Going Out of Business: Divesting the Commercial Interests of Asia’s Socialist Soldiers

by Andrew Scobell

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This policy paper is a product of the project, “The State and the Soldier in Asia: Investigating Change and Continuity in Civil-Military Relations.” The project attempts to answer the questions: What is the place of the military in the state? What are and what explains the cross-national similarities and differences in Asian states? What is the future of civil-military relations in Asia and what are the implications for domestic political change and for international politics in Asia?

Funding for the project comes from the Smith Richardson Foundation and the Ford Foundation. The project director is Muthiah Alagappa, East-West Center Director of Studies.
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The paper benefited greatly from the trenchant critiques of two anonymous reviewers. The author would also like to thank Mendy Dorris for research assistance and Josh Easton for his help in producing the tables and figures.
Massive, institutional military involvement in a nation’s economy appears to be a hallmark of civil-military relations in socialist states. There have been three main motives for this: pragmatic, ideological, and financial. While real benefits can accrue from military participation in the economy, the author argues that armed forces have no business owning or managing for-profit ventures. He contends that commercial involvement (1) has a detrimental impact on combat readiness, (2) has a negative effect on civilian control and the chain of command, and (3) damages morale and the military’s standing in society. The destruction caused is most immediately obvious in the emergence of rampant corruption while the above three effects only gradually become evident.

The author examines the current status of the military’s commercial activities in China, Vietnam, and North Korea and provides recommendations on how to proceed in divesting the armed forces of their economic assets. The task of getting the military out of a nation’s business is a daunting one that only China has initiated. Announced in mid-1998, this process remains incomplete as of late 1999. Vietnam is currently grappling with the challenge of the military’s business empire and may be poised to follow China’s example. North Korea, certainly the most militarized state on earth, stands as a special case. While little reliable information is available on the vast economic holdings of the Korean People’s Army, divestiture will likely only be successful if instituted as part of a larger process of structural reform.
The central problem guiding research in the field of civil-military relations has been how to extract the armed forces from politics and keep them out. The question of how to get the military out of the economy, by contrast, has received little attention. The military in most countries is a key economic actor by virtue of the sizable number of men and women under arms as well as the large portion of the gross national product (GNP) consumed by the defense establishment. Yet in some states, soldiers not only play the role of consumers but also act as producers and entrepreneurs. Learning more about the commercial activities of the military is vital to gaining a comprehensive understanding of civil-military relations in Asian socialist states.*

While substantial military participation in the economy is not unique to countries ruled by communist parties, massive institutional military involvement in the economy appears to be a hallmark of civil-military relations in socialist states. Under communist regimes the military is a key contributor in industry and agriculture. Soldiers may be called upon at harvest time to help in the fields or participate in infrastructure projects such as the construction of roads or dams. In addition to an armaments industry, the military often has factories producing nonmilitary goods, sometimes for export, and farms with crops, sometimes produced for the domestic civilian market. The military’s economic contribution can be measured by value of the economic output, number of persons employed in the sector, or value of military exports. The military’s economic cost can be gauged by estimates of the defense spending as a proportion of total national budget and GNP. The armed forces of the People’s Republic of China (PRC), the Socialist Republic of Vietnam (SRV), and the Democratic People’s Republic of Korea (DPRK) are among the world’s largest. (See Table 1 and Figure 1.) In addition, these forces possess vast economic empires.

SIGNIFICANCE, PARAMETERS, ORGANIZATION

What significance can be attached to the extensive economic involvement of the armed forces in Asia’s socialist states? Does this involvement have a positive or

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*See, for example, Alagappa (1999). For a comprehensive survey of civil-military relations in China, Vietnam, and North Korea, see the draft papers of “The State and Soldier in Asia” project cited in this policy paper.
a negative impact on civil-military relations? Certainly some noteworthy and tangible benefits accrue from extensive military participation in the economy, but these benefits seem to be outweighed by the drawbacks. This paper contends that while the military has legitimate shared jurisdiction with civilian authorities for socioeconomic development, the armed forces have no business engaging in commercial ventures. Such involvement tends to undermine combat readiness and weaken party control of the armed forces. In other words, the primary concerns of most policymakers tend to be adversely affected: the development and maintenance of a military machine firmly under civilian control that is capable of defending the party-state. Although some analysts regard this negative impact as a given, it is important to recognize that the relationships between commerce and combat readiness, and between commerce and party control, are virtually impossible to demonstrate empirically—especially without factoring in corrup-

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Table 1. World’s Largest Armed Forces: 1996 (000s)
tion. Indeed corruption—the most readily detectable and alarming manifestation of the debilitating impact of commercialization—is probably the key link. While the scourge of corruption is regularly identified as an outgrowth of military for-profit ventures, the destructive links between corruption and combat readiness and between corruption and party control are overlooked. Consequently the logic of the relationships is never properly articulated.

Take the matter of combat readiness. Some students of the PLA, for example, simply assert that commercial involvement has damaged combat effectiveness. Other PLA watchers wisely acknowledge that while this is a reasonable assumption, the negative impact of commercial activities “on military preparedness can only be a matter of speculation.” Still other PLA scholars prudently explain that any harmful impact will be “gradual and largely invisible, and its full impact will only be felt in the future.” Because these negative effects are so difficult to prove, civilian and military leaders who wish to keep the military engaged in commercial activity can insist with little fear of contradiction that there are no such adverse effects. However, the clearest challenge to the claim that commerce has no destructive effects is the appearance of widespread corruption in the military. Rampant corruption is of major concern to socialist leaders for many reasons—above all because of the significant losses it can produce in government revenues. Corruption in the armed forces is an even greater worry because it tends to be seen as an early symptom of the erosion of combat readiness and party control.

This paper addresses the critical questions of how and why the military should be extracted from profit-making activities. Although we shall look at the military’s role in a country’s economic development and armaments industry, the main focus is on the for-profit ventures of soldiers.

After summarizing the origins and motives of the military’s considerable economic role, this paper addresses the negative impact of this economic involvement. The paper surveys the extent of military participation in the economies of China, Vietnam, and North Korea, as well, and presents policy recommendations for divesting the military from business.

ORIGINS AND MOTIVES

Military involvement in economic activities has a long history in many communist countries—an involvement that often preceded the formal establishment of the state structure. As a result, the military’s involvement was a natural extension of the across-the-board economic involvement and the configuration of the
military in the structure of Leninist systems, particularly in regimes where the party and the army had evolved symbiotically.4 There have been three main motives: initially the military’s involvement was born purely of pragmatic considerations; then it came to have important ideological significance; later it offered strong fiscal appeal.5

The military’s participation in the economy began as a matter of pragmatism when communists were still insurgent movements. If guerrillas did not grow their own food they would go hungry. Of course foodstuffs could be purchased or confiscated from peasants, but the former method was expensive and the latter was bad for public relations. Turning socialist soldiers into part-time cultivators helped secure a degree of autonomy and self-sufficiency for guerrilla groups. After they seized power, this tradition continued in countries like China and Vietnam because it enabled the state to economize on defense outlays.

The move was significant on ideological grounds since it supported the contention of communist parties that their militaries were different. Unlike the battalions of a foreign imperialist or national bourgeoisie that oppressed workers and peasants, socialist soldiers comprised a people’s army that was not only of the people but also in service to the people. Hence the inclusion of the possessive prefix “People’s” in the official titles of the armies of China, Vietnam, and North Korea embodies considerable symbolism. During the struggle for power, soldiers in people’s armies, rather than loot and pillage, paid for what they took and respected the property of the people. Moreover, they produced their own food and supplies as much as possible to avoid becoming a burden on society. In addition, they assisted the local people in construction projects and harvests. Closely linking soldiers to civilian society was also done to discourage the emergence of an elitist warrior caste with what Mao Zedong called the “purely military viewpoint” that would seek only to further its own narrow interests.6 Mao and other top communist leaders sought to mold a new type of military totally subservient to the party and selfless in its dedication to the interests of the people.

Moreover, the constitutions of socialist states reveal the ideological justifications for military roles. Scholars such as Alfred Stepan have alerted us to the significant impact of constitutionally defined roles on the behavior of the armed forces. In Latin America, for example, a country’s constitution provides key indications of the accepted position of the military.7 In the socialist context, constitutions have often had limited life spans and many have been instruments of propaganda rather than serious statements of philosophical principles. They are prone to radical revision or even complete abandonment and replacement by
totally new documents.* Nevertheless, they can be read as meaningful policy statements or political platforms. Moreover, official documents and laws are viewed with greater seriousness today with the increased importance attached to codification during the reforms launched in socialist states in the 1980s and 1990s.

An ideological rationale for the military’s economic role is enshrined explicitly or implicitly in the constitutions of the PRC, SRV, and DPRK. One of the tasks assigned to the People’s Liberation Army (PLA) in the PRC’s 1982 constitution is to “participate in national reconstruction” (Article 29). The SRV’s constitution, meanwhile, stipulates that the People’s Army of Vietnam (PAVN) has a key role in “national construction” (Articles 45 and 46). The amended 1998 DPRK constitution makes no mention of a Korean People’s Army (KPA) role in “national (re)construction.” This mission seems implicit, however, because according to the “nation-in-arms” concept, espoused in the document, the people and the army are organically one and the same.*

A more recent motive for promoting the military’s involvement in the economy has been to encourage the armed forces to earn extra budgetary revenues to make up for defense budget shortfalls. The structural reforms initiated in China since the late 1970s and in Vietnam since the late 1980s have resulted in economic development becoming the highest priority above all else, including military modernization. As a result, the military has had its annual budgets trimmed or at least limited to modest increases that have barely kept pace with inflation. The armed forces have been encouraged to exploit their structural assets for financial gain. This has led both Chinese and Vietnamese soldiers to become businessmen. The Korean People’s Army is poised to make a similar plunge if Pyongyang decides to imitate its fraternal socialist neighbors and initiate a program of thoroughgoing economic reform. As we shall see, the KPA already seems to be involved in for-profit activities at least in the area of foreign arms sales.

**PROS AND CONS**

Allowing the military to play a substantial role in the economy has ready appeal to policymakers. The party leaders in Beijing, Hanoi, and Pyongyang owe their

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*According to the DPRK’s constitution, it is the state that is charged with developing an “independent national economy” (Article 26). “National defense” is the “supreme duty” of the people, while work is the “noble duty” of the people (Articles 86 and 83).
positions of power—indeed their very existence—to their respective armed forces. The PLA, PAVN, and KPA not only symbolized successful revolutionary struggle but also provided the party-state with well-disciplined and obedient organizations. And when it came to tackling national economic tasks, these armed forces were well positioned to undertake a wide range of industrial, agricultural, and infrastructural projects. The militaries constructed, operated, and managed factories, farms, ports, airfields, highways, bridges, and more. Thus when socialist states instinctively looked to their soldiers to take the lead, they were well positioned to do so.8

If soldiers supply some of their own needs, they present less of a burden to the state. If soldiers contribute their labor and expertise to national construction, then major projects such as roads, railways, bridges, and dams can be built in a prompt and orderly fashion. If soldiers earn income by producing goods and services, they can be asked to accept less in the way of government funds. In short, the primary appeal of the military's involvement in the economy is now financial.

At first these benefits seem real, immediate, and substantial. But they can come at considerable cost. The downside of giving free rein to military entrepreneurship is already evident to China's leaders and appears to be increasingly evident to Vietnam's rulers. These costs can be divided into three main categories: (1) the detrimental impact on combat readiness, (2) the negative effect on civilian control and the chain of command, and (3) the damage to morale and the military's standing in society.

Impact on Combat Readiness
Perhaps the most powerful argument against military involvement in economic activities is that it undermines an army's primary function: the management of violence. Most scholars of civil-military relations assert that war preparation is the most important—if not the sole—function of the armed forces.9 Despite claims to the contrary, combat readiness and economic production do not seem to go hand in hand.∗ This is especially true in an increasingly high-tech world where modern warfare requires military specialists with high levels of education and constant training.

How can an army concentrate on defending the territorial integrity of the state and protecting its citizens if its soldiers are directly involved in running

*See the words of a Vietnamese military theorist (writing in 1988) cited in Vasavakul [1999: 10].
hotels, restaurants, and factories? While in the vast majority of cases the staffing of these enterprises is done by dependents or retired personnel, soldiers are often involved in management or well represented on boards of directors. At the very least such endeavors distract the military from the business of national defense. [Beyond this, corruption tends to rear its ugly head.] This argument is not easy to demonstrate, however. Since China, Vietnam, and North Korea have not been involved in a major conflict since the military’s involvement in for-profit activities, it is impossible to say with certainty that this is in fact so. This point cannot be conclusively demonstrated in the case of China, for example, because the PLA has not fought a major war since early 1979—before the Chinese military was permitted to engage in for-profit activities. While in its two most significant deployments since 1979—enforcing martial law in Beijing (1989) and saber rattling in the Taiwan Strait (1995–1996)—the PLA proved up to the task at hand, significant aspects of these performances raised questions about the level of combat readiness.*

Significantly, prominent Chinese military leaders believe that such involvement has indeed hurt combat readiness. Top PLA men, including then CMC Vice-Chairman Zhang Zhen and retired Deputy Chief of General Staff Xu Xin, voiced opposition to the for-profit activities of the armed forces. General Xu remarked in early 1993 on the “corrosive impact on fighting effectiveness.” General Zhang and fellow soldier Liu Huaqing, CMC Vice-Chair and Politburo Standing Committee member, warned in mid-1993 that great armies declined if they “wallowed in luxury and pleasure.” Moreover CMC Vice-Chair and Minister of National Defense Chi Haotian told a Singapore audience in November 1998 that the decision earlier that year to divest the military of its commercial holdings was taken in order to “promote the combat capability of the PLA.” Anecdotal evidence also suggests that combat readiness has been eroded. It is likely that the military’s involvement in economic activities may have adversely affected the performance of certain units during the March 1996 saber-rattling exercises in Fujian. A propaganda broadcast from a Taiwan-controlled Quemoy radio station taunted a particular unit from the First Group Army: “You spent two years raising pigs and planting vegetables in Jiangsu! Do you still have the ability to fight?” For an extreme scenario, one need only look to the former Soviet Union. In 1993 Russian army officers reportedly spent “more time on commerce than on combat

training.” One analyst caustically remarked that aside from strategic rocket forces and a few elite units, the Russian armed forces were no “more combat ready than the girl guides.”

In an effort to check any negative impact from commercial activities on the military’s combat readiness, China and Vietnam have created a division of labor. Some military units are approved to engage in economic enterprises and maintain a low state of combat readiness while others concentrate solely on military preparedness and are forbidden to get involved in economic production. The result, however, can be a “hollow army” in which certain military units may exist only on paper. According to one PLA expert: “The need to bring in incomes has forced some military units to devote most of their time and efforts to money-making activities at the expense of their professional duties, in particular training. Many units also do not have sufficient resources to allow them to train regularly.” This invariably “reduces...combat readiness.” According to the PLA’s own newspaper, commercial activities have “undermined military discipline.” An artillery division in the Nanjing Military Region was reportedly so heavily involved in profit-making pursuits that it completed less than one-third of its mandated training program and suffered rates of absenteeism approaching 50 percent. These forces may become all but irrelevant in times of hostilities: while they might be self-sufficient financially and productive economically, they may have little if any military value in wartime. For civilian or military leaders to assume otherwise may be wishful thinking. To this end it is worth quoting one local civilian official interviewed in September 1999 (at a port in northern China infamous as a smuggling haven where the PLA was heavily involved in the activity): “Is the army less corrupt than it was a century ago?...It will take a war to find out.”

Impact on Civilian Control and Chain of Command

There are two critical mechanisms through which civilian control is exercised over the military: the power to appoint and the power of the purse. In China military appointments are firmly controlled by the top party leadership. Jiang Zemin, for example, has regularly exercised his right to appoint, remove, and promote military personnel. The power of appointment is more in doubt in Vietnam and North Korea. Recently the Chinese leader attempted to reassert the power of the purse over the PLA by first seeking to rein in the business activities of the military and finally to ban commercial ventures altogether. Some eight months after Jiang’s divestment order, military delegates to China’s National People’s Congress session of March 1999 reportedly proclaimed proudly that the PLA was now “eating from royal grain.”
When soldiers serve as entrepreneurs this tends to corrode party control and weaken the military chain of command. Profits and business partners—rather than strict discipline, obedience to the party, and deference to the revolutionary traditions of the armed forces—become the all-important goals and the new bases for status and loyalty. The larger question of the PLA’s political reliability is of grave concern to CCP leaders. The issue was raised dramatically in Beijing in 1989, and its importance was reinforced by the failure of armies in other socialist states to come to the defense of their parties in 1989 and 1991.* More recently, in mid-1999, two senior PLA officers were court-martialed and executed for selling military secrets to Taiwan. One of the soldiers reportedly provided Taipei with intelligence about Beijing’s 1996 saber rattling in the Taiwan Strait.22

There are also incipient trends toward economic warlordism at the local level. This is not the kind of warlordism that raises the specter of civil war or internecine conflict which plagued China during the second and third decades of the twentieth century. Rather, it refers to close collusion between military subdistrict and county-level commanders—particularly those in the militia and reserve units—with local entrepreneurs and civilian officials for mutually profitable ventures.23 It is possible that “closer economically based relations with local governments [will] mean more distant relationships between the military regions and the center” or a significant weakening of central military and central party control. Insubordination is likely when units are faced with orders that are detrimental to commercial operations. Indeed, as Ellis Joffe points out: “This has already happened: military units have obviously not complied with regulations aimed at curbing or abolishing a wide range of their economic activities.”24 If Jiang Zemin thought that PLA involvement in commercial activity was such a grand idea, why did he move to end it? Implicit in Jiang’s decision was the goal of gaining tighter control over the PLA. The 1998 directive will actually be extremely costly to Beijing: it will require the government not only to increase the annual defense budget for years to come, but also pay the military one-time compensation for giving up control of commercial enterprises. Indeed, Jiang seems to have been primarily concerned with the fiscal dimension. In early 1993 he reportedly stated: “If somebody could find me 30 billion yuan, I can stop the

*While the PLA’s response in the spring of 1989 did not constitute insubordination (even though individual soldiers did refuse to obey orders), the army “hesitated.” See Scobell [1993].

“This is difficult to say with complete certainty since “the relationship between the military and localities has become extremely complicated.” See Hong and Jacobs [1994: 182–183].
army from going...into business."\textsuperscript{25} Inevitably, corruption emerges as incomes go unreported or underreported and into the pockets of individual officers rather than the unit’s coffers. Off-the-books income lessens dependence on the state and makes civilian leaders more peripheral to the military’s existence and well-being. The central authorities come to be viewed by soldiers out in the provinces as a distant irritant.

Civilian control is seen as being undermined when the military takes on extensive economic missions, such as business empires and socioeconomic development, in addition to the management of violence. Chinese researchers have already voiced this concern.\textsuperscript{26} Labeled “role expansion” by Alfred Stepan, whose work has focused on Latin American militaries, this trend of permitting the military to expand its bailiwick, if unchecked, is considered dangerous because it tends to increase the military’s autonomy and power at the expense of civilian leaders.\textsuperscript{27}

**Impact on Morale and Military Standing in Society**

Involvement in corruption and other illegal practices “damages the military’s image” in society. And when the armed forces are held in low public esteem, this in turn tends to lower military morale. Military cohesiveness is undermined by corruption, as well, because it leads to jealousy and resentment between those who are in positions to benefit from the corruption and those who cannot or will not. Involvement in for-profit enterprises tends to increase opportunities for soldiers to engage in corruption. Divesting profiting-making enterprises from military control and ownership is equivalent, as one PLA writer put it, to “rooting out soil in which corruption grows.”\textsuperscript{28}

It is commonly accepted in China and Vietnam that the military is mired in corruption, especially smuggling, and is above the law. In China, for example, the most serious case of smuggling in twenty years recently concluded with harsh sentences—including the death penalty—meted out to civilian officials. Not one military figure was singled out for prosecution, however, nor was any PLA soldier reported to have been disciplined by the military.\textsuperscript{29} In Vietnam, for example, a civilian official remarked that the war against smuggling was hopeless because the military was heavily involved and, in any case, is a law unto itself. While soldiers are subject to military justice—which may actually be harsher than the penalties meted out in the criminal justice system—the perception among the masses is that soldiers can get away with murder because the armed forces tend to deal quietly with offenders.\textsuperscript{30} Indeed, military justice is often dispensed secretly and it appears that in the PLA, for example, corrupt soldiers often escape with simple warnings.\textsuperscript{31}
THE CURRENT SITUATION

China, Vietnam, and North Korea are each in very different situations with respect to military involvement in economic affairs. China has gone the furthest: it is committed to divesting the military of its for-profit enterprises and has embarked on an initiative to follow through. Vietnam may be on the brink of reversing its initiative to stimulate military entrepreneurship: Hanoi has seen for a decade the negative consequences of expanded economic participation on the military.* North Korea has not yet embarked on serious reforms: indeed Pyongyang faces the most difficult challenge of all three countries. (See the policy recommendations offered later.)

China

The PLA has long had a sizable economic empire. This involvement in economic activities has also had a strong element of continuity in China’s military history. In 1998 the military-industrial complex was estimated to comprise about 30,000 factories with at least three million workers producing everything from missiles and tanks to motorcycles and refrigerators. An estimated 70 to 80 percent of the output was believed to be civilian goods. This output reportedly provided the PLA with between US$5 and US$10 billion in revenue annually.

The architect of China’s economic reforms also led the way in modernizing and revamping China’s defense establishment. It was paramount leader Deng Xiaoping who determined that the PLA should be resourceful and inventive in seeking out ways to supplement a limited defense budget. Over the past three decades, military expenditure as a proportion of central government expenditure and GNP has declined. According to figures published by the U.S. Arms Control and Disarmament Agency, almost half of all PRC government spending in 1975 went toward defense. A decade later the proportion had fallen to less than a quarter. In the 1990s defense spending remained relatively constant at just under one-fifth of Beijing’s total spending. Defense spending also declined as a proportion of China’s GNP (Table 2).

An important source of revenue for the military during the reform era has been weapon sales. Arms exports by China increased significantly in the late 1980s, but by the mid-1990s China’s arms trade was in a slump. Beijing lost two

*To date, however, Hanoi has not made any statements or taken any concrete steps toward this end. See, for example, Vasavakul [1999: 19].
of its best customers when the Iran-Iraq War ended and in the early 1990s faced tough competition from other arms merchants including Moscow. The high point of China’s career as an arms salesman came in 1988 when China sold US$3.75 billion worth of weaponry (measured in constant 1995 U.S. dollars) and ranked as the world’s fifth largest arms exporter. By 1991 the value of China’s arms exports had more than halved the 1988 record. In 1995 China sold only US$625 million worth of weapons (in constant U.S. dollars). Consequently, arms exports as a share of China’s total exports fell from 6.3 percent in 1988, to 1.9 percent in 1991, to a mere 0.4 percent in 1995.*

Some two decades after Deng initiated China’s reform program, his successor, Jiang Zemin, was the impetus behind rolling back the PLA’s commercial empire. In mid-1998 a decision by the highest echelon of party and army leaders was made to divest the PLA of its business operations. There is considerable controversy about whether this move was forced upon the military by Jiang Zemin

*The figures in this paragraph are taken from the following: U.S. Arms Control and Disarmament Agency [1997: 116]; Grimmett [1994: 8]. Grimmett’s figures vary somewhat from ACDA’s figures, and the CRS analyst cites the PLA’s best year as 1987, not 1988.


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<td>44.3</td>
</tr>
<tr>
<td>ME/CGE (%)</td>
<td>37.6</td>
<td>31.8</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>ME/GNP (%)</td>
<td>22.2</td>
<td>22.6</td>
<td>20.0</td>
<td>NA</td>
<td>28.6</td>
</tr>
<tr>
<td><strong>Vietnam</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Size (000s)</td>
<td>643.0</td>
<td>900.0</td>
<td>1,027.0</td>
<td>1,052.0</td>
<td>550.0</td>
</tr>
<tr>
<td>Per 1,000 population</td>
<td>25.8</td>
<td>16.8</td>
<td>16.9</td>
<td>15.9</td>
<td>7.6</td>
</tr>
<tr>
<td>ME/CGE (%)</td>
<td>NA</td>
<td>NA</td>
<td>102.1a</td>
<td>26.5</td>
<td>10.9</td>
</tr>
<tr>
<td>ME/GNP (%)</td>
<td>NA</td>
<td>NA</td>
<td>19.4a</td>
<td>5.2</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Note: NA = not available; ME = military expenditure; CGE = central government expenditure; GNP = gross national product.

*a1996 figures.
or was the result of a consensus decision by party and army leaders fed up with the scourge of corruption in the PLA.\textsuperscript{35} Whatever the precise circumstances surrounding the decision, a bargain appears to have been struck between senior party and army leaders: in exchange for divesting itself of for-profit ventures, the PLA would receive a one-time dividend and a permanent hike in the defense budget.\textsuperscript{36} Jiang issued a directive in July ordering the PLA to get out of business—a move prompted by concern over substantial PLA involvement in corruption and smuggling.\textsuperscript{37} Despite claims by some PLA sources that by early 1999 divestiture had already been “completed,”\textsuperscript{38} the initiative remains very much a work in progress.

\textbf{Vietnam}

With Vietnam’s economy in crisis, in the late 1980s Hanoi began to encourage defense factories to produce civilian goods and by the 1990s was allowing military units to launch commercial enterprises. The party-state military complex undertook massive reorientation—including greater efforts to be self-supporting under the new overarching reform policy of Doi Moi adopted in late 1986.\textsuperscript{39} By the early 1990s some 62,000 soldiers, or about 10 percent of PAVN personnel, were employed full-time in commercial activities. Dozens of main-force units operated business enterprises. Local militia units also reportedly operated more than 150 businesses.\textsuperscript{40} By 1995 the PAVN was reportedly operating more than 335 companies that employed about one-sixth of the military’s total personnel of about 600,000.\textsuperscript{41}

One PAVN general estimated that in 1985 the revenues earned by military enterprises amounted to approximately one-fifth of the total defense budget.\textsuperscript{42} Ten years later the income from these enterprises was estimated to be US$360 million, or some two-thirds of the military’s budget.\textsuperscript{43} The economic activities of the military have resulted in considerable corruption and involvement of the armed forces in such illegal activities as smuggling and drug trafficking.\textsuperscript{44}

Allowing the military to engage in commerce was done in order to help compensate the PAVN for a drastic reallocation of national resources from defense to economic reform. Following the decision to reform Vietnam’s economy at the Sixth National Party Congress in December 1986, the Politburo decided to undertake a complete restructuring of the defense establishment. The policy change was outlined in a document issued in the spring of 1987. This initiative included a major revision of military doctrine, a substantial force reduction, troop withdrawals from Cambodia and Laos, and a radical cut in the size of the defense budget. In the mid-1980s military spending was a crushing burden for Hanoi: it is estimated to have consumed the entire value of the Vietnamese government’s
annual budget. By 1990 defense spending had fallen to almost one-quarter of the central government’s expenditures; by 1995 the proportion had fallen to about one-tenth (Table 2). The deep military cuts were necessary given the severe economic crisis Vietnam confronted in the mid-1980s and the country’s changing security environment. While the PAVN did not take kindly to this radical surgery, it had little choice but to accept the defense cuts and try to make the most of commercial opportunities. Eventually the military was successful in pressing for higher defense spending: in 1992 the defense budget was increased noticeably [but not enough to eliminate the need for for-profit ventures].  

The degree of military involvement in commercial activities and the wide range of different ventures, like the PAVN’s long tradition of involvement in economic activities, mirrors those of the PLA. And after unification in 1975 the PAVN was directed, under the stewardship of Defense Minister Vo Nguyen Giap, to throw itself into the “very important task of participating in production and in economic and national construction.” The military proceeded to do so. But unlike the PRC (and the DPRK), the SRV does not have a sizable armaments industry and hence the PAVN lacks the possibility of significant income from foreign arms sales.  

**North Korea**

In terms of the absolute size of its armed forces, the proportion of its population under arms, and percentage of its GNP spent on defense, North Korea is “the most highly militarized society in the world.”+ (See Table 2 and Figure 2.) The KPA has long been a major presence in North Korean politics. And since the death of Kim Il Sung in 1994, the military has only increased its power and influence to become the dominant entity in Pyongyang.  

The more than one million soldiers who serve in the ground forces constitute a critical pool of labor for the regime. Men in military service, who comprise about 20 percent of the total population of able-bodied males aged 16 to 54, are mobilized as labor brigades during harvest season and for large-scale construction projects as well. According to one informed source: “More than half of a soldier’s time is consumed by [such] activities.” The KPA does make significant

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+In 1972 this assessment was prefaced with the word “perhaps.” As Pyongyang’s level of militarization has only increased since the early 1970s, today this qualification can be safely omitted. See Scalapino and Lee (1972: 919).
economic contributions to North Korea’s economic development, however, and not all military spending should be regarded as a drain on the economy.50

Moreover, the North Korean armed forces possess a vast empire of factories producing both military and non-military goods. Efforts to make the KPA self-sufficient in armaments, while not completely successful, have resulted in the creation of a sizable military-industrial complex that is able to provide for much of the military’s own needs and produce arms for export. It is not clear what proportion of the complex’s output is marketed to raise revenue for the military. Indeed, very little information is available about this sector—known as the “second economy” because it is controlled by an entity called the Second Economy Commission.*

We do know that the KPA conducts a thriving trade in a variety of military hardware—perhaps its best-known exports are SCUD missiles. These exports provide an important source of hard currency. In the mid-1980s these exports were estimated to have brought North Korea somewhere between US$500 million and US$900 million annually in constant 1995 U.S. dollars.51 In the mid-1990s this figure had declined considerably to tens of millions of dollars. Arms sales that comprised almost 30 percent of total exports in 1988 made up less than 4 percent in 1995.52 Over the past three decades the defense budget is estimated to have constituted approximately one-third of all government expenditures and between one-quarter and one-fifth of North Korea’s GNP (Table 2).

GENERAL TRENDS

The limitations and drawbacks of commercial ventures are becoming readily apparent to many civilian and military leaders. These activities slowly undermine combat readiness, weaken party control, and damage the reputation and morale of the armed forces. The most immediate indication of these potentially debilitating effects is the emergence of endemic corruption. And as both China and North Korea have discovered, arms sales can be very lucrative sources of income but markets are extremely volatile and income can fluctuate dramatically.

Two key long-term trends in Asia’s socialist states are the downsizing of the armed forces [see Figure 1] and the military’s increasing focus on the primary mission of external defense. Closely linked is an incipient trend toward strictly limiting or discarding other roles, including internal security and entrepreneurial activities. The PLA has now delegated primary responsibility for internal security to the People’s Armed Police (PAP).* Beijing is in the process of divesting the military of its commercial enterprises—a step that will likely prove extremely difficult for Hanoi and nearly impossible for Pyongyang. In any case, for reasons of ideology and revolutionary tradition, Asia’s socialist soldiers will continue to retain important roles in national socioeconomic development and production for the military’s own consumption.53

GENERAL POLICY RECOMMENDATIONS

Once the decision has been made in principle to divest the military of its for-profit holdings, two thorny issues remain: compensating the military for lost income and cleaning up corruption. These challenges are quickly followed by other issues related to the nuts and bolts of managing the divestiture itself.

Short-Term Recommendations

First: Assure the military that it will be fairly compensated for the value of the divested enterprises and the revenues it derived from them. The question of compensation is likely to be the number one concern of military leaders. The details

*While the CMC [not the Ministry of Public Security] holds operational control over the PAP and while former PLA officers and rank and file make up many of the paramilitary formation’s personnel, the entity is quite distinct from the PLA. See Cheung (1996: 525–547). It is not unusual at all for a gendarmerie to be under the control of a state’s armed forces or ministry of defense. See, for example, Demarest (1995).
and mechanics of compensation should be made explicit to senior soldiers at the outset.

Second: Take a resolute but low-key approach to rooting out corruption in the military. This task is important but should not be permitted to overshadow the question of compensation and the overall focus on the process of divestiture itself. Cleaning up corruption is a sensitive matter to soldiers whether or not they are involved in corruption. Corrupt soldiers, of course, prefer to escape punishment. Honest soldiers, while they desire to see corruption cleaned up and its perpetrators punished, prefer that the process take place without great fanfare. Not washing all its dirty linen in public allows the military to minimize further damage to the soiled reputation of the armed forces. The most egregious violators should be severely punished, and some cases should be well publicized to demonstrate to the public that a cleanup is taking place. But most cases should be handled sensitively and confidentially. Less serious offenders can be fined, demoted, or otherwise disciplined. More serious offenders can be discharged from the armed forces. To ensure prompt compliance and minimal disruption, most of those mustered out could be given “early retirements” and permitted to retain some, if not all, of their pensions and other benefits. Meanwhile, soldiers untainted by corruption should be given the option of remaining in these commercial enterprises as civilian employees.

Third: States should establish a temporary agency headed by a widely respected figure, preferably an army veteran, to oversee the process of divesting the military’s for-profit holdings. The entity should be a joint civilian and military venture but not beholden to any bureaucratic interest. It could be fashioned after the U.S. Resolution Trust Corporation that disposed of the assets of failed savings-and-loan institutions or the Federal Republic of Germany’s Treuhandanstalt that supervised the privatization of state firms in the former German Democratic Republic. The “receiving office”—such as that set up in China in late 1998 under the auspices of the State Economic and Trade Commission (SETC)—might lack the stature and clout necessary to pursue its mission vigorously.* On the one hand, the SETC office appears to have been quite successful at formally divesting the PLA’s commercial ventures. Several signs point to the office’s effectiveness: First, PRC Defense Minister Chi Haotian asserted that this process had been promptly completed; second, PLA leaders complained that the military was only being compensated for a fraction of the actual value of the assets being

*The challenges it confronts are monumental. See, for example, Lawrence and Gilley (1999).
turned over to civilian authorities [suggesting that costs had been contained].

On the other hand, other signs indicate that the receiving office’s performance was less impressive. First, contrary to the claims of Chinese officials, the divestiture process appears to be far from complete. Indeed, the PLA has refused to part with certain enterprises, arguing that certain companies should be exempted from Jiang’s July 1998 order. This position is justified by the claim that these operations are engaged in military rather than civilian production. Second, the PLA appears to have succeeded in winning significant increases in the level of compensation it had been slated to receive. In the final analysis the authority of this Chinese receiving office probably depends on the political fortunes of SETC’s patron, Premier Zhu Rongji.

Fourth: A strict timetable should be devised and deadlines established for accomplishing the task of divestiture.

Long-Term Recommendations
First: The military should be separated from the process of production, procurement, marketing, and sales of arms at home and abroad. Recently China has taken steps in this direction by revamping the civil-military institutional framework of the military-industrial complex. In 1998 a new and completely civilian organization—the State Commission of Science, Technology, and Industry for National Defense (Costind)—assumed overall responsibility for supervising the defense industrial sector. The “new” Costind actually replaced the “old” Costind that had essentially been an extension of the PLA. And within the PLA a General Armaments Department was established. The intent is to shift primary responsibility for weapons development and procurement from the PLA to a state civilian entity. There seemed to be considerable confusion in China over the new arrangement, however, and as to whether the new Costind had lost or gained power.

Second: The defense budget must be increased in order to raise pay and benefits for military personnel and provide troops with adequate resources (equipment, weaponry, training, education, and such). The record in China in this regard is mixed. While the defense budget was increased in March 1999, the rise (12.7 percent) was not much greater than defense budget hikes in recent years.

Third: Transparency in the defense budgeting process should be enhanced both domestically and internationally. If defense outlays must rise to compensate the military for divesting from commercial ventures, it becomes increasingly important to make the burgeoning budget itself and the process by which it is devised more inclusive and open. Although China has taken tentative steps in
this direction, its leaders seem to have a very modest understanding of what “transparency” entails.⁶²

Fourth: Parliaments must play a greater role. The process of formulating the defense budget is a critical area to demystify and illuminate. Formally these legislatures possess the power of the purse and must approve the national defense budget.* Legislators in each country should play greater roles. Indeed national parliaments have become increasingly active and influential. China’s National People’s Congress, Vietnam’s National Assembly, and North Korea’s Supreme People’s Assembly are emerging as significant players, although these legislatures still play very modest roles by comparison to those in democratic polities.† In each country the parliament has allocated places for representatives of the people’s army and most senior soldiers hold seats in these bodies. Thus the military may not oppose increasing the power and authority of the legislature over the armed forces since the military would be in a position to lobby the body and influence legislation. Socialist lawmakers and their staffs should be encouraged to undertake exchanges with their counterparts in other countries in order to become familiar with different ways of handling defense policy and budgetary matters.

Fifth: Support academic exchanges. Such activities can nurture the emergence of a community of knowledgeable civilian defense policy intellectuals.

Sixth: Promote military-to-military exchanges. Soldiers can learn how armed forces in other countries participate in the budgeting process and seek to make their interests and concerns known to lawmakers and policymakers.

Implementing these measures will provide a foundation for the establishment of an open and healthy national dialogue on defense priorities and the appropriate level of defense spending.⁶³ Such exchanges will also result in greater understanding by neighboring countries of how defense policies and defense-related legislation are formulated in China, Vietnam, and North Korea. The greatest value may lie in exchanges between socialist states themselves, however, since on the subject of military divestiture they face quite similar challenges.

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*The constitutions of the PRC, SRV, and DPRK all invest the national parliament with the power to “examine” and “approve” the state budget. Moreover, according to each constitution, the country’s legislature is “the highest organ of state power.” See Articles 62 and 57 of the PRC constitution, Articles 84 and 83 of the SRV constitution, and Articles 91 and 87 of the DPRK constitution.

†On China’s NPC see O’Brien [1990] and Tanner [1998]. On China and North Korea see, for example, Koh (1988: 97). On Vietnam see Agence France Presse [1998]. In January 1998 Nong Duc Manh, speaker of the National Assembly, was elected to the Standing Committee of the CPV Politburo. In North Korea, meanwhile, the higher profile of the Supreme People’s Assembly is indicated by the fact that its leader, Kim Yong Nam, now ranks second only to paramount leader Kim Jong Il in the party-state hierarchy.
COUNTRY-SPECIFIC POLICY RECOMMENDATIONS

For China the most urgent task is to reinvigorate the process of divestiture now under way. The appointment of a “divestiture czar”—preferably a respected former soldier—to see the process through to the end would be a good step.

For Vietnam, meanwhile, the time is right to begin the process of divesting the PAVN of its for-profit enterprises. Now is an auspicious moment to start because CPV General Secretary Le Kha Phieu, a career soldier, can use his prestige and credibility with military leaders to build a civil-military consensus that an initiative is indeed necessary.

For North Korea, it will be essential to approach the matter of divestiture in a comprehensive manner in conjunction with other defense reforms. While divesting the military of for-profit ventures is a complicated and messy business in any socialist state, this situation will be especially difficult for Pyongyang. The influence of the KPA is so pervasive and the power of Kim Jong Il so dependent on the armed forces that there is no alternative to thoroughgoing systemic reform. With this in mind the following recommendations are suggested:

1. Downsize and delineate the duties and roles of the military. Even though the KPA makes substantial contributions to economic development, the vast size of the armed forces is too great a burden on the country. Moreover, the military has too many peripheral duties that detract from its combat readiness.

2. Provide vocational training and financial assistance to veterans demobilized through downsizing in order to ease their transition into the civilian economy. Encourage the start-ups of businesses run by demobilized soldiers by offering loans or grants. International agencies and foreign governments could no doubt be persuaded to provide funds for such an initiative.

3. Subordinate to a civilian agency the KPA’s arms production and sales operations. All income generated from these pursuits should go into state coffers. The KPA should be guaranteed a fixed proportion of the revenues generated from these ventures in exchange for its withdrawal.

CONCLUSION

The task of getting the military out of commerce is proving to be a daunting undertaking for the socialist states of Asia. Such involvement is detrimental to combat readiness, weakens party control and the military chain of command,
damages morale, and besmirches the military's reputation in society. Although these effects are difficult to demonstrate conclusively, senior soldiers and civilians in China and Vietnam appear to believe this is the case—based on the emergence of rampant corruption in the armed forces. Arriving at a consensus among civil and military leaders that such a move is in the best interests of both the armed forces and the state, however, is only the first step. It is the actual process of divestiture that presents the real challenge. Success or failure in this endeavor will have a crucial bearing on the future of civil-military relations in each of the three countries. This paper has offered insights that may prove useful to those grappling with the issue of divesting the military of its commercial holdings.

ENDNOTES

1 Solomone [1995].
2 Gurtov and Hwang [1998: 192].
4 See Perlmutter and LeoGrande [1982: 778–789].
5 Similar points are outlined in Joffe [1995: 28–29].
6 See, for example, Mao [1967: 53–56].
7 Stepan [1971, 1988].
8 Mulvenon [2000: chap. 2].
9 See, for example, Huntington [1957].
10 Shao [1999: 6].
11 See, for example, Lawrence [1999: 25–26].
12 On the comments by Xu, Zhang, and Liu see Lam [1995: 232].
14 Tung Fang Jih Pao [Hong Kong], 11 June 1996, in FBIS-CHI-96-113.
15 “Russia's Armed Forces” [1993: 17].
16 Cheung [1994: 100].
18 Cited in O'Neill [1999].
19 See, for example, Joffe [1999: 29–32].
21 Shao [1999].
22 Reuters [1999].
24 Joffe [1995: 40].
25 Lam [1995: 227].
26 See, for example, a 1994 Chinese Academy of Sciences report cited in Joffe [1995: 37].
28 Shao [1999].
29 Pomfret [1999: A14].
30 Schwarz [1996: 18].
31 Mulvenon [2000: chap. 5].
32 Dreyer [1972: 3–24].
See, for example, Mulvenon [2000: epilogue].

Mulvenon [1999: 19].

See, for example, Tan [1998].


Jane’s [1997: 13].


Jane’s [1997: 13].


Thayer [1994: 32–41].


Eberstadt [1995: 66].


Shao [1999]; Pham Van Tra [1999].

Xinhua News Agency [1999].

Lawrence and Gilley [1999].

“The Military” [1999].

For an analysis of these changes see Jencks [1999: 59–77].


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See, for example, the discussion in Yi Jan [1999].

Stepan [1988: 133–136].

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