

Baring Asset Management has commented on investing in North Korea in the aftermath of the death of leader Kim Jong-il.

Mr Kim will be succeeded by his third son, Kim Jong-un, who is thought to be in his late 20s. Swiss-educated Kim Jong-un was named as his father's successor a year ago, and has been groomed for succession since his father's reported stroke in 2008.

The immediate market reaction has been nervousness, with the Korean won off approximately 2% against the US dollar and the South Korean equity market down by a little over 3.4%, in US dollar terms. The market was already off by 2% prior to the announcement on concerns about the global economic environment.

Barings said: "We acknowledge the increased political uncertainty given the new leader's limited experience, but believe the risks to South Korea are limited as both sides of the Korean peninsula have prepared for this scenario for several years. We are likely to see some short-term volatility as Kim Jong-un consolidates his power base and tries to show legitimacy. However, the other powers in the region will do everything they can to ensure stability is maintained.

"Politically, the key thing to look for will be evidence that the ruling elite are backing Kim Jong-un. This could come in the form of acceptance of foreign aid, or widespread media coverage of the new leader providing "on the spot guidance" to workers as the propaganda machine establishes him as a worthy successor to eternal president Kim il-Sung.

"Externally, we will be looking for signs of support from China, North Korea's most important political partner. Official support or a state visit, either to Pyongyang or of Kim Jong-un to Beijing, would be a strong indicator that conditions have stabilised again.

"The economic links between North and South Korea are very limited with little prospect of contagion from any possible regime change in North Korea. In the very long term, a gradual integration between North and South Korea remains a likely outcome, but not something we envisage in the short to medium term.

"We think it is unlikely that there will be lasting effect on the Korean market from Kim Jong-il's

death. Previous experience shows us that events in North Korea have not adversely affected the Korean market for more than a week, and we see no reasons for an exception here.

“We have not changed our investment strategy in the Baring Korea Trust, where our focus remains on the technology sector, and beneficiaries of domestic demand. We remain positive on the prospects for the Korean market across our regional Asian equity and Global Emerging Markets portfolios.

“Given the strong valuation support in the market we are willing to live with the short-term market volatility that comes with political change. We will continue to monitor the situation carefully however, and would be likely to reassess our position if the transition of power became disorderly.”