

Military Inc.

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Inside Pakistan's Military Economy

SECOND EDITION

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Pluto Press
www.plutobooks.com

First published 2007 by Pluto Press
345 Archway Road, London N6 5AA
Second edition 2017

www.plutobooks.com

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British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

ISBN 978 0 7453 9902 7 Hardback
ISBN 978 0 7453 9901 0 Paperback
ISBN 978 1 7868 0011 4 PDF eBook
ISBN 978 1 7868 0013 8 Kindle eBook
ISBN 978 1 7868 0012 1 EPUB eBook

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources. Logging, pulping and manufacturing processes are expected to conform to the environmental standards of the country of origin.

Typeset by Stanford DTP Services, Northampton, England

Simultaneously printed in the United Kingdom and United States of America

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Introduction

The military is one of the vital organs of the state. However, in some countries the military becomes deeply involved in the politics of the state, and dominates all other institutions. Why some militaries become key players in a country's power politics is an issue that has puzzled many. Numerous authors have used various methodologies and paradigms to understand the military's praetorianism. Besides looking at the imbalance between military and civilian institutions, or the character of the society, as causes for spurring the armed forces into politics, the existing literature has also analysed the political economy of the military's influence. Powerful militaries allocate greater resources to the defence budget and force civilian governments to follow suit. However, the defence budget is just one part of the political economy. Commercial or profit-making ventures conducted by the military, with the involvement of armed forces personnel or using the personal economic stakes of members of the defence establishment, constitute a major part of the political economy that has not been analysed systematically. The present study aims at filling this gap. It looks at the political economy of the business activities or the personal economic stakes of military personnel as a driver of the armed forces' political ambitions. This is a peculiar kind of military capital, which is inherently different from the defence budget, and has been termed here *Milbus*.

Milbus refers to military capital that is used for the personal benefit of the military fraternity,¹ especially the officer cadre, but is neither recorded nor part of the defence budget. In this respect, it is a completely independent genre of capital. Its most significant component is entrepreneurial activities that do not fall under the scope of the normal accountability procedures of the state, and are mainly for the gratification of military personnel and their cronies. It is either controlled by the military, or under its implicit or explicit patronage. It is also important to emphasize that in most cases the rewards are limited to the officer cadre rather than being evenly distributed among the rank and file. The top echelons of the armed forces who are the main beneficiaries of *Milbus* justify the economic dividends as welfare provided to the military for their services rendered to the state.

Since this military capital is hidden from the public, it is also referred to as the military's *internal economy*. A study of *Milbus* is important because

it causes the officer cadre to be interested in enhancing their influence in the state's decision making and politics. Its mechanisms and manifestations vary from country to country. In countries such as the United States, the United Kingdom, France, Israel and South Africa, it operates in partnership with the civilian corporate sector and the government. In other cases such as Iran, Cuba and China, Milbus is manifested through partnership with the dominant ruling party or individual leader, while in Turkey, Indonesia, Pakistan, Myanmar and Thailand the military is the sole driver of Milbus.

An inverse partnership exists in these countries between the civilian players and the military because of the armed forces' pervasive control of the state and its politics. This military capital also becomes the major driver for the armed forces' stakes in political control. The direct or indirect involvement of the armed forces in making a profit, which is also made available to military personnel and their cronies, increases the military's institutional interest in controlling the policy-making process and distribution of resources. Therefore, Milbus in Turkey, Indonesia, Myanmar and Pakistan is caused by the military's involvement in politics.

This phenomenon intensifies the interest of the military in remaining in power or in direct/indirect control of governance. This does not nurture the growth of democracy or rule of law, and makes this kind of Milbus the most precarious. The fundamental research question that I believe deserves analysis is whether, when the military echelons indulge in profit making and use the armed forces as a tool for institutional and personal economic influence, they have an interest in withdrawing to the barracks and allowing democratic institutions to flourish. I have sought to find an answer through a case study on Pakistan, which is a militaristic-totalitarian system where an army general is the head of the state, unlike in Turkey and Indonesia.

The case of Pakistan provides an opportunity to understand the issues that emerge from the financial autonomy of a politically powerful military. Pakistan's military today runs a huge commercial empire. Although it is not possible to give a definitive value of the military's internal economy because of the lack of transparency, the estimated worth runs into billions of dollars. Moreover, the military's two business groups – the Fauji Foundation and the Army Welfare Trust – are the largest business conglomerates in the country. Besides these, there are multiple channels through which the military acquires opportunities to monopolize national resources.

The book puts forward three arguments. First, Milbus is military capital that perpetuates the military's political predatory style. The defining feature of such predatory capital is that it is concealed, not recorded as part of the defence budget, and entails unexplained and questionable transfer of

resources from the public to the private sector, especially to individuals or groups of people connected with the armed forces. The value of such capital drawn by the military depends on the extent of its penetration into the economy and its influence over the state and society. Consequently, profit is directly proportional to power. Financial autonomy gives the armed forces a sense of power and confidence of being independent of the 'incompetent' civilians. The military, it must be noted, justifies Milbus as a set of activities for the welfare of military personnel. However, the military alone defines the parameters of this welfare. The link between economic and political gains compounds the predatory intensity of such capital.

Second, the military's economic predatoriness increases in totalitarian systems. Motivated by personal gain, the officer cadre of the armed forces seek political and economic relationships which will enable them to increase their economic returns. The armed forces encourage policies and policy-making environments that multiply their economic opportunities. Totalitarian political systems like Pakistan or Myanmar also have pre-capitalist socioeconomic structures. As these economies are not sufficiently developed, the militaries become direct partners in economic exploitation, while in developed economies the sale of military equipment and services generates profits primarily for the private sector that invests the capital. The military, of course, is one of the secondary beneficiaries of these investments.

The argument that the military are predatory refers to Charles Tilly's concept of the 'racketeer' or 'predator' state which existed in sixteenth and seventeenth-century Europe.² The ruling elites in Europe extracted tribute from their citizens in the name of providing security against threats. The rulers maintained large militaries to invade foreign territories in order to increase their power and expand markets for local entrepreneurs. The military was thus central to the system of resource generation, externally and internally. The money for financing foreign invasions was raised by the monarch from the local feudal lords and other concerned parties such as entrepreneurs. According to economic historian Frederic Lane, these individuals paid a 'tribute' as a price for the financial opportunities created by the military's foreign expeditions.³

Other commentators like Ashis Nandi also view the state as a criminal enterprise which uses violence against its citizens in the name of national integrity.⁴ The common people tolerate the state's authoritarian hand as a price for its maintaining security and cohesion. The price that citizens pay for national security is also a form of 'tribute'. As Lane emphasizes, the state's predatoriness varies with the nature of the regime: a civil or military author-

itarian regime is more coercive in doubly extracting resources from its own people. The 'tribute' paid by the citizens for the military services provided by the state increases, especially when the government is controlled by managers who have a monopoly over violence, such as the armed forces.

Lane used the concept of tribute to explain the interaction between the state and society in sixteenth-century Europe, when the French and Venetian empires extracted money from the public (and especially those with significant amounts of capital) to build a military machine which, in turn, was used to conquer and create markets abroad. To restate this in domestic political and economic terms, it means that militaries or states can exact a cost from their citizens for providing security and an environment that facilitates the growth of private enterprise. Milbus is part of the tribute that the military extracts for providing services such as national security which are deemed to be public goods. Since the armed forces ensure territorial security, it is necessary to allow all those measures that are meant for the welfare of military personnel. However, at times militaries convince the citizens to bear additional costs for security on the basis of a conceived or real threat to the state.

Third, the military's economic predatoriness, especially inside its national boundaries, is both a cause and effect of a feudal authoritarian, and non-democratic, political system. In a similar way to other ruling elites such as the feudal landowners and large entrepreneurs, the military exploits resources for the advantage of its personnel. The exploitation of national resources by the elite is a result of the peculiar nature of the pre-capitalist politicoeconomic system. The historian Eric Hobsbawm describes this political economy as one where assets are not only accumulated for deriving capital: rather, they are acquired for accumulating power and influence. Consequently, in a feudal setting land and capital become doubly significant. The acquisition of assets signifies the increase in power of an institution or stakeholder compared with others. The feudal structure thrives on the accumulation and distribution of capital and assets to those in authority, and leads them in turn to compensate their clients in return for their support and greater political power.⁵ Hence, the accumulation of capital or assets is not just to gather wealth but to buy additional power.

In the process of seeking benefits, those in power give *carte blanche* to other elite groups to behave predatorily. This nourishes the symbiotic relationship between the armed forces and political power. The patronage of the military as part of the ruling elite becomes necessary for the survival of other weaker players, thus creating a strong patron-client relationship.

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Hence, any calculation of the net worth of Milbus in a country must include the value of the resources exploited by the military and its cronies.

The nature of military-economic predatory activity, and how it can be seen as ‘illegal military capital’, are questions we consider later.

DEFINING MILBUS

I base my definition of the term Milbus on a definition in an edited study on the military’s cooperative and business activities, *The Military as an Economic Actor: Soldiers in business*, carried out by the Bonn International Center for Conversion (BICC) in 2003:

economic activities falling under the influence of the armed forces, regardless of whether they are controlled by the defence ministries or the various branches of the armed forces or specific units or individual officers.⁶

The authors describe military economic activities as:

operations involving all levels of the armed forces. These range from corporations owned by the military as an institution, to welfare foundations belonging to different services, to enterprises run at the unit level and individual soldiers who use their position for private economic gain.⁷

This definition is not, however, entirely appropriate for my purposes here: it is both too narrow and too broad. It includes the defence industry as part of Milbus, but the defence industry is excluded from the definition used for this book, since defence industries are subject to government accountability procedures. BICC’s definition is also limited by its exclusion of non-institutional benefits obtained by the individual military personnel, and its failure to focus on their lack of accountability.

I define Milbus as military capital used for the personal benefit of the military fraternity,⁸ especially the officer cadre, which is not recorded as part of the defence budget or does not follow the normal accountability procedures of the state, making it an independent genre of capital. It is either controlled by the military or under its implicit or explicit patronage.

There are three essential elements in the new definition: the purpose of the economic activities, the subject of Milbus, and accountability mechanism.

Milbus refers to all activities that transfer resources and opportunities from the public and private sectors to an individual or a group within the military, without following the norms of public accountability and for the purposes of personal gratification. The unaccounted transfer of resources can take many forms:

- state land transferred to military personnel
- resources spent on providing perks and privileges for retired armed forces personnel, such as provision of support staff, membership of exclusive clubs, subsidies on utility bills and travel, and subsidized import of vehicles for personal use by senior officials
- diverting business opportunities to armed forces personnel or the military organization by flouting the norms of the free-market economy
- money lost on training personnel who seek early retirement in order to join the private sector (in the United States, for example, the government incurs the additional cost of then rehiring the same people from the private sector at higher rates).

All these costs are not recorded as part of the normal annual defence budget, despite the fact that the money is spent, or the profits are appropriated, for the benefit of military personnel.

The military organization is central to the concept of Milbus. Therefore, the primary players of Milbus are individual personnel or groups of people who form part of the military fraternity. It must be mentioned that the stakeholders are not limited to serving members of the armed forces (or to the military as an organization). They also include retired personnel and those civilians who depend on military–business associations. The primary beneficiary of this capital is the officer cadre. Because they have greater access to policy makers than lower-level employees, officers are in a better position to generate economic opportunities for themselves, and negotiate perks and privileges with the state and society. The volume of benefits, or the degree of penetration of the military into the economy for the purpose of economic advantages, is proportional to the influence of the armed forces. Greater political power allows the officer cadre to draw greater benefits. This system of benefits is given the misnomer of welfare. However, it must be noted that such welfare is largely supply-driven. The financial burden of the welfare is not defined by the society that bears the cost, but by the recipients – that is, the military.

Finally, one of the key defining features of Milbus is the nature of accountability. Milbus-related activities are not publicized in most countries. In military-authoritarian states in particular, discussion about these operations is off-limits. Any major disclosure or debate is regarded by the armed forces as questioning and challenging their authority. In Turkey, where the parliament cannot question military spending, Milbus is completely out of bounds for civilian players. Consequently, no questions are asked despite the fact that the Armed Forces Mutual Assistance Fund (popularly known as OYAK) is one of the largest business conglomerates in the country. Similarly in Pakistan, one of the leading military-business conglomerates is the Fauji Foundation (FF). In an inquiry in 2005, the elected parliament was snubbed by the Ministry of Defence (MoD) for inquiring into a controversial business transaction by the FF. The military's welfare foundation was asked to explain to the parliament why it had undersold a sugar mill. The MoD, however, refused to share any details concerning the deal.⁹ Factually, resources categorized as Milbus-related generally do not follow the procedures and norms of accountability prescribed for a government institution, or even a military project or programme financed by the public sector. The inability to apply government accountability procedures to Milbus itself increases the possibility and magnitude of corruption.

Purely in terms of the nature of work, Milbus comprises two broad but distinct sets of activities:

- Profit making through the privatization of security. This trend is followed in developed economies. Instead of becoming a direct player in the corporate sector through establishing commercial ventures or acquiring land and other resources, select members of the armed forces offer services such as training or weapons production to generate profit, which is shared with the investors who provide capital for the venture. This approach is highly capitalist in nature, with a clear division between capital and mode of production.
- Military engagement in non-traditional roles such as farming, or running business like hotels, airlines, banks or real estate agencies: all functions that are not related to security. This occurs mainly in developing economies.

What differentiates the two types is not just the volume of financial dividends earned but the extent of penetration of the military in its own society and economy. In the first category, the economic predatoriness is conducted overseas; in the second, it takes place in the country to which

the military belongs. The kind of activities a military organization chooses to undertake depends on the nature of civil–military relations and the state of the economy, issues which are explained in greater depth in Chapter 1.

It is important to remember that irrespective of the category or nature of activities, Milbus is predatory in nature. Since this kind of capital involves the transfer of funds from the public to the private sector, as was mentioned earlier, it operates on the principle of limited transparency. Hence, there is an element of illegality about this type of military capital. The underlying illegality is intensified in pre-capitalist politicoeconomic structures. In such systems, which are known for authoritarianism (especially military authoritarianism), the armed forces use their power to monopolize resources. Since a praetorian military inherently suffers from a lack of political legitimacy, it has a greater interest in hiding wealth accumulation and expenditure on privileges for its personnel, which are achieved at a cost to the society. The deliberate concealment is meant to project the military as being more honest and less corrupt than the civilian players. Furthermore, because the economic structures are less developed and streamlined in countries where this activity takes place than in more developed economies, there is a greater element of Milbus operating in the illegal segment of the economy. This type of military capital broadly has an illegal character, and its illegality increases in an underdeveloped political and economic environment.

It is impossible to assess the financial burden of Milbus on a national economy without emphasizing the significance of the military as a fraternity. The military is a disciplined bureaucracy that extends its patronage to its former members more than any other group, association or organization. Thus the most significant group involved in Milbus are retired personnel, especially former officers, who are an essential part of the Milbus economy. The retired officers act as a linchpin for the organization, serving as tools for creating greater opportunities for the military fraternity.

The military's expertise in violence management gives the military profession and the organization a special character. A military is a formally organized group trained in the art and science of war-making. The armed forces as an institution are known for their distinctive organizational ethos, and their members have a strong spirit of camaraderie, which develops during the months and years of working together in an intense environment where people depend on each other for their lives. The allegiance of the retired officers to their organization is relatively greater than could be found in any other organized group, particularly in the civilian sector. Moreover, because retired and serving officers have trained in the same military academies and served in similar command and staff positions, they

are part of a well-knit 'old-boys' network whose members tend to support each other even after people have left active duty. Seniority is respected, and interests are mutual, so the retired personnel do not feel out of synch when they move to the civilian sector.

Even when retired military officers enter politics, the connection with the armed forces remains strong. The fact, as mentioned by political scientist Edward Feit, is that generals-turned-politicians retain their links with the military.¹⁰ Military politicians depend on the military institution both directly and indirectly, and thus can be considered as part of its network. Senior military officers-turned-politicians also tend to create their own political parties or provide patronage to political groups. This fact is borne out by several examples in Latin America, Pakistan, Indonesia and Turkey. Political governments recognize the retired military officers as a crucial link with the organization. The former officers are inducted into political parties, given responsible positions in the cabinet, and used to negotiate with the armed forces. This phenomenon is more acute in politically underdeveloped systems. The patronage provided to the former members by the defence establishment is a two-way traffic. The formal military institution provides the necessary help for retired military personnel to grow financially and socially. In return, the retired personnel, especially the officer class, create through political means greater financial and other opportunities to benefit the organization and other members of its network.

Considering the fact that the number of beneficiaries of Milbus is relatively large, and the details of them are mostly hidden or not available, it is difficult to carry out an exact assessment of the financial worth of the military's internal economy. Such a calculation is vital to evaluate the monetary burden that Milbus places on a nation's economy. Ideally, the cost of Milbus should include the net worth of the assets of the military fraternity. However, this level of detailed data cannot possibly be obtained. This inability makes it difficult to conduct a statistical analysis. Given the dearth of complete, transparent and authentic data, the present study will restrict itself to defining and describing Milbus, identifying its areas of activity and highlighting its consequences.

LITERATURE SURVEY

Interestingly, social science research has not systematically looked at the Milbus phenomenon despite the availability of rich anecdotal information (although admittedly this information does not allow for statistical analysis). Perhaps the deficiency of organized data has not encouraged economists to

analyse the genre of military capital, and nor does the existing literature on civil–military relations and democracy analyse the link between Milbus and military authoritarianism. Most coverage of the subject comes from those working in the area of security studies or international relations, in a number of countries, but even they have failed to present a cogent and systematic theoretical analysis, although a series of case studies are available, describing the military’s business operations or the internal economy in different countries. There are basically three book-length studies – of the United States, Canada and China – along with minor works on Indonesia, Pakistan, post-Soviet Russia and a cluster of Latin American countries.¹¹

Caroline Holmqvist and Deborah Avant’s studies, which are thematic analyses of the subject, deal with the issue of private security. The two authors view the rise of the private security industry as an expression of the systemic shift in the security sector in the developed world. A number of developed countries such as the United States, Canada, France and the United Kingdom sell military goods and services to security-deficient states in Africa and states carved out of former Yugoslavia. The military-related goods and services are not sold directly by the states but through private companies. This led to the burgeoning of the private security business, which increased the demand for retired military personnel. Incidentally, the increase in the private security business took place at the time of military downsizing in the West, especially after the end of the Cold War.

Subcontracting the sale of security-related goods and services allowed western governments to downsize without entirely losing their security capacity in terms of human resources. The retired military personnel engaged in the private security business had links with the government and could also be depended upon as a reserve for future deployment if the need ever arose. Moreover, downsizing resulted in a reduction in the state’s military expenditure. Some non-western countries such as South Africa have also downsized their defence sector. Holmqvist and Avant evaluate the underlying concept behind private security.

These two theoretical works came later than empirical studies on the private security industry in the United States and Canada, by P. W. Singer and James Davis respectively. Peter Lock, who has tried to problematize Milbus in his paper presented at a conference in Indonesia on ‘Soldiers in Business’, expressed his discomfort at including writings on private security for the literature survey of this book.¹² Lock’s paper looked at the military’s commercial activities using the developmental, predatory and state-building paradigm. He was of the view that since private security pertains to the sale of military-related goods and services such as training, providing security