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국제학석사학위논문

**Military Influence on North Korea's  
Economic Development under “Military-  
first Politics”**

선군정치 하 북한의 경제 발전에 미친  
군사적 영향

2016년 8월

서울대학교 국제대학원

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**Military Influence on North Korea's  
Economic Development under "Military-  
first Politics"**

Thesis by

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Graduate Program in International Area Studies  
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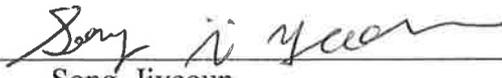
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# **Military Influence on North Korea's Economic Development under "Military-first Politics"**

**Benjamin Forney**

## **Abstract**

From 1998 until 2011, North Korea was ruled by its Supreme Leader, Kim Jong Il, under a system known as "military-first politics." This era was characterized by the military's enhanced role in politics, society, and the economy. While the Workers' Party of Korea (WPK) was maintained as the central authority, the Korean People's Army (KPA) and National Defense Committee (NDC) rose in importance and took control of areas well beyond the scope of national defense. What emerged was a separate "military economy" that sought to make the army self sufficient in the face of dwindling government-allocated resources. For despite official funds being funneled into North Korea's nuclear and ballistic missile programs during this time, the country lacked the ability to maintain and equip its enormous standing army. The result was that the military proceeded to take control of several key industries, from farming to construction, using their vast reserves of cheap labor. Abroad, the military became more involved in schemes to earn foreign currency, including through illicit means such as drug trafficking and arms trade. The military also increased its control of trading companies, most of which traded raw minerals and seafood for the hard cash craved by the regime. In the end, the military economy became a massive and crucial part of North Korea's existence.

Keywords: North Korea, "military-first politics," military economy, trading companies, Kim Jong Il

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## LIST OF ABBREVIATIONS

DPRK: Democratic People's Republic of Korea

FCEC: Foreign Currency Earning Companies

KOMID: Korea Mining Development Trading Corporation

MPAF: Ministry of People's Armed Forces

KPA: Korean People's Army

MOU: Ministry of Unification (Republic of Korea)

NDC: National Defense Commission

PDS: Public Distribution System

WPK: Workers' Party of Korea

WFP: World Food Program

## I. Introduction and Background

During the rule of Kim Jong Il (1994-2011) in the Democratic People's Republic of Korea (DPRK or North Korea) the role of the military underwent a dramatic transformation to encompass not only national defense, but also a prominent position in the nation's economy. This "economic militarization" took several forms. Centrally-directed policies funneled resources to projects that favored the military and defense industry, such as North Korea's nuclear and ballistic missile programs, which captured the attention of the international community. But just as importantly, and far less well understood, was the goal of the "military-first" ideology to create a self-sufficient military apparatus, which allowed the military to embark on a number of schemes to make money to support itself in the face of chronic shortages from the government. Indeed, the "military economy" served as a parallel to the official economy, earning millions of dollars each year.<sup>1</sup> One of their biggest money makers was trade, both licit and illicit, with various foreign nations, despite increasing sanctions imposed by the West. By setting up trading companies which served as a front, the military was able to earn foreign currency desperately needed by the regime.<sup>2</sup> Domestically, the armed forces were involved in numerous civil works, such as the

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<sup>1</sup> Eberstadt, Nicholas. 2011. "Western Aid: The Missing Link for North Korea's Economic Revival?" *The American Enterprise Institute Working Paper Series on Development Policy*. No. 6. Choi, Jinwook. 2006. "The North Korean Domestic Situation and Its Impact on the Nuclear Crisis." *Ritsumeikan Annual Review of International Studies*. Vol. 5: 1-18.

<sup>2</sup> Greitens, Sheena Chestnut. 2014. *Illicit: North Korea's Evolving Operations to Earn Hard Currency*. Washington DC: Committee for Human Rights in North Korea.

building of roads, the operation of factories, and even as basic farm laborers.<sup>3</sup> Compared to other institutions in the country, the relatively efficient structure and discipline of the military enables them to make up for labor shortages in the North Korean countryside, and the long service requirements for most men mean that the military can draw from a large pool of human capital.<sup>4</sup>

The famine of the mid-1990s and the breakdown of the public distribution system transformed the North Korean economy. Ordinary people were forced to seek independent solutions to survive and provide food for their families, while black markets and “illegal” private enterprises exploded in number.<sup>5</sup> Here too, the role of the military expanded. Corruption among soldiers became widespread, especially near the Chinese border, where military personnel often received gifts and cash in exchange for turning a blind eye to illegal trade and border crossings.<sup>6</sup> Numerous reports have also described how the military siphoned off international aid and resold it to civilians at a higher price or bartered for goods that they needed.<sup>7</sup> But the military did not just take part in the black markets; other branches were charged with monitoring and, if

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<sup>3</sup> Habib, Benjamin. 2011. “North Korea’s parallel economies: Systemic disaggregation following the Soviet collapse.” *Communist and Post-Communist Studies*. 44: 149-159.

Harden, Blaine. 2009. “North Korea military asserts command over nation’s economy” Washington Post. <http://www.washingtonpost.com/wp-dyn/content/article/2009/11/02/AR2009110203603.html>. Accessed December 1, 2015.

<sup>4</sup> Haggard, Stephan and Noland, Marcus. 2009. *Famine in North Korea: Markets, Aid, and Reform*. New York: Columbia University Press. 108-125.

<sup>5</sup> Suh, Jae Jean. 2005. *North Korea’s Market Economy Society from Below*. Seoul: Korea Institute for National Unification.

<sup>6</sup> Harden, 2009. Suh, 2005.

<sup>7</sup> Haggard and Noland, 2009. Greitens, 2014. Lee, Kyo Duk, and Chung, Kyu Sup. 2012. *Study of Disciplinary Problems in the North Korean Army*. Seoul: Korea Institute for National Unification.

necessary, shutting them down. Under Kim Jong Il, the military gained control of several branches of North Korea's internal security apparatus, and these units were key to maintaining the regime's control of information, movement, and market forces.<sup>8</sup>

## **1. Purpose of Research**

This study will analyze the economic influence of the military under Kim Jong Il's "military-first politics" (*songun jeongchi*). It will seek to answer the following questions: What was the role of the North Korean military in the country's economy, both domestically and abroad, under "military-first politics" during the Kim Jong Il era? What is "military-first politics, and how did it change the North Korean system? What is the "military economy" and how did it differ from the official economy? I propose that the military's business ventures contributed to between 25%-50% of the entire economy during this period, and their continued influence today as operators of several trading companies is an important means by which the military funds their activities, including the development of weapons that violate UN sanctions.

Beginning with a short history of "military-first politics" and its effects on North Korea's political structure and society, I will provide an in-depth account of the unique role of the Korean People's Army (KPA) and the Ministry of People's Armed

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<sup>8</sup> DeRochie, Patrick. "The Driving Factor: Songun's Impact of North Korean Foreign Policy." *International Affairs Review*, Vol. XX, No. 1: Summer 2011.

Forces (MPAF) in the country over the years of Kim Jong Il's reign. Their influence can be analyzed through the official, centrally-directed economy's funneling of money and resources to projects that benefited the military as well as the key trends that have defined North Korea's economic development since the mid-nineties. The remainder of this study will explain the vast "military economy," of the Kim Jong Il years, focusing first on their domestic roles as farmers and factory workers. I will then take a deep look into diversion of humanitarian aid and corruption, which, at times, played a large role in making up for insufficient resources for soldiers at all levels. Next I will explain the military's illicit business ventures, which range from the production of counterfeit cigarettes to global arms trafficking. Finally, I will look at some military-owned trading companies that operated within semi-legal boundaries to earn hard currency for the regime. In the conclusion, I will look at how the military's influence has evolved and future prospects under Kim Jong Un, as well as policy recommendations for the international community to more effectively sanction these illicit activities. This study will be important to policy makers, specifically in the West, as there is a critical lack of information in English about the military's effect on North Korea's economy, concerning both their domestic role, as well as the specific means they pursue to earn foreign currency and fund their weapons programs.

While scholars have written about North Korea for many years, their focus on the Kim Jong Il era often falls into three categories: economics and marketization, political structure and decision making, and foreign policy. The "military economy" and the role of the armed forces are often given passing treatment as part of a larger

argument about trade or the nuclear issue. This study will seek to make up for these shortfalls by providing an in depth analysis of these issues in the context of North Korean society at the time.

## **2. Literature Review**

When conducting research on North Korea, the most prevalent problem is a lack of reliable sources. Because of the notoriously opaque nature of the regime, access to verifiable information is scarce. However, North Korea is not quite the information black hole as it is often portrayed. The sources used in this study reflect a variety of different methodologies to gather data. Defector testimonies are a valuable, if imperfect, insight into life in the country and are used by organizations from think tanks to government agencies. For access to economic data, the use of “mirror statistics” published by North Korea’s trading partners provides an accurate, if incomplete, measure of trade activities. News outlets and South Korean government bodies have sources in the North that have been able to release information that the regime tries to keep hidden. Finally, the use of official North Korean sources can be useful in determining policy direction, even if the message is often cloaked in the country’s iconic, bombastic rhetoric.

Wading through this information allows researchers to gain a wide angle view on the situation in North Korea, with occasional details emerging that can be verified through multiple sources or observable results. Scholars have used these broad themes

in North Korean studies to conduct their research. One of the best sources of general information on North Korea is South Korea's Ministry of Unification (MOU). Their reports cover everything from history to military culture to trade statistics and provide an insightful overview of the country. Their sources are varied and their work with some of the best experts in the field provides a high level of verifiable accuracy.<sup>9</sup>

Another official source with meticulous attention to detail is the UN Panel of Experts, whose reports to the UN Security Council provide some of the best and most detailed explanations of North Korea's illicit arms deals and methods to evade sanctions.<sup>10</sup> They have produced irrefutable evidence of the DPRK's global network of front companies used to launder money, as well as the financial institutions that back them up.

Aside from these official sources, numerous scholars have published academic papers on North Korea's military, economy, and politics. One of the most inclusive analyses of the North Korean government in the Kim Jong Il, military-first era is Patrick McEachern's *Inside the Red Box* (2009).<sup>11</sup> His portrayal of a system he describes as "post-totalitarian institutionalism" elucidates the nuanced power struggle that went on between the various leadership factions, all vying for access to the

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<sup>9</sup> For more information on North Korean society, see Kang, David C. 2011. "They Think They're Normal." *International Security*, Vol. 36, No. 3: 142-171; Oh, Il-hwan. 2001. "Study on the Militarization of North Korea in the Kim Jung-il Era." (kimjongil sidae bukhaneui gunsahwa gyeonghyangae kwanhan yeongu) *Journal of International Politics*. Vol. 41, No. 3: 213-232.

<sup>10</sup> United Nations, Security Council. 2015. Final report by the Panel of Experts on the Democratic People's Republic of Korea. 23 February.

<sup>11</sup> McEachern, Patrick. 2010. *Inside the Red Box: North Korea's Post-Totalitarian Politics*. New York: Columbia University Press.

Supreme Leader. He also argues that military-first politics was not merely the ascent of the army to control the country, but rather a militarization of society, politics, and economics, with the military leadership rising to equal status with the Workers' Party of Korea.<sup>12</sup>

Haggard and Noland look at both the political economy of sanctions and the military's attempts to divert humanitarian aid for their own use.<sup>13</sup> They document the sale of illegal arms and other illicit trade, as well as emphasize the importance of the burgeoning private markets during the Kim Jong Il era. At the same time, the role of the military both domestically and abroad is analyzed and they argue that, because of the lack of resources, many soldiers took to pilfering food and other materials from the populace either for consumption or resale.<sup>14</sup>

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<sup>12</sup> For more information on North Korean politics during the Kim Jong Il era, see Park, Yong-hwan. 2012. "The Study of Songun Regime Military Strategy in North Korea: Formation of 'Songun Military Strategy'." (bukhaneui songunsidae gunsajeonryakae kwanhan yeongu: 'songun gunsajeonryak' eui hyungseong) *National Defense Policy Research*. Vol. 28, No. 1: 189-218; Kim In-soo and Lee Min-Yong. 2011. "Has the Military Superseded the Party under Kim Jong-Il's Rule?" *The Journal of East Asian Affairs*. Vol. 25, No. 2: 39-54; Kim, Keun-sik. 2014. "Kimilsungism-Kimjongilism in Kim Jong-un Era: The Abstraction of Juche and Songun Ideologies." (kimjongun sidae eui 'kimilsung-kimjungiljueui': juchesasangwa seongunsangeui chusanghwa) *Korea and International Politics*. Vol. 30, No.1: 65-92.

<sup>13</sup> Haggard and Noland, 2009. Haggard, Stephan and Noland, Marcus. 2010. "Sanctioning North Korea: The Political Economy of Denuclearization and Proliferation." *Asian Survey*. Vol. 50, No. 3: 539-568.

<sup>14</sup> For more information about the North Korean economy see Cheon Seong-Whun. 2013. "The Kim Jong-un Regime's "Byungjin" (Parallel Development) Policy of Economy and Nuclear Weapons and the 'April 1st Nuclearization Law'." *Korea Institute for National Unification*. Online Series CO 13-11. [http://www.kinu.or.kr/upload/neoboard/DATA01/co13-11\(E\).pdf](http://www.kinu.or.kr/upload/neoboard/DATA01/co13-11(E).pdf).; Rennack, Dianne E. 2006. "North Korea: Economic Sanctions." *Congressional Research Service*; Lim, Jae-Cheon. 2009. "Institutional Change in North Korean Economic Development since 1984: The Competition between Hegemonic and Non-Hegemonic Rules and Norms." *Pacific Affairs*. Vol. 82, No. 1: 9-27; Kim, Seong-ju. 2012. "Research on the Formation and the Change Process of Military-First Era's Economic Strategy." (seongun sidae gyeongjae geonseol

Kwon (2010) provides an insightful analysis of North Korean trading companies operated by the Ministry of People's Armed Forces and the military economy in general.<sup>15</sup> He stresses the importance of the military in gaining foreign currency for the regime and the diversity of their operations. He further describes the defense industry and the manufacturing details of military hardware. He also details the different governing military bodies and their relationships.

This study will build on the foundation of this large body of research to provide a comprehensive portrait of the military economy and the role of the armed forces in both domestic and foreign-based money making schemes.

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noseoneui hyungsungkwa byunhwa kwajeong yeongu). *Unification Research*. Vol. 16, No. 2: 121-160.

<sup>15</sup> Kwon, Yang Ju. 2010. *Understanding the North Korean Military*. (bukhan gunsa eehae) Seoul: KIDA Press.

## **II. What is “Military-First Politics”?**

In order to understand and analyze the military economy of the Kim Jong Il era, one must first understand the context in which it developed. This requires an understanding of military-first politics, why it developed, and its effects on politics, society, and the official economy. Given North Korea’s unique role in the international community during these years, their situation reflected a turn to a new kind of political structure in which the military would perform roles that set them apart from other regimes in the world. This section will analyze the origins and political effects of military-first politics, as well as the way the role of the military was transformed in society and in the country’s economic development.

### **1. Origins of “Military-First Politics” and Political Implications**

With the death of North Korea’s founder and Supreme Leader, Kim Il Sung, from a heart attack on July 8, 1994, the country was faced with a difficult and unprecedented leadership transition. Kim had ruled for longer than any other leader of the 20<sup>th</sup> century, and the personality cult he had built around himself was absolute. Perhaps no other country of the era better reflected the idea of “one man rule” than North Korea under Kim. As the leader of the Workers’ Party of Korea (WPK), Kim

oversaw every aspect of life for his people, from economic policy to foreign affairs to cultural expression.<sup>16</sup> This centrally-directed government structure meant that Kim exercised control over various institutions that may have had differing motives and kept dissenting views in check through sheer force of personality and rigid repression. In order to maintain his regime and secure his reputation after his death, Kim had designated his son, Kim Jong Il, as his successor early in his reign. The younger Kim had been groomed for leadership since the 1970s and had begun acting as de facto ruler over many aspects of domestic governance as his aging father focused more on foreign policy in his later years.

At the time of Kim Il Sung's death, changes in the international environment and decades of inefficient state planning policies had placed North Korea in a precarious position.<sup>17</sup> The economy had been shrinking for years, and quotas set by the government's multiple Three- Five- and Seven-Year Plans were not being met. The South Korean economy had overtaken the North's by the late 1970s, and with the collapse of the Soviet Union and the international communist movement in the early 1990s, North Korea had lost its most valuable trading partner. China, too, had started demanding that North Korea pay market prices for their imports, rather than the "friendly" prices they were used to. Relations with the Kim Young Sam government in the South were largely stagnant, and U.S.-DPRK relations had just emerged from the "first nuclear crisis," in which a last minute deal prevented a preemptive U.S. strike

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<sup>16</sup> Wada, Haruki. 2014. *North Korean Modern History* (bukhan hyundaesa) Paju: Changbi Publishers Inc.

<sup>17</sup> Haggard and Noland, 2009.

against nuclear facilities in the country. The North's adherence to its *juche* ideology of self-reliance prevented them from reaching out to the rest of the world or pursuing modernization policies similar to those of China.

Collective agricultural policies had been in place since the 1950s, and most people, especially those living in cities, were completely reliant on the public distribution system (PDS) for food.<sup>18</sup> Favored groups such as political elites and military personnel were favored, but as the economy slowly collapsed and the PDS became less reliable, even they were subject to food shortages. By the time of Kim Il Sung's death, the country was already on the verge of a serious humanitarian disaster. Unwilling to admit their desperate situation to the international community for fear of appearing weak and subject to criticism, the North Korean government at first refrained from seeking aid.

If the moribund economy, tense international relations, and death of the country's iconic founder weren't enough, North Korea was hit with a series of devastating natural disasters in 1995 that pushed the country over the edge. Widespread flooding in July and August of that year devastated much of the arable land and exacerbated the already serious food shortage the country was facing. Previous government policies, such as the terracing of hills for cultivation, caused loose topsoil to wash away in the rains, further worsening the situation.<sup>19</sup> What followed was one of the worst famines of the 20<sup>th</sup> century, in which up to one million

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<sup>18</sup> Haggard and Noland, 2009. P 26

<sup>19</sup> Ibid.

people perished.<sup>20</sup> By the time large scale aid had begun arriving, nearly two years had passed, resulting in a generation of children who suffered from the chronic effects of acute malnutrition and starvation. The North Korean media has labeled this period “The Arduous March,” and it had a profound effect on the country’s social and economic development.

With these myriad problems facing him, the new leader, Kim Jong Il, had plenty to deal with. He needed to ensure the loyalty of the Party and the KPA. He needed to handle relations with key countries in a world order that was rapidly evolving. He needed to try to resuscitate the economy and, at the bare minimum, prevent his people from suffering mass starvation. Most importantly, however, Kim Jong Il needed to find a way to maintain his leadership. To achieve this, Kim sought the support of the one institution he thought could help him the most: the military.

Unlike his father, Kim Jong Il had no great military accomplishments upon which he could create the sort of mythology and personality cult that the elder Kim enjoyed. In fact, his relationship with the military was not particularly smooth. According to Patrick McEachern (2008), following an alleged coup attempt in 1992, Kim purged 600 officers and completely dissolved the VI Corps in 1995 due to rampant corruption.<sup>21</sup> As with many dictators, the military was seen as both a tool for maintaining stability and a potential threat. In order to maintain the allegiance of the military apparatus, Kim sought to bolster their standing in the government and increase

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<sup>20</sup> Ibid. Wada, 2014.

<sup>21</sup> McEachern, Patrick. 2008. “Interest Groups in North Korean Politics.” *Journal of East Asian Studies*. Vol. 8, No. 2: 235-258.

their role in all aspects of North Korean society. “Military-first politics” took shape from the end of 1997 to the middle of 1998. The term was first used in the Rodong Sinmun, the mouthpiece of the regime, in 1998.<sup>22</sup> Table 1 tracks the appearance of military-first related terms as they appeared in the influential Joint Editorials and Rodong Sinmun.

**Table 1: Military-first related terms in Joint Editorials**

<b>Year</b>	<b>Expressions and Terms related to “Military-first”</b>	<b>New terms (*first use in Rodong Sinmun)</b>
1995	“strengthening the People’s Army,” “political and military force,” “raising the spirit of putting military first”	
1996	“raising the spirit of putting military first”	“Revolutionary spirit of servicemen”*
1997	“The People’s Army is the pillar of our revolution and the main force to complete the great work of Juche,” “Our party’s ideology of putting military first”	“Pillar of revolution” “Main force of revolution”
1998	“Revolutionary Army is the main-force unit for the revolution,” “The People’s Army is the pillar of the Socialism of our own style,” “Revolutionary army spirit”	“Military-first revolutionary leadership”* “Military-first Politics”*

<sup>22</sup> Chon, Hyun-Joon, Jeung, Choi, and Lee. 2009. *North Korea’s Regime Maintenance Policy since the Kim Jong-il Regime and Prospects for Change*. Seoul: Korea Institute for National Unification.

1999	“Main-force unit for the revolution,” “Unity between the army and the people,” “Military-first revolutionary leadership”	
2000	“Arms-first ideology,” “Military-first politics”	“Arms-first”

Source: Chon, 2009.

Beginning on July 22, 1997, the state newspaper *Rodong Sinmun* began using the expression “strong and prosperous country” (*kang seong dae guk*) as the basis for North Korea’s proposed plan of economic development, and over the next year the idea became more sophisticated and institutionalized.<sup>23</sup> Through the “strong and prosperous country” slogan, the North Korean leadership meant to instill in its people a sense of military spirit and revolutionary zeal that would boost production, strengthen defense, and propel the country’s economy forward. Early on, this idea coincided with the state’s *juche* ideology, in which the people could revive their economy without the influence of foreign nations.

Under Kim Il Sung, the army was subordinate to the WPK, yet Kim Jong Il elevated the KPA’s status, making the party, the cabinet, and the military more equal partners in the government.<sup>24</sup> The most notable example of this was the enhancement of the National Defense Commission (NDC) in the 1998 Constitution to becoming the single most powerful institution in the country. Kim Jong Il placed himself at the head

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<sup>23</sup> Ibid.

<sup>24</sup> DeRochie, 2011

of this commission (a post which he was granted for eternity in the 2012 Constitution) and used it to solidify his role as head of both the party and the military. This was the beginning of the military's new importance and the backbone of the military-first, or *songun*, idea. However, military-first politics encompasses much more than merely elevating the political status of the military; it reflects a fundamental transformation of the relationship between the military, the state, and the people.

Under this new ideology (*songun sasang*) the military became the core of North Korean society. Suh (2002) explained, “‘Military-first’ politics is based on the idea that the military is the people, the party, and the state.”<sup>25</sup> It came to permeate North Korean society. Whereas traditional socialist ideals state that the laborer and farmer are the primary forces for revolution, they were usurped by the military under *songun* propaganda.<sup>26</sup> The KPA was not merely an institution to defend the country from external threats. Rather, it was the basis of legitimacy for all other institutions because its identity was so tightly intertwined to that of the state itself.<sup>27</sup> Of course, the army was still tasked with its primary objective, keeping the nation secure from the “aggressive imperialism” of the United States. Policies, therefore, should reflect the interests of the military (though this did not always occur in practice) and the military should be in charge of evaluating a policy's effectiveness. Kim believed the military should take an active role in running the nation, and because the 1998 Constitution

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<sup>25</sup> Suh, Dae-Sook. 2002. “Military-First Politics of Kim Jong Il.” *Asian Perspective*. Vol. 26, No. 3: 145-167.

<sup>26</sup> DeRochie, 2011.

<sup>27</sup> Institute for Unification Education, Ministry of Unification. 2012 *Understanding North Korea*. Seoul: Ministry of Unification. Accessed 2014/12/17. <http://eng.unikorea.go.kr/content.do?cmsid=1817>.

enshrined Kim Il Sung as the “Eternal President” of the DPRK, it effectively forced the son to take a less political and more military-based position.<sup>28</sup> Kim stated that the idea developed during his “on the spot” guidance of military outposts during the “Arduous March” between 1995 and 1998. Reports vary, but according to the account of Jo Myeong Rok, a high ranking North Korean official, over the course of 69 months (5.75 years), Kim visited 2,150 separate military facilities- more than one a day.<sup>29</sup> Even if this number is high, Kim did visit many military posts in the early years of his rule, and by 1998, military-first politics began to reach a mainstream audience.

This elevation of the military, however, did not mean that the actual decision making structure of the regime had changed or that all power resided with the military. Rather, Kim simultaneously raised their influence while dispersing their power through checks and balances within the military apparatus that prevented any one faction from becoming too powerful. In this way, he was better able to control the military and had access to the most information.<sup>30</sup> Unlike the Kim Il Sung era, where a single (military) leader had close ties to the party, Kim Jong Il’s rule was characterized by a broader range of policy options being presented by various factions (often pro-military), ultimately relying on Kim to make the final decision, a style of government that McEachern calls “post-totalitarian institutionalism.”<sup>31</sup> *Songun jeongchi* merely

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<sup>28</sup> McEachern, 2008.

<sup>29</sup> Wada, 2014.

<sup>30</sup> DeRochie, 2011.

<sup>31</sup> McEachern, 2010.

provided the regime with the ideological backing and political structure to justify the disproportionate amount of resources that were diverted to pro-military initiatives.<sup>32</sup>

Military-first politics, therefore, can be described as the elevation of the military within the North Korean government, with the NDC as the primary decision making organization. Kim's direct control over this body bestowed it with the highest legitimacy, although the Party was still considered the official authority in the country. Kim Jong Il ruled through a series of unofficial ties and connections; an official's status could often be deciphered through their proximity to him at public events. Ideologically, military-first politics transformed the military into the very essence of the state and the institution through which the citizens could identify themselves in society. Finally, because of their vast manpower reserves, *songun* thinking involved the KPA's inclusion in the economic recovery of the nation following the crises of the mid-90s. Since its conception, military-first politics has been intertwined with the idea of building a "strong and prosperous country." This meant that through military spending and investment in the defense industry, the country could both strengthen its defenses and improve its economy. Only by creating a society with a "military spirit" could economic hardships be overcome.<sup>33</sup> This helped to justify the government's allocation of resources for the "buildup of military strength first, economic development second."<sup>34</sup> Most countries view military spending as a burden, rather than an opportunity, and since increased military spending was certain to result in greater

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<sup>32</sup> Chon, 2009.

<sup>33</sup> Lim, Soon-Hee. 2007. *Value Changes of the North Korean New Generation and Prospects*. Seoul: Korean Institute for National Unification. Chon, 2009.

<sup>34</sup> Chon, 2009.

sanctions and isolation from the international community, Kim's reasoning was certainly motivated by the greater need of promoting national defense. To justify this, military-first rhetoric has often been accompanied by an "anti-U.S. imperialism" argument. In short, its influence on North Korea's political structure and decision making has been widespread, but to understand it holistically, one must briefly look at its effect on other areas of life. This will help elucidate the impact of the military on the country's economic development.

## **2. The Military's Effects on Society**

"Military-first politics" under Kim Jong Il took an already highly militarized society and made daily interaction with the military inevitable for many people. As early as 1962, North Korea introduced the "Four-Point Military Guidelines," which stated the intention of "installing cadre potential in every soldier, modernizing the entire military, arming the entire population, and turning the whole territory into a fortress."<sup>35</sup> To North Koreans, the military was not a distant, largely unseen force, as it is in the United States, nor a two-year obligation for young men, sequestered from their normal life, as it is in South Korea. Rather, North Koreans saw the military as a practical performer that delivered goods and services and was a continuous presence in their daily life. The amount of time one must serve varied, but it was undeniably the

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<sup>35</sup> Lee, Seung-Ook. 2014. "The Production of Territory in North Korea: 'Security First, Economy Next'." *Geopolitics*. 19: 206-226.

longest in the world, with both men and women forced to serve between seven to ten years.<sup>36</sup> For many years, the military was considered to be an honorable and much sought after career, with opportunities for special privileges, decent wages, and a steady allotment of food, although some scholars have claimed that with the burgeoning private sector economy, many North Koreans have come to view semi-official money making ventures as preferable to an arduous military career.<sup>37</sup> Citizens were taught to depend on the military to solve any problems that may arise and trust that the military had the capabilities to handle both daily and extraordinary issues. This had the dual effect of easing the burden on and shifting the blame from the government to the military apparatus, as well as instilling in the people the feeling that it is indispensable to society.

*Songun* politics affected social development in three broad categories. First, the education system and government propaganda created an image of the military as an exemplary role model for the citizens. This fundamentally altered the relationship between the individual, the family, and the military by placing the military personnel before all other institutions, including the WPK.<sup>38</sup> Second, in North Korean literature, cinema, and art, pro-military themes became more dominant during the Kim Jong Il era, and the regime used these mediums to further instill in the population the ideology of *songun*. Third, despite the regime's claims that the military was there to serve and protect the people, ultimately military-first politics was used to justify greater internal

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<sup>36</sup> Suh, 2005. Harden, 2009.

<sup>37</sup> Suh, 2005.

<sup>38</sup> Park, Han S. 2007. "Military-First Politics (Songun): Understanding Kim Jong-il's North Korea." *Korea Economic Institute Academic Paper Series*. Vol. 2, No. 7.

security measures that cracked down on dissent and enhanced the draconian controls on people's basic freedoms.

A North Korean's relationship with the military began at a young age. Militaristic virtues such as discipline, obedience, uniformity, and sharing a common enemy were drilled into the youth, a practice which continues throughout their lives. All citizens were required to participate in organized activities with either an explicit or implicit association with the military. In the second grade of elementary school, students joined the Pioneer Corp, where they were taught the state's ideology. In the fifth grade, they joined the Kim Il Sung Socialist Youth League, simultaneously becoming members of the Red Youth Guard, a military organization.<sup>39</sup> All of these groups predated the *songun* politics, and similar organizations were popular in many former communist countries. However, during the Kim Jong Il era, the military became more interested in the potential of students, even in elementary school, for their usefulness to the army. One defector, a former computer science professor, speaking with Al-Jazeera in 2011, claimed that primary school students from around the country who showed promise in science and mathematics were fast tracked for top universities where they were trained to be a part of North Korea's elite cyber warfare bureau.<sup>40</sup> For all students who attended university, upon entering, they received six months of military training in the College Training Unit, a paramilitary organization, and could not graduate without a certificate of completion. Indeed, the regimental structure of the

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<sup>39</sup> 2012 Understanding North Korea

<sup>40</sup> Yoon, Sangwon. 2011. "North Korea recruits hackers at school." <http://www.aljazeera.com/indepth/features/2011/06/201162081543573839.html>. Accessed June 3, 2015

colleges themselves resembles that of the army.<sup>41</sup> It is important to note that both men and women were obligated to undergo this training and life there was equally structured, regardless of gender.

The tie between the military and citizens was strong, not just at the individual level, but with the family unit. Parents whose children were serving in the army were supposed to receive special benefits from the state, when such services are functioning, and through this, the government supposedly mobilizes grassroots support for the regime.<sup>42</sup> Even when not in active duty, a large percentage of the population were members of the People's Militia, which could provide ample reserves in the event of a war.

The intended effect of the omnipotence, generosity, and educational influence of the military was to turn the institution into an ideal role model for the citizens to emulate. Before the *songun* era, the party and its members were seen as the leaders of North Korea's socialist revolution, but under Kim Jong Il that honor shifted to the KPA. It took a holistic approach to shaping people's perceptions; the body, mind, and spirit were all oriented to trusting in the military's guidance. Official propaganda stated that the generation growing up under the military-first doctrine "should become the pioneer of the era and volunteer to build a strong and great nation" and "be prepared to be the heroes of guns and bombs and be ready to sacrifice themselves to protect the great

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<sup>41</sup> 2012 Understanding North Korea

<sup>42</sup> Park, 2007.

general's peace and power."<sup>43</sup> However, there were many times when this lofty rhetoric fell short of reality, and the relationship of the military and the citizens was not without discord. People increasingly complained that the military was aloof and arrogant towards the civilians.<sup>44</sup> When the military was subordinate to the party, soldiers were less able to take advantage of their position, and as the government failed to meet the needs of the people, corruption in the military increased alongside North Korean society as a whole. This caused the KPA to lose some of the charm it gleaned from its propaganda. However, military-first politics did not affect social development strictly through its direct relationships with people. Its message was also diffused through mass media and the arts.

According to the Ministry of Unification, the North Korean regime used the arts to achieve a number of specific goals: "to motivate people to participate in socialist revolution and construction, to legitimize its supreme leader and secure people's loyalty to him, and to obtain justification for national unification under North Korea's banner."<sup>45</sup> Art without an ideological message was seen as useless and discouraged by the government, and "military artists" were among the best in the country. While North Korean art had always been used to promote a political agenda, since the late 1990s, "military-first" art was one of the key themes promoted by the regime, and its impact was most prominent in North Korean literature, music, and cinema. These artistic and

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<sup>43</sup> Lim, 2007.

<sup>44</sup> Jung, Sung Im. 2004. "'Military-First Politics' and the Role of the Korean People's Army in North Korea." (bukhaneui 'songun jeongchi'wa guneui yeokhal) National Defence Research. Vol. 47, No. 1: 109-132.

<sup>45</sup> 2012 Understanding North Korea.

cultural applications of military-first politics were intended to motivate the people and inspire them to rally behind the policies of Kim Jong Il. By implanting the notion of soldiers as role models from a young age, the Kim regime sought to create a nation that valued the military establishment as the most crucial institution in their lives. However, this increase in responsibility did not come without a price, and if the education system and the arts promoted the positive values of the military, reality suggests that a large part of *songun* politics involved an increase in the military's control over the state security apparatus and more restrictions on the population. This has had a much more tangible and detrimental impact on the country's social development.

One of the root causes for the creation of the military-first politics was the need for Kim Jong Il to suppress unrest and discontent in the wake of the economy's collapse and famine in the mid-1990s. He largely succeeded in doing this by enhancing the military's role in social control. Since the early years of his rule, Kim Jong Il sent agents to universities, businesses, farms, and many other organizations to monitor for and punish "anti-socialist elements."<sup>46</sup> As the outflow of defectors increased from a handful to over a thousand per year, the military expanded its capacity as border guards and implemented measures to restrict the movement of people within the country. The implementation of national security laws was placed under the direct control of the military, rather than the party, and their surveillance capabilities were gradually expanded.

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<sup>46</sup> Ibid.

Overall, the impact of songun politics affected North Korean education, arts, and social control in a way that encouraged the people to see the military as the central institution in society. While promoting the image of the military as the savior, mentor, and benefactor of the citizens, increased surveillance and military-backed restrictions increased the potential for conflict between the KPA and civilians. These effects were detrimental to the country's social development. While propaganda claimed that the DPRK was on its way to becoming a "strong and prosperous country," thousands of defectors fled during the rule of Kim Jong Il, and his regime was responsible for many well-documented human rights abuses. If successful social development can be (arguably) defined as a strong rule of law, low corruption, and respect for human rights and freedoms, military-first politics retarded improvements in all of these areas, instead promoting an agenda that allowed the regime to use the military to maintain its grip over the population. Whatever counter culture did develop was largely the result of sporadically smuggled ideas and popular culture from abroad and has continued to be largely suppressed.

### **3. The Official Economy under "Military-First Politics"**

Since its inception, North Korea's economy has been directed by centralized planning from Pyongyang and has prioritized the military as one of the most important sectors. In the wake of the Korean War, this was seen as a necessary measure to counter the perceived existential threat of the U.S. military in South Korea. In the

1960s, North Korea built its economy into a military-industrial complex in which heavy and chemical industries were focused on creating munitions and arms for the military. Despite the emphasis placed on these industries, they were ultimately civilian-controlled, as the WPK maintained operational management of these projects.<sup>47</sup> There was a division between the civilian and military industries, and the military was given priority at the expense of the development of the civilian operations. During the Cold War, several Communist bloc countries sought to pursue both economic and military development simultaneously, but few countries dedicated so many national resources to the armed forces as North Korea. In the mid-1960s, as North Korea's two main benefactors, the Soviet Union and China, were embroiled in their own rivalry, Kim Il Sung sought to push for a two-pronged approach of military and economic development, the essence of which is still pursued today under Kim Jong Un's "*byungjin* line" policy. During the late sixties and early seventies, North Korean military spending rose to around 30 percent of GDP, though it later stabilized around 15 percent, with many experts believing that the actual number remained much higher.<sup>48</sup>

The result of this focus on defense was that North Korean heavy industries were given priority over other sectors. The WPK was placed in charge of the First Economic Committee, which focused on civilian projects, and the Second Economic Committee, handling military issues exclusively. Armaments and munitions output

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<sup>47</sup> Ibid.

<sup>48</sup> Ibid.

rose and “dual use” technologies were emphasized. The lack of the development of a consumer sector and some crucial light industries, coupled with the North’s refusal to open its markets to the world economy, created a “poverty trap” for civilians that has yet to be resolved.<sup>49</sup> Thus, when the economy slumped in the mid-nineties and aid from the Soviet Union and China dried up, the DPRK was ill prepared to develop their economy by legitimate means on their own.

With the advent of *songun*-inspired policies, the army’s interaction with the economy was transformed. The WPK’s influence faced a relative decline, while the military intervened more in non-military affairs, fundamentally changing the way the North Korean economy functioned. Although in absolute terms, military spending was far lower than that of other powers in the region, including South Korea, as a percent of GDP, North Korea is to this day the most militarized country on earth. Yet despite the obvious shortcomings of North Korea’s reliance on military spending and its dismal record on improving the country’s economic development, Kim Jong Il opted to strengthen the policy rather than abandon it and declared that the military should be given priority, even at the expense of greater economic well being. Through increased military spending, it was argued, the nation could stimulate other sectors and revive its economy on its own, in the spirit of *juche*. A report by the Korean Institute for National Unification called the last four years of Kim Il Sung’s government and the first four years of his son’s the “buffer period.” This referred to the reorganization of

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<sup>49</sup> Ibid.

development policies to fit the changing world order while Pyongyang simultaneously dealt with the North's economic crisis and food shortage.<sup>50</sup>

Even as living conditions deteriorated, allocation of resources to non-producing sectors remained constant, including the defense industry and projects like the construction of large-scale monuments to the Kim personality cult. Between 1990 and 1998, trade volume decreased from 4.17 billion USD to 1.44 billion USD and many of the country's factories ground to a halt.<sup>51</sup> Agriculture and light industry was, for a time, an important priority for the government, as people's basic necessities failed to be met. However, by 1998, with the influx of large-scale aid and the easing of the most extreme famine conditions, the leadership reverted to its old socialist dogma but with a new twist. In September 1998, a joint editorial in the *Rodong Sinmun* titled "Let us adhere to the line of building an independent national economy," stated, "we will in the future, too, adhere to the basic line of socialist economic construction, the keynote of which is to give priority to the development of heavy industry and develop light industry and agriculture simultaneously, in order to steadily increase the potential of our economic structure."<sup>52</sup> This "heavy industry" was primarily in reference to the defense industry, which would come to be the biggest money maker for the regime in the ensuing years. The failure of North Korea's economic development over this period was essentially the result of drained domestic resources reducing output and

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<sup>50</sup> Choi, Soo-Young. 2006. *A Study on the Structure of Industry in North Korea*. Seoul: Korea Institute for National Unification.

<sup>51</sup> Ibid.

<sup>52</sup> Ibid.

investment capacity with no foreign capital to supplement the losses.<sup>53</sup> The regime's diversion of crucial funds to maintain its own survival further weakened its ability to open up to the outside world. Also during this period, as people came to rely less on the government, an important change began to take place as a new, private economy took shape.

The rise of markets and private enterprise during the Kim Jong Il era has been written about by many scholars.<sup>54</sup> They played a central role in the lives of most North Koreans who were forced to find some way to make money after the PDS collapsed during the famine and subsequent years of economic stagnation meant that government-assigned jobs often didn't provide enough money to feed a family. It was often the women who were able to get away during the day and sell their wares, whatever they could scrounge, harvest, or sew, and these underground markets soon exploded in popularity. What started as simple gatherings, out of sight of the authorities, evolved during the 2000s to become a vast network of traders and entrepreneurs, securing anything from rice to computer parts from partners around the country and in China. While never formally sanctioned by the regime, the markets became such a prominent feature of life that eventually the leadership had to adjust for this new reality.

As Kim Jong Il realized he could no longer control the economy as completely as his father had, he sought to use this weakness to his advantage by allocating central

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<sup>53</sup> Ibid.

<sup>54</sup> Haggard, 2009.

government resources to a few key industries, including machine and metalwork, coal, electric power, and rail transportation, all of which were necessary to normalize defense output.<sup>55</sup> When announcing the newly formed government in 1998, Kim Jong Il proposed a “military-first economic development policy” that would achieve the dual goals of resuscitating the economy and building a “strong and powerful country” in which military needs would precede everything else. This contrasted with the rule of Kim Il Sung, in which discussions could take place on how to balance the military with other sectors. The new ideology stated that national defense would be placed first, even when other industries were in danger of collapsing. To justify this, the regime argued that defense was indispensable to maintaining social stability and that through the military, other industries would be reinvigorated.<sup>56</sup> Emphasis was placed on the “reckless nature of the U.S. imperialists” and the necessity of strong self-defense forces to ensure the very survival of the state.<sup>57</sup> Priority was given to science and technology fields that could produce more sophisticated arms, such as ballistic and nuclear weapons. Despite the fact that a large portion of the population was still suffering from chronic food shortages, the regime poured money into these projects, eventually succeeding in developing sophisticated weapons of mass destruction.

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<sup>55</sup> Lim, Kang-Taeg. 2012. “Study of the Status of North Korea's Official Economy for Estimation of Unification Costs/Benefits.” Korean Institute for National Unification. Accessed Aug. 8, 2015. <https://www.kinu.or.kr/upload/neoboard/DATA05/cb11-034.pdf>

Park, Hyeung-Jung. 2003. “North Korea’s Economic Policy in the Ear of ‘Military First’- Reform Measures in July and ‘Defense Industry First’ Strategy from September 2002.” *International Journal of Korean Unification Studies*. Vol.12, No. 1: 115-138.

<sup>56</sup> 2012 Understanding North Korea.

<sup>57</sup> Park, 2003.

During the first half of the 2000s, North Korea did show some signs of economic reform, following the summit with South Korean President Kim Dae Jung in 2000 and the July 1 Measures in 2002. Through these measures, prices and wages were raised, and productivity was emphasized over strict adherence to government quotas. Furthermore, opportunities for inter-Korean cooperation expanded via the Keumgang Mountain Tourist Region and Kaesong Industrial Complex. In reality, most of these measures, such as limited decentralization and the emergence of black markets, were the results of the country's centrally-planned economic structure's breakdown rather than serious attempts at reform.

In a 2001 lecture, Kim Jong Il stated, "We must develop military industry first and concentrate our power on electricity, coal mining, metal industry, railway and transportation, and last but not least, agriculture. Then, we can solve food shortage problems, recover our economy step by step, and induce a new upsurge in economic construction."<sup>58</sup> Priority from the state was given to the military, allowing other sectors to develop at the behest of private citizens. Crucially, the slogan had changed from "developing heavy industry first" to "developing military industry first." By 2004, trade reached 2.86 billion USD, twice that of 1998.<sup>59</sup> Figure 1 shows the total imports and exports for North Korea during the first decade of the century. In 2001, the influential New Year's editorial in the Rodong Sinmun stated "In the tightening of our strong economic power to the demands of a military-revolutionary era, our unflinching

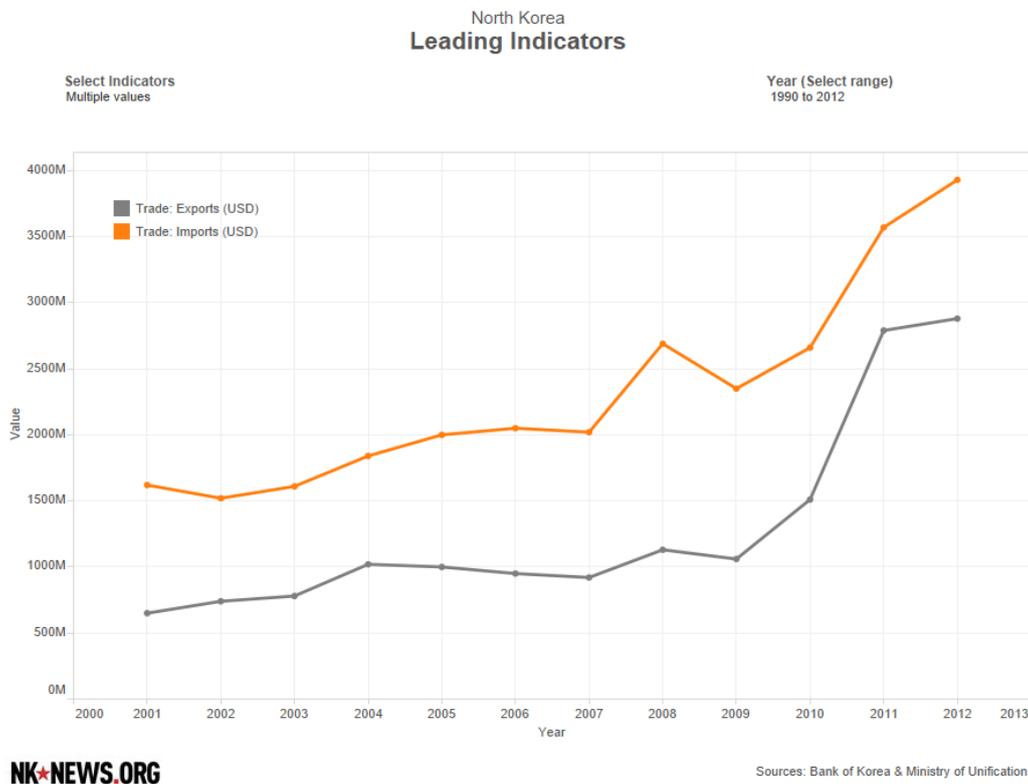
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<sup>58</sup> Ibid.

<sup>59</sup> Choi, 2006b.

military power and great politico-ideological potency must be based on strong economic power.”<sup>60</sup> However, by 2005, North Korea once again seemed to turn inwards and rolled back some of the reforms that had given some analysts hope for significant change in the preceding years. Analysts believed a power struggle between elements of the WPK and KPA took place, debating the “guns versus butter” issue, with the military emerging as the decisive economic force.<sup>61</sup>

**Figure 1: Total Export and Imports, 2001-2012 (USD millions)**



Source: <https://www.nknews.org/pro/north-korea-leading-indicators/>. Accessed April 30, 2016.

<sup>60</sup> Park, 2003.

<sup>61</sup> Gause, Ken E. 2006. “North Korean Civil-Military Trends: Military-First Politics to a Point.” *Strategic Studies Institute*, U.S. Army War College.

During a trip to southern China in 2006, Kim seemed impressed with the economic development he saw, stating that “during the course of our visit, we saw the brilliant achievements of China’s southern cities, especially the special economic zones, in all fields... This fully proves that China’s policy of reforms and opening up is correct.”<sup>62</sup> Yet in the era of military-first politics, increasingly diminishing returns meant that the party and military had to compete more intensely for scarce resources, and ultimately the military was able to prevent any fundamental policy changes, fearing that they would have the most to lose, should the country pursue Chinese style reform. Whether Kim Jong Il felt obligated to acquiesce to their demands, or was a proponent himself is unknown.

Throughout these changes, one constant was the emphasis placed on defense spending. While actual figures are difficult to obtain, it is estimated that between fifteen and thirty percent of GDP was spent on the military. Officially, the government maintained in 2003 that it allocated 15.4%, equivalent to approximately 1.6 billion US dollars, for defense to “develop the defense industry and improve the defense power of the nation in an environment of mounting tension caused by nuclear issues.”<sup>63</sup> It maintained a troop population of around 1.1 million, in a country of only 26 million, illustrating its pervasiveness. Yet this only represents the money and resources given to the military from the government. Most of the military’s resources come from

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<sup>62</sup> Ibid.

<sup>63</sup> Park, 2003.

independent cash generating schemes, using the military's vast manpower reserves and networks both within the country and abroad, all of which will subsequently be discussed in detail.

In short, North Korea's economic development under Kim Jong Il and the *songun* era can be characterized as decentralization with disproportionate allocation of resources to military industries. Centralized planning was reduced, with many light industries and agricultural sectors being allowed to pursue limited market-based policies. Political decisions regarding the economy were less the result of Cabinet plans as they were ad hoc analyses based on those close to Kim. Decisions to emphasize certain sectors were often skewed to favor those in power, and thus corruption became rampant. As rewards became scarce, there was less cohesion in the privileged class, specifically between party and military elite, and each vied for access to Kim to push through their specific agenda. As reforms early in the 2000s led to no great changes, North Korea switched from inter-Korean cooperation to closer ties with China, which the regime saw as a less destabilizing partner than its southern neighbor. Finally, because of its lack of resources, the central government demanded that local authorities become more self-reliant. The military has dramatically expanded its role under these circumstances, earning hard currency for the regime and developing into its own separate economy, pervasive in nearly all sectors. The remainder of this study will look at how this separate, "military economy" contributed to the North's economic development, both at home and abroad.

### **III. Military Economy**

Having provided a broad analysis of the role of the military in North Korean politics and society and describing the overall trends in the economy during this time, it is time to turn to the unique impact the military had on the country's economic development via the "military economy" or "second economy." The military economy can be defined as economic activities undertaken by the military that contribute to the production, distribution, and consumption of resources not provided by the state, as well as earning foreign currency and conducting international trade deals. As one report put it, "Soldiers dig clams and launch missiles, pick apples and build irrigation canals, market mushrooms and supervise the export of knockoff Nintendo games. They also guard the country's 3,000 cooperative farms, and help themselves to scarce food in a hungry country."<sup>64</sup> We have already documented how the regime funneled resources into military sectors, heavy industry, and dual use technologies. But one of the key aspects of "military-first politics" was to create self-sufficient armed forces that could earn the foreign currency they needed to fund their weapon development programs and keep their troops supplied and machines in working order. In addition to earning foreign currency, the military was tasked with helping complete domestic, labor intensive projects like construction and harvesting. They were an effective task force

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<sup>64</sup> Harden, 2009

because they essentially had to be paid nothing, and their years of training molded them into a relatively efficient workforce. However, as resources became scarcer, there was a steep rise in corruption and exploitation within the army that weakened the regime's ability to control the actions of its soldiers on a local level. All of these various means, from the ownership of massive trading companies to the selling of diverted food aid on the black market, can be counted as part of the military economy.

Some scholars believed this parallel economy accounted for up to seventy percent of the DPRK's domestic economic output.<sup>65</sup> The army is seen, not as a drain on resources, but as a potential money maker for the state and a means by which value can be added to the economy. Given the freedom to expand their "services," the KPA quickly took over projects once controlled by the party. Where they got their orders from is a matter of some dispute between scholars, and policy was likely to have evolved through the discussions of leaders closest to Kim Jong Il. Undoubtedly, the force controlling most of the major decisions in the military economy was the Second Economic Committee, followed by the National Defense Commission. The Second Economic Committee was made up of mostly civilian leaders in the party although there was often overlap between the two organizations.<sup>66</sup> It was tasked with allocating military resources and conducting military-led economic activities within the country. The NDC controlled the Ministry of People's Armed Forces, which oversaw many of the military businesses that earned foreign currency. The NDC's compartmentalization

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<sup>65</sup> DeRochie, 2011. Habib, 2011.

<sup>66</sup> Kwon, 2010.

from the party allowed it a degree of freedom to pursue its own agenda. Scholars argue that the military had historically been against economic reform and liberalization, claiming that it would harm the country's national security.<sup>67</sup> Their chance to control so much of the country's economic output meant they were less susceptible to other voices in the government that may have wanted to pursue a different agenda.

Analyzing such a complex economic apparatus is difficult, and there are no exact figures as to how much the military earned and the true extent of their dealings. But essentially there were four facets of the military economy. It is appropriate to classify in this way because it separates and clarifies their domestic schemes (labor and diversion) from their foreign currency-making methods (illicit activities and trading companies). First, the KPA was used as a labor force inside the country. They added value to the economy by providing essentially free labor on farms, in factories, and on public construction projects. Sometimes these businesses were owned and operated by the military; other times they were sent in as a contractor on projects that civilian workers were unable to complete. Second, a key piece of the military economy puzzle was the use of foreign aid and its diversion to both to elites in Pyongyang as well as to regular conscripts, many of whom faced difficult conditions and chronic shortage of food. This led to widespread corruption at all levels of the military and ensuing discipline problems as many soldiers have trouble coping with the myriad difficulties of military life. Third, internationally, the KPA has been accused of taking part in illicit money making schemes, ranging from counterfeiting cigarettes and currency to illegal

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<sup>67</sup> Grause, 2006.

arms deals and technology transfers to other nations. As sanctions have been strengthened, these activities came under international scrutiny, but not before providing the state with billions of dollars. Finally, the North Korean military was involved in running a number of trading companies and semi-legal operations that worked with international partners to provide foreign currency in exchange for Korean natural resources. This report will analyze each of these intertwining aspects separately in order to convey the true scope of the military economy.

## **1. Domestic Activities**

The list of domestic economic activities undertaken by the military is exhaustive. They ran distribution facilities, built roads, bridges, and houses, mined for minerals, and operated textile factories, chemical factories, power stations, railways, and fisheries. They were farmers and businessmen. And all of this was done by men in uniform. The rise of these activities was a result of many factors. Originally a result of *songun* politics, the military was forced to intervene in the economy to maintain order as the government-backed programs and state owned enterprises failed during the mid-90s. But it quickly became apparent to the officers in charge of these projects that there was money to be made in business, even with the necessary bribes to party officials. Compared to the measly salaries of a soldier or officer, operating a factory was a way to secure a relatively comfortable life. The resources produced by these military-run organizations added value to the regular economy by improving infrastructure and

producing necessary goods, as well as giving the military the means to sell the surplus supply to domestic or foreign consumers. Their activities were spread throughout the country, but most were focused in areas where there was a labor shortage, such as rural areas during the harvest season and along the Chinese border where there were more opportunities to trade and more potential consumers.

The military invested a large portion of its manpower on the most basic economic activity, farming. One farmer interviewed in North Korea stated that “it is the military that makes farming possible, as the soldiers come into the village to perform the complete range of farming tasks from toiling the soil to seeding, irrigating, and harvesting... The military not only protects the people’s lives from foreign hostility, but it also delivers food and services.”<sup>68</sup> Soldiers were placed on all 3,000 collective farms around the country to prevent farmers from hoarding the harvests in lean years, but even during relatively plentiful times, the military was still instructed to act as hired laborers, though often without compensation. Occasionally the military even operated the farms, as was the case in Hwangnam Yongyeon-gun, Pyeongnam Hwoechang-gun, and Gangwon-do Goseong-gun as well as at the Daeheung Dangun Collective Farm and Potae Collective Farm.<sup>69</sup> The exact number of soldiers who worked on farms at any given time is unknown. However, based on numerous

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<sup>68</sup> Park, 2007.

<sup>69</sup> Baek Seung-ju. 2001. “The Role of the Military and Change of Status under Military-First Politics.” (songun jeongchiha bukhangun yeokhalkwa uisang byunhwa). *National Defense Policy Research*. Winter: 129-151.

Jo, Joon Rae. 2003. “‘Military First Politics’ and North Korean Military Influence.” (“songun jeongchi”wa bukhan gunbueui yeonghyangryok) *National Defense Policy Research*. Summer: 77-109.

testimonies of defectors, as well as eyewitness reports from foreign workers in North Korea, it is possible to assume that many, if not most North Korean soldiers did some sort of farming during their service. For the military economy, this activity was important, as it kept the KPA in control of the food supply that was so important in this country of such low food security. As late as 2011, reports claimed that KPA soldiers were able to “buy” vacation time if they provided their unit with 100kg of corn.<sup>70</sup>

When they weren't farming, soldiers were often tasked with completing large scale construction projects, many of them operated by KPA officials or bureaucrats selected from the military. The Pyongyang- Nampo expressway, begun in 1998, is one example, and throughout the country, whenever the government had the means and necessity to rebuild infrastructure or develop neighborhoods in the capital, the military was called in to do the job.<sup>71</sup> In 2011, in order to prepare for celebrations marking the 100<sup>th</sup> anniversary of Kim Il Sung's birth, Kim Jong Il placed the army in charge of construction in Pyongyang. Not only were military officers placed in charge and common soldiers responsible for daily construction, but civilians were also conscripted to work with the soldiers in work groups based on military structures.

Other value adding schemes for the military within the country included the operation of several factories, power plants, and ports. Examples of these included the Linglou Island 888 Cigarette Factory, Dongyang Cigarette Factory, Seonbong Thermoelectric Power Plant, Seonbong Port, and the Kim Chaek Iron and Steel

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<sup>70</sup> Park, Jun Hyeong and Lee, Seok Young. 2011. “Offer 100kg Corn, Get 15-Day Vacation.” Daily NK. <http://www.dailynk.com/english/read.php?cataId=nk01500&num=7577>. Accessed January 15, 2016.

<sup>71</sup> Jo, 2003.

Complex, to name but a few.<sup>72</sup> The latter was tasked with producing ‘*juche* steel’ and was seen as a symbol of North Korean heavy industry, but in 2011, reports found that it was struggling to stay in operation with chronic material and energy shortages forcing it to work well below capacity.<sup>73</sup>

Many other businesses that weren’t directly owned or operated by the military were used to produce weapons or the materials necessary for their construction. These kind of dual use factories are notoriously difficult to track due to the closed nature of the regime. One relatively well known example of such a factory was the Namheung Youth Chemical Complex in the city of Anju. Built in the 1970s, it was renovated and expanded in the 2000s with the official purpose of developing fertilizers and other chemicals related to agriculture, yet it was verified by multiple governments to have been instrumental in the nation’s chemical weapons program.<sup>74</sup> The presence of ethylene oxide and other chemicals used in the production of weapons signaled the probable production of blister agents, such as mustard gas. The facilities were large enough to produce up to 550,000 tons of chemicals per annum and 20,000 tons of synthetic fibers and resins. The facility was subordinate to the Ministry of Chemical

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<sup>72</sup> Greitens, 2014. Baek, 2001.

<sup>73</sup> Im, Jeong Jin. 2011. “‘Model’ Kim Chaek Complex in Dire Straits.” Daily NK. <http://www.dailynk.com/english/read.php?cataId=nk01500&num=7311>. Accessed January 15, 2016.

<sup>74</sup> Bermudez Jr., Joseph S. 2014. “North Korea’s Namhung Youth Chemical Complex: Seven Years of Construction Pays Off .” <http://38north.org/2014/04/jbermudez041014/>. Accessed February 9, 2016.

Industry for civilian production and the Second Economic Committee for chemical weapons production.<sup>75</sup>

Another such case was the Pyongyang Bio-technical Institute, under the supervision of the KPA's Unit 810, which also ran the Sinchang Fish Farm and a number of other ventures. The institute was officially tasked with manufacturing pesticides, but experts have analyzed the materials used at the factory and have concluded that the dual use technology present could have allowed the army to produce biological weapons like anthrax. Given their interest in biological weapons in the past, it was likely that the military used the facilities to advance their weapons program.<sup>76</sup>

There were dozens of other facilities operated by the military that defectors have claimed produced chemical or biological weapons, as well as missiles and missile components, whether in a dual use factory or on their own. One of the biggest known examples was the sprawling Factory No. 26, located in the city of Kanggye, where missiles and other various arms were produced by anywhere from ten and twenty thousand employees in its heyday.<sup>77</sup> Other examples include the Institute No. 398, Factory No. 279, Factory No. 108, Factory No. 102, Factory No. 38, and the January 18th Machine Company, to name but a few. However, most of the information about these sites comes from defector testimony that cannot be independently verified, thus it

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<sup>75</sup> Nuclear Threat Initiative. "NAMHŪNG Youth Chemical Complex." <http://www.nti.org/facilities/609/>. Accessed March 1, 2016.

<sup>76</sup> Hanham, Melissa. 2015. "Kim Jong Un Tours Pesticide Facility Capable of Producing Biological Weapons: A 38 North Special Report." <http://38north.org/2015/07/mhanham070915/>. Accessed March 1, 2016.

<sup>77</sup> Nuclear Threat Initiative. "No. 26 Factory." <http://www.nti.org/facilities/266/>. Accessed March 1, 2016.

is difficult to know exactly what went on in these places. Furthermore, it is difficult to quantify the extent to which the KPA or other military organizations controlled businesses in the DPRK. This is true for many obvious reasons regarding the reclusive nature of the regime, not least of which was that many companies changed their names when new leadership took over or when trying to skirt international sanctions.

Through all of these means, the military economy exerted a widespread domestic influence. From farming to infrastructure construction projects to operating various kinds of facilities throughout the country, the military could use these ventures to operate a self-sufficient organization, fatten the pockets of key individuals, and add value to the official economy without direct control from the leadership. There were still shortcomings, however, and whatever necessities could not be covered by their business ventures were made up through the army's diversion of international humanitarian aid and the institutional corruption it caused.

## **2. Diversion and Corruption**

During the Kim Jong Il era, the diversion of aid by the military was one of the most controversial aspects of the international aid regime in North Korea. Domestically, military diversion of resources was both the symptom and the effect of chronic corruption within the military, spurred on by persistent lack of basic supplies provided by the central government. This had numerous negative impacts on society, from creating tension between soldiers and farmers to causing fluctuations in the price of

staple foods in the black market. Internationally, diversion to the military was one of the primary causes of “donor fatigue” in which international donors became less willing to provide aid to the DPRK, believing that the goods would not go to the most vulnerable, but rather to the military elite, thus inadvertently helping to prop up the North’s belligerent nuclear weapon and missile programs.

Despite the preferential treatment of the military under Kim Jong Il and its income generated by their aforementioned money making ventures, severe problems persisted for the KPA. Early on, the military was wholly reliant on food distributed by the government, and as the Public Distribution System (PDS) broke down, the military, like the civilian population, had to look for other means to feed itself. When large scale aid eventually began to flow into the country, the military was in the best position to control this new inflow of resources and, when possible, siphon this aid for their own use. Diversion of aid was critical to helping boost the military economy and the military’s control over the populace. Not only did they have the logistical capabilities to secure the aid, their priority access meant that they wielded a great deal of power if they decided to resell the aid in the markets or distribute it to selected groups. Diverted energy supplies also helped keep military-run factories in operation, while the rest of the economy decayed.<sup>78</sup> During the mid to late 1990s, the most arduous period in modern North Korean history, the food shortage enabled those with power to exploit the situation as never before.

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<sup>78</sup> Habib, 2011.

But “diversion” is difficult to define in the North Korean context because it was not just the military that was guilty of this- ordinary citizens had their own motivations for taking more than their share of food aid, whether it was to sell on the black market, share with their friends and family, or save for when times became difficult. It is also important to remember that a large proportion of families in the North have at least one member serving in the military. At times, it is possible that some North Korean people may have sympathized with individual soldiers taking food for themselves, seeing them more as hungry conscripts rather than pillagers. Also, the donors’ notion of who was most deserving of aid was often not shared by the regime. The international community’s concern for feeding the most vulnerable and those at risk of debilitating health problems due to malnutrition were at odds with the regime’s primary task of maintaining political stability and limiting outside influence.<sup>79</sup> Furthermore, not all of the diverted aid, perhaps not even most of the diverted aid, went to the corrupt elite in Pyongyang. Aid taken by the military was often reported to be resold in the area where it was taken from, thus benefiting both the military, who earns money, and the people, at least those with the means to purchase it. Tracing exactly where diverted aid went is difficult, as it transverses the poorly understood underworld of North Korean black markets and distribution points. As Haggard and Noland state, “Diverted aid does not vanish into the ether; someone consumes it.”<sup>80</sup> But following the trail from port to plate requires either on-site inspections or detailed accounting

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<sup>79</sup> Haggard and Noland, 2009.

<sup>80</sup> Ibid.

procedures, both of which are lacking in the isolated country. To begin to analyze this phenomenon, it is important to start with who is in control and how diversion is carried out.

Haggard and Noland separate diversion into two categories: centralized and decentralized.<sup>81</sup> This dichotomy itself implies a lack of control by the government over exactly what happened to incoming aid. Centralized diversion was that which the central government ordered to take place through explicit policy or an implicit understanding that certain resources went to the state- a form of official corruption in which the state uses its authority to take resources away from the citizens for its own use. Decentralized diversion was that which is not directly sanctioned by the government, but may have been the means employed by local party officials, military commanders, or even individual soldiers to siphon resources for their own use. This decentralized diversion is a symptom of the corruption that became rampant in the years following the famine. From donors' perspectives, both types represented a fundamental failure of aid to reach the intended recipients, but it was the government-backed diversion that was most often portrayed in the West as the reason why aid should be curtailed.

Most food aid took the form of wheat and biscuits that provided basic nutrients but weren't necessarily the most desirable food available, as North Koreans preferred rice as their staple food. Before the military had the need to take foreign foodstuffs, they were already privy to a large cut of the country's domestic harvest, much of which

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<sup>81</sup> Ibid.

was rice. Thus, in a sense, diversion to the military began even before the first international aid shipments arrived as an institutionalized practice of their centrally directed economy. Foreign aid donors quickly realized that rice had a greater chance of being seized by the state or military, thus they changed what they sent. The entity behind much of this centralized diversion was Department No. 2 of the Central Committee of the Workers Party of Korea. According to a UN report, this department orchestrated subversive schemes to obtain the donated food after international monitors left.<sup>82</sup> The report describes how people were told to receive the food, but not eat it. When international observers were gone, the military would come in and exchange 20 kilogram bags of rice for one kilogram bags of corn. The government justified this by claiming the food was necessary to maintain the military and thus the defense of the country. Many people complied because, once again, they had family members serving in the army. Another eyewitness account in the report stated:

*From 1996 to 1998, a lot of aid (food and fertilizer) came into the country via the Nampo port. From my house, I could see cars line up to collect the aid goods, usually marked with USAID and ROK labels. Military personnel would put on civilian clothes and paint over their vehicles' military number plates, so that they did not look like the military and could get the food. Military officers sold the rice and supplies to the black market in order to buy alcohol and*

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<sup>82</sup> United Nations Commission on Human Rights. 2014. "Report of the detailed findings of the commission of inquiry on human rights in the Democratic People's Republic of Korea." <http://www.ohchr.org/EN/HRBodies/HRC/CoIDPRK/Pages/ReportoftheCommissionofInquiryDPRK.aspx>. Accessed September 8, 2015.

*cigarettes. They also came to our house and insisted we buy these items from them.*<sup>83</sup>

While it is uncertain if this testimony is representative of widespread behavior at the time, it does reflect the length to which the military was ordered to directly intervene in aid deliveries. This account describes North Korea at the height of the famine in 1996-1998. As time went on, international donors became more wary of who they distributed to and how they monitored shipments, but the military also used their growing clout to reroute aid more efficiently, without the need for such deception. However, while centralized diversion of foreign aid did occur, there is reason to believe it was not as widespread as once thought. As the testimony above implies, orders from the government to seize aid were often followed by a “decentralized” attempt to use that aid to the greatest benefit of the soldiers directly involved.

During the famine and into the 21<sup>st</sup> century, decentralized diversion occurred at nearly every level of the military. For many soldiers, the choice to “divert” or steal food from farms was spurred on by pure hunger. Common soldiers were documented as being chronically malnourished, with their units unable to provide adequate calories to the masses of low-level recruits. Forced to serve for several years, often in harsh conditions, these young men were sometimes forced to forage or steal just to maintain the ability to keep working. What this says about their ability to fight, should a war break out, is grounds for further study and could be one reason why the regime was so reluctant to share information about the extent of its food shortage. Occasionally

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<sup>83</sup> Ibid.

officers would steal from their own soldiers, a practice that Kim Jong Il himself spoke out against in 2004. He claimed that “there are many cases in which officers in units ranked lower than the battalions play the role of ‘little king’ and take soldiers’ food supplies. The Korean People’s Army must take control so that officers in the units ranked lower than the battalions do not, under any circumstances, lay their hands on the food supplies meant for the soldiers.”<sup>84</sup>

One often cited case of soldiers interfering in agricultural work is the “corn guards”- soldiers placed on collective farms during the famine to make sure farmers were sending the proper amount to the state without siphoning anything off for themselves.<sup>85</sup> As late as 2009, a Washington Post article, quoting a specialist on North Korean agriculture, stated that soldiers were placed at all 3,000 collective farms in the country.<sup>86</sup> This idea backfired, however, because the guards themselves were often so underfed that they were easily bribed with food by the farmers, who then were able to sell their surplus on the black market without fear of reprisal. The same article describes how this pattern of corruption and deception lead to arguments between soldiers and between the army and civilians, which occasionally turned violent.

The UN Human Rights Commission Report on North Korea is unequivocal in their claim that decentralized diversion of aid by the military took place on a variety of levels. The report quotes dozens of defectors, some of them former soldiers, who describe the means by which the military systematically took food from villages, both

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<sup>84</sup> Lee, Kyo Duk, and Chung, Kyu Sup. 2012. *Study of Disciplinary Problems in the North Korean Army*. Seoul: Korea Institute for National Unification.

<sup>85</sup> Haggard, 2009.

<sup>86</sup> Harden, 2009.

donated aid and harvested crops. This practice was not limited to the famine or other particularly lean years, but continued throughout the Kim Jong Il years, with defectors claiming that they are still required to give a large portion of their harvests to local military units. Many of these defectors claimed they had not seen any humanitarian aid, though this is almost certainly contingent on their location, for despite increasing access and better monitoring procedures, international agencies were barred from entering certain provinces. It is also possible that some people were beneficiaries of aid without knowing, with the resources having been dispersed through intermediaries in the black market. Taken as a whole, however, these testimonies describe a process of abuse of the population by the military that threatened their food security and overall wellbeing.

Military abuse of the populace was one side effect of aid diversion that has been reported since the famine.<sup>87</sup> With the inception of “military-first politics” the military’s elevated socioeconomic status gave them greater leverage over ordinary citizens who had little or no recourse to settle disputes between themselves and military officials. Examples of abuse did not only involve taking aid by force or the threat of force. Under “military-first politics,” the army’s direct involvement in a variety of economic projects in the country brought them into greater contact with ordinary citizens on a daily basis. Bribery, unwarranted imprisonment, and physical abuse were widely reported. As with many of the problems North Korea faces, the severity is dependent on the part of the country. According to one study, civilians near

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<sup>87</sup> Lee, 2012.

the Yalu River at the border with China reported the highest amount of abuse, with the military extorting bribes and taking supplies of people crossing the border.<sup>88</sup> As resources continued to flood into the country from China, corruption of the border guards increased. The same power the military gained to divert resources also meant that the other government organs responsible for controlling the military's excesses were rendered less effective, thus allowing this rampant corruption to go largely unpunished.

The exploitation of the civilian population was just one symptom of widespread discipline problems in the KPA. Many of the discipline problems stemmed from a lack of a steady food supply. Driven by hunger and the difficult conditions of their long service, soldiers were more likely to act out. In addition to the abuse described above, these types of actions included excessive consumption of alcohol, leaking secret information, assault, and desertion. Interestingly, decentralized diversion also involved the misappropriation and misuse of military resources, as soldiers could use military food or energy supplies for their own ends. The regime was aware of this problem and even published *Study Materials for Psychological Training (For Soldiers and Officers)* that highlighted some of the problems.

“Apparently, there are some soldiers who profligately deal military goods, taking food and clothing from the military into society to exchange with other goods. If this tendency within the People’s Army is not immediately rectified,

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<sup>88</sup> Ibid.

the soldiers' problems cannot be resolved and will ultimately lead to even heavier burdens on the State.

By thoroughly carrying out the ideological education project that will teach soldiers to value and save military goods, we can prevent such misconduct from ever happening again, which include the exchange or selling of the blankets or clothing provided by the State in the farmers' market.”<sup>89</sup>

This behavior increased in difficult times, such as during the 2009 currency reforms, when inflation made it harder to extort money and resources from the population directly.<sup>90</sup> It was also directly related to the extremely long service requirements of up to ten years, with many conscripts looking forward to their discharge two or three years in advance, which also lead to detrimental behavior. To understand the diversion of humanitarian aid and its greater role in the military economy, it is necessary to see the military's actions in this wider social context. While the KPA was championed by the government as the embodiment and savior of the state, in reality, it was full of men of different generations, struggling to get by in often harsh circumstances. With precious few resources reaching the common soldier from the government allotment, many units had to work hard to maintain their self-sufficiency. Unfortunately for the populace, this often means the military would steal food and divert aid either for their own consumption or for resale. In desperate times, chronic

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<sup>89</sup> Ibid.

<sup>90</sup> Ibid.

lack of food and comfort pushed men to act out, sometimes in violent ways, with further repercussions for society.

Understanding the extent of this diversion is a contentious point, as the following sources indicate (emphasis added):

- In 2012, we were told that we could keep **90 per cent of the harvest**. ... But when it was harvest time, the military came and took everything.<sup>91</sup>
- A former high level DPRK official estimated that **80 per cent of the food** was taken back after the international monitoring took place.<sup>92</sup>
- One person who used to work as coal miner stated that during the harvest season they received an order from the Party to give **70 per cent of their total harvest** to the military.<sup>93</sup>
- Taken together, this evidence suggests that the magnitude of diversion is probably large, perhaps **30 percent or more of total aid**.<sup>94</sup>
- In the far north, where food supplies are historically lean, the military takes **a quarter of total grain production**, Kwon said. In other areas of the country, he said, it takes **5 to 7 percent**.<sup>95</sup>
- WFP officials and other experts said they have **seen little to no evidence that the military is systematically diverting U.N. food donations**, and further,

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<sup>91</sup> United Nations, 2014.

<sup>92</sup> Ibid.

<sup>93</sup> Ibid.

<sup>94</sup> Haggard and Noland, 2009.

<sup>95</sup> Harden, 2009.

that the North Korean military has no need for WFP food, since it receives the first cut of North Korea's national harvest.<sup>96</sup>

These sources account for both food produced in the country as well as international aid donations. The difficulty of accurately analyzing the situation is apparent, and it is impossible to obtain an exact number with perfect certainty. International monitoring groups were unable to guarantee what happened to donated aid after they left the area. Defectors may have conflated figures, intentionally or not, based on their own subjective memories, often several years after fleeing the country. Statistics from this time were not published by the regime, and since most of this diversion took place without official sanctioning, it was impossible to monitor. What we can conclude, however, is that some diversion must have taken place merely due to the fact that the military was somehow able to feed its vast army during the lean years. Simply taking the bulk of the harvests would not have been enough, and the large body of defector testimonies means that at least the general scope of their accusations can be verified. As Haggard and Noland write, "Adherence to an alternative story- that the diversion of aid is absent or minor- contradicts both our understanding of human behavior and a variety of evidence: it demands a willful suspension of disbelief."<sup>97</sup> There were simply too many incentives for diversion to have been a myth altogether. Aid donated through the World Food Program (WFP) and other UN backed agencies with stricter oversight were almost certainly diverted less than aid from China and

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<sup>96</sup> Manyin, Mark E. and Nikitin, Mary Beth D. 2014. "Foreign Assistance to North Korea." *Congressional Research Service*.

<sup>97</sup> Haggard and Noland, 2009.

South Korea, which came with few strings attached. The North Korean regime preferred this kind of assistance, and the military consistently pushed for fewer monitoring procedures.<sup>98</sup> Under the cover of claiming that international observers sacrificed national security, the KPA sought greater control over international aid shipments, but ultimately the regime was forced to accept some freedom of movement for international donor groups, especially as aid from South Korea dried up.

Diversion of humanitarian aid and other resources was an important part of the “military economy.” While the KPA and the political elite had access to the first take of the annual harvest, humanitarian aid helped make up for shortfalls during hard times and were a way for local units to make money by selling the goods on the black market. However, this did not mean that diverted aid was directly responsible for maintaining North Korea’s more politically contentious military programs like nuclear weapons and ballistic missile development. If anything, problems caused by corruption, of which diversion is a prime example, weakened the KPA’s capabilities by fostering illicit behavior and lack of discipline. It weakened the bond between the people and the military, despite the “military-first” doctrine espoused by the regime. Diversion can go by many names- theft, misappropriation, misallocation, etc. - and is a coping mechanism of those in positions of power who have great incentives to improve their living conditions. It was a widespread phenomenon in North Korea but much more acute in the poorer provinces and areas close to the Chinese border. It was not just done by the military, nor was it only humanitarian aid. Ordinary citizens could divert

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<sup>98</sup> McEachern, 2010.

their own crops towards illicit markets rather than give them to the state. Local soldiers may have turned their heads at such behavior in exchange for a cut of the profits. The result of all this was not just Pyongyang elites getting fat while the population starved- many ordinary citizens and low level soldiers did benefit. However, the aid that donors intended to go to those most vulnerable- the people who can't afford to shop in the markets, children, the elderly, etc.- did not have access to aid and thus chronic malnutrition persisted for much of the country.

Under “military-first politics” the military economy exploded in importance and the diversion of resources was an important tool for the KPA to maintain its self sufficiency and control the population, even as they were compelled by their own difficult conditions to take part in the illicit markets that have reshaped North Korean economic development. But despite the evidence that diversion of aid was a fact of life in the DPRK, one should be careful not to overstate its prevalence. The majority of foreign aid did reach those who needed it as monitoring efforts increased and large scale shipments from China and South Korea dwindled. But while the diversion of aid and military domestic labor projects are all important aspects of the military economy, they don't fulfill the biggest task of the military- earning foreign currency. For this, the military apparatus, with the backing of the regime, undertook a number of schemes to bring in money that the cash strapped country desperately needed. Many of these activities were legally conspicuous, while others were outright criminal. The next section will look at the illicit means by which the military earned foreign currency.

### **3. Illicit activities**

The DPRK's illicit activities were widespread and complex during the Kim Jong Il period. Due to the immense importance the regime placed on acquiring foreign currency, it is not surprising that the military was not the only group to undertake such activities. State run trading companies and even diplomats working at overseas embassies were accused of pursuing various illicit means to secure hard currency for the regime. Yet the military, due to its vast resources and overseas networks, played an important role. These covert actions could range from one individual smuggling a briefcase full of untaxed alcohol through customs to massive arms deals worth millions of dollars. There was production and export of counterfeit cigarettes. There was a widespread effort to manufacture and export illicit substances including marijuana, opium, and methamphetamines. North Korean entities were also found to produce and distribute sophisticated counterfeit US dollar bills. There were instances of multi-million dollar insurance scams. And not only did the regime sell arms to whoever gave the right price, there was also well documented transfers of weapons technology, including possible nuclear secrets, to regimes hostile to the West like Syria and Iran.

The responsibility for authorizing and controlling these criminal activities ultimately resided with the Party, despite the wide array of actors involved. That the regime had institutionalized such illegal measures as part of their economic policy to such a wide degree set them apart from other countries in the world. The entity behind

these measures was the infamous Office 39, a part of the WPK Central Committee.<sup>99</sup> Office 39 was in charge of securing the personal funds of the Kim family via illicit money making schemes abroad. It was formed in the 1970s, and placed under the direct command of Kim Jong Il early in his career. It was one of the first branches of the government over which Kim exercised control. They used their connections throughout all of North Korea's diplomatic, military, and economic branches to conduct illicit activities that spanned the globe. This gave them an advantage in resources and an illusion of legitimacy that other international criminal organizations could not match. A Wall Street Journal report in 2003 found that Office 39 had generated up to \$5 billion dollars for the regime.<sup>100</sup> Doing business illegally has other advantages, too. Over the years, North Korea, and the military in particular, developed strong ties with criminal groups like the Japanese yakuza and similar organizations throughout Asia and beyond. Using those groups' leverage in other countries allowed the North Korean regime to receive assistance with the transportation and proliferation of their products.

According to several reports, North Korea consistently ran a current account deficit, meaning that imports exceeded exports for the entire *songun* era.<sup>101</sup> Imports were primarily in the form of energy resources, with South Korea and then China

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<sup>99</sup> Kan, Paul Rexton, Bechtol, and Collins. 2010. "Criminal Sovereignty: Understanding North Korea's Illicit International Activities." *Strategic Studies Institute*, U.S. Army War College. Greitens, 2014.

<sup>100</sup> Kan, Bechtol, and Collins, 2010.

<sup>101</sup> Haggard, Stephan and Noland, Marcus. 2010. "Sanctioning North Korea: The Political Economy of Denuclearization and Proliferation." *Asian Survey*. Vol. 50, No. 3: 539-568.

helping to prop up their failing power infrastructure. Official figures claimed that textiles, animal products, and later, minerals made up the bulk of North Korea's exports but the unreported exports of the second economy were far greater earners for the regime. Table 2 presents a limited view of some of North Korea's illicit earnings from 2000-2008.

**Table 2: Illicit earnings (unit: million US\$)**

<u>Item</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Drugs	50	45	40	25	20	17.5	17.5	10	10
Counterfeit Currency	4	4	4	4	4	4	4	1	1
Arms	-7.7*	61.7	203.1	159.9	43.8	115.9	54.9	41.1	39.7
Etc.	1	1.2	4.2	4.3	4.5	4.6	4.7	4.9	5.0
<b>Total</b>	<b>47.3</b>	<b>111</b>	<b>251</b>	<b>193</b>	<b>72.3</b>	<b>142</b>	<b>81.1</b>	<b>57</b>	<b>55.7</b>

**Source:** Yu, Yong Won, Sheen, and Kim. 2013. *North Korea Military Secret Report*. (bukhangun secret report) Seoul: Planet Media. (\*imports exceeded exports)

Of course, these figures must be taken with some degree of skepticism, as their very nature implies that statistics were not carefully recorded. The use of 'mirror statistics' is also marginally helpful in this case, for many of the countries that were involved in these activities, such as Iran, also didn't publish such figures. As unwilling as the central government was to officially embrace market concepts like comparative advantage, in the military economy, these concepts determined how much they could export and to whom. This was a key feature of the illicit military run programs to earn

foreign currency in the Kim Jong Il era. It was a way, albeit an illegal and ultimately unsustainable way, for them to become acquainted with the post-Cold War economic system.

Before the Cold War ended, however, the North had already committed well documented crimes. One of their earliest forays into the criminal world was in with drug trafficking. In 1977, for example, Venezuela expelled all of North Korea's diplomats on trafficking charges.<sup>102</sup> During this time, the drug of choice was opium, but with the onset of military first politics, the regime added methamphetamine to their repertoire as well. As their program expanded, the military became more involved, for with their great resources, they could traffic the drugs at much greater volume. Office 39 was able to use the military's resources, as well as diplomats' access to markets and state-run factories' money laundering schemes to organize a relatively efficient business model. Domestically, the military and security forces were in charge of guarding the state-run factories where the drugs were produced, many of which were located in Hamhung and Chongjin, the most well known of them being the Hamhung Pharmaceutical Plant.<sup>103</sup> When the drugs were ready to be shipped overseas, the military, under the guidance of Office 39, used their resources in conjunction with commercial and diplomatic entities. In 2001, a North Korean naval vessel operated by North Korean special forces was sunk by the Japanese Coast Guard in Japanese

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<sup>102</sup> Greitens, 2014.

<sup>103</sup> Ibid.

territorial waters.<sup>104</sup> Japanese authorities concluded that the North Korean ship was there in order to transact a narcotics drop to yakuza members. In 2002 a Taiwanese fishing trawler was detained in Taiwanese waters and was found to contain 174 pounds of heroin it had obtained from a North Korean military gunboat.<sup>105</sup> Australian authorities in 2003 seized 125 kilograms of heroin from a North Korean vessel in its waters.<sup>106</sup> Funds from drug trafficking were estimated to be \$71 million annually by a US CRS report in 2007, although it is likely that this number declined during the 2000s as surveillance became more sophisticated.<sup>107</sup>

The military often did not need go so far from home to assist in the trafficking of narcotics. According to one defector, “Military units on the North Korean border are involved in drug smuggling with cadres. Without help from the military units, drug smuggling is impossible. My brother-in-law is a Chinese policeman. He said to be careful of drugs. They say tons of drugs are smuggled by North Korean military units.”<sup>108</sup> One side effect of this easy access to hard drugs is that many North Koreans themselves have become addicted, in particular to methamphetamine, known colloquially as “bingdu.” Reports and defector interviews have revealed that domestic consumption of the drug increased to “epidemic” proportions in some parts of the country during the 2000s, with the military said to be tasked with distribution.

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<sup>104</sup> Kan, Bechtol, and Collins, 2010.

<sup>105</sup> Ibid.

<sup>106</sup> International Crisis Group. 2005. “North Korea: Can the Iron Fist Accept the Invisible Hand?” *Crisis Group Asia Report*. No. 96.

<sup>107</sup> Haggard, Stephan and Noland, Marcus. 2007. “North Korea’s External Economic Relations.” *Peterson Institute for International Economics Working Paper Series*. WP 07-7.

<sup>108</sup> Greitens, 2014.

During this time, North Korea was also involved in the production and distribution of fake cigarettes. According to a US Congressional Research Service report, more than 100,000 packets of fake cigarettes were seized in Taiwan, the Philippines, Vietnam, and Belize, and a report by tobacco giant Philip Morris uncovered fake Marlboro cigarettes manufactured in North Korea in over 1,300 places worldwide. Overall, this earned the regime profits ranging from \$80 million to \$160 million.<sup>109</sup> The military played a role in this as well. Reports determined there were at least 10-12 cigarette-producing plants in operation, and at least two of them were owned and operated by the military or “internal security services,” including the Linglou Island 888 Cigarette Factory and the Dongyang Cigarette Factory.<sup>110</sup>

Another branch of North Korea’s illicit activities was their long term production of counterfeit US hundred dollar bills. Dubbed “Supernotes” for their high level of sophistication and detection difficulties, the bills were in production at least since 1989 and were continuing to be confiscated well into the *songun* era. In March 2005, for example, some of these counterfeit \$100 “Supernotes” were discovered on a North Korean cargo ship stopping at a port in Japan.<sup>111</sup> Haggard and Noland estimated that this could have earned the regime up to \$1.25 million annually, though these numbers are hard to verify.<sup>112</sup> As one US government researcher put it, “We have no idea how much they’re counterfeiting, because it’s so good.”<sup>113</sup> The military’s role in

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<sup>109</sup> Yu, Sheen, and Kim, 2013.

<sup>110</sup> Greitens, 2014.

<sup>111</sup> International Crisis Group, 2005.

<sup>112</sup> Haggard and Noland, 2007.

<sup>113</sup> Greitens, 2014.

this counterfeiting scheme is difficult to know. However, there was one printing facility located in Pyongannam-do called Printing Office 62, operating under Office 39, that was directed by the KPA's Reconnaissance Bureau.<sup>114</sup>

All of these ventures paled in comparison to the military economy's biggest money maker, illicit arms sales. Military-run companies produced small arms, artillery systems, rocket propelled grenades, light tanks, and other conventional weapons for sales overseas, as well as orchestrated transfers in missile components and technology. Starting in the 1980s, North Korea exported a variety of short range ballistic missiles and conventional weapons to both governments and terrorist organizations, including selling to both sides during the Iran-Iraq War.<sup>115</sup> During the Kim Jong Il era, more focus was placed on conventional arms, and especially as sanctions dug in following their nuclear and ballistic missile tests, it became harder for the regime to export weapons on a large scale. Exact numbers are, again, difficult to know for sure, and estimates must be read with caution, such as that of a US official who claimed that North Korea received approximately \$560 million from their arm sales in 2001, nearly equivalent to the \$650 million of their entire civilian economy.<sup>116</sup> It is more likely that they received anywhere from the high tens of millions to low hundred millions of dollars for weapon exports during this time. The proceeds from these sales are difficult to track, but defectors including former Kim Il-sung University professor Cho Myung-Chul have testified that money earned from both weapons sales and drug trafficking go

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<sup>114</sup> Yu, Sheen, and Kim, 2013.

<sup>115</sup> Ibid.

<sup>116</sup> Haggard and Noland, 2007.

straight to the military.<sup>117</sup> The majority of their sales went to countries in the Middle East and Africa, including a January 2009 weapons shipment to the Democratic Republic of Congo.<sup>118</sup> Studies have found their major trade partners for weapons included Egypt, Iran, Libya, Burma, Pakistan, Syria, United Arab Emirates, and Yemen, though many of these regimes have more recently refrained from purchasing arms from North Korea for fear of sanctions.<sup>119</sup> Notable exceptions include Iran and Syria.

The state run companies charged with selling arms and weapon systems to Iran have come under particular scrutiny in the international sanctions regime. Some of these companies were under the direct control of the KPA or other military branches, while others were under the directive of the WPK. What allows these companies to be classified as part of the illicit, military economy is that the products they sold were all of a military nature, operating outside of and contrary to international laws and were products of the country's defense industry. Furthermore, the majority of the money they earned got funneled back into military projects, as well as to the regime itself. Posing as businessmen, representatives from these companies would visit the importing countries to conduct proliferation deals or offer assistance and training to that country's military or scientific establishment, according to Western diplomats.

In the 1990s, one such company was the military-operated Changgwang Sinyong Corporation, sanctioned by the U.S. government after it was accused of

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<sup>117</sup> International Crisis Group, 2005.

<sup>118</sup> Panel of Experts, 2015

<sup>119</sup> Chanlett-Avery, Emma and Rinehart, Ian E. 2014. "North Korea: U.S. Relations, Nuclear Diplomacy, and Internal Situation. Congressional Research Service.

exporting ballistic missile technology to Pakistan. In 2001, the company was accused of selling the same technology to Iran, resulting in further sanctions.<sup>120</sup> Changgwang was one of the entities which had its assets frozen in 2009, following the U.N. Security Council resolution 1718. It was listed as “an entity of concern for proliferation relating to missiles and biological, chemical, and nuclear weapons” by the Japanese government and was accused of attempting to export “Scud” missiles to Yemen in 2002 by the US Department of State, as well as collaborating with Pakistani nuclear scientist AQ Khan. For nearly fifteen years, Changgwang was one of the most important money makers for the military, and one US official even called it the “main marketing entity for the North Korean military.”<sup>121</sup> The Nodong missile components sold to both Iran and Pakistan were directly used in those countries’ ‘Shabab’ and ‘Ghauri’ missile systems, respectively.<sup>122</sup>

The Paeksan Associated Corporation, operated by the KPA’s General Bureau of Surveillance, was another company sanctioned by the US in 2004 for proliferation activities to Iran since 1999. According to a Panel of Experts report from the U.N. Security Council, Paeksan was “responsible for about half of the DPRK arms and related material exports.”<sup>123</sup>

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<sup>120</sup> Lintner, Bertil and Yoon, Suh-Kyung. 2001. “Coming in From the Cold.” North Korean Economy Watch. <http://www.nkeconwatch.com/2001/10/25/coming-in-from-the-cold>. Accessed January 20, 2016.

<sup>121</sup> Iran Watch. 2009. “Changgwang Sinyong Corporation.” <http://www.iranwatch.org/suppliers/changgwang-sinyong-corporation>. Accessed March 1, 2016.

<sup>122</sup> Ibid.

<sup>123</sup> Iran Watch. 2010. “Paeksan Associated Corporation.” <http://www.iranwatch.org/suppliers/paeksan-associated-corporation>. Accessed March 1, 2016.

The other major entity that has repeatedly shown up on sanctions lists for its proliferation activities was the Korea Mining Development Trading Corporation (KOMID) and their financial arm, the Tanchon Commercial Bank. The KOMID has been called the “primary exporter” of North Korea’s ballistic missile and conventional weapon technology.<sup>124</sup> It was operated by the Second Economic Committee and its involvement in numerous illegal activities has been documented since the late nineties, including negotiations to supply surface-to-surface missiles to Saddam Hussein’s regime in Iraq and the production of anti-tank guided missiles for Syria. In 2008, the New East International Trading Company, based in Hong Kong, was caught attempting to sell ballistic missile components and technology which could be used in the production of centrifuges from Japan to Myanmar on behalf of the KOMID. The orchestrators of this deal used multiple passports from several countries and exemplified the complexity of tracking down the deals these companies made.<sup>125</sup>

The Tanchon Commercial Bank, established in 1983, was also the target of heavy sanctions for their role in facilitating illicit arm sales. The U.N. Security Council described it as the "main DPRK financial entity for sales of conventional arms, ballistic missiles, and goods related to the assembly and manufacture of such weapons" and has

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<sup>124</sup> Iran Watch. 2015. “Korea Mining Development Trading Corporation (KOMID)”. <http://www.iranwatch.org/suppliers/korea-mining-development-trading-corporation-komid>. Accessed March 1, 2016.

<sup>125</sup> Griffiths, Hugh and Dermody, Lawrence. 2014. “Loopholes in UN Sanctions against North Korea.” 38 North. <http://38north.org/2014/05/griffithdermod050614/>. Accessed January 20, 2016.

been separately sanctioned by the EU, Japan, Australia, and the US.<sup>126</sup> The bank maintained ties with a number of key organizations in Iran and facilitated the transfer of money for arms and weapon technology. It directly funded the overseas proliferation activities of the Second Economic Committee as well as the Yongaksan Trading Co., another military-operated company that exported arms, according to a former Ministry of Foreign Affairs official turned defector.

Once sanctions began to limit the freedom with which these companies operated, they searched for ways to circumvent the restrictions. One easy and relatively effective way to do this was to simply change the name of the company or work through a subsidiary. The KOMID had at least five subsidiaries, including the Korea Taesong Trading Company, Korea Heungjin Trading Company, and Hong Kong Electronics.<sup>127</sup> The Tanchon Commercial Bank changed its name at least twice following sanctions. Occasionally the companies would merge together and then break apart under new aliases. This paragraph from the Panel of Experts report for the UN Security Council in 2009 illustrates just how confusing it is for the sanctions regime to keep up with North Korea's ever changing designations (emphasis added):

In response to the 1718 Committee's designation in 2009 of 8 entities and 5 individuals known to be engaged in proscribed transactions including arms sales, the DPRK quickly moved to substitute other companies to assume their activities and/or to act on their behalf. In this fashion, **Green Pine Associated Co.** (a.k.a.

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<sup>126</sup> Iran Watch. 2009. "Tanchon Commercial Bank." <http://www.iranwatch.org/suppliers/tanchon-commercial-bank>. Accessed March 1, 2016.

<sup>127</sup> Iran Watch. 2015. "Korea Minig Development Trading Corporation (KOMID).

**Paeksan Associated Co.) replaced Korea Mining Development Trading Corporation (a.k.a. Changgwang Sinyong Corporation; a.k.a. Changgwang Trading Corporation; a.k.a. “KOMID”), and is now responsible for about half of the DPRK arms and related materiel exports. Green Pine Associated Co. is under control of the General Bureau of Surveillance of the Korean People’s Army.<sup>128</sup>**

The North Korean state is not just responsible for selling weapons, however, they also provide weapons training and have a “comparative advantage in the market for weapons refurbishment, particularly the maintenance of old Soviet equipment.”<sup>129</sup> A report found that the military-operated Green Pine Associated Corporation, the latest incarnation of the KOMID, provided “military and technical support” to the Eritrean Department of Governmental Garages until 2010, and possibly later.<sup>130</sup> More recently, in July 2013, a DPRK ship named the *Chong Chon Gang* was seized by authorities in Panama who then discovered “six trailers associated with surface-to-air missile systems and 25 shipping containers loaded with two disassembled MiG-21 aircraft, 15 engines for MiG-21 aircraft, components for surface-to-air missile systems, ammunition and miscellaneous arms-related material.”<sup>131</sup> These aging weapons systems were being transferred to the DPRK from Cuba for “evaluation, diagnosis, and repair.” The Cuban government, as with North Korea, relied on Soviet-era equipment, and the DPRK was one of their few remaining allies with the facilities to handle these

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<sup>128</sup> Panel of Experts, 2015.

<sup>129</sup> Greitens, 2014.

<sup>130</sup> Panel of Experts, 2015.

<sup>131</sup> Ibid.

weapons. These types of deals had been going on, most of them undetected, throughout the 2000s.

North Korea's illicit means of earning foreign currency during the Kim Jong Il era were extremely varied in their scope and level of organization. While the military played a major role in most of these ventures, and were certainly the biggest beneficiaries of the proceeds, ultimately the party had the final word in what sort of role their diplomats and military advisors played overseas. The international community's response to these activities has been to prevent North Korea from profiting off criminal means through sanctions and increased vigilance. The effect was that, throughout the first decade of the 21<sup>st</sup> century, North Korean arms sales declined as potential customers were scared away. What once was an industry generating hundreds of millions of dollars in the 1980s dwindled to a fraction of that following the nuclear tests and sanctions in 2006 and 2009. Aside from a few rogue regimes like Iran, Syria, and some African states, the North Korean military found it more difficult to hawk their wares in the international community. In order to make up for this failing revenue stream, the military discovered a new line of business, which, to this day, has largely eluded the sanctions regime and has continued to provide the means by which the North Korean regime supports its military and its nuclear and ballistic missile programs. The final section will look at how the military controlled several of the semi-legitimate trading companies in the North, many of which sold raw materials to China.

#### 4. Trading Companies

The North Korean military apparatus increasingly took control of many of the country's trading companies, thus using legitimate means to earn currency for the armed forces that bypassed the narrow list of sanctioned companies and individuals accused of arms proliferation. The party and cabinet were also major owners of these foreign currency earning companies (FCEC) and all three groups funneled a portion of their earnings to the leadership as a "loyalty payment," which Kim Jong Il could use at his discretion, whether for personal use or projects of valuable use to the state.

Trading companies operated by receiving a license from the Party called a *whaku* to harvest, extract, or manufacture a certain material for export. One of the biggest changes for trading companies during the *songun* era was the specialization of products that a company was allowed to sell, down to certain types of mushrooms or a certain species of shellfish. If they had a surplus of their product or if they came into possession of something which could be exported but for which they did not have the right *whaku*, they could trade amongst themselves.<sup>132</sup> During the 2000s, forgery of *whakus* became widespread, as corruption increased among North Korean officers-cum-businessmen who sought ever greater profits. Corruption also occurred as a response to the *suhgee* advisory group that had to approve the venture before the company was allowed to operate. Chinese companies took advantage of this

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<sup>132</sup> Lankov, Andrei. 2013. How North Korean trading companies make money. NK News. <https://www.nknews.org/2013/06/how-north-korean-trading-companies-make-money/>. Accessed February 15, 2016.

inefficiency by offering backdoor deals to trading companies eager to start work as soon as possible, but then when it came time to sell their products, the Chinese buyers offered only a fraction of the original price, knowing that the North Korean companies had no other choice.<sup>133</sup> Further exploitation was codified in the *DPRK Agreement to Promote and Protect PRC Investment*, signed by the two countries in 2005, despite most North Koreans never having heard of the agreement, which granted the Chinese exclusive access to many DPRK mining and fishing grounds.<sup>134</sup>

The scope of their legal business ventures were as varied as their illegal ones, ranging from small scale exports of fish and ginseng to multimillion dollar programs to extract and export raw minerals. Because North Korea produced very little that was of interest to the rest of the world, most of their money came from mineral extraction. According to one estimate by the South Korean Ministry of Unification, North Korea's mineral reserves are worth approximately \$5.94 trillion.<sup>135</sup> But finding a way to efficiently export these underground treasures was difficult without a large amount of foreign investment. Fortunately for the regime, they had one partner that was willing to work with them and helped facilitate the vast majority of their trade- China. During the Kim Jong Il era, mineral sales skyrocketed as China began to invest heavily starting around 2005. In 2000, minerals accounted for less than 50 percent of trade with China,

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<sup>133</sup> Park, John S. 2009. "North Korea, Inc." United States Institute for Peace. <http://www.usip.org/sites/default/files/North%20Korea,%20Inc.PDF>. Accessed February 20, 2016.

<sup>134</sup> Ibid.

<sup>135</sup> Harden, 2009.

but by 2010, it had risen to 72.6 percent.<sup>136</sup> Table 3 shows the share of trade with China as a percentage of overall trade.

**Table 3: Share of Trade with China**

Year	2001	2002	203	2004	2005	2006	2007	2008	2009	2010
Share (%)	32.5	32.7	42.8	48.5	52.6	56.7	67.1	73.0	78.5	83.0

Source: Understanding North Korea, 2012. p. 196

Trade with China took several forms. Occasionally the North would barter resources, for example, trading steel for food. There were also more than 200 joint ventures between Chinese and North Korean companies.<sup>137</sup> Overall, trade with China grew from 25 percent of total trade in 1999 to 83 percent in 2010, with a monetary value of \$3.4 billion, up from \$370 million, highlighting the North’s dramatic reliance on their gigantic neighbor.<sup>138</sup> Whatever form it took, the military played an increasingly large role in these transactions under Kim Jong Il.

The Ministry of People’s Armed Forces was the biggest military organization to operate trading companies. Even a partial list of their properties is overwhelming. Table 4 shows some of the major companies under their control at various points during the Kim Jong Il era. As with corporations involved in illicit arms deals, it is difficult to track the ownership and operations of these companies because many of

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<sup>136</sup> 2012 Understanding North Korea.

<sup>137</sup> Open Source Center. 2012. “North Korea -- Characteristics of Joint Ventures With Foreign Partners, 2004-2011.”

<sup>138</sup> 2012 Understanding North Korea.

them changed names and offices often.

**Table 4: Trading companies operated by the military**

Department in Charge		Company Name
MPAF	MPAF headquarters	Maebong General Trading Company
	Rear Defense Bureau	Yungseong Trading Company, Namhae Trading Company, Sinjin joint-venture Trading Company, Moranbong Company, East Asia joint-venture
	Reconnaissance Bureau	Birobong Trading Company, Sunflower Trading Company, Moran Company
	Military Logistics Bureau	Ryongheung Trading Company
	Overseas Business Bureau	Taeryong Trading Company
	Military Planning Bureau	Uisong Trading Company, Chilseong Trading Company
	Expressway Bureau	Eunhasu Trading Company
	Bureau 25	Heungsong Trading Company
	Traffic Management Bureau	Danpung Trading Company
	Air Force Command	February Sixth Trading Company

	Other	Sujeong Trading Company, Dongyang Company, Sinheung Trading Company
Other	Korea Ryonbong General Corporation, Chosun Cheongunsan Trading Company, Chosun Keumreung Trading Company, Chosun Namgang Trading Company, Bomul Trading Company, Bonghwa Trading Company, Bugang Trading Company, Suyangsan Trading Company, Seungjeon Trading Company, Amroggang Trading Company, Yeonkwangbu Trading Company, Yeonbong Trading Company, Yeonpung Trading Company, Choson Combined Trading Company, Oryun Trading Company	

**Source:** Jeong, Eun-e. 2012. "A Study of North Korean Trading Companies." (bukhan muyeok hwaysae kwanhan yeongu) *Ministry of Unification*. Kwon, 2010.

One of the biggest and most diverse companies was the Maebong Trading Company, under the command of the MPAF headquarters. Operated by the MPAF since the 1980s, the company expanded during the *songun* era to export a variety of products in exchange for supplies needed by the military and hard currency. Their main office was located in Pyongyang with branches in the provinces bordering China, including Shinuiju, Haeson, and Hoiryong. Because of the high value of commodities passing through the company, managers sought out those with foreign experience to serve as directors in each region, including those with relatives in China.<sup>139</sup> The company worked extensively with seafood, with products for export including clams, conchs, and other shellfish taken from the West Sea, and sea cucumbers, sea urchins, and abalone from the East Sea. They were also involved in the extraction, production,

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<sup>139</sup> Han, Young Jin. 2007. "Maebong Company, Ringleaders of Foreign Currency." Daily NK. <http://www.dailynk.com/english/read.php?cataId=nk00100&num=1803>. Accessed March 1, 2016.

and export of minerals, including iron, steel, copper, and lead. They also traded medicinal herbs and for a time they even sold used cars illegally along the border to great profit, although the exact figures are unknown.<sup>140</sup>

In addition to Maebong, another powerful military-run company was the Yungseong (Ryungseong) Trading Company, under the control of the General Rear Service Department. With approximately 1,500 workers, it was the biggest trading companies operated by the MPAF and included subsidiaries such as the Pibok Joint Venture Factory, the Oriteol Processing Plant, the Dadami floor mat factory, and a gold mine. They also export a variety of seafood and minerals. In exchange, they imported cotton for military uniforms and vinyl greenhouses for farming, among other things. To facilitate their trade, they own the 3,700-ton Daeseongsan trading ship and the smaller Yungseong 1, 2, and 3 vessels, as well as dozens of fishing boats. For a time, the company was in charge of managing and laundering the foreign earned currency of Kim Jong Il, and then later provided his son, Kim Jong Nam, with his living expenses.<sup>141</sup>

The Heungseong Trading Company, operated by the MPAF's Department 25, exported copper, lead, zinc, and sheets of steel in exchange for cars and mineral excavation machinery. The Reconnaissance Bureau's Birobong Trading Company specialized in seafood and herbal medicine. The Chosun Cheongunsan Trading Company worked with the South Korean-based Hanwha group to produce tiles for the

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<sup>140</sup> Uhm, Seon Hee. "North Korea Maritime Trading: Current Status and Future Implications." (bukhan susanmul muyeok kwallyeon jojik hyunhwang mit sisajeom) *KMI Maritime Trends*. March: 28-37. Kwon, 2010.

<sup>141</sup> Kwon, 2010.

floor heating system, *ondol*, in 1997.<sup>142</sup> These and numerous other companies are able to exploit the natural resources of the country and provide money for the regime and resources for the military in circumvention of sanctions. One of the most important financial institutions they used to complete these transactions was the Keumseong Bank, which had branches in China and Macao. Their use of counterfeit dollars and Chinese yuan produced in North Korea was widespread.

Not only does the military control trading companies, they even took part in joint venture projects with foreign companies. One example was the Korea Ryonha Machinery Joint Venture Corporation, a subsidiary of the Korea Ryonbong General Corporation, which was sanctioned in 2009 for being a “defense conglomerate specializing in acquisition for DPRK defense industries and support to that country’s military-related sales.”<sup>143</sup> Ryonha was coupled with an unknown entity from China and was tasked with constructing North Korea’s own brand of computed numerically controlled (CNC) information processing machines that the DPRK hoped to export.<sup>144</sup> The parent company, Ryonbong, was the trading section of the Second Economic Committee’s External Economic General Bureau and had been involved in deals refurbishing small arms in Ethiopia in 2007-2008.<sup>145</sup>

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<sup>142</sup> Uhm, 2011.

<sup>143</sup> United Nations Security Council. 2009. “Security Council Committee Determines Items, Designates Entities Subject to Measures Imposed in Resolution 1718 (2006).” <http://www.un.org/press/en/2009/sc9642.doc.htm>. Accessed March 1, 2016.

<sup>144</sup> North Korean Economy Watch. 2010. “CNC- Juche’s industry power.” <http://www.nkeconwatch.com/2010/06/30/cnc-juches-industry-power/>. Accessed January 15, 2016.

<sup>145</sup> Berger, Andrea. 2014. “Is Ethiopia Violating UN Sanctions against North Korea.” 38 North. <http://38north.org/2014/12/aberger122314/>. Accessed March 1, 2016.

In 2010, the Korea International Chemical Joint Venture Company was sanctioned under UN Resolution 1718 and found to be in violation of previous sanctions measures. The company was founded in 1988 and headquartered in Pyongyang. It was a joint operation with the International Trading Corporation of Japan and the Korea Yongaksan Trading Company of the DPRK, which was subordinate to the Second Economic Committee. At its peak, the firm employed around 600 workers and was intended to excavate the rare earth mineral monazite (over 1,500 tons annually) and 400 tons of other metals for export to Japan.<sup>146</sup>

These military operated trading companies were not just responsible for bringing in foreign currency, but they were directly charged with supplying the regime with materials and technology that was used in whatever project the leadership was focused on at the time, including the nuclear weapons program. Defectors who had worked in trading companies operated by the KPA claimed that they received often erratic orders from the top leaders regarding the acquisition of various resources, including “any material, resource or item from other commercial projects for use in the nuclear programs.”<sup>147</sup> The rise of military-run trading companies is testament to the expanded role of the military under *songun* politics. They were the biggest money makers for the regime and their continued operation allowed the military to maintain some level of working efficiency, and more importantly, continued to funnel money and resources to the nuclear and missile programs. Yet despite the vast sums that these

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<sup>146</sup> Nuclear Threat Initiative. “Korea International Chemical Joint Venture Company.” <http://www.nti.org/facilities/663/>. Accessed March 1, 2016.

<sup>147</sup> Park, 2009.

trading companies made, the soldiers working at these organizations continued to work in squalor, often without pay, another reason that KPA companies expanded during this time. This harsh reality underscores the fragility with which the North Korean system and the military apparatus operated and the skewed distribution of money and resources that flourished in the “military economy.”

#### **IV. Conclusion: The Kim Jong Un Era and Prospects for the Future**

This study has attempted to describe the impact of the North Korean military on the country’s economy during the *songun* politics era of Kim Jong Il. From the beginning of his time in power, with the elevation of the NDC as the highest decision making body, Kim Jong Il sought to promote the military in politics, society, and the economy. By funneling official funds into “military” programs like nuclear weapons development and the military’s own schemes to earn money and be self sufficient, the military’s economic impact grew. The emergence of the “military economy” signaled both a decentralization of power, and a simultaneous strengthening of the regime, as commanders sought to keep their new, more lucrative positions by appeasing the leadership with kickbacks. The military economy was defined by its diversity, its corruption, and its ability to tackle jobs that no other institution in the failing state could handle, whether that was building roads or trafficking drugs.

But it is important not to underestimate the importance of the party and cabinet during this period. Often companies and entities owned by these other major players

were just as prevalent and powerful as those controlled by the army or MPAF. Despite the “military-first” appellation and its widespread influence, their influence could rather be seen as becoming first among equals in many economic matters. Politically, the WPK was still the most influential, yet on a practical basis, whichever actors had the greatest access to Kim Jong Il was assumed to be most likely to help steer policy.

With Kim Jong Il’s death at the end of 2011, many people hoped that his successor, Kim Jong Un, would abandon the military-first doctrine in favor of one that would bring his country into the global community. Yet Kim Jong Un has thus far shown no signs of abandoning his father’s military legacy and has proven just as willing to recklessly raise tensions on the peninsula through nuclear and ballistic missile tests. The proportion of military personnel in the NDC, Politburo, and Secretariat has increased under the young leader.<sup>148</sup> The so-called *byungjin* line of simultaneous economic and nuclear weapons development signaled to some that *songun* politics was defunct. But this has not been the case. The regime’s commitment to nuclear weapons is stronger than ever. The New Year’s joint editorial in 2012 summed up his policy direction in this way, “No matter how severe the storm is, we must firmly adhere to the revolutionary legacies the Great General has bequeathed us... The victory of establishing a powerful nation is built on the gun stock of the military-first policy.”<sup>149</sup>

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<sup>148</sup> Haggard, Stephan, Herman, and Ryu. 2014. “Political Change in North Korea: Mapping the Succession.” *Asian Survey*. Vol. 54, No. 4: 773-800.

<sup>149</sup> 2012 Understanding North Korea.

Many of the procedures and money making schemes described above are still relevant to North Korean society today. The “military economy” is continuing to profit, despite increased sanctions. Defectors report that soldiers are still involved in domestic works including farming and construction. International aid shipments, while much lower now than they used to be, are still at risk of being diverted by the military, although international donors strive to ensure the aid reaches the intended recipients. Corruption along the Chinese border and throughout North Korean society is still rampant. Some of their illegal activities, like counterfeiting dollars and drug trafficking have tapered off in recent years, mainly due to increased vigilance and the internal difficulties of maintaining these capabilities. However, weapons proliferation remains a key money earner for the regime, as seen with the *Chong Chon Gang* incident in 2013. Finally, trading companies owned by the military, party, and cabinet still earn millions of dollars for the regime each year, and have remained largely untouched by sanctions. It is important to note that even if North Korea achieved denuclearization, many of these problems will persist if there is no fundamental transformation in society, as the country’s economic structure has become dependent on a culture of corruption that persists at all levels of the party, the government, and the military.

What, then, should the response of the international community be? Given the North Korean military economy’s ability to continuously adapt to sanctions, stricter measures need to be imposed. There needs to be a concerted effort to enforce the existing sanctions regime on the DPRK. The UN Panel of Experts has consistently noted that several UN member states do not adequately enforce sanctions or report

violations. In addition, the United States, South Korea, Japan, and the EU should put in place so-called “secondary boycotts” that more specifically target the financial institutions and individuals who assist North Korea’s illicit activities. Finally, if none of these measures are enough to bring the DPRK back to the negotiation table with a serious intent to denuclearize, then the international community should consider changing the sanctions regime from “targeted sanctions” to “comprehensive sanctions.” This would entail not just sanctioning their illicit money earnings, but cutting them off completely from international trade. As my research has shown, even money earned from trade in seemingly innocuous items like shellfish could be directly funneled to the military or to the regime itself. By focusing on all of North Korea’s trading companies, the international community could at last change the regime’s strategic calculus and affect real change in the system. But until this day comes, North Korean companies will likely continue to use the money earned to fund their nuclear weapons program, human rights abuses, and military establishment.

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국문 초록

## 선군정치 하 북한의 경제 발전에 미친 군사적 영향

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1998년부터 2011년까지 북한은 김정일의 ‘선군정치’의 지배하에 있었다. 그 시대는 군의 역할이 정치, 사회 그리고 경제에 이르기까지 북한 사회 전 영역에서 강화된 것이 특징이었다. 조선로동당이 중앙 권력으로 유지되었지만 조선인민군과 국방위원회의 역할은 증가되었다. 그 결과 ‘공식적인 경제’와 ‘군사 경제’가 구분되었고 이 ‘군사 경제’를 통해 북한 군대는 자급자족하게 되었다. 북한은 많은 공금을 핵개발과 탄도미사일 프로그램에 투자했는데 당시 지속된 경제난으로 인해 북한 정부의 군에 대한 대규모 지원은 불가능했다. 그렇기 때문에 저임금 노동을 사용하며 북한군은 농업과 건설 같은 주요 공업을 넘겨받았다. 해외에도 북한군은 무기 거래와 마약 밀매 등 불법행위로 외화벌이를 노력했다. 그리고 북한군은 외화벌이를 위해 여러 무역회사를 통해 북한의 자원들을 중국에서 판매했다. 몇 년 지나서 군사 경제가 북한의 존재와 경제 발전에 거대한 영향을 미쳤다.

**주요어:** 북한, 성군 정치, 군사 경제, 무역 회사, 김정일



