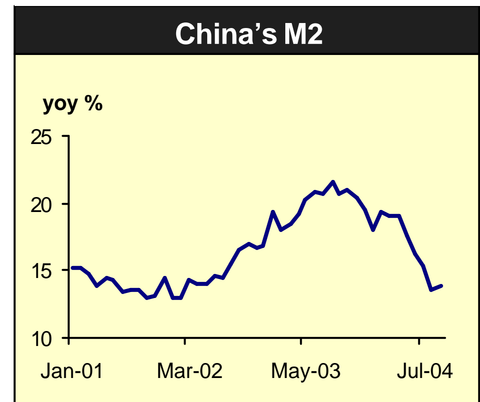
Commodities: Stay Long

- Possibility of 50-100% Price Spikes Over Next 2-3 Years
- Energy, Metals, Foodstuffs

Commentary: Korean Negatives Not So Worrying

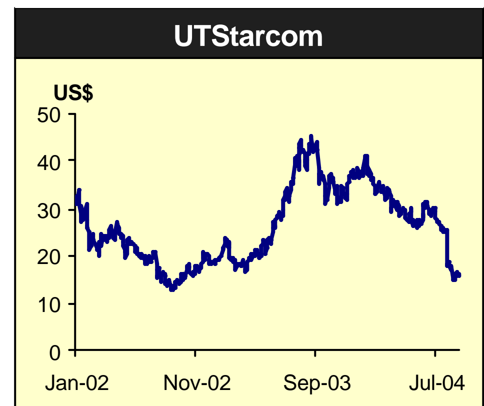
- Long-Term Bull Case Intact
- North Korea: Neutral Not Negative

First Upturn



Source: CEIC

Short: Still 25% Above Fair Value



Source: Bloomberg

Markets

- *Malaysia, Korea BUY*
- *Philippines SELL*
- *Indonesia HOLD*

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IDEA UPDATES

Steel: Time to Take Profit

Share prices have risen on average over 30% since our May call to buy Asian steel stocks. The fundamentals, both short and long term, look good but we see a repeat of seasonal price weakness in the second quarter of 2005. This could well lower spot steel prices 20-30%, taking steel stock prices with them. Therefore we would sell into the strength of the next few months and remain short on a 6-9 month view.

Some of the most attractive shorts are the North American minimills. Not only have their share prices doubled in the last 12 months but Nucor's exposure to spot pricing is 80% while Steel Dynamics and Gerdau Ameristeel have 85-90% exposure. For those who want to retain exposure to the sector we would look to ThyssenKrupp in Europe, Dofasco in Canada and POSCO in Korea.

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China: Growth Slowdown Bottoming

August data confirms that this economic cycle will be stronger for longer than the consensus believes. It also makes a soft landing more likely, though investors should be prepared for no real landing as a worrying 30% possibility next year. A hard landing in 2005 is only a 10% possibility and then it is likely to be externally induced.

The consensus has started to wake up to this reality and is reversing itself again, though nervously those China-related assets hit in April/May will rebound further. (*China: Cycle Not Over: Buy* May 2004)

Buy Asian Equities, especially China, Korea and Japan, Commodities and OECD Growth

Commodities: Hitting Record Highs Again

Oil, copper, aluminum and nickel have all hit record highs and then dived in recent days. Volatility is likely to continue but the China trade is back on as we expected, supported by demand from the global real economy. Shipping rates are confirming the trend.

Investors should be prepared for the fact that rather than reaching price peaks in 2004 some of the commodities may still merely be in the foothills. The accumulated underinvestment over the last decade or more in new capacity is what is driving prices up. In real terms commodities are well below their historic real price highs. The possibility for 50-100% price spikes is out there, both in minerals and foodstuffs.

ASIAN IDEAS

IDEA UPDATES

Oil: Asia and the Next Energy Price Spike

Prices have risen 38% since we envisaged $60-70 oil. Recent supply scares have driven up oil prices but that is not the end of the story even though a short-term correction can be expected after the recent rapid rise. Still not fully priced is Asia's impact on the global energy equation. Asia in 2004 accounts for nearly 60% of new demand for oil. More importantly though:

Within two years at this rate Asian demand alone will have used up all the world's spare production capacity, even without any oil supply shocks. There will be plenty of oil by 2010 but before then, by 2006 and 2007, prices look to be rising higher even without supply disruptions. China's June oil imports, in tonnes, were a record. Korea, Japan and India all add to demand, it is not just China (*Oil: Asia and the Next Energy Price Spike* June 2004).

Remain Long for the Medium-Term. Buy into the inevitable Dips.

US Jobs: Expect Weakness

Again US job numbers confound the market: they will continue to do so. From Asia there is no mystery (*Offshoring Bigger Than Outsourcing* March 2004). A fundamental globalisation of employment is underway. The impact is increasingly apparent not just in manufacturing but in services. The offshoring of service jobs will be bigger than the outsourcing of manufacturing, creating a headwind for the US economy over the next few years until lower costs stimulate more employment.

UTStarcom: Continue to Short

Recent quarterly results have driven UTStarcom's share price to half of what it had been in December when we recommended it as a short. Again from Asia this was all too obvious given that its profit was the result of a regulatory quirk. Competition is moving in and will only intensify. We would continue to short or sell until fair value at $13, still some 25% below the current price (*One Hit Wonder* December 2003).

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Shorter-Term Expectations From Longer-Term Perspectives

Asia Stock Market Performance

%	Market Performance								P/E	Estimate P/E	% EPS chg
	since 2003	1 Month	3 Months	12 Months	2004 YTD	Currency	US$ Return	Index	P/E	P/E	EPS chg
Thailand	87.5	6.0	0.6	22.8	(13.4)	(4.5)	(18.0)	669	16.1	11.8	*36.2*
India	69.2	8.9	15.9	23.4	(2.1)	(0.6)	(2.7)	5,714	-	-	-
Indonesia	101.5	9.1	11.4	39.0	23.7	(8.0)	15.7	856	13.9	11.7	*19.2*
Philippines	80.8	12.7	15.8	41.1	27.7	(1.4)	26.3	1,842	16.3	13.6	*20.1*
Hong Kong	42.4	1.3	8.0	13.1	5.5	-	5.5	13,272	18.0	15.0	*20.2*
Taiwan	36.1	4.9	5.7	3.6	2.9	0.2	3.1	6,061	18.6	13.5	*37.1*
Singapore	50.3	4.1	7.5	17.4	14.3	0.5	14.8	2,016	18.7	14.0	*33.6*
Korea	41.4	7.7	17.0	22.7	9.5	3.4	12.8	887	neg	10.4	*NM*
Malaysia	33.3	2.7	1.1	16.0	8.5	-	8.5	862	14.9	14.7	*0.9*
China-Shanghai	3.2	5.7	(3.8)	2.3	(6.6)	-	(6.6)	1,465	NM	NM	*NM*
China-Shenzhen	(9.8)	7.2	(3.4)	(5.7)	(6.0)	-	(6.0)	370	NM	NM	*NM*
H-Shares	138.2	42.8	7.6	8.9	(5.6)	-	(5.6)	4,741	15.4	11.2	*37.7*
NASDAQ	47.6	6.9	0.4	4.1	(1.8)	-	(1.8)	1,971	49.9	32.1	*55.4*
S&P 500	29.8	2.6	2.3	10.4	3.0	-	3.0	1,142	20.1	17.3	*16.6*
DOW JONES	22.8	-0.2	0.2	6.7	(2.0)	-	(2.0)	10,240	18.1	16.0	*13.2*
FTSE 100	19.4	3.1	7.7	10.2	4.3	(0.8)	3.6	4,706	22.9	18.6	*23.3*

Source: Bloomberg

PHILIPPINES: First a word of caution. For the few who have dared bother with the Philippine market it is surely time to take profits and reinvest them elsewhere in Asia. The good news of President Arroyo's election was reasonable cause for a post election rally. But this even gathered more speed in September with the index rising 13%, making a 12-month gain of 41%.

It is such a thin market that any activity can produce big movements. The macro economic story has been encouraging in the short term with growth around 5% led, for once, by agriculture; and the current account is still in large surplus thanks to remittances. However, the market has chosen to ignore some public debt warnings from the IMF, and Mrs Arroyo's own suggestion of a fiscal crisis. Meanwhile oil prices will impact Philippines harder than most in Asia: inflation at 5% is well above international norms. As for tackling the fiscal and governance problems, Mrs Arroyo will do her best but it is an uphill struggle. Valuations are around the regional average but prospects for economy, currency and companies are significantly worse.

INDONESIA: Prospects are a lot brighter, but even here post-election euphoria has run ahead of likely outcomes. The 9% gain over a month makes 39% over a year and 100% since January 2003. For sure, Indonesia proved that it can have peaceful elections, which came as a surprise to many (but not us) and Susilo Bambang Yudhoyono (SBY) has the makings of a much more effective president than his three predecessors. Nonetheless, he is a consensus builder rather than leader of change, and will have to rely on approximately the same people and parties as his predecessors. It is a recipe for stability but not much more. Infrastructure constraints to growth are looming and volume export growth has been weak.

Commodity prices may continue to help sustain consumption growth, but oil is now at best a neutral factor, adding nothing to net export growth and costing heavily in government subsidy of domestic consumption. The rupiah has also regained some ground. There may be no pressing

reason to sell this market but none to buy it at this level, both relatively and absolutely, at least until SBY can show that his policies attract the big ticket investment needed in mining, infrastructure and non-commodity exports.

MALAYSIA: The market has yet to show the pace that might have been expected of it. It has recovered from a mid-year slump and is up 16% over 12-months but is still short of the level reached around election time earlier in the year. The government faces a problem adjusting domestic oil prices to reduce the subsidy. It is also reducing budgetary stimulus in an effort to return to long-term fiscal balance. However private consumption and investment have both picked up strongly and together with exports have been driving GDP even as the government cuts back. Growth of nearly 7% this year has had only modest impact on market sentiment.

The amount of negative comment on the impact of the oil price has been surprising given its position as the region's premier oil exporter, and the buoyancy of most commodities. Malaysia continues to run a very large current account surplus – more than 7% of GDP – and it seems only a matter of time before the ringgit is re-floated and moves up by at least 10-15%. There are still some negative political vibes and investment remains disappointing.

Exports may no longer drive growth in 2005 but domestic demand should remain firm even should terms of trade deteriorate. Malaysia has a large foreign reserve cushion and the market is well positioned to absorb foreign shocks should any materialize in the next few months. It has a basis for a strong bull trend should global conditions be benign. Further evidence of corporate governance reform as it relates to the government linked companies, which are the heavyweights in the index, would be helpful. There should also be no interest rate fears for Malaysia.

HONG KONG: Interest rate concerns have been much reduced. Expectations of quicker Fed hikes have faded at a time when speculative cash has been coming into some sections of the property market and the overall economic and employment situation has seen continued steady improvement. However, while high-end residential and office property have respectively been attracting fancy prices and rising rents, the mass market has hit a plateau after it mini boom earlier in the year. Consumer confidence is much improved amid awareness that deflation is a thing of the past.

If China does revalue, expect an even bigger flood of mainland money into the territory and perhaps other parts of Asia. However, Hong Kong will also remain sensitive to Wall Street and to perceptions of China: Hong Kong's traditional property and banking stocks may find it hard to justify much higher valuations. As for the H-shares, as an index or as a HIS constituent, they have enjoyed a good rally from a mid-year slump but doubts about costs and benefits for earnings of state-influenced heavyweights in the power and energy sectors limit short term potential.

THAILAND: Oil is also likely to remain a shadow over Thailand due to its import requirements and inflationary pressures. However, though recovered from its setback earlier in the year, Bangkok remains attractively valued and its economy has a broader base than most. However, the tension between the central bank and the Thaksin government over banking practices has made for some caution after the bank was openly critical of the government's Krung Thai Bank lax lending policies. Elections due by February, together with oil, suggest the market will remain unsettled in the short run, though its attraction for longer term players is undiminished. Its export/import mix suggests a revaluation of the baht, if others do likewise, would be beneficial.

MARKETS

TAIWAN: The electronics cycle has combined with a pick up in domestic demand and an improved financial sector to bring PE ratios down to regional averages. Growth this year of 6% is as much from domestic demand as foreign. The market will remain sensitive to Nasdaq and the sense that the cycle has peaked. On the other hand we don't see either China or a big revaluation doing much damage to earnings.

However, the central bank is over-cautious as ever. The NT$ has been held steady against the weak US currency, creating the first inflationary impulses in a long time –a 12 month increase of 2.5%. Interest rates were raised slightly in response but remain close to record lows. Monetary conditions for a bull run exist but caution may suggest a position in the currency is a safer bet in the short term as it seems unlikely that the almost fixed rate against the dollar can survive given Taiwan's continuing huge – more than 6% of GDP – current account surplus.

SINGAPORE: Domestic demand growth has followed in the wake of export recovery and a positive outlook in neighbouring countries though some currency appreciation has been permitted to offset inflation and more may be on offer as imported inflation looks likely to persist into 2005. Restructuring of Temasek and other government linked companies may also provide some speculative interest. However, as in Taiwan demographics is a weak point for growth and though the current account surplus has narrowed slightly, domestic demand is still relatively weak.

INDIA: India has staged a strong recovery over the past there months despite oil prices and the sub-normal monsoon. Reasonably, the market is now able to see that a Congress government is no less business friendly, albeit with a different emphasis, than its predecessor. But with the index now close to its early 2004 high for the year and 24% higher than 12 months ago, a pause or correction look likely.

The oil factor and government deficit remain significant drags. However, disappointment over the very cautious approach to privatisation is in itself unlikely to do much damage to sentiment. Furthermore India's relative lack of exposure to global trade and a flexible currency policy should shield it in the event of interentional waters turning choppy post the US election.

KOREA: Caution over the exchange rate and fiscal policy are the main obstacles to a pick up in domestic demand, now badly needed as export growth is set to fall sharply from unusually high levels. But many negatives – cyclical concerns about electronics, China growth worries and domestic debt issues – are already built into valuations.

It is doubtful whether a further cut in interest rates will do much for domestic demand but a stronger won would take the edge off inflation, the latest dampener on consumption. A fiscal deficit greater than the 1% currently envisaged – particularly if achieved through tax cuts – would be a domestic boost strong enough to offset likely disappointments on the export outlook – notwithstanding Korea's continued ability to grow market share in higher value added products.There is little reason to sell this market and plenty to stick around till local investors tire of low yield fixed income and buy back some of the "farm".(See *Korea: After The Angst* p2)

Generally we see currency appreciation as necessary for the shift of demand to domestic demand, especially in Korea, Taiwan, Singapore and Malaysia as well as being in the interests of long overdue global re-balancing. As it is, repetition of the past year's earnings growth of 20-35% across the region will not be sustained in 2005. Indeed, without domestic demand pick-up there could be stagnation of earnings while inflation remains relatively high. That said, with the above noted exceptions, Asia remains a safe haven short term with the longer-term growth story intact.

Korea: After The Angst

There has been so much gloomy talk about Korea that it is something of a surprise to recognize that it has slightly outperformed most of Asia over the past year and generally followed the same pattern of ups and downs. Can this last, ask the skeptics? Or do those like ourselves who have been quite consistently bullish about Korea see this is as preliminary to a major re-rating of the whole market on the back of liquidity, earnings and local sentiment? (*Seven Sources of Liquidity* 12 March 2003)

Like Japan in the 1970s, Koreans have a habit of emphasizing their own weaknesses as though this makes them struggle harder and makes foreigners less wary of their competition. But in this case, it is the foreigners who have mostly been the optimists. Korean pessimism has not only kept local funds out of the market but led to the bizarre situation whereby foreign investors have acquired majority holdings in most blue chips – and 44% of the total market – while Koreans have been accumulating the dubious debt of the US government, Fannie Mae etc.

Negatives Not So Worrying: Worst Over

The negative factors that have weighed on the Korean economy and market sentiment are priced. Generally they hold little threat of future trouble. These include:

- **Domestic Politics.** This has been somewhat surprising as it had been thought that legislative elections last April and the subsequent dismissal of impeachment charges against the president would have cleared the political air. In fact the election was a political earthquake. The triumph of the president's newcomer party, the Uri party, brought many new faces into politics. It was unclear how radical Uri would be whether in making union-friendly noises, which would spur wage demands, or in further tightening legislation to limit the *chaebol* through cross-holding and anti-monopoly powers.

Over the longer run, the election may result in a normal left/right split into two major parties in place of the mix of regionalism/personality and ideology which have hitherto characterised Korean democracy. However, post-election wariness has caused big business to adopt a wait and see attitude and delayed investments that might otherwise have been made. Higher income earners may also have delayed spending due to fears of further tax increases.

In practice Uri seems a coalition of leftist and centrist reformers that is showing mixed signals but generally backing off from a strong pro-labour stance in recognition of the need for greater consumer and business confidence. In short, business and government will gradually become used to dealing with each other: this should lead to slowly improving sentiment. This process has begun.

- **China.** Now that China has surpassed the US as Korea's largest market, Koreans – and foreign investors – have become especially sensitive to Chinese demand as locomotive not just of export volumes but also of prices for some major exports, such as steel. Fears of a China hard-landing – which we have always maintained were grossly overstated – have abated but are unlikely to vanish in the near future.

In fact we believe that China will remain a bull point for Korea. Chinese import growth will slacken significantly but is unlikely to vanish. Meanwhile Korean use of China as an assembly point for sales to third countries will continue to enhance the competitiveness of Korean firms in international markets.

As in Taiwan and elsewhere, this transfer of low-tech industries creates localized employment problems for the unskilled and is a drag on domestic demand in Korea. However it helps profitability of the leading Korean companies and over time will continue to help the local economy shift to higher valued-added services.

This is not to deny that some industries now enjoying a China export boom will not subsequently face a bust. But low PE ratios for the highly cyclical industries already reflect most of the profits downside.

- **Credit Card and Household Debt.** This remains a serious problem, but as much in the mind as in reality. In 2002/3 there were two minor credit explosions – in property lending and in credit cards. However, the property one was mild by the standards of the west and Australia. Except in a few bubble areas like Seoul's upmarket Gangnam district prices rose by less than 20% over two years and have since slipped slightly, though not enough to threaten banking problems.

The credit card defaults followed massive issuance as the government attempted to stimulate consumption. However, the subsequent bust, which still leaves some 10% of the population in default, partly stems from rigorous rules that demand repayment of debt rather than allowing indefinite rollover. It does not threaten the financial system but clearly remains a restraint on consumer sentiment. Card debt is now less than 10% of total household debt of won 433trn, itself an increase of a manageable 7.5% over 12 months. The impact of card debt may also, paradoxically, be being exaggerated by low interest rates.

There is a generational divide in Korea. The people with the inclination to spend – the younger generation – are the ones with the debt while the older generation exhibits a milder version of the Japanese syndrome. Low interest rates, the approach of old age and the weakness of the social security system combine to encourage this group to save even more. Household incomes have been growing at around 6% over the year to June 2004. This a level that should enable households to increase real spending but may not for the reasons mentioned.

At the macro-economic level, consumer reluctance to spend would be less significant if it did not coincide with corporate debt reduction, a result of strong cash flow and modest investment outlays, and cautious fiscal policy. Income tax cuts should bring about a fiscal deficit of 1% next year, while new property taxes are having the contrary effect, particularly holding down spending by upper income groups. As a result it is not at all clear that further declines in interest rates will necessarily stimulate demand by cutting costs of debt service. A rise in the won would, in our view, be more effective.

- **Oil Price and the Won.** Oil is only the most conspicuous of the commodities that have helped drive Korean inflation to around 3.0%. Inevitably this has consequences for domestic as well as foreign demand. Indeed, Korea's trade strength makes the oil price easy to bear from a balance of payments standpoint. It is also partly shielded by the large role of nuclear power.

Given the impact of oil on already soft domestic demand there is growing recognition of the benefits of revaluation. This will continue to be resisted by most – but not all – of the big firms that dominate exports. There are also concerns about its impact on employment by marginal exporters. These views still predominate at the Ministry of Finance but are beginning to be challenged.

The won has been allowed to drift up closer to the 10:1 relationship with the yen, which used to be regarded as its primary benchmark rather than the level of over 11:1 reached last year. In any event, the won will have to revalue if there are significant moves by either China or Japan whether in response to political or economic pressures.

We believe that a stronger won would benefit Korea, helping domestic companies whose problems are a drag on the Kospi while doing little damage to the main exporters who are either not labour-intensive or already have significant competitive advantage in their industries. Whether or not the government lets the won appreciate independently of other Asian currencies, there is every prospect of a new situation arising on the currency front in the new year, whoever wins the US election or whatever the composition of the new US Congress.

Values and Perceptions

There are good reasons why the Kospi sells on a lower PE ratio than most markets, including ones in Asia. So do not expect that a rerating is imminent. The reasons include:

- Abysmal long-term EPS performance due to several periods of gross over-investment and preference for market share over profits. The Kosdaq crash is even more recent than the Asian crisis
- The Kospi includes very many small, unprofitable companies that drag down the average.
- Company weighting limits for local institutions, which have to spread investments over a wider spectrum rather than concentrate on big market cap/high profit companies
- Highly cyclical nature of major industrials – electronics, steel etc-- and the current perception that several are near the top of their earnings cycle

The corporate governance question and exploitation of outsiders by family/management is there too but less than in most other emerging markets.

Arguably the Kospi is a lot higher than it would be without the massive foreign buying, particularly in the aftermath of the Asian Crisis that has now lifted foreign ownership to 44% of the market and over 60% of many leading issues. So the question is when and if local attitudes towards it will change.

We have been expecting some diversion of Korea's high (if falling) household/pension fund savings into stocks. Thus far that has not happened both for reasons of sentiment and institutional development. Also despite low interest rates the money market continues to be highly liquid. (Efforts to mop up liquidity created by the massive expansion in foreign exchange reserves have not been wholly successful.)

Change Underway Slowly

We believe local sentiment is changing slowly partly in response to earnings growth and partly in recognition of the fact that companies are now more shareholder-focused and beginning to recognize the merit of paying dividends.

Institutional changes have lagged. The national pension fund still only has 7% of its won 122trn in equities. Though there is no formal limit, political and bureaucratic oversight makes management very timid.
Corporate pension funds have yet to emerge as a buyer of stocks. Pension fund legislation has been constantly delayed by disputes, notably over whether plans should be defined benefit or defined contribution. However it will likely now come into being within a year. Restraints also remain on direct selling of mutual funds: this keeps an overly large percentage of savings in bond and money market funds and deposits.

Many big companies are flush with cash but are restrained by rules from increasing their cross holdings. It is unlikely that this anti-chaebol legislation will be eased by a Uri government. However, pension funds creation would allow some diversion of cash into pension funds and relieve companies of the future burden of paying pension promises out of cash flow.

There is a growing sense of urgency to address pension issues. There is also rising anti-foreign ownership sentiment. Some high-profile cases have suggested to some otherwise market-oriented Koreans that foreign investors want quick returns, not long term strategies, and will use voting power to challenge management.

This reaction against shareholder rights may seem negative for foreign investors. However, Korea is unlikely to make a wholesale retreat from its post-1997 liberalisation and there is local as well as foreign pressure for investors to be protected against unscrupulous management. Nationalist sentiment may thus find its preferred outlet in encouraging local money flows into the stock market.

Given that domestic free floats are mostly small, any increase in local institutional participation will likely have a big impact on prices unless foreigners become eager to sell. We believe that most foreign money is more interested in holding for the longer term, at least while valuations remain relatively attractive and Korean companies continue to gain global market share.

Corporate liquidity is also likely to remain high as there is evidently much greater caution over new investment than during previous profit cycles. Korea has entered a new age of relatively slow GDP growth and a partial shift from capital intensive manufacturing to services. Whilst capital flows to China may be slowing Korean GDP, they are clearly good for corporate profits.

North Korea: Neutral Not Negative

The dichotomy between the North's economic reforms and its continued high profile posture on nuclear issues continues. We have never been very alarmed about the nuclear question judging that it was a Pyongyang bargaining tool. (*North Korea: Relax* 20 Feb 2003) Only the US, possibly, had the desire to upset the status quo in the region by attempting pre-emptive action. That has effectively now been ruled out by Iraq and the attitudes of China, Japan, South Korea and Russia. On the diplomatic front things are moving ever so slowly towards an eventual accommodation.

Meanwhile there are prospects for slightly faster pace of North-South economic cooperation. The economic reforms were surprisingly bold given the political implications of consequent high inflation, income redistribution etc. The impact on production appears to have been modestly positive. However all industries remain short of power and fuel while defence-related heavy industry continues to grab a large share of available resources.

The end of this year will see the first plants operating in Kaesong, the industrial area just across the border from Seoul. Previous efforts to set up export zones have failed but with its proximity to the South, which will supply power, success at Kaesong could be the beginning of a much bigger shift of low-tech industries – from China as well as South Korea.

However, there are as yet many uncertainties so there is unlikely to be any direct and discernible impact on the South's economy for several years. As it is, North-South trade has been growing fast but from such a low base that so far its significance is largely symbolic. Two-way trade in 2003 was $724mn, up from $403mn in 2001 but still a small part of Korea's total.

Over the longer term, the North should add to Korean appeal. For now, contrary to the popular perception, it is more neutral than negative.