universität wien

DISSERTATION / DOCTORAL THESIS

Titel der Dissertation /Title of the Doctoral Thesis

„Why do dictators give economic power to their militaries? The causes and institutional dynamics of the North Korean Army as an economic actor in comparative perspective“

verfasst von / submitted by

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angestrebter akademischer Grad / in partial fulfilment of the requirements for the degree of

Doktor der Philosophie (Dr.phil.)

Wien, 2022 / Vienna, 2022

Studienkennzahl lt. Studienblatt / degree programme code as it appears on the student record sheet:	UA 792 399
Dissertationsgebiet lt. Studienblatt / field of study as it appears on the student record sheet:	Wirtschaft und Gesellschaft Ostasiens / East Asian Economy and Society
Betreut von / Supervisor:	Univ.-Prof. Mag. Dr Rüdiger Frank

Acknowledgements

A dissertation is never the work of just one person. There are numerous colleagues, friends and family who I owe a profound and deep debt of gratitude for the help and support that I have received while writing this thesis.

My mother gave me the strength of will to believe I could achieve what I set my mind to and father gave me my interest in history, dictatorships, and political systems generally. My sister gave me my interest in left-wing politics and an abiding sense that a better world is possible, a sense I have tried not to lose. My brother has always sought to ground me and make me understand how human relationships actually work. My wife married me just as I was about to enter the PhD program at the University of Vienna, and has been a source of constant encouragement and support throughout the process. My in-laws have also continually supportive of my work.

At the University of Vienna, I would like to thank my advisor Professor Rüdiger Frank who was key to me becoming a student at the University of Vienna, and without his support, I would never have written anything as coherent or logical as this dissertation is. I am also profoundly grateful to Alejandra Cervantes Nieto for all of her help while at ECOS, her friendship, and much kind assistance navigating Austria and the university. Professor Christian Göbel also provided frank and helpful criticism on an early draft of this dissertation which proved to be immensely helpful if rather painful reading. I would also like to thank my refugees Nicholas Eberstadt and Balazs Szalontai for the many hours they gave looking at the draft at various stages of completion, and for their thoughtful advice and criticism.

In Seoul, I wish to thank Andrei Lankov, under whose guidance I began the journey of studying and researching North Korea back in 2006. I have transitioned from being his student to his research collaborator, and our evolving relationship continues to be a source of intellectual excitement. Fyodor Tertitskiy for his continual support, encouragement, advice, and attention to detail that has made the dissertation clearer and with many fewer errors. Yu Hyun-jun has been a great friend and source of great cheer in many more difficult times. Kim Jiyoung has been a mentor and supporter throughout, and has helped me find work whenever I have struggled financially. Chris Maton has been a great supporter and has helped me explore new perspectives outside academia. Park Daehyeon has been a great friend and collaborator in many research endeavours over the past 6 years. I would also like to thank Chad O'Carroll, Arius Derr, Nils Weisensee, Kylie Park, Colin Zwirko, Jeongmin Kim, Ethan Jewell and the rest of the NK News team. As well as valued colleagues and friends including Han Kibum, Joung Eunlee, Park Hyeong-jung, Cheong Seong Chang, Kwak Inok, Dean Ouelette, Stephan Haggard, Sokeel Park, Lee Cheongha, Brian Myers, Hanna Song, and Hwang Hye-yeon. I would also like to thank the staff of the Institute for Far Eastern Studies where I was fortunate to spend six months in the first half of 2022 on a fellowship.

Elsewhere in the world, I am immensely grateful to Yonemura Koichi and Kwak Myong-il without whom this thesis would never have been written. Edward Goldring, Steven Denney, and Chris Green has offered much wise counsel throughout this project and have been patient friends as I have tried to juggle my thesis and the other projects we had ongoing. Oliver Hotham for his continued encouragement, good cheer, and help with editing.

I would also like to thank the friends and colleagues who live around the world who I wish I saw more often including two great friends I made while in Vienna Esger ten Thij, and Jubran Naser, as well as Benjamin Katzeff Silberstein, Alek Sigley, Pavel Em, David Malek, Jim Kelman, Sean Kang, Sarah Yoon, Sarah Mack, Lee Sang-yong, Edward Pulford, Sean Chung, Suleiman Mohamed, Libby Liu, Nat Kretchun, Martyn Williams, Curtis Melvin, Christian Davies, Laura Bicker, Kim Byeong-uk, Kim Yeong-hee, Jeon Hyeon-soo, Lee Kwan-se, Ko Jae-hong, Andrew Jo, and Garrity Busch.

All the errors are my own.

Notes on Romanisation and Translation

Generally, authors (including me) do not like it when people misspell their names, so I have sought to use authors' transcriptions of their names where possible, and otherwise use Revised McCune-Reischauer. In South Korea, a hyphen between the two components of the given name (most Korean given names have two components) is customary (though not universal), but in the North, it, is not. I try to respect these differences in convention. Many names may appear to have been mis-romanised, but aside from my errors, this reflects the choices made by the authors' themselves which were no doubt made for good reason.

In the bibliography, I avoid romanising titles (book, journal and article titles) of Korean language works because this just makes them more difficult to locate for readers who wish to access the literature cited herein. Romanization within academic writing serves the purpose of rending a name or term in its original pronunciation. A bibliography is supposed to accurately reflect the sources used by the author so that readers can locate these sources if they wish to. To find works with romanised titles requires the reader to reconstruct the original title, which is needlessly time-consuming and serves no purpose. Hence, I do not romanise, but provide original titles in Hangul.

Most of the sources cited are available either on RISS (Research Information Sharing Service; http://www.riss.kr/) if they are postgraduate-level dissertations, KCI (Korean Citation Index; https://www.kci.go.kr/) if they are journal articles.

The quotes I make from Korean language sources generally were translated by me. Some translations may seem a bit clumsy or artificial, but I have sought to reflect the original language. The titles for many secondary sources are the official ones given by their authors. Many of these translations are far from perfect, but here I thought it best to follow the official names of works rather than retranslate them.

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Chapter 1: Introduction

1. Research Question and its relevance

Much of the existing research on the problems of civil-military relations in non-democratic (and newly democratised states) focuses on the so-called 'guardianship dilemma' – 'who will guard the guardians?' (Feaver 1999, 211). Simply put, a military that is strong enough to protect a state is also strong enough to depose its civilian leaders (McMahon and Slantchev 2015; Paine *Forthcoming*). The focus is on control of the gun, i.e., how dictators ensure that those with the coercive means to overthrow them do not and the compromises this involves for military effectiveness (De Bruin 2018; Narang and Talmadge 2018, 201; Reiter 2020; Talmadge 2015).[1] Yet, many militaries worldwide are not just concerned with guns, but also with butter. They are involved in the production, exchange, and even foreign trade (Brömmelhörster and Paes 2003). Some civil leader hand significant power to their militaries by allowing them to become involved in the civilian economy. The choice is not dependent on regime type, but rather on the strategic aims decision-makers and state capacity to realise those aims. Where the civilian state cannot fund military aims, the military may be entrusted with self-financing.

This dissertation focuses on three questions connected to the issue of military economic power (the economic activities pursued by the military as an institutional actor or by individual officers with the capacity to do so). First, it seeks to answer the question of why leaders give their militaries economic power - not just the initial decision to hand the military economic resources and entrust them with productive activities but also how military economic power evolves and how it impacts or is impacted by the civil-military relationship generally. Military business has been found in a diverse array of regime types, from military dictatorships to competitive civilian authoritarian regimes, as well as single party regimes (Brömmelhörster and Paes 2003). I focus on a single-party, personalist civilian regime, North Korea, with the world's second largest standing military relative to total population (after Eritrea), and with a state that has a remarkably high degree of power over society. Focusing on the North Korean case, I develop arguments about the role of leaders' strategic aims and state capacity, and how they shape military economic power, and societal-military relations. This dissertation offers a counterpoint to some existing arguments about military economic power that link military business with coup-proofing strategies (Prina 2017), and authoritarian survival (Izadi 2022). North Korea can be thought of as a deviant case where military economic power created and deepened due to leadership aims unrelated to coup proofing, and analysis of other comparable cases of single party state socialist regimes demonstrate that such mechanisms are not unique to North Korea. Here the unit of analysis is the military as an entity overall, with some discussion of the behaviour of officers as individual actors within an evolving institutional architecture.

Second, the issue of control and management of military economic power at the micro-level will be considered. Existing studies of military economic activities have largely focused on national-level case studies, with some attempts at cross-national comparisons. Existing models of civil-military relations and military economic power have largely ignored the issue of

[1] At root, this can be seen as a delegation problem addressed in the study of public bureaucracy. Moe (2012, 15), notes with respect to the delegation of authority from legislatures to bureaucrats that there exists "a trade-off between expertise and political control". The same problem can be observed in non-democratic contexts as well. For instance, in communist states, 'red vs. expert', and in civil-military relations, at its most extreme, it is the choice between the most effective officer corps and an officer corps that is least likely to coup (Talmadge 2015).

military economic power at the sub-national level. Yet, much military economic activity began as subsistence-oriented production by military units like in China (Mulvenon 2001), North Korea (see chapter 4), and Vietnam (Thayer 2003; 2017). For the actual daily functioning of combat units, these activities may be more important than centrally managed commercial entities. The sub-national level is crucial to understanding the issues that military economic activities raise for the civilian leadership. Hence, the issue of how leaders manage military economic activities at the sub-national level, and the role and limits of different oversight and control institutions including incentives, and punishment are considered.

In any country, certain forms of economic activity may be legal, other activities may be illegal but subject to forbearance or selective non-enforcement of the law (Holland 2016; O'Brien and Li 1999), while some forms of behaviour might be subject to strict sanction or considered 'renegade', and the object of both legal sanction and broader social opprobrium (Beckert and Wehinger 2013; Webb et al. 2009). These are issues that are left largely unaddressed in both the existing literature on civil-military relations and on the literature on military business. Yet they are integral to how economies actually function, and for many military economic activities in North Korea and in other comparable countries. The distinction between official and unofficial economic activity is a highly salient one even in developed countries, but more so in many transitions and developing countries where much of the economy is informal. In such circumstances, it is plausible to assume that military officers will also be involved in such activities, but if so, how does the civilian leadership manage such activities?

Third, if military units are involved in the local civilian economy, local military officers and soldiers are necessarily embedded within local and regional societies, just as civilian local officials are (Carter and Hassan 2021; Hassan 2020).[2] If they do not subsist primarily on budgetary and resource allocations from the central government, they may have to engage in local commercial activities, licit and illicit, involved in the local economy as a provider of services (Jaskoski 2012; 2013), and/or producer of goods (Mulvenon 2001), potentially collaborating with local firms and entrepreneurs. Military actors can also use their access to resources and organizational power to support civilian business and/or engage in business activities directly.[3] What are social effects of such activities? Are the activities that military officers are involved in productive for their local communities, non-productive, or even destructive?

This dissertation focuses on the rise of the Korean People's Army (KPA) as an economic actor in North Korean society after the Korean War to present before considering a specific sub-national case study of a military unit from 2010-2013, its involvement in its regional political economy, and the issues this creates for civilian control and effects on societal-military relations. The Korean People's Army is one of the world's largest standing armies, estimated to number 1.28 million (Republic of Korea Ministry of Defense 2020, 290), about 5% of North Korea's

[2] By 'embeddedness', I mean embeddedness within social relations characterized by shared norms, trust, reciprocity and reputational risk (Granovetter 1985). The embeddedness of military business within civilian economies and civilian society has previously been discussed at the national level in various countries of the Middle East and North Africa (MENA) in a volume edited by (Grawert and Abul-Magd 2016).

[3] This is by no means the only way the military as an organization and individual military officers can become involved in the economy. As discussed in Brömmelhörster and Paes (2003) and Chambers and Waitoolkiat (2017), military economic power can extend to military control over corporations (including banks and other financial entities), control over agencies of government responsible for regulating and administering certain parts of the economy *inter alia*.

total estimated population of 25 million in 2020 and almost 10% of its economically active population of 14.2 million as of 2019 (Korean Open Statistical Information Service 2021).[4] The country is also believed to have military reserves of 7.62 million (Republic of Korea Ministry of Defense 2020, 290), around 30% of the total population. The military is not only a major consumer of government revenue, but also a producer of output (in the munitions sector, for and with the civilian economy), and acts as a conduit through which the state seeks to mobilise resources. It thus has extensive power (as well as responsibilities) within the North Korean economy. This dissertation focuses on how the military is involved in economic activities that benefit it as an organization or individuals within it. It does not directly cover the military's support for civilian industries or civil economic development.

North Korea is also the paradigmatic example of an autocratic state, with power concentrated in the hands of a single autocrat (K. Han 2009, 40–49; Y. Park 2017, 107–30). Theoretically and analytically, the North Korean case is unusual due to the sheer size of the military, the nature and extent of politicization within the military (Yoo 1997; Yi 2003), and its economic footprint (Oh et al. 2018). Yet, in many respects, the North Korean case is theoretically useful because it represents a remarkably centralised and surveilled society, thus inferences made about central control of the military and the implications of regional embeddedness of officers could potentially be portable to other less controlled societies where the military also has significant economic power.

North Korea sits at the middle of the one of the world's most dynamic regions. Three of the world's ten largest economies are in East Asia (World Bank 2022). This means that understanding the KPA's role in the North Korean economy has immediate policy relevance for those concerned about North Korea's economic prospects in a regional context, the continued survival of the North Korean regime, and its prospects in the future, not to mention regional security.

Beyond the specific relevance of the North Korean case to matters of geopolitics, the North Korean case can potentially serve as the basis for more general discussion of important matters related to civil-military relations and military economic activity. The existing literature on military economic activities and civil-military relations offers an interesting if undertheorized set of answers about why militaries become involved in the economy. As Feaver (2003, 55) notes, civil-military relations are not just about ensuring that the officer corps does not mutiny, they are about ensuring compliance and proper performance of duties, i.e. that officers 'work' rather than 'shirk'. Yet, we have little understanding of how military economic activity shapes institutions of compliance and control at the micro-level – i.e., the level of actual life for most military service members.

What is more, even in normal times, the continued power of the central government relies upon effective control of the administrative state generally. The involvement of the officer corps in economic activities outside the state is potentially both a cause and symptom of institutional

[4] There have been some questions raised over the quality of census data that these estimates are based, with highly implausible mortality rates among different age groups found in comparisons of 1993 and 2008 census data, for instance Eberstadt (2010a). More recently, data purported to be from internal North Korean sources indicates that North Korea's population was only 20.5 million as of 2019 and the population peaked in 2005 at just 21 million as a consequence of excess deaths during the famine and economic dislocation of the 1990s and (unreported) emigration (Joo 2019). North Korean internal planning documents from 2015 also imply that the North Korean population was around 20 million as well (Ward 2021b).

decay. Even within the de jure confines of the state, officers can potentially acquire access to revenue streams via assets under their control. Incoherent or decaying official institutions are believed to lessen the prospects for development and effective reform, and be synonymous with state failure (Ezrow and Frantz 2013). However, such state-centred discussions of institutions neglect the potential role of informal social institutions and networks in development – and the role that corruption can potentially play in alleviating formal institutional constraints (Leff 1964; Méon and Weill 2010). The officer corps may serve as a sponsor and protector of informal institutions. In other words, the military could contribute to the development of market institutions and the economy generally. Military involvement in emergent informal institutions like markets may help to support their development, or the involvement of the officer corps in nascent market institutions may stymie them, through predation, potentially at the behest of the state or otherwise. Hence, examining the role of military economic activities in North Korea can help us better understand the military's potential role in the development of economic institutions there, but also understand better how military economic power can facilitate or stymie the development of institutions at the local level especially in political economies where the military is large and independent social organizations and institutions are weak or absent.

2. Dissertation outline

This chapter has presented the key research questions, and their relevance that will be further developed over the course of the dissertation.

Chapter two discusses theoretical literatures within the social sciences that are related to the research question. First, the literature on military economic power is discussed, including the question of definitions, the existing causal arguments, and the issue of corruption. Here the focus is upon looking for a useful set of concepts to apply to the North Korean and other comparable cases that have been developed in the existing literature, and also to review the existing causal arguments. Next, the literature on civil-military relations is examined, with the existing models of civil-military relations in state socialist countries reviewed, and newer theoretical models of civilian control discussed. This provides the basis for discussions of macro and micro-level institutions of civilian control within the North Korean military and other comparable cases. The sub-section on societal-military relations focuses on the concepts useful for making sense of day-to-day relations between military units and civilian actors. Finally, the chapter discusses the North Korea-specific literature on civil-military relations, corruption, and military business to ascertain what is currently missing in this literature and what kinds of answers it may imply for this dissertation's research questions.

Chapter three outlines three inter-connected arguments about military economic power building upon ideas developed in the existing literature and utilizing useful theories related to state capacity and military economic activity to better understand military economic activities. First, it brings together ideas from principal-agent theory with theories of institutional change developed by historical institutionalists to try to better explain how military economic power emerged and developed in North Korea and other state socialist countries, especially given limited state capacity. Second, it posits that the limits of state capacity also affect the actual functioning of institutions of control and oversight within the military and make the leadership unable to prevent illegal economic activity and corruption. Third, an argument about the social effects of military economic activities is advanced: military officers often play the role of productive entrepreneurs who engage in or facilitate private commerce, supporting local market

actors and creating/supporting market institutions. A dual approach that combines a historical and comparative discussion of the North Korean case at the macro-level, followed by a sub-national case study is explained. The limitations of the approach and the project overall are also considered.

Chapter four focuses on the institutional basis and historical evolution of the KPA's economic power. It combines an extended historical institutionalist analysis of North Korea with a discussion of comparable state socialist cases in which the military obtained substantial economic power. It demonstrates that a lack of state capacity to fund the military combined with excessively ambitious strategic aims propelled a process that gradually saw military economic power expand in North Korea. While similar issues of mismatch between military aims and funding capabilities also led leaders in other systems to embrace military self-funding.

Chapter five considers the role of official institutions at the unit level in the control and direction of local officers' economic activities. It demonstrates that many oversight, control and incentive institutions do not prevent apparently widespread problems with corruption and illegal economic activities, including bribe taking, the theft of unit resources, support for and direct facilitation of market activities. The problem of state capacity extends to the issue of control and punishment of economic activities at the unit level.

Chapter six analyses the effects of military economic activities and power relations on the interaction between officers and local civilian society. It considers the role those official prerogatives and unofficial institutions play in the structuring of societal-military relations at the local level, and the implications that such relations have on economic institutions in the locality. It will discuss the role that the military plays in local economic development in the regional economy, and how the military supports and preys on market participants.

Chapter seven offers conclusions. It reflects on the KPA's role in the North Korean economy and considers the aspects of the North Korean case that are comparable to other countries. It also discusses the likely future of the KPA as an economic actor in North Korean society going forward, and the potential limitations of the conclusions drawn from the sources utilised in chapters 4-6.

Chapter 2: Military economic power and civil-military relations

1. Introduction

This chapter begins by examining the concepts developed in the study of military economic activity, civil-military relations, and the North Korea-specific literature in order to a find useful concepts and theoretical arguments to answer this dissertation's research questions. Section two more closely examines the existing literature on military economic activity/military business, including how the concept of military business/entrepreneurship/economic activity has been defined, and its purported causes and consequences. Section three broadens the discussion to the fundamental issue of the relationship between the civilian leadership, civilian society, and the military, focusing on key ideas developed to understand this relationship generally, and in countries with political economies similar to North Korea (state socialist countries). Sections two and three provide key general concepts and arguments that can be then applied and/or tested on the North Korean case. From here, section four examines the literature on North Korea's civil-military relationship and military economic activities. It considers the existing arguments made about North Korea's political economy, its military's place within it, and civilian control over the military. The chapter concludes with a discussion of the existing literature overall, its claims and why military economic power at the national and subnational levels requires further theoretical and empirical consideration generally, and why the North Korean case may form a particularly fruitful basis for such discussion.

2. The military economy literature

This section will first consider the differing definitions of military economic power, the scope of the concept, the potential strengths and weaknesses of differing definitions. It will then examine the differing theoretical accounts given of the causes of this phenomena, and how the existing literature on military economic activities has characterised its effects and implications.

(a) What is military economic power?

First, given the importance of the munitions sector for regional political economies in many countries, and the political controversy that surrounds defence spending, it is important to distinguish such issues from military economic power. The military budget, its impact on the economy generally, and its potentially concentrated effects on particular regions are a concern of defence economics and the political economy of defence in many countries (Dunne and Sköns 2009; Matthews 2019). Military economic power, including military business, entrepreneurship, and other forms of actual economic activity is distinct from defence budget allocations and their impact on the civilian economy. This dissertation is concerned with actual military economic activities, not the politics of defence spending, or the effects of defence spending on society.

A number of scholars have sought to define the concept of military economic activities. Different terms are used by different scholars, these include 'military business' or 'milbus' for short (Brömmelhörster and Paes 2003; Siddiqa 2007), 'military entrepreneurship' (Mani 2007; 2011), 'local army entrepreneurship' (Jaskoski 2012; 2013), and perhaps most expansively 'khaki capital' (Chambers and Waitoolkiat 2017).

Brömmelhörster and Paes (2003, 4) define 'military business' as: "economic activities falling under the influence of the armed forces, regardless of whether they are controlled by defence

ministries, the various branches of the armed forces, specific units or individual officers." This includes: "corporations owned by the military as an institution, to welfare foundations belonging to the different services, to enterprises run at the unit level and individual soldiers who use their position for private economic gain" (Brömmelhörster and Paes 2003, 2). This definition has the advantage of being inclusive, though alternative definitions have been suggested for different purposes.[5] The other advantage is that it does not emphasise the importance of formal, legal recognition of such activities.

Mani (2007, 596) distinguishes four forms of military entrepreneurship: spoils, state-spoils, institutional, and statist institutional. 'Spoils' refer to entrepreneurship where individual enrichment is the primary goal, while 'institutional' refers to entrepreneurship aimed at benefiting the military as a whole. 'Statist' entrepreneurship of either type describes circumstances where the civilian state directs the military to engage in entrepreneurship for the state's benefit. This categorization is actually particularly useful for exploring the purpose of different forms of military entrepreneurial activities, given that it allows us to better elucidate the motives of both the autocrat and their agents, as well as the purpose of military economic activity.

At the same time, Mani (2011, 185) suggests a definition of 'military entrepreneurship' overlapping with that of Brömmelhörster and Paes (2003), but including the caveat that such "activities are generally legal and politically sanctioned." This is not necessarily the case, and as will be discussed further in chapter 3, the relationship with licit and illicit means and ends is actually of significant importance for control of the military, and in structuring the societal-military relationships in which military economic activities are embedded. Jaskoski (2012; 2013) offers interesting case study analyses of military business at the local level, unconstrained by the relative formality/legality of such activities, but no additional conceptual development – and she limits her analysis to the provision of security services.

Most recently, Chambers and Waitoolkiat (2017, 7–8) propose a new concept they term 'khaki capital' which aims to be more conceptually more expansive than any of the aforementioned authors. Khaki capital is described as a "mode of production" that enables the military to influence financial allocations, extract, transfer and distribute financial resources, and create financial or career opportunities both institutionally and individually (Chambers and Waitoolkiat 2017, 7). This does not consider the role of production and exchange in the locus of potential military economic power; the focus is rather on financial allocations and financial resources. This is problematic when military economic power is not primarily tied to control over cash flow from the central government budget or from business. What of physical resources or manpower under the control of the military? Given that military economic power at the subnational level is not necessarily contained to control over financial flows, this is indeed a constrictive and potentially unhelpful definition to use when examining micro-level societal-military relations. But while this definition may appear rather imprecise or excessively focused

[5] An alternative definition of 'military business' offered by Siddiqa-Agha (2017, 6) reflects a different analytical focus: "transfer resources and opportunities from the public and private sectors to an individual or a group within the military, without following the norms of public accountability and for the purposes of personal gratification." Siddiqa-Agha is primarily interested as 'milbus' as a nexus of corruption, hence this definitional difference. But her definition implies that the process by which the military becomes involved in economic activities is corrupt. However, the North Korean case and others discussed below demonstrates that this is not necessarily true, even as corruption conceptually covers many kinds of illicit economic activities at the unit level.

on the aggregate level, the authors note the importance of both formal and informal dimensions of military economic activities.

Generally, Brömmelhörster and Paes (2003, 4) definition of "economic activities falling under the influence of the armed forces" is most useful for analysing the military economic activities as it is suitably broad, including the economic activities of the military as a whole, unit-level and individual officer activities. Given the scale of illegal and unofficial economic activities in North Korea, it is also important to not excessively limit the scope of analysis to officially sanctioned activities alone. This definition is loose enough to encompass more active, entrepreneurial behaviour like the provision of services, creation of workshops producing industrial inputs, as well as the passive provision of access to resources, and rent seeking including bribe extraction and involvement in socially destructive activities like narcotics trafficking. Hence, this is the definition that will be used in the later chapters when developing arguments (chapter 3), and then applying them (chapters 4-6).

(b) Existing arguments about causes and effects of military economic activities

The relationship between military economic power and civil-military relations in general has been noted long before any studies of military economic power were independently undertaken. For instance, Janowitz (1977, 153–54) posits a link between the political power of the military and its involvement in the economy, but does not explore the range of potential causes that give rise to military economic activities. Brömmelhörster and Paes (2003, 13–15) suggest five causes that may give rise to military business: military access to specific resources, budgetary reasons (i.e., cuts to military budgets), weak states and poor civilian control, organization and structure of the armed forces (militaries borne of guerrilla armies, for instance, are used to economic activities), and the changing strategic environment. Two of these factors relate to the specific characteristics of the military organizationally and institutionally – i.e., its organizational characteristics and the resources that the political system has put at its disposal. While two other factors relate to the capacity of the state to exercise control (enforcement capacity) and fund the military (fiscal capacity).[6] The other factors relate to the structure of the country's foreign relations, and the threats facing the military. This explanation is further considered and developed in chapter 3, state capacity and strategic aims are posited as being primary drivers of military economic activities in the North Korean context, and in other comparable state socialist cases.

By comparison, the developed country model of military procurement and defence industries is premised on the complete separation of the military from revenue raising (handled by the fiscal authorities) and the production of materiel (dealt with through government procurement). This model is actually quite historically contingent and unusual outside of the modern developed world, with premodern warfare often being a private enterprise (Parrott 2012), and the existing literature on military business amply demonstrating the fact that many militaries remain partially dependent on their own businesses for operational financing and for investment.

Mora and Wiktorowicz (2003) utilizing a case study approach argue that regime survival during periods of reform required military 'buy-in' that was secured through a bargain allowing the military and actors within it to enrich themselves in reforming state socialist countries (China,

[6] For a review of the literature on state capacity, see: Bardhan (2016) and N. D. Johnson and Koyama (2017). See chapter 3 for more discussion of state capacity.

Cuba, and Vietnam, along with Syria which is not state socialist). A similar interpretation can be deduced from Mulvenon (2001) with respect to China, and to some extent from Thayer (2017) with respect to Vietnam. The leadership sought to offset potential negative effects of economic reforms and maximise the gains by allowing the military to play an active role in the economy, and benefit from the process of reform. The issue of agency problems (or 'principal-agent problems') will be taken up in more detail in theory chapter, but this can essentially be conceptualised as a solution to a principal-agent problem, with the autocrat (the principal) making a bargain with influential or strategically important agents liable to shirk on their commitments to the regime – not necessarily through a coup, but by failing to carry out orders or by voicing disquiet regarding government policies, for instance. It can also be recast as a solution to a state capacity issue, without the capacity to fund the military to the extent deemed necessary by the civilian leadership, self-funding was accepted as a necessary step. It also built upon the military's existing bases of self-sufficient production and propelled it into often legal commercial activities in a newly marketizing economy in these states.

Mani (2007) argues that foreign and/or domestic threat levels determine whether militaries pursue entrepreneurship, either at the direction of the civilian authorities, or at their own discretion because the state lacks the capacity to fund the military sufficiently to meet this the threat. When given the opportunity, it would seem likely that the military would seek to maximise its potential profits from activities designed to fund and equip it, building up slack to protect against potential exogenous shocks and for enrichment of those who can privatise gains from such activities (Stan, Peng, and Bruton 2014). The capacity of the military to acquire and utilise such slack is contingent on state capacity. By 'state capacity', Mani (2007, 594) is referring to the ability of the state to guide and control military behaviour. The lack of state capacity is a key reason for the emergence of military entrepreneurship in the North Korean case and in other cases discussed in chapter 4. However, as I argue in chapter 3, the primary reason why military entrepreneurship occurs is not the existence of a large/growing threat, but rather the strategic aims of the leader/leadership relative to state capacity.

Further with respect to the type of military entrepreneurship pursued, Mani (2007) argues that professional militaries have a corporate identity, and the higher the level of professionalism, the higher the level of this identity, and the more likely that military actors will engage in economic activities for the benefit of the organization overall rather than for their own personal benefit. Professional militaries contrast with parochial militaries, that "are minimally trained and organised and bear allegiance based on personal… ties". She notes that many militaries fall between these two extremes. The level of state capacity determines whether the military's entrepreneurial activities begin at the initiative of the state, and the level of professionalism in the military determines the probability that the military's economic activities will actually serve the organization's (rather than the individuals) needs. Chapter 5 demonstrates how the lack of capacity to fund the military can also make it difficult to effectively discipline the military and thus prevent parochial ties and individual interests driving military economic activities. Contrary to what her theory predicts, however, findings presented in chapter 5 indicate that professionalism and the selection and screening institutions (officer education, membership of particular political organizations et al.) that are constitute military professionalism do not actually prevent or appear to lower the probability what Mani (2007, 596) calls 'spoils entrepreneurship', i.e. economic activities for personal benefit. Rather, spoils entrepreneurship can be understood as a form of corruption driven by causes identified in the corruption literature

(discussed further in the next section).

Jaskoski (2012; 2013) analyses how local military units have acted in the regional economies in which they are embedded (in Ecuador, Peru and other cases outside Latin America). She discusses a number of case studies in Latin America and also in South America. She stresses the importance of fiscal tightening (resource constraints) and poor oversight in the rise of informal (and formal) military fundraising at the local level. She also highlights the importance of budgetary retrenchment as a consequence of neoliberal economic policies and democratization are key to explaining these trends (Jaskoski 2013). On their face, such explanations have scope conditions that limit them to specific, newly democratised countries pursuing fiscal retrenchment, privatization and other parts of the so-called 'Washington Consensus'. However, as with Mani (2007) and Brömmelhörster and Paes (2003), the underlying issue is a lack of state capacity to fund the military, and the military being driven to find means by which to make up for the shortfall.[7]

Jaskoski (2013) also distinguishes between two kinds of military entrepreneurship in regional contexts: demand-induced entrepreneurship, i.e. the local civilian economy's demand for military services, and supply-induced entrepreneurship where the military seeks to find sources of income. These categories are potentially very useful when seeking to understand how market conditions determine the forms of economic activities that militaries become involved in. However, they are also constrictive because they assume that the military only provides security services in a local context, and is not otherwise involved in the local economy potentially as a source of other services, or as a provider of other, non-military resources (land, storage, licenses etc.). Another issue with this typology is that it does not consider how military entrepreneurship could be destructive to local communities, how military officers could, in other words, be predatory/parasitic actors within their regional communities.

Chambers and Waitoolkiat (2017, 12–22) offer a set of interlocking explanations for the rise of what they term 'khaki capital'. Their volume focuses on Southeast Asian countries, and they discuss colonial legacies that had often either resulted in the creation of strong colonial militaries, or else strong independence forces. The Second World War devastated economies in the region, and independence left an institutional vacuum filled by the military, who became key players in national development. The Cold War also empowered militaries in Indochina, and helped them become politically more powerful – and more significant as economic actors. Democratization has changed the contours of military economic activities but in only some Southeast Asian countries, with democratic oversight curtailing military economic power where the civilian state has proved able and willing to do so. They thus posit specific critical junctures post-independence in the region alongside longer-term colonial legacy-related issues, and other contingent factors like the form and strength of armed independence movements.[8] The issue of state capacity at the birth of independent states is clearly central for many states, but the Cold War and the resulting growth of militaries is an alternative or complementary causal factor in their explanation too. The Chambers and Waitoolkiat schema points to dual role of longer run

[7] This can also take place in the context of arms control requirements, or treaty obligations that can force the military to significantly downsize. In the case of the Reichswehr, Weimar Germany's military, acquiring funds through illicit weapons sales exemplifies this. The general staff of the Reichswehr sought to build up their navy and air force in defiance of restrictions imposed under the Treaty of Versailles, and they utilized illicitly acquired funds to purchase equipment, shares in shipyards, and even aerospace companies (I. Johnson 2016, 446–48).

[8] On the importance of critical junctures in institutional change, see: Capoccia (2015).

historical legacies and state capacity, and the potential impact of the strategic environment. Their theoretical approach, historical institutionalism, offers a rich set of conceptual tools when seeking to make sense of gradual and more dramatic forms of institutional change.

More recently, some have argued that military businesses arise as part of a coup-proofing strategy adopted by governments (Prina 2017). A body of literature also indicates that higher military spending is associated with lower risk of coups (Leon 2014). There is some empirical support for the view that leaders may increase military spending or give resources to their militaries as part of a coup-proofing strategy.[9]

The imperative to ensure that the military remains politically loyal clearly shapes institutions within the military, the military's access to resources, and given other contextual factors, as well as the potential rise of the military as an economic actor – as the Chinese and Cuban cases demonstrate (Mani 2011; Mora 2002). An issue with the coup-proofing interpretation is that it may not adequately consider the role of state capacity in the origins of military economic activities, or how the priorities of leaders shape the activities of the military.

There are some factors common to most of the causal explanations given in the above discussion. The issue of state capacity is common to almost these explanations, with strategic environment also playing an important role in all three casual schemas, while contingent historic events given more explanatory weight in others – including the role of fiscal shocks and autocratic choice. These issues will be further explored in the theory chapter.

The majority of studies that discuss the effect of military involvement in the civilian economy focus on the national level. Positive effects may include military support for the civilian government's policies, and even a positive impact on economic performance. There is also the risk that the military's current economic interests and the power that such interests give it within the political economy mean that it can function as a veto-player (Tsebelis 2002), potentially blocking reforms to the economic system, as well as enabling them (Mora and Wiktorowicz 2003). At the very least, the military is liable to be resistant to its economic interests being reallocated to the civilian sector. Even when militaries lack the capacity to directly veto reforms or substantial policy changes, they may make it difficult to actually implement them because their interests have become entrenched.

In the Latin American context, Mani (2011) proposes two orientations to military economic activity, those of (1) the 'industrialisers' that focus on national defence, and (2) the 'nation builders' that seek to develop the economy as a whole and build a nation. Of the case studies that (Mani 2011) cites, Cuba is perhaps the closest to North Korea in the structure of its political economy and regime type. She (2011, 40-42) notes that major Cuban military businesses are leaders in the national economy, and thus argues that they are 'nation builders', though its role in the North Korean economy in an official capacity does not serve to support and enhance the civilian economy. Mora (2002; 2004) and others have argued that military business in China and elsewhere can compromise military professionalism, lead to corruption, and also potentially destabilise Party control of the military (in state socialist systems). Yet again, however, the

[9] This relationship does not appear to be simple or linear, however, with coup risk leading to greater military spending (Collier and Hoeffler 2007). Successful coups are also associated with large increases in military spending (Nisticò and Bove 2014). And an association between the type of political institutions and military spending has also been found, with more inclusive political institutions associated with lower levels of military spending (Conrad, Kim, and Souva 2013).

impact of military economic activity at the local level is unclear, and the interaction between the local level and central control is largely unexplored – these issues are considered in more detail in chapter 5.

Indeed, little attention has been paid to issues generated at the unit level and within the regional context. As noted by Jaskoski (2013), Ferreyra and Segura (2000, 19) highlight the importance of examining the roles that militaries can play at the local level and how this can differ from their involvement in national politics as a whole. They focus on two cases – Mexico and Columbia – and point to the weakness of institutions in explaining the divergence between the actions of the military in many regions/localities and the aims of the central government (Ferreyra and Segura 2000, 26). Hence, one should consider how military economic activities at the local level may affect life for civilian society. Excessive focus on the overall orientation of the organization at the centre potentially obscures local-level activities and their consequences in the community – such issues are considered in more detail in chapter 6.

To summarise the above discussion, the major causes of military economic power can be loosely grouped into three categories: (1) state capacity issues including fiscal issues, control issues, and organizational issues, (2) strategic concerns including threat perception and the policy aims/preferences of the leadership, and (3) historical contingencies that precipitate changes in either or both of these two prior causal conditions/factors. These categories of causes are also interlinked, the leadership's policy preferences will be shaped their capacity to fund and control the military, and the capacity of the state may also be shaped by the strategic concerns/threat perception of the civilian leadership.

The discussion of effects in the literature has focused either on the effects that military business has on the military's internal organizational coherence and professionalism, or else on the broader economy and civilian society. Scholars have generally focused on one of these two issues and usually at the national level, and much of the literature makes reference to corruption as being a major effect of military economic activities. The next subsection considers the issue of corruption and military business in more detail.

(c) Corruption and military business

A crucial area that connects the effects of military business to broader questions of civilian control and societal-military relations is the issue of corruption. Corruption is commonly defined as "the misuse of public power for private gain" (Rose-Ackerman 1999, 91).[10] Beyond this, there are numerous ways to define and delimit the term, including the distinction between political and bureaucratic corruption (Rose-Ackerman 2004), i.e., corruption by higher political officeholders (political corruption), and by lower state officials and street-level bureaucrats (bureaucratic corruption). This distinction is particularly important in the military, because corruption could exist at the level of command/the higher levels of the defence ministry (i.e., high-level, political corruption), and/or at the lower levels of the officer corps (bureaucratic corruption). There is also the distinction between petty corruption, which might include traffic police demanding bribes or local planning officials speeding up application processing, and grand corruption, which might include the large-scale embezzlement of public funds, the sale

[10] On some of the problems of definition, see: Gardiner (2002). For a broad-ranging review of the conceptual literature on bribery, see: Bussell (2015). On the evolution of the concept, see: Rothstein and Varraich (2017, 31–57).

of public assets at a massive discount. As Svensson (2005, 20) notes, corruption is an outcome that results from a country's legal, political and economic institutions, a "response to either beneficial or harmful rules". In other words, depending on the circumstances, corruption can be a social vice that undermines the proper functioning of public institutions, or a lesser evil that facilitates the creation of 'second-best' institutions, 'greasing the wheels' rather than 'throwing sand in the gears' (Méon and Weill 2010).[11] Recent discussions about military economic activities in the Congo, for instance, point to ways in what could be considered corruption can involve cooperation and partnership between militaries and civilian social actors that are mutually beneficial and have positive effects on local society (Verweijen 2013).

The general literature on the causes of corruption is vast,[12] but there are a number of key causes that have been the focus of theorizing and empirical work. These include the pay of public officials (Cornell and Sundell 2020), i.e., the individual-level, and socio-cultural causes (Uberti 2016a) – organizational culture, social norms, structural factors *inter alia.* The economics literature points to the importance of incentives, appropriate selection procedures for officials, monitoring (top-down audits, or public involvement), and punishment.[13] The differing anticorruption strategies have been detailed in an extensive literature on anticorruption. Measures includes internal and external, and top-down and bottom-up measures. However, where such strategies/institutional mechanisms do not properly function, then they will prove ineffectual in countering corruption, and they may be unable to handle more socially embedded forms of corruption (e.g., corruption between people who know one another), organization-wide corruption, or the capture of the state by corrupt actors (Jancsics 2019). Types of anticorruption strategy are given in the table below.

Table 1: Anticorruption strategies

	Internal	External
Top-down	Recruitment and promotion Internal monitoring (compliance) Penalties and rewards Code of ethics Limiting discretion (rotation) Formal training	Regulations Law enforcement and judiciary External monitoring (audit) Anticorruption agencies International conventions
Bottom-up	Whistle-blowing Organizational culture	Citisen/community monitoring Press Civil society Nongovernmental organization

Source: Jancsics (2019, 528)

Such anticorruption measures and causal theories of corruption are often premised upon a principal-agent framework of political delegation from politician/leader to bureaucrat, or even from the general public to the bureaucratic agent(s), and principal-agent models have also been developed for the civil-military relationship (see below). And similar explanations have been

[11] This argument is not new, and goes back in economics at least as far as Leff (1964). It has been modelled formally in Lui (1985), and Beck and Maher (1986). The empirical literature is vast and continues to develop, for a review of recent findings, see: Ugur (2014).

[12] For a review of the major theories, see: De Graaf (2007, 43–62), and for discussion of different disciplinary approaches taken to the issue, see: Jancsics (2014).

[13] For a review of this literature, see: Olken and Pande (2012, 496–501)

advanced in the military business literature. Cheung (2003, 63) argues that the Chinese PLA was an "ideal breeding ground for corruption. Low pay, wide-ranging power and influence, access to special privileges and weak internal administrative and external civilian controls" being the main reasons – along with a "decentralized and poorly coordinated military financial and supervisory system". In other words, a combination of weak incentives and poor monitoring institutions. Other cases like Indonesia, weak oversight is blamed (McCulloch 2003, 118–21), in Pakistan a general culture of corruption in economic life is partly blamed (Siddiqa-Agha 2003, 136), but largely a lack of transparency and civilian oversight of the military's economic activities is considered to the be primary cause (Siddiqa 2007, 6–7). In their summary of the literature their volume, Brömmelhörster and Paes (2003, 193) also single out oversight and ineffective regulation as being major causes of corruption and personal enrichment when officers engage in economic activities. They also note that corruption is common generally in societies where the military is involved in the economy.

Generally, military economic activities are not usually associated with countries of the developed world. Prina (2017, 161) finds that military-controlled enterprises are most common in developing countries above the least-developed status, but not within developed countries. Military economic activities are far from uncommon, however, in history (Mulvenon 2001, 9–20; Parrott 2012), but in Europe such activities largely disappeared with the emergence of a more modern fiscal-military state centrally funded and reliant on external contractors (Storrs 2009; Torres-Sánchez, Brandon, and Hart 2018). However, in other parts of the world, military economic activities continue. And it is fair to assume that in underdeveloped and transition economies where the military is involved in commercial activities, corruption would be an issue – as the existing literature very much indicates.[14] Being ordered to engage in commercial activity and having lethal force at one's disposal certainly can create perverse incentives. In China, for instance, reports of piracy by military units became common in the 1990s (Dreyer 1994, 268; Vagg 1998), as a means by which to extract bribes and make an income for the unit. This is what has been termed 'extortive corruption' by Alatas (1991), and can be contrasted with 'transactive corruption' - extortive corruption is a form of predation, whereas transactive corruption can involve outcomes that are mutually beneficial (and such schemes are voluntary).[15] This distinction is important when considering the social costs and benefits of military economic activities where they involve corruption, because some forms of corruption clearly do not lead to capital formation or increases in output, while other forms of corruption may (Uberti 2016b, 262–67).

Yet, while the military business literature notes the existence of corruption, it has thus far not offered a set of categories or types for effective classification. This, in spite of the fact that corruption is considered to be a dangerous result of militaries engaging in economic activities. For example, Mulvenon (2001) argues that corruption is one of the major threats to the Chinese military's relations with society and for effective civilian control over the military because "military corruption undermines the unique ethos of discipline, hierarchy, self-sacrifice, and egalitarianism upon which all military structures are based" (Mulvenon 2001, 139). Further, he notes that corruption in the military sector is similar in its structural origins and how it is

[14] The majority of chapters in Brömmelhörster and Paes (2003) mention corruption as an effect of involvement of the military in economic activities, for instance.

[15] Another similar conceptualisation is 'harassment bribery' versus 'non-harassment bribery', which originates with Basu (2011).

manifest to that found in the civilian state (Mulvenon 2001, 138–39). The military business literature is also largely silent on the different types of corruption that military economic activities involve, rest upon, or result in.[16] Mulvenon (1998; 2001) also does not offer a typology of corruption by which to classify its causes and effects. Fortunately, however, the literature on corruption in China and the comparative corruption literature offer a range of potential typologies that could be applied to the military.

For transition economies generally, Karklins (2015, 25) offers three-tiered typology of corrupt acts that is especially useful for categorizing different kinds of corruption resulting from or comprising some military economic activities – those useful are considered here. The first level (everyday interaction between citizens and officials) involves bribery, either initiated by citizen(s) or extorted from them. The second level involves interaction with public institutions, including the self-serving use of public funds (i.e., embezzlement), and profiteering from public resources (selling off environmental assets, leasing offices, equipment etc. for personal gain, using public employees for private work, quasi-privatization of state-owned enterprises). The highest tier is influence over political institutions, which includes the building of personal fiefs and forming secret power networks to collude in corrupt acts. All of these are potential behaviours that could result from and have been documented in cases where militaries have been made partially responsible for their own funding. Much of the military business literature when it discusses corruption focuses on high-level cases of what could be considered political corruption involving massive theft/embezzlement or bribery (Mulvenon 2001; Siddiqa 2007).[17]

Other scholars have offered different ways of approaching the issue of corruption informed by the scholarship on rent-seeking and Weberian theories of state organization. Lü (2000, 12–14) points to three different kinds of economic corruption: graft, rent-seeking and prebendalism. Graft includes bribery, kickbacks, embezzlement and the misuse of public funds. In Lü's view, rent-seeking involves profit-seeking from monopoly access to resources by virtue of being a public official. Rents come in a variety of different forms.[18] Khan (2000, 24–25) distinguish six major kinds of rents: monopoly rents, natural resource rents, rents based on transfers, Schumpeterian rents, rents for learning, and monitoring and management rents. Monopoly rents accrue to firms/actors in markets without competitors, i.e., result from uncompetitively set prices.[19] Natural resource rents are rents earned in excess of the costs of production from natural resources (like oil, for instance).[20] Transfer rents include subsidies and other 'unearned' payments from the state, i.e., the transfer of resources via political mechanisms (rather than through market positions/market power). Schumpeterian rents are the excess rewards (i.e., in

[16] Neither of the two main edited volumes on military business offer a theoretical extended discussion of the types of corruption that military business may give rise to (Brömmelhörster and Paes 2003; Chambers and Waitoolkiat 2017).

[17] Most of the instances of corruption discussed in the recent Chambers and Waitoolkiat (2017) edited volume concern high-level cases of embezzlement.

[18] Rent seeking was a concept pioneered by Tullock (1967) and Krueger (1974). Their arguments focused on how individuals/corporate actors could utilize government regulation and intervention to acquire rents (unearned income) from artificially created monopolies via tariffs and other forms of regulation. These arguments formed a part of the public choice literature, for a review, see: Hillman (2013).

[19] The military can potentially lobby the government for monopoly rights over certain resources, or exercise its monopoly on the use of force to acquire rents, i.e., sell security services (Jaskoski 2013).

[20] Such rents may have positive externalities. Khan (2000, 35) note how the enclosure of the commons, for instance, can create natural resource rents but can also ensure that resources which are open-access, but also rivalrous, can be used sustainably.

excess of the costs of production) that firms/market actors acquire as a result of an innovation. Learning rents are those acquired through understanding technologies, techniques, knowhow et al. from other countries/markets etc. Finally monitoring and management rents are those managerial personnel acquire within the firm due to their capacities. Lü (2000) is primarily discussing about monopoly rents with respect to rent seeking, but arguably, military officers may also have access to natural resource rents (by dint of control over natural resources), and transfer rents (through special grants or other fiscal transfers). Prebendalism indicates a perception among bureaucrats and/or politicians that they have a right to government revenues/assets.[21] Prebendal administrations may be financed through the extraction of fees (Ang 2017, 283), or otherwise through the utilization of state resources.

The term 'prebendalism' can connote either organizational self-funding or personal self-enrichment/subsistence through fundraising in an organization. Lü (2000, 237) associates prebendalism with bureaucrats/politicians treating their office and access to public assets and funds as a source of personal wealth (i.e. individual self-enrichment), Ang (2017, 295) uses the term to connote bureaucratic self-financing (for the benefit of the organization) in modern China – though she notes that it can exist at the individual level as well as the organizational level.[22] Indeed, both these forms of prebendalism, which might be termed 'individual' and 'collective', are potentially applicable to military entrepreneurship of the spoils and institutional varieties described in Mani (2007), with the civilian authorities handing lucrative 'benefices' to the military/military officials allowing them to extract revenues from assets they are allocated/can acquire, or revenues streams they can acquire.[23]

More specific to military issues, Transparency International (TI), a leading anti-corruption watchdog, has developed a framework to analyse corruption risk in defence and security. It is comprised of five areas: political, personnel, procurement, finance, and operations. Some areas fall outside the economic activities of military officers, and the military as an organization – i.e., defence policy, budgets, export controls et al. – but other areas clearly fall within the purview of military economic activities and potential graft, including financial issues like asset disposals, military-owned businesses, and illegal private enterprise, and personnel issues like payroll, conscription, salary chain, and small bribes.[24]

Overall, the distinction between political and bureaucratic corruption, and petty and grand corruption seems to be especially important when examining lower-level corruption, given its relatively small scale and its involvement of people who would not normally be considered politicians. The Transparency International (2011) categories can be mapped onto the more general frameworks offered in Karklins (2015), Lü (2000) and elsewhere. Military officers can engage in bribe extraction (extortive or transactive), embezzlement of assets at their disposal (including the sale and rental of said assets), and the embezzlement of wages. Some of these activities could also be considered rent-seeking in nature insofar as they allow military officers to acquire monopoly, natural resource or transfer rents, and where the political

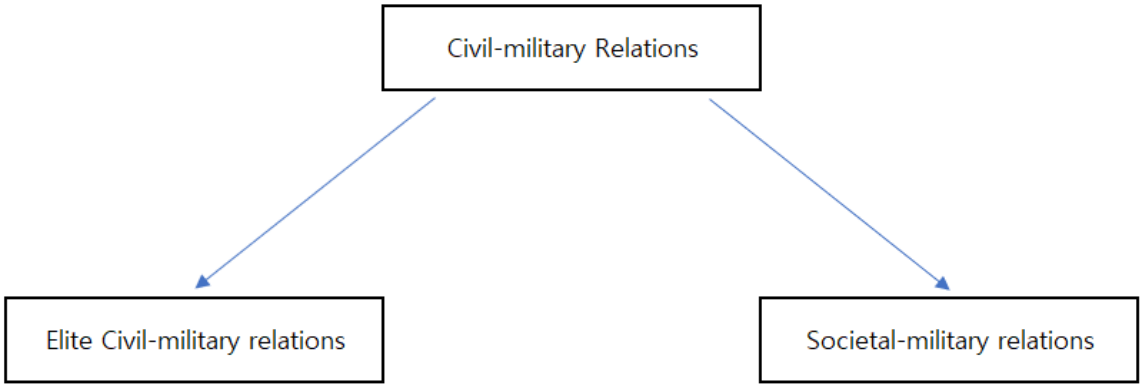
[21] The term 'benefice' in this context originates with Max Weber and was originally used to describe a type of feudalism in which a monarch's vassals were not given property but given lifelong rights to incomes derived from property that could not be passed on to their heirs (Weber 2019, 365–66).
[22] The concept has also been applied to other transition economies, see for instance: Szelényi and Mihályi (2019).
[23] The term 'benefice' is from Max Weber, and can be defined as "a type of income bestowed on a retainer in exchange for his support of a patrimonial ruler" (Swedberg and Agevall 2016, 7)
[24] For the full list of issue areas, see: Transparency International (2011, 10).

actors/institutions officially mandate such activities or do not clamp down on them, they arguably constitute a form of prebendalism.

3. The civil-military relations literature

Understanding the causes and effects of military economic power requires us to situate them within the civil-military relationship. Civil-military relations are commonly defined as the relations between the officer corps and civilian society (Rahbek-Clemmensen 2013). This is the definition used throughout this dissertation in order to focus on the primary issues of civilian control over those with actual institutional and structural power within the military. With respect to this definition, Feaver (1999) has argued in a widely cited paper that the field developed into two inter-related but distinct issues: (1) relations between civil and military elites ('CMR'), and (2) relations between the military and society ('societal-military relations', or 'SMR').[25] These two axes are useful, for distinguishing two distinct components of CMR: elite CMR and SMR. At the elite level, this is the study of the power and influence which military leaders have over their civilian counterparts – especially in countries that are not ruled by a military junta. By contrast, SMR are those between the military and broader society.

Figure 1: Civil-military relations as a concept



Source: Rüdiger Frank

Hence, in order to understand the causes and consequences of military economic power, the following section reviews the literature on the institutions of CMR, and considers useful frameworks for making sense of the issue. It proceeds in three parts, first it considers the literature on the relationship between the party and the military under state socialism before discussing recent developments in the literature on control/oversight institutions that civilian authorities use to supervise the military, and the literature on societal-military relations.

(a) Models of civil-military relations in state socialist countries

North Korea is part of a sub-class of dictatorships run by a single party, with a political economy that is almost monopolised by the state, that is so-called state socialist countries. State socialism is defined after Ellman (2014, 23) as "state ownership of the means of production, political dictatorship, a mono-hierarchical, imperative planning, and a subordinate role for money, profit,

[25] Rahbek-Clemmensen (2013, 48) also makes the same distinction.

prices and banks".[26] This puts the state in a monopolistic position in economic matters, and yet in all surviving state socialist countries the military has had considerable economic power (Mora and Wiktorowicz 2003; Oh et al. 2018).

The relationship between civilian authorities and the military in state socialist systems is a fundamentally between the ruling party and the military. Perlmutter and LeoGrande (1982) develop a typology of CMR in communist countries based on three core cases: China, Cuba, and the USSR. They distinguish three ideal-type relationships between the party and military: (1) coalitional, (2) symbiotic, and (3) fused. The coalitional relationship is one of organizational and functional autonomy, i.e., the officer corps has control over most military matters whilst leaving political matters to the party. The symbiotic relationship is one with low levels of functional differentiation between party and military, and unclear institutional boundaries. Such relations are common in states where the military brought the regime to power – often through guerrilla struggle. Such arrangements usually give way to coalitional ones, however, as a civilian government is established unless major domestic conflict intervenes as in the case of the Cultural Revolution in China (Perlmutter and LeoGrande 1982, 784–85). Finally, the fused relationship is one where the Party does not have an existence independent of military, where the military has brought the regime to power and the Party relies on the military for its existence, and where the institutional lines between the two are undefined. As Domínguez (2020, 5) put it with respect to Cuba: "Fused roles made it difficult to think of civilian control over the military or military control over civilians."

Mora (2004) applies this typology to three state socialist states that survived the collapse of the Soviet Union and whose militaries developed substantial economic power – China, Cuba and Vietnam. Vietnam and China both had relations between party and military characterised by symbiosis at the start of the reform process in these two countries, which led to the rise of military business in the country. The Chinese Communist Party (CCP) leadership decided to force the People's Liberation Army (PLA) to divest itself of its business holdings the late 1990s in a move seen as a marking a shift from a symbiotic to a more coalitional arrangement (Mora 2004, 54). Military economic power had served to keep the two in a stable symbiotic relationship. The same was true of Vietnam, but a similar pattern of growing differentiation and autonomy, i.e., a move toward a looser coalitional arrangement is also noted (Mora 2004, 58). Cuba, by contrast, had a fused relationship between party and military. The rise of military economic power has strengthened the Cuban military's hold on the economy, security, and the bureaucracy (Mora 2004, 52). It is unclear, however, what the drivers of such arrangements are, and what impact military economic power has on them.

The next section will consider the issues of managing the military at the more micro and local levels.

(b) Mechanisms of civilian control

A considerable quantity of the literature on elite civil-military relations is concerned with the ultimate breakdown in civil-military relations, the problem of coups and coup-proofing, especially in authoritarian and newly democratised states. The coup-proofing literature is vast, and considers a range of issues including military effectiveness in inter-state conflict (De Bruin

[26] For a discussion of the different definitions of state socialism offered in the literature on the subject, see: (Ellman 2014, 22–23).

2018; Pilster and Böhmelt 2011; Talmadge 2015), and the durability of authoritarian states (Albrecht 2015). But the focus on coup-proofing in the civil-military relations scholarship in general has been critiqued by Feaver (1999) with respect to the United States, where such issues are not paramount in the civil-military relationship, and also in analysis of civil-military relations in emerging democracies (Croissant et al. 2010). Even in authoritarian states where the military does potentially pose a major and ongoing threat to authoritarian survival (Chin, Carter, and Wright 2021),[27] civil-military relations are not only concerned with managing coup-risk and balancing between such a risk and military effectiveness.

The competing imperatives that autocrats face with respect to management of the military have been well-summarised in Brooks (2019, 390) who lists four: (1) coup prevention, (2) ensuring the willingness of the military to suppress internal threats, (3) safeguarding military effectiveness, and (4) control over decision-making and "ensure that the military does not compromise their preferred policy and resource-allocation outcomes." Military economic power may help to prevent coups and may not compromise military effectiveness, but could still negatively affect the willingness of the military to put down internal threats, and/or negatively impact the autocrat's capacity to achieve policy objectives. Hence, institutional design becomes crucial in mitigating the potential negative consequences of military economic power, just as it does with respect to other aspects of military management and maintaining civilian control.

Coups reflect a breakdown in civilian control in non-military dictatorships. Civilian control has been conceptualised by Feaver (2003) as a problem of 'shirking'. Utilizing a principal-agent model, Feaver (2003, 56–68) sets out a framework that conceptualises civilian control as occurring along two dimensions: functional and relational.[28] The former is the extent to which the military is able and willing to carry out civilian commands, while the latter is indicates who is actually in charge of policy making in the military and the civilian sphere of public life (Feaver 2003, 61). He also offers typology of oversight mechanisms in the civil-military relations context and their equivalents in the principal-agent literature (Feaver 2003, 78–87). His list of applicable mechanisms ranges from the regularised like contract incentives, screening and selection, institutional checks, and police patrols (auditing and inspections), and to the less regular like fire alarms (institutions that perform whistle blower functions). This framework also has a great deal of overlap with anticorruption measures discussed above.

Regarding principal-agent problems at a more local level, recent developments in the literature

[27] There are different kinds of coup, including regime-changing coups, which "intend to replace the group of elites who have the capacity to control leadership selection and policy choices with another group of elite", and reshuffling coups that "aim to preserve the regime and replace a leader with another who belongs to the ruling coalition in power" (N. K. Kim and Sudduth 2021, 1598). According to Kim and Sudduth (2021), almost 40% of coups comprise the latter, while the building of power-sharing institutions within autocracies helps to lower the risk of regime-change coups. Recent work indicates that civilian autocracies (and democracies) are less vulnerable to coups generally than new democracies (J. Powell et al. 2018).

[28] The issue of civilian control is also conceptualized in more detail in Croissant et al. (2011). They distinguish five areas: elite recruitment, public policy, internal security, national Defence, and military organization. Their work is primarily concerned with how civilian control over the military is institutionalized after democratic transition, hence they are primarily focused on formal institutions and how they are built. However, they clearly point to commonly utilized formal mechanisms of control over the military that are to be found in North Korea. They consider military economic activities as being a part of civilian 'appeasement' of the military, by which the military is compensated in excess of official Defence budget allocations. This is in part true, but it is a highly incomplete account.

on regional governance under authoritarian rule provide rich avenues for further theoretical development and useful concepts. In her study of (civilian) bureaucracy and state capacity, Hassan (2020, 38) notes with respect to bureaucracies generally that there are a number of important principal-agent problems of a moral hazard variety, and the trade-offs that potential solutions give rise to. Leaders may face the threat of coups or active opposition to their rule, but also of collusion between their agents and outside actors in society, as well as predation by their agents on outside actors. The solutions that leaders choose can include monitoring, shuffling, and patronage, but each has trade-offs, with monitoring potentially resulting in work-to-indicator rather than actual improvements in performance, shuffling meaning bureaucrats have less domain knowledge of their environment, and patronage being expensive (Hassan 2020, 39–46). One potential problem the North Korean government may face with the KPA's economic activities is unattractiveness of alternatives: the KPA can rent-seek and pillage from the local population, or it can collude with them. Both these choices could be highly problematic from the point of view of the civilian state. But the state may not possess the necessary capacity to prevent such activities from occurring.

In this regard, the work on politicised enforcement of rules is particularly interesting to consider in the civil-military context. As O'Brien and Li (1999) have argued, policies may be enforced selectively at the regional and local level because the state only has limited enforcement capacity. This is what Holland (2016, 234) terms "constrained non-compliance", i.e., the state's inability to enforce all its policies.

(c) Societal military relations

Another core issue is the impacts of military economic activity on societal-military relations. Huntington (1957, 80–85) famously argued that civilian control over the military is affected through two different means: restraints and controls over its autonomy (subjective control) and professionalization of the officer corps with a set of values with respect to the civilian authorities that precluded political interference (objective control). This requires the creation of an autonomous institution with professional norms that priorities adherence to rigorous standards, with unique expertise, responsibilities and corporateness (Huntington 1957, 8–17). At around the same time, Janowitz (1960) pointed to the growing civilianization of the military, with traditionally civilian management activities becoming increasingly part of professional life in the military for officers.[29] There has been considerable discussion about military professionalism since (Libel and Hachey 2020), but the major contours of the idea, include unique expertise, a sense of calling, and exclusiveness (Toronto 2017). This is reinforced by the military's organizational culture, which stresses strict discipline, hierarchy, and asceticism (Soeters, Winslow, and Weibull 2006). Military professionalism not only impacts military effectiveness, but also relations between the officer corps and civilian society. Indeed, the exclusivity of the officer corps and their organizational uniqueness can create a sense of detachment from broader society, and the military's exclusiveness can generate additional problems for political control, or else officers may be selected for their political loyalty not their

[29] For a more detailed discussion of the history and development of the civil-military relations field, see: Rahbek-Clemmensen (2013, 27–45). For a recent discussion of military sociology and how the field developed from the works of classical sociology, see: Soeters (2018). And for articles tackling current areas of major interest in the field, see: Caforio and Nuciari (2018).

competence.[30]

Scholars, like Moskos (1977; 1986) have further developed Janowitz's observations about civilianization. Moskos (1977; 1986) has argued that the military in developed societies has transitioned from being a mass organization to being a smaller, professional one in which the officer corps increasingly were staffed by personnel in an occupation rather than one within an institution. Hence values like patriotism, bravery, and comradeship become less emphasised, while salaries and material incentives became more important (Moskos 1986, 378). However, militaries in many state socialist/post-socialist countries still resemble those of former times in developed countries, i.e., conscript or at least institutional militaries that are supposed to be largely separated from society, or who exist in a highly militarised society. Conscription in wartime with mobilization may result in the expansion of suffrage, but it does not have any clear democratizing effect (Ingesson et al. 2018). Further, it is not associated with autocratic regime breakdown, though hybrid regimes appear to face greater risks of coups when they maintain conscript armies (Choulis 2021). Conscription does, however, potentially bring civilian society together through shared socialization.

Conversely, in developed societies, there has been concern about the gap between the military and broader civilian society, even as the military has become increasingly occupational in its orientation. There is considerable literature on how civilian society and the military relate to one another, on social attitudes, and on structural convergence and divergence (Cohn 1999). Ironically, divergence between society and the military in many non-democratic states also form the basis of coup-proofing and for effective mobilization of the military to counter domestic rebellions and social unrest in authoritarian societies (Brooks 2019, 389). One of the main focuses of recent debates on societal-military relations is the existence of a civil-military gap, i.e. a divide between the officer corps, or the military as an institution and civilian society (Cohn 1999; Rahbek-Clemmensen et al. 2012). The gap has been theorised as potentially existing in four dimensions, summarised in table 1 below.

Table 1: The Four Dimensions of the Civil-Military Gap

Gap type	Cultural Gap	Demographics Gap	Policy Preference Gap	Institutional Gap
Description	Value differences between military and civilian populations	Differences in the composition of the military and civilian populations	Differences in the policy objectives pursued by military and civilian elites	Differences between military and civilian institutions
Key Variables	Mutual perceptions, norm socialization processes, organizational	Geographical origins, ethnicity, political affiliation, socioeconomic	Expressed policy preferences, rational gain divergences, historical and	Functional differences, institutional identities, myths, and prejudices

[30] Exclusivity of access to jobs in coercive bureaucracies can also give rise to adverse selection problems (Greitens 2016), as agents are selected primarily for political loyalty rather than competence (Talmadge 2015). The priority of coup-proofing can complicate effective alleviation of moral hazard problems. For a more general discussion on the developing literature on political control, see: Hassan, Mattingly, and Nugent (2022).

	path dependencies	or family background	entrenched preferences	

Source: Rahbek-Clemmensen et al. (2012, 673)

These dimensions can also potentially be repurposed when discussing ways in which the military and civilian institutions are converging with respect to culture, and institutionally. The cultural gap between a professionalised military and broader society is not necessarily a problem, unless the difference in values, norms et al. promote mutual distrust and undermine the military's legitimacy. However, this process can also go into reverse, as Levy (2014; 2020) has shown in the case of religion, civilian values and institutions can begin to exercise significant influence over decision making and military actions.

Within the military business literature, Mulvenon (1998; 2001) points to the corrupting impacts of military economic activities for commercial gain, as opposed to production for subsistence. Hence, a market-oriented culture that resembles broader society, and institutional practices that mimic civilian commercial ones may result. In a way, the military may become embedded/enmeshed within society, either as a corporate actor involved in civilian supply chains and productive processes, and/or individual officers and units might become actors within a regional context, providing services, producing marketable output, or else engaging in predatory/socially destructive activities.[31] The military's corporate identity is threatened by individual officers engaging in what Mani (2007) terms 'spoils entrepreneurship', i.e., moneymaking for personal/institutional gain at the expense of the state's broader interests. Such activities can hurt the collective bonds of the institution, but also damage the reputation and standing of the military in society as well. In so doing, however, the military may become 'civilianised' in a sense not so dissimilar from Moskos (1977; 1986) meant when speaking of the occupational military, though due to corruption and production private institutional/individual gain rather than due to a formalised transition.

4. The Korean People's Army, CMR and the economy

This section considers the literature on the Party-military relationship in North Korea, the military economic activities literature, and the societal-military relationship-related literature with respect to North Korea. There is a considerable literature on the status and role of the military in North Korea. Debates about the military's relative standing relative to the Party go back to the 1990s, with the term "Military-first politics" first mentioned in the country's paper of record, *Rodong Sinmun*, in December 1997 (Cheong 2011, 126). Of course, militarization of the North Korean economy preceded this declaration by decades (see chapter 4). A major debate concerned whether the Party had been replaced by the military as the leading political actor within the North Korean state and North Korean society.[32] Subsequently, scholars have continued to debate North Korean civil-military relations and some scholars have also considered societal-military relations-related issues. The military economic literature is relatively silent on this debate, but does provide a crucial economic context to the power of the

[31] Mora (2002) also highlights how similar issues have emerged in Cuba and how the Cuban leadership sought to manage it. To the author's knowledge, this 'perverse' societal-military convergence that appears to be common to state socialist countries has never been studied at the micro-level, likely due to a lack of source material. It is unclear what kinds of societal-military relations emerge in the context of a military engaged in productive and commercial activities.

[32] For a brief review of this early literature see: Yi (2001, 115–16) and K. Kim (2001, 41–44).

KPA.

(a) The Party-military relationship

Existing literature on civil-military relations, or Party-military relations has been primarily focused on the changing powers of political institutions and their links to the military – like the powers of the National Defence Commission, its composition, and the formal structures of control. These studies primarily focus on how North Korean political rhetoric and ideology has changed since the end of the Cold War, and especially since the famine of the 1990s – often implicitly or explicitly taking such rhetoric as a proxy for actual power dynamics between institutions and/or the leadership. They also consider how the Party-military relationship has evolved, usually on the level of political rhetoric, ideology, formal administrative structures, and relative prominence in official regime media output (Cheong 2002; 2011, 126–35, 170–84; Gause 2006; S. I. Jung 2004; 2009a; 2012; Keun-sik Kim 2001; Yong-hyun Kim 2013; J. Ko 2018; 2020; Goldring and Ward 2022).[33] This literature, is often primarily focused on visible indicators of official power structures and the proximity of the leader to military figures relative to other non-military elite actors. It does not directly consider the role of the military in the economy, and what implications that role may have for civil-military relations.

Some studies have sought to apply existing models of civil-military relations from the Soviet case and comparative communist cases to North Korea.[34] Yi (2001), building on the model developed by Albright (1980) and Adelman (1982), argues that two variables are crucial in understanding the military's involvement in politics: (1) how regime comes to power, and (2) foreign relations. The second factor points to the issue of external threats and strategic considerations. He relies on official sources, looking at the number of appearances of officials and other official sources. He concludes that official sources do not indicate the military has greater autonomy, and that the rise in its significance within official settings does not indicate greater power. In other words, while the relationship appears to be coalitional or symbiotic in nature, the regime has sought to foster the image of a Party and military that are one and the same, i.e. a 'fused' one (Yi 2001, 126). However, as Yi (2001, 128–32) shows, the military is very much in a position of subordination to the party and is monitored through a system of political officers that function as an institutional check (in the terminology of Feaver).

Similarly, Keun-sik Kim (2001, 70–72) utilises a comparative communist CMR framework proposed by Perlmutter and LeoGrande (1982) to argue that North Korean Party-military relations have become closer and more symbiotic as a result of the crisis and the promulgation of Military-first politics. This symbiosis, however, has not lessened the formal institutions of monitoring, and the emphasis remains on strengthening party control of the military through the institutional checks provided by the political officer system (Keun-sik Kim 2001, 68–69). Here, Kim's insights would appear to be worthy of extension, with further consideration of military economic activities, but existing comparative CMR models do not consider such issues directly.

More recently, J.-C. Lim (2019) has offered a historical institutionalist analysis of changes in

[33] See J.-C. Lim (2019, 40–42) for a review of the existing literature on major aspects of the Party-military relations in Korean. More recently, these discussions have shifted to the post-Kim Jong Il era and the implications of state reorganization launched by Kim Jong Un. For instance, see: Ahn and Joo (2017) and Sangsook Lee (2018).

[34] There have also been explicit comparisons with the Soviet Union and China like Lee (2004), who compared the functions of the National Defence Commission in North Korea with Soviet and Chinese equivalents.

Party-military relations since 1945. He argues that with the rising power of Kim Il Sung, party control over the military also increased, especially after 1969, and that this relationship can best be termed 'symbiotic' rather than 'coalitional' (J.-C. Lim 2019, 65–67). He also points to the importance of foreign relations in changing the relationship between party and military (J.-C. Lim 2019, 68), as the North Korean leadership felt itself less able to rely on foreign support for its security, and pushed the two into a closer, more symbiotic relationship. This was also a time when the KPA's involvement in the economy began to grow significantly, but this point goes undressed by Lim in his model. These insights point to the centrality of the leaders incentives and preferences in institutional design and in the civil-military relationship, but Lim's analysis does not consider how economic power may be associated with such issues.

(b) Military economic activities

The literature on the North Korean military's economic activities can be divided up into two streams. First, there is a stream of literature that describes and analyses the organizational structure of the Korean People's Army (KPA)/Ministry of People's Armed Forces' (MPAF) trade capacity, and the activities undertaken by the MPAF/KPA's companies/production units (Chung 1997; K. Jeong 2005; 2010; Mikheev 1993; Seong 2005). This literature does not provide clear definitions of the scope of military business activities, but the latent definition that demarcates much of it coincides with that of Brömmelhörster and Paes (2003), though is sometimes more focused entirely on institutional-level foreign trade activities. This literature is primarily focused on the organizational structure of the military's economic activities, rather than on the causes of the military's economic rise and the effects thereof – beyond the military's control over resources.

Second, there is a strand of literature that considers the KPA as a part of the North Korean Party-state, a competitor with other institutions within the state, including the civilian Party apparatus and the Cabinet. Min (2016) and C. Y. Kang (2018b) have argued that since marketization, the military is part of a 'bureaucratic market economy', an economic system dominated by different organs of the Party-state, including the military, who compete for access to resources from the market sector. As such, the military acts like its civilian institutional competitors for resources, and this has an effect on the military as an organization internally, and on its relations with the rest of society – though these effects are not of direct concern of this literature. Indeed, this literature is primarily focused on how the military, alongside other parts of the North Korean state extract rents from a productive market sector. The competition for rents also gives rise to conflict, between civilian and military organizations, but this conflict can be characterised as akin to a 'turf war' amongst elite players and institutional actors in the game of power politics (K. Han 2009; McEachern 2008; 2010). Such approaches describe crucial aspects of relations between the civilian sector and the military, yet their insights have not been incorporated into discussions of political control of the military or their potential impact on societal-military relations and economic institutions. They allude to an institutional convergence between the military and the rest of the state in its attitude toward markets. But they may be excessively focused on competition and conflict.

With respect to corruption, regular campaigns against anti-socialist behaviour, and concerns about corruption voiced by the North Korean leader, and in the press (S. H. Jung 2021, 81–95). There is a South Korean literature on causes and consequences of corruption in North Korea for regime survival (e.g., Jongwook Kim 2008; Y. M. Park 2016), and how corruption affects

the lives of normal North Koreans (for a review, see S. H. Jung 2021, 78–80).[35] Military economic activities are often understood as existing within an economy where different parts of the bureaucracy have been handed rights of access to resources (C. Y. Kang 2018b; Min 2016). As such, the military is engaging in rent-seeking activities aimed at individual and/or institutional enrichment.

Moreover, military business activities, though discussed in a number of pathbreaking studies on the structure of the North Korean economy, and the economic power of the KPA, is not considered in the civil-military literature.[36] Given this sector's implications for the power of the civilian authorities, this would seem to be a problematic oversight. Further, economic activities may give rise not only to conflict but also 'excessive' autonomy, and understanding civilian control requires an understanding of how the Party-state prevents this.

(c) Societal-military relations

There is a small, but useful literature on the military's interactions and relations with North Korean civilian society in Korean. K.-D. Lee, Chung, and Lee (2011) for instance provide both a qualitative discussion and quantitative estimation of the prevalence of military indiscipline (based on a 200-person survey of former North Korean military service people). Their typology of indiscipline includes embezzlement of military supplies, predation on civilians, and a number of non-economy related activities. They highlight the importance of resource scarcity, i.e., the state's limited capacity to fund the military as being a major reason why problems of indiscipline arise (K.-D. Lee, Chung, and Lee 2011, xvi). Their work also points to how the military's professional ethic has been undermined by a lack of state capacity and the spread of illicit economic activities within the military – this potentially can be seen as a form of institutional convergence between the military and civilian society (marketization's spread to the military).

B. U. Kim and Kim (2013) investigate the infiltration of ideas from outside into the North Korean military. These ideas affect two parts of military life: political and material, with foreign TV, radio and other forms of media impacting political life, and trade, embezzlement, attacks on civilians, and desertions affecting material life (B. U. Kim and Kim 2013, 32). They examine how such phenomena have been dealt with in North Korean official materials, and how the regime has reacted to outside influences over the military with a combination of punishment and intensifying political education. Here again, one could argue that the evidence that they marshal points to a form of cultural convergence (infiltration of ideas) between civilian society and the military, which coincides with and may partially cause a range of illicit economic behaviours including predation and market activities that represent a form of *de facto* institutional convergence.

E. C. Jeong (2016) offers an analysis of political control within the North Korean military, and on how the regime seeks to handle problems in societal-military relations such as embezzlement,

[35] For recent work in English on the causes and dynamics of corruption in North Korean society generally, see Carothers (2022a) S.H. Jung (2022).

[36] The military industrial complex and its supply system are discussed extensively in a memoir of a former North Korean official who worked in the industry before defecting to South Korea (C. Ko 2002). The Second Economy Committee, the committee that manages the military industrial complex and enterprises that supply and fundraise for it, controls 40% of the North Korean economy, 45% of its export operations, and has offices that manage production to military order from enterprises within the civilian economy (C. Ko 2002, 23).

attacks on civilians and the like. He argues that the regime has adopted a new approach to rule breaking, switching from a 'punish all' approach to a more selective one in which most are warned and a small number face severe punishment. He develops this argument from North Korean lecture materials and other North Korean official documents he was able to obtain. This points to the limits of state control institutions in handling issues of unit-level economic activities and a recognition of such limitations. These conclusions appear highly plausible, but are worth testing further at the unit-level, and it is not clear what role different control/oversight institutions in the process play in this account. They also run counter to the arguments with respect to other countries, however.

Utilizing a source base similar to E. C. Jeong (2016), Hwang (2018) develops a typology of 'anti-socialist behaviours' inside the military. She argues that anti-socialist behaviours in the military arose from the deepening and spread of economic crisis in the 1990s, namely the collapse of the public distribution system and spread of black markets, the conflict between socialist norms and the ethic of survival, the conflict between existing value systems and outside culture, and the spread of corruption amongst the country's cadre class. In other words, the collapse of state fiscal capacity (the ability to fund its welfare commitments) and the spread of black markets in civilian society and their spread into the military (institutional convergence), and conflict between different value systems and the spread of outside culture (cultural convergence). Further, Hwang (2018) argues that the loosening of control systems, including ideological control, control over resources, and drop in the state's capacity to enforce the law were key to explaining the rise of anti-socialist behaviours, including illicit economic activities. Here again, these arguments appear highly plausible and point to the importance of weak control systems in explaining the military's involvement in the civilian economy, but there is much room to future explore and develop a deeper understanding of the different control systems and their seeming lack of capacity to contain/curtail the spread of illicit economic activities.

5. Conclusions

The literatures on military economic activities, civil-military activities generally, and on the North Korean provide a range of useful concepts, ideas, and claims worthy of further consideration and testing in the North Korean context.

The military business/entrepreneurship/economic activity literature offers a range of potential definitions for the concept. Previous work indicates that state capacity – including the state's capacity to finance (fiscal capacity) and control (coercive capacity – is integral to explaining the rise and development of military economic activities. Further, the external environment, what some authors have termed 'threats', others 'strategic considerations', clearly plays a significant role in military economic activity.

The literature offers relatively sparse conclusions about the causes and consequences of corruption even though it is a major issue related to military economic activities. However, the extensive literature on the causes and types of corruption offers a range of potentially useful concepts and causal explanations that can be utilised to make sense of corruption in the case of military economic activities.

There is also some literature focusing on the rise of military economic activities and business in state socialist countries, especially those that have partially reformed and become more market oriented. This literature has used some of the existing models of state socialist (Marxist-

Leninist) civil-military relations. However, there is much of the civil-military relations literature that has remained unused in analyses of military economic activities – both their origins and their consequences.

The principle-agent models developed by Feaver (2003) breakdown problems of civilian control by type, and also categorise the institutions of control. Feaver's model was developed with the U.S. military in mind, but it clearly could be applied to other countries, and to the issue of military economic activity (which it has not thus far). It could be especially useful for better understanding how the problems of control arise in the economic sphere and in what form.

The concept of civil-military gap has been widely discussed within the societal-military relations literature. The idea that the military is culturally, institutionally and in other ways becoming more separate and distinct from civilian society is controversial, but has animated much work in the field discussed above. Indeed, it implies the possibility of the inverse: civil-military convergence, the culture, institutional practices, values and/or other features of the military becoming more like the civilian society which surrounds it.

The literature on North Korean civil-military relations largely ignores the rise of the KPA as an economic actor, while the literature North Korean military economic activities is largely silent on elite CMR, the literature of societal-military relations does consider the role of illicit economic activities for the military. The work on elite civil-military relations utilizing various models developed to analyse state socialist systems elite CMR, while the work on North Korean military economic activities provides rich empirical information. Clearly there is much room and need for further integration here, also utilizing the theoretical insights from the broader CMR and military business literatures.

Chapter 3: Argument and Methodology

1. Introduction

This chapter sets out a set of theoretical arguments that seek to address the questions of why the military is given economic power at the institutional level, how the dynamics of military economic power are managed at the unit level, and the effects of military economic power on societal military relations. It utilises existing arguments about state capacity, institutions, civilian control of the military, and entrepreneurship.

First, I explain how the decision to grant the military substantial control over resources, the right to use manpower for economic ends, and to mobilise capital is not a one-off decision, but rather an iterative process, involving frequent changes. The cause can be simply described as a lack of state capacity relative to what is required to achieve the leadership's strategic aims. But such decisions are also made in a civil-military context that appears to often be characterised by a low level of civil-military differentiation, and close ties between the dictator and the military. What is more, utilizing assumptions from principal-agent theory, I posit that a lack of state capacity results in incremental change within the military as circumstances change, and these processes of incremental institutional change may give rise to new agency issues, with attempts at solving these issues often proving unsuccessful, driving chronic cycles of reorganization.

The explanation I offer is designed to explain the multiple decisions and processes that arrogate a growing autonomy and commercial independence in the hands of the military collectively, and in the hands of particular officers. This is shown through a detailed case study of North Korea followed by comparisons to other state socialist countries. Further, military economic power appears to have important though unpredictable effects, and at least in some cases is characterised by lock-in, i.e., once given is not easily taken back. Fundamental improvements in state capacity or a reassessment of strategic aims would be necessary to restructure the economic activities of the military, and there is evidence that suggests the military is potentially able to resist the latter, with the former also stymied by the military's control over resources.

Second, I show how the military's actual economic power and influence in regional societies can create serious problems for civilian control that are not easily resolved. I argue that while the leadership has put in place a wide range of monitoring institutions designed to ensure that officers do not engage in corrupt or illegal activities, these institutions do not deter such behaviour and the state lacks the capacity to enforce laws with respect to corruption and other forms of illegal economic activity. At best selective enforcement of rules incentivises officers to pursue self-enrichment, ignore problems of military preparedness, and generally appears to have negative implications for central control over the military.

Third, such behaviours give rise to complex societal-military relations. The civilian authorities not only see the military as the central pillar of the nation's defences, but also as a source of labour and resources. They also incentivise predation, and this further complicates relations between North Korean military officers and broader society. Building upon these prior arguments, I develop an argument about the social embeddedness of military economic activities that often seemingly support market institutions and market actors at the lower levels of the military. The corruption of 'street-level' military officers, ironically, may create more efficient outcomes for North Korean civilians.

This chapter offers a set of interlocking arguments with respect to the causes and dynamics of military economic power building upon existing arguments but also utilizing theories previously not applied to the issue of military economic power. Following this it sets out the dissertation's research design.

2. Argument: military and economic power

This section sets out a three-pronged argument about the military and economic power. It begins with an argument about the origins and development of military economic power at the macro-level, then discusses the issue of military economic activity at the micro-level for central control and for societal-military relations.

(a) Why do dictators give their militaries economic power and manage the macro-level effects?

Building upon the existing literature on civil-military relations and military business, a new argument is set out in this section that will be applied in chapter 4 to the North Korean case and then compared with that of other state socialist cases. Arguments from the existing literature are further developed through the use of insights from principal-agent theory and theories in historical institutionalism. In short, I argue that the lack of state capacity leads the civilian leaders to entrust their militaries with butter as well as guns. But this gives rise to principal-agent problems epitomised in the issue of corruption. Further, the military's acquisition of rights to engage in a wide range of drives both institutional changes directed from above and processes of gradual institutional change from below.

Leaders do not hand the military economic power merely in order to ward off the threat of a coup in the short or medium-run (c.f. Prina 2017). In fact, militaries can be given control over assets, resources, and/or business operations, or be given the right to utilise resources and manpower they have for economic purposes during times of acute elite civil-military stress, but not because of these stresses (as chapter 4 demonstrates). The threat of coups does not explain why militaries are given control over butter as well as guns.

Rather, as causal accounts of military economic activities stress, structural issues like resource scarcity (budgetary constraints) and the strategic environment are major causes (Brömmelhörster and Paes 2003; Chambers and Waitoolkiat 2017). In other words, the decision to give economic power to the military arises because the state lacks the capacity to fund the military sufficiently given the strategic aims of the leadership. State capacity includes the state's ability to implement its chosen policy objectives (coordination capacity), extract physical and fiscal resources (extractive capacity), and coerce through force, i.e., compliance capacity (Berwick and Christia 2018).[37]

As Mora (2004) has shown, the rise of commercial military activities and military officer involvement in market activities was presaged by close civil-military relations in state socialist countries. This meant that the military and the civilian leaderships had close relations characterised by low levels of functional differentiation (Mora 2004; Perlmutter and LeoGrande 1982), fused or symbiotic relations between the two meant that the officer corps was well-represented in the leadership generally (Yi 2003). Interestingly, this symbiotic relationship does

[37] In some regimes, the civilian authorities are unable to fully control the military. As a result, it is able to pursue economic power in spite of civilian policy (Chambers and Waitoolkiat 2017).

not preclude civil-military stresses, like what North Korea saw in 1969 (a purge of a subset of senior officers) and China in 1971, but it does appear to be a prerequisite for the military becoming actively involved in commercial operations with civilian approval (J.-C. Lim 2019; Mora 2004). It would appear that if a military is more distant from the civilian leadership, then there would be more of a risk of a 'state-within-a-state' forming that could potentially threaten the civilian leader(s) grip on power. At the very least, it might be less willing and/or less able to repress elements that the leadership deems hostile within society.

In state socialist countries, the state may lack both the coordination and extractive capacity to fund the military because of the coordination problems that a centralised system of bureaucratic resource allocation creates and the limits to the state's ability to extract a surplus from the civilian sector to fund the military given pervasive shortages (Kornai 1992, 97–100). Leaders of states that lack sufficient extractive capacity to fund their strategic aims may decide to give the military economic power so that it can realise these aims. Strategic aims are, however, to some extent exogenous to state capacity, hence when faced with a lack of state capacity, an autocrat would not necessarily choose to revise his strategic aims in spite of the state's lack of fiscal and administrative capacity to realise them. The issue of strategic aims, and changing strategic aims in particular has been highlighted in the existing literature on military business (Brömmelhörster and Paes 2003, 15).

However, the aims of the civilian leadership and the military can diverge, both for the officer corps as a whole and for individual officers. This gives rise to what can be considered principal-agent problems. The principal-agent problem is one where a principal who employs or is otherwise in a position of authority over an agent, and where information asymmetries that exist between the two parties and principals may potentially have different goals and risk preferences to their agents (Eisenhardt 1989, 58). In other words, principals cannot always observe the actions of the agent (information asymmetry), and the agent may have incentives to act contrary to the interests of the principal (conflicting interests). Principal-agent problems can be grouped into two kinds: adverse selection and moral hazard (Dixit 2002, 697–98).[38]

Adverse selection are issues with the selection of agents to carry out tasks, ex ante.[39] As the name implies, adverse selection occurs when principals are selecting agents to perform particular tasks and may select the poorly. In the military, this might include selecting officers who are potentially politically disloyal, or militarily incompetent. With respect to military economic activities, this might include tasking certain non-military actors (civilian firms) with supplying the military who are unable or less than willing to do so because horizontal relations between different sectors are characterised by conflict and mutual hostility, and hence a preference for vertical integration within the military economy.[40] The dictator will seek to counter potential supply problems ex ante by finding the most reliable agents to perform the tasks required. Hence, they will put in place selection and screening institutions designed to ensure that agents are loyal to the principal's aims.

[38] Dixit (2002) actually distinguishes between three problems, the third being 'outcome verification', but generally in the literature on principal-agent problems, adverse selection and moral hazard also include such issues.

[39] The concept of adverse selection is widely used outside of principal-agent discussions as well, for instance, in discussions of information asymmetries that exist in insurance markets (Cohen and Siegelman 2010).

[40] On the subject of firm size and excessive vertical integration within Soviet-type economies, an extensive literature exists e.g. Gorlin (1985), Kroll (1988), and also see Kornai (1992, 248–49) on the putative causes.

Moral hazard is an ex-post principal-agent problem, arising after a resource allocation (or power delegation) decision has been made. The interests of the principal may not align with the agent; hence the principal has to monitor the agent to ensure they do not shirk, or in the case of the military, plot a coup, engage in corrupt activities, or predate on civilians. However, issues in institutional design give rise to moral hazard issues that are not necessarily easy to predict ex ante. Hence, formal institutions and organizations have to be modified or evolve when such problems emerge. For instance, the problem of resources being poorly allocated is ex post alleviated by the centralization of control over allocation decisions. The autocrat is reluctant to delegate decision making with respect to of resource allocation even while devolving increasing amounts of actual economic power down to lower parts of the military. The leader has to make choices about institutional design to alleviate moral hazard concerns, but frequent reallocations of resources and restructuring of institutions may arise if these issues cannot be easily fixed.

Institutions structure incentives and control within organizations (and between them). They are commonly defined after (North 1991) as the 'rules of the game' under which social interactions of all kinds take place. Institutions can be thought of as rules, norms, laws, practices, and 'ways of doing things'. Organizations can be considered a special case of institutions that, as (Hodgson 2006, 8) put it have: "(a) criteria to establish their boundaries and to distinguish their members from non-members, (b) principles of sovereignty concerning who is in charge, and (c) chains of command delineating responsibilities within the organization." Militaries and the culture on which they are based epitomise these features of organizations (Soeters, Winslow, and Weibull 2006).

Change is not driven only from above, however. The emergence of military business is a classic example of an institution developing from within and below beyond its original core remit. The historical institutionalist literature points to different ways that institutions (and by extension, organizations) can evolve and change. These include through critical junctures, that is, short periods of time when crucial decisions are made that create locked-in institutions and systems (Capoccia 2015). Some of the existing military business literature has made fruitful use of this concept (Chambers and Waitoolkiat 2017; Oh et al. 2018). But the search for critical junctures can obscure the importance of more gradual processes. Some of these processes can the conscious result of design decisions made by the autocrat, while others a consequence of rules remaining in effect amidst changing circumstances. Table 2 below sets out the various types of institutional change.[41]

Table 2: Modal types of institutional change

	Displacement	Layering	Drift	Conversion
Removal of old rules	Yes	No	No	No
Neglect of old rules	-	No	Yes	No
Changed impact/enactment	-	No	Yes	Yes

[41] These change processes are distinct from those posited by other institutional theories (Hall and Taylor 1996; Hall 2009). Historical institutionalism is useful for the conceptual models it offers of different kinds of change processes involving the interaction between policymakers, bureaucratic actors, and the mediating role of state capacity in such processes.

of old rules				
Introduction of new rules	Yes	Yes	No	No

Source: Mahoney and Thelen (2009, 16)

As autocrats face problems in managing the principal-agent problems created by military economic activities, they may layer new organizational structures and rules on old. While agents also practice institutional drift from one form of institutional arrangement to another due to a "neglect of institutional maintenance in spite of external change" (Streeck and Thelen 2005, 31). Drift can be thought of as a form of moral hazard – agents enacting institutions in new ways unintended by those who designed them. The initial decisions to create institutions may result from the strategic aims and insufficient state capacity to realise them. While institutions are structured and altered to minimise agency problems, namely moral hazard and adverse selection. But they drift from the original intentions of their designers. As the military becomes more powerful economically, these problems get worse, and reorganizations and attempts at recentralization or divestiture may be made. However, such attempts fail because military economic power is subject to 'lock-in', i.e., the military's economic powers are not easy to fundamentally change. Unless the state has the capacity to fundamentally restructure how it funds the military, or to reassess its strategic aims.

The existing literature on military business notes the importance of cultural legacies, 'path dependence', and critical junctures (Chambers and Waitoolkiat 2017, 10–11). Processes and/or institutions that are subject to path dependence are those in which decisions are made that are difficult to reverse due to the cost of reversal, or the interest groups that such decisions create and/or reinforce. However, new institutions emerged through processes of layering, and drift qualitatively changing the character of military economic power and autonomy.

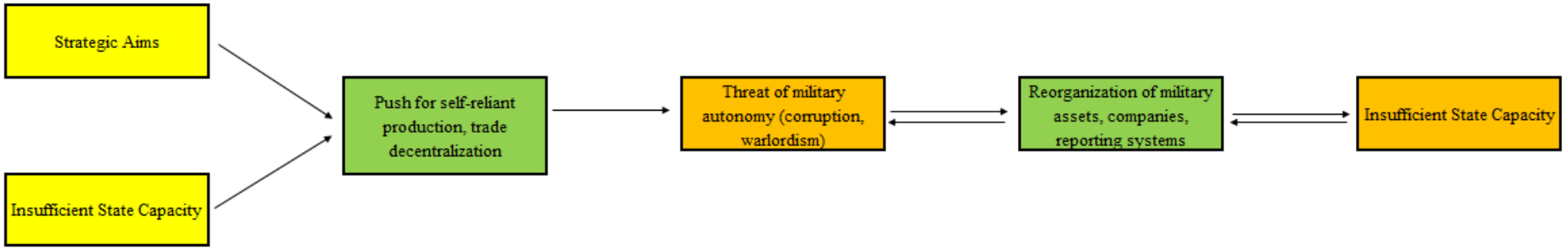
Moral hazard problems persist, with corruption giving rise to periodic crackdowns, and reorganizations (Mulvenon 2001). The corruption involved includes bribery, and embezzlement of state assets (in the form of military supplies and resources allocated to military units), and is usually at the level of bureaucrats rather than politicians – though elite military officers may also be involved. Officers are entrusted with institution-based prebendal rights to access and utilise resources in order to fund necessary purchases of inputs and equipment from overseas, and to provide for soldiers, officers and their families domestically. Soldiers and officers utilise their monopoly on the use of force to extract bribes (in-kind or in cash), and their access to resources that they manage to embezzle output or sell access – i.e. what Karklins (2015, 25) calls 'profiteering from public resources'.

The military's entrenched economic interests give it a level of autonomy vis-à-vis the civilian authorities that is greater than prior to being given such power. Hence, even as the military is tightly bound in symbiotic or even fused civil-military relations, officers with access to moneymaking opportunities have more financial autonomy and scope for corruption. As such, military economic activities and the resultant opportunities for corruption erode, to quote (Mulvenon 1998, 18), values like "centralized command, hierarchy, discipline, intercommunication and esprit de corps". But it also potentially facilitates the emergence of fiefdoms within the military, i.e., the threat of what has been called 'warlordism' in People's Liberation Army of the 1980s-1990s. The North Korean regime's fears about the creation of 'small kingdoms' within the party-state has also been noted in the existing literature (Gwak

2004, 39).

Such issues are difficult to fix, and economic power once given is difficult to take back. When compared with other cases (China, Cuba and Vietnam), however, the problems of lock-in and path dependency appear to recur even when strategic aims change and where the state's capacity to fund the military has improved significantly (see chapter 4). The economic interests of the military were complex and difficult to disentangle even when the state (as in China of the late 1990s) could afford to fund the military entirely out of central government outlays. Nonetheless, the Chinese state was largely able to force the Chinese People's Liberation Army (PLA) to divest itself of much of its economic holdings. Another issue is the state-within-a-state dynamic of military economic power (Suddith 2017). The military as an organization has considerable resources at its disposal, and can thus prove formidable as an opponent to civilian actors that seek to divest it of such assets – i.e., it can potentially exercise veto power over the process (Tsebelis 2002). In the North Korean context, veto may appear to be a strong word given the power of the leader, but the military certainly could conceivably slow down or impede a process of resource reallocation, even if a coup is believed to be highly unlikely (Yi 2003; J. Ko 2008a).

Figure 2: Military economic activity, causes, mechanisms and persistence



Yellow = causes, green = causal mechanisms, orange = effects

Source: Author

Figure 2 above presents a stylised portrait of how military economic power arises, and the issues it generates. It depicts how economic power can become locked into a negative equilibrium caused by insufficient state capacity given strategic aims. This argument fits North Korea of the last four decades, and to some extent, some other state socialist countries before they acquire the necessary state capacity to fund the military and also coerce it to give up its economic operations, and stop it from engaging in a range of economic activities that are not always officially sanctioned, though may occur under the rubric of legitimate self-reliant production or trade for funding military operations. Self-reliant production extends to the regimental level, and while it is legally not supposed to be commercialised, officers engage in a range of illicit business activities nonetheless.

The argument presented in this subsection can be summarised in the following bullet points:

- The military is given economic power for two reasons: (1) the strategic aims of dictators/leaders, (2) the constraints of state capacity
- The military's systems of material supply and subsistent production may drift toward commercial and corrupt activities in the presence (drift being an institutionalised manifestation of moral hazard)
- Reorganizations and the layering of new institutions is likely ineffectual without significant increases in state capacity
- Drift leads to repeated attempts at administrative reorganization to fix moral hazard problems such as predation and corruption
- Moral hazard problems are locked-in if state capacity constraints cannot be exogenously overcome

Chapter 4 demonstrates how these arguments are applicable to the North Korean case and then makes comparisons with other state socialist countries in order to assess their broader generalizability.

(b) How do dictators manage the dynamics of military economic power at the micro-level?

In much of the existing literature on civil-military relations in dictatorships, choices made by autocrats in the structuring of the military and security sector are primarily characterised by the trade-off between military effectiveness and coup-proofing (De Bruin 2020; Talmadge 2015). Brooks (2019, 390) notes that autocrats seek to ensure that "the military does not compromise their preferred policy and resource-allocation outcomes". Military economic power gives rise to problems like corruption and predation, this begs the question, how do the civilian authorities seek to manage military economic activities? Utilizing a framework developed in Feaver (2003, 84–96), and further building upon arguments made in chapter 4, chapter 5 examines how the North Korean state manages the problems created by the economic activities of military officers at lower levels. It argues that the North Korean leader(s) practice a form of highly selective implementation of the law with respect to officer corruption and predation because of weak state capacity (Holland 2016; O'Brien and Li 1999).

Regulations and laws are often subject to politicised compliance/enforcement in many parts of the world (Amengual 2016). As Holland (2016, 233–44) argues, institutional drift is the product

of bureaucratic behaviour, and is a form of undirected non-compliance with existing rules; conversely selective policy implementation (constrained non-compliance) and forbearance (intentional noncompliance) are behavioural choices made by actual political leaders. In other words, drift is an emergent institutional phenomenon of agent behaviour, whereas selective policy implementation and forbearance are forms of directed behaviour by principals. In this case, selective policy implementation is a form of constrained non-compliance, the principal (i.e., the autocrat) lacks the necessary resources to enforce regulations in full, and thus is forced to do so highly selectively. In other words, the state lacks extractive capacity to finance the military in full, and its lack of fiscal capacity also results in a lack of compliance capacity – the state cannot ensure that officers do not engage in corrupt or illegal activities (Berwick and Christia 2018).

State agents who act as the monitors of other agents for the principal (the autocrat) make decisions regarding regulatory enforcement and relay those decisions to the central leadership via the apparatus of the bureaucratic state. In this regard, they can be considered a kind of 'street-level bureaucrat' with different incentives to those of the central government and the autocrat (Lipsky 1980; O'Brien and Li 1999). The state's capacity to enforce rules is relational, it depends on the resources it has at its disposal, on the actual willingness of state actors to enforce its rules (Slater and Kim 2015), and the willingness of society to accept these rules (Amengual and Dargent 2020). Failures of state capacity are context dependent; the state may be unable to fund the military and may also be unable to prevent illicit economic activities occurring amongst the officer corps. Yet, while ex ante controls may prove ineffective, ex post detection and monitoring may still function to a sufficient extent to detect many violations of discipline and the economic order. Dictators seek to balance between political control concerns and military effectiveness (Talmadge 2015). Some abuses may manifestly impact military effectiveness – depriving reservists of their rations, accepting resources for unit activities/personal enrichment in exchange for training exemptions, for instance. While others are merely illegal, but may help with in advancing the civilian leadership's aims.

The leadership may still be reluctant see officers seriously punished for many forms of illegal economic activity (via discharge and/or longer-term detention). The opportunity costs of punishment may be expensive because officers are neither cheaply nor quickly to replace. Further, if the causes of corruption are structural, corrupt officers must be replaced and the basic mechanisms that reproduce corruption may mean that the leadership soon runs out of replacements. Hence, corruption may be a necessary evil required to fund the military, and ensure its officers are adequately compensated. In this regard, it is analogous to corruption in other authoritarian states: an informal means by which to maintain an existing political settlement (Darden 2008; Murtazashvili 2016; Zhao 2021). Widespread rule breaking also provides a convenient pretext for purges, demotions and punishments of officers deemed to be insufficiently loyal.[42] Hence it allows the regime to economise on the provision of wages and other perks, and acquire additional revenues (Carothers 2022a; Ward, Lankov, and Kim 2022).

The reasons for this are a consequence of limited state fiscal capacity, i.e., the very reasons why the leadership granted the military such economic rights to begin with, and allowed such rights to expand over time, and the institutions of economic power to drift from their original purposes.

[42] This is not to say that corruption is welcome and that autocrats never seek to, or cannot ever effectively fight corruption. For instance, see Carothers (2022b; 2022c).

The lack of fiscal capacity means that the state is unable to provide for the military. In other words, to use the language of Feaver (2003), it provides inadequate contract incentives for military officers, forcing them to rely on alternative means to finance the tasks they are mandated to carry out by the state, and for they and their families survive (as well as for personal enrichment). This can undermine military cohesion (Verweijen 2018),[43] and the lack of material incentives pushes officers to engage in behaviours that may be far from optimal for military performance. This agrees with the findings of the literature on corruption (Cornell and Sundell 2020; Olken and Pande 2012), and the impact of pay on corruption. This also supports Mani (2007) claim that state capacity is a mediating variable determining whether officers pursue economic activities in the interests of the state. But it would appear that a lack of resources (i.e., a lack of state fiscal capacity) drives officers' economic behaviours, rather than a lack of military professionalism per se. Indeed, a lack of resources may lead to a breakdown in military professionalism rather than the reverse.

In principle, monitoring institutions allow the state to obtain considerable information about economic misconduct. Conversely, ex ante selection and screening institutions, like mandatory Party membership and military education institutions, may ensure that the politically loyal and the technically able hold positions of power, and they certainly mediate access to leadership positions within the military, but they do not necessarily prevent or deter economic activities that are illegal and run contrary to leadership aims. Further, while North Korea maintains what could clearly be considered an institutional rather than occupational army in which officer material incentives are less significantly emphasised (Moskos 1977), the requirement of the military to produce or acquire much what it consumes in a prebendal fashion creates perverse incentives for officers to engage in activities aimed at self-enrichment, especially given they appear to face few consequences from such actions.

The argument presented in this subsection can be summarised in the following bullet points:

- Constraints on the state's capacity to fund the military also limit the state's capacity to tackle corruption through incentives or punishment
- Contrary to the existing military business literature, corruption and illicit economic activities of other kinds are not a product of poor monitoring institutions
- Rather, the leadership tolerates corruption and predation even when it often runs counter to policy objectives in order to maintain military force size
- Many forms of military economic activity are thus met with token punishment or little punishment
- Corruption does not benefit the leadership, but fundamental reform would require a reassessment of strategic objectives or vastly superior state capacity

Chapter 5 demonstrates how these arguments are applicable to a particular case study of a North Korean military unit, it also utilises documents issued by the central authorities that allow for inferences about the leader's policy priorities, and consider the generalizability of the arguments to the North Korean case overall.

[43] On the concept of military cohesion, see: Siebold (2011).

(c) How do military economic activities structure societal-military relations?

Relations between the military and society have often been captured by two competing notions: (1) military convergence on civilian norms and modes of operating, and (2) the idea of a civil-military relations gap (Cohn 1999). The North Korean case demonstrates how dramatic socioeconomic changes can impact the relationship between military actors and civilian society. Further, taking a two-pronged approach, one that examines how the military's economic activities embed officers within society, and the other which considers the effects of such activities on society helps to better elucidate the implications of military economic activities. The argument sketched out below is applied to the North Korean case, but similar dynamics have been described elsewhere like in China (Mulvenon 1998).

The argument presented herein brings together two theoretical literatures, the literature on the social embeddedness of market activities developed from the initial work of Granovetter (1985), and the work of Baumol (1990) on the social consequences of entrepreneurship. The former is useful for understanding how societal-military relations are constituted, while the latter offers a framework for analysing how military officers' economic activities shape the civilian political economy. It also develops an account of how bureaucratic corruption can have positive spill over effects in the civilian economy, contrasting with how military corruption is often presented in much of the existing literature.

North Korean military service has many institutional rather than occupational features (Moskos 1986, 378–79), that is, North Korean officers are supposed to think of their job not as a mere occupation, but as a higher calling reflecting the ethos instilled by military professionalism – through selection and screening institutions. Military officers and soldiers are legitimated by ideology not economic incentives (Yi 2003), compensation is based upon seniority, and much of this compensation is in-kind rather than in the form of salaries (the same is also the case in civilian industry, however).[44] Yet, marketization has impacted it and led to what could be described as 'perverse convergence' between military and civilian norms and modes of operating.

Arguably, a form of such convergence began with the creation of one of the world's most militarised societies beginning in the 1960s (Szalontai 2005, 51). Hence, North Koreans have been implored to produce and study in the manner of guerrilla fighters since the late 1960s (J.-C. Lim 2015, 281–82). Military metaphors aside, North Korea is estimated to have an army that totals around 5% of the population, and paramilitaries equal to one-quarter (Republic of Korea Ministry of Defense 2020, 290). Hence, the country is heavily militarised, so when one speaks of a convergence of military and civilian life, one has to distinguish between the militarization of society, and the spread of civilian values, norms and activities within the military. It is the latter that is under discussion here, with the primary mechanism being the embedding of military actors and economic activities within civilian society.

As Granovetter (1985) argues, markets and transactions are embedded within social structures. This embeddedness takes various forms including ongoing interpersonal relationships (relational, structural and political embeddedness), and norms and collective understanding (cultural embeddedness). Social norms can promote cultures of corruption but also can trust and ties that facilitate more effective recruitment, exchange and even production (Granovetter

[44] This was the case in the 1980s (Hunter 1999, 145), and remains the case today (C. Lee et al. 2016, 145).

2005, 35). Interpersonal ties can be disaggregated into relational ties between individuals that are structured by mutual expectations (relational embeddedness), the structure of the network that individuals and their actions are embedded (structural embeddedness), and relational ties to particular politically important individuals or political entities (political embeddedness).[45] Political embedding is particularly important to firms in authoritarian systems and transitional economies (Haveman et al. 2017), and embedding is a crucial mechanism through which market actors are able to engage in many forms of production in the North Korean economy (Ward, Lankov, and Kim 2021; 2022; M. S. Yang and Yoon 2016). As Granovetter himself put it: "even when markets are impersonal – and they are not mixed up with personal relationships - they are still embedded in a larger institutional framework, and a culture, and a set of rules and situations that have somehow been put there by a social process" (Krippner et al., 2004, 115).

An embeddedness approach can be used to better understand the dynamics of societal-military relations. As Carter and Hassan (2021) note, officials who are embedded within a local context may become co-opted by local groups or individuals, making them less willing to carry out the instructions of their superiors. As in other countries, 'street-level bureaucracy' of the state is embedded within society, engaged in what might be termed 'corruption' or the provision of favours and assistance to market actors in exchange for bribes or a regular income source. The same is true of many countries in the developing world (Pepinsky, Pierskalla, and Sacks 2017, 257–61). In the case of the North Korean military, military officers become embedded relationally with market actors, developing ties that corrode military discipline and morale, but also may fund military activities and meet obligations that the state imposes. These relations emerged gradually beginning under in the 1970s and 1980s (see chapter 4), but from available sources, it would appear that the military as a whole only became heavily involved in commercial activities within the domestic economy post-1990 with the collapse of the Soviet Union.

From the point of view of civilian market actors, working with military officers offers the possibility of protection, i.e., a form of political embedding (as Ward, Lankov, and Kim 2021 demonstrate with respect to the fishing industry in North Korea). Relational embedding facilitates a form of 'parochial corruption', i.e. corrupt practices between state agents and people that they know and trust, lowering the costs of enforcing agreements that are not legal and are not protected by the state (Kingston 2007), including family and friends.

They are also culturally embedded within civilian society, or rather, a particular type of civilian culture, commercial culture and its ways of operating, its norms and collective understandings. Whereas military economic activities at the unit-level began as subsistence orientated, they have become commercialised and a conduit to personal survival/enrichment for officers. Here, military units and officers have become embedded within the cultural norms of the market and civilian societal institutions.

Under North Korean law, many forms of market activity are illegal per se, and many forms of military economic activities represent illegal 'innovations' on the existing institutional order (Ward and Green 2021). The many ways in which business is conducted by officers, and their appropriation of state resources for their own consumption represent a form of institutional decay, as control institutions fail to prevent such behaviours. Paradoxically, while the military

[45] These different types of embeddedness are discussed further in Zukin and DiMaggio (1990).

is formally prohibited from involvement in civilian markets, its assets (vehicles, access to preferential supplies of food, fuel and materiel, immunity from civilian police oversight *inter alia*) provide it with significant logistic advantages that make it a highly attractive partner for civilian entrepreneurs.[46] This means that there exists significant potential demand in civilian society for collabourations with military officers. Corrupt practices facilitate military-civilian integration, with civilian participants in the market economy – like illicit forms of exchange, support, and profiteering from access to public property – creating shadow institutions that actually facilitate pro-growth outcomes. They potentially do so by responding to demands for services, goods and resources in their local market, but also with the factors they have available, in other words, they are driven by both supply-side and demand-side factors (Jaskoski 2013).

Mani (2007) offers a useful typology for capturing the kinds of entrepreneurship/economic activity pursued by officers and who benefits from such activities. She distinguishes between institutional entrepreneurship, which benefits the military as an institution, and spoils entrepreneurship, which benefits individual officers or other individual actors within the military. Certain forms of embedding may aid the goals of the military as a corporate entity, while other forms benefit individual officers, and either promote the spread of civilian market values and relations within the military (B. U. Kim and Kim 2013), or even erode military preparedness. They also give rise to a perverse form of civil-military convergence. The military may become more like civilian society in the way it operates, with commercial incentives and relations with civilians becoming more important to the way officers behave than vertical subordination to the military hierarchy and the martial ethic military life.

However, its negative effect on military's organizational capabilities notwithstanding, military economic activities may have positive effects on local society. In examining these effects, it is useful to think of North Korean military officers engaging in economic activities as a type of entrepreneur. Baumol (1990) posits the existence of three types of entrepreneurships: productive, unproductive and destructive, with the type of entrepreneurship depending on the quality economic, political, and legal institutions. In his formulation, productive entrepreneurship includes all activities that produce social value, while non-productive activities include rent-seeking and political lobbying. Destructive entrepreneurship includes criminal behaviour and corruption. Baumol (1990, 898) contends that formal institutions, i.e., formal rules, structure the payoffs of different kinds of entrepreneurship. But this may not be the case when formal institutions are weak. As has subsequently been argued with respect to organised crime, criminal and illegal behaviour can actually be socially productive when it offers a substitute for suboptimal formal institutions (Douhan and Henrekson 2010, 634). Indeed, many forms of what the North Korean state considers corruption and criminality may have positive effects for civilian actors, help to support their business and/or protect it from the 'grabbing hand' of state regulation aimed at rent-seeking and expropriation (Hopkin and Rodríguez-Pose 2007; Shleifer and Vishny 1998).[47] Military officers may act in ways redolent of managers of civilian firms in similar positions, relationally embedded within civilian society, but also facilitate and support productive entrepreneurial activities occurring within civilian society. This is not to say all of their activities are socially productive. Not only do they become

[46] I am grateful to Professor Balazs Szalontai for pointing this out.

[47] The idea that local entities protect entrepreneurs has also been demonstrated in the Chinese context (Chen 2007; Huang 2008; Tsai 2006), and in the existing literature on North Korea (Lankov et al. 2017; Ward, Lankov, and Kim 2021; 2022).

enmeshed in relations of mutual dependence with market actors, or else predate on civilians and civilian organizations (other parts of the state). Criminal, renegade and/or socially destructive activities are also embedded within social processes (Joseph and Smith 2021, 673–74; Beckert and Wehinger 2013).

The argument presented in this subsection can be summarised in the following bullet points:

- Military officers become embedded in civilian society through commercial relations and integration into commercial cultures
    - Mechanisms of embedding are contingent on the types of activities pursued
- Military economic activities are not mere pathologies, they may have socially positive or negative outcomes, and the de jure (il)legality of the activities under North Korean law says little about their social effects
    - In many cases, the military can create second-best alternative institutions to a dysfunctional official order

Chapter 6 demonstrates how these arguments apply in the specific context, and how they may also generalise to the military overall in North Korea.

3. Methodology and Sources

This dissertation will attempt to explicate the reasons why autocrats give their militaries economic power, and examine how the military economic power impacts civil-military relations. Different methodologies are used for different units of analysis, with each discussed in turn below.

(a) Definitions of units of analysis

The military is an institution with its own corporate identity. However, it is also composed of officers and soldiers. The analysis presented in chapter 4 considers the military as an institution enmeshed within the Party-state. Where the "military" is referred to, this connotes the organization as a whole, while anything below the centre is usually referred to as "lower levels", "military units" (like army corps, divisions, regiments et al.) or by other terms connoting actual combat units.

Analysis in chapter 5 and chapter 6 considers the case of Unit 235, headquartered in Namp'o, a large city near P'yŏngyang. Chapter 5 also utilises sources issued in the name of the leader or by the central government, and thus combines a mixed national and subnational analysis. Chapter 6 examines the social dynamics of military economic activity at the unit level, but the case logic set out below implies that some limited national-level inferences can be drawn from the case. The chapters also both consider the issue of generalizability to North Korea broadly.

(b) Cross-national comparison in chapter 4

The cross-national comparative chapter utilise methods developed for comparative historical analysis. First, the North Korean case will be examined in detail to determine the causal mechanisms that have given rise to and shaped the dynamics of military economic power at the macro-level. Analysis will be guided by the existing literature, and in chapter 4, demonstrate the validity of argument discussed above with respect to North Korea.

Methodologically, chapter 4 relies on process tracing, a form of in-case analysis that focuses on how causal mechanisms ('activities engaged in by actors') have given rise to certain effects amidst certain causes (Beach and Pedersen 2013, 29–32). There are four types of evidence used in process-tracing: pattern, sequence, trace, and account (Beach and Pedersen 2013, 99–100). (Beach 2018) offers the following definitions of different kinds of evidence: "Patterns relate to predictions of statistical patterns in the empirical record. Sequences deal with the temporal and spatial chronology of events that are predicted by a hypothesised causal mechanism. Traces are pieces of evidence whose mere existence provides proof. Finally, accounts deal with the content of empirical material, be it meeting minutes that detail what was discussed in a meeting, or an oral account of what took place in a meeting." Pattern data is available from North Korean published statistics, and attempts to reconstruct demographic change. Trace evidence is available from North Korean textual sources that demonstrate the occurrence of particular events or the existence of certain phenomena. While leadership statements, and interviews with people who have left the country can be utilised as account evidence. This range of sources can be harnessed to reconstruct the processes that have shaped and determined the contours of military economic power in North Korea, and the role of the civil-military relations in such processes.

On the basis of such a reconstruction, it is possible to consider what causes are common to state socialist countries under conditions of marketization, and what causes are seemingly more unusual or unique to North Korea. Hence, following a detailed treatment of the North Korean case, the central causal elements will be compared to the other relevant cases (China, Cuba, and Vietnam). These allow for limited generalizations about a particular subclass of state socialist one-party states, and potentially can generate propositions that can be tested on other cases. The design thus roughly approximates a 'most similar' comparative case study analysis (Przeworski and Teune 1970, 33–35; Seawright and Gerring 2008, 304–6). This is a method where variation between the cases is confined to differences in independent variables, but where outcomes are otherwise similar. The countries each have similar origins and have survived the collapse of the Soviet Union, and they all have seen the rise of military business. Yet, as an extensive discussion of the North Korean case demonstrates, the factors that have been attributed to the rise of military business in these countries are not necessary conditions for its rise (c.f. Mora and Wiktorowicz 2003; c.f. Mora 2004), thus 'falsifying' (reducing confidence in) the existing theories on the rise of military business in market Leninist countries (J. S. Levy 2008, 9). I hypothesise an alternative causal pathway to the rise of military business, and demonstrate its applicability to the extreme case of North Korea, as well as to comparable cases.

(c) Mixed national and sub-national analysis in chapter 5

Analysis in chapters 5 focuses on both the national level objectives of the leadership, and their articulation at the local level. National level sources include orders ('ratified tasks') issued in the name of the leader, the leaders' quoted words, and also lecture materials issued by the central government (often on the basis of the leader's orders). Hence, limited national-level generalizations about the leaders' intentions and priorities can be drawn. The conclusions drawn from this build upon the results from the comparative case study presented in chapter 4.

Inferences are limited insofar as the sources utilised are largely from 2010-13 – a large tranche of internal documents from a North Korean military unit,[48] though the author was also able to obtain older sources from the late 1990s to late 2000s, some of which are also used in chapter 4. North Korea is not an easy country to study given the dearth of available sources on many issues, and given national security concerns, even less information is available on military-related issues than on many other issues. However, the sources utilised in chapter 5 allow for some plausible inferences to be made about leadership policy preferences and intentions.

Sub-national analysis will focus on the governance of the Unit 235 of the KPA Third Corps, unit near P'yŏngyang stationed in Namp'o. Unit-specific sources can be utilised to draw conclusions about the about the time and place they were written in and about. However, on another level, they represent a potential 'crucial case', from which theories can developed or tested. Gerring (2006) defines a crucial case study as "Cases (one or more) are most- or least-likely to exhibit a given outcome". He (2006: 90) notes such cases are "[a]ssessable by reference to prior expectations about the case and the population." The unit was stationed in Namp'o, a city near P'yŏngyang, which is a major port city and has the largest concentration of markets in any part of the country, but the city has become the country's major port after 1990 (Ducruet, Lee, and Roussin 2017; Ducruet, Roussin, and Jo 2009), and much of the market infrastructure serves traders from other parts of the country (Hong et al. 2016, 21). Over 70% of North Korean military forces are stationed south of P'yŏngyang – Namp'o is also south of P'yŏngyang (Republic of Korea Ministry of Defense 2020, 24). It is also, however, part of an industrial belt centred on the capital of P'yŏngyang, and near the country's major food producing regions (Kyŏng-won Kim et al. 2020, 81–84). The population of the city is estimated to be just under one million as of 2014, with a population density slightly under half that of North Korea's capital, P'yŏngyang (Y. H. Kim 2019, 67).[49] Hence, if any part of the country is likely to be able to provide rations and appropriate benefits like housing to officers, it would appear likely that Namp'o would.

This makes it a 'least likely' case, in other words, the authorities are far less likely to struggle to supply officers in Namp'o relative to most other parts of the country, many of which are in poorer areas.[50] Which means that if the state is incapable of providing for this unit, it is also likely incapable of providing for many other units across the country. Further, there is little reason to expect that the use of punishment in the unit is unrepresentative of the country as a whole, either those punishments are liable to be much harsher or far less harsh than average. The document tranche included the Central Committee of the Korean Workers' Party's audit report on the unit from 2012, and the report does criticise the unit's monitoring of officer misconduct, but not how officers who engage in such misconduct are treated.

Unit-level sources comprise sources about political attitudes, behaviour, economic planning, and resource mobilization. Much of the documentation concerns personnel management issues and the activities of military officers, including their officially sanctioned and unsanctioned

[48] With respect to the documents used herein, they were obtained by a Japanese broadcaster in 2014 from a former cadre of a KPA foreign trade company. The collection is from the Korean Workers' Party Organization and Guidance Department (OGD), and number around 12,000 pages of A4. They were written between the years 2010 and 2013, include a large quantity of documents about disciplinary issues at the unit-level.

[49] On city's economic geography, also see Y.H. Kim (2019).

[50] Such a view is supported by existing surveys of North Koreans who have previously served in the military (K.-D. Lee, Chung, and Lee 2011).

economic activities. Unit-level documents were searched for references to economic activities, and punishment, and references were compiled into database of economic crimes and how the unit and the supervisory corps responded to misconduct and punishment. Documents issued in the name of the leader or other organs of the central government, including lecture materials, were separately examined for references to military economic activities and for attitudes toward illegal economic activity.

(d) Subnational case analysis in chapter 6

Analysis in chapter 6 focuses on the local level interactions between the military unit and non-military societal actors. It considers how local military economic activities structure relations between the military and regional society. It utilises the same case as that used on chapter 5, but does not make direct use of national-level government policy documents. Rather it focuses on the potential societal-military relations forged by the economic activities of North Korean military officers. In this regard, chapter 6 seeks to develop a typology of military economic activities and their broader social effects.

This gives rise to similar problems of generalizability to those discussed with respect to chapter 5. However, by cross-referencing findings with the existing literature on societal-military relations, it is possible to make some plausible claims to generalizability with respect to the North Korean case. It is not possible, however, to directly prevalence of specific activities and the kinds of societal relations they give rise, just to demonstrate the existence of such relations and their potential consequences for societal-military relations. Here the North Korean case will be utilised to demonstrate the applicability of the theory sketched out above with respect to societal-military relations.

(e) Summary of research design

In order to demonstrate the validity of the theoretical arguments sketched above, this thesis utilises three different units of analysis.

The question of why dictators give their militaries economic power will be answered through a comparative case study of North Korea and other relevant state socialist countries. The comparative method is useful for demonstrating the broader relevance of the North Korean case among a continuum of similar cases, and for establishing the generalizability and the limits of the argument made above.

The question of how dictators control and manage military economic power at the micro-level will focus on two units of analysis – the national (i.e., the aims of state control) and the micro-level (the corps level and below). Here, through detailed case analysis, the focus will be upon establishing the validity of the argument made above and considering its potential limitations.

Finally, with respect to the societal-military relations implications of military economic activities, a unit-level case study analysis will be employed to consider the implications for the military and civilian society that its members interact with through business, commercial and predatory activities. Micro-level analysis here helps to further explore the mechanisms by which military officers become in the civilian economy, the micro-foundations of 'civil-military convergence' and its potential social consequences.

The following table summarises the different units of analysis, analytical focus, methods and

sources.

Table 3: Summary of methodology and sources

Unit of analysis	Relevant chapter	Scope	Analytical Focus	Method	Sources
Cross-national	4	State socialist countries with military business	The causes and dynamics of military business in state socialist countries in relation to civil-military relations	Comparative case	North Korean official sources - Speeches - Statistics South Korean estimates
National and sub-national (unit-level)	5	North Korean case and Unit 235 of the Third Corps of the KPA, plausibly North Korea generally post-2000	Official institutions that structure civilian control of the military and its economic role	Case analysis	National-level documents (orders) issued to Unit 235 Unit-level documents including officer reports on officer activities Personnel files Reports on unit-level activities
Sub-national (unit-level)	6	Third corps 2010-13, plausibly other units further from the capital	Unofficial institutions, regional society and economic activities	Case study of Third Corps of the Korean People's Army	Political officer reports on officer activities Personnel files Reports on unit-level activities

Chapter 4: Why do dictators in state socialist countries give their militaries economic power?

1. Introduction

This chapter addresses the question of why dictators give their militaries economic power. It builds upon the findings and theoretical developments discussed in chapter 2 and shows how arguments developed in chapter 3 can be fruitfully applied to the North Korean and other cases. It utilises the research design outlined in section 3 of chapter 3, and demonstrates how relative state capacity and strategic aims drive the decision to give the military economic power and perpetuate it. Analysis is limited in scope to state socialist countries (single party regimes with economies dominated by state ownership and control).

As a case, North Korea is quite unusual. It has the world's largest army relative to population size except for Eritrea with the World Bank estimating that more than 8% of its labour force serves in the armed forces (World Bank 2022). This is remarkable especially when one remembers that the Korean People's Army (KPA) is not currently engaged in any actual inter-state conflicts, and also given the country's poverty.[51] As is discussed below, in relative and absolute terms, the North Korean military grew in size from the late 1960s onward, and even during long periods of no apparent impending threat of war. Of course, having such a large military force generates substantial costs, soldiers must be fed, clothed and armed, and organizational structures must be funded to ensure both discipline and battle readiness are maintained. In comparative perspective, this chapter examines the causes and causal mechanisms that have structured what has been termed as North Korea's "bloated military economy" (Oh et al. 2018).

Utilizing insights from principal-agent theory and an understanding of institutional change informed by recent developments in comparative historical analysis, this chapter seeks to understand the causal mechanisms that underlie the choice of autocrats in state socialist systems who empower their militaries with control over significant sections of the economy. As such, it considers the civil-military relationship that precedes such decisions, and the consequences of such decisions for it. The North Korean case is analysed in detail and the argument sketched out in chapter 3 is applied before findings from the North Korean case are compared with other comparable cases.

As is be shown below, in the North Korean case, decisions to empower the military were taken because the state lacked the capacity to fully and directly finance its strategic aims with respect to the military, or effectively direct all necessary resources from the civilian sector to the military. The Kim family regime thus handed the military significant and growing economic rights and responsibilities from the 1960s. These institutions of military economic power gradually evolved into marketized and autonomous operations that fund the military, enrich well-connected officers, and connect the military to society through a web of market relations. Below, I argue that military economic power has become locked-in, and attempts to reverse marketization within the military appear unlikely to succeed given the capacity of the North Korean state and the current aims of the autocrat.

In the North Korean case, economic crisis was not the primary driver of military economic

[51] In their Voluntary National Review on the Implementation of the 2030 Agenda Sustainable Development Goals, North Korea claimed to have a GDP of $33.504 billion and per capita GDP of around $1,300 (Democratic People's Republic of Korea 2021, 7, 30).

power. Indeed, the North Korea's economic situation deteriorated in the 1990s, and with leadership succession in 1994, Kim Jong Il strongly emphasised the role of the military in political life (Yi 2001, 126), increasingly fusing the military with Party-state in ways redolent of Cuba under Castro (J. Ko 2018, chap. 4). Yet, the rise of the military's presence in the economy as a producer (as well as a consumer), and as a commercial actor in world markets predates this crisis. The crisis propelled the military's involvement in emergent domestic markets, but much of the military's economic activities appear to predate the crisis. Existential crisis does not appear to be a necessary prerequisite for the rise of military economic power (cf. Izadi 2022). The rise of military economic power in China and Vietnam, two states where the military has acted as a guardian of regime survival, but without an economic crisis on the scale of Cuba, let alone North Korea further demonstrates this point. Crisis may result in closer civil-military relations, however. The civil-military relationship in China and Vietnam has become looser (Croissant 2018; Mora 2004), even as the militaries of these two countries became more significant economic actors.

An important contrast between North Korea and other state socialist regimes that saw the emergence of military business is the lack of military retrenchment in manpower and budgets (as a percentage of GDP). In the North, there is little evidence of significant drawdown in the size of the military's budget, and relatively minor falls in size (Hamm 1999, 88; Moon and Lee 2009, 80–81),[52] unlike in other comparable state socialist countries (Mora 2004). In fact, unlike in other comparable cases, estimates indicate that the North Korean military continued to expand as a percentage of the country's population as the military's economic activities grew in sophistication and scale.[53]

Meanwhile attempts at divesting the military of some of its assets have produced significant civil-military friction, with Kim Jong Il and latterly Kim Jong Un ultimately backing the military (H. Park 2014; Y. Park 2014). This points to the relative power of the military in the country, and contrasts with the Chinese and Vietnamese cases where partial divestiture has been possible. China, and to a lesser extent Vietnam, have been able to grow the state's fiscal capacity significantly, allowing the substitution of military business-generated cash flows and production for subsistence with direct central government funding (see below). Nonetheless, even in these cases, divestiture has only been partial, and has required the consent of the armed forces. This points to the lock-in and path dependence of military business evident in other cases as well. The autonomy and rents ceded to the military are difficult to take back, and they also generate significant civil-military frictions in the form of corruption, and the potential for co-optation and predation on civilian society.

This chapter begins with an overview of my argument, before proceeding to a detailed discussion of the North Korean case, and then briefer discussions of other cases to demonstrate the broader applicability of its tenets.

2. Argument and framework

[52] This is not to say that the country did not fall behind South Korea in relative terms over the Cold War period, but that in absolute terms, available estimates do not point to a sudden period of budgetary retrenchment post-1990 (D. C. Kang 2003, 307–8). On the problems of estimating North Korean Defence expenditures, see Hamm (1999: 91-104).

[53] Hamm (1999) and Moon and Lee (2009) offer detailed analyses of the arms race on the Korean peninsula, and the continued growth in the size of the KPA's budget, economic footprint and manpower.

Militaries are not necessarily handed considerable economic power to stave off the possibility of a coup (cf. Prina 2017). The focus on coup proofing in much of the literature on dictators' militaries does not account for other crucial factors that give rise to and support military economic power. This chapter demonstrates that a lack of state capacity to achieve particular strategic aims pushes leaders to hand their militaries economic rights and assets to achieve those strategic aims. In state socialist countries, the state may lack both the extractive capacity, and capacity to coordinate effective resource distribution directly.

This means that if the leadership is not to revise its strategic aims, it is forced to find new ways to finance the military. These include unit-level production and also military commercial operations (Mulvenon 2001). In the case of North Korea, as will be demonstrated below, the former began soon after liberation in 1945, while the latter began to emerge in the 1970s. Unlike in other comparable state socialist cases, the emergence of commercial military business did not coincide with the start of major structural reforms, or with retrenchment in the size and funding of the military. Rather, it coincided with continued growth in the size of the military.

This points to the limits of arguments previously made by Mora and Wiktorowicz (2003) about the importance of buy-in from the military when major structural reforms are launched, and Mora's (2004) argument that the emergence of military business is tied to budget retrenchment. Nonetheless, the latter argument can be reframed as a problem of state fiscal capacity. Clearly, as is shown below, the North Korean government faced considerable funding issues with the military, and thus moved to encourage both production for subsistence at the unit-level and the emergence of commercialised military firms that trade on international markets.

Like in other cases discussed below, North Korean civil-military relations were symbiotic, with a low level of functional differentiation between the Party and military (J.-C. Lim 2019). The institutions that structured the military's economic activities gradually evolved and this gradual evolution, through processes of both layering (addition of new institutions on top of old) and drift (neglect of existing rules). The structure of institutions gave rise to moral hazard problems that led to the layering of new rules onto old systems, while existing institutions that did not reflect new realities, especially after 1991, were neglected or drifted from their original purpose as a result of corruption.

The North Korean case demonstrates how the limits of fiscal capacity may propel leaders to give their militaries economic power, and how the resulting dynamics give rise to institutional change. It also shows how choices made by leaders can become locked in and difficult to change. Comparisons with other cases indicates that close civil-military relations are apparently a prerequisite for the military's emergence as a major economic player. But the effects and durability of military economic power are case-specific, with the changing capacities of the state being highly important in determining whether the state is able to finance the military through other means.

3. Method

This chapter will make use of within-case analysis with comparisons. It will examine how causal mechanisms, defined as activities that actors engage in, can give rise to effects given a set of causes (Beach 2016, 466; Beach and Pedersen 2013, 54–56). Herein, I seek to use it with comparisons to develop casual explanations of the rise of military economic activities in different contexts, examine the mechanisms common to all cases with comparable political and

economic institutions even though there is significant variation in some causes. A fundamental reassessment of the country's strategic aims, or the construction of state capacity sufficient to relieve the military of its prebendal funding requirements would be difficult to achieve.

The evidence utilised in analysis of the North Korean case include pattern evidence in the form of statistical data that indicates the importance of militarization and military build-up as a strategic aim. Trace and account evidence in multiple forms, including first, the leaders' published speeches, used because they offer an account of the leaders' motives and knowledge of agency problems. And also accounts from inside the system from well-informed observers. There is also limited sequential evidence used to demonstrate the existence of the locked-in effect of military economic power in North Korea (Beach and Pedersen 2013, 99–100). Comparisons are made with the aid of secondary sources.

The four states chosen for comparison have comparable political systems, and their militaries emerged as major economic players under similar circumstances. In broad terms, the case study design utilised herein can be considered a type of 'most similar' design (Przeworski and Teune 1970, 32–34), given that the main area of variation is in the structure of civil-military relations, i.e., between the movement from symbiotic to more coalitional in Vietnam and China, the North Korean move toward more fused relations,[54] and Cuba's largely unchanging fused relations. Compared to North Korea, the other cases are more typical in the circumstances in which commercialised military business arose – i.e., amidst major military retrenchment, and reform (see below). Hence, with respect to causal analysis, the North Korean case is deviant, and allows for the revisions to existing theories on military economic power and business (Beach and Pedersen 2018, 849–50).

The next section examines the North Korean case in detail.

4. The North Korean case

(a) The pre-1972 period

The roots of the KPA's later economic role can be largely found in the pre-1972 period, as in the case of other armies in state socialist systems (Mora 2004). Kim Il Sung, the country's leader from 1945 to 1994, started the fratricidal Korean War that killed millions and laid waste to much of the country. The Korean War was one of the most devastating since the Second World War, and it was integral both to the formation and ultimate consolidation of the North Korean state, and its further evolution (Buzo 2018; Youngjun Kim 2017). Military build-up on the northern half of the Korean peninsula began in the late 1940s and arguably represented a continuation of Japanese colonial military build-up on the peninsula (Kimura 1999; Kimura and Abe 2009). This build-up has also arguably not ended (Jager 2013).[55] This build-up created a significant financial burden for the state that is difficult to finance (Hamm 1999).

Indeed, the North Korean state appears to have never possessed the necessary administrative and fiscal capacity to finance the strategic aims of the leader(s). The military economy as a separate economic unit began to emerge as early as the Korean War period as the military was

[54] This is discussed further below, but it is evident from both the structure of the state that emerged under Kim Jong Il, and the rhetoric that surrounds relations between the Party and the KPA (Moon and Takesada 2001; H. Park et al. 2004, 136).

[55] Military build-up in northern Korea actually began in the

increasingly entrusted with ensuring that its own personnel were fed and clothed (I. S. Kim 1995, 283, 343). As early as 1955, the Regimental Chief of the Rear Department ('Rear Services Department' in Soviet parlance) was required to organize and guide 'side-work activities' to "satisfy the demands of management and life of the regiment" (Ministry of National Defense 1955, 40).[56] The military was provided with grain by the state, but it was made responsible for producing other foods aside from several condiments (bean paste, soy sauce, salt), cooking oil, and fish that were also provided by the state. Further, from 1958, military units were instructed to produce their own meat and vegetables (S. Y. Han 2013, 71). This may have been partially inspired by Chinese military practices that date from the same period (R. L. Powell 1971). Other activities including fishing organized by military units were unremarkable in the early 1960s (I. S. Kim 1999, 25), and the leader also calling for the military to be more involved in production for its own subsistence (I. S. Kim 2000b, 230).[57]

Some estimates indicate the military's share of output was considerably lower in the post-war 1950s than before or since (Hamm 1999, 100).[58] But from the mid-1950s, relations between North Korea and its erstwhile patrons and allies, China and the Soviet Union, began to rapidly deteriorate (Lankov 2005). Kim Il Sung began to cultivate an independent national defensive capability thereafter (Szalontai 2005, 51). This resulted in a rapid military build-up that began in the early 1960s (Seong 2006). Kim appears to have been serious about unification with the South, going so far as to seek approval from China for an invasion planned for 1965, which rejected his proposal (Cheng 2009). This also coincided with the growing intensity of military provocations by the North (Michishita 2010). The country did not have any allies that Kim Il Sung saw as sufficiently reliable to aid with the future unification of the country – the Soviet Union began to pursue peaceful coexistence with the West after 1956, while China showed little appetite for armed conflict on the Korean peninsula (Shen and Xia 2018). Hence, Kim sought instead to acquire the capacity to unify the peninsula without foreign assistance (Chung 1997). The intensifying build-up led to a dramatic rise in the published military budget, and a far larger rise actual spending.[59]

The sustained military build-up that began in the early 1960s appears to have gradually led to a devolution of more economic power and responsibilities to the unit level, especially following

[56] Note that at this time, the North Korea's Defence ministry was called the 'Ministry of National Defence'. It was later renamed the 'Ministry of People's Armed Forces' (in 1972), and then remained the 'Ministry of Defence' in 2020.
On the Soviet Army's rear services, see: Turbiville (1988). The Rear Services Departments in many Soviet military units also ran 'auxiliary farms' (Després 1996; Després and Khinchuk 1990, 272–75), a type of farm equivalent to 'side-work' farms in North Korea.

[57] After the war, which ended in 1953, the North Korean government was initially primarily focused on reconstruction of the country. After 1953, the last vestiges of private ownership in agriculture, commerce and industry were wiped out and an economic system based upon planning and central administrative commands cemented (Ward 2020a; M. S. Yang 2002). Hyper-centralization of control was combined with the use of mass mobilizations of workers (and soldiers) to fulfil ad hoc goals (Buzo 2018). And while resources were centrally managed, there was a strong (and growing) stress on self-reliance – finding the resources from below and internally to fulfil centrally-set targets or commands.

[58] Alternative estimates presented in Seong (2006, 307–16) indicate that North Korean military spending peaked as a percentage of total government outlays in the late 1960s (around 35-40% of total government spending), and began to decline thereafter. Seong (2006, 315) estimates that North Korean Defence spending as a percentage of total spending hit its nadir in the early 1990s (around 15% of the state budget) before rising again.

[59] In conversations with diplomats, North Korean officials told their foreign interlocutors that while the official budget in 1969 only reported military spending of 30%, a full 50% of government outlays were actually going on military spending (Pak and Chimiddorj 1969).

the declaration of the so-called 'dual-track of developing both the civilian and military sectors equally' in 1966 (Chung 1997; K. Lim 2000; Oh et al. 2018). The decision to further intensify preparations for war and generally militarise the economy was officially made in 1966 at the Second Party Conference (Seong 2006), after Mao's China refused to support an invasion the previous year (see above). But the massive diversion of labour and capital to the military sector also created supply and labour shortages (M. S. Yang 2002, 136–41), which the mobilization of soldiers into the civilian sector were designed to alleviate (I. S. Kim 2000a, 57). The massive allocation of labour and other resources to the military in the 1960s also coincided with growing problems in the North Korean economy generally (B.-Y. Kim, Kim, and Lee 2007). Strategic aims hit the limits of state capacity. Production for subsistence within the military itself was necessary to reduce the burden the military placed on the state, with its limited capacity to finance the military (I. S. Kim 2001a, 387). In 1968, the military was also given the responsibility for assisting with foreign currency earning, activities included supplying labour to gather, harvest or mine valuable items for export (J. H. Choi 1999, 28–29; Naewaet'ongsinsa 1995, 103). Here again, these activities were designed to raise funds to finance the import of needed materiel. The military's major economic activities are summarised below.

Table 4: North Korean Military Economic Activities (up to 1972)

Type of Activity	Time of origin	Management	Participants
Production for subsistence (grain, livestock, fish)	During the Korean War (or perhaps earlier)	KPA Rear Bureau	Individual Military Units; production units directly run by the Rear Bureau
Foreign Currency Earning Units	Late 1960s (1969)	KWP Central Committee	Individual Military Units

Sources: J.H. Choi (1996; 1998; 1999, 28–29)

The growing size and importance of the KPA generally, and its involvement in the economy coincided with a crisis in civil-military relations. Political control of the military was exercised by the same mechanism common in state socialist countries, via a system of political officers or 'commissars' (Yoo 1997, 107–19; J. Ko 2018, chap. 3). There were two major purges of the military during this time, first of factional opponents of Kim Il Sung in 1956-58 linked to foreign patrons, and then again of fresh factional opponents of Kim in 1968-69 (Kwang-soo Kim 2006).[60]

These purges resulted in reorganizations of political control at the unit-level that were designed to fix the agency problems created by having a professional military whose political loyalty was potentially suspect (Talmadge 2015). First, political officers were chosen for their loyalty (in other words, avoiding adverse selection), and second, they were also expected and empowered to monitor the political life of regular officers and soldiers (i.e., alleviation of moral hazard). The crises of civil-military relations saw the powers and status of political officers further enhanced so that they were effectively co-commanders at the unit-level (Suck-ho Lee 1989, 191–92; J. Ko 2018, 107–11), this more tightly bound the military to the Party, because

[60] In a secret speech from January 1969, Kim Il Sung alleges that the then-head of the KPA General Political Bureau Hŏ Pong Hak and the Minister of People's Armed Forces Kim Ch'ang Pong had presided over the 'incapacitation' of military's Party organizations and had sabotaged war preparations (Republic of Korea Central Intelligence Agency 1974, 327–30). The details of the speech are largely corroborated by other speeches given by Kim Il Sung and Kim Jong Il thereafter.

political appointees within the military were granted veto power over orders issued by their regular officer counterparts (Suck-ho Lee 1989, 165–66).

The ineffectiveness of these systems in managing military economic activities is further explored in chapter 5, but the origins of these systems and much of their early development appears to coincide with a series of crises in elite civil-military relations in the 1950s and 1960s. Yet, these crises did not presage a drawdown on military spending or a reassessment of strategic objectives,[61] and did not appear to have exerted significant impact on the military's involvement in economic activities. Testimony from an officer serving the in the North Korean military at the time indicates that there was an economic component to the purge of Minister of National Defense (later renamed the Ministry of People's Armed Forces) Kim Ch'ang Pong in 1969, specifically what was known as the 'Onchŏn Incident'. The military unit he had organised to mount an armed partisan struggle in the south was based in Onchŏn county, South P'yŏngan, and while training it also ran a farm. Lacking sufficient water for irrigation, the unit proceeded to forcibly requisition it from a neighbouring form. This devolved into a shootout with many being killed. The unit was dissolved, and Kim Ch'ang Pong was purged (Sim 2002, 136).[62] Between 1969 and 1973, military subsistence operations were temporarily stopped because they interfered with battle preparedness (S. Y. Han 2013, 71), and also perhaps because of the Onchŏn Incident.

After 1973, however, these operations returned to the military. Giving economic power and responsibilities to military units may have created some moral hazard problems, given that it would potentially allow officers to amass resources, and some level of autonomous power. Hence, the further empowering of political officers appears to have served to alleviate potential issues with officers in possession of their own economic fiefs – though as evidence in chapter 5 demonstrates, this division of power has not stopped the spread of illegal economic activities within the military. Conversely, encouraging military units to produce their own food and other items they needed may have helped to fix agency problems, given that officers and soldiers would have been the consumers of their own production they would have had less incentive to shirk on production than civilians doing the same work.

It also was designed to ensure that the military was well supplied.[63] It was also needed to alleviate the negative effects of military build-up which itself syphoned resources and skilled labour off from the civilian sector (Szalontai 2005). Foreign currency earning-related operations could have potentially given rise to moral hazard issues – free cash can be 'diverted', i.e., stolen and misused. But officers did not have direct access to foreign markets in this period, so they would unlikely to have had ability to convert the commodities they gathered/harvested/mined into cash (J. H. Choi 1999).

Many of these activities would only become commercially oriented later. The next subsection examines the North Korean military's evolving role in the economy after 1972 up to the collapse

[61] The crisis was partially touched off by the failure of attempts to use unconventional tactics on the DMZ and in South Korea to incite a revolution there. This period, 1966-69, is commonly known as the 'Second Korean War' (Michishita 2010).

[62] Kim Ch'ang Pong and other senior officers were also accused of a number of other economic crimes and abuses of power (Yi 2003, 138).

[63] The military appears to have received much of the meat that the country produced during the period (I. S. Kim 2001b, 126). Kim Il Sung was generally pleased by the state of supply for the military during this period (I. S. Kim 2003b, 182), especially compared to later periods (see below).

of the Soviet Union.

(b) The 1972-1991 period

The period up to the collapse of the Soviet Union saw significant, incremental changes to how the military's existing economic activities were managed, with the military becoming directly involved in actual commercial activities. This section first examines the emergence of proto-commercial enterprises and changes to unit-level production for subsistence. And how the North Korean leadership sought to handle major principal-agent issues created, as well as how institutions that were created as a result of the choices made by the leadership gave rise to gradual change and sometimes unintended outcomes that affected military economic power, both the discretionary power of officers at the combat level, and staff, as well as the institution of the military overall.

Over this period, as the military grew in size, its economic autonomy expanded through institutional layering of new economic institutions upon old within the foreign trade system, and layering in the supply system. New production and trade institutions layered on top of existing systems to boost supply did not resolve supply issues, however, and the available accounts describe a system with significant corruption at the higher levels and growing indiscipline below. This autonomy was a product of greater requirements to self-fund, and greater scope to engage in independent economic activities.

This period saw the emergence of a fully symbiotic relationship between the Party-state and the military (J.-C. Lim 2019, 59). The purges of the officer corps in the late 1960s presaged the emergence of an officer corps who actively supported and facilitated the succession process from Kim Il Sung to Kim Jong Il (J.-C. Lim 2008). This meant that Kim Jong Il's major powerbase, the Organization and Guidance Department of the Central Committee, direct control over many appointments in the military, and there were additional purges in the latter 1970s of military officials sceptical of succession. However, at the top echelons of power, the military remained highly prominent. Military membership of the supreme organs of the Korean Workers' Party, namely Politburo and Central Committee (CC) was high, but relatively stable from 1945 to 1980, with on average 21% of the Politburo and the CC being military over the period. The numbers for 1971 were 25% and 23%, and for 1980, 29% and 19% respectively. For a complete breakdown over the Kim Il Sung period, see appendix 2, which is based on data presented in Suck-ho Lee (Suck-ho Lee 1989, 213–14, 219). The military's membership of top party institutions was far larger than in the Soviet Union of any period, but generally lower than that of China in the Mao (1949-1976) and early Deng (12th Congress, 1982) periods (Suck-ho Lee 1989, 223–24).[64]

At the same time, at the lower levels of the military hierarchy, there were also efforts to intensify political education and indoctrination (Yi 2003, 66–71). Gradually, the military was accorded greater autonomy in its business operations, obtaining control over the cash flow it generated from business operations and the right to set up its own banks to manage these revenues. Hence, military business operations gradually allowed the KPA to become more autonomous from the Party-state with respect to funding, but the military's role in politics and the structure of power

[64] For data on the later Kim Il Sung period and indicators of growing military elite prominence under Kim Jong Il post-1994, see Cha (2006).

meant that it was still very much in a relationship of symbiosis with the Party.

All available estimates of the KPA's manpower point to dramatic rises in the size of forces (see Figure 3 below). The relative increase is more important than the total number given its impact on military operating expenses. This change in force numbers combined with a slowing economy meant that economic performance did not match the growing needs of a rapidly expanding military (Kim et al. 2007). There was also slowing demographic growth that may have contributed. The growing gulf between the relative size of the military and the state's fiscal capacity to finance it led to the layering of institutions within the foreign currency earning/foreign trade sector. The military gradually acquired greater rights and autonomy in this area. But institutional drift, i.e., where the institutional form remaining the same but the actual function is altered to due to changing circumstances, also became a major issue, with moral hazard arising from greater autonomy being granted to actors within the system that created warped incentives to embezzle funds and rent seek. The same dynamics were also evident in the production for subsistence at the unit-level – and remain the significant issues (see chapter 5).

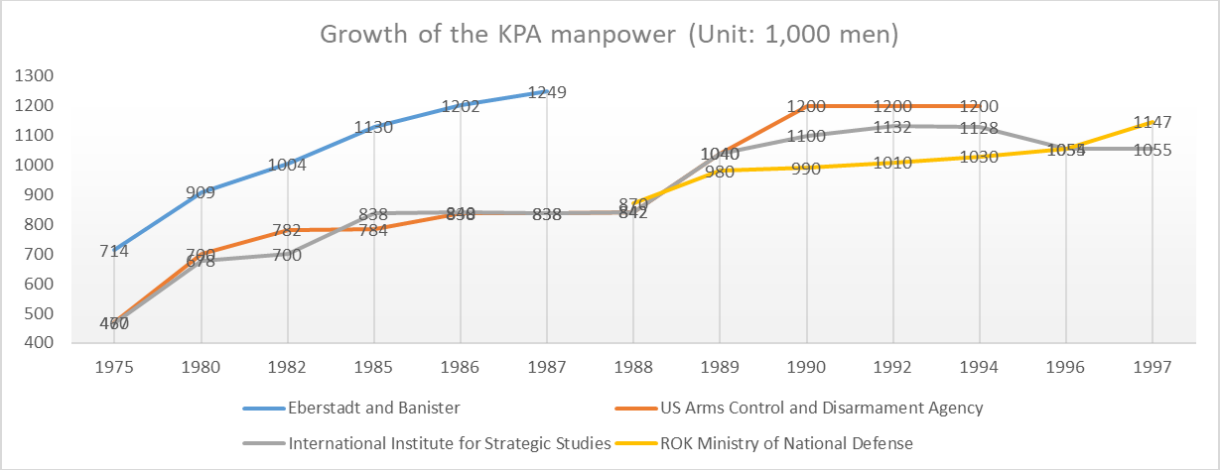
The size of the military increased dramatically from the mid-1970s as a consequence of the combined effects of a post-war surge in births (Eberstadt and Banister 1992, 42), and extensions to conscription (Tertitskiy 2017, 122). The country's arsenal of tanks, armed personal carriers, artillery, anti-aircraft guns, and naval combat vessels grew dramatically between 1970 and 1977 according to contemporary US intelligence estimates (Humphrey and Glenn 1978, 27). Estimates put out in 1979 indicated that "P'yŏngyang's lead in weaponry is 3 to 1 in tanks, 2 to 1 in mortars, and nearly 2 to 1 in field artillery pieces" (Niksch 1981, 333).[65] Some of these forces were apparently mass-produced fakes designed to deceive US reconnaissance satellites (Sim 2002, 136–37). But a forces modernization program launched in the 1970s continued throughout the 1980s as well, and was no doubt highly costly, with a switch from unconventional and guerrilla tactics to conventional, mobile forces with a strong emphasis on speed (Kwang-soo Kim 2006, 147–61).

The decision to further increase the size of the military, both in manpower terms and the size of its weapons arsenal reflected the strategic aims of the leadership, which continued to entertain hopes of unification by force (Kwang-soo Kim 2006, 147–51).[66] Based on estimates from Eberstadt and Banister (1992, 88), the KPA's numbers rose from around 4.3% to 6.2% of the total population between 1975 and 1987, an approximate 42% increase in the relative size of the military as a percentage of the total population. Figure 4 shows the various estimates of KPA manpower. Clearly, Eberstadt and Banister's estimates are on the high side, but they rely on reconstructions from official North Korean population data, which make them perhaps more reliable than other estimates that have no direct statistical evidentiary base (Eberstadt and Banister 1991, 1111–12).

[65] There was considerable controversy about the size of the Korean People's Army at the time because of the Carter Administration's plans to withdraw U.S. forces from South Korea. Hence these estimates may not be fully reliable (for details, see Hamm 1999, 79–82). However, other sources and subsequent work on North Korean demographics gives a very strong impression of a country become more militarized and the costs of maintaining this expanding military exceeded the fiscal capacity of the state.

[66] This contrasts with North Korea's public-facing unification policy, which was aimed at 'peaceful unification'. For a recent review, see: Nakato (2016).

Figure 3: Size of the KPA



Source: Hamm (1999: 87)

This surge in the size of the KPA coincided with changes to the structure and size of the economic activities it was involved in. In the early 1970s, a new foreign trade system was layered on to the existing system of foreign trade institutions. Previously, the Ministry of Foreign Trade held a monopoly on foreign trade, and most foreign trade was conducted with other state socialist countries on barter terms, and this system was not abolished, but rather 'supplemented' (Koh et al. 2008, 267–69). Already by the late 1960s, military units ran some foreign currency earning-related operations. A fall in Soviet and Eastern bloc aid and trade in the late 1960s also led to a push to boost trade with non-socialist countries (Agov 2010, 382–93), and the initial moves to decentralise the foreign trade system. The aim appears to have been to obtain higher prices on world markets than were available in trade with the Eastern bloc Council on Mutual Economic Cooperation (CMEA) countries. The military's foreign trade infrastructure was initially comprised of military units who produced/extracted/gathered resources for export that were given to civilian firms for export (J. H. Choi 1999, 26). While such units originated in the late 1960s (J. H. Choi 1996), they appear to have expanded during the 1970s after the leadership initiated a series of mass mobilization campaigns to produce or gather exportable commodities in 1972 (I. S. Kim 2003a, 469).[67] The leadership appears to have been pleased with the military's business performance, with KPA units were congratulated for successfully doing so in 1979 (I. S. Kim 2007a, 185–86). In effect, a new institution, mass mobilizations for foreign currency earning purposes had been layered on top of existing economic methods. The reason appears to have been that the state lacked the coordination capacity to mobilise resources via simple bureaucratic means, and needed to utilise the military's command structure and labour power to extract resources for ultimate use by the military.

The layering of new rules and processes related to production and resource gathering did not

[67] These initial campaigns caused problems with social control generally. Mass mobilizations to acquire resources led to officials and workers ignoring rules regarding party political life and discipline in some localities as they traveled from province to province in search of ways to fulfill quotas (J. I. Kim 2020, 411–12). From the available sources, it is unclear whether these campaigns also involved the reassignment of assets and/or state firms from civilian sector to the military. Although it is plausible that it may, given that the leadership could and does do so when it deems necessary (Kwang-jin Kim 2008). For a more detailed discussion of the North Korean financial system under the three Kims, see Park and Choi (2013, 93–96).

initially also involve direct transacting and exchange by the military with the outside world. However, the gradual layering of foreign trade companies on top of the existing Ministry of Foreign Trade infrastructure began in the early 1970s, led to the military acquiring its own foreign trade company to facilitate trade with the outside world in 1980 (Joung 2012, 9). This coincided with a general decentralization of the foreign trade system, with local and regional governments being encouraged to engage in production for export (M. S. Yang 2008, 4–5).[68]

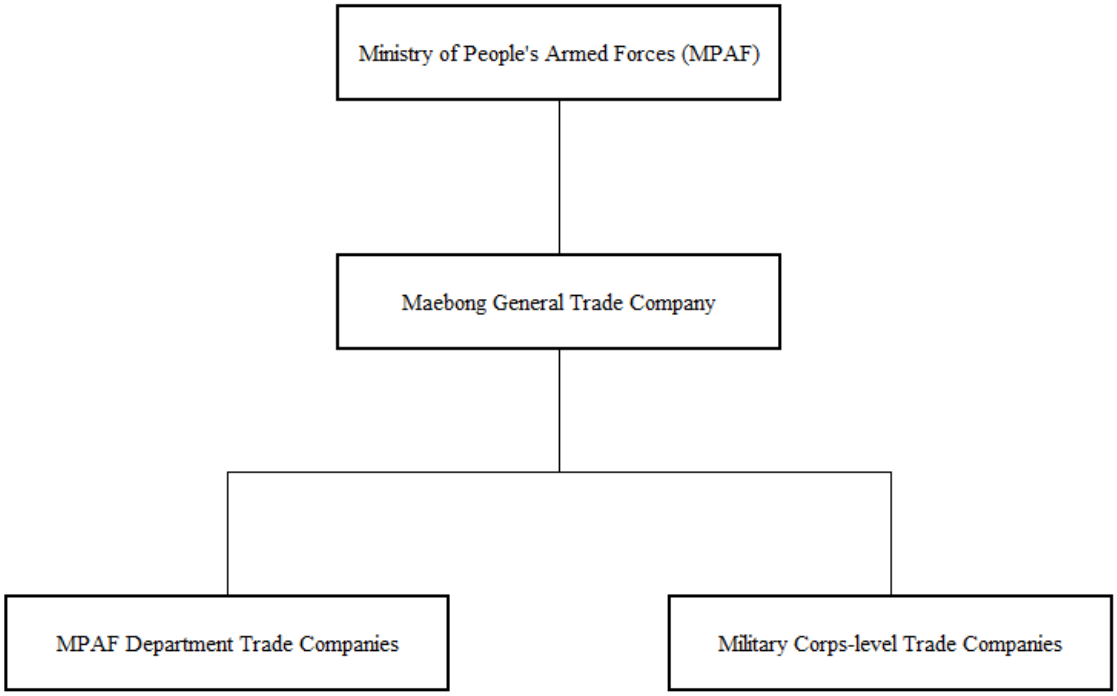
The military's forex fundraising arm, initially known as 'Department 26', which became the Maebong General Foreign Trade Company (MGFTC) in 1980, was entrusted with acquiring foreign exchange to purchase the four materials – soy beans, soy bean oil, maize for animal feed, and cotton – that the military needed to acquire from overseas (J. H. Choi 1999, 30; I. S. Kim 2007b, 439). Beneath Maebong, different departments of the central Ministry of People's Armed Forces (MPAF) had their own foreign trade companies (FTCs). The creation of companies with at least some operational autonomy in matters of foreign trade with Western countries was not unusual in the Eastern Bloc after the late 1960s (Brada and Jackson 1977, 1265–68; 1978, 315). But this gave actors within these new organizations potential opportunities for rent seeking and corruption as institutional functions drifted from their initial purposes (Brada 1991, 214–17). Such arrangements also arguably constituted a kind of prebendalism, with individual bureaucratic agencies being pushed to raise their own revenues rather than rely on government budget allocations.

Further, from 1983, military units were allowed to organise their own 'Foreign Currency Earning Offices' (FCEOs) that allowed them to begin to look for opportunities to gather resources or produce products that could be exported for profits that were to be used to supply the unit (Kong 2010, 61).[69] This occurred around the time that the country began to default on the hard currency debts that it had built up in the latter half of the 1970s to finance industrial investment. It made a renewed push to boost hard currency trade and also sought foreign investment (B.-Y. Kim 2017, 123–24). As Kong (2010, 61n174) notes, 'foreign currency earning offices' (FCEOs) can organise fishing, farming, mining or other production/extraction operations, but cannot directly export or import, requiring a foreign trade company (FTC) to do so on their behalf (Hong 2006, 302). Some units were also empowered to start their own trade companies, which could trade directly with the outside world, but it was not until the 1990s that unit-level foreign currency earning activities became widespread (J. H. Choi 1999). As figure 4 below shows, the Ministry of People's Armed Forces (MPAF) and its departments were the primary locus of foreign trade operations within the military.

Figure 4: The military's foreign trade system (1980-96)

[68] However, until the mid-1980s, regional governments also suffered from a similar predicament to the military in the 1970s, with the center monopolizing much of the proceeds of any commodities they were able to sell on international markets (I. S. Kim 2009a, 144).

[69] In the civilian sector, Foreign Currency Earning Offices (FCEOs) are organized at the city and county-level by People's Committees, i.e., the civilian government, whereas larger foreign trade companies can be created by the provincial government among many other power entities (C. Y. Kim 2009, 115).



Source: J. H. Choi (1999, 33)

The military's rise as a foreign trade actor occurred at a time when the country's position in international markets was worsening. In 1984, North Korea ceased making payments on its debts to Western and Japanese creditors (Buzo 2018, 99–100), and was deemed to be in default in 1987 (Buzo 2018, 111–12). At the same time, however, relations between North Korea and the Soviet Union began to thaw in 1984, resulting in an influx of additional economic support (Zhebin 1995), and substantial military aid including "52 Mig-23 fighters, […] Soviet SA32 SAMs, and SCUD-B surface-to-surface missiles" (Pfaltzgraff 1986, 334).[70] The economic support that continued into the late 1980s is believed to have slowed down the drive to decentralise foreign trade and the push for foreign investment (Zhebin 1995, 731–32).

As the civilian economy's prospects were worsening and military aid from the Soviet Union dried up, in 1989, the military acquired the right to set up its own bank (K. Jeong 2010, 138). The KPA was remarkably quick in acquiring its own banks. The People's Liberation Army (PLA) in China also established its own bank in 1993, but this appears to have been less important in the development of its already significant economic power (Mulvenon 1998, 5). Similarly, the Vietnamese military established its first bank in 1994 (Thayer 2017, 151).

The KPA possessing its own financial institutions allowed it to acquire greater autonomy in its foreign trade activities. However, poorly designed or else poorly functioning audit systems (i.e., monitoring institutions), the military's foreign trade company Maebong had been able to siphon off foreign trade revenues out of the banking system (J. H. Choi 1999), low state capacity to enforce rules exacerbated moral hazard problems. Further, the trade system also had issues with rent-seeking. Export licensing was monopolised by Maebong, which was able to profit from the monopoly it had over the KPA's foreign trade system, receiving 3% of profits from all

[70] There are also indicators from Soviet trade data that there were large transfers of weaponry and other materiel to the North in the latter half of the 1980s (Eberstadt, Rubin, and Tretyakova 1995, 96).

exports by KPA-affiliated foreign trade companies, and military units that had foreign currency earnings operations (J. H. Choi 1999). This was effectively a form of monopoly rent that one part of the military acquired at the expense of other parts of it.[71]

Nonetheless, it would appear that some forms of moral hazard and adverse selection were precluded or significantly mitigated by institutional design. At the apex of power, accounts from inside the system describe a high level of centralization. The formation of new companies had to be signed off by the leader himself (J. H. Choi 1996; Jong-min Kim 1993), and this appears to have been designed to preclude high-level embezzlement of assets and building of personal fiefs, i.e. what Karklins (2015) calls 'state capture'. In other words, the system was designed to keep officials personally dependent upon the leader. Generally speaking, by the late 1960s, the decentralization of foreign trade in Eastern bloc countries meant that organizations authorised to engage in foreign trade activities did not require authorization from the country's top leader before doing so (Grzybowski 1971). In China of the 1980s, the Ministry of Foreign Economic Relations and Trade approved the formation of new foreign trade companies that had the right to engage in the trade of certain products (Lardy 1991, 39; 1992, 701). The level of centralization in the North Korean system somewhat resembles that run by Alexander Schalck-Golodkowski of the East German secret police, the Stasi, who presided over a vast foreign trade system, the Kommerzielle Koordinierung (KoKo), which reported directly to the country's leader Erich Honecker.[72] The communist regime in Bulgaria also ran an arms and drug trafficking firm called KINTEX under the Bulgarian secret police, with authorization from the apex of power to generate necessary forex funds (Bale 2017, 426–28; Sofia News Agency 2008).[73] However, whereas KoKo and KINTEX were special cases, it would appear that the KPA's foreign trade network was subject to similar levels of centralization and control as other parts of the North Korean foreign trade bureaucracy (B. D. Choi 2011).

With respect to North Korea, this level of centralization was clearly designed to maintain order within the foreign trade system, and to deal with problems of adverse selection – i.e., ensure that only agents with the requisite skills and reliability got such privileges. But the Maebong's monopoly position and its rent-seeking off lower units led military companies under the MPAF umbrella to seek out alternative (illegal) export arrangements with civilian companies (J. H. Choi 1996; 1999, 32).[74] Here, institutional design gave rise to moral hazard issues, as lower levels of the trade bureaucracy operating with commercial incentives engaged in behaviours that gave rise to institutional drift, circumventing rules in order to counteract MGFTC's monopoly, while the devolution of foreign trading rights and direct access to foreign markets to the MPAF allegedly proved highly lucrative for lower level officers, allowing them to

[71] During this period, there was also reportedly a high-profile case of embezzlement from the civilian Foreign Trade Bank involving officials directing loans to the Ministry of People's Armed Forces (North-South Issues Research Center 1997, 144–45).

[72] There is an extensive and deep literature on KoKo in German, but it has received rather sparse coverage and analysis in English. For a summary of the major findings of the literature, analysis of how KoKo functioned and its impact, see: (Blusiewicz 2017, 295–352). I am grateful to Professor Balazs Szalontai for his suggestions and help in finding sources about KoKo and KINTEX.

[73] Compared to the literature on KoKo, there is comparatively little written on KINTEX, though.

[74] Problems with rent seeking and corruption were not peculiarly North Korean in this area. The East German KoKo also had similar issues (Blusiewicz 2017, 301–7), and partial decentralization in the Chinese case led to problems with corruption (bribery of the transactive variety) and tax evasion (Hao and Johnston 1995, 123–25). Much of this corruption would have constituted profiteering from public assets under Karklins (2015) framework.

embezzle cash flow and profit from their access to state assets (J. H. Choi 1999, 40).

The military's growing foreign trade company infrastructure was designed to help it fund growing development and production costs for more sophisticated ordinance (Chung 1997; Oh et al. 2018), as well as supply the military with other necessary equipment and food. In 1973, the military was again required to engage in a broad range of food production activities because the civilian farming sector were unable to produce sufficient quantities and variety of food for the military. KPA units created their own departments responsible for organizing side-work production, and began producing crops on available arable land and engaging in animal husbandry (S. Y. Han 2013, 71). Over the course of the 1970s, Kim issued instructions related to military subsistence production, citing problems with the vegetable and meat supply (I. S. Kim 2005, 435–36), calling upon the military to boost grain production and improve the supply of fish (I. S. Kim 2005, 478–79), and also firewood (I. S. Kim 2006b, 225). He also ordered the military to boost production at the military-unit level, as well as open new farms to be run by the Rear General Bureau (the agency in charge of supplying the material needs of military, i.e., the Rear Services Department in Soviet and Chinese parlance). Food supply issues were already apparent in the late 1970s as the military was expanding, with Kim Il Sung complaining that the military was not producing enough meat to allow for soldiers to be supplied on a regular basis (I. S. Kim 2006a, 122). Even as early as 1973, food rations were cut by on average 13%, with the average ration being 608g of cereals per day (Suk Lee 2003, 141). The agricultural production data from the period appears to be unreliable (Ward 2019a),[75] however, making the extent of the problem hard to estimate.

Supply issues were exacerbated by the expansion of manpower in the military, and the state's continued incapacity to supply the military with the fiscal resources it required. The demand for self-sufficiency arguably led to a drift toward corruption and predation. These are moral hazard issues associated with agents who have access to the coercive means to extract resources from civilians. Indeed, the unfunded obligations placed on the military as an institution created ample need to engage in predatory and corrupt behaviours that its principal, the country's civilian leader, would see as contrary to his interests. While few official North Korean sources talk about the issue openly, Kim Il Sung in a speech from 1985 notes an instance of soldiers stealing food from civilian fields.[76] As the following quote shows:

> "When I went to South Hamgyong before, I visited a company. I met with the company's commander and its political instructor, and asked them whether there were any violations of discipline. They told me that there had been two, one involving a young soldier who secretly stole unripened corn from the people's fields, cooked and ate it. So I asked them whether they could grow corn on their side-work plot, and steam it when the soldiers want it, or else buy corn and steam it, and wouldn't that resolve the

[75] Ward (2019a) analyses available North Korean harvest data from the 1960s onward, and shows that much of the reported harvest was apparently used to feed livestock. When this feed quantity is deducted from the FAO data, the size of the harvest barely grew at all from the mid-1970s to 1990, even as the population continued to expand. This implies a significant decline in per capita food availability over this period. Internal North Korean data from 2015 also indicates that per capita food production peaked in 1979 (Ward and Han 2021, 107).

[76] There are mentions of problems with discipline in earlier official sources, including damage to civilian property from 1976 (J. I. Kim 2009, 45; 2019, 186). Hence, it is not entirely clear when predation started to emerge as a serious problem. Also see Naewaet'ongsinsa (1995, 390–95) on problems with the military food supply and indiscipline.

problem." (I. S. Kim 2009b, 237–38)

It is unclear what happened to the soldiers concerned, but such pronouncements hint at growing supply problems that the military was facing, and its resultant effects on discipline (J. H. Choi 1998, 51–52). There were even accounts of looting from North Korean farms in the late 1980s. A former bodyguard for the Kim family details how soldiers would steal from local farms even in the late 1980s:

> "It wasn't just shock brigades [military construction workers] but soldiers who stole things to eat. The easiest way to catch and make off with a pig was a gas lighter. You'd go to a pigsty in secret at night and hold the lighter under the pig's nose. You wouldn't light it of course, just make sure that it leaked gas. If you do it for long enough, the pig will pass out from the fumes. Then the soldiers would pick up the pig, take it back to the barracks and turn it into an excellent meal before it has time to wake up.
>
> Sometimes farm managers who know who had stolen the pig would head over to the farm. They would be greeted by a sign that read 'XX Farm's Master XX has given a 100kg pig as a present to our unit.' Of course, the manager would run over to protest 'you bastards, you stole my pig, when did I denote it?'. Whereupon he'd hear the following politely given, harsh response:
>
> 'We are the army led by the Dear Leader [Kim Jong Il]. How can you possibly so recklessly accuse us of theft?'" (M. Kim 1994, 355)

This anecdote may come with some literary flair and may not be representative, but it appears to be fundamentally similar to behaviour also described by Kim Il Sung above and elsewhere. Other recent research indicates that soldiers and officers became increasingly prone to stealing food in the late 1980s because they were only supplied 60-70% of their normal rations (Y. I. Choi 2020, 184–85), and that robbery from civilians and the farms became a major social problem (Y. I. Choi 2020, 186–87).

Existing supply institutions designed to ensure the military was adequately supplied with grain and other vital foodstuffs were seemingly under considerable strain. This is also borne out in South Korean intelligence reports from the period, which indicate that clothing and food were already in short supply from the mid-1980s if not far earlier, and this led some officers to engage in illegal barter trade with civilians (Headquarters of the Republic of Korea Ground Forces 1990, 146-47, 148 cited in S. Y. Han 2013, 79n103, 79n104). Other accounts point to considerable food shortages and lower-level officer corruption in the late 1980s. Another North Korean escapee who arrived in the South in 1993 and had experience managing a canteen for a KPA communications battalion in the 1980s notes:

> "As late as 1980, when I entered the military, I did not hear anything about malnutrition in the North Korean military. Maybe because it was a society where there was a high level of control over rumours….
>
> When mobilised in 1986 to build an airport as part of preparations for the 13th World Festival of Youth and Students in P'yŏngyang, the number of soldiers who had become malnourished began to rise. The festival created a considerable fiscal burden and in order to meet it, the authorities drastically cut the rations of the military and then mobilised soldiers for construction…

> In the case of regular infantry, their total calorie intake is 3,711 per day. But in reality, they only receive 500 calories." (Y. Lim 1994, 245–46)[77]

Such issues with supply and the social frictions they were surely generating may have led Kim Il Sung to order every farming household to begin rearing livestock for the military (I. S. Kim 2010, 503–4), layering a new institution upon existing food production obligations for civilian farmers that continues to the present time along with other obligations (So-young Kim 2017, 400–401). It would appear that the campaign did not have the desired results of improving the food situation in the military, however, because the regime proved unable to appropriately monitor actual distribution, or punish those actually responsible for corruption in the distribution of food. Here again Lim (1994, 258) notes:

> "When pork is brought back [from the farmers], soldiers are given a taste on the first day, and for the rest of the meat is used for the business purposes of cadres. The meat is used to entertain the high-ups and to have them look kindly [on the unit], and all that's left for regular soldiers is a few clumps of fat.
>
> This kind of corruption was so bad that the Ministry of People's Armed Forces' Prosecutor's Office organised inspection teams, but information would leak and the big people would escape [to other units]. So it was just the lower officials who got caught. It was the high officials who were responsible, but the lower-level ones who had actually moved the goods, so it was just their necks that would fly."

Lim's account points to serious problems with corruption and their impact on the food supply for soldiers. The issue of corruption, however, became far more pronounced post-1991. Let us now consider the development of the North Korean military economy after the collapse of the Soviet Union (in December 1991). There is little evidence available in existing sources of the emergence of independent fiefdoms inside the military during this time, but evidence from the post-1991 period points to the problems of growing autonomy and the threat of breakdown in the chain of command discussed further below.

(c) The post-1991 period

The period following the collapse of the Soviet Union saw the dramatic and rapid spread of market institutions within North Korean society generally, and within the North Korean military as well. Existing institutions drifted away from their original purposes. The post-1991 period was marked by dramatic changes in how the military operated within the North Korean economy. Officially, major changes to the foreign trade system generally occurred in 1991-2 with an expansion of autonomy given to Foreign Trade Companies (M. S. Yang 2008, 3–8), and the military's foreign trade structure was reformed in 1996 (see below). While unofficially, the rapid spread and growth of markets and market institutions led to significant institutional drift. An important emerging phenomenon has been the friction between the military and other parts of the civilian state, formally, between different agents of the leader, with the Cabinet or its functional equivalent (and latterly part of the Central Party) seeking to take economic power away from the military. This section will examine both processes, the agency issues they gave rise to, and the civil-military context. There was probably significant subnational variation due

[77] The cost of the World Festival of Youth and Students held in 1989 and other prestige construction projects was indeed reported to have taken up a significant portion of economic output (Eberstadt 2010b, 90).

to the disproportionate impact of the famine on certain in-land parts of the country especially more distant from the southern border (Haggard and Noland 2007, 62–72), but this variation is not easy to track given available sources.

Over this period, the military's foreign trade resources and companies have become largely free of civilian oversight and attempts to redistribute some of their more lucrative concessions (by other parts of the bureaucracy) have failed. While the military's supply institutions have significantly marketized, and the fact that the leader takes a negative view of such arrangements and wishes to stamp them out have not resulted in significant institutional change. There is also evidence of both civil-military conflict at the central level and some civil-military collusion at the regional level against the central government. Such developments will be discussed further below.

Post-1991, the military's position within the North Korean system appears to have been further enhanced. Kim Jong Il, who succeeded his father, adopted a policy of 'Military-first' (Songun), and it has been argued that this led to a civil-military relationship increasingly characterised by fusion. The highest organ of state became the National Defence Commission in 1998 (Keun-sik Kim 2001; J.-C. Lim 2019). But arguably this was as much to intensify control over the military (H. Park et al. 2004, 119), and use it to control society (Moon and Takesada 2001), but the size of the central party apparatus also shrunk (H. Park et al. 2004, 205).[78] The North Korean leadership sought to portray a fused relationship too, with high-level military leaders inducted into top party positions and made more prominent in public events (B. Han 2019, 95–96; J. Ko 2018, 111–38), and the Party's Central Military Commission becoming more prominent in military-related affairs at the expense of the Party Central Committee (H. Park et al. 2004, 136, 141).[79]

The power of the leader increasingly became associated with the military, and the military's economic power rose accordingly, becoming more heavily involved in the foreign trade sector at the unit level (Hong 2006, 301–6), and in the mid-1990s, the military was mobilised into the domestic civilian economy to manage and control vital production units (H. Park 2011, 225). In 1994, North Korea's first leader Kim Il Sung died being replaced by his designated successor Kim Jong Il, and apparently persuasive, chronic food shortages turned into a full-scale famine, which may have resulted in the deaths of up to a million North Koreans (Haggard and Noland 2007; Noland 2016). Hence, these reflect emergency measures for a leader that felt himself under siege (Moon and Takesada 2001).

This was preceded by major institutional reforms, granting new rights to existing organizations in the area of foreign trade. In 1992, the North Korean leadership gave central government ministries and committees permission to directly engage in foreign trade by setting up their own foreign trade companies (M. S. Yang 2008, 5), as well as most parts of the Central Party bureaucracy (H. Park 2011, 220). This also coincided with growth in the number and level of autonomy of military foreign trade companies (M. S. Yang 2008, 9). In such a process, the military began to run a large number of production facilities for export, and also acquired

[78] The significance of Military-first is disputed, with some arguing that it meant the reduction party control over the military with less powerful political officers (J. Ko 2018, 120–32).

[79] Internally, after the death of his father, Kim Jong Il largely did away with formal meetings, and relied on informal gatherings of powerful elites to discuss policy and make his views on major issues known. These meetings would be followed by proposals that subordinates would send for his approval (Y. Park 2017, 107–13).

resources from other productive units via market transactions or through administrative means (M. S. Yang 2008).

The economic structures that emerged during this period created a complex web of interdependencies between state organizations including the military, and market actors. Indeed, the famine of the 1990s coincided with the rapid spread of market practices within the state-owned enterprise sector (Seok-ki Lee 2003; M. S. Yang 2002), the collective farm sector (So-young Kim 2017), and within the military. The primary vectors of marketization were official or *de facto* decentralization of control over cash-flow and resources, the rights to access particular resources, and access foreign markets (M. S. Yang 2010b). Markets did not displace existing institutions, however. Rather, the drift of existing institutions toward growing marketization represented institutional erosion in the face of changing realities where institutions were not updated or adapted.

The privileged status accorded the military, made such institutional drift more dangerous, potentially. Moral hazard issues arose with the military abusing its privileged status and engaging in criminal activities like theft or worse (Lecture Materials 1998, 4–6; 2002b, 3–9). For instance:

> "Gun powder in particular must be managed in accordance with military regulations and norms, control intensified so that it does not leak from the military.
>
> ※ Of late, impure elements are have been caught trading gun powder." (Lecture Materials 2002a, 9)
>
> "Officers must not organise criminal anti-party behaviour like using excuses to organizing soldiers to go and steal crops." (Lecture Materials 2002b, 4)

The primary response to these problems was to call for more intense indoctrination (Lecture Materials 1998, 6), it appears to remain a major means by which the leadership aims to rectify such problems (see chapter 5). The leadership was also concerned by the military's involvement in the emerging market sector, which will be further discussed below.

The spread of markets in the military led to further problems with control, and the rise of "petty kingdoms", i.e., quasi-autonomous units or informal organizations that spanned formal organizational boundaries, which engaged in illegal economic activities including corruption.[80] The sixth coup incident of 1995 is an example of what appears to have been a "petty kingdom" within the KPA in the early 1990s (H. Park 2014, 24). The sixth corps was stationed in Chongjin, North Hamgyong. The corps commander reported his political officer, the North Hamgyong Party's Organization Department Secretary, and members of the foreign trade bureaucracy for embezzling state funds, and for throwing the military command structure into disarray (K. Han 2009, 35).[81] The military's business operations were causing problems for central civilian

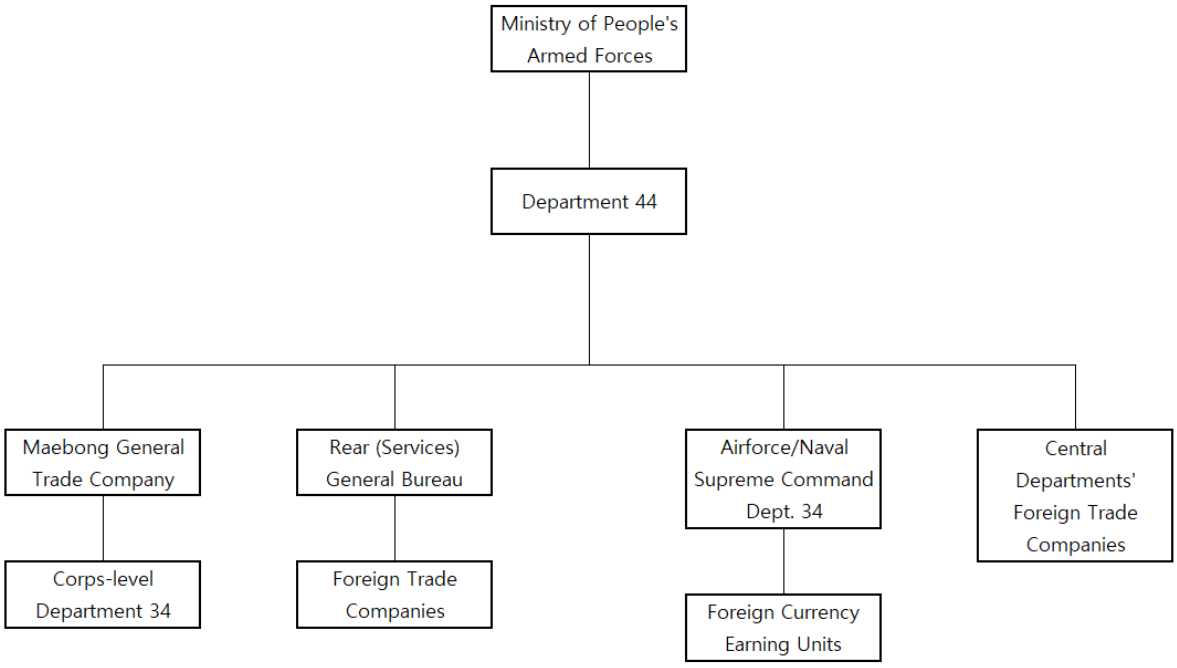
[80] The problem of quasi-independent fiefdoms within the North Korean party-state is actually not new, as the case of Kim Ch'ang Pong in the 1960s indicates (see above), but the problem may have become more acute due to economic crisis and the spread of markets. It has also led to significant group purges under both Kim Jong Il and Kim Jong Un (H. Park 2019, 74).

[81] Some have claimed that the incident amounted to a coup conspiracy (Joo 2009a), though more recent accounts indicate that it was in packaged as a coup to justify a purge that would inspire fear in the military and ensure their loyalty in a time of crisis (Joo 2020). Kim Jong Il himself also denied that it was a coup, claiming it was just errors in work that resulted in an ideological struggle session and some firings (J. I. Kim 2003).

control of the military in the mid-1990s beyond low-level corruption and predation. This speaks to acute moral hazard problems at a time of economic crisis, but as shown below, these problems of collusion and corruption appear to have become chronic.

Officially, the military's foreign trade system was reorganised in 1996 following instructions from Kim Jong Il. The monopoly of the Maebong General Foreign Trade Company (MGFTC) was broken up, and supervision of the military's various foreign trade companies handed to a new organization 'Department 44'.[82] This department was entrusted with drawing up MPAF-wide foreign trade targets for all companies, but did not directly profit from trade operations, and this thus fixed a moral hazard issue with the Maebong (J. H. Choi 1999, 33–34). The number of foreign trade companies overall was also significantly reduced (Hong 2006, 303–4), but only temporarily. This structure is shown in Figure 5.

Figure 5: Military's Foreign Trade System post-1996



Source: J. H. Choi (1999, 34)

At the MPAF-level, foreign trade companies generated revenues via two means, through actual production and through export operations (K. Lim 2000), and through the leasing of trade rights to other entities (H. R. Lee and Yang 2018). Below the MPAF, each army corps was permitted to organise its own foreign currency earning operations under their own department 34 (K. Lim 1998, 55), while individual bureaus and agencies of the MPAF were also permitted to the same. Just as the formation of new companies required approval from the leader, new companies acquired access to resources through the submission of proposals to the leadership. Hence, the new system combined elements of decentralization and central power. Individual military corps were allowed to engage in a broader range of self-reliant activities, but opportunities were

[82] This department subsequently became the '623 Trade Bureau' in 2001 (S. Lim, Yang, and Rhee 2017, 104n143; Oh et al. 2018, 123; M. S. Yang 2008, 11).

centrally allocated (B. D. Choi 2011; K. Han 2009; Pae 1996, 78).[83] Foreign trade companies also requisitioned existing facilities and operations from civilian entities with official approval (M. S. Yang 2008, 19–20).

Thus, MPAF departments and military units utilised old institutions like rights to set up farms, fishing operations, and even small mines (Joung 2016), or attained control over existing facilities through petitioning of the leadership. The institutions of military economic power had drifted from their origins as subsistence-oriented production becoming marketized operations, with old rules regarding allocation being neglected, and military units like other state organizations utilizing domestic markets to generate revenues (Lankov et al. 2017; H. Park 2002, 35–36; 2011), or exported via foreign trade companies, with some battalions and larger units (of roughly more than 1,000 service personnel) permitted to organise their own foreign currency earning offices, FCEOs (H. Park 1998, 15–16). Many of practices associated with these developments were tacitly accepted or else ignored by the leadership, but not officially approved – drift was a consequence of old systems adapting to new circumstances. The holes in the existing institutional system were filled with a range of corrupt practices that facilitate market activities, as was the case in China (K. Yang 2004). The disorder of the system led to the reorganization discussed above, and attempts to put unit-level FCEOs under the control of the Rear-guard General Bureau (H. Park 1998, 17).

Indeed, there is evidence that the growing involvement of military units in the burgeoning domestic market sector worried the leadership who saw it as compromising war preparedness and breeding corruption amongst officers. A major issue that Kim Jong Il appears to have been concerned by is the embezzlement of supplies, both centrally allocated and those produced by units themselves (Lecture Materials 1998, 11; 2001, 3–4). Kim does not appear to have been well-informed about the state of the food supply in the military, but he saw embezzlement as a serious problem, as the following quote indicates:

> "Our country's food situation is difficult right now, but only soldiers are supplied with all the food that regulations stipulate…
>
> Control over the supply and consumption of cereals in the military must be strengthened to completely stop its embezzlement" (J. I. Kim 2013, 461)

Control and the prevention of embezzlement within the military fell outside the purview of the civilian authorities. The structure of the North Korean criminal justice system meant that the military could not be directly investigated by civilian law enforcement, with National Defence Commission authorization and military participation needed (Kwak 2016, 191n237).[84] This makes the military's foreign trade and production activities more difficult for lower-level civilian agents to monitor military activities. That said, market actors who work with the military are vulnerable to potential crackdowns, and their operations liable to being broken up (Joo 2009b).

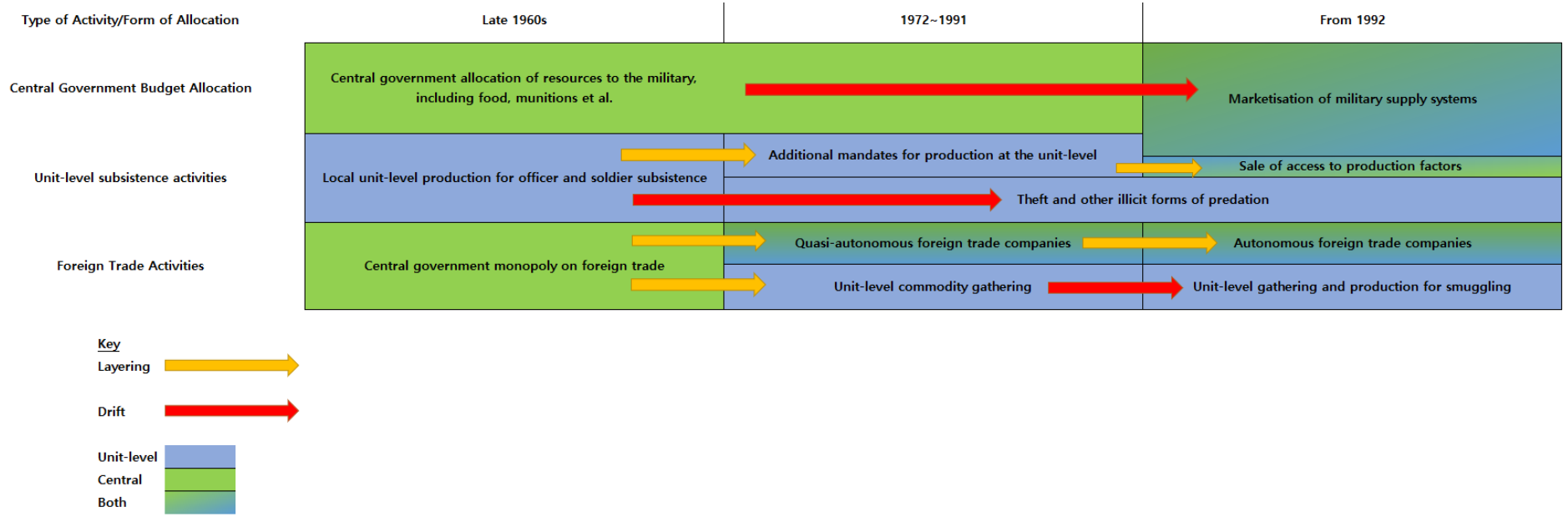
Figure 3 summarises how the institutions of KPA economic activity have evolved over time. The two major processes of change were drift and layering, with the former being particularly important in the general loss of central control over the allocation of resources and the rise of

[83] On the centralized nature of power in the North Korean system and its effect on policymaking and resource allocation in the military, see Sim (2011, 140–61)

[84] Jurisdiction on military legal affairs is held by the internal military court system (G. Lee and Jeong 2011, 62).

markets. Layering led to a growing number of units within the Party-state generally and the military being able to pursue new forms of business operation and to have more autonomy in their operations. Post-1992, the military and markets became more intertwined, and military actors also began to sell access to production factors, namely land, labour and capital to market actors (see chapter 5 and 6 for examples).

Figure 6: Institutional change in the KPA's economic activities



Source: Author's analysis

Reforms to the economy that began in 2000 further complicated the situation. At the start of the 21st century, Kim Jong Il sought to vest greater power and resources in the Cabinet and the civilian government generally to enable it to fix the country's economic problems. The Cabinet lobbied for the complete control over the economy including 'special sectors' under the Central Party, which the military economy formally remains, though Kim Jong Il was opposed to such a move (K. Han 2009, 271n77).[85] Here, the civilian part of the state sought to assert greater control over the Party and the military, but could not obtain the assent of the leader. Hence, the size of the military sector was not threatened by the reform process, though likely because of Kim's direct intervention to protect it, and also perhaps because the military could credibly sabotage such efforts.

Indeed, tentative moves toward limited reform did not coincide with a real reassessment of strategic objectives – pro-market reform measures were unveiled alongside a new push to prioritise the military in economic matters (K. Han 2009, 149–56). The fundamental strategic aims of the military remained unification by force, even if such an aim was unlikely to be realised in the foreseeable future. In 1998, Kim Jong Il told pro-North Korean Japanese Korean officials from the General Association of Korean Residents in Japan that:

> "As of now, the People's Army refers to the American bastards are the moral enemy, but comrades conducting external relations call the American bastards a teacher. In fact, this is an iron fist in a velvet glove [approach]." (J. I. Kim 2003)

While in lecture materials distributed to the North Korean military in 2002, Kim Jong Il was quoted as saying:

> "The more the Party upholds peaceful slogans, the more determined the People's Army must be to unify the fatherland with the view that unification will be achieved by force." (Lecture Materials 2002c, 9)[86]

This fundamental aim, or at least the need to prioritise national defence, and the military's capacity to keep public order continued to be reflected in resource allocation decisions. In 2004, Kim issued the following order during a speech to KPA commanders:

> "At present, I have heard that civilian institutions, companies and other (non-military) armed institutions [i.e. the police, secret police et al.] have each set up their own fishing branches and foreign currency earning branches, and have created disorder and confusion by trading illegally; the People's Army must clear all of this up. Get rid of what needs to be gotten rid of, take over what needs to be taken over, and place these units under the People's Army" (J. I. Kim 2004 in K. Han 2009, 272n82)

His reasoning in the same speech also points to the general logic of fusion, between the Party and the military, with the military's personnel given priority. This may be one of the reasons why the military does not feature prominently in debates about economic policy in the 2000s covered extensively in the work of K. Han (2009; 2019) – because the military's access to rents and its economic assets were never up for debate. Indeed, in quite stark terms Kim Jong Il

[85] Indeed, amongst the reforms that the Cabinet proposed in 2000-2001 period, the only one that was outright rejected was the shrinking of the 'special sector', i.e. the Central Party economy (Han 2009: 113). The military's most lucrative business operations were FTCs nominally under the control of the North Korean Worker's Party Central Committee's Secretariat.

[86] Also see Sim (2011, 154-55n27) for testimony from North Korean officers who have resettled in the South.

explained why the regime had come to rely on the military over its original base, the working class:

> "While engaging in Military-first politics, I put the military forward as our revolution's pillar and main force… During the 'Arduous March' [the famine of the 1990s], the working class, which had been known as the main force of the revolution, failed to take care of even one of its factories properly. The workers of the Hwanghae Steel Complex pulled out all the equipment and sold it off… How can the working class be called the main force of the revolution if at the hardest of times, when the fatherland was enduring great trials, they cannot protect even one of their factories?" (J. I. Kim 2004 in K. Han 2009, 293n117)

That said, however, the available evidence does not indicate he was able to concentrate resources in the hands of the military to the extent that he had intended (Ward, Lankov, and Kim 2021). But compared to the civilian sector of the economy, the military economy was far better provisioned with inputs for weapons production and production for export (Oh et al. 2018, 200–201). At the same time, reforms appear to have done little to stop the military's engagement in illegal market activities that worried the leadership (Lecture Materials 2004b, 8). Indeed, lecture materials distributed in 2004 to soldiers and officers indicate that the leadership thought commercial activities potentially endangered the country's survival in the event of war:

> "What lessons do we find in the state of the Iraqi army that lost in its war with the U.S. imperialists?
>
> That:
>
> If the army becomes taken in by the winds of commerce, then it cannot give everything to fight for the Party, the leader, the fatherland and the people.
>
> Trade and money earning are rooted in an individual selfishness that prioritises self-interest over the destiny of the Party and revolution, and the destiny of the fatherland.
>
> If soldiers acquire a taste for money, they will naturally become ideologically corrupted, and if they do, then they will become disinterested in the fatherland the people, the Party and the revolution, and later fall onto the path of betrayal and defection" (Lecture Materials 2004a, 8).

The period of the later 2000s saw a push by the North Korean leadership to clamp down on markets (M. S. Yang 2010a). The military's foreign trade companies (FTCs) were briefly, along with other FTCs, forced to abide by draconian new regulations introduced in the wake of a currency reform in 2009 that aimed to recentralise the economy and severely curtail the use of markets (K. Han 2019). These attempts, however, failed and the leadership was forced to allow the military and other sectors of the state economy to continue to utilise markets.

The rise of Kim Jong Un to power post-2010 coincided with an attempt to realign the civil-military relationship at the apex of power, rehabilitating the party and civilian state institutions. This process has been dubbed the 'outward rise' of the Party in public life (B. Han 2019, 111). This began with a growing prominence being given to civilian elites (Goldring and Ward 2022), and saw the military lose some of its prominence within the Party-state apparatus, as the Party itself was rehabilitated (Cheong 2011). Hence, one could argue that a fused relationship

between Party and military became more symbiotic and looser as a result of such changes. During this process of relational adjustment, part of the military's foreign trade system (Dept. 54) was handed to the Party's Administrative Department presided over by Kim Jong Un's uncle Chang Sŏng T'aek (K. Han 2019, 452). There were also further attempts to take assets away from the MPAF during a renewed process of reform in 2012-4, with Kim Jong Un issuing an order to have military foreign currency earning operations within the lucrative coal sector significantly cut (K. Han 2019, 451). However, the purge of Chang Sŏng T'aek in 2013 resulted in a large redistribution of trade assets away from Chang's Party powerbase back to the military (Y. Park 2014).[87] It would appear that attempts at a divestiture of military assets were not only unsuccessful, but also contributed to a major power struggle and the purge of one of the country's top officials, who was accused of forming a "petty kingdom" (H. Park 2014). It would appear that military economic power in North Korea had become locked in, and that serious attempts to divest the military of its commercial operations could lead to significant conflict in the civil-military relationship – conflict that the leader is unwilling to pursue. As of 2018, the tier-1 foreign trade firms controlled by the military economy were estimated to account for 70% of trade with China (J. Lee 2018).

The Kim Jong Un era has seen a number of reforms to civilian enterprise governance designed to promote competition between enterprises within the foreign trade sector, and increase the number of enterprises allowed to participate in foreign trade and price reforms that put higher level military economic activities within the domestic market on a firmer legal basis (Seok-ki Lee et al. 2018). These reforms, however have been partially reversed (Ward 2019b). The leadership has also waged a campaign against 'specialness' in the economy, a term that includes the military and other parts of the security services and Central Party – i.e. the privileged stratum of society (Democratic People's Republic of Korea Cabinet 2014, 9). It is unclear, however, whether this campaign has had any effect on the prerogatives of the military, though the campaign is ongoing (Ward 2020b; 2021a). This campaign targets units that have not paid revenue into the coffers of the central government. Sanctions pressure may have been the cause, though it is not clear.

Many of the problems with societal-military relations that appear to have emerged in the 1980s remain largely unresolved. Newer human rights reports published by South Korea-based NGOs have noted continued looting of civilian facilities and households by the North Korean military (I. Kim, An, and Song 2018, 211–20). Officers and officials within the military who have fled to South Korea also attest to the widespread nature of looting and predatory behaviour toward civilians (Jin-mu Kim et al. 2014d, 365). The supply situation within the military, disciplinary issues, and the capacity of military personnel to prey upon civilians with relative impunity. There have been some attempts under Kim Jong Un to punish the most flagrant forms of abuse (I. Kim et al. 2020, 345–49), but higher ranking officers are believed to be the most serious offenders in many cases and they appear to cover for one another, making many abuses apparently difficult to detect (I. Kim et al. 2020, 350–51).

Many of these abuses may be tied to what Kim Jong Il termed "petty kings" or "petty kingdoms",

[87] There have been continual shifts of power under Kim Jong Un within and across different parts of the party-state, and frequent purges (Oh and Kim 2021, 126–34).

which are an ongoing source of concern.[88] Like the sixth corps incident of 1995, these "kingdoms" can span the civil-military divide, involving individuals and groups from multiple organizations in a locality. For instance, South P'yŏngan Party Committee and Provincial Ministry of Public Security colluded with military units and with gold-producing mines in the region to engage in "illegal money making" (Korean Workers' Party Organization and Guidance Department 2012). Such institutional collusion to shield market activities from the central authorities is not just a problem for central control of the military, but of other institutions too. For instance, an official North Korean source from 2010 present an instance of a private mine that was protected by multiple organizations of the local Party-state and state-owned enterprises in Kaesong, North Hwanghae (Democratic People's Republic of Korea Central Prosecutor's Office 2010, 39–49). However, the spread of such networks of collusion below the central level is all the more concerning when it involves the military. The potential for the military to be enmeshed in relations of dependence with regional actors, or worse, to form independent fiefdoms on the basis of economic ties within the regions has been noted in the study of China's military business (Cheung 2003, 65–66; Dreyer 1996, 333–35). Such 'warlordism' (which could arguably constitute a localised form of state capture in Karklin's terminology) can lead to a breakdown in the chain of command, and make much of the military ineffective in the event of war or internal strife – though local economic activities may also have positive social spillovers (see chapter 6). These are clearly serious moral hazard problems that arise from a form of institutional drift that has seen spontaneous organizing, markets, and corruption supplement partially moribund state supply institutions. That said, they may also have positive effects on societal-military relations as well as negative ones.

Many of the structures that were created in the 1990s appear to have become ossified and the power of the military difficult to reverse, i.e. it is locked-in. While there have been considerable purges and shuffling of the military under Kim Jong Un (T. K. Kim 2015), the spread of markets into the military and its economic activities has thus far not been reversed and does not appear reversible without a considerable shift in strategic priorities. So long as the North Korean leadership remains committed to maintaining a military of such massive size, given current constraints on the state's capacity to cloth, feed, and arm the military, it would appear that the military's involvement in the foreign trade sector and involvement in markets will remain for the foreseeable future.

The next section considers comparable cases briefly, and then summary analysis and conclusions are offered in the concluding section of this chapter.

5. Comparable cases

This section considers the case of three other countries with comparable economic and political

[88] Kim Jong Il commenting in 2004 on a guidance trip that: "Recently, when I have looked around units, soldiers at the divisional or regimental headquarters level appear to be doing alright, but the problem is the situation of soldiers at the battalion level and below. Units below the battalion level and below have officers who act like 'petty kings', often sticking their hands into the soldiers' food supplies. In the People's Army, officers at the battalion level and below must put under tight control to stop them from touching the food supplies of soldiers." (J. I. Kim 2004, 7).
There are references to problems with 'petty kings' in the works of Kim Il Sung too. One instance that Kim Il Sung complained about in 1981 involved provincial officials mobilizing workers from factories and enterprises at will without permission (I. S. Kim 2007c, 608–9). The common feature here is the use of state resources or the exercise of authority for personal or institutional gain without permission.

systems to North Korea that have militaries who became involved in commercial economic activities. It summarises the findings of the existing literature on each case, reviewing the causes of the rise of the military as an economic actor in China, Vietnam, and Cuba and considers how they differ with the North Korean case. The next section offers summary analysis and conclusions.

(a) China

In China, the People's Liberation Army (PLA) had a long history of involvement in the Chinese economy, very similar during Mao era to what North Korea saw prior to the 1970s, with production for subsistence taking place at the military unit level and under the Cabinet's Ministry of Defence (Mulvenon 2001, 36–49). The rise of the military's production for subsistence in the Mao era coincided with military budget cuts and demobilization of forces (Mulvenon 2001, 36). Military economic activities under Mao took two forms: (1) support for the civilian economy, and (2) production for subsistence. As Adelman (1978, 101) argues, the military's activities were designed to both make up for a shortfall in resources, and support economic development generally. In this respect, the North Korean case is certainly comparable. The economic system they took place under was similarly characterised by central planning, control and mass mobilization.

However, after the death of Mao, under Deng Xiaoping, China embarked on a new path of reforms and openness that involved a gradual decentralization of the economy, and also a considerable decrease in the size of the armed forces and its budget, with PLA's internal economy expected to fill the gap. The strategic focus shifted away from mobilization and being prepared for war on multiple fronts in the immediate term (Mulvenon 2001, 52–53). In such circumstances, the military was handed significant autonomy, this did generate some moral hazard issues (Mulvenon 2001, 45, 48), but it also allows the state to conserve capacity that would otherwise be diverted from productive civilian purposes.[89]

Deng Xiaoping also saw military business as playing a vanguard role in the country's development beyond simply funding the military (D. Lee 2006, 449). One of the lynchpins of the PLA's fundraising operations was its new foreign trade companies that generated about 7% of China's export earnings in the 1980-85 period (Bickford 1994, 464).[90] Further, unlike their North Korean counterparts, PLA military units were soon directly given the right to sell into the Chinese domestic market and overt commercialism within the military at the unit-level was actively encouraged from the early 1980s (Mulvenon 2001, 55–56). The growth of military enterprises and unit-level activities also gave rise to similar principal-agent problems, with military units involved in illegal black-market activities, foreign trade, leasing of military resources to private individuals et al. (Mulvenon 1998, 14). The solutions utilised to deal with the problem were similar to those that the North Korean regime has attempted, i.e., audits and campaigns against corruption, and centralization of allocation decisions (Mulvenon 2001, 70–77). However, these seem to have failed to significantly lessen the problem of corruption (Cheung 2003, 63). There was also the threat of 'warlordism', i.e. the economic independence of military commanders allowing them to disobey orders (Cheung 2003, 65–66; Dreyer 1996,

[89] In 1990, the PLA's revenues from its business operations were equivalent to two-thirds of the state's Defence budget, and the PLA reportedly spent 30% of its business earnings on troop costs, 30% on barracks maintenance, and 11% on training (Murray 1991, 33).

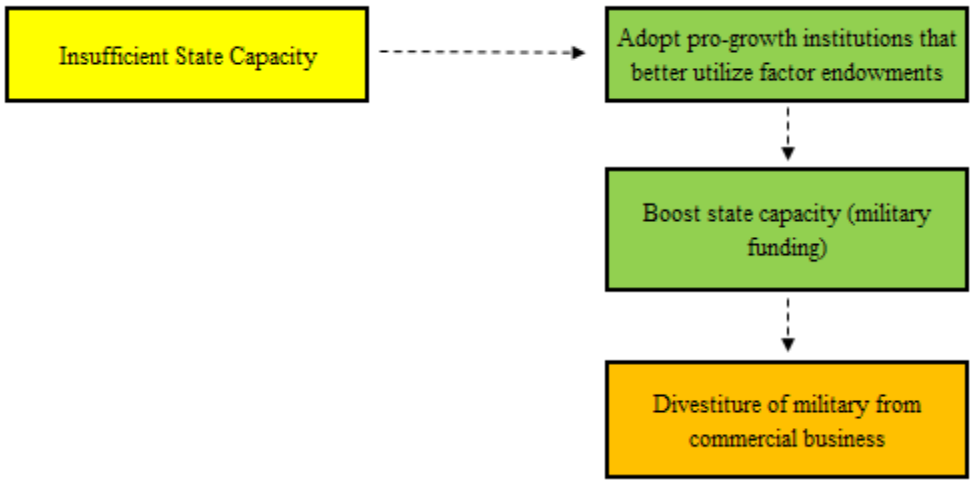
[90] Lower-level units of the PLA were also heavily involved in foreign trade (Gurtov 1993, 219).

333–35).

The two major differences between the North Korean and the Chinese case is the level of formal institutionalization and legalization that can be seen in the Chinese case, and the level of budgetary and forces cuts in the Chinese case. The overt embrace of the PLA's role in the domestic market results from the undisguised and overt embrace of markets and reform in China generally (Naughton 1996). Whereas many practices in the North Korean military economy (and economy more generally) often resulted out of drift, as institutions were neglect of old rules and/or 'interpreted' in new ways. Further, the PLA's military business complex arose at a time of deep fiscal retrenchment, with the PLA's share of the national budget fell from 17.5% in 1979 to 10.4% by 1985 (Bickford 1999, 31), with the relative size of the military also falling (Scobell 2000, 14).

The Chinese case also shows how difficult it is to end military commercialism. The Chinese leadership ordered the PLA to divest itself of its major commercial holdings in 1998. This had been preceded by many attempts to crackdown on military business-related graft, and create more effective, centralised systems of governance. The decision to divest the military of its commercial enterprises was made at a time of rapidly increasing GDP in China, meaning that the real value of the defence budget was also growing quickly, and the Chinese state was gradually able to fill much of funding shortfall (Stockholm International Peace Research Institute 2020, 4, 11). The size of GDP increased dramatically throughout the 1990s, and state's fiscal capacity expanded excess of this (Crane et al. 2005, 221). A stylised picture of the ideal path to military divestiture, as reflected in only partially in the Chinese case, is given in Figure 7.

Figure 7: The Chinese route to military divestiture



Yellow = causes, green = causal mechanisms, orange = effects

Source: Author

Such a route, in the Chinese case also involved the active consent of the military (Scobell 2005, 235), but also resulted in significant civil-military tensions (Mulvenon 2001). This process has not actually ended, however, with the military still maintaining its farming system, and some hotels, as well as indirect ownership of some businesses in sectors considered of vital national

security like telecoms and airlines (Cheung 2003, 68; Mulvenon 2016, 2–3). Here strategic concerns do not leave a gap between state capacity and funding requirements, but rather, they necessitate military involvement in sectors due to those sectors national security significance.

Nevertheless, the PLA's involvement in the Chinese economy has significantly shrunk since the 1990s, and does not appear to be comparable to the KPA's continued power within the North Korean economy. Relations between the Chinese Communist Party and the PLA have become looser over time, with a greater stress placed on military professionalization and less on political control via ideological indoctrination (You 2007), and greater military professionalism has required a move away from deep involvement in the economy (Miller 2007, 134). This reflects the capacity of the Chinese state to fund its military given its strategic priorities, and also the PLA's assent to a process of divestiture. This contrasts with the KPA's apparent resistance to attempts at even partial divestiture. Yet, many of the problems that it gave rise to appear to have not disappeared. The military's continued privileged status in Chinese society and the corruption that commerce gave rise to appears to remain a major problem for the Chinese Communist Party in its management of the PLA (Chase et al. 2015, 48–49).

(b) Cuba

Just like in China and North Korea, in Cuba, the military had a long history of involvement in the economy that extended back to the civil war and revolution that augured in the era of state socialist governance post-1959. Like in North Korea and China, the Fuerzas Amadas Revolucionarias de Cuba (FAR) were involved from the earliest stages of the revolution in assisting civilian industries with production and also ran its own enterprises (Domínguez 1982, 49–51), and for a time in the late 1960s and early 1970s the military was handed a dominant role in the running of the civilian economy, though this was soon rescinded (LeoGrande 1978).

Post-1990, the Cuban case is more comparable to North Korea than that of China because the Cuban economic output was severely hit by the collapse of the Soviet Union (Espinosa 2001, 22). However, like in China, in Cuba the military entered commercial business in the early 1990s at a time of massive cutbacks in the defence budget and the size of FAR's forces (Espinosa 2001, 23; Latell 2003, 14–19).[91]

The Cuban military rapidly expanded its commercial operations and holdings throughout the 1990s with the direct endorsement of the country's leadership – in fact, the expansion was presided over by the President Fidel Castro's brother, Raúl Castro. Many strategic sectors like oil and gas, finance, and key foreign currency earning sectors like tourism are partially or completely dominated by the military's enterprise system (Espinosa 2001, 23–24). Indeed, in the extent of the military's involvement in the economy, Cuba appears more comparable to North Korea.

Military influence in the economy appears to be entrenched with perhaps as much as 20% of the Cuban economy being controlled by the Grupo de Administración Empresarial S.A. (GAESA), a military-owned holding company (Bye 2019, 31). During the special period (the period that followed the collapse of the Soviet Union in Cuba), the military was largely mobilised into the civilian economy, and was forced to become nearly supply self-sufficient

[91] The military still has conscription, though the period of service is 2 years (Feinberg 2016, 224), far less than North Korea's current eight years – recently reduced from 13 years according to Ishimaru (2021).

aside from some imports like fuel (Klepak 2012, 58). The fused nature of civil-military relations, i.e., the lack of a clear divide between the civilian and military elite, also helps explain why this has not led to more civil-military tension at the elite level, though the expansion of the military's economy role was preceded by extensive purges of the military (Mora 2002, 202). 'Family management' of the military seemingly has helped to ensure that it has remained loyal (Klepak 2005, 87–88). Thus, arguably the civil-military relationship is fused, with rather minimal differentiation between military and civilian elites, a situation that remains largely unchanged since the spread of markets.

In the Cuban case, it is unclear whether the state is unable or merely unwilling to curtail the military's involvement in the economy. There is also some disagreement amongst analysts about the extent to which such involvement actually exerts a negative impact on the economy. Indeed, (Mani 2011) has gone so far as to describe the Cuban military's role as that of a 'nation builder', i.e., a progressive force in the country's economic and social development. Others have contrasted the level of corruption in military-run enterprises with that of the civilian sector, and pointed to military discipline as perhaps being a reason why corruption apparently seems to be so low (Bye 2019, 30–31). The fact that civil-military relations are fused to a greater extent than in any other state socialist country may be a reason for this – the first two leaders of the country were both military leaders and maintained close personal ties to the military. However, given the lack of oversight of their operations (Klepak 2005, 87), but officers are not outside civilian law, and the leadership appears to be eager to prosecute corruption at both lower and higher levels of the military hierarchy (Klepak 2012, 235–36).

(c) Vietnam

The Vietnamese case is interesting and informative because it represents somewhat of a midway case between Cuba and China. Like Cuba and China, but seemingly unlike North Korea, the Vietnamese military has endured considerable budgetary retrenchment and forces reduction during a period of market-oriented reform that began in the mid-1980s. These reforms, known as Đổi Mới in Vietnamese (lit 'renovation'), gradually led to the opening of the country to foreign investment, and also presaged the commercialization of the military's existing economic capacity (especially construction) and its entry into newly emerging markets (Thayer 2003).

The military had a key organization in the reconstruction of the country after the end of the Vietnam War in 1975, and in the civilian economy as an additional source of labour (Thayer 2000, 96–98). Following the end of the war, the country faced a large decline in aid from the Eastern bloc. The 'liberated' south, which had hitherto been a major recipient of aid from the United States also faced a large fiscal shock and a loss of access to the US market (Beresford and Phong 2000, 23–24). Gradual economic evolution in the civilian economy post-1976 was eventually recognised by the government that sought to build market institutions with the introduction of reforms in 1986.

The introduction of Đổi Mới was followed by substantial reductions in the size of the Vietnamese military. The leadership felt it had the leeway to demobilise (Thayer 2000), and sought to improve relations with neighbouring China and end its occupation of Cambodia. Some parts of the country were facing famine conditions, and the leadership felt able to make the strategic choice to significantly reduce the size and fiscal burden of the military (Thayer

1994, 25–26). This contrasts with the case of North Korea, where when faced with famine conditions, Kim Jong Il did not significantly decrease the fiscal burden, resource allocations, or size of the military (see above). The Vietnamese leadership faced lower military tensions with China, while North Korea did not face significant positive change in its security environment on the Korean peninsula or a leadership willing to seriously alter its strategic aims.

The Vietnamese military had been involved in the economy like its North Korean, Cuban and Chinese equivalents since its formation (Thayer 2017). But the military began to enter the civilian economy as an independent actor after 1986, and some of its major construction units became corporatised entities, while other parts of the military pursued joint ventures and became major exporters, involved in real estate development, hotels and other services, as well as banking.[92] The reason was to make up for a funding shortfall from retrenchment as in the cases of China and Cuba (Thayer 2017, 145). Interestingly, compared to the Chinese case, military enterprises appear to have been more profitable, and the moral hazard-related pathologies of corruption and waste were apparently typical of the Vietnamese state sector in their type and scale (Thayer 2003, 83–89). They also appear to enjoy fewer privileges than their North Korean counterparts, being subject to the civilian state's tax regime (Thayer 2017, 145).

Like in China and North Korea, the military has thus far resisted pushes to have it divest itself of commercial holdings (Thayer 2017, 153–55). But its civil-military relationship over the period is more comparable to that of China than either North Korea or Cuba, with the structure of relationship evolving from a symbiotic relationship to a looser and more coalitional relationship (Croissant 2018: 67).

6. Analysis and conclusions

The North Korean case many aspects comparable to other state socialist cases. However, unlike North Korea, other state socialist states that survived the collapse of the Soviet Union, altered their strategic aims to lessen their defence burden (Mora 2002; Scobell 2000, 14). Each has adopted distinct sets of policies designed to boost economic performance and introduce market-oriented reforms, while maintaining the political institutions of state socialism. Reform and defence retrenchment coincided in all three cases discussed in the previous section, with the military being handed considerable economic power in a move that was designed to secure military support for reforms (Mora and Wiktorowicz 2003). Mora (2002, 48) posits that budgetary retrenchment results from lessening external threats, while the inducements to participate in business allow state socialist regimes to 'payoff' military elites.

The North Korean case is unusual because the military's emergence in the economy as an economic actor did not coincide either with strategic retrenchment, i.e. significant changes in strategic aims and government cuts to military spending, or reform to the economic system, or at least the reforms were very partial at best (K. Han 2019; H. Park 2002). This demonstrates that the Mora (2004) thesis that military buy-in in a process of reform is part of the reason why economic power is given is not actually necessarily the case in all state socialist states. North Korea began a largely abortive process of reform in the early 1980s, which only involved some small attempts to boost foreign investment and decentralise some consumer goods production (H.-S. Lee 1988).

[92] For a list of major commercial entities owned by the military, see: (Thayer 2017, 151).

Second, the rise of a fused relationship seems to have coincided and appears to have been caused by the large exogenous shock and economic crisis that both North Korea and Cuba experienced with the collapse of the Soviet Union. Hence, it would appear that closer, less functionally differentiated civil-military relations may arise due to economic crisis, with autocrats tugging their militaries into closer partnership. Conversely, the Vietnamese and Chinese cases demonstrate that economic growth can presage the emergence of more differentiated and separated institutional arrangements.

Table 5: Comparative analysis of causes and effects of military economic power

Country	Strategic retrenchment	Reform with commercial military enterprises	Exogenous shock	Civil-military relations	Layering and drift?	Threat of autonomy	Evidence of lock-in
North Korea	No	Partial	Yes	Symbiotic → Fusion	Yes	Yes	Yes
China	Yes	Yes	No	Symbiotic → Looser coalitional	Yes	Yes	Partial
Cuba	Yes	Yes	Yes	Symbiotic → Fusion	Unclear	No	No
Vietnam	Yes	Yes	No	Symbiotic → Looser coalitional	Yes	Partial	Partial

Source: From author's analysis with reference to Mora (2004, 48)

With respect to effects, the presence of institutional layering and drift discussed above can be seen as a broader symptom of the transition from state socialism to market-based system. However, in the military context, they potentially give rise to the threat of both corruption and predation. Indeed, the types of corruption are practically identical in both North Korea and China, and originate from the same forms of unofficial institutions and corruption (Mulvenon 1998, 14). Hence, even where causes and civil-military effects differ, processes of change and the negative consequences can still be very similar.

The Chinese and Vietnamese case with their emergent coalitional arrangements have nonetheless exhibited some tendency toward lock-in in military economic power. Both countries have attempted divestitures with limited success. The North Korean case demonstrates stronger evidence of lock-in than the other two cases. But even in China and Vietnam, the military has thus far been able to keep many of its economic operations with appeals to strategic aims.

A lack of fiscal capacity to fund the military given strategic aims may give rise of military economic power, and market-oriented reforms may presage the drift of this power from a subsistence orientation to a more commercial one. But even where the state subsequently acquires the capacity to fund the military through direct budget outlays, some of the military's commercial operations may be resistant to demilitarization due to the strategic aims. In other words, what begins as a fiscal necessity to realise strategic aims may become a strategic end itself, with industries considered to be of strategic importance increasingly under military

control.

The decision to militarise and hand militaries economic power is not contingent or random. It certainly arises in a strategic, geopolitical and domestic context. But seem to be visible in all four cases reviewed. First, the relationship between the civilian leadership and the military is relatively close (symbiotic) or else is fused. It is unclear whether this is a necessary precondition, but given the general association between symbiotic or fused civil-military relations and military business that can be seen in the literature on other cases – e.g. Pakistan (Siddiqa 2007), Cambodia (Chambers 2017), Laos (Lipp and Chambers 2017), *inter alia* – it is fair to surmise that a close symbiotic relationship between civilian and military elites in autocracies is a factor common in the rise of military business, at least in state socialist countries.

Second, the evidence presented supports the view that strategic aims that exceed the state fiscal capacity leads to the decision to devolve economic power to the military. The evidence also demonstrates that once such power is devolved, divestiture is not easy, and is made more difficult by other considerations in the civil-military relationship. What's more, limited fiscal capacity likely coincides with limited administrative and coercive capacity, meaning that moral hazard issues related to military business are not easily resolved.

It is an open question the extent to which state capacity places a hard constraint on the ability of autocrats to police the activities of their militaries. Indeed, as chapter 5 shows, there is clear evidence that forbearance and selective policy implementation due to weak state capacity both play a part in explaining the dynamics under review. However, what is also clear is that military business complicates the civil-military relationship in negative ways.

The pathologies of North Korean military economic activity, namely corruption and predation, primarily a consequence of difficult to fix moral hazard issues, do give rise to compelling reasons to segregate the North Korean military from the economy. However, given the current distribution of resources and the coordination problems that remain endemic to the North Korean economy (Ward and Han 2021), it is not surprising that the military is highly resistant to entrusting other parts of the state with its economic interests.

The Chinese case demonstrates that overcoming lock-in is at least partially possible. But here, the state has been able to develop the fiscal capacity to fund the military and make divestiture less painful. Developing the fiscal capacity will have also required the state to boost its administrative capacity so that it can make the credible commitment to the military – i.e., possess the necessary capacity to effectively allocate resources.

This has not proved the case with North Korea, Vietnam, and Cuba, but while China's leader(s) have pushed for divestitures and largely succeeded, Cuba's leadership with its fused civil-military relations has not. The lock-in effects of military business appear to be most visible in the cases of Vietnam and North Korea where leaders have, at times, sought to wrest some of the military's economic power from it. Cuba is more indeterminate due to its fused civil-military relations which mean that its leadership may have little desire to actually break up comparably fused relations between the military and the civilian economy.

Chapter 5: How is military economic power managed at the micro-level?

1. Introduction

How do dictators manage their military's economic activities? The political science and military sociology literatures say comparatively little about how military business/economic operations, widespread outside the first world, impact relations between the civilian authorities and the military at the micro-level (as we saw in chapter 2). The military business literature is largely restricted to analysis of these activities in aggregate, also saying little about their impact at the subnational level. The literature on civil-military relations nonetheless offers a set of useful analytic categories by which to analyse how leaders exercise control over the military, and the potential limits of this control. This chapter examines the priorities of the North Korean leadership, the institutions that are supposed to facilitate control over the military, and how these institutions are largely ineffectual in actually stopping illicit economic activities.

As chapter 4 showed, at the macro-level, civil-military relations in North Korea evolved from a symbiotic relationship to one increasingly characterised by fusion with low levels of functional differentiation under Kim Jong Il post-1994. This occurred at a time when the military was also handed a growing portion of the country's most easily marketable resources (Hong 2006, 304), and food-producing enterprises/cooperatives (Sim 2011, 146). The leadership faced dwindling fiscal capacity with the loss of Eastern bloc support and trade (Eberstadt, Rubin, and Tretyakova 1995; Mikheev 1993), and the military's growing economic largess gave rise to significant moral hazard problems in the form of corruption and predation on the country's civilian population. These problems are not, however, unique, and many of the issues that North Korea's leadership has faced, were also faced by other comparable state socialist countries as well. The previous chapter argued that a lack of state capacity given strategic aims led the leadership to hand the military a growing amount of economic power. A lack of coercive state capacity meant that the significant resources ceded to the military could not easily be taken back unless the state's own fiscal and coercive base were substantially improved, or else it fundamentally altered its strategic objectives – and thus could shrink the military.

This chapter adopts a different approach. It focuses on a particular military unit, and how institutions of control and monitoring actually work at the micro-level. As is demonstrated below, the state's failure to provide contract incentives to officers that might preclude illegal economic activity explains why officers engage in a wide range of illegal economic activities. North Korea's official wages and prices do not move with actual supply and demand, and market prices for basic far exceed wages (K. Lee 2020, 112).

As a consequence, many civilians and military personnel across the country's labour market rely on alternative sources of income. Existing surveys of North Korean refugees also indicate that much of the country is 'moonlighting' and living off 'supplementary' income earned through market activities and side-payments either within their official workplaces or outside (W. Kim 2012, 338–39; Chae 2020, chap. 4).[93] The military is subdivided into the "noble military", i.e., the privileged stratum of the military, and the "commoner military" (Y. Lim 1994,

[93] Chae (2020, 11–14) offers a brief summary of the survey literature on North Korean income inequality.

163–64; J. Ko 2008b, 95), with much of the military being paid little at all compared to actual prices and not receiving reliable rations (K. Lee 2020, 109–12; Oh et al. 2021, 252–54).[94]

Indeed, the existing literature on human rights problems in the North Korean military attests, soldiers, officers and their families are often left without adequate provision of food, housing, or pay (I. Kim, An, and Song 2018, 92–104; K. Lee 2020; I. Kim et al. 2020, 327–36). Yet, the same state that has evidently failed to provide necessary incentives or a basic standard of living, still possesses the capacity to gather significant amounts of information about economic misbehaviours that seemingly result at least partially from this lack of provision. However, it has decided not to punish most of such behaviours in a draconian fashion because it lacks the capacity not only to fund the military, but also replace wayward officers – evidence presented below demonstrates that the KPA has a shortage of competent personnel and the leadership has decided to be lenient toward many forms of illegal economic activity. This contrasts with existing explanations in the military business literature on the prevalence of corruption within the military, the lack of civilian oversight is often blamed for corruption (Cheung 2003, 63; McCulloch 2003, 118–21; Siddiqa 2007, 6–7). As Kwak (2016, 191n237) notes, the North Korean military is not subject to direct oversight from agents of the civilian judicature, but as is demonstrated below, the civilian authorities have sufficient capacity to detect criminal economic activities.[95] Yet, the leadership has decided to take a highly selective attitude toward the enforcement of laws related to economic activities and corruption.

This chapter contributes to the literature on regulatory forbearance and selective enforcement in authoritarian systems (Holland 2016; O'Brien and Li 1999), expanding it to civil-military matters, and demonstrating that weak state capacity gives rise to substantial moral hazard issues in the management and control of the North Korean military. I utilise a model of control institutions in the military developed by Feaver (2003), which overlaps with the literature on corruption and anticorruption measures (Jancsics 2019, 528), as well as the literature on state compliance capacity (Berwick and Christia 2018, 79–82). I show that institutions designed to prevent the selection of economically wayward officers (adverse selection problems) appear to be non-functional. The absence of contract incentives means that ample incentive to engage in corruption and illegal economic activities exists. Many of these economic crimes are detected by monitoring institutions, but the punishments handed down are often light/non-existent for many because the state lacks the capacity to replace wayward officers – due to a lack of fiscal capacity.

This chapter utilises a novel case study of a unit in the North Korean military alongside national-level orders issued by the North Korean leaders, and other official documents issued in the name of the leader himself or the government.[96] It also makes use of existing reports on the

[94] Testimony in Jin-mu Kim et al. (2014h, 402; 2014a, 172; 2014e, 456) also indicates that much of the military is forced to be self-supporting, and wages do not cover the basic costs of food or other necessities, but that certain elite units like the Bodyguard Command tasked with the protection of the leadership are supplied with sufficient rations.

[95] Existing human rights reports also indicate that surveillance within the military remains ubiquitous (I. Kim, An, and Song 2018, 169–80).

[96] The sources were acquired by Japanese and South Korean broadcasters in 2015-16, and served as the basis for documentary films broadcast on both NHK and KBS, the two country's main national broadcasters. The author acquired these sources in 2019 through South Korean and Japanese contacts. Their veracity has been attested to by South Korean, Japanese and third country experts. On information flows within the Korean People's Army, see Hutchinson (2022, chap. 5).

KPA published mainly by human rights organizations and South Korea-based research institutions. It contributes to the literature on militaries in authoritarian states, demonstrating that limited state capacity not only led to the rise of military business, but also means that many such activities exist outside the law. It demonstrates that capacity may be limited in specific ways – i.e., extractive/fiscal capacity contra some forms of compliance capacity. It sheds light on the limits of civilian control of the military. What is more, it demonstrates how the state's attitude toward many illegal economic activities is only partially a product of these processes' orientation to the state's goals. In other words, the limits of manpower mean that the state accepts or does not punish some degree of illegal economic activity, even when such activities may run contrary to the aims of the leadership.

2. Analytical framework and argument

Feaver (2003) points to six distinct mechanisms utilised to control the military in the civil-military relationship. These include contract incentives (i.e., pecuniary benefits and potential autonomy), screening and selection mechanisms designed to ensure that unsuitable agents are not recruited, monitoring mechanisms designed to detect misbehaviour, and punishment, designed to deter misbehaviour. Table 6 presents the major control mechanisms as found in Feaver (2003). The North Korean equivalents are discussed further below.

Table 6: Institutions of civilian control over the military

Type	Definition
Contract Incentives	Providing pay, benefits, slack (resources) including potentially autonomy to agents
Screening and Selection	Education requirements, skills tests, schooling
Fire Alarms	Third-party agents (including NGOs, private citizens *inter alia*) that investigate the activities of the military because they have a vested interest to do so
Institutional Checks	Inter-service rivals like other sectors in the security sector
Police Patrols	Regular and irregular audits, generally centralised and direct
Punishment	Restrictive monitoring, material disincentives, military justice, extra-legal actions

Source: Feaver (2003: 75-86, 94)

Broadly speaking, these institutions are comparable to the anticorruption measures outlined in the literature on corruption (Jancsics 2019, 528). Contract incentives and punishment (i.e., penalties and rewards) and screening and selection (recruitment and promotion) are both forms

of top-down, internal anticorruption strategy. While police patrols are a form of external monitoring that is also top-down. Fire alarms could be characterised as a form of citizen or community monitoring, and are hence potentially bottom-up. Analysis below uses Feaver categories, but the overlap between his control institution types and the literature on anticorruption is worth noting.

When discussing both screening and selection, and institutional checks in the KPA one must begin with the Party. Political officers (Political commissar) manage political life at the corps, divisional, brigade and regimental levels, while political instructors are present at the battalion, and company levels (Tertitskiy 2017, 65). The Party is deeply enmeshed within North Korea's military, with every officer normally expected to be a Party member, subject to regular Party education sessions and self-criticism on a weekly and monthly basis (J. H. Choi 2002, 108–11). Hence, it is a major conduit through which punishments and rewards are delivered, and through which officers (and enlisted service persons) are monitored. Each member is supposed to be part of a Party cell (this is the case both inside the military and in civilian life), which on average have 15 members (Seunghyun Choi 2015, 9). Cell secretaries are required to report on the activities of their members to the Primary-Level Party Organizational Committee (Seunghyun Choi 2015, 114). Party members are screened in order to minimise issues of adverse selection, while Party institutions, rules, regular education and self-criticism, and organizational structures are designed to both monitor the membership, and also instil in them the correct worldview (Seunghyun Choi 2015, 15–16). These cells are headed by political officers who write reports about their members on a regular basis.

Aside from the Party at the unit-level, divisions and their regiments each also have their own security command officer , whose job is to monitor their respective units (J. H. Choi 1997, 53). The Security Command (SC), which these officers are members of is the military's intelligence. As such, they have four core tasks: (1) deal with any anti-party, anti-revolution, or anti-state actors within the military, (2) counterespionage, (3) manage residency registration and caste (Songbun) system,[97] and (4) handle regular, non-political crime (J. H. Choi 1997, 47–49).[98]

Together political officers and security command officers are supposed to serve as an institutional check on the power of regular officers, and act as a conduit through which information is funnelled to the civilian authorities. Aside from them, the state also launches inspections (police patrols) of military organizations, like the 2012 audit of Unit 235 discussed below (Central Committee of the Korean Workers' Party, n.d.). And in addition, the civilian authorities also receive reports from individual citizens and from local party, government and other organs of the party-state regarding military misconduct. They constitute what has been termed 'fire alarms'. As cited in Feaver (2003), McCubbins and Schwartz (1984, 166) define a fire-alarm as "rules, procedures, and practices [that] afford citizens and interest groups access to information and to administrative decision-making processes. Others give them standing to

[97] Collins (2012, 59–65) provides an analysis of how the Songbun caste system works inside the military. On the operations of North Korea's Songbun caste system and its arbitrariness, see: Silberstein (2021, 79–114). There are a number of leaked primary sources about the inner operations of the Songbun system that Silverstein (2021) makes use of.

[98] On the security command, also see: Yun (2002, 121–23)

challenge administrative decisions before agencies and courts, or help them bring alleged violations to congress- men's attention." [99]

As is demonstrated below, together these institutions ensures that the civilian authorities receive considerable information about misconduct by the military (including regular officers, political officers, and officers of the security command). In this regard, monitoring institutions are not so weak as to not detect malpractice, but neither contract incentives nor punishment appear to deter non-compliance as neither provides sufficient incentives to prevent rule breaking, a hallmark of weak institutions (Brinks, Levitsky, and Murillo 2019, 19; Levitsky and Murillo 2009). The lack of effective contract incentives can be taken to be a lack of investment in state capacity to enforce the rules, but also a sign of a lack of fiscal capacity as discussed in chapter 4.

Surveillance systems amidst pervasive corruption create a dilemma, catching many crimes that are unaffordably expensive to punish. Thus, state capacity is selectively utilised to punish either more grotesque abuses or acts of predation, or else behaviours that actively run counter to state objectives. Whereas monitoring institutions are pervasive in their scope, and apparently quite functional in practice, contract incentives are largely absent, with North Korean military personnel suffering from a lack of housing, insufficient pay, which they may even fail to receive. At the same time, the state obliges military personnel to produce what they do not receive in rations and housing allocations for themselves. This creates perverse incentives for officers to engage in a wide range of illegal economic activities.

3. Method and case

(a) Method

The present chapter is based upon documents from Unit 235 that is part of the Korean People's Army's Third Corps. It is a case study of control institutions in the KPA and their effectiveness with respect to the economic activities of officers within the unit. The documents from the unit are utilised as a primary source from which to draw tentative conclusions about how the state manages military economic activities at the unit level. Before analysis of unit-level documents is presented, a general picture of leadership priorities from orders issued by the leader will be developed. From here, the Third Corps document collection will be analysed, and the effectiveness of different control institutions will be discussed. Illustrative cases of disciplinary issues are presented from the documents to demonstrate the kinds of information that the central authorities were fed. The punishment section relies on a close reading of officer evaluation reports and other reports from the document tranche that detail how officers who committed economic offences were dealt with (the results of this analysis are presented in detail in Appendix 1).

The unit discussed herein was not chosen as representative of the military as a whole. The author did not have a choice of which unit to investigate, and this creates issues for generalizability – this represents a limitation of this study. Nonetheless, national-level material cited below, as well as existing research, indicate that problems some control institutions are

[99] The theory is part of broader discussions about how elected officials control bureaucratic behaviour in democracies Bendor, Glazer, and Hammond (2001). For a review and a comparative application, see: Damonte, Dunlop, and Radaelli (2014). The concept and issues of delegation in an authoritarian setting have analyzed in China (Gallagher 2017, 52–111; Ginsburg 2008, 63–64), and Egypt (Moustafa 2008).

acknowledged to be national in scope by the leadership. On matters related to detection of economic misbehaviours, it is unclear how generalizable the findings are, but the documents available do offer some support to the view that the regime is unwilling to punish many offences, as does the existing literature (Hwang 2018; E. C. Jeong 2016; I. Kim, An, and Song 2018). Further, it would appear unlikely that the state's capacity was more limited with respect to units stationed near the capital, an area crucial for security, than it would be for units stationed further inland.

From these documents and with other sources, a picture of the functioning of monitoring institutions designed to manage the economic activities of military officers and the military as a whole can be developed.

(b) The case

Unit 235 (a KPA ground forces reserve division) is an army reservist division part of the KPA's Third Corps. The unit was formed in April 1984, following instructions from Kim Il Sung that were translated into orders issued by Kim Jong Il on February 4, 1984. The hierarchical breakdown of the unit is given in the table below.

Table 7: Hierarchy of Units and Unit 235's Composition

	Number
Division	1
Regiment	25
Battalion	133
Company	481
Platoon	1,786

Source: Reference Report (2012, 2)

The unit had 654 serving officers (combat, political and security officers), of which 57 were political officers, and 12 were intelligence officers, and 1492 reservist officers (Reference Report 2012: 3). All but one of the officers was a party member, and they manage 15,658 reservists, and 435 petty officers, while 8 officers were classed as Core – the highest caste in the North Korean system for all but a tiny minority of high elites (Tertitskiy 2015), with two soldiers and one family member also being Core Songbun holders ('List of Core Songbun Members in Unit 235', n.d.). They had a total serving full-time active officer count of 635 (with an additional 435 petty officers), and more than 1,500 reserve officers, while the total size of the Unit fluctuated around 16,000 ('Third Corps Unit 235 Command Materials' 2013, 2–3).

Table 8: Officers of Unit 235

Type	Full-time Active Service	Of which core Songbun	Reserve
Military (combat)	585 (40 women)	8	-
Administrative	-	-	1,220
Political	57	-	229
Security (police/intelligence)	12	-	43

Source: Reference Report (2012, 3); List of Core Songbun members in Unit 235 (n.d.)

The sub-units of Unit 235 were spread across the city of Namp'o, North Korea's fourth largest city and part of the South P'yŏngan industrial belt in which around 50% of North Korea's industrial output according to South Korean estimates, the city itself has a population of nearly 1 million, and has a considerable portion of the country's industrial and agricultural capacity (Y. H. Kim 2019).

The document collection from the unit used herein contains a large number of reports written by the Unit's political officer or the political officer of the Third Corps about politically relevant activities of officers. A subset of documents includes evaluations of officer performance and punishments administered (or not) for bad behaviour. What's more, the collection includes a significant number of orders issued to the military in the name of the leader (Kim Jong Il, and then Kim Jong Un).

4. Political control and its limits

This section begins with a brief summary of the leadership's aims with respect to the military, and then discusses each control/oversight institution within military and its actual capacity to ensure that leadership aims are realised. The major findings are summarised in the final subsection.

(a) Leadership aims

Chapter 4 considered the strategic aims of the North Korean leadership in long durée. This section recaps those aims within the time span of the Unit 235 document collection.

The North Korean leadership has a range of aims with respect to the military. These include maximizing military efficiency, facilitating effective aid to the civilian economy and society, positive civil-military interactions at the popular level, but also efficient self-funding (self-sufficiency) and above all, political loyalty. More broadly, the leadership's overarching strategic aim appears to remain the 'liberation' of South Korea, i.e., invasion, occupation and absorption of the South. This is a potentially highly controversial assertion, however, both Kim Jong Il and Kim Jong Un have asserted that unification by military force is their goal (see below).

While on the world stage, the North Korean government continues to talk of peaceful unification, in speeches, orders, lecture materials and other materials distributed internally to the military it articulates a line of constant preparation for potential war and unification by force. Kim Jong Il put these aims plainly:

> "The People's Army should remember my intentions and accelerate preparations to fight, when the opportunity arises, you must run to annihilate the enemy in one blow and suppress south Korea with force.
>
> My view of unification is that it is to be done by force.
>
> The People's Army must be absolutely ready to unify the country, accelerating its fighting preparations over and over so that if the order is given, they can crush the enemy without mercy." (J. I. Kim 2010a)

This implies both maintaining a degree of battle-readiness, and a size of forces that the state has proven unable to finance out of government outlays alone. As Kim Jong Un (2012) himself put it:

> "The People's Army must not be distracted by conversations that society has with other countries or by anything else, and must put much energy continually into pushing political ideological education work and preparations for fighting in order to strongly arm officials and soldiers with the Party's view that unification should occur by force."

These commitments are, of course, kept officially secret and are only discussed in internal documents. Kim Jong Il's remarks to visiting officials from Chosen Soren in 1998 (see chapter 4) are also a rare exception where the leader spells out what may appear obvious: "this is an iron fist in a velvet glove [approach]" (J. I. Kim 2003).[100] This contrasts with North Korea's official unification policy, which is of peaceful unification through negotiation and the creation of a con-federal structure encompassing the two Koreas (Nakato 2016, 38–42). Hence, it is very much necessary to keep secret what appears to be the primary motivation for maintaining such a large military.

North Korea has a population roughly half the size of the South, and a per capita GDP of around $1,300 (Democratic People's Republic of Korea 2021, 7, 30), less than 5% of South Korea's (World Bank 2022).[101] This makes the goal of occupying and conquering the South appear rather implausible on its face, yet the leadership has maintained a massive fighting force all the same. The vast expense of maintaining such a large fighting force means that the military is also required to engage in a large number of economic activities to provide the means of its own subsistence. Many of these activities have an official personality, known under the umbrella term of 'side-work'. The leadership takes great interest in military's capacity to engage in such activities so as to ensure that service persons are provided for and fighting capacity is maintained. For the period that the author has documents, Kim Jong Il and Kim Jong Un issued numerous directives about soy bean and cereal farming, coal mining, and fishing by military units (Korean People's Army General Political Bureau 2012; 2013c; Korean Workers' Party Central Committee Economy Department 2013; Korean Workers' Party Central Committee Organization and Guidance Department and Korean Workers' Party Central Committee Agitation and Propaganda Department 2011). The leadership also requires the military at the corps and regimental level, to create and fulfil its own 'Innovation Resolution Plans' on an annualised basis, and these include specific food production targets ('Innovation Resolution Plan on the Centennial Anniversary of the Great Leader's Birth' 2011).

The military's productive activities are supposed to be non-commercial in nature, and for subsistence only. Since at least the late 1990s, the leadership has issued directives demanding that "the winds of trade", and the spread of commercial activities and other "social vices" in the military be stopped (Lecture Materials 2004a, 8). Yet, as will be shown below, the sheer prevalence of illegal market activities within the military creates a dilemma for the leadership, giving rise to highly selective enforcement of the rules.

[100] The Korean People's Army was also instructed as such, as is shown in chapter 4.

[101] Calculation was done by the author using North Korean official releases from Democratic People's Republic of Korea (2021) and World Bank (2022).

The issue of self-financing and subsistence production is of great importance in matters of civilian control over the military because it can give rise to negative consequences – both corruption and predation. While leadership may aim to provide rations, shelter, and pay to military officers, as well as food and rations to their families, in reality, they often appear to either provide resources that allow military units and the officers that manage them to actually provide for their own subsistence and that of their subordinates and families. The system of military rations and housing is also only partially centrally managed and funded, with the military unit required to make up for shortfalls in the food supply and in the supply of housing. Kim Jong Il (2010b) made this point in remarks to military officials in July 2010:

> "The people's army should not just hope that society will guarantee its rations, it should mobilise every reserve and possibility it has to resolve the food problem of soldiers."

One of the major concerns for leadership is to ensure positive relations between civilians and the military, and avoid predatory behaviour. Military-first politics is premised upon the idea of the military and people working together as one (S. I. Jung 2009b, 255–56). Violence against civilians, theft, robbery, and other property crimes would be of concern given such priorities. In documents issued to Unit 235, Kim Jong Un (2012) is quoted as saying in 2012 to the First Deputy Chief of General Staff that "The People's Army must thoroughly implement measures to decisively improve army-civilian relations". In 2010, Kim Jong Il (2010c) made similar comments while touring Kim Il Sung Military University: "In improving relations between the military and civilians, military commanders must lead the way."

Overall, therefore, the leadership aims to maintain a large army that is partially self-funded, and becomes less reliant on civilian society for its subsistence whilst also maintaining positive relations with civilian society.

(b) Prevention and detection of illegal economic activity

North Korea maintains a large network of brutal prisons and political prison camps (Hawk 2012; Hawk and Oh 2017). It is also believed to have between 80,000 and 120,000 political prisoners detained in a vast network of political prison camps (Hawk 2012). Recent human rights reports attest to conditions in military detention centres and prison camps also being dire (I. Kim, An, and Song 2018, 227–39). There is little doubt that those who are punished by significant periods of detention in North Korean prison camps face harsh punishment, or if they have committed serious criminal offences like murder, executions within the military also occur (I. Kim, An, and Song 2018, 56–71).

However, there is reason to suspect that such crimes may not necessarily always include economic ones. As the table below shows, while the Civilian Criminal Code prescribes heavy punishments in brutal conditions, another law, the Administrative Punishment Act, prescribes far less lengthy or lighter sentences, including simple warnings for many offences, and has done so since its adoption in 2004. Note that neither of these laws are directly applicable to the military which has its own separate court system, but they give some indication of the kinds of punishments that could be enforced, and the differences are quite large for the same crime.

Table 9: Offences and Punishments prescribed under the Civilian Criminal Code and Administrative Punishment Act[102]

Offence	Punishment prescribed under the Criminal Code (amended 2017)[103]	Punishment prescribed under the Administrative Punishment Act (amended 2017)
Theft of State Property	From 1 year in a mobile labour brigade to 9 years in a labour camp (Article 91)	Up to 3 months re-education through labour, more if severe (Article 86)
Extortion of State Property	From 1 year in a mobile labour brigade to 10 years in a labour camp (Article 92)	Up to 3 months re-education through labour, more if severe (Article 87)
Defrauding the state of property	From 1 year in a mobile labour brigade to 8 years in a labour camp (Article 93)	Up to 3 months re-education through labour, more if severe (Article 88)
Embezzlement of state property	From 1 year in a mobile labour brigade to 10 years in a labour camp (Article 94)	Warning, severe warning, or up to 3 months unpaid labour or re-education through labour. Over 3 months unpaid labour, re-education through labour, demotion, dismissal, or loss of position if severe (Article 84).
Joint looting of state property	From 1 year in a mobile labour brigade to 2 years in a labour camp (Article 98)	Warning, severe warning, or up to 3 months unpaid labour to those who directed or organised such activities. Over 3 months unpaid labour, demotion, dismissal, or loss of position if severe (Article 85).
Black market transaction	From 1 year in a mobile labour brigade to 2 years in a labour camp (Article 111)	Up to 3 months of re-education through labour. Over 3 months of re-education through labour if severe (Article 314)
Brokerage[104]	From 1 year in a mobile labour brigade to 3 years in a labour camp (Article 112)	Up to 3 months of re-education through labour. Over 3 months of re-education through labour if severe (Article 316)

[102] On the different kinds of labour camp, see Hawk (2012).

[103] Hawk and Oh (2017, 38) find that there are few differences in the restrictions on rights and the general conditions of different types of labour camp/re-education facility, merely that they differ in the length of their inmates sentences.

[104] The term connotes activities that seek advantage through the use of price differentials between sectors, the state and market, or between regions.

Violating the land use order	From 1 year in a mobile labour brigade to 3 years in a labour camp (Article 164)	Up to 3 months of re-education through labour. Over 3 months of re-education through labour if severe (Article 126)
Violating the narcotics, poisonous substances or explosive substantives order	From 1 year in a mobile labour brigade to 3 years in a labour camp (Article 130)	For the sale of narcotics: More than 3 months re-education through labour (Article 220)
Illegally lending of state assets to individuals	From 1 year in a mobile labour brigade to 5 years in a labour camp (Article 132)	Warning, severe warning, or up to 3 months unpaid labour or re-education through labour. Over 3 months unpaid labour, re-education through labour, demotion, dismissal, or loss of position if severe (Article 84)
Theft, extortion, defrauding, embezzlement of individual property		Up to 3 months re-education through labour, more if severe (Article 327-329)
Damaging military-civilian relations		Warning, severe warning, or up to 3 months unpaid labour or re-education through labour. Over 3 months unpaid labour, re-education through labour, demotion, dismissal, or loss of position if severe (Article 322)

Source: National Intelligence Service (2020, 329–30, 334–35, 338, 525, 529, 540, 551, 552)

Much of the contents of both laws has remained unchanged in the last 18 years since the Administrative Punishment Act was passed (Hwang 2016, 131–216). Hence, the above table gives us some indication of the kinds of punishment options that the leadership might consider applying, and the potential deterrent effect of the available penalties on Unit 235 officers of laws that existed at the time. Other leaked North Korean military sources from early 2000s indicate that the Military Criminal Code differs little from the Civilian Criminal Code in the severity of penalties threatened. For instance, lecture materials distributed to low-level military agitation and propaganda officials in 2002 state that the Military Criminal Code punishes "throwing military discipline and order into disarray by going absent without official leave" was punishable by "up to three years in a labour camp", and desertion by "up to ten years" (Lecture Materials 2002c, 40).[105] South Korean military sources also indicate that the types of

[105] Study reference materials for soldiers and officers from 2001 say that the Military Criminal Code prescribes up to "2 years in a labour camp for desertion", and up to "five years when deserting while on official duties or with one's weapon" (Study Reference Materials 2001, 110–11). Hence, it would appear that in 2002, some penalties had been further raised.

punishment in the military range from warnings, the loss of medals, demotions, loss of position, to being sent to mobile labour brigades (S. Y. Han 2013, 48).[106]

It seems plausible to assume that the criminal code within the military has not subsequently radically diverged from its civilian equivalent. Thus, one would expect at least more serious economic crimes to be punished with a level of severity commensurate to that of the civil code. The *Reference Volume for Cadres on the Legal Front* (2009), a closed-access North Korean legal reference published by the Ministry of People's Security (the criminal police) from 2009, offers a guidance to the country's police, and includes numerous cases of theft involving state property that are supposed to be punished as crimes not administrative offences.

The following sub-sections examines the capacity of the leadership to manage the military economic activities at the unit level, looking at the role of different institutions and their limits in controlling unit-level military economic activities. It demonstrates that the state apparently cannot provide the necessary incentives to prevent officers from engaging in illegal economic activities, but control institutions nonetheless detect a great deal of misconduct.

The first subsection considers the weakness of contract incentives. The second demonstrates that screening and selection mechanisms do not prevent illegal economic activities, while detection mechanisms, though likely far from perfect, do find a great deal of illegal economic activity. The final section considers the issue of punishment.

(i) Unit economic activities and weakness of contract incentives

In the literature on principal-agent theory, one of the main ways principals seek to ensure agents comply with their interests through contracts that bind agents to the principal, and structure incentives so as to ensure the agent acts in accordance with the principal's wishes (Dixit 2002). This sub-section explains what economic activities the unit was involved in, and how a lack of effective contract incentives gave rise to serious moral hazard issues.

There is substantial empirical support for the view that sufficient compensation deter corruption amongst public servants generally (Cornell and Sundell 2020; Van Rijckeghem and Weder 2001), while empirical investigations of comparable cases like that of China also indicate a similar connection (Dong and Torgler 2013). North Korean officers are not well compensated for their labour relative to market prices for food, with a senior colonel earning as little as 6,000 won per month in 2014 (C. Lee et al. 2016, 145) - barely enough to purchase a kilo of rice in the country's market system at the time (Daily NK 2022).[107] Similar levels of pay relative to prices are also are also reported in the 2000s, with figures published in 2005 indicating that a senior colonel was paid 1,800 won in 2005, the equivalent of around 2 kilos of rice at market prices (Yeong-su Kim 2005, 2–3). They are also not well compensated in-kind, as is further demonstrated below. They are, rather, expected to organise their own provision. Thus, many of the economic activities involving officers have a legal personality, and some aspects of their organization and operation were legal, but the they also involve illegal marketing of the product,

[106] There are three kinds of punishments that can be given to the military, administrative, legal, and party, with party punishments being the most severe (Seongjoo Kim 2017, 17).

[107] This was still three times higher than a construction worker (2,000 won), an office worker (3,000 won), and around the same or slightly above a heavy industrial worker (5,000-6,000 won) according to Lee et al. (2016, 145). See Hunter (1999, 91) for older military pay scales from the Kim Il Sung era.

the sale of rights to use unit resources like land illegally, or the provision of services to market actors illegally.

The unit possessed a number of productive assets, including 59 hectares of arable land ('Reference Report' 2012, 11), a coal mine ('Reference Report' 2012, 11), and a fishing unit with ten boats ('Unit Fishing Group Report' 2012, 1). The output they produce was supposed to be utilised to fulfil the leadership's aims of feeding the military, and not for commercial purposes or for self-enrichment. However, as is shown below, officers often engage in activities that run counter to leadership aims.

First, the land that unit possessed was distributed amongst its different regiments. And while a large portion of it was supposed to be given over to soybean production, done by the unit's soldiers, officers with control over the land sublet it to local civilians who paid rent (in kind) for the privilege of using the land (Divisional Political Commissar 2012f, 1; Divisional Political Department Organizational Department Instructor 2012). While this practice is illegal, it allows units to obtain necessary resources needed to pay for other operations, purchase other supplies, or else is embezzled by officers. This also gives officers the opportunity to engage in market activities, selling the food acquired either from unit farming or from the sale of access rights to land (Central Committee of the Korean Workers' Party, n.d., 19). New land could also be acquired illicitly by officers to arrange their own personal farms within the unit. Multiple officers in the period for which documents were available are reported to have tried or succeeded in illegally finding new lands to farm (Divisional Political Commissar 2013a, 2).

Second, the unit's coal mine produced 1,000 tons of coal annually ('Unit 235 Rear Department Director Party Life Materials', n.d.). Its purpose was to produce coal for heating the barracks of the unit ('Evaluation of Unit Activities for 2011', n.d., 5). Coal is also a major North Korean export commodity (B.-Y. Kim 2017, 167), and thus is comparatively easily marketed internally by officers with access to it, either bartering for food or other fuels, or else to purchase food, or for profit, in defiance of the law and commands from the leader and the central authorities (Korean People's Army Central Command 2011; Korean Workers' Party Central Committee Economy Department 2013). There are cases of literally tons of coal being diverted from unit supply for the 'personal use' of officers ('Party Committee Discussions of Leader Instruction Issues', n.d., 3; 'Unit 235 Commander Party Life Materials' 2011, 2). Further, other officers reportedly engaged in wholesale coal trade during the period for which documents are available ('May Trend Materials', n.d., 1).

Third, fishing was a major area of interest for the North Korean leadership in the 2010-13 period. An order issued by the Implementation of the Korean People's Army Party Committee (the highest Party committee within the KPA) in a meeting led by Kim Jong Un mandated all soldiers should receive 100-150g of fish a day (Korean People's Army Party Committee Implementation Committee 2013), and that this fish should be caught primarily by the Korean People's Army's own fishing operations. However, the unit's fishing operation appears to have been run as a commercial enterprise, with the unit commander requiring it to generate cash profits of $5,000 per year largely to fund the purchase of some of the unit's fuel requirements, which he was censured ('Unit 235 Political Commissar Party Lecture Materials', n.d., 2). Setting targets in foreign currency would appear to not be legal, but available information regarding dollarization in the North Korean economy points to the practice being prevalent (Mun and Jung 2017).

Finally, military officers used family networks, their own time and unit resources to engage directly in market activities, selling resources obtained from outside the unit from state firms and farms meant for the unit itself (embezzlement of supplies), selling storage space inside the unit, and selling unit supplies on local markets (see below). These activities are either problematic, or outright illegal, but they are not necessarily punished, for reasons discussed further below.

The provision of housing and food was a major issue for Unit 235, with 73 officers listed as not having housing ('List of Officers without Housing', n.d.), and food supply problems leading the Political Department of the Unit to draw up plans to try to resolve the problem (Unit 235 Political Department 2012, 5). The absence of effective housing provision appears to lead to some officers to take matters into their own hands, mobilizing the personnel and resources (cement) under their command to build their own housing, including the head of one of the unit's regiments (Divisional Political Commissar 2010). This basic lack of provision creates warped incentives to illegally utilise resources available.

The central government's system of food allocation has also not provide sufficient food for the military generally (Lecture Materials, n.d., 33; K. Lee 2020, 75–100). Given problems with the food supply generally, however, the leadership has sought to mobilise the military and military families to produce food for themselves and for the unit (Korean People's Army General Political Bureau 2013b). The military was required under Kim Jong Un to produce enough soy beans for each soldier to eat 150g of soy beans a day, 100g of meat a day, all of its vegetable requirements in the winter, and keep one goat and rabbit for every five soldiers, as well as produce a total of 700,000 tons of coal (27% of the coal they consume) using their own mines (Lecture Materials 2013, 31, 50). Hence, military officers have significant material obligations to manage production for their unit and far from adequate material incentives. These production obligations also create the potential for corruption by putting resources at their disposal in the form of productive assets. For instance, to produce their soy bean requirements, a company of fifty soldiers would require around 2.5 hectares, assuming that one hectare produces 1.8-2 tons of soy beans a year (Lecture Materials 2013, 63).[108]

The food situation created perverse incentives for military unit officers to steal, embezzle or other 'misuse' unit resources meant for soldiers and other subordinates. To cite only two examples, in one the trade in food was done ostensibly to finance unit activities like construction but actually for personal profit ('Evaluation of Unit Activities for 2011', n.d., 20), and in another case, an officer sold supplies given to the unit by civilian enterprises apparently for personal enrichment, or perhaps to pay for food ('Unit 235 Party Committee Plenary Meeting Report' 2013, 17). Detection of such activities and how they are dealt with is discussed further below, and their social implications for regional society in the next chapter. But here, it is worth stressing that officers are incentivised by a lack of adequate rations to engage in illegal market activities. The situation surrounding pay further exacerbates the incentive problem.

Unit commanders, and other senior unit-level officers also have ample incentive and apparent means to take the wages meant for their subordinates to fund unit activities like the provision

[108] These numbers are from a large lecture in the Third Corps archive that includes estimates of soy bean production per hectare inside the military. Interestingly, the numbers cited, 1.8-2 tons per hectare, these are yields are higher than the Russian average but about 50% lower than the international average for soy bean farming (Langemeier 2021).

of rations ('Unit 235 October Trends Materials', n.d.), make payments demanded by their subordinates or fund other activities ('Unit 235 Artillery First Battalion Commander Party Life Materials' 2013, 1–2). Given that the leadership has demanded that the wages of military personnel not be diverted into such activities (Korean People's Army General Political Bureau 2011, 5), the problem was apparently widespread, and may still be.

However, as explored further below, instead of material incentives or even basic provisions for material sustenance, the North Korean leadership relies on ideological education and surveillance to maintain its army and manage military economic activities.

(ii) Prevention and detection

This sub-section discusses different forms of oversight mechanisms that the civilian leadership has created and maintains in order to more effectively exercise control over the military. It demonstrates that they largely fail as means to prevent many forms of illicit economic activity ex ante, but they do detect a great deal of such activity post hoc. This creates a dilemma for the leadership, however, because illegal economic activity is so common within the military, and rooting it out would come at significant cost – officers would need to be replaced or otherwise incentivised to refrain from such activities.

As Feaver (2003, 78–79) notes, selection and screening are important mechanisms by which civilian leaders control their militaries. The North Korean leadership has multiple mechanisms for screening and selecting officers. However, many of these mechanisms appear to fail to keep officers from becoming involved in unsanctioned or illegal economic activities. Some of these mechanisms would be standard for any army, while others are either distinct to state socialist regimes or else to North Korea alone.

One key selection mechanism common to the KPA and to other militaries is the education system for officers. Officers acquire skills through training at specialist military schools, with specific educational requirements for particular positions.[109] These selection requirements, however, also make officers difficult to replace, with unit documents indicating that officers who are due to retire or who face dismissal for bad conduct ('List of Officers Facing Mandatory Retirement Due to Age', n.d.), or who are physically ill being kept in position due to a shortage of potential replacements ('List of Those for Which Measures Must Be Taken Due to Illness', n.d.).[110] These create serious moral hazard issues with officers knowing that the state may lack the necessary capacity to replace them, even when they break the law, engage in illegal economic activities, or other forms of illegal activity.

Aside from this, the leadership requires that all officers are also be members of the ruling Korean Workers' Party (see above). Thus, Party membership is both a selection and screening

[109] Each of the four major types of military officers, combat, administrative, political and security has their own ethos, training schools, and actual functions (J. Ko 2011, 74–77). For a list of the different military schools, see T. K. Kim (2015, 238–42)

[110] A list of those suffering from physical illness lists eight officers who are suffering from tuberculosis, with two suffering for multiple years, and an artillery company commander in his tenth year of suffering the illness ('List of Those Suffering Physical Illness', n.d.). Another document lists 15 members of the unit having tuberculosis ('Assessment of the Organization's Department Work Following the May 2010 Nationwide Lectures', n.d., 4). North Korea has serious problems with tuberculosis, especially drug-resistant tuberculosis (Seung and Linton 2013), and this may be why the leadership is reluctant to dismiss officers with the condition or let them leave the military.

mechanism, but the Party itself inside the military is also a fire alarm designed to uncover illegal activities (see below), threats to the leadership and the state, as well as an institutional check on the power of regular officers. However, as cases presented in the punishment subsection below demonstrate (also see appendix 2), Party and Security Command officers also become involved in illegal economic activities, and may also collude with regular officers to keep such activities secret. For instance, in available sources, Unit 235's Political Commissar reportedly knew that the unit commander had illegally organised a marketised fishing operation (which had a $5,000 annual revenue target), and neither reported on it, nor attempted to stop it from operating ('Unit 235 Political Commissar Party Lecture Materials', n.d., 2). There are also cases of collusion between regular officers and political officers in corrupt activities, indicating that at the divisional level and below, the institution of inter-service institutional checks does not forestall serious control issues.

The Party is also utilised as a mechanism through which to punish and 'reform' those who engage in illegal economic activities.[111] As a selection and screening mechanism, it would appear to be largely ineffectual in preventing officers from engaging in such activities, however, given that Party membership is a prerequisite to becoming an officer, and over 10% of North Korean adults are Party members.[112]

Further, the North Korean caste system, Songbun, functions as an additional selection and screening mechanism, with poor class background preventing many from joining the Party. The top of this status hierarchy is the 'core' group. Only 9 of the 600+ officers in Unit 235 were members of this group ('List of Core Songbun Members in Unit 235', n.d.), and this group is subject to special monitoring and education within the military to ensure that it remains a redoubt of loyalty to the regime. Perhaps as a consequence, there are no records of direct economic misbehaviour of this group in available documents.

Other oversight mechanisms within the military include institutional checks, which includes a system of political officers and a separate security command inside the military; fire alarms, that is civilian individuals and groups that report on activities of the military; and police patrols, regular and irregular audits of the military's activities.

On a daily level, the most prominent of control institutions in the KPA is that of institutional checks, that is the system of political commissars and security officials embedded at every level of the military down to the regimental or company level. Nominally institutionally independent political officers and security personnel write regular reports on the attitudes and activities of their colleagues, while higher level unit personnel conduct audits on the performance of lower military units as well. This makes institutional checks more intrusive than they are in most militaries, where they often take the form of inter-service rivalries between different parts of the military.[113] Political reports and other forms of intrusive surveillance do detect considerable amounts of illicit economic activity, including for more senior political personnel in the case of Unit 235. These include the trade activities of the 290th Regiment's Second Battalion's Political Instructor (political officer), who supported a family effort to trade in salt on an ongoing basis

[111] Under the Party Bylaws, last amended in 2021, Party members can be given a warning, a severe warning, or face expulsion if they break the rules (Korean Workers' Party 2021).
[112] Around 10-20% of soldiers are also said to be party members as well (Seongjoo Kim 2017, 17).
[113] Refugee testimony indicates that they cause considerable friction too, with many officers reported to despise their political/security counterparts (Seongjoo Kim 2017, 19).

(Divisional Political Commissar 2011, 3). Even the head of the Unit's Security Guard is reported to have engaged in the (illegal) rice trade ('Unit 235 Divisional Security Chief Party Life Materials', n.d., 2).

In more open and democratic countries, fire alarms may take the form of NGOs and media outlets who investigate military activities (Feaver 2003). But in North Korea, they include two distinct phenomena. First, there are individualised forms of denunciation from inside the military's hierarchy and from broader society, these are seemingly random in their occurrence and not institutionalised because no independent social forces or organizations exist in North Korea. Second, there are also institutionalised forms of fire alarm, that being reports from other civilian government and Party entities, including local government bureaus, and state farms and firms. Examples from available sources of the first form of fire alarm include the families of officers who denounced higher level officers when they did not receive rations because those rations had been embezzled for market activities/personal enrichment ('290th Regiment Implementing Committee Member Party Life Assessment Report' 2013, 7). And a local Party organization denouncing an officer for requiring reservists under his command to provide funds in exchange for what appears to have been a partial exemption from training ('Unit 235 October Trends Materials', n.d., 2), and denunciations by civilian Party organizations of the theft of food meant for reservists ('Unit 235 613th Regimental Commander Materials', n.d., 2).

Finally, police patrols take the form of regular inspections of military units by higher level Party organs, in the case of Unit 235, the Organization and Guidance Department of the Korean Worker's Party audited the unit in in March 2012, pursuant to orders issued by Kim Jong Un in early 2012. The report noted many of the issues cited above, including the theft of subordinates' wages, the sale of access to the unit's land holdings to private traders, the illicit acquisition and sale of unit supplies (Central Committee of the Korean Workers' Party, n.d., 16–20). This clearly indicates that the central authorities were aware of many of the issues related to illicit economic activities cited above.

As the above examples demonstrate, these oversight mechanisms detect a great deal of unsanctioned economic activity, including theft from reservists, predation on civilians, the utilization of unit resources for personal gain and private business, or the use of markets and working with market actors to provide for unit personnel or for personal gain. Many of these activities clearly run counter to the leadership's aims, by hurting military preparedness, breach laws and military discipline, and leading to the spread of markets and market relations within the military.

This gives rise to the question, how and who does the leadership decide to punish for such activities? The next sub-section considers the issue of punishment.

(c) Punishment

The present section demonstrates that the leadership has put in place systems that prioritise maintaining officer numbers rather than deterring illicit economic activities. Kim Jong Un is reported to have said:

> "Unless they are fundamentally bad and reactionary, all command officers including company and battalion commanders should take the firm view that any and all can be educated and reformed, and 1-2 officers should take responsibility to the end in

> educating the most problematic of officers and soldiers. Even those who have committed errors that led them to lose their positions, be ordered discharged, demoted, punished by the party or receive legal sanction should not be ignored, and led to understand their errors, express sincere regret, and when they work well, allowed to return to their duties at the appropriate time." (Unit Party Committee 2012, 7)

It would appear that these instructions are also at work when it comes to officer discipline with respect to economic activities. As noted above, many of the cases for which documentation is available relate to the illegal sale of unit resources, including access to unit facilities, illegal business operations involving officers and/or their families, or other forms of self-enrichment like bribe taking.[114]

As the previous subsection showed, monitoring systems clearly detect a great deal of crime within the military. Through an analysis of unit records related to illicit economic activities, officer evaluations, and orders issued to the military, it becomes clear that the ultimate punishments of discharge and prison time are used highly selectively. The sheer quantity of illegal economic activities appears to create a dilemma for the regime that results in highly selective enforcement of rules related to illegal activity. Many officers are directly, or via their families, involved in activities that would be considered criminal under the civilian Criminal Code, yet continue to serve. The records discussed herein are summarised below, with evidence summarised in appendix 2. Major findings from the records and notable cases are discussed herein.

Many of officers implicated in illegal economic activities were subject to criticism in Party meetings, warnings from Party committees, sometimes severe warnings, or in at least one case, short-term detention (10 days in a military detention facility). Only a very small subset of cases led to (dishonourable) discharge, with many just subject to further educational lectures. While being subject to special lectures or receiving warnings from relevant Party committees is considered a form of punishment, it does not directly result in a loss of freedom, position or status, and hence can be considered a form of selective enforcement of the rules.

An examination of available documentation from Unit 235 indicates that the leadership is highly selective in its use of more draconian punishments like long term detention, and dishonourable discharges. The evaluation process itself is delegated to the Unit's political department and commissar, but documents are submitted to superior organizations, and to the Central Committee of the Korean Worker's Party. While the precise details of how and to what extent the results of these decision-making processes reach the leader and his immediate surroundings is not known, but given the cases discussed below, it seems highly plausible that those writing the reports know they may easily reach the attention of the leader.

Of the 85 inspection evaluation reports (which include both details of transgressions and the decision of the political officer with jurisdiction as to the punishment if any) available, spanning 2010-13, most officers were not found to have committed economic offences. But 29 officers were found to have committed any of the following: (1) engaging in illegal market activities, (2) stolen unit resources, stolen from soldiers, or from local communities, (3) allowed, ignored

[114] Another interpretation of these words is that they are an expression of an ideal that almost anyone can be reformed. But they are quoted in the context of instances of corruption and other misbehaviour, making such an argument seem less plausible.

or otherwise neglected to stop subordinates from doing the aforementioned, and/or (4) not fulfilling duties with respect to officially sanctioned unit economic activities. Using the Karklins (2015) schema, much of this corruption involves either profiteering from public resources, misuse of licencing and inspection powers (and/or the non-use of such powers), or the self-serving use of public funds/resources. Some offences would not necessarily be considered corruption in many countries, for instance, the sale of one's own house, but many other instances would certainly qualify. Being at the lower levels of military administration, the scale of corruption is limited, and is bureaucratic in nature. Table 5 presents the major contents of these reports along with plausible interpretations of the crimes committed under the civilian Criminal Code (an unbridged version with sources, unit names and precise positions can be found in appendix 1).

Table 10: Cases of rule breaking and type of corruption

Type of officer	Offence	Consequences	Equivalent Crime under the Civilian Criminal Code
Command/regular military	Failed to see civilian traders operating inside the barracks producing sodium cyanide	Kept position	Black Market Transactions
Command/regular military	Demanding supplies (glass) from subordinates	Kept position	Extortion from Individuals
Command/regular military	Not reporting the illegal business operations of subordinates	Kept position	Black Market Transactions
Command/regular military	Did not catch subordinates criminal conduct	Kept position	
Command/regular military	Large-scale theft of unit supplies, trade	Dismissal	Embezzlement/Looting of State Supplies
Command/regular military	Demanding bribes	Kept position	Extortion from Individuals
Command/regular military	Did not catch subordinates' economic misconduct	Kept position	
Command/regular military	Did not prevent massive theft of food	Kept position	Embezzlement/Looting of State Supplies
Command/regular military	Did not stop subordinates' sales of unit supplies	Kept position	Embezzlement/Looting of State Supplies
Command/regular military	Selling unit electricity to local residents, taking bribes to exempt reservists from service	Kept position, Education	Theft/Looting of State Supplies
Command/regular military	Sold house	Kept position	Violation of the Land Order
Command/regular military	Sold house	Kept position	Violation of the Land Order
Command/regular military	Ignored company commander's receipt of bribes	Kept position	Extortion from Individuals
Command/regular military	Subordinates using unit supplies to engage in illicit alcohol production	Kept position, further development	Theft/Looting of State Supplies

Command/regular military	Allowed soldiers to steal from local area; theft of soldiers food	Kept position, education; warning for theft of food	Theft/Robbery from Individuals
Command/regular military	Stealing from the fields of local collective farm, repeatedly stopping coal shipments and demanding bribes	Kept position, received a 'severe warning'	Embezzlement/Looting of State Supplies
Command/regular military	Embezzling food and other supplies	Kept position	Embezzlement/Looting of State Supplies
Command/regular military	Wife trading, stealing from the unit's fields	Kept position, education	Black Market Transactions Embezzlement/Looting of State Supplies
Command/regular military	Stealing grain from the unit's fields	Kept position	Embezzlement/Looting of State Supplies
Command/regular military	Stealing unit construction materials	Kept position	Embezzlement/Looting of State Supplies
Political	Stealing water from local village (where he lived)	Kept position	Theft/Looting of State Supplies
Command/regular military	Did not prevent subordinate from borrowing money while securing supplies	Kept position, development	
Command/regular military	Stealing rebar from the unit, taking bribes from reservists in exchange for training exemptions	Dismissal	Theft/Looting of State Supplies
Command/regular military	Taking unit fuel without permission	Kept position	Theft/Looting of State Supplies
Command/regular military	Tried to engage in farming operations on unit side-work lands by involving civilians	Kept position	Violation of the Land Order
Command/regular military; Political	Illegally selling unit coal to pay off debts	Kept position	Embezzlement/Looting of State Supplies
Command/regular military; Political	Mass theft of unit storage doors (steel doors) and sale to traders	Dismissal	Theft/Looting of State Supplies
Command/regular military	Theft of unit supplies, use of wife to trade supplies	Kept position, education	Theft/Looting of State Supplies, Black Market Transactions
Command/regular military	Borrowing grain from traders	Kept position	Theft/Looting of State Supplies (Grain is not legally tradable)

Command/regular military	Selling side-work unit production; selling side-work unit land	Kept position, education	Theft/Looting of State Supplies, Black Market Transactions, Violation of the Land Order
Command/regular military	Selling storage space to traders	Kept position, education	Violation of the Land Order
Political	Selling wood to civilian traders	Kept position, education	Black Market Transactions
Political	Providing storage services to traders; Selling food	Kept position, warning, education	Violation of the Land Order, Theft/Looting of State Supplies, Black Market Transactions
Command/regular military	Stealing unit grain; providing storage to local traders	Kept position, education	Theft/Looting of State Supplies, Black Market Transactions,
Command/regular military	Trading in food illegally	Kept position, education	Theft/Looting of State Supplies, Black Market Transactions
Political	Setting up cyanidation facilities to extract gold and silver	Kept position, warning	Violation of the Land Order
Political	Provision of storage services to traders	Discharged along with Company Commander for bad conduct	Violation of the Land Order
Security	Trade, stealing large quantities of supplies, embezzling unit funds	Discharged	Theft/Looting of State Supplies, Black Market Transactions
Command/regular military	Theft of construction goods (for various purposes including to build a greenhouse),	Kept position, warnings and education	Theft/Looting of State Supplies, Black Market Transactions,
Command/regular military	Stealing food	Kept position, severe Party Warning	Theft/Looting of State Supplies
Political	Setting up metal purification facilities (2009); providing logistical support for traders (2010); theft of side-work production (2010)	Facilities confiscated, Central Committee informed, ten days detention; selected for dismissal, pardoned	Violation of the Land Order, Theft/Looting of State Supplies, Black Market Transactions

Command/regular military	Selling unit supplies, engaging in and supporting trade (using unit vehicles), buying and selling houses	Dismissal (but for marriage issues, not economic misconduct)	Violation of the Land Order, Theft/Looting of State Supplies, Black Market Transactions
Command/regular military	Theft of rebar from the unit, extracting bribes from reservists	Dismissal	Theft/Looting of State Supplies, Black Market Transactions, Extortion of Individuals
Command/regular military	Failed to stop subordinate stealing food	Later discharged for age	Theft/Looting of State Supplies
Political	Extracting bribes, selling side-work production, embezzling supplies	Discharged, but economic crimes only part of the issue (lack of care for subordinates)	Extortion of Individuals, Embezzlement/Looting of State Supplies
Command/regular military	Selling electricity and exemptions from reservist service	Kept position, education	Embezzlement/Looting of State Supplies, Extortion of individuals

As the table demonstrates, there were only three cases of dismissal for misbehaviour, and only two of these were discharged for involvement in illegal economic activities, one for taking bribes (Divisional Political Department Organizational Department Instructor and Divisional Political Commissar 2013d), and another apparently engaged in both side trade and stole supplies from the unit as part of this business (Divisional Political Department Organizational Department Instructor and Divisional Political Commissar 2012b, 1–2).

Other officers were discharged because of familial issues, due to age, or for other reasons unrelated to misconduct. For instance, marriage and family impropriety (extra-marital affairs) appear to be more of a reason for discharges than economic misconduct, insofar as one instance can be sufficient to justify a discharge, while acts of insubordination involving economic activities may not be. This may imply that the leadership believes sexual and general impropriety with respect to family matters is an easier problem to address through punishment than corruption and other forms of economic misbehaviour. Indeed, a closer examination of some of the cases involving economic malfeasance indicates that serious crimes are not necessarily sufficient to justify a discharge.

One illustrative, and particularly interesting case is of the 316th Regiment's Second Company Political Instructor (political officer), who created a cyanidation business within the unit, in contravention of orders issued by Kim Jong Il in 2008. The political officer in question was not, however relieved of command, and was given a warning by the Party committee with jurisdiction ('Unit 235 316th Regiment 2nd Battalion Political Instructor Materials', n.d., 3). This is remarkable when compared to the officer who was discharged for having an extra-marital affair with the ex-wife of a former staff officer (Korean Workers' Party Korean People's Army Third Corps Committee Chief Secretary 2012). Divorce alone appears to not be a dismissible offence. One officer is reported to have divorced his wife after she was diagnosed with a mental health issue by one of the country's mental hospitals (Divisional Political Department Organizational Department Instructor and Divisional Political Commissar 2011j, 1).[115] The staff officer who was discharged had previously committed numerous economic offences in his role within the food and garment supply system inside the unit, but these were not considered sufficient for dismissal, and in his discharge report it was his family situation that was cited as being grounds for dismissal.

Another significant case is that of a company commander who absconded for nine months in 2011 ostensibly to work on the design of equipment for the Unit, and was subsequently caught working with local narcotics traders. He was subject to unspecified 'legal sanctions', but did not lose his command ('Report Materials Regarding the Actual Situation in the Implementation of Tasks Set by Great Leader Comrade Kim Jong Il and Supreme Leader Comrade Kim Jong Un' 2012, 3). He was also subject to a warning by the Unit Party committee in January 2012 (Korean Workers Party Korean People's Army Unit 235 Committee Control Committee 2012d), but this too was removed seven months later (Korean Workers Party Korean People's Army Unit 235 Committee Control Committee 2012b). Records after this point are unclear, and he may have subsequently been discharged or worse, though this does not appear to have been the case from available records.

[115] Divorce issues are tracked by political officers, however, as being a political issue worthy of their attention (e.g. 'Opinion Raised with Respect to the Theft of Reservists Food for Training or the Provision of Rotten Rice in the 613rd Regiment's 1st Battalion', n.d., 9).

As noted above, punishment often involves more lectures or warnings from the unit's Party committee. Some more serious crimes may involve unspecified legal sanctions, but there are no instances of officers facing time in actual prison camp for economic misconduct in the available documents. The unit does have its own detention centre, and there are instances of (political) officers being detained for 10 days in the facility for organizing the production of sodium cyanide within the unit ('Unit 235 316th Regiment 3rd Battalion Political Instructor Evaluation Materials' 2011, 1). But given the available sources, this appears to be a rather unusual punishment, and the political officer in question is one of the few who was selected for discharge as a result of his crimes, and even then, his discharge was vetoed by the unit's superior organization ('Unit 235 316th Regiment 3rd Battalion Political Materials', n.d., 2). It would appear from the available sources that the leadership decided that this officer, along with many others, were worth keeping rather than discharging.

The vast majority of regimental commanders and political instructors at the regimental level were born in the 1960s and 1970s, and entered the KPA in the 1980s or 1990s ('List of Unit 235 Regimental Commanders and Regimental Political Instructors', n.d.). The officer in question was in his early 40s at the time, and had served for more than two decades. It would appear that his crimes were not considered problematic enough to warrant a discharge by officers' superior to the Unit's divisional commanders and political commissar.

Other cases of discharges for economic offences include a security command instructor who worked with a local trader to support her in selling cement, and salt, as well as the theft of both cement from the unit and also unit funds (Divisional Political Department Organizational Department Instructor and Divisional Political Commissar 2012b). And a political officer who stole rations and unit food supplies for years, and engaged in illegal trade in the supplies he stole, and was adjudged by his superiors to be unfit to serve (Third Corps Political Commissar 2011b), but was again allowed to continue to serve on the instructions from the unit's superiors ('Unit 235 Artillery Regiment 4th Company Political Instructor Materials', n.d., 3).

And one of the most egregious cases from the point of view of military efficiency noted in available documents is that of a battalion commander and political instructor who stole and sold 32 steel doors from the unit's equipment store to local traders. This led to the dismissal of both men, and the case was also unusually described as "a serious crime" by the Central Committee's auditors (Central Committee of the Korean Workers' Party, n.d., 25). They were both apparently relieved of their duties because of this (and perhaps for other offences). These cases are, however, the exception, with many officers able to engage in a range of illegal activities without losing their positions or being facing punishments harsher than additional lectures and self-criticism sessions. This points to the relative bargaining power that officers have within the relationship between the leadership and the military.

(d) Summary

North Korean military control institutions map well onto Feaver (2003) typology of oversight institutions within the military. Table 6 presents a summary of the institutions of civilian control over the military and their relative effectiveness.

Table 11: Institutions of civilian control, North Korean style

Type	North Korean Variant	Effectiveness

Contract Incentives	Official pay, benefits, and organizational autonomy on unit-level issues	Largely absent
Screening and Selection	Military education, social background, party membership	Unable to prevent adverse selection
Fire Alarms	Outsiders (citizens) who level complaints against military conduct in the form of denunciation Denunciations by other organs of the Party-state like local government, party, state-owned enterprise, or collective farm	Effective for detecting illegality
Institutional Checks	Political officers and security command	Effective for detecting illegality; ineffective for preventing illegality
Police Patrols	Audits higher organizations in the military, political and security hierarchy	Effective for detecting illegality; ineffective for preventing illegality
Punishment	Party-related punishments including warnings, and severe warnings. Military justice, including short-term confinement, discharge/dismissal	Ineffective for preventing/deterring illegality

Source: Feaver (2003, 75–96, 94) and author's compilation

As is quite clear from the above analysis, all detection institutions are functional insofar as they are able to locate numerous instances of corruption/economic misbehaviour *post hoc*. They are, however, seemingly unable to prevent such instances from occurring *ex ante*, and this appears to largely be a consequence of three inter-related but distinct issues: (1) a lack of real contract incentives due to a lack of state fiscal capacity and a need for prebendalist fundraising that is sometimes legal but also creates opportunities for illegality, (2) screening and selection institutions that cannot *ex ante* mitigate such perverse incentives, and most importantly, (3) a lack of effective punishment due to limited state capacity to replace wayward officers. In other words, a lack of state capacity creates and perpetuates perverse incentives that give rise to outcomes that are not in the interests of a state, and without the will to change strategic aims or the means to build sufficient capacity, the problems remain unresolved.

The patterns of corruption identified in Table 5 are arguably the product of two factors: (1) available resources (access to particular resources or persons), and (2) individual preferences (business or bribery et al.). Some officers will have access to particular resources or individuals that will allow them to engage in particular types of transaction, business or other form of corrupt activity that others will not, while some officers might prefer a particular moneymaking scheme over another. Many instances of corruption were also partially caused by commanders/political officers/security officers not noticing or wilfully ignoring the misbehaviour of their subordinates. Thus, arguably there is a self-replicating dynamic of poor preventative institutions at each level of the hierarchy.

One form of corruption that does not fit in with such an analysis is the sale of housing, generally legal in most countries, but illegal in North Korea due to the lack of private property rights and the absence of a legal market for real estate. Hence, while it certainly qualifies under North Korean law as the self-serving use of public property, in most jurisdictions it obviously would not. Hence, this lends more support to the view that at least some forms of corruption under North Korean law 'grease the wheels', i.e., that they support economic development.

At the same time, military officers at the divisional level and below are not national-level politicians with the potential to engage grand corruption like mass fraud, state capture, or large-scale insider trading involving illegal regulatory arbitrage or privatization of state assets. They are around or not far above the level of street-level bureaucrats, and the kinds of corruption they can engage in are of the bureaucratic and relatively petty kind. Therefore, in the (Karklins 2015) schema, most of the corruption occurs either at the level of interactions between officials (officers) and citizens (civilians, conscripts, reservists), or else within public institutions – in the form of self-serving use of profiteering from public resources and funds. These are understandable consequences of institutional prebendalism without appropriate incentives and effective monitoring or punishment regimes.

5. Discussion and conclusions

(a) Alternative explanations

A number of alternative explanations to the above analysis are immediately obvious. First concerns the issue of generalizability. The case arguably is neither representative nor crucial because it is of a reserve unit in a particular city (Namp'o) at a very particular time (2010-13). Yet, many aspects of military corruption, and illegal business activities identified within the case have previously been the subject of analysis using sources unrelated to the present chapter. For instance, Hong (2006, 208–28) notes the existence of many different kinds of collusive relations between different tiers of the North Korean bureaucracy, within specific organizational hierarchies like an industrial ministry and factories under its oversight, and between organizational hierarchies like between county-level Party cadres and managers in local collective farms. While general analyses of corruption in North Korea point to its role in facilitating a wide range of interactions between state actors and the market (Min 2016; C. Y. Kang 2018b). Hence, the prevalence of the types of corruption can be inferred from existing research (K.-D. Lee, Chung, and Lee 2011).

The uniqueness of the above account is in how it demonstrates the central authorities' knowledge of corruption, and lack of capacity to effectively punish most officials who are

discovered to have done so. This contrasts with existing accounts of military business-related corruption that stress the lack of oversight and effective monitoring institutions as being a primary cause. However, it remains an open question whether the state adopts a selective approach to enforcement due to a lack of capacity or due to what Holland (2016) terms forbearance – i.e., the deliberate non-enforcement of the law due to political reasons.

Holland (2016) presents a case that political leaders might decide to not enforce laws for a range of reasons including because for corrupt reasons (i.e., ignoring regulations on interest groups that support them) or because they are progressive (i.e., to support deprived groups like the homeless by not enforcing rules on begging). Such tendencies have been demonstrated at the street-level in Chinese law enforcement, with progressive non-enforcement of laws being potentially rooted in Confucian ideas of leniency (L. Zang and Zang 2020). Ward, Lankov and Kim (2022) argue that regulation of the North Korean fishing industry evinces a pattern of forbearance toward the depletion of the country's fish stocks, which accepts the contravention of environmental regulations and the persistence of illegal markets, because the authorities have decided to maximise revenues rather than enforce regulations. Hence, leniency toward the economic crimes of officers in the KPA might be driven not by a lack of state capacity – i.e., selective/weak enforcement – but by ideological or corrupt concerns. KPA officers are arguably an important constituency for the political system, and excessively harsh treatment of them would likely create problems for regime legitimacy.

In the case of law enforcement in China of today, the state has a demonstrable capacity to enforce the law. In the case of the North Korean fishing industry, a complete shutdown of the industry during the coronavirus crisis of 2020-21 demonstrates the state's capacity to exercise control when it decides to do so (Ward, Lankov, and Kim 2022). Whereas, the North Korean state has proved seemingly unable to stamp out market activities in many areas of the economy but not for want of trying in the early 1960s (Ward and Green 2021), and more recently in the late 2000s (K. Han 2019, 176–213). Whereas controlling access to the seas is within the state's capacities, stopping corruption and general market activity appears to not be given the resource constraints the state faces. In other words, forbearance cannot meaningfully be said to be a deliberate policy choice, like it arguably is elsewhere, where it has been found to create incentives to remain obedient to the leader in exchange for opportunities to engage in extortion, bribery, embezzlement et al. (Darden 2008; Fjelde and Hegre 2014).

Rather, it seems more plausible that with limited resources (too limited to fund necessary contract incentives), limited specialised labour (military officers), and enforcement capacity (to prevent economic crimes), the leadership engages in selective use of punishment.

Additional evidence presented in the next sub-section also demonstrates that the arguments made with respect to Unit 235 about the prevalence of corruption and the state's attitude are plausibly generalizable to other parts of the North Korean military.

(b) Generalizability to the rest of North Korea

It is worth considering the potential limitations of the case chosen. This may be the first study of its kind because there are no other military units in North Korea for which documents are available. This makes its findings unique and potentially valuable for what they suggest about aspects of the North Korean military's economic activities, and the activities of North Korean

officers. However, developing arguments about military economic activities and the dilemmas it poses for North Korea's leadership utilizing the case of Unit 235 poses significant issues. Unit 235 may not be typical for a number of reasons. First, the unit is largely composed of reservists. Second, the unit is stationed in Namp'o, a city near P'yŏngyang that is more prosperous than many other parts of the country. Clearly, the unit cannot be considered a typical case, but given the prosperity of Namp'o, it is plausible to assume the problems with housing, rations and renumeration are faced in other parts of the country to a similar or greater degree. What is more, the document collection utilised above is far from complete, with only a limited number of reports covering a minority of the unit's officers and unit activities even during the period for which documents available. There is little evidence of selection bias in the sources available, but such a possibility cannot be definitively ruled out.

Existing research indicates that self-serving use of public resources in the military is very common, with surveys of North Korean refugees who previously served in units across North Korea indicating that embezzlement of supplies is a frequent occurrence, as the table below shows.

Table 12: Relative prevalence of military goods embezzlement

	Number of Responses	Percentage (%)
Highly Prevalent	35	17.5%
Quite Prevalent	65	32.5%
Normal	46	23%
Not very prevalent	32	16%
Not prevalent at all	22	11%

Source: K.-D. Lee, Chung, and Lee (2011, 120)

The same survey also indicates that the food situation in the military is chronic across the country and long-standing (K.-D. Lee, Chung, and Lee 2011, 181, 189). Hence, available evidence indicates that embezzlement is common, and that the absence of basic contract incentives is likely to be a major reason for it. Of course, such surveys are necessarily based on the testimony of North Korean refugees who have previously served in the military, and hence may not be representative. Nonetheless, they suggest that issues affecting Unit 235 in the period for which documents are available are far from unique. Refugee testimony cited in recent research also points to predation on civilians still being a problem, though apparently instances of theft by soldiers in the Namp'o had become far less common by the late 2010s (Heo and Ahn 2020, 93–94).

Further, other interview testimony from officers serving in more elite units indicates that the case of Unit 235 is far from unusual. Many of the issues with discipline and corruption are actually widespread if not ubiquitous. For instance, former service persons of the KPA have alleged that collusion between combat officers, political and security officers is common because these officers have common interests vis-à-vis their superiors. A former political officer in the KPA's General Staff Department told South Korean researchers that collusion is common (Jin-mu Kim et al. 2014g, 101), even if there is rivalry between different officers.[116]

[116] Indeed, collusion and conflict between combat and political/security officers can cut across chains of command with a battalion or regimental commander being close to a political officer and in conflict with other nearby battalion commander(s), for instance (Jin-mu Kim et al. 2014c, 245–47).

Further, other testimony from an elite tank unit near the border with South Korea indicates that corruption is highly prevalent and contributes to malnutrition problems amongst soldiers (Jin-mu Kim et al. 2014a, 102–3). The same interviewee also said that bribery is how many soldiers become officers (Jin-mu Kim et al. 2014a, 207).[117]

Similarly, North Korean officers now living in South Korea have said that they believe their superiors and the leadership are fully aware of corruption, for instance in reserve training units, but "if they were to stop all of it, officers even like me wouldn't be battalion commanders, we'd just go home" (Jin-mu Kim et al. 2014b, 172).[118] A former air-force political officer in the air-force supreme command summarised the state's attitude toward corruption as: "the military also has a lot of corruption. Every unit has it. But if you go beyond a certain point, we will find yourself in a military tribunal, or something like that. But without corruption, military units can't operate. They have to be fully self-sufficient in everything. You're ordered to be self-sufficient, and you cannot do all the activities you're supposed to with the rations you're allocated. So you take some of the allocations, sell them in markets, or give them to private businesses and get what you need for the unit" (Jin-mu Kim et al. 2014f, 260).

The issue of predation on civilians also appears to be highly prevalent according to North Korean officer testimony. As one officer put it: "The first and fifth army corps have the most malnourished. The unit in which I served had lots of civ villages around it to rob blind, so the guys who were good at stealing stuff didn't starve. But over there [for example] you have to go Osong Mountain to see any civ villages, and it's about 100 ri [31 miles], so you can't go there. Guys who only eat what they are given, and only really what they're given, are not in a good state" (Jin-mu Kim et al. 2014a, 85).[119] Clearly, opportunities for looting and harassing civilians are not evenly distributed.

Indeed, while many North Korean refugees who previously served as officers describe corruption as endemic and a normal part of life, in some units, inspections appear to be taken more seriously, and some forms of corruption such as the theft of rations largely absent. For instance, the leader's body guard units diets being closely monitored to ensure that they are properly fed (Jin-mu Kim et al. 2014h, 93). There are clearly issues with generalizing over time and place, however. Testimony also indicating that the rations situation for officers (and soldiers) changed markedly between the start of the famine in 1995 and 2010 (Jin-mu Kim et al. 2014e, 114–15). The changing state of rations is likely to have impacted the extent to which officers feel incentivised to steal, solicit bribes, embezzle unit supplies, or engage in other forms of illegal economic activities.

With respect to the case of Unit 235, reports issued by the Central Committee audit of Unit 235 cited above clearly indicate that many economic crimes are not an anomaly. Indeed, the manner

[117] Bribery can also allow richer and more powerful families to improve the resumes of their children. For instance, more powerful families seek to have their children serve as officers for a few years in order to give them a head start in getting allocated a good job after they are discharged (Jin-mu Kim et al. 2014a, 215–16).

[118] The same officer also recalls how low-level inspections of the fuel supply in their tank unit led to a large-scale theft of fuel being discovered, and being resolved by the inspecting officers telling those responsible to "make up the difference" with theft from civilians being understood to be the method this would be done (Jin-mu Kim et al. 2014a, 278).

[119] Another North Korean refugee interviewee who worked in the military's major research institute, the Second Academy of Natural Sciences, noted that "there is incalculable amounts of looting of civilians [by the military]" (Jin-mu Kim et al. 2014d, 365). And a third former KPA officer, a company commander, also said "yes, the military goes out into society to rob and steal" (Jin-mu Kim et al. 2014c, 370).

in which the centre intervenes in the affairs of the unit, for instance by reducing punishments for officers found to be involved in illegal economic activities, and documents issued by the Central Committee about the unit imply that the unit is not atypical in the issues raised. One other issue that on the surface appears more serious is the limited time range of the documents analysed herein.

Can generalizations about the North Korean military before and after the period for which documents are available be made? Of course, there are limits to what can be generalised from a case study, but many of the institutional issues that Unit 235 documents point to are unlikely to not have existed in other parts of the country before and after the period under study. Especially considering the relative proximity of the unit to strategically vital capital and the relative prosperity of the country during the 2010-13 period compared to before. Given the problems the country now faces economically, it seems plausible to assume that the state's capacity to control corruption has not dramatically improved.

(c) Broader Significance and Conclusions

The North Korean case and the case of Unit 235 in particular highlight how the limits of state capacity not only can drive the decision to make the military a self-funding, prebendal state institution, but can also give rise to various forms of corruption that are difficult to prevent. Analysis of surveillance and state violence often emphasises how coercion deters dissent, coups, and popular uprisings (Greitens 2016), while recent work also considers how citizens resist the surveillance state (Silberstein 2021). The case of Unit 235 demonstrates, however, how even where institutions of surveillance are functional, widespread illegality means that heavy punishment must be applied selectively only to the most egregious of cases. This points to the limits and importance of state capacity as a variable in determining both the distribution of resources within autocracies, and when and to what extent rule violations are punished.

The North Korean leadership has required its military to be partially self-funded/self-supplied since the Korean War – as was shown in chapter 4. The primary reason for this was the large expense of maintaining one of the world's largest militaries in a comparatively underdeveloped and poor country. The economic activities undertaken by the North Korean military have evolved over time, and since the marketization of the country's economy starting in the 1990s, the military has become enmeshed in markets.

The leadership has remained committed to unification by absorption and to maintaining a large standing army, in spite of the limited capacity the state has to fund the military. It requires the military to take care of a large part of its funding needs, and has devolved significant productive capacity and assets to divisions and lower-level units of the KPA. The lack of fiscal capacity to provide sufficient housing, rations, and wages, also creates perverse incentives for officers to engage in a range of economic activities that are illegal in order to survive and to enrich themselves and their families. These include bribe taking, illegal support for market activities and the provision of services to market actors (haulage, storage et al.), direct involvement in trade (including of materials stolen from the unit and of narcotics), and the subletting of unit lands and fishing rights.

The state's systems of controls over military activities do not appear to have much impact on actual officer behaviour, with both *ex-ante* screening and selection mechanisms, and *ex post* monitoring systems failing to prevent failing to prevent economic misbehaviours. The apparent

reasons for this are simple: the leadership lacks the capacity to effectively discipline the military and maintain it at its current size. This appears to create serious moral hazard problems because apparently officers believe, correctly, that they are not that likely to face severe punishments for engaging in illegal economic activities.

The previous chapter argued that the North Korean leadership devolved significant and growing economic power to the military due to a lack of fiscal capacity to fund it through central government outlays. This chapter has demonstrated that the military's economic power has given rise to significant problems with corruption, predation, and illegal market activities for the leadership. And that these problems are not easily solvable given the shortage of officers the state also appears to face.

Chapter 6: What are social implications of military economic power at the micro-level?

1. Introduction

What are the consequences of military economic activities for civilian society? The impact of military economic activities on local societies has been largely unexplored in the existing literature on military business, even though such impacts potentially have implications for civilian control over the military and the military's capacity to fulfil its core functions. Much of the existing literature considers the macro-level effects, i.e., the distribution of resources and/or power. Such resources are often allocated to the military because the state lacks the capacity to manage those resources in such a way as to provide necessary funding for the military, as we saw in chapter 4. Further, as we saw in chapter 5, at the lower levels of the military, a lack of fiscal capacity does not only potentially translate into military economic activities as a means by which to fill funding gaps, but also makes it difficult to effectively enforce rules regarding economic activity.

This ineffectual governance of the military ironically means that military actors become closer to, or rather enmeshed within society. Much of the literature on societal-military relations in developed countries points to the growing gap between the military and civilian society – where militaries are not usually directly involved in economic activities. Yet, the North Korean case demonstrates how a massive unfunded military leads military officers to seek out connections with civilians in a form of 'perverse' civil-military convergence. It is perverse in the sense that it may retard military effectiveness and involve corruption. It is the mechanisms of convergence, or embedding/enmeshment, and their effects on society and the military itself that are considered at length in this chapter.

The Korean People's Army has been involved in a range of economic activities since its foundation. Beginning with subsistence farming and then expanding to other activities aimed at supporting the livelihoods of soldiers, officers, and their families, before the military was empowered to engage in overtly commercial foreign trade and became involved in domestic markets. At every stage, however, the official goal of these activities was to generate revenues/resources needed to plug the gap in funding between what the state could provide as input and what the military was expected to provide in output.

Hence, even when military foreign trade companies began making profits, these were not supposed to enrich individual members of the officer corps or the leadership of the military. Further, when subsistence operations were never supposed to become monetised, and officers were not supposed to engage in commercial activities. However, as chapters 4 and 5 show, both foreign trade activities and subsistence-oriented unit-level economic activities have become conduits for the private enrichment and private business activities of actors within the military. From the point of view of the leadership, such developments represent corruption, and a form of institutional decay. Yet, as chapter 5 demonstrates, the leadership appears to have little choice given the lack of fiscal capacity, to accept that in giving butter as well as guns to the military, officers will engage in corrupt activities, especially given the state's inability to provide necessary food, shelter and material incentives.

This chapter considers different aspects of the issue, the social implications of the KPA's economic activities. It looks at how military officers become involved in the market economy and with civilian actors. It also discusses the positive and negative consequences of these

activities and involvement in civilian society. It advances the argument that North Korean military officers both embed themselves relationally within the civilian market economy and predate upon it. It demonstrates how the North Korean military has undergone what could be dubbed a form of 'perverse civil-military convergence', as it has come to resemble the civilian North Korean economy under marketization. This is 'perverse' particularly from the view of the North Korean government, who have sought to limit the scope and power of non-state actors within the economy and the power of markets (K. Han 2019).

Whereas for North Korean society, military officers' involvement in the civilian economy has two, contradictory results. On the one hand, military officers have provided access to key resources and organizational support for civilian entrepreneurs who enter partnerships with them (becoming embedded within state structures, Ward et al. 2020), and also work alongside civilian traders providing them services and logistical support, and even access to potential clients. The family of officers serves as a potential conduit for military officers to enter the civilian economy, with the wives, daughters and other family members supported by military officers. On the other hand, military officers' prey on commercial operators, seek to extract bribes and resources from members of civilian society, and also become involved in activities like drug smuggling that are damaging to society generally. These two aspects of the military's relationship with the civilian economy point to two different faces of the military officer as entrepreneur: the productive entrepreneur who facilitates or directly engages in commercial activities that support the civilian economy, and the destructive entrepreneur who preys upon the civilian economy or else engages in activities that damage society. The difference between productive and destructive entrepreneurship may, in more developed and open societies, be marked broadly by the law, but in North Korea most market activities inhabit a legal grey zone or are outright illegal. Hence, destructive activities of the type discussed below are usually both illegal, and 'illegitimate', and hence inhabit the renegade part of the economy, including activities such as theft and narcotics production and distribution.[120] Whereas many entrepreneurial activities may be illegal but socially productive, and involve bureaucratic corruption that supports local market participants and/or market institutions as Leff (1964) argued bureaucratic corruption could do in certain circumstances.

This chapter contributes to the literature on societal-military relations in a number of ways. First, it demonstrates how concepts like the 'civil-military gap' can be reversed and applied to non-Western countries. Second, it develops the concept of social embeddedness of economic activities within the military economic context, showing how military officers like civilian officials become embedded within their regional context and facilitate economic activities or else predate upon them. Finally, it demonstrates the applicability of the typology of entrepreneurship created by Baumol (1990), and further developed thereafter to the case of military business. Contrary to conclusions reached by some (notably Siddiqa 2007) in a macro-context, military business and its resultant corruption can have socially productive effects as well as destructive ones at the micro-level.

This chapter begins with the development of a theoretical argument about how military integration in markets can occur and its potential effects. It builds upon the existing literature about the issue, such that exists, and develops theoretical claims about how North Korean

[120] On the distinction between illegal and 'renegade'/socially illegitimate economic activities, see: (Webb et al. 2009)

military officers can both promote and predate on markets and market actors. The chapter's case study research design is then explained and from here, the case of Unit 235 is explored in detail, including how the military predates on and is embedded with the North Korean civilian economy, and the role that military officers play.

2. Argument

This chapter utilises ideas from two literatures on the social structure of markets and the social implications of entrepreneurial activity. Here, I develop a framework from two ideas: (1) the concept of embeddedness, and (2) the orientation of entrepreneurship toward the wider economy. These two concepts are useful for understanding both how relations between military officers and civilians are structured, and the broader implications for society.

The first is the concept of embeddedness, first famously articulated by Granovetter (1985).[121] In his attack on neoclassical economics view of markets and market actors, Granovetter (1985, 483–84) argues that actors rely on ongoing relations of trust and cooperation to facilitate transactions and commercial activity generally. This argument sparked the development of economic sociology, and the concept of embeddedness has been further developed to account for different types that include cultural embeddedness (actors economic ties being embedded within certain norms and collective understandings), relational embeddedness (ongoing relationships between actors), structural embeddedness (networks that facilitate certain forms of economic activity), and political embeddedness (the power of political ties in economic life). As was mentioned in chapter 3, cultural and relational embeddedness can facilitate both positive and negative outcomes – i.e., shared values and/or shared ties can support trust and thus transactions, but also enable malfeasance.

Previous research points to the importance of embeddedness in transitional economies as a means by which to lessen the threat of potential harassment by the state (Haveman et al. 2017), and as a mechanism by which private firms and market actors can exist in the absence of private property rights (Lankov et al. 2017; Ward, Lankov, and Kim 2021). Such ties also afford patrons inside the state with the opportunity to predate or even expropriate their market-clients, however (Huang 2008, 70). In other words, the shared culture and bonds that undergird embedded firms can also allow state patrons to dispossess their non-state clients.

The argument developed herein builds upon these findings, it demonstrates how military officers become culturally and relationally embedded within markets, and how self-enrichment as a goal in itself has penetrated the North Korean officer corps.[122]

The economic activities of the KPA as an institution and of the officer corps have the effect of embedding them in the norms and shared understandings of markets and market actors, creating a form of convergence between the values of the military and the civilian world. Whereas in many countries, the cultural gap between civilian and military life is the subject of concern amongst policy makers (Rahbek-Clemmensen et al. 2012), the spread of civilian values in the military and erosion of the military's separate ethos is more evident from military economic activities undertaken at the unit level. Culture within military organizations is generally communal rather than individualistic, strongly hierarchical, and characterised by a high degree

[121] On the history of the concept which originates in the work of economic historian Karl Polanyi, see Dale (2011).
[122] Officers also have less incentive to focus on combat readiness if a scarcity of inputs makes this practically impossible.

of discipline and control relative to civilian life, with material incentives systematically deemphasised (Soeters, Winslow, and Weibull 2006, 239–43).

Military culture's emphasis on control and hierarchical authority makes it appear to be the epitome of the hierarchical organization that is taken in transaction cost economics to be the obverse of market-based ordering of contracts and transactions (Williamson 2000, 601–2), in this case related to what has been termed 'sovereign transactions, i.e., activities, transactions and contracts where decision making authority cannot be vested in private individuals due to concerns of moral hazard (Williamson 1999, 321–23).[123] Markets in their purest form are spot transactions between anonymous traders, but most markets involve sustained interaction between parties to the transaction (Granovetter 1985). These relations are not simply hierarchical, they may involve trade for mutual benefit or else predatory behaviour, but they are not bound by formal power relations. The involvement of officers in markets as producers and service providers erodes the bases of the military's organizational culture, and leads to a civil-military cultural convergence, binding military actors to the civilian economy, supporting or else parasiting off it. This convergence that results from economic activities is likely to also be present in other countries where the military has a significant economic footprint, as the work of Mulvenon (1998) implies. It can also be interpreted as a form of institutional convergence, as the functional differences and distinct institutional identity of the military vis-à-vis civilian social institutions becomes less clear as a result of the spread of market relations across civil-military boundaries.

This 'perverse' cultural and institutional convergence is facilitated by the relational embedding of North Korean military officers in civilian society. North Korean officers are, like regional officials generally, relationally embedded within the civilian society that surrounds them to a far greater extent than they otherwise would be because of the economic interactions that they engage in with their local communities. They work with local market actors to facilitate trade, become directly involved in trade themselves, or through their families, and funnel the resources under their control to make sales into markets, or else provide services and other support to market actors, including potential cover for businesses. These point to four distinct pathways of relational embedding: (1) the pseudo-state enterprise – the sale of access to public resources/rights for institutional/private gain, (2) the direct provision of services, (3) the direct sale of resources/other goods, and (4) support for separate businesses through labour or protection. These four pathways are considered below in more detail, but their significance theoretically is that they bind military and civilian actors together in relations that may support the development of markets and alternative economic institutions in the absence of an effectively functioning state economy. They do so through various forms of corruption discussed in chapter 5.

The pseudo-state enterprise (PSE), a term introduced in Lankov et al. (2017) is a firm whose assets are ostensibly owned by the state, whose managers are appointed by state officials, and the residual income from which is nominally a state organization's by right. In reality, many of the assets are acquired and managed by the *de facto* owner of the firm, a private individual(s), who also makes other management decisions and has control over the firm's residual income. The PSE is a crucial means by which military officers can become embedded within markets

[123] Patronage networks and patron-client relations can create informal hierarchies at odds with the official hierarchy, and this can undermine military professionalism (Verweijen 2018).

and acquire access to rents from market activities – a combination of monopoly rents resulting from their control over specific resources as agents of the state, and natural resource rents. The case of Unit 235's PSEs will be explored below, and it will be shown that the PSE is potentially market-supporting, 'second-best solution to institutional problems existing in North Korea.

The direct provision of services by military officers to local business people is an important, if underexplored aspect of military business. The existing literature often emphasises the 'crowding out effect' of military businesses dominating sectors that could otherwise be the terrain of private, civilian firms (Siddiqa 2007), or the provision of military-specific services (Jaskoski 2013). Yet, the military can also provide services that complement and support existing market activities, including storage services, for instance. Similarly, military officers can sell resources to market actors, or even start their own family firms or support the firms of family members.

In other words, North Korean military officers forge ties with civilian actors and become relationally embedded within the market economy, to varying extents. Military officers act as a kind of entrepreneur, in the Baumol sense, i.e., "persons who are ingenious and creative in finding ways to augment their own wealth, power, and prestige" (Baumol 1990, 897). Baumol (1990) also argued that there are different forms of entrepreneurship: productive (value creating), unproductive (rent seeking), and destructive (value destroying), and that the relative distribution of entrepreneurs across these categories is the result of the institutional structure.

North Korea, like many developing countries, has a weak institutional framework with rules that are poorly enforced (Levitsky and Murillo 2009), as demonstrated in chapter 5. North Korea's system of property rights remains an entirely unreformed form of the state socialist model (Kornai 1992, 10; National Intelligence Service 2020, 217–20). Hence, the relations that North Korean military officers forge with civilians facilitate the flow of resources into the civilian sector, but also subvert the official order and involve different types of corruption, especially the use of public resources for private gain (embezzlement). These are competing unofficial institutions that create an alternative, substitutive order to official institutions (Helmke and Levitsky 2004, 728).

Through such practices, North Korean military officers act as productive entrepreneurs who substitute for an ineffective official order (Douhan and Henrekson 2010, 634). They fill niches or 'institutional holes', as Keming Yang (2004) termed it with respect to entrepreneurs in the Chinese market, that exist due to a gap between the official order and unofficial practices in society, linking civilian actors to crucial resources, providing them with expertise, and protection, and services. Like local governments in China, they may help to shield market actors from predation from the state, and also may facilitate investment that would otherwise not occur (Che and Qian 1998). The 'spoils' entrepreneurship of North Korean military officers, to use a term from Mani (2007), can have socially productive outcomes for civilian actors and by extension for the civilian economy. They also, however, engage in destructive entrepreneurial activities like harassment bribery and narcotic trafficking that directly drain the civilian economy of resources or worsen existing social problems. Their embedding within civilian society also facilitates such destructive behaviour, but it also allows them to predate on civilian actors (as well as the soldiers under their command). As Hassan (2020, 39) notes, local officials with better knowledge and connections within their region have more opportunities to predate on actors they work with, or to use their authority to predate.

This speaks to the Janus-faced quality of North Korean military economic activities at the unit-level. The cultural and relational embedding of North Korean officers within the private civilian economy both facilitate and support socially productive activities, and also prey upon social actors and result in activities that undermine the emergent market order and society generally. Theoretically, this was well-understood by (Granovetter 1985) who noted that the social embeddedness of market activities can both promote trust and productive activities, but also facilitate collusion and corruption. The North Korean military's involvement in economic activities both supports grassroots markets and civilian actors who organise production outside the state sector, but also preys upon them.

More broadly, the North Korean case demonstrates that the arguments set out about military business that either brand it as socially and economically corrosive (Siddiqa 2007) or a force for economic development (Mani 2011) are overly simplistic. In fact, it can and is potentially both.

3. Method and case

(a) Method

The present chapter is a case study of Unit 235 and the city in which it operates, utilizing documents generated by the unit between 2010 and 2013. These documents provide substantial amounts of information and analysis about the nature and scope of officers' economic activities and their effects on the local economy. Hence, this chapter seeks to shed light on how officers become involved and embedded within their local political economy, and the effect of this involvement by analysing the activities recorded in the documents. Before unit-level and individual officer-level activities are discussed, a stylised picture of the emergence and development of the North Korean private economy and its integration within state organizations will be developed from the existing literature. This picture will help to better contextualise the conclusions deduced from the Unit-level documents analysed thereafter.

This general account of North Korean markets and private economic activities within the state organizations will thus show many of the phenomena found in Unit 235 are common to the North Korean economy generally, and to the North Korean military. Indeed, while the unit may not be representative of the broader population of military units with respect to the issue of military economic activities or officer integration into the local economy, many aspects of the case are common. Further, given available information, one can posit that many of the conclusions are generalizable, at least to some extent, to the North Korean military as a whole.

(b) The case

As already discussed in chapter 5, Unit 235 is a ground forces reservist unit that was formed in the mid-1980s. However, whereas chapter 5 discusses issues of control and discipline in the KPA resulting from economic activities, this chapter considers the social effects of such activities. Hence, the case under study is the unit but also the city in which it operated. This section considers the city of Namp'o in more detail and reviews salient available data on the city.

As of 2016, the city was estimated to have one marketplace for every 17,467 inhabitants, i.e., 21 markets in a city of 336,815. This was more than anywhere else in the country, and by a substantial margin. By comparison, South P'yŏngan, the province which surrounds Namp'o,

was estimated to have one market for every 57,152 inhabitants, while P'yŏngyang only had one market for every 108,510 residents (Hong et al. 2016, 21).

In these important regards, Namp'o is not a typical city or a typical place in North Korea. It has far more industry and far more markets than the average part of the country. Thus, it is economically not typical. This does not, however, make it a bad case to study, it just means that one must be careful in generalizing to the rest of the country for the direct economic effects of particular activities. That said, while some of the opportunities that existed for Unit 235's officers may not have existed in many other parts of the country, as we shall see below, many of the activities discussed herein are far from atypical of the North Korean market economy in general and in the military in particular.

Further, as a crucial case, Namp'o is an excellent potential example because it is a city close to P'yŏngyang crucial for the defence of the leadership. Hence, the state is more likely to try to curtail the spread of market activities in this part of the country than in other parts of the country further away from the capital that are not deemed as important to its defence. This makes it safe to assume that societal-military relations that exist in Namp'o are unlikely to be atypically deep and broad, with military officers more involved in markets here than in other cities in other parts of the country.

4. The officer as entrepreneur and economic actor

This section examines different forms of officer entrepreneurship (productive and destructive) and economic activity, how officers become involved in market-related activities, and the social effects of these activities, both on civilian society and also on the military. It begins with a brief discussion of the broader context with respect to market actors.

(a) The broader context

As was discussed in chapter 4, until the late 1980s, the North Korean economy was entirely state-owned and state managed. Aside from small farmers markets, where individuals sold household produce, there were no private firms or private, market-oriented activities within the country (Ward and Green 2021). Farmers were allowed to engage in private agricultural activities on their own private plots (Soo-young Choi 1998, 17–20), and from the mid-1980s, individual state firms were allowed to engage in so-called 'Third of August' consumer goods production (Soo-young Choi 1998, 26–30), and a growing portion of this production ended up being marketized (G. E. Yun 2018, 39–42). Some firms and other state entities were may have already been involved in fishing, farming, or even small scale mining, but many of these operations began to market their produce as the country itself marketized (Soo-young Choi 1998).

Between the private household firm (grassroots/bottom-up marketization) and commercially oriented, externally facing foreign trade companies (top-down marketization) came to exist a plethora of different kinds of economic activity. Yoon (2013, 94–95) offers a typology of privatization in the North Korean context based on Walder and Oi (1999, 6–10): (1) investment partnerships between private and public actors, (2) leasing of the right to use the organization's name (and other assets), and (3) the private firm independent of the state. Another typology developed more recently points to the existence of private firms, pseudo-state firms, and planned and centrally managed firms (Seok-ki Lee et al. 2018, 129–58). As Yang and Yun

(2016) demonstrate, many side-work units and even some North Korean state firms are operated as partnerships or as firms with leased names (pseudo-state enterprises). While other firms operate outside the formal confines of the state all together, within households and embedded in relationships between different households involved in a division of labour (M. S. Yang 2009, 135–36).

Similar developments are also to be found within the military, as explored briefly in chapter 4. In the rest of this section, Unit 235's market-oriented activities and their effects are explored in more depth. The unit had two pseudo-state enterprise-like partnership arrangements, one of which was a fishing operation(s) and the other was a collection of *de facto* private-run farms nominally under unit management and control. In addition, individual officers operated their own apparently sporadic business operations that provided services to outsiders and/or sold goods into market actors. Many of these goods and services sold by unit officers were actually unit resources, i.e., not the property of the officer(s). Aside from selling goods and services to market actors, officers sometimes operated their own firms with family members, or supporting family businesses. These activities can broadly be considered productive in their social consequences, but North Korean military officers (and soldiers) also engage in predatory behaviour in the form of theft from civilians and civilian institutions. And further in the form of direct involvement in the sale of narcotics and other illicit goods. The latter activities can be considered a form of socially destructive entrepreneurship that still, nonetheless, relies on officers to be culturally embedded within market norms, and potentially relationally embedded with market actors. The two faces of officer entrepreneurship are examined further below. Two distinct issues are considered, first, how unit officers become embedded within markets, and the broader social effects of such schemes. In so doing, it will explore the broader issue of civil-military convergence, and the implications of such arrangements for societal-military relations.

(b) Productive entrepreneurship and economic activity

i. The officer facilitator: the Pseudo-state Enterprise

Unit 235 had two operations that could be described as either 'pseudo-state enterprises', i.e. on paper owned and run by the unit (an arm of the state), but in reality under the management and *de facto* owned by private actors (Lankov et al. 2017, 52).[124] On the one hand, PSEs are a form of rent-seeking, as they allow military officers (and state officials generally) and state institutions to profit from their access to and rights with respect to state property. On the other, such schemes empower market actors and also enmesh military officers (and state officials generally) into relations of dependence with markets and market actors (relational embeddedness). State assets also become marketized, and state officials involved in the culture of markets – i.e., culturally embedded within markets. Officials who create/support PSE-like structures also facilitate the emergence of private entities in industries or market niches that would otherwise be devoid of private actors, with significant potential gains in efficiency as a result. As such, military officers involved in such activities can be described as 'productive entrepreneurs', creating second-best institutional solutions given North Korean realities. They are less socially and culturally embedded in markets through such arrangements, however, than when they directly engage in commercial activities or support family firms directly. Ironically,

[124] An element of ambiguity is created by the fact that officers can exercise some control rights over entities created under such schemes.

the PSE structure pushes market actors into closer, more embedded ties more dependent on state actors, while they leave state agents (like military officers) in less embedded relations with market actors than other forms of market activity. It also has less effect on the organizational culture of the military and military officers than other activities might.

Unit 235's fishing side-work unit is the standout case of a PSE. From 2011 to 2013, the unit's overall commander authorised the creation of a fishing unit under his direct control, bypassing the unit's rear department – which was supposed to in charge of all logistics and unit-level production-related decisions and organizational structures. All that was required of the man who found to run the unit was to provide $5,000 USD per annum in cash as revenue from operations ('Unit 235 Divisional Commander Party Life Materials', n.d., 3). These decisions raised eyebrows,[125] and the financial arrangement worked out with the fishing side-work unit was market-oriented. Unit 235 officers were reported to not be happy about the arrangement, with some reported as saying: "who knows what the fishing side-work team does. It barely contributes to the lives of soldiers" and the revenues paid by the fishing side-work team were used by the Unit 235's commander to pay to fuel unit cars ('Third Corps Unit 235 Divisional Political Commissar Party Lecture Materials', n.d., 2).

Unit 235's commander entered into an agreement with an individual who had no job (itself illegal as a working age male). The person placed in charge of the fishing side-work unit had discretion to decide on hiring, on management and operations, and hired fisherman from outside the unit ('Unit Fishing Group Report' 2012). While the available documents do not directly link the unit commander to the decision to place the person in charge, nor subsequent decisions thereafter, these arrangements strongly hint at connections with the local market economy that the unit commander seemingly possessed. Internally, the fishing side-work unit appears to have provided gainful employment to people in the community, as well as serve as a convenient cover for the trafficking of some contraband ('Unit Fishing Group Report' 2012, 1). While some of the contraband (sexually explicit material) probably did not have a positive effect on the local economy, Unit 235 documents cited above attest to the fishing side-work unit's ability to generate revenue and employment. Hence, we can relatively confidently conclude that this is a good example of productive entrepreneurship, in which a military officer sublets/sells the unit's sea access rights to a private individual who then utilises them to create a successful fishing operation – individuals are not permitted to run private fishing firms and cannot easily get access to the sea without the support of a state institution/firm (Ward, Lankov, and Kim 2021). In the process, the officer becomes relationally embedded in marketized social relations, transacting with and supporting a civilian engaged in commercial activity at the behest of the officer (and to some extent, the military as an institution).

There are a number of other PSEs supported by officers that can be found in Unit 235 documents. The range of activities, from retail trade and catering, to farming, to services like photography and industrial activities like metal purification.[126] The unit had substantial holdings of farm land, as much as 59 hectares of arable land ('Reference Report' 2012, 11). Some of these lands

[125] The decision also contravened orders issued by Kim Jong Il in 2011 demanding that such collabourations be stamped out and that fishing for money within state entities in public-private collabourations was 'illegal' (Korean Workers' Party Organization and Guidance Department 2011).

[126] Many such activities were singled out for condemnation by the leadership like officers providing cover for retail traders operating within military units (Korean People's Army General Political Bureau 2013a), and metal purification (see above).

were reportedly used as the authorities intended – they were farmed by soldiers under the direct control of their officers, producing beans which were consumed by the unit's soldiers and officers. However, officers also share the land with their families for private production, or else with civilians who pay in-kind for the use of the land. Examples of the latter include the roughly 6,610 m^2 (2,000 p'yŏng) out of the approx. 25,120 m^2 (7,600 p'yŏng) held by 2nd battalion of the 613rd regiment were sublet to civilians in exchange for 1.05 tons of corn and 80 kg of soya beans (in 2012). Much of this was then used to pay off unit debts, in-kind demands from authorities/corps headquarters, or to pay for livestock. Meanwhile, another 13880 m^2 (4,200 P'yŏng) was handed over to the families of officers who used it as grazing land for livestock (Divisional Political Department Organizational Department Instructor 2012, 3). In spite of the use of in-kind payments, these arrangements are otherwise fundamentally similar to those of the fishing unit discussed above – the officer provides access to a resource which the officer and unit have the right to utilise, i.e., land or the seas, in exchange for payment.

There is another sub-class of PSE that does not involve the sale of rights, per se, however. Indeed, sometimes rights do not actually exist. The military unit, for instance, did not have the right to organise photography studios, but facilitated such activities anyway to acquire new resource streams. The photography studio was run for eight months (June 2011 to February 2012) in front of one of the unit's buildings, though it appears to have received little direct support beyond being passed over by Unit 235's Security command director in exchange for being wined and dined ('Materials of Unit 235 Security Command Director', n.d., 4). There are also a number of reports of individual shops/stalls and restaurants being organised under the protection of unit officials for multiple years over the period for which documents are available ('Party Life Materials of Unit 235 Political Department Organizational Director', n.d., 2), sometimes registered as side-work but actually functioning as what appears to be a PSE-like arrangement ('Assessment of the Organization's Department Work Following the May 2010 Nationwide Lectures', n.d., 3), and/or disguised as fulfilment of the unit's sweat potato production plan ('Materials of Unit 235 Security Command Director', n.d., 4).

At least one of these illicit retail outlets was run by someone who allegedly worked as a prostitute in the 1990s (during the famine), which is considered to be a particularly egregious oversight, allowing someone with such a background to operate an illegal business in the military. But this fact points to the importance of the profit motive rather than ideological purity, and the fishing unit was also headed by someone with a 'complex', i.e. suspect, political background, who had previously been found guilty of stealing state property while being resident in P'yŏngyang and had been punished with expulsion from the capital ('Assessment of the Organization's Department Work Following the May 2010 Nationwide Lectures', n.d., 3). Arguably, military officers' lack of interest in the social backgrounds of their civilian market partners provides avenues to upward social mobility for those partners, some of whom at least are considered suspect by the authorities and are likely to face state discrimination. Market culture, epitomised by the profit motive, obviously undergirds such partnerships, and demonstrates that market values have at least partially replaced or become intertwined with the values of the military.

Overall, compared to other arrangements discussed in the next subsection, the PSE is relatively autonomous from the military unit (or other hosting state institution). Its market orientation does not directly impact or influence its host organization, aside from providing it with supplies

or cash. This means it has less effect on the organizational culture of its host or on officers' relations with markets than other structures might. Hence, it results in less relational embedding of military officers in market institutions and complex ties with market actors. However, PSEs clearly provide much needed income or resources to units and officers, and demonstrate that military units and officers are partially dependent on civilian actors as a source of funds and supplies which are not available from the state. This civilian dependence is also a potential source of weakness should the military be mobilised for armed conflict: the unit is dependent on the existence of markets in which these civilian actors operate, markets that could be curtailed in size or largely disrupted in the event of conflict.

ii. The officer partner and service provider: family firms and in-unit activities

By contrast to PSE-like arrangements, North Korean officers become more tightly embedded within market institutions, relationally tied to market actors and culturally embedded within markets through firm creation, direct support for and participation in family firms, and involvement directly in market activities. Whereas the previous subsection dealt with the officer providing resources (land), usage rights (to the sea), or protection (to retailers and consumer service providers), this section discusses the direct involvement of officers in their own businesses or those of their families. These businesses are small in scale (one person or family firms), but they involve a wide range of different activities including market trade, salt production and other forms of cottage industry, agriculture, freight and haulage – i.e., a large number of activities commonly undertaken within North Korea's market economy.

The most common of cases in available documents are those of direct involvement in market activities or else assisting family members with market activities. Such involvement culturally embeds military officers in market norms of exchange and market practices, while also embedding them in social relations with market actors as producers and as a consumer of resources and business services. This requires more than the receipt of payments for access, and thus deeper involvement with market forces. Such involvement corrodes military professionalism insofar as officers become primarily motivated by and subject to market incentives rather than focused on the military's core task of national defence. Of course, involvement in such activities can be rewarding not only for the officers and their families, but also have a positive (if minor) effect on the supply of goods in markets. One example of this is the case of a company commander who claimed to be sick, acquired papers that stated he had been admitted to hospital, and used the time that being sick afforded him to work with his wife as a salt trader (Office of the Political Commissar 2012, 1). There is also a case of a platoon commander who absconded to assist his wife with trade ('November Troika Meeting', n.d., 1), and one run by another officer who would steal the wages of soldiers to pay for the in-kind bribes given to his superiors to ignore such activities (Third Corps Political Commissar 2011a, 2).

There was also a case of the chief of staff of a regiment supporting his wife's business by allowing her to set up a restaurant stall in front of the barracks and have soldiers eat there in exchange for unit supplies ('315th Regiment Chief of Staff Materials', n.d., 5). There are also other cases where officers provide support or cover to their children to engage in trading, like the fertiliser trade ('613rd Regimental Commander Materials', n.d., 7; Divisional Organization Department Instructor 2011, 2). They also form partnerships with traders outside their immediate family, with one officer partnering with a cement trader whilst also having an affair

with her, directly engaging in market transactions and providing support in the form of haulage services (Divisional Political Department Organizational Department Instructor and Divisional Political Commissar 2012c, 1). Officers also sometimes conduct their own trade activities without the involvement of their families, like the case of mass theft of steel doors from the unit described in chapter 5.

Sometimes such activities merely deprive the unit of time and labour that officers are supposed to provide it, while others they also deprive the unit of other resources, like food, steel or cement, that are embezzled, although not all such embezzlement is necessarily for personal enrichment (i.e., the self-serving use of public funds).[127] To some extent, they can thus be considered socially destructive, if they detract from officers doing their duties – assuming that defence of the nation is itself a social good – or deprive their fellow officers and soldiers of food or even wages, but they also contribute to local economy. Thus, while they may hurt their fellow officers and the lives of soldiers, these entrepreneurial activities arguably have a positive impact on relations with the civilian society.

Military officers also provide services to market actors. These services include the provision of storage services for market actors. Sometimes these involve enduring, long-term personal relations like the case of cement trader cited above, but there are other instances where services are provided on what appears to be a more arms-length basis given the available documents. For instance, are numerous instances of storage services being provided. Barracks appear to have had ample storage space available for ('Evaluation of Unit Activities for 2011', n.d., 9), salt ('Party Life Materials of Unit 235 Security Chief', n.d., 2), cement ('Report on Sectoral Leadership Inspections for 315th Regiment Party Committee' 2012, 14), rebar ('Unit 235 Party Committee Plenary Meeting Report' 2013, 14), coal ('Summary Report of Enquiry Regarding Namp'o Area Military-Civilian Relations', n.d., 7), and other items, in exchange for cash or payment in-kind. Such storage services are distinct from PSE-like arrangements because they are not necessary for the civilian business that is being given the storage space to exist. Whereas fishing firms need to be registered as state entities, and farmland aside from personal gardens is all state owned, the storage space provided by the unit is not an asset that is necessary for trading of the aforementioned commodities. Commodities can be stored at home, for instance. Nonetheless, in other regards they represent a perhaps more passive form of entrepreneurial activity compared to direct involvement in trade activities. Military officers merely provide space/access to specialised storage facilities, they are not likely to interact with trade networks, for instance. Unlike the case with some forms of trading, here the consequences for civilian society appear to be quite positive – civilian traders receive the services they need.

There was also a case of industrial production occurring inside the military unit, with officers helping to organise metal purification workshops, in contravention of instructions issued in the name of the leader (Kim Jong Il). The two instances were found in the available documents, in which unit officers provided space in their barracks for metal purification equipment to be set up and run, once in 2008 and another in 2009 ('Unit 235 316th Regiment 2nd Battalion Political Instructor Materials', n.d.). From the available sources, one of these workshops appears to have been more like a PSE-type arrangement than being a business actually controlled and managed

[127] Such embezzlement may be for personal enrichment, but officers also face a 'supply mismatch', i.e., the supplies that they have available are not what is needed, so they might sell rice to pay for fuel/oil or transport (Divisional Political Commissar 2012g, 1), or take lower ranked officers' wages and their savings to pay for fuel (Office of the Political Commissar 2012, 3–4).

by the officers in question. But the second is described in one document as apparently being a partnership between the officer and the civilian actors ('List of Offences', n.d., 3).

What does cultural embeddedness mean in this context? The North Korean leadership previously sought to demonetise their economy with the creation of a near all-encompassing system of rationing and distribution (Hunter 1999, 146). Markets were pushed to the margins by design (Ward and Green 2021), with a key goal being the creation of collectivist values and the correct ideological consciousness. And Hassan (2020, 7) argues, the degree of embeddedness of a local official in their local community directly affects their willingness to carry out orders from their country's leadership. This is well-understood by the Kim family that was loath to see the North Korean people generally and North Korean government officials in particular. Developing a "taste for money" is associated with ideological corruption (J. U. Kim 2013) – i.e. becoming embedded within the cultural values of the market, and the spread of market activities within the military is described as having the following consequences in lecture materials (Lecture Materials 2004b, 8) distributed to soldiers and officers:

> "If the winds of commerce rise and the military acquires a taste for money, it means that [the military] will be unable to give its all for the fight to defend the Party, the Great Leader, the fatherland and the people.
>
> Doing trade and earning money are rooted in individual selfishness that prioritises one's own interests rather than that of destiny of the Party, the revolution and fatherland.
>
> If soldiers acquire a taste for money, they will obviously become contaminated ideologically, and forget the Party and the revolution, and later fall down the path of betrayal and defection."

Beyond the ideological terminology, what the North Korean leadership appears to be concerned by is that markets corrupt the organizational ethos of the military, and the distraction of officers (and soldiers) from the military's core aims – namely remaining ready to defend the country from aggressors and preparing to liberate the South (see chapter 5). Such priorities could be substituted by the norms of exchange and the profit motive, replacing the ethos of the military with its primary emphasis on self-sacrifice and patriotism. Ironically, the same basic demands of collective self-sacrifice for the good of the country are made of civilians, as civilian society is heavily militarised with the cultural values of the military (J.-C. Lim 2015). Hence, the spread of market practices and rise of individual officer entrepreneurship (engaged in what Mani 2007 termed 'spoils entrepreneurship') implies a civilianization of the military's value system, at least for some officers, while also potentially having a negative effect on morale.

Such 'civilianization' or civil-military convergence of values is mediated through the relations between military officer entrepreneurs and their civilian partners. These are not only family members but the partnerships they develop with civilian consumers who purchase their products, and their suppliers. The available documents say comparatively little about how these relations are established or maintained, but it is clear from the available evidence that officers involved in trade and the provision of services are necessarily bound to civilian market actors, rather than the state and its supply systems. In this respect, their ties form the inverse of the embedding of market actors within the state in PSE-like arrangements. In other words, they are state actors who become embedded within market relations and market institutions, and become reliant on maintaining ties with private civilians.

The next section will consider how such embedding can lead to negative as well as positive social consequences. It examines how relational and cultural embedding in markets can have negative outcomes for civilians.

(c) Destructive economic activity and entrepreneurship

The officer is not only a productive entrepreneur, contributing positively to the civilian regional economy, they may also use their access to resources and/or powers to extract rents, bribes, or sell products/services that are socially destructive. In the course of such activities, they may maintain a degree of autonomy from markets, acting primarily as 'lone guns' as they prey on local civilians, and/or civilian institutions (civilian parts of the state). But they may also support socially destructive markets that require a level of cultural and relational embedding within markets, i.e., an acceptance of and acting upon market values and norms, while relationally forming collabourative partnerships with traders facilitating theft or the sale of illicit. The ties that officers embed officers into markets culturally and relationally are thus functionally similar, even if the outcomes of their market activities are destructive for the community rather than potentially being productive.

North Korean military officers work and live within a regional context. This context affords them considerable opportunities to steal, loot and embezzle. Some of these activities actually, ironically, support the civilian economy and society, as described above, but there is also a great deal of predation on civilians and is primarily done out of necessity. Small-scale predation of the kind described below is not 'innovative' regulatory arbitrage that may be socially corrosive but is motivated primarily by opportunities to innovate, but rather due to a lack of alternative options to acquire the means of subsistence. It involves a form of cultural embedding of officers within market culture and norms, even if it also involves violating some of the core norms of market exchange – i.e., respect for property rights, but only selectively.

Unit 235's officers (and soldiers) engaged in a range of predatory activities that involved theft and the extraction of bribes from local civilians and/or from civilian organizations. Some theft by higher level officers (discussed above and in chapter 5), i.e., from other officers and soldiers (of rations and/or wages), may not have directly negatively affected the local civilian economy, but it likely also created the conditions that led officers and soldiers to steal from civilians. Officers (and soldiers) also directly steal from local farms, and local civilians.

Some such activities appear to be so sporadic and disorganised, and not profit-driven business activities. Hence, they may not generally be considered entrepreneurship. For instance, multiple reported instances of soldiers stealing cows from a local field to use as draft animals ('Positive and Negative Materials of Unit 235 Political Commissar Regarding the Fulfilment of In-Depth Instructions', n.d., 2). Other instances of such behaviour include the looting of local villages to secure scrap metal and wood to meet quotas set by higher authorities in the military ('Materials Regarding Political and Ideological Trends Raised amongst Unit 235 Commanders and Soldiers', n.d., 3, 5). But there are also cases where officers clearly engage in or organise such behaviour on a more regular basis in order to meet food shortfalls (Korean Workers' Party Korean People's Army Third Corps Committee Chief Secretary, n.d., 2–3).[128]

[128] There are a number of other instances of theft involving officers and soldiers from soldiers and officers within mine storage and management. On the basis of available documents, it is not possible to exclude the possibility of more organized and regular forms of theft for profit-seeking purposes.

The line between opportunistic socially destructive economic behaviour and destructive entrepreneurship is thus a bit blurry in these cases. Nonetheless, these are economic activities with clear, negative social consequences for civilian society, which are partially reliant on an erosion of military culture as discussed above – insofar as it relies on a breakdown in discipline and the separation of the unit from civilian life. While theft from civilians does not appear to be reliant on any form of relational ties with civilian market actors, other forms of illicit and socially destructive activities clearly do.

North Korean officers directly support illicit activities in the civilian economy that are more socially destructive. In Unit 235, this included involvement in narcotics production. The North Korean government takes a particularly dim view of narcotic distribution and production because of its negative public health effects, but existing research points to direct involvement in the production and distribution of methamphetamine by state officials (Lankov and Kim 2013, 53). In Unit 235, there were at least one instance of an officer working with local civilian drug dealers, sometimes for months on end, to distribute drugs.

The officer in question supported local business people in illegal activities that were also socially destructive. Whereas North Korean government bans on the viewing of South Korean, Chinese or American media content – which were treated in a similar way at the time – is not destructive in its effects on public health or economic performance, narcotics clearly have the potential to be. The officer in question absconded from duty and assisted traders with drug distribution. The full extent of his involvement is unclear from the available documents, but he clearly became relationally embedded in drug distribution networks while becoming largely free of any military organizational commitments until he was apprehended (‘Military Unit Party Committee Plenary Meeting Report’, n.d.).

5. Discussion and conclusions

(a) Generalizability of the case

Other scholars have discussed military involvement in the North Korean economy. While the lower levels of the military have been largely neglected, Kang Chae Yeon (2018a, 143) describes how military officers mobilise North Korean soldiers to work for *de facto* private construction companies. While this is obviously an arrangement that is far from ideal for many soldiers who may work for no or little pay, it represents a transfer of labour power from the state and the military to the private civilian economy. But generally, analysis does not usually focus on a particular military case.

The cases discussed above were not presented as being unusual or anomalies, hence it is reasonable to believe that the military is an active part of many civilian economic activities in North Korea today. The arrangements discussed above are also not unusual generally from the literature on North Korean marketization, hence it stands to reason that the inferences drawn regarding the ‘civilianizing’ effects of relational and cultural embedding of military officers in local civilian economic processes are likely to be a general phenomenon. Indeed, the case itself, representing a part of a major army corps stationed near the capital may not be typical, but it clearly represents a unit that would be crucial for the defence of P’yŏngyang, and thus if markets are such an integral part of life for this unit, they are likely to be so for many other units across the country.

(b) Broader implications

Overall, embeddedness is a double-edged phenomenon for the civilian side in the societal-military relationship. It facilitates the flow of resources and support from the state and military to private actors, but it can also support activities that are clearly socially destructive – like drug trafficking. At the same time, however, predatory behaviour from military personnel existing apart from civilian society would appear to be more of a problem than embedded actors supporting and facilitating market activities that are socially harmful.

Further, the support, services and protection that military officers provide is clearly partially 'demand-induced', in the terminology of Jaskoski (2013) insofar as market actors need or wish to gain access to services, resources, and/or registrations from the military. The corrupting effects on military culture and the relational dependence that such partnerships may give rise are a concern for the central government and for the country's defence, but for civilian society they appear less unwelcome, so long as they support civilian economic activities.

The analysis above contrasts with existing portrayals of the military in much of the literature on military business and with respect to North Korea's military. With respect to military business, the military is often presented as corrupt, and military business as diverting resources away from the civilian sector toward the enrichment of a narrow group of well-connected, senior military officials (Siddiqa 2007). At the lower levels, however, military economic activities may actually facilitate productive entrepreneurial activities, and bring the military closer to civilian society, rather than isolating it.

Regarding the North Korean military, Min (2016, 192) is typical in presenting the military is presented as primarily an organization through which the leader exercises control and mobilises the citizenry. While this is undoubtedly the case, the involvement of the military in business activities where civilian partners are either consumers, or partners in production has been largely neglected in the literature. Hence, the military should probably not merely be considered a consumer of resources and labour, as it is often considered to be in the North Korean case. Overall, the case of North Korean military business at the unit-level speaks to institutional decay within the military as having positive spill over effects for broader society. The 'spoils entrepreneurship' of individual North Korean military officers helps to support and protect civilians, but can also damage and corrode the foundations of regional society.

Chapter 7: Conclusions

1. Introduction

This dissertation has set out to answer three questions related to the issue of military economic activities, focusing on the case of North Korea. In this conclusion, I will return to each question, explore the theoretical claims I developed for each and then tested on the North Korean case. I also consider the validity and broader generalizability of the claims in light of the available evidence on the North Korean and other cases.

The conclusion is arranged into three sections. Section two discusses the research findings for each research question in turn, and the theoretical and empirical implications of each empirical chapter's findings. It considers issues generalizability limitations of the research design, and areas for potential further research both with respect to North Korea and more comparatively. Section three considers the potential policy implications of the North Korean case, especially with respect to stability within North Korea, the potential threat of famine, war, and regional instability. Section four sums up the dissertation overall and summarises the main conclusions.

2. Research Questions and Tentative Conclusions

(a) Why do dictators in state socialist countries give their militaries economic power?

It is clear from the existing literature on military business and military economic power that the phenomenon is far from aberrant or unusual (Brömmelhörster and Paes 2003; Chambers 2017; Mani 2011). Yet, the literature on authoritarian survival portrays military involvement as pathology which retards military effectiveness (Narang and Talmadge 2018), or is primarily designed to appease the officer corps and curtail their desire to mount coups (Prina 2017). The evidence, however, presented in the existing military business literature lends itself to an alternative theory.

Separate literatures offer differing sets of predictions about the rise of military economic activities and their consequences. The authoritarian survival literature contends that military economic involvement is a core proofing strategy that potentially impedes the effectiveness of military on the battlefield (Prina 2017; Izadi 2022), while the military business literature primarily argues that it is a funding strategy that does not have clearcut impacts on military effectiveness (Brömmelhörster and Paes 2003; Chambers and Waitoolkiat 2017; Mulvenon 2001; Thayer 1994).

Through an exploration of the North Korean case, the theories advanced in these two literatures were considered. Further, the existing theories were enriched using conceptual tools from the literature on principal-agent issues in civil-military relations (Feaver 2003) and the literature on institutional evolution developed by historical institutionalists (Streeck and Thelen 2005; Mahoney and Thelen 2009; Heijden and Kuhlmann 2017). Theories in the latter tradition have previously been utilised by scholars who study military business, though the full range of conceptual tools developed by historical institutionalists remains largely untapped in the existing literature (e.g. Chambers and Waitoolkiat 2017).

As historical institutionalists like Pierson (2011) have noted, institutional designers do not get to determine alone how the institutions they help develop behave. Hence when analysing military economic power, it is necessary to consider both the incentives of policymakers

(leaders) and the agents who staff the military, and the sources of unintended institutional change. Thus, chapter 4 considered both the incentives of leaders who made the decision to hand their militaries economic power, and how military incentives (and exogenous factors) shaped the scale and scope of military economic power.

Initial conditions in the civil-military relationship do not appear to be the primary motivator when dictators make the decision to allow or push their militaries to pursue economic activities. In North Korea and the other three four cases more briefly explored in chapter 4, and in other similar regimes (like the Soviet Union), the military became involved in production for subsistence amidst rather contrasting relations between the civilian leadership and the officer corps. Further elite civil-military relations can, but do not necessarily change in fundamental ways due to involvement in such activities. Indeed, in North Korea, it would appear that a growing fusion of civil-military relations coincided with the military's economic rise in the 1980s and especially in the 1990s, but the same was not the case in some other comparable cases like China and Vietnam.

The North Korean case also demonstrates that even when leaders seek to create highly personalised and hegemonic systems where they share minimal power with other elites (Song and Wright 2018; Gandhi and Sumner 2020), they may encourage or push the military to become more economically self-reliant. The existing literature on coup-proofing and autocratic survival focuses on the resolution to the so-called 'guardianship dilemma' (McMahon and Slantchev 2015; Feaver 2003), i.e., the risk posed by the military because it has the guns to overthrow the government. But there are many risks potentially posed by the military having economic power. These include the moral hazard concerns of a military wasting resources or officers amassing resources and personal fiefdoms, and the risks of predatory behaviour toward civilians from a military under pressure to find funding. This also potentially has knock-on effects on the military's actual capacity to fight wars (see below for more discussion). Yet, even leaders like Kim Il Sung who seek to build systems of highly personalised, hegemonic power, hand their militaries economic power.

As chapter 4 demonstrates, Kim Il Sung obviously did not foresee all the ways that military economic power would develop under his rule and then under the rule of his son and grandson. He choice, in fact pushed the military to become involved in economic activities because the state lacked the capacity to fund a military of the size that he foresaw as being necessary to defend the country and to eventually conquer the South. While the second ambition is unique to North Korea, both these goals can be categorised as the 'strategic aims' of the leadership. Chapter 4 demonstrates that where leaders do not and cannot pay for their strategic aims with respect to the military, they will require the military to become self-funding to some extent. The extent is also subject to the state's changing fiscal capacity (as will be discussed further below).

Kim pushed the military to meet an ever-growing amount of its funding requirements, urging them to produce more of the food, housing and other supplies they needed internally. Unlike these other states, however, North Korea's military grew dramatically in size over the post-war period, and the military's involvement in the economy became more commercialised and commercially focused (toward world markets) even as the economy as a whole itself did not. It would appear the leadership was more committed to its strategic objectives of being ready to fight a war to unify the country than it was to its ideological goals of ensuring that markets and commercial activities were minimised.

Yet, unlike the other state socialist states discussed in chapter 4, North Korea largely avoided major institutional reforms, and largely avoided engaging in substantive pro-market reforms from the 1980s up to the 2010s (K. Han 2009; M. S. Yang 2010b), unlike China (Naughton 1996; Huang 2008), Vietnam (Beresford and Phong 2000; Fforde and Vylder 1996), or even to a lesser extent Cuba (Bye 2019). The rise of military commercialism occurred in spite of the state's refusal to create private property rights, or to institutionalise many forms of market-based allocation. Hence most market-based activities at best existed within a legal grey-zone (M. S. Yang 2009; M. S. Yang and Yoon 2016), or were outright illegal (Lankov et al. 2017).

Prior to the crisis and largely illegal marketization of the 1990s and 2000s, the military was mainly involved in domestic production for subsistence, and foreign trade to fund core activities, though some sources from the time indicate that predatory behaviour (theft from civilians) was a problem even before the 1990s. This may not have generated serious internal instability, but it clearly produced friction between civilians and the military, and is unlikely to have been good for societal-military relations in aggregate.

Civil-military fusion in North Korea, as has also been the case in Cuba, implied a greater share of the proceeds of output being allocated to the military, but it has also involved a substantial portion of that output being produced by the military directly. So long as the military remains tightly controlled internally, this has not proved to be a significant threat to autocratic stability in either country, but it probably has impeded improvements in military efficiency.

Further, many of the issues that already existed in societal-military relations prior to 1990 in North Korea. The deteriorating food situation from the 1970s onward meant that military units often seem to have resorted to stealing from local civilian collective farms and farmers. It is unlikely that a worsening food situation did not further exacerbate the problem. And while this is not directly a consequence of the civil-military relationship, it also seems likely that a leadership that is more reliant on the military for its survival and that maintains a political structure in which the military are more dominant, will be less likely to aggressively crackdown on such behaviours.

Later attempts in the 2010s to shift resources away from the military to the civilian sector by some civilian actors appear to have resulted in significant civil-military friction, with the purge of Chang Sŏng T'aek (Y. Park 2014; K. Han 2019). It would appear that without substantial revisions to policy state objectives, the military's control of resources is unlikely to change. It is unclear whether the leadership feels unable or is just unwilling to seriously reallocate resources away from the military. Analysis of documents from a military unit, discussed in chapter 5 and in the next section, however, indicates that the limits to state capacity result in significant issues with corruption at the unit level that hurt military effectiveness and make the state's military objectives all the more unachievable.

As Brooks (2019, 390) argued, in the civil-military relationship, leaders seek to prevent coups, ensure the military is willing to suppress internal threats, safeguard military, maintain control over decision-making, and "ensure that the military does not compromise their preferred policy and resource-allocation outcomes." At the macro-level, there is little sign of either the threat of coups or internal threats, but

(b) How is military economic power managed at the micro-level?

The North Korean military's involvement in the economy stretches from country's largest trading companies to the business operations of individual military officers (K. Lim 2000; Oh et al. 2018). Justifiably, much of the analysis of the North Korean military's economic activities internationally focuses on weapons exports and sanctions evasion. But the North Korean military also has a substantial domestic economic footprint down to the battalion-level.

The country's system of material-supply for the military has never been comprehensive to the point that the military could be fully supplied without supplemental economic activities. And as discussed above, the military's strategic objectives, and the state's declining capacity to fund the military meant that the size and importance of these activities increased over time. The economic shocks of the 1990s, however, marked a turning point of sorts.

Many of the activities that individual military units and officers are involved in have a legal personality and an official institutional basis. These will be discussed further in the next section concerning the broader social implications of marketised production, service provision, and predation by military units on the North Korean population. Here, it should be noted that many of these activities are, nominally, possible within the severely limited confines of North Korean law.

But why? Is the North Korean leadership unaware of the corruption involved in many of these activities? Do they occur due to a lack of effective monitoring of the military (as much of the existing literature reviewed in chapter 2 implies)? Are they unwilling to clamp down on the many actors engaged in corruption because corruption is a useful alternative governance institution? Or are they unable to do so due to a lack of capacity?

The military unit economy is a good place to test these questions because it is far less strategically vital, arguably, than say high-level political corruption involving influential members of the military. Low level officers involved in petty bureaucratic corruption would appear to be relatively easy to deal with by comparison, and if they are not dealt with, this might actually have far broader implications. This is because if petty bureaucratic corruption is tolerated in one relatively unremarkable unit, then it is likely to be tolerated in many others too. And if the state lacks the capacity to stamp out such activities in one such unit, it is likely to lack them more generally.

The use of unit resources, from materiel and supplies of food, clothing et al., to the leasing of land, the issuance of fishing licenses, licenses to vehicles, and access to coal deposits often takes illegal forms. Military officers are not supposed to sell their unit's fuel, rent its lands, or become involved in business operations. They are also not supposed to allow, or turn a blind eye to looting, extortion, or other forms of predatory behaviour directed at civilians. Yet, from the available evidence presented in chapter 5, such activities are far from uncommon, and appear to be a chronic issue facing the North Korean regime.

Yet, as the North Korean leadership's attitude demonstrates, there are limits to control within the military. The country lacks the funds to ensure that officers are incentivised through efficiency wages to not engage in business activities that constitute corruption (primarily embezzlement). It is not possible to screen and select for officers who would have sufficient 'ideological vigour' to exist in the level of penury that is documented to exist in the North Korean military and expected by the leadership (Hunter 1999, 83–94). The incentives to engage

in corruption are just too large to make selection and screening institutions capable of rooting out such activities.

Yet, while contract incentives and screening institutions are ineffectual in preventing what available sources indicate is rampant corruption, many other aspects of control are effective enough to make corruption visible and legible. Indeed, contrary to what has been asserted in much of the existing military business literature, the issue does not appear to be a lack of capacity to detect corruption. The military has overlapping monitoring institutions in the form of political officers and officers from the security command. However, these institutions may not be able to prevent the many forms of commercial activities that officers engage in. Indeed, as documents analysed in chapter 5 (and more fully summarised in appendix 1) indicate, political and security officers often appear to turn a blind eye to many illegal economic activities or are directly involved in them for personal gain, or else partially to achieve regime objectives.

Yet, contrary to some of the major contentions in the existing military business literature, corruption in the North Korean is not a product of incomplete or inoperative monitoring institutions. Sufficient information reaches the authorities regarding the scope, size and social impact of many forms of corruption and illegal economic activity that clearly detection is not the primary impediment to eliminating what appears from available information to be a widespread issue. Rather, the problem appears to be rooted in the state's lack of capacity to fund the military, i.e., the very same reasons why military economic activities became so widespread to begin with. The strategic objectives of the regime imply a level of forces requirements that society cannot fund directly, and that conflict with other priorities.

Although this appears to be quite plausible in aggregate, however, the authorities still have some capacity to curtail corruption and illegal activities at the margin, especially those that they believe are most destructive. The preferences revealed in the third corps documents indicate that the regime is actually more concerned with the personal morality of officers – the family arrangements of officers, for instance – than with their economic conduct.

Large-scale mass theft of materiel and equipment appears to be sufficient for dismissal, but an organization where people in positions of power and responsibility think that they may be able to get away with such conduct speaks to the presence of a toxic organizational culture. Indeed, officers involved in domestic narcotics trafficking are not dismissed from their command, direct breaches of orders from the supreme commander with respect to internal production within the military, and ongoing illegal business operations are were documented and apparently do not rise to the level of being dismissible offences for officers involved. Lectures, self-criticism sessions, and other forms of organizational life are often held up, correctly, as being institutions of political control and surveillance (Lankov, Kwak, and Cho 2012; Lankov and Kwak 2011; Silberstein 2021). They are also far cheaper than the opportunity costs associated with imprisoning or executing trained personnel who perform essential social functions. Even if the costs of incarceration are far cheaper than in developed countries (Henrichson and Delaney 2012–2013), and even if forced labour means that prison camps actually are profitable like in the Soviet Union under Stalin (Gregory and Lazarev 2013), this does not account for the opportunity costs associated with the loss of human capital.

Thus, the primary response to many forms of illegal economic activity appears to be ideological indoctrination. In a country where ideological indoctrination is a normal part of the weekly

schedule (Lankov, Kwak, and Cho 2012), this appears to offer little in the way of deterrence. It is an open question whether it is actually supposed to deter or prevent further recurrence of such activities, or it is merely designed to create the appearance of activity, to signal displeasure with activities that cannot be rooted out.

Indeed, it would appear that while state capacity is limited, the leadership does engage in some amount of regulatory forbearance toward many illegal activities. Potentially, corruption could serve as an informal governance institution, where leaders allow their subordinates to enrich themselves through bribery and embezzlement in exchange for loyalty. It also provides a convenient pretext for leaders wishing to purge those who disobey or who are suspected of being disloyalty (Darden 2008). Does corruption serve as an informal governance institution? Does the North Korean leadership tolerate corruption as a means by which to ensure the loyalty of the bureaucracy?

The evidence from within the military would suggest not. There seems to be comparatively little to be gained by the leadership from corruption at the local level aside from the positive economic spill overs of the activities that military officers are sometimes involved in (discussed further below). It is worth noting that many forms of bribery and embezzlement engaged in by officers directly impact fighting readiness. Where materiel is siphoned into markets, or military assets are used to generate cash flow that benefits officers and their families at the expense of troops, this will clearly have a negative impact on the capacity and willingness of soldiers to fight either in an internal conflict or the war of liberation that many of them are conscripted to eventually participate in.

Is the loyalty of the officer corps contingent on the kinds of corruption that the regime apparently does tolerate in high amounts? There is some reason to believe so. The fact that such toleration is so widespread implies that the regime feels like it has little option. However, toleration of the inevitable consequences arising from resource constraints and woefully inadequate contract incentives means that it may not so much be a governance institution as the absence of the ability to effectively govern given a lack of capacity.

This stands in contrast to the putative aims of the state, and speaks to a certain amount of policy ‘lock-in’. An underfed, poorly armed military whose officers are more interested in local business than in preparing for war is clearly not the ideal. But while dramatically cutting the size of the country’s armed forces might allow the leadership to curtail corruption and create a more effective force, this would also imply a substantial change in the country’s ideology, and an acceptance of the status quo on the Korean peninsula. De facto, this may have already happened to some extent, but a de jure change would be more difficult especially given how committed to unification by force the current leadership has remained.

Another interesting and important implication of the apparently widespread problems of corruption in the military is what it says about the limits to repression in deterring non-political crimes. The North Korean case illustrates that even in highly repressive systems where information is available, states may have highly limited capacity to actually engage in repression. North Korea has a political culture in which violence against alleged (or real) opponents of the leadership is considered normal. It has one of the world’s largest concentration camp systems, and yet, its military officers deal drugs and sell off materiel for personal profit, as well as robbing local farmers will apparent impunity.

Interestingly, however, the actual effects of KPA involvement in the North Korean economy are more complex and, in some areas, positive than one might expect. The next section considers the complicated relations between economic activities of officers and the civilian society in which they operate.

(c) What are social implications of military economic power at the micro-level?

The North Korean military is one of a small number of 'special institutions' within the North Korean party-state. Alongside of constituent the security sector (the Ministries of State and Public Security), and the central party's fundraising organizations, actors within the military can shield those they work with in the civilian economy from the harassment of other state agencies. This means they have preferential access to resources (not least much of the country's marketable resources), and this access also potentially provides it with lucrative opportunities which officers and military units can avail themselves of.

Unlike in many developed countries, the North Korean military is vast, with most adult men and many adult women being conscripted to serve. It is not distant from North Korean society in the way that many western militaries have become culturally and institutionally distant from their respective civilian societies (Rahbek-Clemmensen et al. 2012). North Korean society is highly militarised not only in the funding and size of the actual military, but also the military's role in many areas of civilian life like public works (S. I. Jung 2009a). And the military's vast size also requires a substantial involvement in funding activities, as this dissertation has focused on. But there is an underappreciated aspect to involvement: the civil-military convergence it fosters.

The idea of civil-military convergence, the military becoming more like civilian society organizationally and culturally is far from unique to North Korea. Military sociologists began pointing to a more civilian organizational culture focused on promotions, wages, and other material incentives within western militaries after the Second World War. Moskos (1977; 1986) argues that militaries in the western world increasingly have transitioned from being total institutions with their own separate culture that stressed hierarchy and esprit de corps over material incentives. These were developments driven by social change and the changing status of the military in society, as conscription was gradually phased out and military service became another job.

In the North Korean context, there are echoes of the developments captured by this argument. The North Korean military remains on paper a 'total institution' where human needs are bureaucratically controlled, and in which personnel are socialised in a martial ethic, and a code of conduct distinct from civilian life, and functionally separate from civilian society (Soeters, Winslow, and Weibull 2006). Yet, as the case of Unit 235 demonstrates, the North Korean military has become increasingly embedded culturally and relationally on civilian society, with commercial relationships between officers and the unit as a whole leading to a blurring of boundaries. These relations are complex and have tangible but varied consequences for North Korean civilian society.

Such relations arise even though the KPA remains a mass army with conscription, with leaders who demand it be ready for a war of conquest (reunification by absorption). This makes the

kind of civil-military convergence that is visible in North Korea through the case of Unit 235 all the more notable. It points to alternative mechanisms, i.e., economic activity, that can give developments comparable in some ways comparable to the civilianization of military life many parts of the developed world. But these mechanisms are not presided over or officially sanctioned by the leadership.

Yet, though the leadership may take a dim view of many aspects of military involvement in local economies, and the economic activities of military officers, this does not mean such activities have a wholly negative effect on civilian society. Indeed, the role of the military in local economies is not simply that of a predator living off the land, but it is also not just that of a local business actor. If the North Korean military were substantially smaller, then it would probably have control over far fewer resources of value, and these would directly be held by civilian agencies or civilians. Land given over to military bases, military food production, and resources including national resources like coal and lumber, as well as fixed assets like equipment (vehicles), and real estate could be put to alternative civilian uses. The existence of a large military creates substantial opportunity costs for the civilian economy, which is only very partially offset by the productive entrepreneurship of North Korean military officers. Nonetheless, these activities do provide support for local business people and directly channel resources into the civilian economy through a variety of different means.

First, North Korean military officers facilitate the creation of pseudo-state entities just like their civilian counterparts do (Lankov et al. 2017; Ward, Lankov, and Kim 2021). These *de facto* entities involve entrepreneurs and their personnel involved in extraction or production of goods and services. Unit 235's officers facilitated the creation of at least three such firms. First was the firm set up within the barracks for cyanidation, which violated direct orders from the top leadership. Little can be learnt about how the firm actually operated from the available sources, but it is clear that it was set up to meet commercial demand for gold and silver purification. Second is the sub-letting of some of the unit's arable land holdings to local residents in exchange for a share of the output or for cash. Third, the creation of fishing units that were to pay a share of their profits in cash to the unit command (in forex).

Second, North Korean officers support their own families in businesses, legal for said family members to be involved in, but often involves officers going *de facto* AWOL in order to provide logistical support with family members' hauling goods and the like. This is likely partially a consequence of the lack of provisioning for military families, so much so that officers feel little need or desire to attend to their official duties, and more need to help their families.

Third, North Korean officers also put the materiel, storage capacity, and other resources at their disposal to run their own *de facto* firms. This includes the embezzlement of supplies, and the sale of storage capacity to local traders. Officers are distracted from their core duties by participation in such schemes, and they also help to loot the military of vital resources, but in the process, they also contribute to the local civilian economy, and become more involved in it.

Fourth, officers (and soldiers) engage in acts of theft, robbery, narcotics trafficking, and the sale of firearms et al. to make money. As discussed in chapter 4 in passing, and in more detail in chapters 5 and 6, military personnel in North Korea clearly have the capabilities and motive to engage in a wide array of activities that would be illegal and socially destructive in any

jurisdiction. Given the state of the military's logistics capacity and underfunding it is unsurprising that people with guns would use them to acquire resources.

The first three types of economic activity clearly may be bad for military preparedness and effectiveness on the battlefield if they divert resources and time away from training. But their societal impact points to the positive role that binds it to civilian markets as a provider of resources, services and goods. Officers are thus embedded within the culture of markets and dependent on relations with market actors in order to finance unit operations and enrich themselves. These cultural and relational ties to markets are not welcomed by the leadership in P'yŏngyang, which generally is not happy about the spread of markets within the state and the military (Hwang 2018).

These ties, however, do not appear to be as extensive or as important an effect as Mani (2011) describes with respect to Latin America – she argues that militaries have been key in some countries to development or regime survival. In the North Korean case, the latter may be the case in aggregate, but clearly at the local and unit level, this argument does not appear to capture societal-military relations particularly well. Jaskoski (2013) argues that military involvement in local political economies is driven by either supply-side factors or demand-side ones. Her argument is limited to the provision of violence and security services by the military, but her insights can be extended to other areas relatively easily. In the case of Unit 235, officers provide the market what they are able to, but the military as a whole possesses enormous assets, both tangible (coal deposits, arable land etc.), and intangible (political power and influence).

3. Broader Implications for Policy

What does this mean for the future of civil-military relations, for the viability of the Kim family regime, and for the KPA as a fighting force? And what can be learnt from the North Korean case for policy more broadly? Let's consider these questions further below.

North Korea has one of the world's largest standing militaries. Frequent purges have ensured that any attempt at coups or open insubordination has proven unsuccessful (Yi 2003), and under Kim Jong Un, purges have been supplemented by frequent rotations of military personnel in top jobs (Ward 2020c). The power of the regime also stems from its effective use of ideology (Frank 2020; Cheong 2011), and the cooptation of key groups like the military and other elites (Y. Park 2017; Kap-sik Kim 2009; Kap-sik Kim et al. 2015). In other words, the regime relies on the three pillars of authoritarian survival: repression, legitimation, and cooptation (Gerschewski 2013).

The size of the North Korean military's interests as an institution mean that the military may not have veto powers but certainly can disrupt attempts to substantially alter the balance of economic power within the regime (Y. Park 2014). The problems with corruption and the spread of markets within the military point to the limits of both repression and cooptation as strategies of political control in the military (Hassan, Mattingly, and Nugent 2022). Indeed, the problems trace back to the limits of state capacity. A state that cannot fund the military in full, will also struggle to replace corrupt elements. The route out of such a bind is for North Korea to develop economically, so that military enterprises and production for subsistence can gradually be supplanted by government budget allocations. This is not, however, particularly likely to occur so long as the country remains so poor and grows so slowly (Democratic People's Republic of Korea 2021). Thus, military economic power gives the military as an institution significant

largess within the regime, and is difficult to significantly alter without economic growth. Economic growth itself is unlikely so long as the government remains committed to a strategy that favours heavy industry (Ward and Han 2021), crucial for defence production (Kontorovich and Wein 2009), but not an area where the country has comparative advantage on world markets (Kyŏng-won Kim et al. 2020; B.-Y. Kim 2017).

Yet, while such arrangements may produce highly suboptimal outcomes for the economy as a whole, they may actually help to conserve the Kim's grip on power. So long as more powerful members of the military are appeased and their institutional interests are respected (Izadi 2022), a coup would appear unlikely, and popular revolts are usually not how dictatorships collapse (Svolik 2012). Military economic activities in North Korea did not emerge due to coup-proofing concerns, and they did not in other comparable cases either. But they probably do help to ensure that the military is less likely to be insubordinate. Hence, in the short-run at least, the military's continued and extensive involvement in the North Korean economy probably is a source of stability for the North Korean regime and the Kim family. The alternatives of regime change, or even a 'reshuffle' of the leadership (on this distinction, see: N. K. Kim and Sudduth 2021) appears unlikely.

Their impact on societal-military relations is less clear, with predation and cooperation being inextricable parts of relations that are observable in the case of Unit 235. The corruption involved is not policeable at scale without creating serious manpower problems. For society, the presence of military officers (and sometimes soldiers) who are willing and able to engage in commercial partnerships, to provide useful services, or facilitate business activities is obviously welcome.

However, this also ensures that North Korean logistics and material support if the country were to be invaded would be reliant on civilian markets, making supply difficult to sustain. These problems would be significantly worse if the country were to try to mount an offensive invasion of the South. This has not appeared to be likely for some time (O'Hanlon 1998; Suh 2007), but the South Korean government continues to develop significant conventional force capabilities in order to potentially decapitate the North Korean leadership in the event of an invasion (Pollack and Kim 2020).

The economic activities of military officers implies that conventional forces lack the logistics to facilitate the invasion of the South, and the North Korean military would be forced to 'live off the land'. This presents opportunities for the South Korean government if it were ever to face a KPA invasion, however unlikely this remains, possibly enabled by nuclear blackmail (V. Cha and Kang 2018), to significantly slow down KPA advances by making it more difficult for KPA units to 'forage' for fuel and food. Clearly, the weakness of KPA conventional forces makes the country highly reliant on nuclear and other non-conventional means to be able both defend itself but also to acquire offensive capabilities (Clemens 2010; S. C. Kim 2017). Military economic activities at the unit level do not appear to strengthen the military, and force reductions would appear to be justified, but the leadership appears unwilling to countenance such options as yet.

More broadly, 'internal involvement' has previously been noted in the literature on civil-military relations as a source of weakness on the battlefield (Narang and Talmadge 2018). Corruption's effects on esprit de corps is clearly one reason why (Mulvenon 1998), but the

embedding of officers within the commercial culture and relations of civilian society and its impact on the battlefield readiness appears to have been underappreciated in this literature. Yet, as is increasingly being noted, the positive effects of such activities on authoritarian survival (Izadi 2022), and the expenses involved in either fundamentally reassessing strategic objectives and force requirements mean that military economic activities appear too difficult to seriously curtail. The military may not be a literal veto player (Tsebelis 2011), but its power is entrenched and difficult to displace (Starr 2019).

As a result, the prescriptions advocated for by organizations like Transparency International (TI) are perhaps misplaced. The existing literature points to the absence of effective monitoring as a root cause of corruption (Cheung 2003; Siddiqa-Agha 2003). Yet, the case of Unit 235 demonstrates that monitoring is not the root cause, and improving the capacity of the state to detect corruption and other forms criminal economic behaviour is unlikely to make much difference. The lack of state capacity and corruption are endogenous to military economic activities, a solution requires that state capacity is fundamentally improved. Transparency and effective monitoring are no panacea.

Appendix 1: Abstract in German

Diese Dissertation untersucht die Ursachen und Wirkungen von wirtschaftlicher Macht in den Händen des Militärs in einer vergleichenden Perspektive. Sie entwickelt drei miteinander verbundene Argumente über wirtschaftliche Macht in den Händen des Militärs unter Verwendung einer vergleichenden Analyse des nordkoreanischen Beispiels und einer nationalen und einer sub-nationalen Fallstudie einer nordkoreanischen Militäreinheit.

Erstens entwickelt sie eine vergleichende historische Analyse Nordkoreas mit anderen staatssozialistischen Ländern (China, Kuba und Vietnam), in denen wirtschaftliche Macht in den Händen des Militärs und militärische Unternehmen aufgekommen sind. Es wird gezeigt, dass wirtschaftliche Macht des Militärs dann entsteht, wenn dem Staat die Kapazität fehlt (vor allem die fiskale Kapazität), um die strategischen Ziele der Führung durchzusetzen. Aus diesem Grund werden dem Militär Ressourcen, Rechte und Eigentum übergeben, um ihm die teilweise Selbstfinanzierung zu ermöglichen. Das steigert die Macht des Militärs und macht es unabhängiger vom Staat. Dadurch wird die zivile Führung dazu angehalten, die oberste Führung strikt unter ihrer Kontrolle zu halten und ausdifferenzierte Institutionen politischer Kontrolle zu entwickeln. Das löst jedoch nicht andere aus dem Bedarf nach Eigenfinanzierung des Militärs erwachsende Probleme wie Korruption und Aneignung.

Zweitens wird anhand einer nationalen und subnationalen Fallstudie von Einheit 235 der Koreanischen Volksarmee gezeigt, dass und wie das Problem der Kontrolle über das Militär in wichtigen Aspekten durch wirtschaftliche Macht in den Händen des Militärs verstärkt wird. Unter Verwendung von Konzepten aus der Korruptionsforschung in Transformationsökonomien und der Literatur zu Kontrolleinrichtungen in der zivilen und militärischen Beziehung wird ein neues Argument zum Thema der staatlichen Haltung zu Korruption und der (fehlenden) Kapazität des Staates zu ihrer Bekämpfung innerhalb des Militärs entwickelt. Die nordkoreanischen zivilen Behörden zeigen durchaus eine Fähigkeit zur Aufdeckung von Korruption, aber sie verfügen aufgrund von Personalmangel und einer Unfähigkeit zur Schaffung von Anreizsystemen und Steigerung der Opportunitätskosten von Korruption nur über eingeschränkte Möglichkeiten zur Bestrafung von entsprechenden Vergehen.

Drittens wird argumentiert, dass die Ausbreitung von illegalen wirtschaftlichen Aktivitäten im Militär sowohl negative als auch positive soziale Effekte hat. Unter Verwendung von Theorien aus dem Studium des Unternehmertums sowie der diesem zugrunde liegenden sozialen Strukturen wird gezeigt, wie Offiziere des Militärs auf kulturelle und relationale Verbindungen mit dem zivilen Teil der Gesellschaft bauen können. Diese unterstützen und berauben zivile Akteure gleichermaßen und führen zu einer Art von „zivil-militärischer Konvergenz“, in deren Verlauf das Militär im Verlaufe des Interaktionsprozesses zunehmend in die Kultur der zivilen Gesellschaft assimiliert wird.

Appendix 2: Abstract in English

This dissertation examines the causes and effects of military economic power in comparative perspective. It develops three interconnected arguments about military economic power utilizing a comparative analysis of the North Korean case, and national and sub-national case study of a North Korean military unit. First, it develops a comparative historical analysis of North Korea with other state socialist countries (China, Cuba, and Vietnam) that have seen the rise of military economic power and military business. It argue that military economic power arises due to a lack of state capacity (especially fiscal capacity) to realize the strategic aims of the leadership. Hence, resources, rights and assets are given to the military to enable it to be partially self-funded. This empowers the military, and makes it more autonomous from state, thus compelling the civilian leadership to maintain a tight grip on the top leadership and develop sophisticated institutions of political control. These do not, however, eliminate other problems like corruption and predation that arise from the military's need to be self-funded. Second, from a national and subnational case study of Unit 235 of the Korean People's Army, the problem of control over military is in some important ways exacerbated by military economic power. Utilizing concepts developed in research into corruption in economies in transition, and literature on control institutions in the civil-military relationship, I develop a new argument about the state's attitude toward corruption and its (lack of) capacity to fight in within the military. The North Korean civilian authorities demonstrate a capacity to detect corruption, but possess limited capacity to punish wrongdoing due to labor shortages and an inability to devise incentive schemes that would raise the opportunity costs of corruption and predation. Third, the spread of illegal economic activities in the military has both negative and positive social effects. Utilizing theories developed in the study of entrepreneurship, and the social structures that it relies upon, I demonstrate how military officers rely on cultural and relationally embedded ties with civilian society that both support and predate upon civilian actors, and give rise to a form of 'civil-military convergence' whereby the military becomes increasingly assimilated into the culture of the civilian society with which it interacts.

Appendix 3: List of Instances of Economic Illegality and Dismissals in Unit 235

Unit and position	Type of officer	Year	Offence	Source	Consequences	Source	Type of corruption (Karklins 2015)
290th Regiment 3rd Battalion Commander	Command/regular military		Trading in food illegally	Current situation with respect to military-civilian relations in the Onchŏn Area (n.d.)	Kept position, education	Individual Education Plan for officers with rough working methods and attitudes (2013)	Profiteering from public resources
290th Regiment Artillery Battalion Political Instructor	Political	2012	Selling wood to civilian traders	Materials of 290th Regiment Artillery Battalion Political Instructor (n.d.)	Kept position, education	Individual Education Plan for officers with rough working methods and attitudes (2013)	Profiteering from public resources
315th Regiment 1st Battalion Commander	Command/regular military	2011, 2013	Selling side-work unit production; selling side-work unit land	Divisional Political Commissar (2012b); 315th Regiment Commander's Materials (Discussant) (2013)	Kept position, education	Individual Education Plan for officers with rough working methods and	Profiteering from public resources

						attitudes (2013)	
315th Regiment 3rd Battalion Commander; 315th Regiment 3rd Battalion Political Instructor	Command/regular military; Political	2011	Providing storage services to traders; Selling food	Divisional Political Commissar (2012c); Materials of Unit 235 315th Regiment 3rd Battalion Political Instructor (n.d.)	Kept position, warning, education	See left; Divisional Political Commissar (2012d)	Profiteering from public resources
315th Regiment Battalion 1st Regiment Commander; 315th Regiment 3rd Battalion Political Officer	Command/regular military; Political	2010	Mass theft of unit storage doors (steel doors) and sale to traders	Inspection Evaluation Materials for Unit 235 315th Regiment Political Commissar (2012)	Dismissal	See left	Profiteering from public resources
315th Regiment Rear Department Commander	Command/regular military	2012	Not reporting the illegal business operations of subordinates	Divisional Political Department Organizational Department Instructor and Divisional Political Commissar (2012d)	Kept position	See left	Misuse of licencing and inspection powers
316th Regiment 1st Battalion Commander	Command/regular military	2012	Stealing unit grain; providing	Divisional Organization Department Instructor (2013);	Kept position, education	See left	Profiteering from public resources

			storage to local traders	Divisional Political Commissar (Divisional Political Commissar 2013b)			
316th Regiment 2nd Battalion Political Instructor	Political	2008	Setting up cyanidation facilities to extract gold and silver	Unit 235 316th Regiment 2nd Battalion Political Instructor Materials (n.d.)	Warning, kept position	See left	Profiteering from public resources
316th Regiment 3rd Battalion Political Instructor	Political	2009 - 2011	Setting up metal purification facilities (2009); providing logistical support for traders (2010); theft of side-work production (2010)	Unit 235 316th Regiment 3rd Battalion Political Materials (n.d.)	Facilities confiscated, Central Committee informed, ten days detention; selected for dismissal, pardoned	See left	Profiteering from public resources; Self-serving use of public funds/resources
316th Regiment Chief of Staff	Command/regular military	2009	Failed to see civilian traders operating inside the barracks producing	Divisional Political Department Organizational Department Instructor and Divisional Political Commissar (2010)	Kept position	See left	Profiteering from public resources

			sodium cyanide				
316th Regiment Communications Battalion Commander	Command/regular military	2011	Selling storage space to traders	Military Unit Party Committee Plenary Meeting Report (n.d.)	Kept position, education	Divisional Political Commissar (2012a)	Profiteering from public resources
316th Regiment Mortar Artillery Company Political Instructor	Political		Provision of storage services to traders	Third Corps Political Department Organization Department Deputy Director (n.d.)	Discharged along with Company Commander for bad conduct	See left	Profiteering from public resources
316th Regiment Rear Department Head	Command/regular military	2012 or before	Theft of unit supplies, use of wife to trade supplies	Report on 316th Regiment's Party Committee Concentrated Audit from March 7, 2012 to April 7, 2012 (2012)	Kept position, education	Divisional Political Commissar (2012a)	Profiteering from public resources
613rd Regiment 1st Battalion Commander	Command/regular military	2010	Failed to stop subordinate stealing food	Materials of the 613rd Regiment 1st Battalion Commander (n.d.)	Later discharged for age	List of Officers Facing Mandatory Retirement Due to Age (n.d.)	Self-serving use of public funds/resources; misuse of licensing and inspection powers by officials

613rd Regiment 1st Company Commander	Command/regular military	2011	Stealing food	Party Life Summation Meeting for Battalion Commanders (n.d.)	Severe Party Warning	Korean Workers Party Korean People's Army Unit 235 Committee Control Committee (2012d)	Self-serving use of public funds/resources
613rd Regiment Chief of Staff	Command/regular military	2011	Did not prevent massive theft of food	Divisional Political Department Organizational Department Instructor and Divisional Political Commissar (2011h)	Kept position	See left	Misuse of licencing and inspection powers
613rd Regiment Commander	Command/regular military	2009 - 2011	Theft of construction materials, food, bribe taking (for various purposes including self-enrichment and personal business activities)	Party Life Materials of the 3rd Army Corps Command Unit 235 Political Commissar (No. Party Lecture Materials) (2011); 613rd Regimental Commander Materials (n.d.); Opinion raised with respect to the theft of reservists food for training or the provision of rotten	Kept position, warnings and education	See left	Profiteering from public resources

				rice in the 613rd Regiment's 1st Battalion (n.d.)			
613rd Regiment Food and Garment Supplies Commander	Command/regular military	2010	Borrowing grain from traders	Unit Party Committee Secretariat Meeting (2010)	Kept position	Korean Workers Party Korean People's Army Unit 235 Committee Control Committee (2012b)	
613rd Regiment Rear Department Commander	Command/regular military	2010-11	Stealing food and other supplies	Divisional Political Department Organizational Department Instructor and Divisional Political Commissar (2011e)	Kept position	See left	Self-serving use of public funds/resources
Artillery Regiment 4th Battalion Political Instructor	Political	2011	Extracting bribes, selling side-work production, embezzling supplies	Third Corps Political Commissar (2011a)	Discharged, but economic crimes only part of the issue (lack of care for subordinates)	See left	Misuse of licensing and inspection powers by officials; profiteering from public resources

Artillery Regiment Food and Clothing Supply Commander	Command/regular military	2008-12	Selling unit supplies, engaging in and supporting trade (using unit vehicles), buying and selling houses	Divisional Political Commissar (2012e)	Dismissal (but for marriage issues, not economic misconduct)	Korean Workers' Party Korean People's Army Third Corps Committee Chief Secretary, 2012 (2012)	Profiteering from public resources; Self-serving use of public funds/resources
Artillery Regiment Rear Department Head	Command/regular military	2012	Illegally selling unit coal to pay off debts	Divisional Political Department Organizational Department Instructor and Divisional Political Commissar (2012g)	Kept position	See left	Profiteering from public resources
Artillery Staff Department Reconnaissance Staff Officer	Command/regular military	2010	Demanding supplies (glass) from subordinates	Divisional Political Department Organizational Department Instructor and Divisional Political Commissar (2011c)	Kept position	See left	Misuse of licencing and inspection powers
Chemical Company 4th Platoon Leader	Command/regular military	2011	Selling electricity and exemptions from reservist service	Divisional Political Department Organizational Department Instructor and Divisional Political Commissar (2011i)	Kept position, education	See left	Profiteering from public resources; misuse of licensing and inspection

							powers by officials
Divisional 3rd Land Mine Storage Manager	Command/regular military	2009-11; 2011-12	Allowed soldiers to steal from local area; theft of soldiers' food	Divisional Political Department Organizational Department Instructor and Divisional Political Commissar (2011f)	Kept position, education; warning for theft of food	See left; Korean Workers Party Korean People's Army Unit 235 Committee Control Committee (2012a; 2012c)	Misuse of licencing and inspection powers; Self-serving use of public funds/resources
Divisional Anti-aircraft Department Anti-aircraft Artillery Battalion Car Manager	Command/regular military	2010	Stealing from the fields of local collective farm, repeatedly stopping coal shipments and demanding bribes	Divisional Political Department Organizational Department Instructor and Divisional Political Commissar (2013a)	Kept position, received a severe warning	See left	Self-serving use of public funds/resources; Misuse of licencing and inspection powers
Divisional Artillery Department Anti-Tank Artillery	Command/regular military	2012	Stealing unit construction materials	Divisional Political Department Organizational Department Instructor and	Kept position	See left	Self-serving use of public funds/resources

Battalion 2nd Company Gunnery Company Head Officer				Divisional Political Commissar (2012f)			
Divisional Artillery Staff Department Anti-Aircraft Department Director	Command/regular military	2010	Did not stop subordinates' sales of unit supplies	Third Corps Political Department Organization Department Chief Instructor and Third Corps Political Commissar (2011)	Kept position	See left	Misuse of licencing and inspection powers
Divisional Artillery Staff Department Anti-Aircraft Department Machine Gun Staff Officer	Command/regular military	2012	Sold house	Divisional Political Department Organizational Department Instructor and Divisional Political Commissar (2013e)	Kept position	See left	Profiteering from public resources
Divisional Artillery Staff Department Heavy Machinery Staff Officer	Command/regular military	2011	Taking unit fuel without permission	Divisional Political Department Organizational Department Instructor and Divisional Political Commissar (2011j)	Kept position	See left	Self-serving use of public funds/resources
Divisional Chemical Department Chemical Company	Command/regular military	2011	Selling unit electricity to local residents, taking bribes	Divisional Political Department Organizational Department Instructor and	Kept position, Education	See left	Self-serving use of public funds/resources; Bribery of

Platoon Commander			to exempt reservists from service	Divisional Political Commissar (2011k)			public officials of bend rules
Divisional Military Engineers Battalion Second Company Commander	Command/regular military	2012-13	Theft of rebar from the unit, extracting bribes from reservists	Divisional Political Department Organizational Department Instructor and Divisional Political Commissar (2013b)	Dismissal	See left	Profiteering from public resources; misuse of licensing and inspection powers by officials
Divisional Military Engineers Battalion Second Company Deputy Commander	Command/regular military	2010	Ignored company commander's receipt of bribes	Divisional Political Department Organizational Department Instructor and Divisional Political Commissar (2012a)	Kept position	See left	Misuse of licencing and inspection powers
Divisional Operations Department Security Company Commander	Command/regular military	2012	Sold house; borrowed money against gift from the Party	Divisional Political Department Organizational Department Instructor and Divisional Political Commissar (2013f)	Kept position	See left	Profiteering from public resources
Divisional Rear Department Fuel Director	Command/regular military	2011	Subordinates using unit supplies to engage in illicit alcohol production	Divisional Political Department Organizational Department Instructor and	Kept position, further development	See left	Profiteering from public resources

				Divisional Political Commissar (2012i)			
Divisional Rear Department Hospital Surgeon	Command/regular military	2009, 2011	Wife trading, stealing from the unit's fields	Divisional Political Department Organizational Department Instructor and Divisional Political Commissar (Divisional Political Department Organizational Department Instructor and Divisional Political Commissar 2011g)	Kept position, education	See left	Self-serving use of public funds/resources
Divisional Rear Department Rations Director	Command/regular military	2009	Did not catch subordinates criminal conduct	Inspection Evaluation Materials for Unit 235 Divisional Rear Department Rations Director (2011)	Kept position	See left	Misuse of licencing and inspection powers
Divisional Security Command Instructor	Command/regular military	2012	Large-scale theft of unit supplies, trade	Inspection Evaluation Materials for Unit 235 Divisional Security Command Instructor (2012b)	Dismissal	See left	Profiteering from public resources
Divisional Staff Department Chemical	Command/regular military	2010	Did not catch subordinates' economic misconduct	Divisional Organization Department Instructor and	Kept position	See left	Misuse of licencing and inspection powers

Department Chemical Company Commander				Divisional Political Commissar (2011)			
Divisional Staff Department Engineers Bureau Engineers Battalion 2nd Company Commander	Command/regular military	2013	Stealing rebar from the unit, taking bribes from reservists in exchange for training exemptions	Divisional Political Department Organizational Department Instructor and Divisional Political Commissar (2013c)	Dismissal	See left	Self-serving use of public funds/resources
Divisional Staff Department Engineers Land Mine Storage Manager	Command/regular military	2011	Tried to engage in farming operations on unit side-work lands by involving civilians	Divisional Political Department Organizational Department Instructor and Divisional Political Commissar (2011d)	Kept position	See left	Profiteering from public resources
Divisional Staff Department Line Department Senior Staff Officer	Command/regular military	2011	Demanding bribes	Divisional Organization Department Instructor and Divisional Political Commissar (2012e)	Kept position	See left	Misuse of licencing and inspection powers
Divisional Staff Department Reconnaissan	Command/regular military	2011	Did not prevent subordinate from	Divisional Political Department Organizational Department	Kept position, development	See left	

ce Bureau Reconnaissance Company Commander			borrowing money while securing supplies	Instructor and Divisional Political Commissar (2012h)			
Unit 235 Security Command Instructor	Security	2010-11	Trade, stealing large quantities of supplies, embezzling unit funds	Divisional Political Department Organizational Department Instructor and Divisional Political Commissar (2012c)	Discharged	See left	Profiteering from public resources; Self-serving use of public funds/resources
Unit Political Department Agitprop Department Research Director	Political	2009	Stealing water from local village (where he lived)	Divisional Political Department Organizational Department Instructor and Divisional Political Commissar (2011a)	Kept position	See left	Self-serving use of public funds/resources
Unit Staff Department Operations Department Staff Officer	Command/regular military	2009	Stealing grain from the unit's fields	Divisional Political Department Organizational Department Instructor and Divisional Political Commissar (2011b)	Kept position	See left	Self-serving use of public funds/resources

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