Military-owned businesses: corruption & risk reform

An initial review, with emphasis on exploitation of natural resource assets
Transparency International (TI) is the civil society organisation leading the global fight against corruption. Through more than 90 chapters worldwide and an international secretariat in Berlin, Germany, TI raises awareness of the damaging effects of corruption, and works with partners in government, business and civil society to develop and implement effective measures to tackle it.

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exploitation of natural resource assets
Transparency International UK’s Defence and Security Programme has been in place since 2004, committed to increasing integrity and reducing corruption in defence and security establishments around the world. We work with governments, the defence industry, and civil society organisations to develop practical measures to combat corruption.

Officials and senior officers tell us directly why they care so much about corruption risk in defence and security. In their own words, this is because:

- Corruption wastes scarce resources.
- Corruption reduces operational effectiveness.
- Corruption reduces public trust in the armed forces and the security services.
- Defence budgets, due to their secrecy, are an easy target for politicians seeking funds.
- International companies shun corrupt economies.

The security landscape today is fundamentally different from the way it was during the Cold War. Particularly at a time of economic crisis, governments are much less ready to accept the waste that comes with corruption.

One of the areas of corruption risk we are often asked about is commercial businesses that are owned by the military. This is a surprisingly common phenomenon and is open to a wide range of potential abuses. As there is extremely limited information on such businesses, we have taken a first step to provide an overview of information that is in the public domain on this topic, through this initial review by Kevin Goh and Julia Muravska.

They have focused on a few very different countries with extensive military-owned businesses—China, Turkey, Pakistan and Indonesia—and looked at national efforts of reform.

In addition, they have looked at one of the major areas of abuse—exploitation of natural resource assets by the military—in oil, mineral, forestry, agriculture, fisheries and land.

This study will be supplemented by another, more in-depth look at military-owned businesses worldwide. We aim to release this in early 2013.

The paper looks at the operations of some military-owned businesses, and the success or otherwise of some of the reform efforts that have been initiated. It looks particularly into the interaction between these businesses and the natural resource and extractive industries.

We hope you find this report to be useful, and we welcome all feedback and discussion of our findings.

Mark Pyman
Director, International Defence and Security Program
Transparency International UK

January 2012
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LIST OF ABBREVIATIONS

CCP – Chinese Communist Party
CMC – Central Military Commission
FAA – Armed Forces of Angola
FMB – Formal Military Business
GLD – General Logistics Department
IDF – Israeli Defence Force
IMB – Informal Military Business
MoD – Ministry of Defence
NGO – Non-governmental Organisation
OYAK – Ordu Yardımlasma Kurumu’nun (Armed Forces Pension Fund)
PLA – People’s Liberation Army (China)
RCAF – Royal Cambodian Armed Forces
TNI – Tentara Nasional Indonesia
TSKGV – Türk Silahlı Kuvvetlerini Güçlendirme Vakfı (Turkish Armed Forces Foundation)
UN – United Nations
UPDF – Ugandan People’s Defence Force
Introduction

Corruption in the defence and security sectors has frequently been a problem for governments throughout the world. The types of corruption that occur within the military range from small-scale petty corruption, whereby individual soldiers are guilty of extortionist practices or accepting bribes, to grand-scale corruption in which officials are found guilty of embezzlement of military funds or profiteering from procurement.

Military corruption is problematic because of its detrimental effects on the armed forces themselves and on the civil-military relationship. By engaging in corruption, the military also contributes towards the erosion of public support and towards the overall integrity of state structures.

However, whilst these may be the more common forms of military corruption, some defence forces are also engaging in commercial enterprises, often with insufficient oversight and control. Such military-owned businesses are prevalent in the natural resource sectors and in the extractive industries. The military’s privileged position in society enables it to capitalise on its power and patronage networks. Where they are also responsible for border security, this power gives them the capability to easily import and export goods without being subject to state customs or inspections.

Although incidences of this are far more prevalent amongst developing countries, this phenomenon can also be observed amongst nations with more advanced economies.¹ Some of these countries also include the Newly Industrialised Countries (NICs).

This literature review begins by examining how the military has engaged in business activities, so as to establish the specific corruption risks. Next, we explore the military’s involvement in this sector by resource type.

In doing so, we hope to provide an initial survey of the scale of the military’s involvement in these sectors and the scale of corruption there. The last section looks at national efforts to reform such military ownership, and to see what, if any, lessons can be drawn.

WHY CARE?

The introduction of profit and commercial incentives into a non-profit driven organisation is firstly a distraction from official duties. The creation of military entrepreneurship also compromises the professional integrity and cohesion of the military as an institution.

Based on the various cases of military businesses provided in the following chapters, corruption is highly likely to occur either at an institutional or an individual level. In most cases, military entrepreneurship, once started, takes on a life of its own. The initial intentions to create self-sufficiency programs often risk the development of a profit-driven internal economy.

The military’s economic participation is also damaging for its relationship with society. Its elevated social position gains it certain concessions and special access to state resources which civilian population would not be entitled to. This scenario of special privileges has been replayed throughout countries which have a military-business complex nexus. Such practices harm the economic prospects for a country since they reduce investment attractiveness to external firms. In addition, this undermines the ability of non-military linked companies to compete on a fair footing with military businesses.

The development of military entrepreneurship is also damaging for the state and for the exercise of civilian authority over the armed forces. As cases in China and Indonesia will highlight, attempts to develop military programmes for self-sufficiency often have severe consequences for the military’s relationship with the government. The level of secrecy that militaries enjoy limits the effectiveness of any form of civilian oversight mechanisms and its accountability to governments.

¹ For a definition and comprehensive list of developing countries, please see IMF’s World Economic Outlook Report for 2010.
From a corruption perspective, the natural resources sector is a vulnerable business area. The link with inappropriate exploitation of a nation’s natural resources has long been a weakness of militaries with poor accountability in such countries.

The large revenue potential of natural resources and minerals—and the potential for the economic development of the nation—make it clear why the military and security organisations should not be able to exert undue control over these assets.

METHODOLOGY

Much of the available scholarly literature revolves around the issue of civil-military relations, rather than specifically tackling the field of military corruption. Furthermore, most sources pertaining to this field focus mainly on corruption in procurement, asset disposals or issues of civilian oversight.

Research for this review was primarily drawn from scholarly journal articles and books. In addition to these sources, evidence has also been gathered from NGOs such as Human Rights Watch and Global Integrity. Further data on military businesses in these sectors was also obtained from international initiatives such as the Extractive Industry Transparency Initiative (EITI). Where possible, contact has also been made with academics and journalists who have helped with the provision of further information on the topic. Information on specific companies and organisations was drawn from various sources, but mostly from reviewing the publications of known military foundations and companies in order to gain a fuller understanding of their operations and networks.

COVERAGE AND OMISSIONS

As mentioned above, the scope of this review is dependent upon the availability of open source material. We have also had to omit several other countries from this report. These are as follows:

Military Regimes: Military regimes or military dictatorships have been deliberately excluded from this report, principally Burma (Myanmar), Libya, Niger, Guinea and Fiji.

Post-Conflict States: States which have recently recovered from violent conflict or in which international peacekeepers are still present have also been excluded from this report.

The large revenue potential of natural resources and minerals—and the potential for the economic development of the nation—make it clear why the military and security organisations should not be able to exert undue control over these assets. Credit: Flickr/Storm Crypt.
In this review, we have followed a categorisation scheme developed by Mani, where military businesses develop as either formal or informal business structures. A formal model of military entrepreneurship refers to one whereby military businesses are considered and recognised as key economic actors and are fully integrated into the economy. An informal model refers to a situation whereby military entrepreneurship is considered to be illegal in nature and in business conduct. Table 1 (below) shows the type of business structure that can emerge. As Mani argues, the stronger a state is, the lower the chances are that military businesses will emerge. Conversely, when the military’s growth outpaces that of the state, military entrepreneurship becomes more likely. An example of this can be drawn from the case of the Tentara Nasional Indonesia (TNI) which has been an integral aspect of Indonesia’s history since the days of the independence movement. Such scenarios would often favour the military, especially given its existing position.

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<th>MILITARY ORGANISATION</th>
<th>STATE CAPACITY</th>
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<td>Weak</td>
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<td>• Entrepreneurship likely</td>
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3 Mani, p. 595.
According to Mani, the development of military business is highly dependent upon two key factors: state capacity and military organisation.4 State capacity refers to the state’s ability to set the parameters which help to constrain institution behavior through the development of rules and norms.5 The stronger the state is, the better it is able to manage the demands of the military. Strong states have the capability to discipline and punish militaries which break the rules defined by the state either through the judiciary or through internal purges. Since the risks involved in such engagements would be far higher to the military, it would thus be a disincentive to action. In countries whereby the state is weaker than the military, governments are more likely to rely upon their military to help stabilise the country. In this respect, state capacity is determinant of the type of civil-military relationship that emerges and the likelihood of military-businesses developing.

A second variable is the type of military organisation that the state has. Mani states that the level of professionalism within the institution helps determine the type of entrepreneurship that would emerge. To put it simply, whether the military engages in business activities for individual or institutional benefit is therefore dependent upon the level of professionalism that is instilled within the institution. As demonstrated by Table 1, high levels of professionalism amongst the military would likely result in commercial activities undertaken for institutional benefit. The examples of the Royal Cambodian Armed Forces (RCAF) provided in the following chapter, demonstrate how the lack of cohesion within the armed forces has resulted in business enterprises being undertaken for individual profit.

FORMAL AND INFORMAL MILITARY BUSINESSES

By engaging in business activities, the military inevitably introduces profit incentives into its daily operations. The danger of this is that it compromises the key ethos and non-profit element central to a professional military. Even when a highly professional military is granted permission by the state to engage in economic enterprises, corruption still remains an inevitable risk.

Formal military businesses

Formal military businesses can be classified as instances whereby military enterprises do indeed have some form of corporate bureaucracy.6 In examining these companies, it was observed that they have a professional corporate structure and often a formal committee and a board of directors as well. Although the independence of the corporate bureaucracy itself can be questioned, these companies no doubt exhibit a relatively professional structure and business operation. Another key feature which helps to distinguish FMBs is its recognition as formal economic actors and its incorporation into the formal economy. In addition, many of these military-owned companies are listed on the stock exchange and have formal shareholder structures and profit-sharing schemes. FMB companies are often operated for institutional benefit rather than individual profits.

Informal military businesses

Informal military businesses structures on the other hand, can be defined as the opposites of FMBs. They are characterised by their lack of coordination, organisation and their lack of transparency in business. The lack of transparency in business dealings creates a huge vulnerability for individual soldiers to engage in corruption. These structures are often not recognised by the state as a formal economic actor. In fact, it has been widely reported that the majority of these companies are engaged in the informal economic sector and in illegal activities as well. In countries like Indonesia and Cambodia, there have been reports that individual soldiers have engaged in illicit activities such as prostitution rings and even money laundering.7 IMBs are often run by individual soldiers who use profits for their own personal benefit rather than for institutional gain. These businesses are often run through a front or a holding company which is owned by non-military personnel. In the natural resource sector, such companies are often engaged in illegal mining and illegal logging.

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4 ibid.
5 ibid.
6 ibid., pp. 184-185.
7 United States Department of State, Trafficking in persons report 2010 - Cambodia, retrieved August 2011, http://www.unhcr.org/refworld/country,USDOS,KHM,4c18840232,0.html.
Central or regional control

As shown in Table 2 (below), most FMB cases are often coordinated by the overall military command or by the respective services.

Businesses operated by the ‘Overall Command’ are often organised directly by the military leadership. Although business operations are most likely to be controlled either by regional commanders or by individual high-ranking officers, all profits earned by these businesses are required to be channeled back to the overall military command. Profits are used to enhance the welfare and benefits that soldiers receive through the creation of generous pension funds. However, there are indicators that these gains are not spread evenly throughout the military. Instead, benefits are often targeted at the officer corps or the military elites.

This creates a significant potential for corruption, as the uneven distribution of wealth might encourage the lower echelon of soldiers to engage in illegal economic activities to support themselves. IMB structures present a much clearer potential link between military business and corruption. Since they are run for individual profit, this can be considered a case of corruption as these provide a secondary source of income.

| TABLE 2: FORMAL AND INFORMAL MILITARY BUSINESSES |

Military businesses examples

The cases below provide examples of the scale of military businesses and detail their operations.

CHINA AND THE PLA

In 1994, the People’s Liberation Army (PLA) operated over 10,000 enterprises. The main logistics and constriction considerations were tasked to the General Logistics Department (GLD), a chief organ of the Central Military Commission. In these enterprises, profit-making is considered to be the most important internal goal. The expectation was that the PLA’s own military economy would be able to generate sufficient revenue to make up for the inability of the defence budget to fund its operations.

The early rationale for the PLA’s engagement in commercial enterprises was to create a programme of self-sufficiency.8 The importance of this supplementary role became crucial during the 1980s when cuts to the defence budget forced an increasing dependence upon these extra-budgetary income sources.9 Enterprises are subordinated to military units and are forbidden from using budget funds to finance their business operations.10

The GLD is mainly represented by the conglomerate Xinxing Corporation, which exports military logistical equipment as well a number of other goods produced by the GLD’s various enterprises. The Xinxing Corporation was expected to turn over 70 per cent of its annual profits to the GLD. The GLD was also known to have several joint ventures in the hotel and guest house industry throughout the 1990s. In fact, according to the ‘Guide to Complete Practical Guide to Chinese Military Finance’, hotels and guest houses were to transfer 20 per cent of their profits to the GLD, while the distribution of the remaining sum is decided by the PLA that controls the businesses.11

The PLA also established Polytechnologies and Sanjiu Enterprise Group which deals primarily in pharmaceutical goods. Sanjiu owns approximately 34 military-affiliated enterprises and other foreign subsidiaries across the world. In 1992, the PLA also began to involve itself extensively in joint ventures which resulted in foreign capital rising to approximately 230 per cent. Military units in the Xinjiang Province were also alleged to be heavily engaged in foreign trade with various former Soviet republics. In 1994, it was estimated that the PLA’s business enterprises owned approximately 30 per cent of the service sector.12

Despite the imposition of strict rules governing the operation of PLA business operations, numerous allegations of corruption have nevertheless arisen in the past few years amongst the armed forces. The PLAs privileged position in society enabled it to exploit the national transportation network. Up until divestiture in 1998, it was widely reported that several PLA units had often diverted military vehicles to transport legal and illegal goods. As military license plates were not subjected to border checkpoints and customs, this provided a strong incentive for corrupt activities. This was reported to be a major problem, particularly amongst border units who frequently exploited military vehicles to transport narcotics. The severity of this problem grew further when it was reported that military gangs were forging such license plates.13

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12 Bickford, op.cit., p. 468.
In fact, it was largely due to its role in fueling corruption, that private military business ownership fell out of favour with the Chinese leadership at the beginning of the twenty-first century.\(^\text{14}\)

Although the structure of the PLA’s FMB empire may have appeared disjointed, it should be noted that the establishment of these holding companies was dependent upon instruction from the Central Military Commission (CMC). Profits generated by these businesses were used to fund the PLA’s overall operations. This demonstrates that even amongst a highly professional military such as the PLA, the task of ensuring that military businesses do not result in corruption is extremely difficult.

TURKEY

A similar modus operandi can be noted in Turkey where its FMB is wholly-controlled by the armed forces’ two foundations. OYAK (Armed Forces Pension Fund) and TSKGV (Turkish Armed Forces Foundation) are the two holding companies which effectively run the commercial enterprises of the armed forces. The foundations also own various properties which help to provide income for the armed forces. Together, they operate several companies and like the PLA, contribute a sizable amount towards the national economy.\(^\text{15}\)

OYAK was established in 1961 by the National Unity Committee and was intended as a welfare fund to provide for retired military officers. The holding company has several current senior military officers who serve on its board of directors and in other senior managerial roles. OYAK functions as a holding company which owns a total of sixty companies. Since OYAK is officially considered a welfare fund, the fund itself is exempt from taxation whilst the companies it owns are not. Some of its more notable joint ventures include that with Renault. In 2009, the company Oyak Otomobil Fabrikalan A.S reported that OYAK itself owned USD 8 billion in assets. On the other hand, its combined group assets amounted to USD 18.8 billion.\(^\text{16}\)

TSKGV operates a total of eighteen companies all of which are involved in the defence industry. The foundation receives property donations which are then used to provide income through rent. Furthermore, since the 1980s, the Turkish Navy has been renting out its facilities at three locations which accounts for 30 per cent of the foundation’s rental income. The foundation also has several companies in the field of dual-use technology, including a joint-venture with Daimler-Benz AG. The foundation also sponsors the bi-annual international defence industry fair.\(^\text{17}\) As with OYAK, the profits earned by TSKGV are tax-free.

There have not been any clear cases of military corruption as a result of these business enterprises; however, business involvement ultimately entails potential implications for the armed forces of any country. In this case, as the pension fund only benefits the officer corps, the unequal distribution of benefits has the potential to become a problematic issue for the military. It may result in the non-commissioned ranks engaging in private enterprises or illegal activities to supplement their own income.

PAKISTAN

Siddiqa details how the military economy of Pakistan revolves around four welfare foundations which are run by the individual services.\(^\text{18}\) What distinguishes the Pakistani military business complex is its level of independence and autonomy from any form of overarching control. The Fauji Foundation (General Staff), Army Welfare Trust (Army), Shaheen Foundation (Air Force) and the Bahria Foundation (Navy), are each run by their respective services, and the Ministry of Defence has no control over their business operations. Profits are used to fund the respective services directly and do not contribute in any way to the overall military organisation. The operations of these foundations are extremely diverse in range starting from small-scale local operations such as bakeries to major corporate enterprises like banks.

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\(^ {16}\) OYAK, 2009 Annual Report, Ankara, 2009, retrieved


The four foundations are controlled by the service headquarters and run by retired military personnel. Although most jobs in these businesses are taken up by ex-military personnel, a number of serving officers and civilians are also employed. The National Logistics Cell (NLC), a goods transportation company, is staffed by over 2,500 serving army officers.\(^\text{19}\)

Similarly, the Frontiers Works Organisation (FWO), which is the country’s largest construction company employs army engineers. According to Siddiqa, the bulk of pilots for the national commercial airlines are provided by the Air Force.\(^\text{20}\)

A similar situation was uncovered within the Army, with Askari Aviation, which is run by the Army Welfare Trust, using the Army Aviation Wing to meet its commercial demands. In essence, military business enterprises are used to place people who are considered unsuitable for further advancement within the establishment itself. This may be considered a gross misappropriation of resources and may lead some people to question the level of professionalism within the institution.

The foundations are also reported to have received a far greater portion of government subsidies than the private sector. Siddiqa estimates that between 2004 and 2006 the Fauji Foundation received an estimated USD 65 million in subsidies, a sum which no private-sector business group has ever received.\(^\text{21}\) The influence that the military may wield over the economy has allowed it to request that the government bails out the foundations in times of financial crisis. Siddiqa notes one such example. In 2001, the Army Welfare Trust sought government bailout to the tune of USD 93 million, to finance an overall deficit which reached USD 259 million.

**INDONESIA**

However, the structure of military businesses is not strictly limited to those stipulated in Table 2. The military’s economic activities may also take the form of a hybrid structure which may see an integration of FMB and IMB. An example can be seen in the case of Indonesia whereby informal business practices run alongside the formal. In Indonesia, the military is widely recognised as an economic actor, owning multiple companies through various foundations. However, it has also been reported that several military units and regional commanders have engaged in private business enterprises (often illegal) as a means of supplementing their personal income and amassing wealth.\(^\text{22}\)

The examples presented above demonstrate the dangers involved in military businesses. This is not to say that corruption is an inevitable consequence of military business. Rather, the military’s participation in the economy creates major vulnerabilities which compromise the degree of professionalism of the armed forces. The lure of profit is thus a major incentive for corruption. Cases of informal military business have not been mentioned in this chapter for several reasons. In most cases, IMB’s normally develop on an ad-hoc basis and are run by individual soldiers for self-profit. Hence, the lack of a clear and formal modes of operation makes it difficult to dedicate sufficient discussion to how these businesses are run. The following discussion of military business by resource type will provide some examples of IMBs.

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\(^{20}\) Ibid., p. 116.

\(^{21}\) Ibid., p. 153.

This chapter explores the scale of the military’s involvement in the natural resource and minerals sectors. The case studies in this chapter provide examples of informal military businesses and their operations, which illustrate the somewhat chaotic and un-coordinated nature of these businesses. Even in countries with formal military business structures, the lure of individual profits remains a strong incentive for IMBs to emerge.

**OIL**

**Angola**

The Angolan oil industry is primarily dominated by the oil corporation SONANGOL. Oil income has been largely used to fund the administration and the military, and rarely extends beyond the government sector. In particular, oil rent has been used by the government to help fund the state’s extensive military apparatus through a variety of means. This has helped to situate the Armed Forces of Angola (FAA) at the centre of the nation’s political economy which has resulted in widespread reports of corruption amongst its military forces.

According to Philippe Le Billon, the FAA’s military expenditure is primarily funded by the oil industry through “oil-collateral short-term commercial loans passed directly from SONANGOL, and signature bonuses from foreign companies for oil concessions”. The redistribution of the oil wealth has largely benefited the presidential circle and its own patronage networks.

Several members of the FAA’s elite have also been able to participate in various highly profitable privatisation schemes, and others have been known to “receive personalised ‘annual bonuses’ that dwarf their official earnings”. Frynas and Wood have also noted that the FAA has been used to protect various oil installations.

**Pakistan**

The military of Pakistan also has a considerable presence in the country’s oil industry with its biggest military-business conglomerate, the Fauji Foundation. In 1983, the foundation bought a 51 per cent stake in the Pak Stanvac Petroleum Project (now under Mari Gas Company Limited), giving the foundation both profit and management rights over the company. In 1984, this share was reduced to 40 per cent, although the Fauji Foundation continues to own a majority stake in the company.

In addition, the foundation has also placed several ex-military personnel on its board of directors including an ex-Lieutenant General as its chairman. It should be noted that this operation is extremely lucrative especially since the company owns the country’s second largest natural gas field.

Aside from its ownership of Mari Gas, the foundation runs its own Liquified Petroleum Gas (LPG) marketing and distribution company, Foundation Gas. It also operates the country’s largest petroleum-handling facility, Fauji Oil Terminal and Distribution Company Limited (FOTCO), which is capable of handling nine million tonnes of oil per annum. In line with the general trend, FOTCO’s Board of Directors and general management is populated by former military officers who work towards the organisation’s profitability, which in 2008 reached USD 3.75 million.

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27 A Siddiqa-Agha, op.cit.
28 A Siddiqa-Agha, op.cit., p. 146.
MINERAL EXTRACTION

Cambodia

The Cambodian mineral extraction sector has witnessed high levels of participation by the RCAF (Royal Cambodian Armed Forces). The RCAF’s involvement is two-pronged. Firstly, several members of the RCAF elite own several key mines. In addition, RCAF soldiers have been employed as security guards for these mining sites. A 2009 Global Witness report stated that several members of the Cambodian elite or their relatives had been granted favorable mining licenses and concessions.

These include:
- Head of RCAF, Military Development Zones
- Commander RCAF Infantry Forces
- Commander in Chief, Royal Cambodian Army and Chief of Joint Staff

One of the main companies in the Cambodian mining sector, Rattanak Stone Cambodia Development Company Ltd is beneficially owned by a high-ranking general. Since 2005, the company has been involved in various joint ventures with several foreign firms. These included Pheapimex (a Chinese state-owned company) and Kenertec (a Korean company). Together, these companies have been able to exploit the iron mine in the Preah Vihear Province.\(^{29}\)

Similarly, Rattanak’s involvement with Kenertec has resulted in a joint venture to exploit the Rovieng iron mine by purchasing an 85 per cent stake and reportedly making an upfront payment of USD 1 million. Global Witness further reported that Kenertec had employed the security services of the district army unit by paying USD 1,000 to the district army chief who would in turn distribute the money amongst his soldiers.\(^ {30}\)

The RCAF’s participation also extends into the field of chromium exploration. The Southern Mining Company, which is owned by another general, holds an exploratory license in Phnom Samkos Wildlife Sanctuary. Approximately one hundred soldiers from an RCAF battalion were used to guard the mining site.\(^ {29}\) Global Witness reported that the legal status of the mine is highly controversial since the Sanctuary falls under the jurisdiction of the Ministry of Environment.\(^ {31}\)

Since August 2008, the mine has been under the operation of Geosimco, a branch of Vietnam Coal and Mineral Industries Group (Vinacomin). The new management now pays the RCAF soldiers a monthly sum of USD 150 plus medical insurance. Global Witness further reported that under this new deal, Vinacomin bought a 70 per cent share of the Southern Mining Company, with the remaining 30 per cent in the hands of its beneficial owner.

In May 2011 Vietnamese government inspectors found that several Vinacomin subsidiaries lacked operating licenses and corporate oversight structures, resulting in employer-customer collusion, and environmental protection systems such as wastewater treatment.\(^ {32}\)

Indonesia

The TNI’s participation in the mining sector primarily revolves around its role as a security provider. In 2005, Global Witness reported on the relationship that the TNI had with Freeport McMoRan Copper & Gold Inc. According to the organisation’s report, Freeport’s operations in Papua have been guarded by the TNI since the 1970s.\(^ {33}\)

In 2003, the company disclosed that its Indonesian subsidiary had paid USD 4.7 million in 2001 and USD 5.6 million in 2002 for government security services. In addition, between 2001 and 2003, approximately USD 250,000 were paid by the company directly to an Indonesian general.\(^ {34}\)

The general denies having received any such payments and declared that these funds have gone directly towards improving the welfare of the soldiers.

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\(^ {30}\) ibid., p. 23.

\(^ {31}\) ibid., p. 25.


\(^ {34}\) ibid., p.4.
In addition to these payments, Freeport Indonesia has been reported to have made similar payments to multiple individuals in the TNI and in the police force, ranging from USD 200 to USD 3,000, but at times these would be as large as USD 60,000.35

These informal payments had begun since the 1970s and were formalised in a 1996 agreement. According to Lesley McCulloch, during the 1996 negotiations the TNI reached a USD 35 million settlement for the construction of a new base and annual payments of USD 11 million thereafter.36 The relationship also extended to various military commands spread across Papua and not just troops guarding the mine. It was reported that Freeport has also helped to pay for any third party costs incurred by the TNI, such as air fares, vehicle maintenance and even hotel bills. Freeport also made payments for costs incurred by the wives and families of several TNI officers. Since 2003, the company has avoided making direct payments to individuals and instead made these payments via the military headquarters. Nevertheless, in March 2009 widespread reports surfaced that suggested continuing payments. In particular, it was claimed that Freeport’s subsidiary, PT Freeport Indonesia has paid a ‘monthly allowance’ to military and police officers ostensibly guarding the Grasberg mine, which also witnessed deadly attacks on its employees in July. Both the TNI and Freeport Indonesia have denied making and receiving any such payments.37

Reports have also claimed that in late 2004 a coal mining company had recruited a local military cooperative to combat the illegal activity of some small-scale miners. However, Human Rights Watch reported that instead of assisting the company, TNI resorted to intimidation and violence to compel the miners to mine coal illegally, profiting from this activity.38

Israel

According to media accounts, several Israeli military officials have been indirectly involved with various commercial enterprises. It was reported that an Israeli international diamond dealer (whose company had received a concession to mine iron ore), had received further concessions from Guinea’s military leadership in return for bringing in Israeli military experts.39 As part of this arrangement, the dealer helped secure a USD 10 million contract for a security company run by several senior IDF officers (up to the rank of Major-General) to train and supply Guinea’s army without requisite permits or procedures.

Such reports have been vehemently denied by the dealer, particularly since Guinea is under sanctions by the EU and African states, and if true, such actions would violate Israeli law on military exports, as well. This matter was brought under investigation by Israel’s Ministry of Defence, although the company contends that it is merely a technical clarification and it is cooperating with the procedure.40

Uganda

Since the late 1990s, the UPDF (Ugandan People’s Defence Force) has been extensively involved in the natural resource sectors. This has troublesome roots, namely, UPDF’s involvement in smuggling and plunder of timber, coffee, gold and diamonds out of DRC during the five-year war that ended in 2002.41 Moreover, a 2001 report by the UN accused the Ugandan military of plundering and smuggling timber, coffee, diamonds and gold.42 Part of the illegal transportation process involved exploiting military privileges. The UPDF has profited extensively from these illegal activities and profit opportunities in the Congo would indeed appear as a key motivator for the UPDF expanding its operations into Eastern Congo.

35 ibid, p. 5.
36 ibid., pp. 10-11.
40 ibid.
According to some reports, the overall commander of UPDF’s military mission to the DRC and a former Major-General, (now General and the President’s military advisor) were heavily involved in the transportation of illegally mined gold from Eastern Congo to Uganda, including classifying the gold as military cargo to avoid paying custom duties.\textsuperscript{43}

The Ugandan army has denied its involvement in resource looting and smuggling while it was involved in the DRC. However, suspicions that Uganda is serving as a transit country for gold smuggling out of the DRC persist.\textsuperscript{44}

In addition, several UPDF officers have been connected to the company Trinity Investments Limited. The company was involved in the export of gold, timber and coffee without paying taxes. UPDF’s participation in the extractive industry was so extensive that both Generals resorted to financing their business activities with funds meant for UPDF salaries.\textsuperscript{45} Consequently, the bank account of the 4th Division of the UPDF was almost empty whilst the Commander’s personal account was profiting from the division’s funds being paid into it.

FORESTRY

Cambodia

According to literature and reports, Cambodia today continues to witness high levels of military control in the illegal logging industry throughout the country.\textsuperscript{46} This is conducted either on behalf of various concessionaires or as individual private ventures. Soldiers which have been known to engage in these activities receive a far better pay from these concessionaires than their official salaries. The irony of this situation is that it is the military which has been tasked with the responsibility of combating illegal logging. Almost all elements of the RCAF are complicit in the illegal forestry trade.

As a 2001 report by Global Witness states, RCAF

\textsuperscript{43} R Tangri & AM Mwenda, op.cit., p. 539-552.
\textsuperscript{45} R Tangri & AM Mwenda, op.cit., p. 545.
\textsuperscript{46} Please see http://www.illegal-logging.info/approach.php?a_id=83.

\textsuperscript{48} ibid., p.29.
\textsuperscript{49} ibid., p.34.
\textsuperscript{50} ibid., p.38.
In 2007, Global Witness again published a report linking high-ranking members of the military as well as politicians and businessmen with illegal logging.\textsuperscript{51} The government, which vehemently denied the report’s findings, reacted by banning the organisation in the country.

The report argues that the RCAF was heavily involved in this aspect of the natural resource sector. In return for its participation in the Cambodian economy, the RCAF is ostensibly expected to hand over part of its revenues to the central government, provincial authorities and military officials. It should be noted that regional military commanders often enter into these industries together with the respective provincial officials: in return for sharing profits, various commanders are granted the right to extract resources from the provinces they control.

**Indonesia**

According to reports, the TNI has been actively involved in the illegal logging sector in Indonesia.\textsuperscript{52} During the 1990s, it was estimated that illegal timber accounted for as much as 70 per cent of Indonesia’s timber production. It was also estimated that nearly 80 per cent of Indonesia’s timber concession holders were not held in compliance with forest laws. A vast share of this illegal timber trade is controlled by the TNI and its various companies.\textsuperscript{53} A 2005 EIA report stated that the average bribe that companies pay to have their operations unhindered by local authorities is approximately USD 200,000. This sum would then be split amongst the TNI, police and forestry authorities.\textsuperscript{54}

Furthermore, military personnel are frequently employed to provide security for the logging operations throughout the country, in order to gain greater forest concessions or to intimidate local communities who are opposed to logging operations on their lands.

The TNI holds forestry concessions which grant it the right to exploit the resources for itself. The EIA reported that in Papua, several of these concessions were linked to military foundations through the company Hanurata. Hanurata controls five concessions and also houses a detachment of Special Forces.\textsuperscript{55} It was also noted that the Navy was used by powerful timber bosses to disrupt the smuggling operations of their rivals. In Gunung, reports state that the military often backs illegal logging gangs as well. Fees from forest concessions are often pocketed by senior military officials and politicians. Due to the territorial structure of the TNI, individual units operate and manage their own companies.\textsuperscript{56}

Aside from this, the military has been involved in various reforestation projects throughout. The TNI’s presence in the forestry sector can also be felt in Kalimantan and Aceh. Despite attempts to dissolve the military’s involvement in Kalimantan following the collapse of the Suharto regime, the military has managed to find new ways to re-engage itself in the forestry sector.

\footnotesize{\textsuperscript{51} Global Witness, Cambodia’s Family Trees: Illegal logging and the stripping of public assets by Cambodia’s elites, 2007. \textsuperscript{52} ibid.}

The new concession holder, Perhutani, was reported to have partnered with the Inkopad army cooperative which had logging operations in East Kalimantan.\textsuperscript{57} TN soldiers are also used to provide security for Perhutani’s operations. Rather than engaging in logging operations directly, the military has sought foreign investors from Malaysia to conduct this on its behalf.\textsuperscript{58}

When a 2010 report by the Center for East Asia Cooperation Studies at the University of Indonesia documented the extensive involvement of the country’s military in every aspect of illegal logging on the island of Borneo during the period 1999–2006, Indonesian military spokesman Sagom Tamboen denied reports of any current involvement, but acknowledged that such instances may have existed in the past. Rear Admiral T.H. Soesetyo of the Directorate General of Defence Strategy was more forthcoming, stating that some officers did indeed compensate for the “difficulty of their lives at the border areas” through illegal timber.\textsuperscript{59} In addition, President Susilo Bambang Yudhoyono, a former army general, stated in 2009 that the Indonesia military would no longer participate in activities beyond security provision. The study’s authors, however, believe that military and police remained active until at least well into 2009.\textsuperscript{60}

**AGRICULTURE, FISHERIES AND LAND**

Documented evidence of military participation in these sectors is limited. In most cases, the military is engaged either through the ownership and leasing of land for these purposes or by extorting civilians engaged in these sectors. In other scenarios, the military has been known to engage external partners to conduct these operations on its behalf in return for a portion of the profits or for a stake in the company.

Although this amounts to indirect involvement, it is still significant since it implies an abuse of the military’s privileges to engage in profit-making enterprises.

**Ecuador**

In 2001, an Ecuadorian fishing vessel was detained in the Galapagos National Park under suspicions that it had been illegally fishing for sharks. As it turned out, the Captain’s lawyer was dining with the High Admiral of the Ecuadorian Merchant Marines who subsequently ordered the Navy to release the vessel without any formal investigations.\textsuperscript{61}

**Indonesia**

The TNI has been accused of illegally expropriating land and of sub-leasing government property for profit-making purposes. In the East Javanese district of Pasuruan, the Navy was found to have expropriated land from several local villages. By 2007, the illegally obtained land was then leased to a state-owned company to operate a plantation.\textsuperscript{62} In fact, it was reported that the military often leases government buildings and land to private companies for profit. If true, such activities would constitute a misuse of public assets.

In the province of Kalimantan, the TNI cooperative Inkopad, entered into a joint venture with a Malaysian firm to establish a palm oil plantation and processing factory on what was reported to be illegally claimed land. Despite fierce objections to this project by the local community who depended on this land, the project went ahead in 2001. However, by 2004, it became evident that neither company ever had any intention to build a plantation but instead were looking for a quick way to secure illegal timber.\textsuperscript{63}

In a written response to the Human Rights Watch report, Inkopad denied involvement in the palm oil plantation controversy, but has not addressed its wider role in systematic land disputes or illegal logging.\textsuperscript{64}


\textsuperscript{58} ibid.


\textsuperscript{62} Human Rights Watch, 2010, op.cit., p. 2.

\textsuperscript{63} Human Rights Watch, 2006, op.cit., p. 43.

\textsuperscript{64} Human Rights Watch, 2006, op.cit., p. 43.
Pakistan

The Pakistani Armed Forces are reported to be one of the country’s biggest land owners and control nearly 12 million acres or approximately 12 per cent of state land. Through the years, the forces have used these holdings to establish a multitude of commercial activities, such as cattle markets and ice factories.

Indeed, this practice has proved contentious even in Pakistan, with the Auditor General demanding that the Ministry of Defence transfer the profits from its landholdings to the national exchequer. The military also possesses permission to use state land for commercial and private purposes. The army itself owns approximately 70,000 acres and uses these lands for commercial farming purposes. These are held under the Army Welfare Trust which manages these lands. The Pakistani Rangers are also involved in the fisheries business. According to Siddiqa, this has been on-going since 1977 when the Rangers took control of fishing operations in the Sindh region. Since then, they have gone on to acquire an additional 20 lakes, which have been leased out to private contractors. The military is also a major player in the real estate business. It has been reported that land and properties under military control tend to see their values appreciate far higher than others.

These examples provide a thorough picture of how the military is able to participate in natural resources sectors.

Military involvement in the natural resource sector is not limited to a single resource type but rather is spread across the entire spectrum of resources. The problems of monitoring the extraction of natural resources thus increase the vulnerability to corruption.

The country case studies are not an exhaustive list of examples. However, based on this information, two general conclusions can be made. Firstly, where military businesses exist the scale of their operations tend to be quite extensive and are not restricted to a single resource area. Secondly, where the military engages in business activities, reports of corruption have been a frequent occurrence. In most cases of military businesses, private companies have partnered with the military to exploit the military’s privileged access to these resources in the sector.

The Pakistani Armed Forces are reported to be one of the country’s biggest land owners and control nearly 12 million acres or approximately 12 per cent of state land. The military also possesses permission to use state land for commercial and private purposes. The army itself owns approximately 70,000 acres and uses these lands for commercial farming purposes. Photo credit: Flickr/ bennylin0724.

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Reform exercises

This section discusses reform exercises by several countries which have recognised the problems and challenges presented by having armed forces engage in business. The reform efforts have yielded mixed results.

CHINA AND PLA DIVESTITURE – RELATIVELY SUCCESSFUL

Prior to President Jiang Zemin’s announcement of the PLA’s divestiture in 1998, the military’s economy had become a major contributor towards the national economy. In 1993, the Economist estimated that PLA enterprises produced approximately USD 6 billion a year in revenues. By 1997, it was estimated that the PLA’s businesses contributed as much as 3 per cent of China’s GDP or approximately USD 3 billion a year. Although this was a reduction as compared to previous years, this can mainly be accounted for by the removal of business privileges. In 1995, an audit of more than 9,000 enterprises revealed some USD 700 million in undeclared profits. Revenues were also being channeled towards finance speculation in the stock market and in the foreign exchange markets. The scale of the PPA’s business empire was certainly quite significant. What was more worrying however, was the level of corruption within it.

One of the key reasons for the growth of corruption in the PLA was the lack of civilian oversight over its business operations. Because these operations were conducted by the PLA, this exempted them from border checks and granted immunity from civilian monitoring and prosecution. In addition, the military had a very lax set of rules and enforcement mechanisms regarding the management of business funds. Furthermore, the PLA’s privileged access to infrastructure, transportation and natural resources made profiteering through corruption a rather lucrative trade. On several occasions, military units have taken advantage of this and reaped profits by engaging in the illegal trade of scarce raw materials. Mulvenon cites one example where 93 military personnel were reported to have bought 858 tons of petroleum at a reduced military rate and then proceeded to resell it at market prices. Another case involved more than 100 tons of copper.

For the civilian leadership, the best way of combating military corruption was to eliminate its roots. To Jiang, this meant that the PLA’s legal business enterprises had to be eradicated. The scale of military corruption was not only detrimental to the public image of the PLA but also undermined the Chinese Communist party’s (CCP) supremacy. As Scobell puts it, “corruption threatened to weaken the military’s loyalty and obedience to the CCP.”

Thus, on July 1998, at a meeting of the Central Military Commission (CMC), Jiang officially announced that the PLA was to dissolve its commercial enterprises and transfer them to civilian control. The ultimate goal of this program was to ensure that the PLA would become entirely dependent on state funds to operate.

However, several key reforming measures had been in place before official divestiture, since Jiang took control of the CMC in 1989. Bickford notes that the first steps towards divestiture had begun in 1989, when the CMC banned individual units from engaging in pure business operations.

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68 Bickford, op.cit., p. 467.
69 Mulvenon, 2001, op.cit., p. 146.
70 Mulvenon, 2001, op.cit., p. 147.
72 Bickford, op.cit., p. 470.
In 1992 a ban was imposed on PLA personnel from participating in the country’s stock market. To tackle the problem of the PLA’s commercial exploitation of its privileged access to the country’s transportation infrastructure, the CMC mandated the transfer of nonessential transport facilities to civilian control.

One other key preparatory measure was the withdrawal of preferential tax rates from all PLA business enterprises. However, these changes were somewhat limited in their scope and required further complementary changes to be implemented. As part of this overall program to transform the PLA into a modernised military force, Jiang also instituted other critical changes which helped increase the scope of the PLA’s divestiture program.

Prior to the announcement of the PLAs divestiture, Jiang had also ensured that the military leadership itself would be willing to accept the demands for change. This necessitated replacing the old guard, so as to guarantee that there would be little objections to the ideas of divestiture. This included a purge of the Yang Shangkun-Yang Baibing network, which constituted an alliance of officers loyal to the old guard of the CCP that would have strongly resisted Jiang’s attempt to remove the PLA’s commercial enterprises. This network had previously attempted to remove Jiang from his position as CMC President. Thus, for divestiture to succeed, a new set of sympathetic and loyal military officers were needed.  

Between 1996–1999, Jiang personally undertook the task of reintroducing new personnel to the PLA high command. It was reported that the top thirty positions of the PLA’s command would receive new leadership during those years. This included “all commanders, deputy commanders and political commissars in all seven military region commands; the directors and deputies of the General Staff, Logistics and Political Departments; the commanders of the air, naval and ground forces; the commandants of the National Defence University and Academy of Military Sciences”. This seems instrumental in ensuring that divestiture would go through without much opposition.  

More importantly, the changeover represented an attempt by Jiang to re-introduce civilian control over the military.

The success of divestiture can also be attributed to the ability of Jiang to wield his political power effectively. Political reforms were introduced as part of this military program of transformation. In 1997, Jiang introduced the National Defence Law which effectively transferred control of the military to him. Part of the Law stipulates that the state shall be the sole provider for spending on national defence. This removed the need for the PLA’s program of self-sufficiency and the need for the PLA to continue running its commercial enterprises. Another clause in the law also declared that the PLA must accept the supervision of the CCP. Although it may have been easy to discount the new constitutional law as rhetoric, this coupled with more effective judicial controls and Jiang’s own network installed in the PLA’s high command, ensured that divestiture would be met with decreased opposition. The introduction of the National Defence Law was designed to function as a safety control mechanism to ensure that the policy of divestiture would be pushed through successfully.

The impact of Jiang’s divestiture program and his “crackdown” on military corruption had far-reaching consequences. Some sources report that one major result of divestiture was more than twenty senior officers (ranked Major-General or above) fleeing the country. Since 1998, the PLA’s business empire has been reduced by approximately 80 per cent. Major conglomerates that were owned by the PLA were also placed under direct government control.

However, the PLA continues to retain several businesses which it claims serve its logistical demands. Furthermore, the PLA continues to maintain businesses in key strategic industries such as the

telecommunications sector. Whilst several major companies continue to be partially staffed by prominent ex-military officers, increases in state financing have enabled the PLA to significantly eliminate its dependency upon business activities for funding.

CAMBODIA – RELATIVELY UNSUCCESSFUL

Corruption amongst the rank and file of the Cambodian military has been a major problem for the nation. The RCAF was actively engaged in the logging and mining sector of the country. The bulk of its commercial operations were illegal and often violated government laws on the extraction of natural resources. In an attempt to reign in the military’s economic activities, the government clamped down on these activities. According to Global Witness, in 2002, PM Hun Sen issued a moratorium on concession logging in Cambodia. This was undertaken in response to international pressure from donor countries to combat illegal logging in Cambodia. Along with these measures, Hun Sen conducted a crackdown on military officials engaged in commercial enterprises by arresting several prominent military officers. However, they were all subsequently released without trial. This was, no doubt, damaging to the already tarnished reputation of the RCAF. However, the inability and unwillingness to prosecute military officers guilty of engaging in illegal trade was heavily damaging. Therefore, this represented a somewhat half-hearted attempt to tackle the problem.

In February 2010, Hun Sen officially announced an economic sponsorship deal for the RCAF. This would enable the military to participate in the national economy. A news report stated that Hun Sen had made a formal statement which linked military units to Cambodian companies as part of a “sponsorship” deal. It was claimed that this sponsorship was to support the military with its logistical demands such as: food, medication, construction and transport. However, the reality was that this reinforced the military’s position and its business networks whilst strengthening Hun Sen’s own personal power. The list of sponsors includes Metfone, a Vietnamese military-owned mobile phone company, Sokimex, an oil company, Honda, several banks, casinos, shopping centres and even several rubber plantations.

Another major company that was named as part of this sponsorship was ANZ Royal, a joint venture between Australia’s ANZ Bank and The Royal Group, one of Cambodia’s biggest companies. This comes in tandem with a government announcement that it intends to boost military spending. The regression is highly detrimental to civil-military relations which remain extremely tenuous especially given the years of civil war in the country. Furthermore, the formalisation of a military economy places the armed forces at risk of actually reducing the investment attractiveness of the country.

INDONESIA – PARTIALLY SUCCESSFUL

The TNI’s involvement in various commercial enterprises had long been tolerated as a means of promoting self-sufficiency for the armed forces. By 2007, the government reported that the TNI owned gross assets of USD 350 million and that its ‘legal business’ activities raked in profits of approximately USD 30 million.

In September 2004, several laws were passed by parliament which officially required the Indonesian government to shut down or take over all TNI businesses by October 16, 2009. The new law created a five year time frame for the governments to take over directly and indirectly owned military businesses. The law also explicitly forbade soldiers to engage in business activities. Subsequently, a second piece of official legislation to tackle the problem of military business was introduced. Prior to the official takeover date, the President issued a decree regarding the takeover of TNI businesses. The decree established a new inter-ministerial team, which would function as an Oversight Team for the transfer of TNI businesses.

76 Global Witness, 2009, op.cit.
79 Hunt, op.cit.
The Oversight Team had both monitoring and supervisory functions over military cooperatives and foundations. Both the laws and decrees thus declared that TNI foundations that failed to conform to the legal standards would thus be subject to liquidation or merger. Furthermore, the decrees required income earned from the exploitation of state assets to be handed over to the state treasury.

The introduction of these measures to end the military’s business, resulted in the sell-offs and closures of various business enterprises. However, the lack of clear rules regarding divestiture and limited oversight over these procedures resulted in the TNI profiting from the sale of some assets. In 2005, it was reported that the Army sold off its stake in Bank Artha Graha, which it held shares worth USD 12.1 million.

However, even after these divestitures, by late 2007, Human Rights Watch noted that the TNI continued to operate 23 foundations and over 1,000 cooperatives.81 Along with these businesses, the TNI operates various companies and maintains leases on several government properties and buildings. In its report, Human Rights Watch stated that only businesses directly owned and managed by the TNI have been taken over by the government.82 Further investigations revealed that such directly owned businesses have not existed for many years.

Why, then, has reform only been met with limited success? One of the key problems of the government’s divestiture plans was that the laws lacked clarity and only provided a broad statement of intention. Further, the Presidential Decree also does not explicitly require the military to surrender its businesses. However, its entities are required to undergo a partial restructuring to ensure their conformity to national laws. This made it clear that the TNI’s foundations, through which it owns several holding companies, would not be subject to government takeover. This also meant that the various businesses which TNI has partial ownership of, would only be subject to a simple restructuring. Another key problem with the government reform program pertains to the role of the Oversight Team. The team, which was designed to monitor and supervise the divestiture of TNI businesses, lacked the powers to do so.83 Furthermore, the reluctance of the TNI hierarchy to halt its commercial enterprises was another impediment.

Another major problem with the reforms has been the lack of political will to enforce its plans. Successful government reforms are always highly dependent upon the determination of the government itself. Without sufficient political clout, any attempted divestiture will no doubt run into severe objections and problems as well.

This was demonstrated by the unwillingness of the then Minister of Defence. According to Human Rights Watch, he went as far as to support the right of the TNI to engage in business until the government was able to fully support the military’s operational cost.84 In addition, the government has also been unwilling to arrest military personnel guilty of charges of corruption. Evidently, despite the good intentions of the government’s reform agenda, it has failed to see it through. Nonetheless, they have managed to eliminate a vast proportion of the military’s commercial enterprises. The case study of China and the PLA’s divestiture shows that the task of ending military businesses is not impossible. There are however several essential pre-conditions that need to be in place for such reforms to successful.

82 ibid. p. 10.
83 ibid., p 11.
Lessons learnt

One of the key lessons that can be drawn from the success of the PLA’s divestiture program is that preparatory steps were integral to its success. Prior to Jiang’s official announcement of divestiture, several measures had been introduced which ultimately helped to soften the blow of the PLA’s loss of its economic empire:

1. Withdrawal of preferential tax rates.
2. Removal of privileged access to national infrastructure.
3. Installation of a new military leadership.
4. Introduction of focused and targeted legislations to curb the scale of military enterprises.
5. Strengthening the judiciary system and its ability to prosecute military officials.

These measures are not listed in any particular order, as each played a vital role in ensuring the success of Jiang’s reforms. It should be noted that these measures were all introduced over a period of time to help reduce any potential discontent that may arise. In the case of the PLA, the foundations for divestiture began as early as 1989 and were only completed by 1999. By effecting these reforms, Jiang not only ensured that a new leadership sympathetic to his cause would be in place, but also ensured minimal opposition to his proposed changes. Furthermore, the early removal of preferential treatment for military businesses helped to improve competition in the economy and ensured that PLA enterprises were forced to compete on an equal footing. This also helped to reduce the PLA’s privileged status in society thus reducing the strength of the praetorian army model.

Moreover, the introduction of a new leadership was also instrumental in helping to ensure the success of divestiture. By removing the old guard of the PLA, Jiang installed a new batch of elites, favorable towards his divestiture program. This limited the potential fallout created by divestiture to a small section of the military. The case study of the PLA’s divestiture program also demonstrates that a strong judicial system is vital to its success.

The ability to enforce legal and oversight mechanisms was crucial as it ensured that the civilian leadership was able to prosecute individuals guilty of corruption. However, this is not to say that China has been able to completely eradicate corruption within the PLA. Critics suggest that nepotism remains a major problem within the institution. Nonetheless it has been successful in reducing the size of the problem.

When compared to the Indonesian attempts to end the TNI’s involvement in commercial enterprises, the differences between the two case studies is evident. In the case of Indonesia, the government did indeed start on a positive track by promulgating legislation aimed at ending the military business complex. However, this program had shortcomings. There was an unrealistic timeline of five years for the military to end its business dealings. Moreover, this came without any preparatory measures being in place. The legislation which was supposed to assist with divestiture, failed to specifically target the various indirectly owned TNI businesses. This effectively limited the scope of divestiture and thus its overall ability to eliminate TNI businesses. The presence of a leadership unwilling to tackle the problem and a Minister of Defence who sympathised with the military leadership was damaging to the entire program. Without the presence of a leadership capable or willing to support the divestiture program, its potential for success was grounded from the start.

Although a civilian Oversight Team was created to assist with the process, it came as too little too late. The vagueness surrounding the official role of this team seems to have been one of the key problems. The inability of the judicial system to prosecute military officials caught violating the laws also removed a major incentive for the TNI to end its business empire.
Military-owned businesses are inherently risky ventures for any country because of the potential consequences. Business engagements are detrimental to the professionalism of the armed forces, as it serves as a major distraction from its core duties. One of the most harmful consequences of such practices is that the element of profit-making breeds corruption within the military. As evidenced from the case studies in the literature, the scale and type of corruption varies. In more extreme cases, corruption encompasses embezzlement of state funds, tax fraud and even brutal coercive practices on workers. Once the military begins to engage in economic activities, it is often difficult to end such practices. In most situations, corruption becomes rampant and a major problem which harms the state and the national economy as well. Corruption lowers the attractiveness of the country to potential foreign investors. Furthermore, the unfair advantages that military businesses enjoy are bound to have repercussions for civil-military relations.

Business engagements are detrimental to the professionalism of the armed forces, as it serves as a major distraction from its core duties. One of the most harmful consequences of such practices is that the element of profit-making breeds corruption within the military.

The examples of reform efforts and their varied success rates demonstrate the applicability of the five key lessons for an effective divestiture program. It is possible to apply these practices to other countries. The measures being implemented by China are not unique to its situation. The prospects for the success of change implementation are highly dependent upon the determination of the individual nation to eradicate such practices.

One of the key criterions is a strong, independent judicial system that is capable of prosecuting military officials guilty of corruption. Without the powers of prosecution, any country attempting such reform efforts will lack enforcement mechanisms which are vital to its success. The inability of any government to punish individuals guilty of corruption provides little or no incentive for the military to clean up its act. The task of ending military businesses is self evidently not easy and requires a significant time period. Preparatory steps are essential “ground softening” measures which help with the transition stages.

Military businesses must end in order to restore a high level of professionalism and the public’s faith in the military. Without this, corruption amongst the military will remain a major problem for building up strong national governments and for healthy civil-military relations.

There have been multiple documented cases whereby the military has engaged in the natural resource sector either directly or indirectly. In both situations, the military has benefitted substantially from its participation in this sector. These engagements have resulted in the military often undertaking illegal activities such as illegal logging and oil smuggling. In some cases, it has even resulted in the military forcefully evicting local communities to gain greater, unrestricted access to such resources. In many countries, the military tends to be the only institution capable of monitoring and enforcing government regulations regarding the exploitation of natural resources. This role is undermined by its participation in profit-driven enterprises.
Bibliography


