

ENTREPRENEURIAL OFFICERS:
EXAMINING THE COMMERCIAL ENTERPRISES OF THE
ALGERIAN, TURKISH, AND INDONESIAN ARMED FORCES

OMAR TALAL SAMHAN

BOĞAZIÇI UNIVERSITY

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Omar Talal Samhan

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DECLARATION OF ORIGINALITY

I, Omar Talal Samhan, certify that

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ABSTRACT

Entrepreneurial Officers: Examining the Commercial Enterprises of the Algerian, Turkish, and Indonesian Armed Forces

The role of the armed forces within any given polity has been maintained by a sovereign state for the explicit purpose of the application of violence. The Cold War and decolonization provided new opportunities for militaries to step out of their security jurisdiction and undertake roles that would nominally be reserved for civilian administrators. In the mid to late twentieth century the militaries of many developing societies adopted a materialist-economic character, institutionalizing their presence in the corporate economy. Conflating national security with the military's interests, military generals sought to create intricate networks of pension funds, army foundations, and military-aligned businesses whose aims were to serve, protect, and perpetuate the interests of service officers.

This study explores the disparate experiences and issues surrounding the corporate activities of the militaries of Algeria, Turkey, and Indonesia, tracing their evolution as anti-colonial, independence forces to their roles as significant stakeholders in their national economies. Building on the "corporate-materialist" claim, this thesis will seek to argue that the Algerian, Turkish, and Indonesian armed forces initially engaged in economic activities as a military necessity to guarantee a steady supply of war matériel but then soon morphed into economic surrogates to institutionalize their privileges, bolster their economic portfolios, and insulate their corporate interests from unstable domestic politics and sclerotic international conditions.

ÖZET

Girişimci Memurlar: Cezayir, Türk ve Endonezya Silahlı Kuvvetlerinin Ticari İşletmelerinin İncelenmesi

Silahlı kuvvetlerin verilen herhangi bir politikadaki rolü, şiddet uygulamasının açık bir amacı için egemen bir devlet tarafından korunmuştur. Soğuk Savaş ve sömürgeleştirme, militanlara güvenlik yetki alanlarından çıkmaları ve sivil yöneticiler için nominal olarak ayrılacak rolleri üstlenmeleri için yeni fırsatlar sundu. Yirminci yüzyılın ortalarında, gelişmekte olan birçok toplumun militanları, şirket ekonomisindeki varlığını kurumsallaştırarak materyalist-ekonomik bir karaktere sahipti. Ulusal güvenliği ordunun çıkarlarıyla birleştiren askeri generaller, hizmet memurlarının çıkarlarına hizmet etmek, korumak ve sürdürmek amacıyla karmaşık emeklilik fonları ağları, ordu vakıfları ve askeri hizada faaliyet gösteren işletmeler oluşturmaya çalıştı.

Bu çalışma, Cezayir, Türkiye ve Endonezya militanlarının kurumsal faaliyetlerini çevreleyen, sömürgecilik karşıtı olarak evrimlerini, bağımsızlıklarını ulusal ekonomilerindeki önemli paydaşları olarak rollerini izleyen farklı deneyimleri ve sorunları araştırıyor. “Korporatist-materyalist” iddiasına dayanarak, bu tez, Cezayir, Türk ve Endonezya silahlı kuvvetlerinin, başlangıçta istikrarlı bir savaş gereç arzını garanti altına almak için askeri bir zorunluluk olarak ekonomik faaliyetlerde bulduklarını, ancak daha sonra kısa sürede ekonomik vekillere girdiklerini iddia edecekler. ayrıcalıklarını kurumsallaştırmak, ekonomik portföylerini desteklemek ve kurumsal çıkarlarını dengesiz iç politikadan ve sklerotik uluslararası koşullardan izole etmek.

TABLE OF CONTENTS

CHAPTER 1: INTRODUCTION.....	1
1.1 Purpose and argument	4
1.2 Methodology	5
1.3 Outline of thesis	6
CHAPTER 2: LITERATURE REVIEW.....	9
2.1 General overview	9
2.2 Praetorianism.....	11
2.3 Corporatist interests and the impetus of the coup d'état	13
2.4 A geography of military-owned businesses	15
CHAPTER 3: ALGERIA	20
3.1 Le pouvoir, third worldism, and modernization.....	20
3.2 <i>Autogestion</i> and army cooperatives: The beginning	25
3.3 Ideological underpinnings of the Algerian state and SONATRACH	29
CHAPTER 4: TURKEY.....	38
4.1 OYAK: Background, founding, and mission statement.....	38
4.2 Leftism, the TSK, and multinational corporations.....	43
4.3 The opening of the economy	47
4.4 OYAK's benefits and administrative structure	51
CHAPTER 5: INDONESIA	53
5.1 Political context of the pre and post-independence TNI.....	53
5.2 The Sukarno years (1945-1967): Guided Economy, "Guided Democracy", and martial law	55
5.3 The <i>Gestapu: Dwifungsi</i> , corporatism, and the New Order	63
5.4 Hydrocarbons and forestry	65
CHAPTER 6: CONCLUSION	71
REFERENCES	77

ABBREVIATIONS

ALN	National Liberation Army (<i>Armée de Libération Nationale</i>)
ANP	Algerian People's National Armed Forces (<i>Armée Nationale Populaire</i>)
ASELSAN	Military Electronic Industries, Inc. (<i>Askeri Elektronik Sanayi</i>)
CHP	Republican People's Party (<i>Cumhuriyet Halk Partisi</i>)
CODELCO	National Corporation of Chilean Copper (<i>Corporación Nacional del Cobre de Chile</i>)
DISK	Confederation of Progressive Trade Unions (<i>Devrimci İşçi Sendikaları Konfederasyonu</i>)
DP	Democrat Party (<i>Demokrat Parti</i>)
DPR	People's Representative Council (<i>Dewan Perwakilan Rakyat</i>)
FLN	National Liberation Front (<i>Front de Libération Nationale</i>)
GPRA	Provisional Government of the Republic of Algeria (<i>Gouvernement Provisoire de la République Algérienne</i>)
ISI	Import Substitution Industrialization
MENA	Middle East and North Africa
NATO	North Atlantic Treaty Organization
OYAK	Army Relief Institution (<i>Ordu Yardımlaşma Kurumu</i>)
PERTAMINA	State Oil and Natural Gas Mining Company (<i>Perusahaan Pertambangan Minyak dan Gas Bumi Negara</i>)
PKI	Indonesian Communist Party (<i>Partai Komunis Indonesia</i>)
SaGeB	Defense Industry Development and Support Administration Office (<i>Sanayii Geliştirme ve Destekleme İdaresi Başkanlığı</i>)
SONATRACH	National Society for Research, Production, Transport, Transformation, and Marketing of Hydrocarbons (<i>Société Nationale pour la Recherche, la Production, le Transport, la Transformation, et la Commercialisation des Hydrocarbures</i>)
SSM	Undersecretariat for Defense Industries (<i>Savunma Sanayii Müsteşarlığı</i>)
TNI	Indonesian Armed Forces (<i>Tentara Nasional Indonesia</i>)

TSK

Turkish Armed Forces (*Türk Silahlı Kuvvetleri*)

TÜSIAD

Turkish Industry and Business Association (*Türk Sanayicileri ve İş İnsanları Derneği*)

CHAPTER 1

INTRODUCTION

In the post Second World War landscape, much of the empowerment of national armies as key stakeholders in a country's political and economic sectors has historically stemmed from the inability of civilian leaderships to provide their societies with governable political systems, equitable economies responsive to the needs of their populations, and social safety nets for the poor and destitute. State capture via coups *d'état* and other coercive means were often undertaken by military officers to "correct" the excesses of corrupt and inefficient administrators, with publics willing to accept such undemocratic actions as corrective measures (Ihonybere, 1991). Depending on the perception of the iniquities of the outgoing leadership class, publics may rationalize and even support such action, hoping the new elite military establishment will rectify the previous administration's deficiencies and then recede back into the barracks. However, the realities of military rule soon begin to emulate the uncanny similarities to corrupt civilian rule as officers soon discover the necessity of capital accumulation via control over levers of state power, engaging in unscrupulous cronyism to the detriment of the public interest.

Exogenous factors — the expansion of multinational corporations in the immediate aftermath of World War II, the creation of international financial institutions such as the World Bank and the International Monetary Fund, and the search for new markets for the export of consumer goods — also strengthened the hand of Third World militaries as the lack of political stability and strong institutional structures in post-

colonial nations incentivized the maximization of personal wealth through corrupt avenues and activities. Industrialized governments and financial institutions often welcomed the political and economic involvement of the military to advance their interests; aid agencies tied to respective foreign ministries used “strings-attached” mechanisms to further their geostrategic goals in weaker Third World nations. Perhaps the largest contributor to the militarization of Third World societies was the ideological competition between the Soviet Union and the United States vis-à-vis the multidimensional interstate system. In his study of South Korea’s military dictatorship during the Cold War and the effects the rivalry had on the buildup of South Korea’s military, Su-Hoon Lee (1987, p. 268-269) argues that a

handful of powerful states, due to competition between each other, support peripheral states. Supportive activities include military and economic aid which, in turn, are used for the expansion of the military. Exportation of military models by core states to peripheral states is a familiar story since World War II ... After the Second World War, the core-periphery division of labor took on some new trends of world capitalism — increasing internationalization of capital and the remarkable growth of transnational corporations. Penetration of foreign capital into peripheral economies in pursuit of peripheral human and material resources has been the trend during the post-war era. Hence, the penetration of foreign capital into peripheral countries is argued to have caused the expansion of the military into the periphery.

Moreover, the capitalist and communist-led blocs wished to deal solely with stable client states, and this meant military-led regimes as they were viewed as the only domestic actor capable of providing security, stability, favorable economic conditions, and access to military bases.¹

¹ The hosting of foreign military bases by the Philippines and South Korea, and the resultant demonstrations by host country citizens opposing such installations, lucidly exhibits a Cold War legacy of the militarization of societies as a result of the strategic competition between the two superpowers, and the asymmetrical relationship between patron and client.

As the nation's preeminent enactor and manager of violence, Third World national armies have found themselves operating outside the scope of the traditional missions of warfighting and peacemaking. Political infighting amongst civilian interest groups, and the corruption and inefficiency associated with such groups, paved the way for senior officers to paint the military both internally and externally as the living embodiment of the nation as well as its saviors from the feckless policies of their civilian counterparts. In contrast to the latter group, quality, efficiency, and productivity were often attributes affiliated with army engineering corps undertaking arduous tasks. Armed forces reluctantly were forced to deal with society's wide-ranging questions, ranging from the authority of religion, to cleavages in society, to personal networks governing relationships. The capture of political and economic rents by armies fostered governments into developing an authoritarian state-corporatist character with "limited legitimacy and excessive dependence upon external revenues without infrastructural power" (Jang, 2009, p.89). Corporatism created a decisional structure wherein individuals and classes were unable to dominate the dictating of policy imperatives. Instead, the state was given a much larger role, with the army often being conflated with the state. Civil society, political parties, and overall political participation amongst the body politic were virtually non-existent with societal decisions subordinate to the wishes and desires of an unelected, unaccountable coterie of officers. Coercion, and not cooperation, became the *de facto* features of the political systems dominated by army officers in developing governments.

Many countries' militaries — Bangladesh, Egypt, Myanmar, Pakistan, the Philippines, the Soviet Union, the United States — have established sprawling commercial interests spanning the telecommunications, oil and mining, banking,

security consultancy, and construction sectors. This diverse plethora of commercial activity has given rise to discussions of the military's "corporateness": "unity and consciousness among members that they belong to a distinct body which has formal standards of professional competence and, moreover, the authority and means to enforce them" (Alagappa, 2001, p.2). In fact, threatening to downgrade the military's corporate interests have been viewed as the primary reason for recent military interventions in Southeast Asia (Lee, 2008).

1.1 Purpose and argument

The purpose of this thesis is to provide a greater understanding of military-linked and military-run businesses of Algeria's *Armée Nationale Populaire* (ANP), Turkey's *Türk Silahlı Kuvvetleri* (TSK), and Indonesia's *Tentara Nasional Indonesia* (TNI). The research question to be explored in this study will be: what were the circumstances and conditions that gave rise to and allowed the ANP, TSK, and TNI to expand and entrench their economic interests? Like most developing nations in the twentieth century, Algeria, Turkey, and Indonesia undertook wars of independence headed by strong, personalist leaders who began their careers as military officers leading multi-year insurgencies against colonial powers before embarking upon wide ranging reform programs in an effort to change the most fundamental elements of their societies. By utilizing a cross-country perspective of three disparate countries and their respective militaries, this thesis will allow a gap to be filled that currently exists in the literature in understanding how and why the ANP, TSK, and TNI went about their paths in entrenching their commercial interests. It will build upon the "materialist" argument as expounded by Eric Nordlinger that a military's interests are fundamentally corporate in their nature, and delve into

assessing how, why, and to what extent were these militaries' corporate-materialist interests threatened by civilian rule, and what business activities were undertaken to deepen the military's involvement in the corporate sphere.

The main argument to be put forward in this study is that the pre and post-independence ANP, TSK, and TNI during the Cold War acted as both fighting entities as well as economic agents whose prerogatives were premised in furthering and entrenching their interests via state-run enterprises, empowering technocratic elite to run military-owned businesses, and positioning themselves as the main intermediary between domestic economies and international capital. The ANP, TSK, and TNI will be contrasted with one another to better offer a comparative perspective in how each military bolstered its position in the societal economic pecking order in order to gain a favorable disposition in its extraction of concessions to bolster the privilege and perks of the armed forces. This thesis will attempt to gain certain insights into the inner workings and dynamics of the economic and commercial roles of these armies beginning with their independence to the end of the Cold War by examining the circumstances and events that gave rise to their intrusions in the economic sphere.

1.2 Methodology

As this study will focus on three countries the primary method of comparison will be the case study. Predictive theories do not and most likely will not exist in social science as the latter has not succeeded "in producing general, context-independent theory and thus, has in the final instance nothing else to offer than concrete, context-dependent knowledge" (Flyvbjerg, 2006, p.223). The research question of this thesis requires a

mechanism that will provide a lucid, qualitative description of *how* the ANP, TSK, and TNI differ from one another, and not simply a quantified measured account. As will be demonstrated, the Algerian, Turkish, and Indonesian armed forces intervened a combined total of five times during the Cold War — Algeria and Indonesia each in 1965 and Turkey in 1960, 1971, and 1980 — often under the specter of mounting crises and rising political violence. Being the state’s self-appointed guarantors in safeguarding the country’s stability and safety, military officers invoked the altruistic ideals of “popular sovereignty” and “domestic bliss” in justifying their violent seizures of power. However, upon further inspection all three militaries immediately expanded their business operations in the immediate aftermath of their coups d’état and set out to allay the concerns of foreign multinational corporations, deepening their cooperation and collaboration with them as well as their superpower patrons.

1.3 Outline of thesis

This study is organized into six chapters, with three of the chapters being the primary case studies. Chapter 1 serves as the Introduction and presents the main argument in the thesis. Included in the Introduction is the method and purpose of this study, and why the subject contains relevance in understanding the economic motivations of an army to forfeit their primary roles of warfighting and defense of the sovereign state while concomitantly acting as economic surrogates. For brevity, the words “army” and “military” are used interchangeably despite the army being a contingent of the military. While acknowledging that navies and air forces may also have business interests of their own, the land forces component of modern militaries have engaged in the bulk of business-making activities due to both its larger size and its primary role of defender of

the nation-state. Chapter 2 presents the literature review of military-owned enterprises in an effort to familiarize the reader with the subject. It is designed to present a diverse array of material on the subject with a particular focus on the praetorian, corporate, and coup characteristics of militaries. The chapter is a multidisciplinary approach in understanding the motivations and scope behind military businesses by examining economic and social dimensions such as market distortions and political consequences of militaries taking on a corporate character. Chapter 3 will be the first of three case studies, scrutinizing the ANP and its genesis from liberation force to its forceful seizure of power in 1965. Since natural oil and natural gas have dominated the Algerian economy since the country's inception as a modern nation-state, special attention will be given to the giant hydrocarbon company, SONATRACH, and the army's fierce jealousy in preserving its status as a state-controlled enterprise. Chapter 4 will examine the Turkish army's pension fund, allowing a better understanding of one element of the Turkish military's vast business complex. *Ordu Yardımlaşma Kurumu*, or OYAK, is one of the largest conglomerates in the entire country, having a minority or majority controlling interest in companies as varied as ASELSAN (defense), Erdemir (metals), Ak Sigorta (insurance), and Renault (automobile). The third case study, Indonesia, will be discussed in Chapter 5. The Indonesian state experienced one of the worst massacres in Southeast Asian history, an outcome that greatly favored the army's commercial interests. Chapters 3, 4, and 5 will display the most lucid and prominent similarities between all three armies: the exercising of the coup as a remedy for military grievances and political instability, the role of military-aligned enterprises and natural resources in buttressing the state's (and the military's) coffers, and the importance of militaries acting as the primary link between international finance/foreign multinational corporations and

the government. As will be shown, the ANP, TSK, and TNI undertook remarkably similar paths; each began as anti-colonial resistance forces, framing their business activities as a national necessity in ousting their colonial adversaries before morphing into military entrepreneurs in an effort to make up for budget shortfalls in the aftermath of independence, and ultimately settling upon an increasingly praetorian character in their dealings with civilian leadership. All three armies had at one point or another utilized, operationalized, or co-opted political parties whose purposes were twofold: first, to serve as a vehicle for the army's interests in the day-to-day functioning of the government's allocation of resources and funding; and second, to present a façade via the use of a civilian entity to project a mythic embodiment of the army's status as the people's will and voice. Chapter 6 is the Conclusion and represents the culmination of the work, summarizing the findings of this study.

CHAPTER 2

LITERATURE REVIEW

2.1 General overview

Military entrepreneurship has a long and wide body of research analyzing military business/enterprise and the military's penetration of the economic sector. While such penetration varies from country to country, a military's control of economic resources has a proportional relationship with its control over politics.

As one of the state's most vital organs, the military reserves a special place amongst the *gemeinschaft* simply for its potentially coercive power in determining and protecting its vital interests. In accordance with Weber's (2015, p.136) theory on the monopoly on violence, a state is defined as a political institution that upholds "the claim to the *monopoly* of the *legitimate* use of physical force in the enforcement of its order."² Naturally, the army, police, and paramilitary forces serve as enforcers of this claim to territorial control and sovereignty. Any and all forms of government adopt as sacrosanct the state's ability to hold exclusive right for the use and authorization of force against the territory's residents. The principle of civilian control of the military largely affects whether a military fulfills its mission statement in the battle or economic sphere, or both. Spanning the entire political spectrum, from democratic republics such as the United States and France to fascist dictatorships in Germany and Italy to Communist

² It is important to make a distinction between force and violence. Force is defined as "organized, controlled, and limited, and in accordance with legal norms and conventions." Violence, on the other hand, is viewed as unauthorized and "frenzied, shapeless, and disorderly." See Arno J. Mayer's "Violence." *The Furies: Violence and Terror in the French and Russian Revolutions*, Princeton University Press, 2000.

autocracies in China and the Soviet Union, military subordination to civilian leadership stemmed from war being understood as a natural extension of politics. Reconciling the civil-military challenge leads to the penultimate guarantee a military is able to defend a state's sovereignty and interests while simultaneously subordinating itself to the political decisions of civilians (Feaver, 1996). In a civilian-led polity, strategic decision-making must ultimately be placed upon the shoulders of not those who will employ the use of coercive force, but instead upon their civilian leaders. Ultimately, this dichotomous, paradoxical relationship of standing armies brings to the fore the military's ability to prevail in society's wars while simultaneously being subordinate to the direction, authority, and guidance of civilians who do not assume control over a state's weapons systems (Feaver, 1996). A military must carry the burden of protecting a polity but must also practice self-restraint, and exercise discriminatory judgment in serving the community that created it. A military's role in society, whether it be political, economic, or war-related, originates in a country's political institutions/culture, history, and the concept of civilian control of the armed forces. Throughout much of the twentieth century, countries in Europe, Asia, Africa, and Latin America experienced at one point or another military-dominated regimes who felt the need to extend their reach into the economic sector. Oftentimes, many of these countries had civilian heads of state who supported such extensions. Others, still, were forced to acquiesce to the military's demands, fearing the possible threat of a military coup d'état, or because of the relatively weak leadership of civilian administrators.

Prior to World War II, military intrusion upon anything other than the battle sector proved to be an aberration, with military and political leaders having clear mandates in effecting change at the military and political levels, respectively. The onset

of the modern age often distinguished between the “militaristic” societies of the past and the “capitalist-industrial” societies of the present.³ The “unnatural phenomenon” of militaries stepping outside their military and security jurisdictions led many social scientists to recognize the futility of militaries being the principal institutional actor in administering the nation’s economic, social, and political affairs. However, many post-colonial and Third World nations saw an increase in military activity outside of their security domains and began to take on the plethora of duties normally relegated to civilian leaders. Such a distortion of civil-military delineations in society resulted in militaries seizing the initiative, and in the immediate aftermath of decolonization, armies soon found themselves diametrically opposed to the civil societies that they were meant to protect. This trend resulted in an ignominious shift; by 1970, a majority of Latin American states, five Arab republics, fourteen African nations, and a half dozen Southeast Asian nations suffered in one form or another military coups or counter-coups, resulting in the deaths of millions and suffering years of political and economic instability (Perlmutter, 1969).

2.2 Praetorianism

Many military theorists such as Samuel Huntington and Morris Janowitz believed third-world armies effectively acted as “crisis organizations”, serving as the only force capable of meeting and solving society’s largest challenges. In politically immature nations with feeble institutions, militaries were viewed as modernizing agents with

³ For critiques of this dichotomy, see Anthony Giddens’ *The Nation-State and Violence*. Vol. 2. University of California Press, 1985.

superior capabilities and organizational skills in navigating the troubled waters of modern nation-states (Siddiqi, 2007). This ultimately resulted in unprecedented power and influence for national militaries, wielding hegemonic power, with all other sections of society being relegated to second-tier status; preferential access to contracts, significant tax breaks, and privileged treatment created a vicious cycle of low or uneven economic growth, further entrenching and strengthening the military's position in the social order. Such a system culminated in militaries leaving the barracks and adopting business-like practices, "militarizing" various and disparate corporate entities by stacking board of directors with senior military officers. Such a situation, termed "praetorian militarism" by sociologist Amos Perlmutter (1969, p.383), led to an outsized societal role for the military, resulting in

the development of the military as the core group and the growth of its expectations as a ruling class; its political leadership (as distinguished from bureaucratic, administrative, and managerial leadership) is chiefly recruited from the military, or from groups sympathetic, or at least not antagonistic, to the military. Constitutional changes are effected and sustained by the military, and the army frequently intervenes in the government. In a praetorian state, therefore, the military plays a dominant role in political structures and institutions.

Perlmutter identified two types of praetorian armies: the arbitrator-type and the ruler-type. Arbitrator-types incline towards professionalism and are agnostic with regards to political ideologies; ruler-types, on the other hand, are independent organizations and generate their own cohesive, elaborate ideology (1969). A political-state structure, with the army acting as the state's most focal element — and governing alongside competing and complicit civilian elites as unequal partners — results in incongruous ideological perspectives amongst the civilian and the officer (1969). The construct of praetorian militarism, therefore, produces a predatory institution suffering

from an inherent lack of political legitimacy. Military intrusion into economic affairs, the monopolization of state resources, and the inability of traditional institutions to effectively and efficiently negotiate the polity's changes creates a state in administrative and political limbo whereby the old guard has been rendered obsolete, with new institutions deemed as illegitimate in the eyes of the populace. Therefore, the military becomes *the* governing factor in the state, penetrating all levels of society: the bureaucracy, economy, and culture. One of the most essential components of a praetorian culture are "militarized bureaucracies — or bureaucratic military — that become a part of the very mechanics of the state itself" (El Fadl, 2013, p.307). Self-ruling and self-directed civilian sectors are either emasculated or not tolerated in their entirety.

2.3 Corporatist interests and the impetus of the coup d'état

Driving the institutional prerogatives and ethos of the armed forces has been the military's standing and status in its efforts to safeguard against civilian encroachment upon what it views as its core privileges. Samuel E. Finer (1962) enumerated the role of the armed forces as being the ultimate arbiter in all aspects that affect the military, no matter how peripheral its interests may be. This may include foreign policy, domestic economic policy, education, and mass communication. The military's determination is only matched by its ability and force of will to extend its autonomous position in politics and society at large (1962). Moreover, the army's corporate self-interest serves as the focal point in the latter's insistence on maintaining independence and freedom from the political machinations of intrusive civilian decision-makers. The onset of economic and social instability provides the military with the impetus needed to undertake its

intervention in civilian affairs. Dictatorships view the military as a tool of repression to quell internal dissent, thus creating a moral hazard associated with authoritarian repression whereby the military realizes its indispensable role to the regime, leading it to exploit its position in the society in its quest towards extracting favorable concessions (Svolik, 2013). Military intervention in politics thus comes about when mastery is achieved over the state bureaucracy and the security forces when a *status quo* is disrupted and replaced with a new one. The utilization and employment of the use of force to impose control over the machinery of the state is intended solely for the benefit of the capture of the state and not its destruction (Luttwak, 1968). Threats to the intra-institutional characteristics of the military invite it to intervene in the polity to defend what Eric Nordlinger referred to as the military's incontrovertible corporateness: budgetary support, autonomy, and the absence of functional rivals (1977). The "performance failures" of civilian governments spark the interventionist tendencies of militaries to step in to impose order and stability in an effort to assuage the concerns of international financial elites and superpower patrons; under the guise of economic solidity and populist nationalism, armies telegraph to both domestic audiences and foreign backers of the necessity of the *putsch* as an essential precondition for the fulfillment of law and order.

The militarization of the developing world during the Cold War created a dichotomous and asymmetrical relationship between client and patron, a dynamic which affected Latin American, African, and Asian polities. The implementation of the coup *d'état* as a form of the transformation of power from one set of influential elites to another witnessed its zenith in the 1960s and '70s, more than elections or any other form of constitutionally-sanctioned government change. Military coups were often the result

of an amalgamation of factors that compelled militaries to undertake interdiction actions. No single causal variable can be pinpointed to explain the seizure of power by armies due to the divergent cultures, historical experiences, colonial legacies, and political economies of developing states (Zimmerman, 1979). However, the “corporate interest” argument has particular salience due to William Thompson’s (1973) extensive statistical study concluding that military coups are “essentially a small-scale internal war fought over positions and resources.”

2.4 A geography of military-owned businesses

Undertaking a cross-country, cross-regional analysis allows for a greater understanding of the motivations of military intrusion upon the economic sphere. Jörn Brömmelhörster & Wolf-Christian Paes (2003) employed a multi-national, multi-regional analysis of disparate military-led businesses across Latin America, Africa and Asia, to examine what effects, if any, a military’s distortion of the economic sector may have on each country’s private sector, businesses practices, and government corruption.

Brömmelhörster & Paes demonstrated how militaries often justify such intrusions into the economic sphere as regular business operations being undertaken by state-owned enterprises, obfuscating the military’s true role in the economic power structure. This preferential treatment bestows upon the military an unequal advantage, affording them “political leverage and economic privilege over and above their private sector competitors or other state enterprises” (p.1). Military businesses also differentiate themselves from war economies through their emphasis on soldiers’ roles in businesses during times of both peace and war (p.4).

Brömmelhörster & Paes define military business as “economic activities falling under the influence of the armed forces, regardless of whether they are controlled by defense ministries, the various branches of the armed forces, specific units, or individual officers” (p.4). Brömmelhörster and Paes aimed to compare and contrast a number of countries representing a diverse set of “historical and socio-economic backgrounds”, thus ensuring a more nuanced evaluation covering a wider political and economic spectrum (p.187). Brömmelhörster and Paes concluded the following qualities to be prime motivations in soldiers’ turn to business (p.187-193):

- I. Armed forces have access to human and material resources that are not as easily accessible to civilians. This enables a military to not only save money, but allows them to carry out additional tasks.
- II. To make up for shortcomings in a military’s allocated budget, many militaries turn to private businesses to supplement their incomes.
- III. Weak states and incompetent governance by civilian leaders incentivizes militaries to engage in economic affairs. There is no fear of intrusion or reprimand of militaries by civilians as the latter’s governance is seen as ineffective and futile.
- IV. Many militaries, such as the Indonesian armed forces, began as insurgent forces fighting wars of independence from colonial powers. In order to raise adequate arms and finances, it was necessary to have military-run businesses and taxation to fund war efforts.
- V. When threats subside, governments find it difficult to downsize their militaries. Therefore, the military’s primary, war-time occupation of fighting ceases and ancillary roles are adopted instead.
- VI. Military businesses thrive under conditions of internal war and political instability. Oftentimes, leaders view it in their personal (and financial) interest to see the continuation of strife and conflict.

Furthermore, Elke Grawert & Zeinab Abul-Magd’s (2016) pinpointed their focus on the regimes of the greater Middle East and North Africa (MENA), demonstrating the

central place militaries hold in shaping regimes, and the emergence, evolution, and development of military businesses. The collapse of the regional order and multiple nation-states in the aftermath of the Arab Spring provided an impetus for Grawert & Magd's work to also look at non-state armed groups and their rise throughout countries such as Libya, Syria, and Yemen, whose exploitation of important commodities and strategic chokepoints have resulted in the control and distribution of natural resources as a means of political deal-making. While Brömmelhörster & Paes focused their analysis on the negative effects of military enterprise, particularly for the purposes of dislodging the military from the economy, *Businessmen in Arms* examines the effects of neoliberalism and the intersection between crony capitalism and military officers, and the impacts this has had on civil-military relations (p.10). Both authors wished to demonstrate the ways in which the militaries of Arab regimes, Turkey, and Iran sought to leverage the *petite bourgeoisie* sensibilities of lower-class and peasant demographics in their struggles for self-government and independence; this quickly proved to be a façade as economic conditions gave rise to international financial elitist connections and the need to subordinate the national security of the nation to the maximization of wealth accrument (p.4-5). Grawert & Magd combined two dichotomous theoretical approaches to examine MENA militaries and their positions in the economic hierarchy: political economy and social theory. The former looks at the "resource base of social actors" and the behavioral rationalities that stem from such actors, whereas the latter considers the internalized structures and legitimacy-creating guidelines of the military whose role as an organizational and over-arching authority in the security domain renders it an operable, proactive player in economic activities (p.14-15).

Latin America's experience with military entrepreneurship provides quintessential examples of militaries playing substantial roles as economic actors. International capital and the Cold War served as exacerbating elements to the praetorian-like character of Latin American armies. Kristina Mani's (2010) *Militares Empresarios: Approaches to Studying the Military as an Economic Actor* inspects military-run businesses and the role military officers played in the creation and evolution of various Latin American countries' military-industrial complexes whereby Mani (p.185) defines military entrepreneurship as the "innovative creation of resources and means of production by commissioned military officers acting in an institutional capacity as formal owners, managers and stakeholders of enterprises that generate financial resources or goods directly benefiting the military."

Mani demonstrates how the military is able to utilize and employ its favorable position as entrepreneur to enhance its autonomy from civilian control, and to exert its influence within state and society (p.184). Throughout much of the Cold War, Central and South American militaries enmeshed themselves in the economic webs of commercial and profit-making activities, a process that largely began in the 1930s during multiple modernization drives. Over the last three decades, Latin American countries have been able to uproot the military from politics; its removal from the economy, however, has proven to be a more intransigent task. In some instances, the military's economic power has only grown stronger. In Cuba, the military controls key state-owned enterprises in important economic sectors. The pension funds of armed forces in Nicaragua, Honduras, and El Salvador have a stake in the construction and finance industries. Similar to other military-run businesses elsewhere in the world, Latin American militaries are able to secure for themselves

significant sources of revenue that depend not on appropriation by elected officials, but rather on dynamics in domestic and international economic markets and on interest and initiative within the military itself. What is more, where the military acts as protector or purveyor of the inputs for national economic development, whether intentionally or not, it effectively alters the role that state and private sector actors play in the national economy (p.185).

Oftentimes, militaries assume the industrializer-modernizer/nation-builder role in developing state capacity while simultaneously engaging in profitable activities to increase their financial holdings (p.185). Combining specialized skills with the need to supplement existing defense budgets places militaries in advantageous positions to develop particular sectors of the economy, while assuming the twin elements of material wealth and coercive power.

CHAPTER 3

CASE STUDY: ALGERIA

3.1 Le pouvoir, third worldism, and modernization

3.1.1 Internal fissures

Algeria's *les décideurs*, made up of a select faction of army and intelligence officers, have served as *the* constituent element of the Algerian state since 1962, with their power even eclipsing that of the executive office in many respects. The inherent abstruseness in governing the affairs of the country has led Algerians to refer to such a group as *le pouvoir*, a ruling elite whose opacity has permitted it to deeply embed itself in the impermeable institutions of the state, allowing army generals and their civilian allies free reign in determining the country's ideological direction while simultaneously enriching their members and families through multiple subsidiaries and state-owned enterprises, most notably *Société Nationale pour la Recherche, la Production, le Transport, la Transformation, et la Commercialisation des Hydrocarbures* (SONATRACH). Shadowy politics and clan infighting have been recurrent themes since before independence, with conflict initially being expressed as a “struggle between socialists of various tendencies on the one hand, who viewed independence as the beginning of a revolution, and liberals on the other, who viewed it as the culmination of one” (Ruedy, 2005, p.196).

In the immediate aftermath of independence, Algeria soon began to experience many of the problems plaguing various post-colonial nations — the powers and parameters of government, the role of ideology in crafting state institutions, and the

flight of both capital and know-how by the colonial power — resulting in fractured visions and a dissonant relationship between the army and civilian leaders. With nearly 70% of the Algerian populace still living in the countryside, Algeria’s political leaders grappled with a modernization scheme designed to bring the country up to first-world standards while still premising its self-experimental condition in state management on its unique brand of anti-capitalism. The *Front de Libération Nationale*’s (FLN) third worldism allowed it to adopt a creative albeit selective use of history and a detached linguistic discourse, linking the greater Algerian *peuple*’s struggle with the larger anti-colonial movements being undertaken in the developing world. Ensuring the success of the nationalist revolution required a renaissance of sorts that harkened back to Algeria’s pre-colonial times, with a particular focus on military leaders.⁴ This historical evocation served three primary purposes: firstly, by spatially deconstructing the present and focusing on Algeria’s past, Algerian leaders would be able to demonstrate an idiosyncratic link between contemporary rule and pre-French administration; secondly, idolizing past leaders whom a sizeable majority of Algerians could agree upon allowed the FLN and its predecessors to conveniently bypass the divisive and euphoric rhetoric prevalent during the war of independence; and lastly, exhibiting the importance of past Algerian military leaders demonstrated the central place the military (specifically, the army) was to hold in larger Algerian society.

3.1.2 The Algerian armed forces and independence

⁴ Specifically, Emir Abdelkadir and Sheikh Mokrani. Both led popular uprisings against French-dominated rule. The former was described in an article printed by *El Moujahid* as “the forerunner of the Algerian revolution.” See Ruedy p. 123-133 for the FLN’s early construction of an oppositional platform.

After eight long years of non-stop and incessant fighting, the country was in great need of rebuilding and reconstruction. In the absence of a common enemy, a consensus was difficult to create as the Algerian polity had been fractured upon multiple fissures, the society divided, and the economy ravaged.⁵ As with most nations who underwent the difficult process of decolonization, the only sound and coherent institution to emerge from the war intact had been the military. With a weak political leadership the military saw itself as Algeria's supreme authority, and immediately took it upon itself to guide the country through the treacherous waters of the future (Addi, 1998).

Algeria's modern history has been dominated by the state's armed forces since before the country's independence from France. The War of Independence caused the deaths of over one million Algerians and *pieds-noirs*, an equal number of emigrants to metropolitan France, brought down six French governments, precipitated a failed coup d'état against President Charles de Gaulle, and forced the collapse of the French Fourth Republic. The one constant throughout the entire war had been the Algerian military's central place in society; the senior echelons of the military have been governing the country in one form or another since before independence. While the FLN served as the Algerian people's resistance inside the country, the *Gouvernement Provisoire de la République Algérienne* (GPRA) was the face of its resistance in external affairs in the FLN's efforts to internationalize the struggle. However, foreshadowing what would eventually be the military's post-independence supremacy over Algerian political and

⁵ William Quandt, a prolific scholar of Algerian politics, argues that the war of independence actually exacerbated existing tensions, i.e. Berbers vs. Arabs, the Interior vs. Exterior, the place of Socialism in larger Algerian society, etc. For a more in-depth look at Algeria's political elite and their entrance into politics, see William B. Quandt's "Revolution and Political Leadership: Algeria 1954-1968." *MIT Press Books* 1 (1976).

economic life, the general staff of the *Armée de Libération Nationale* (ALN) proved effective in forcefully sidelining their civilian counterparts in the GPRA, giving the ALN veto power over many of the leadership's decision-making processes. Such internecine political dissonance would be brought out into the open when on the eve of Algeria's referendum⁶ in which the population voted 5,975,581 to 16,534 in favor of independence, the civilian GPRA maneuvered to fire the ALN's top three officers, one of whom was Colonel Hourri Boumedienne. Ahmed Ben Bella, head of the FLN, sided with the officers, fiercely opposing the GPRA's move. This pitted Ben Bella with the ALN and the General Staff against interior *wilaya* commanders and the civilian GPRA. The creation of a Political Bureau by Ben Bella designed to create and craft the young country's institutions, and backed up by Boumedienne and the ALN, was begrudgingly accepted by the GPRA as the latter's autonomy was severely curtailed (Ruedy, 2005). Robert Malley (1996, p.135), in his study of the Algerian revolution and its immediate aftermath, describes this conflict as

a ruthless power struggle. Some of the antagonisms were deeply rooted, as many of the *wilayates* had long resented the wartime attitude and demands of the Army of the Frontiers, which fell under the authority of the General Staff. Blocked at the Moroccan and Tunisian borders by barriers set up by France, Boumedienne's army had become more of a political force than a military one, indeed the country's most (if not only) organized political unit. With victory now in sight, the militarily idle army engaged in what it knew best: politics.

The GPRA's capitulation in the face of superior political scheming by both Ben Bella, a civilian, and Boumedienne, an army officer, would signal two of the most significant characteristics that would come to typify the country: political infighting amongst the

⁶ 1 July 1962.

country's governing elite, and the outsized role the army would have on enacting and effecting civilian public policy, particularly in economic domains.

3.1.3 The General Staff and Political Bureau

The fight for independence exposed and exasperated many fault lines amongst Algeria's revolutionary leaders; chief amongst these was determining the future role and capacity of the army in a post-independence Algeria. After eight long years of incessant warfare, the country's guerrilla units had largely ossified along two lines: the interior and exterior. The former consisted of approximately ten thousand battle hardened soldiers who had repeatedly borne the brunt of total warfare against French assaults. Interior units consistently suffered from *wilaya* loyalties, subjecting their commitment to greater independence to high levels of teetering oscillation. The exterior forces comprised forty thousand regulars whose units were not as deeply committed against the French, but who were required nonetheless for their superior expertise, organization, and training (Nelson & Nyron, 1979). By war's end, the heterogeneous armed forces numbered more than one hundred and thirty thousand.

The ALN swiftly moved to bring the country's disparate military factions under one central unifying command designed along modern lines. The General Staff had to face the herculean task of reconciling the interior's guerrilla commanders, French-trained army soldiers, and exterior officers, and the respective visions inherent in such divisions. To achieve such a lofty objective required the "conversion" of the ALN and transforming it into the new ANP (Ruedy, 2005). This plan, known as the Tripoli Program, required the internal *wilayas* to disarm and be either under the umbrella of the

civilian FLN or merge into the ANP. Much to the chagrin of the internal factions, such a move demonstrated less a loss of authority than a betrayal of the revolutionary goals of the Algerian people and their struggle (2005). After negotiations proved to be futile, neutralization operations of dissident *wilayas* were undertaken to root out all forms of resistance to the partnership of Boumedienne and Ben Bella, and the self-reinforcing alliance of the former's ALN (and General Staff) and the latter's Political Bureau.

With Ben Bella arriving in Algiers on 4 September and Boumedienne's forces only five days later, the proclamation of the Democratic and Popular Republic of Algeria was announced on 20 September 1962, solidifying the ALN's dominance as kingmaker of the newly found republic. This marriage of convenience between Ben Bella and Boumedienne proved to be particularly fortuitous for Ben Bella as Algerians soon devolved into quarrels and disagreements assembled around the political ambitions of "clans" and the respective men who represented such clans. While all major factions agreed upon the socialist aims of the revolution, language was co-opted and weaponized against opponents, allowing Ben Bella to capitalize on disunity; with nearly all political opponents either militarily defeated or bought off, Ben Bella employed his advantageous position with the ALN to consolidate his power. Such a consolidation of power ultimately permitted Ben Bella to rule by fiat, serving the deleterious purpose of alienating many of his allies and validating the suspicions of his political opponents who feared Ben Bella's authoritarian inclinations and the much-despised "cult of personality" so detested by Algeria's wartime leaders. In true populist-socialist fashion, Ben Bella wished to embark upon the most ambitious grassroots movement since independence by studying and implementing "ways of protecting and regularizing the workers' committees and the popularly based system of production they represented" thereby

captivating the national imagination (2005). This was the worker self-management, or *autogestion*, movement.

3.2 *Autogestion* and army cooperatives: The beginning

The creation of France's native Algerian political, economic, and social structures since 1830 had been designed solely with the needs of only its *colons* in mind. With colonial rule finally coming to an end, centuries-long institutions were swept away almost immediately but not before suffering through eight more years of vicious war. The aim of Algeria's experimental *autogestion* program was to adopt "modern" and technical aspects of the departing European population's skills and expertise whose created products were ultimately destined for European markets rather than Algeria's domestic one. The exodus of over nine hundred thousand *pieds-noirs* back to France catalyzed an acceleration of Algerian rural residents into the cities. Such a mass exodus provided an opportunity for entrepreneurial Algerians to purchase *colons* properties at below-market prices while other possessions were hastily vacated in the *colons*' rush to depart the country, allowing certain individuals to lay claim to them without any form of compensation (2005). Homes, businesses, apartments, farms, and factories were purchased or taken over by any individual or group of individuals willing and able to seize and hold onto them. Approximately one million hectares of land and seven hundred industrial companies were deserted in the process (Southgate, 2011).

In order to stem the acquisition of private property, requisite mechanisms needed to be created, put into place, and enacted by the government with relative speed. Ben

Bella soon promulgated a set of diktats⁷ known as the March Decrees in 1963 defining three legal parameters: first, the creation of a legal definition of vacant property; second, the provision for a system of profit sharing within each enterprise; and third, the establishment of a detailed system of worker self-management to be applied to all properties (Ruedy, 2005). While the program devolved into more of an economic mismanagement plan at the hands of inexperienced managers and largely illiterate rural workers than Ben Bella's hoped-for economic revitalization, one such group who capitalized on *colons* properties turned out to be ALN officers who viewed such vacancies as not only entitlements but spoils of war abandoned by a vanquished enemy. The *autogestion* program turned farms and enterprises into *de facto* state-owned enterprises — and along with the nationalization of large-scale industries in October of 1963 — army officers embedded themselves into the bureaucratic chain-of-command, affording them preferential access to profits of newly acquired commercial entities. The conflation between the FLN's socialist precepts of the public sector administration as the leading actor in propelling the young country into economic development and the army's central place in that administration laid the groundwork for institutionalized ALN entrepreneurship.

3.2.1 Logistical foundations of the ALN

As stipulated in Article 8 of the Algerian Constitution of 1963, the army was meant to assure “the defense of the territory of the Republic and participates in political activities

⁷ Ben Bella's *autogestion* program can also be described as a cynical ploy to sideline even more of his political opponents and degrade potential rival power centers as he rose through an inorganic alliance with the army, leaving him in a precarious position.

and in the construction of the new economic and social structures of the country.”⁸ The ALN’s bitter experience with the French army and the latter’s vicious *ratissage* operations in the countryside presented a particular nuisance to Algerian resistance fighters: finding a way to fulfill guerrilla requirements for food and ammunition while keeping the long reach of French military and security agencies at bay. With Tunisia and Morocco gaining their independence from France in 1952 and 1956, respectively, the ALN sought to utilize both countries’ porous borders to set up training camps as well as “replenishing installations” near the borders in order to achieve nominal self-sufficiency in arms and food. Later, Ben Bella’s modernization reforms and the now-ANP’s predominance in the new country’s economic system solidified the army’s claims to these makeshift symbols of institutional resistance. To fully complete the circle, in 1963

these supply installations were converted into army cooperatives, formally established under the Minister of National Defense and supervised by the National Bureau of Cooperatives/People’s National Army (Direction Nationale des Cooperatives/Armée Nationale Populaire). Among these cooperatives were at least 50 large farms that had been taken over from French settlers in 1962 (Nelson & Nyron, 1979, p.320).

These army cooperatives would go on to serve as logistical hubs in not only meeting the army’s basic demands, but providing an additional source of income in the event of surpluses. Ben Bella’s abrupt nationalization of still-occupied French farms in 1963, coupled with his need to placate the General Staff and the army at large in lieu of virtually nonexistent constituencies of which he could count upon, green-lighted the army to move aggressively in their intrusions of the economic sector. The amorphous

⁸ This constitution was adopted by the Algerian National Assembly on 28 August 1963.

nature of Algerian political dynamics at the time provided an ideal smokescreen for army cooperatives to justify business acquisitions utilizing national security as a pretext. Soon, the army would acquire shoe and furniture factories, a publishing house, and an engineering company designed to collaborate, and in some instances compete, against nascent civil engineering firms (1979). The ANP had moved beyond army cooperatives and branched into the insurance, cement, and financial sectors, occupying the title of the country's single largest employer with over thirty thousand civilians on its payroll (1979). The army's engineering corps would go on to fulfill their constitutional commitment in protecting Algeria's exclusive economic zone by building transportation networks and hydrocarbon infrastructure in the middle of the country to assist in the transfer of gas to the cities on the Mediterranean and beyond; the remoteness of natural gas and oil fields hundreds of miles away from Algiers required expertise and capital whose requirements were only fulfilled by those of the army and foreign multinationals. Similar to many insurgent armies of the mid-twentieth century fighting wars of independence, the Algerian army's evolution and maturation as an economic actor would seek its initial impetus in political ideology, later giving way to more practical imperatives and needs.

3.3 Ideological underpinnings of the Algerian state and SONATRACH

3.3.1 Intersecting the state's ideology with hydrocarbons

Algeria's bloody war with France left an indelible mark upon the young nation. Since its inception, Algerian leaders sought to support the causes of the oppressed and down-trodden masses in the developing world who had fought so vigorously to remove the yolk of colonialism from their foreign masters, associating themselves with the

International Left: in foreign relations, Algeria would undertake a fiercely anti-colonial and anti-imperialistic agenda while being closely aligned with the third-way of the Non-Aligned Movement and having cordial relations with the Soviet Union. The Arab socialism/nationalism cause⁹ taken up by the FLN was part of the wider anti-colonial movements prevalent in the developing world at the time. As demonstrated above, the Algerian leadership believed in a controlled economy with massive land reformation, nationalization of services and “strategic” industries (particularly of those left behind by the *pieds-noirs*), and a one-party political system largely built around the FLN. Whereas Ben Bella demonstrated relative malleability, even indifference in this regard, Boumedienne proved to be much more ideological (John Entellis, 1999); it was under his watch that “revolutionary socialism” was expanded, becoming institutionalized in the young Algerian state. However, the one factor which united all of Algeria’s disparate political and military factions in 1962 was the desire and need to exploit the country’s proven and vast reserves of oil and natural gas. Hydrocarbons were viewed as the medicine to Algerian society’s illnesses.

From the republic’s inception, Algerian civilian actors proved to be either unable or unwilling to lead the country towards a functioning civil state with a knowledge-based economy, professionalized bureaucracy, and responsive institutions. The mixture of the opacity of the decision-making processes at the highest level, the nature of the socialist foundations of economic thought, entrenched military elites unwilling to open up the

⁹ One drawback of this cause was its effects on the Berber population of Algeria, more specifically, the Kabyles, a Berber ethnic group based predominately in the north of the country (Kabylie). Many Berbers continue to feel slighted at the dominance of Algeria’s Arab identity, hoping for more recognition and rights for Kabylie culture.

economy via the diversification of industries and privatizing state-owned enterprises, and the absence of proper mechanisms designed to restrain state power facilitated the stagnation of the Algerian economy. The result was a “political role of a single political party supporting a hegemonic presidency in the context of an economy dominated by the state sector and organized according to a socialist concept of economic order” (Joffé, 2002, p.30). Moreover, the legacy and memory of Algerians’ experience with the war created a culture of secrecy whereby *le pouvoir*’s suspicious proclivities to any domestic competitors devolved into a *nomenklatura* system whose sole determinants were loyalty and fealty to the unaccountable elite. The hydrocarbon sector was a strategic imperative and needed to be subjected to the economic whims of *le pouvoir* at all cost. For these reasons, the Algerian state created a state-run corporation to tap the country’s vast natural resources and help foster economic, social, and political modernization: SONATRACH.

Unlike Chile’s CODELCO¹⁰, whose armed forces are guaranteed earmarked deposits directly appropriated into secret army bank accounts outside the control of the treasury, SONATRACH’s position as a state within a state is owed in no small part to the overwhelming reliance of the Algerian state upon hydrocarbons for the vast majority of its foreign currency earnings. Its diversified activities covering all aspects of production — and the company’s extensive collaborations with multinational oil and gas conglomerates such as Exxon Mobile, Statoil, and BP — have permitted it to monopolize oil rents. The prolonging of Algerian elites’ grip upon the hydrocarbon revenues allowed the manipulation of *langue de bois* into further perpetuating military and security officers’ right to rule without proper checks or accountability. The

¹⁰ Corporación Nacional *del Cobre* de Chile, a Chilean state-owned copper mining company and the largest copper producing company in the world.

formation of SONATRACH under the state management of economic managers and overall decision-making authority of military commanders — as well as other giant, state-owned entities such as SONACOME and SNIC — created conditions that tolerated the presence of business associations and trade unions, rendering them ineffective in asserting their labor and economic demands in negotiations with the government. Algeria's position as a bonafide bunker state precluded any need to set up a comparable OYAK¹¹ or CODELCO entity as no independent economic establishment existed outside the limits imposed by *le pouvoir*. In most bunker states, firms that are notably in the petroleum and military industrial sectors enjoy special protections and privileges (Henry & Springborg, 2010), and SONATRACH proved to be no exception to its total monopoly over Algeria's hydrocarbon sector. Therefore, directing mastery over SONATRACH denoted controlling the country's hydrocarbon treasures, which in turn, equated to controlling Algeria's most lucrative source of political and economic power.

3.3.2 Civilian autonomy and state-backed nationalizations

The complementarity of Ben Bella's desire for an agrarian revolution and wholesale nationalization of key industries meant the opening of new opportunities for those who had the means to achieve acquisition and the requisite patronage networks required to run such newly-found enterprises. By 1965, many of Ben Bella's economic ambitions would flounder (including the March Decrees), and the bureaucracy's inability to produce an economic development plan would lead the military to express its dissatisfaction with the country's anemic directional state of affairs. After the

¹¹ OYAK will be discussed further in Chapter 4.

establishment of Ben Bella's popular mandate was solidified in 1963, he soon began chipping away at the one constituency with which he could attribute his power to and without whom he would have been unable to secure a term of office: the ANP. Soon, the government would be divided between the Ben Bella and Boumedienne clans, with each divvying up ministries amongst one another. The military's unique autonomous position further threatened Ben Bella's political aims and he soon sought to remove Boumedienne as Chief of General Staff while simultaneously creating a parallel force structure by embarking upon activating "popular militias" (Henry & Springborg, 2010). The army swiftly moved to depose Ben Bella on 19 June 1965, less than three years after independence.

Alternating elite antagonism prevalent amongst Algerian political and military leaders during Ben Bella's reign — which included varying shades of Marxists, radical socialist revolutionaries, "*petit bourgeois*" military officers, and apolitical technocrats — were put aside and coalesced into an uneasy coalition, agreeing on the need to begin the extraction and exploitation of Algeria's vast hydrocarbon reserves in order to overcome the bitter cultural, economic, and political legacy of the French experience.

Boumedienne's ascendance to the presidency meant the abolition of Ben Bella's Political Bureau, and being replaced by the military-dominated Council of the Revolution.¹² Not unlike Ben Bella's plan, Boumedienne's main economic objectives had been economic modernization and industrial transformation designed to put Algeria on a path to sustainable modernity. Boumedienne's era corresponded with full-spectrum

¹² The Council ruled from 19 June 1965 to 10 December 1976. Of its fourteen members, none were civilian administrators and two would go on to become president: Chadli Bendjedid and Abdel-Aziz Bouteflika. The tenure of this Council also marked the most radical restructuring of the economy upon army-favored lines.

developing schemes whose institutions and privileges were meant to serve the aims of the revolutionary movement and military commanders. Malley (1996, p.216) summed up such a time as such:

In Algeria's political imagery, the dominant sites were the factory, the city, the university, and the "villages of the agricultural revolution," all of which symbolized the promise and goals of the revolution: urbanization, industrialization, and development more generally. At the center of this particular topography were the *entreprises nationales*, mammoth state-owned factories. (The most impressive was SONATRACH ... which ... controlled the mineral rights to an area approximately 1,085 million square kilometers.) Indeed, the *entreprises* embodied the revolutionary ideal of a homogenous, cohesive whole, in which political, social, and cultural attributes all merge.

An officer at the helm of Algeria's ideological and economic direction would now permit a more radical undertaking of socialist programs, programs whose sanctity would be backed and supported by a caste of fellow army officers. Mass nationalizations proved to be Boumedienne's panacea to what he viewed as the excessive capitalism practiced in the West. Seeing an opportunity to mollify guerilla commanders while simultaneously negating Ben Bella's anarchic, "civilianized" style of governance, Boumedienne redistributed property, import licenses, and rents to fellow "Oujda clan" members whose relationships were solidified during the early years of the revolution. In 1966, bank, insurance companies, and mines were "socialized" (Malley, 1996). In 1968, nearly all remaining foreign enterprises outside of hydrocarbons would be nationalized. In 1971, the entirety of the oil industry would be brought under state control, the first successful nationalization of oil to be carried out anywhere in the Arab-Islamic world (Roberts, 2003). The commencement of such massive nationalizations created an opportunity for army outfits and regime loyalists to cash in on "socialized" ventures.

3.3.3 Militarizing the bureaucracy

Boumedienne's reign offered an opportunity for technically competent soldiers and former soldiers to enter government and run "various ministries and parastatal corporations to assist in the national economic development" (Nelson & Nyron, 1979, p. 315). Its civic and economic development projects undertaken in the rest of the country bestowed military commanders of various regions vast capacities of patronage networks that boosted their overall influence. As the country's best run institution with superior organizational and management skills, these patronage networks endowed the ANP with a privileged position, especially in the state's relations with not only its superpower patron the Soviet Union but also with American and European gas companies who sought to unlock the vast hydrocarbon treasures of the Sahara.

While the country's main oil field of *Hassi Messaoud* became operational in 1958, larger gas production did not begin until later as a result of the logistical and security challenges of extracting hydrocarbons from uneasy and distant terrain. Despite SONATRACH's status as the golden goose of the government and its "socialized" nature, the company and its army-backed technocratic elites developed meaningful and long-lasting relationships with both foreign petrochemical companies as well as international financial institutions. The confluence of interests between the army and the technocratic elite had been a mainstay of the company since the nationalization of the industry in 1971 and the full transfer of the country's precious natural resources to the company:

SONATRACH's organizational restructures, pricing policies, investment strategies, international alliances, and overall development planning originate within high government circles in collaboration with the company's technocratic elite. Responding to political and market pressures over the years, SONATRACH has modified its production and pricing policies to ensure adequate national income not only to sustain the country's developmental goals

but, as important, to fortify the power and privileges of the ruling elite in the army and government bureaucracy. Simply put, SONATRACH is organized and administered by and for the state's political economy interests (Entelis, 1999, p.20).

Furthermore, the exploitation of hydrocarbons facilitated by foreign multinational companies such as Total, Elf, and Amoco often raised the question of whether the Algerian state was willing to break up the company along lines favorable to foreign interests who believed that SONATRACH's large size and inefficient bureaucracy was hindering its day-to-day operations. While maintaining that SONATRACH was not dissimilar to any other large state-owned enterprise — despite all evidence to the contrary — the technocratic and military elite stubbornly maintained their position that the company in fact occupied a special place in the cynical calculations of the country's leadership, juxtaposing their status as the heirs of the pre-French Algerian state to their suzerainty over the treasures with which they fought against the colonial administration so determinatively.

Historically, the multiple clans, cliques, and factions that have traditionally presided over the post-colonial Algerian state — with the army being the most dominant — have exercised extreme caution in presenting a united front to the outside world via its state institutions and policies emanating from those institutions. Despite not being owned or operated by the army, the approval of SONATRACH's management and economic direction would only be able to proceed with the blessing of the security apparatchiks. In light of the socialist structure of the Algerian political economy, the army had been adamant from SONATRACH's inception that the company must be kept

solely under state control.¹³ The 1973 oil crisis and rising anger at the stagnant one-party rule of the FLN by the masses served as untimely reminders that the Algerian state was in desperate need of deep, structural transformation. Unfortunately, the leadership's refusal to reform and the outsized dependence of the Algerian state on oil and gas rents provided by SONATRACH proved particularly troublesome as the country was rocked by nationwide bread riots in 1988 and the cancelling of elections by *le pouvoir* in 1992, ushered in the country's most ignominious period, the "Black Decade."

¹³ Bendjedid set about decentralizing but not denationalizing SONATRACH into smaller, leaner subsidiaries that would handle the varying aspects of the company's processing, advertising, and exploration sectors in a way that would be both more efficient and market-oriented; SONATRADING, its marketing branch, was created with the explicit purpose of dealing with American gas transactions (Entellis, 1999). In 1982 a hydrocarbons law was created — and then amended in 1986 — that was designed to induce, attract, and facilitate foreign funding and diversify SONATRACH's partner base. See Entellis, p. 20 for more information on the restructuring of SONATRACH.

CHAPTER 4

CASE STUDY: TURKEY

4.1 OYAK: Background, founding, and mission statement

4.1.1 Envisioning the role of the TSK in the republic

Military predominance in Turkish public life had long been a feature dating back to the Ottoman Empire when the military and government were considered one entity with one purpose. The role of the *gazi* had a mythical place in carrying out the military exploits mandated by the Sultan in Istanbul. This mysticism was later transferred to the new Republic via the personality and presence of Mustafa Kemal Atatürk whose triumphs bestowed upon him the title of being the only major Turkish officer to emerge unsullied by defeat in the Balkan Wars, World War I, and the War of Independence. However, after the establishment of the Republic of Turkey, Atatürk sought to establish a complete separation between the army and political functions (Brown, 1989). This volte-face resulted in a radical direction for the new republic as officers were forced to divest themselves of their military positions. Atatürk's disposition towards a strong civilian-dominated state of affairs can be traced back to his time in the Committee of Union and Progress when he argued favorably for military decoupling from political affairs, stating at an annual party meeting in Salonika in 1909:

As long as officers remain in the Party we shall neither build a strong Party nor a strong Army. In the 3rd Army most of the officers are also members of the Party and the 3rd Army cannot be called first class. Furthermore, the Party receiving its strength from the Army will never appeal to the nation ... We must also adopt a law forbidding all future officers having political affiliations (Lerner & Robinson, 1960, p.19-20).

Strong civilian oversight over the armed forces was embedded in article 40 of the 1923 Turkish Constitution which commissioned the army to the Grand National Assembly and President (1960). This policy of “civilianization” was designed to avoid a revolution-type scenario whereby an overthrow of the existing order via violent means was to be considered as illegitimate and unfeasible while simultaneously being counter to the dictums of “civilized” states who relegated the military to fighting mandates. With the exception of the 1920s where military commanders served concomitantly as governors of provinces bordering other states, at no time since the inception of the republic did active army personnel occupy positions in the administration system (Karpat, 1970).

The death of Atatürk represented a new shift in the republic as he became synonymous with the highest virtues associated with the societal and cultural-religious identities of the state. The public’s enamoring with the military meant that the dissonance between the military’s primary role as the country’s preeminent modernizing agent on one hand, and its role as “guardian of the national interest” on the other hand, presented a formidable challenge if the latter were ever to come into conflict with the former. The passing of such a monumental personality also resulted in the demise of the monolithic one-party structure once dominated by the Republic People’s Party (CHP). Atatürk’s reforms engendered a system of political autonomy for the military whereby officers developed a self-perception that they were sentries of an “ideological task force” of the new republic whose mission required them to accept the paradox of civilian rule while retaining the ability of influencing political outcomes by co-opting politicians according to the military’s own conception of its maxims and ideals (Sakallıoğlu, 1997).

4.1.2 The decline of the Turkish military

Despite the young republic initially using military men for administrative posts during the country's modernization drive, the military slowly began to see a decrease in its prestige and importance following the death of Atatürk in 1938. The creation and inclusion of multiple professions into the civil state resulted in a radical restructuring of society at large, with engineers, lawyers, doctors, and educators taking on an increasingly important role in the day-to-day affairs of the state. The beginning of multi-party democracy in the early 1950s caused great unease amongst the senior officer corps. The rise of the Democrat Party (DP) under Adnan Menderes represented a watershed moment in the republic's history as it represented the first ruling party to emerge whose members had not won the affection of the military nor had senior officials serve as members of the TSK (Harris, 1970). In his efforts to appeal to the military, Menderes had undertaken a strategy of appealing to and mollifying senior officers in the hopes of preempting a possible interdiction by the military in the DP's rise to power. The country's economic modernization, exposure to new technologies, and American aid programs had contributed to a revitalization of the TSK's weapons and training. However, younger officers chafed at the inability and indecisiveness of senior generals to positively impact the decisions of civilian elites in adopting a more favorable disposition towards military members' decreasing wages and overall status in society (Harris, 1970). The decline of the CHP, coupled with the army witnessing a marked decrease in its stature during this time, exacerbated the tensions that had existed between not only civilians and officers, but between officers and lower-ranked members. By 1960, this tension was reflected in the administration of the state:

In the government itself the influence of the officers who had sided with the Democrats vanished. Highly respected people, such as General Fahri Belen, were pushed into the background. Meanwhile the cost of living in 1960 was about eleven times what it had been in 1950-53, while salaries had barely doubled, causing hardship for those in the military and assigning to them, as individuals, the responsibility for all the shortcomings of Turkey. On the other hand, the newly rich politicians, landlords, and entrepreneurs placed emphasis on wealth, luxury, and material pursuits, all of which contrasted sharply with the ascetic idealism preached in the army. The social standing of the military deteriorated, while the values cherished in the past disintegrated under the assault of the materialism supposedly promoted by the new power groups (Karpas, 1970, p.1663).

After three decades of a depoliticized role, the armed forces intervened on 27 May 1960 for the first time in the Turkish Republic's history. The military-civilian government moved quickly, enacting a Special Law¹⁴ establishing the Army Relief Institution, or OYAK:

The "purpose" article of the law (provision of mutual trust services for the members of the Turkish armed forces) understated the actual "scope of activities" of the organization; enumeration of the latter meant nothing less than the fact that an extensive business holding company was to be incorporated into the institutional structure of the armed forces (Parla, 1998, p.29).

4.1.3 The *raison d'être* and definition of OYAK

OYAK was initially envisioned to safeguard military officers and their coffers from the ravages of an unstable, crisis-prone economy, giving Turkey's military protectors a larger stake in the country's corporate economy (Karasapan, 1987). Much of the country's civil bureaucracy, intelligentsia, and business leaders supported the initial establishment of OYAK, and in its earlier years were able to join its administrative system. To a significant extent, the military's justification for OYAK had as much to do

¹⁴ It was ratified on 3 January 1961 by the National Unity Committee and established as Law No. 205.

with finance as with ideology. The dominant classes of Turkish society were incessantly locked in an ideological battle for control of the state and its future direction; this had been a recurring theme since late Ottoman times where the empire's *bourgeoisie* struggled to establish its hegemonic position vis-à-vis other groups. After the end of one-party rule in 1946, political power came to be defined into two distinct forms: parliamentarism and military authoritarianism (Kemal, 1984). The coups of 1960¹⁵, 1971, and 1980 all represented the overthrow of "the natural representatives of the ruling classes" (Kemal, 1984, p.13). Thus, with the creation of OYAK in 1960 Turkey adopted a "soft" form of praetorian militarism whose members wished to impose their presence upon the republic as not only soldiers but as merchants as well. OYAK's establishment was to leave a mark upon society through the military's heretofore non-interventionist character, instead shifting the TSK's role of protector of the state to its now-adoption of the process of capital accumulation and investments.

How exactly is OYAK defined? The fund is an "administratively and financially independent legal entity attached to the Ministry of Defense and subject to special legal provisions" (Akça, 2010, p. 8). Designed as an army pension fund, OYAK was created for the provision of financial assistance to senior military officers as well as supplementary benefits in the form of favorable loans for cars and homes, lavish retirement schemes, and preferential access to market instruments. However, OYAK's noteworthiness is based upon two main and fundamental premises: first, it assumes the role of a "collective capitalist" whereby cooperative, long-term relationships are given

¹⁵ One explanation provided for the 1960 coup was a convergence of interests between the military and old political elites, afraid of the rise of the two-pronged bloc of the bourgeoisie and rural masses. See Parla p.33.

heavy importance; and secondly, its “profit-driven activities in all spheres of capital accumulation in Turkey and abroad” bestows upon it a unique attribute (Agathangelou and Karaağaç, 2011, p.115). Moreover, the fund also occupies a legal status that allows it to reap the benefits of both public and private law; this proved to be extremely beneficial in the immediate aftermath of the 1960 coup as import-substitution industrialization (ISI) became increasingly popular amongst developing countries trying to catch up with more advanced market economies. OYAK was able to benefit from the Turkish state’s practice and implementation of ISI during the ‘60s and ‘70s as many sectors had been insulated from foreign competition.

4.2 Leftism, the TSK, and multinational corporations

4.2.1 The Western tilt: Finance and praetorianism

Adnan Menderes’ policies had the intended effect of bringing Turkey into the Western alliance system with Turkey’s admission in the North Atlantic Treaty Organization (NATO) in 1952 and being only the second country after the United States to contribute troops to the Korean War. It also exposed Turkey to new forms of finance and interactions with European, American, and Japanese corporations and their technologies as well as styles and forms of business. One of the most notable features of OYAK was the rapid expansion and widespread diversification of its financial portfolio in the immediate decade after the 1960 coup. The TSK took on

controlling interests in the Turkish Automotive Industry, a company that assembles International Harvester trucks and tractors; MAT, a truck and tractor sales firm; the OYAK Insurance Company; Tukaş, a food canning firm and a \$3,000,000 cement plant. OYAK also [held] 20 per cent of the \$50 million Petkim Petrochemical plant ... 8 per cent of the state-owned Turkish Petroleum,

and 7 per cent of a \$5.6 million tire factory owned mostly by Goodyear (Ahmad, 1993, p.131).

The automobile industry proved particularly attractive for OYAK's chief executives: no venture or partnership better represented the TSK's forays into the economic sector than its venture with Renault of France whose Turkish subsidiary, OYAK-Renault, was created in 1969 and began with an initial investment of 8.6 million liras, with the armed forces holding a 42% share. By 1970, the TSK's investment had reached 502 million liras with its assets in 1972 estimated at over \$300 million (1993). OYAK's witnessing of spectacular returns on its investments in the automobile industry convinced its upper management that it could reap similar rewards if it were to branch off and expand into the tourism, cement, finance, and insurance industries.

The denationalization of the Turkish economy that had begun in earnest in the 1930s picked up pace as some state-owned enterprises were privatized and turned over to foreign and local companies. As in many of the developing countries during the '60s, '70s, and '80s, the armed forces were viewed as the only societal agent willing and able to structure the economy upon lines most favorable to international capital. However, the younger members of the TSK often undertook a more nuanced view towards the armed forces' economic activity, a view which clashed with senior officers' stringent military discipline and idealistic stoicism; despite the disparity in views between non-commissioned officers and their superiors, as well as the different ideological shades prevalent in the senior officer corps, the army chose to wield its influence in the structuring and vetoing of political initiatives so as to provide the façade of a clear civil-military delineation while simultaneously advancing its agenda in the economic domain, ensuring its position as the ultimate arbiter of strategic decisions relevant to its

immediate interests in the TSK's shrewd utilization of national security and financial imperatives (Sakallıoğlu, 1997).

4.2.2 The rise of Leftism

In light of the Cold War for which Turkey sided firmly with its NATO partners, the rise of social and political instability gained the ire of the military high command. The 1960s and '70s witnessed a burgeoning of the trade union sector, chief among them the Istanbul Trade Union, the Mine Workers' Union, the Turkish Industry and Business Association (*Türk Sanayicileri ve İş İnsanları Derneği*, or TÜSIAD) and the Confederation of Progressive Trade Unions (*Devrimci İşçi Sendikaları Konfederasyonu*, or DISK). TÜSIAD and DISK became rallying points in the awakening of class-conscious workers and trade unionists who wished to see the establishment of labor-friendly policies in the country's factories and industrial workshops. In 1968,

1,800 workers of the Derby rubber factory carried out the first factory occupation in Turkey. Strike activity intensified — the number of industrial strikes increased from fifty-four in 1968, to eighty-one in 1969 and 112 in 1970. The number of workers involved in these strikes increased from over 5,000 in 1968, to 15,000 in 1969, and over 21,000 in 1970. On 15-16 June 1970, more than 100,000 workers in 135 factories throughout Istanbul and Kocaeli stopped work in protest against an attempt to weaken the movement by amending the law governing trade unions. In the demonstrations that followed, bloody clashes took place between the workers and the army and police throughout Istanbul (Berberoğlu, 1981, p.279-280).

The calls of left-wing and socialist movements and parties for more equitable workers' rights threatened OYAK's relationships with foreign capital. The international dimension of the Cold War had a compounding effect upon the TSK's willingness to intervene against any party or political leader who appeared to threaten the army's newfound economic privileges (Ahmad, 1993). In the face of rising inflation, price

increases, and the growing appeal of Leftism in Turkish society, army officers viewed the situation with great angst and apprehension. The authorities were naturally hostile to the banned Turkish Communist Party and the milder TIP for their calls for greater collective bargaining rights and better workplace safety standards. Seeing such demands as too onerous and a hindrance to the financial bottom-line of OYAK-run businesses, the generals moved swiftly to disabuse trade unions of any notion of being able to pressure the government into offering workers more advantageous working conditions by employing a zero-tolerance policy against strikes and boycotts. The alignment of interests between the state bureaucracy (including the TSK) and the business community resulted in a narrow “distributional coalition” which created opportunities for rent-seeking behavior that allowed the generals to be able to reverse the decline of their fortunes which the TSK had experienced during Turkey’s one-party rule (Demir, 2005). Army generals had by then become a privileged genus in society and were dedicated to the preservation and expansion of a new *status quo* implemented in the aftermath of the 1960 coup (Ahmad, 1993). The TSK soon realized that its fortunes were no longer tied to any particular political party or figure, including its traditional allies in the CHP whose leaders soon adopted a more populist discourse to appeal to Turkey’s rural masses and urban workers.

The coups of 1971 and 1980, the revocation and delegitimization of ISI as a viable economic policy, the global ascendance of the more market-based approach of neoliberalism, and the tenure of Turgut Özal as both President and Prime Minister provided new opportunities for OYAK to deepen its involvement in the civilian economy.

4.3 The opening of the economy

4.3.1 The collapse of the coalitional dynamic

The 1970s were marked by a deterioration of the political climate as the decade witnessed increasing levels of violence and economic and social instability. The 1971 “coup by memorandum” did little to solve the malaise that had plagued Turkish society, despite the TSK’s prevailing view that the current legal and constitutional structure of the Republic was a hindrance in implementing safeguards designed to advance the country. The amending of 35 regular articles of the constitution and nine temporary articles had the explicit aim of increasing the national security of the nation while bolstering the freedom of action of military commanders (Harris, 2011). The Justice Party and CHP, led by Süleyman Demirel and Bülent Ecevit, respectively, saw the military dictates to be against their interests and pushed back vigorously against what they perceived to be civilian-only affairs in governing the country. The faltering and collapse of multiple coalition governments convinced the TSK that the partial coup of 1971 was insufficient in pushing for structural reforms given its prime position in the economy and its status as the link to multinationals. The advance of leftist causes and union-led agitations were compounded by Turkey’s ballooning trade deficit as reflected in its balance of payments accounts. A deterioration in the country’s terms of trade, the oil shock of 1973, and declining remittances from Turkish workers from Western Europe induced the TSK into undertaking a new, all-encompassing intrusion and paradigmatic shift in order to address Turkey’s worsening fiscal situation and 71 billion

TL debt (Berberoğlu, 1981, p.282). Thus, in September 1980 the TSK, led by General Kenan Evren, mobilized the armed forces to institute a new order that paradoxically became less democratic in the political domain and more liberalized in the sphere of capital markets and economic goods. All political activity was nearly outlawed with party leaders either in jail or placed under house arrest, martial law courts were used indiscriminately in a haphazard application designed to endow military and judicial officials with impunity in their efforts to suppress dissent, and a new constitution was enacted whose chief aims were its focus on creating a system of large-party representation while simultaneously implementing a series of articles with the explicit purpose of preventing parliamentary deadlock (most notably, a 10% electoral threshold).

Much of the Turkish population, leaders of the contending political parties, Turkey's main allies in NATO, and international investors had all welcomed the 1980 coup as a necessary evil to restore stability. Loans from the World Bank and the Irving Trust Company in New York were approved almost immediately after the coup (Paul, 1981; Kemal, 1984). The International Monetary Fund openly endorsed the newly-formed military *junta*, believing that the generals fostered an environment that would encourage higher investment, capital accumulation and full employment, faster growth, and stabilize the country's macro and micro-economic situation (Demir, 2009).

4.3.2 Neoliberalism and the strengthening of OYAK

Turkey's entry into the Western military and political orbit brought the nascent country's internal arms industry to a halt as it soon relied on West German and American military hardware to arm and supply the TSK, thus putting an end to many

indigenous programs in the fields of aeronautics and advanced weapons systems.

However, the 1960 Cuban missile crisis, the Turkish military's 1974 intervention in Cyprus, and arms embargoes after the 1980 coup served as bellwether moments in the eyes of Turkish military generals who believed they could no longer rely on crucial assistance given to them by their NATO partners. Soon, the TSK via the OYAK pension fund would encourage or bankroll the founding of multiple public sector arms producers whose sole objective would be producing high-end, state of the art equipment for use by not only the TSK but as potential export opportunities.¹⁶ The Air Force Foundation, the Ground Forces Foundation, and Naval Foundation also partook in this endeavor, owning wholly or in-part many weapons suppliers (Karasapan, 1987).

The rise of the internationally-oriented Turgut Özal as both Prime Minister (1983-1989) and President (1989-1993) of Turkey signaled a potential shift away from large, lethargic, state-owned enterprises to a more neo-liberal approach centered on privatization and laissez-faire corporatism. Wanting to inspire the private sector to enter the field of arms procurement, Özal undertook a deliberate yet careful policy reformation package that would both satisfy the desires of Western arms companies hoping to have market access to the world's fifth largest standing army while simultaneously having to allay the concerns of nationalist politicians who believed privatization in the sphere of weapons producing served as an unnecessary risk — and in the case of the TSK represented a bothersome competition to their monopoly on arms manufacturing. In 1985, the government of Özal adopted the use of a “Defense Fund”

¹⁶ The best known of these companies was the Military Electronic Industries, Inc., or ASELSAN. Founded in 1975, the Ground Forces Foundation owned 70% of its share, with the rest distributed amongst the other service branches, the Police Foundation, the State Postal Authority, and OYAK.

whose purpose would be to provide the TSK with supplemental income in addition to foreign aid and the national budget. Moreover, pursuant to Law No. 3238 an Undersecretariat for Defense Industries (SSM) was created to assist in the streamlining and integration of the country's arms suppliers to be in line with the country's defensive needs. The SSM was further complemented by the Defense Industry Development and Support Administration Office (SaGeB) whose tasks encompassed establishing the requisite infrastructure for the defense industry. SaGeB was envisioned to serve as a mechanism to incentivize both Turkish and foreign companies to invest in Turkey and to encourage the transfer of licenses, technology, and institutional and intellectually capacity necessary to build up an indigenous weapons program. The three armed forces foundations were also required to hand over their assets to SaGeB in an effort to raise funds for expensive military projects. However, in a sign of the military's unease at what they viewed as excessive civilian interference in the military's financial affairs, the TSK quickly asserted itself and rebuffed the request. In a further demonstration of their autonomy, the TSK demanded the passing of a decree in March 1986 prohibiting private sector production of lethal equipment (Karasapan, 1987). Three years later SaGeB would be folded up and restructured under the SSM's authority, effectively putting an end to Özal's ambitious privatization efforts and allowing the TSK and OYAK to monopolize the "corporate lethality" sector of the economy.

4.4 OYAK's benefits and administrative structure

4.4.1 What forms do OYAK's benefits take?

OYAK's investments in the automobile, banking, foodstuff, services, and cement industries have allowed its revenues to balloon since its inception in 1960¹⁷ while branding itself as a "strategic investor" in key industries and companies. It has been able to maintain its dominance through extensive collaboration with foreign investors as well as retaining its reputation as a bedrock of institutional stability, having weathered the collapse of multiple coalition governments. Throughout the years, OYAK has benefitted from the following privileges (Akça, p.11):

- I. *Tax exemptions* – companies attached to OYAK pay taxes, but OYAK itself is exempted from all forms of taxes, including corporate, income, and estate, among others.
- II. *Members' salaries* – compulsory deductions from members offer a never ending revenue stream to the fund's coffers; until the 1990s salaries were not affected by rates of inflation.
- III. *Special property* – as a result of OYAK's properties being classified as "state property", confiscation by any party, including the government, is deemed illegal.
- IV. *Jurisdictional* – OYAK's members are placed under military administrative courts, allowing no recourse for claims. Reproach from members against the fund *ipso facto* proves to be simply infeasible as OYAK is under no obligation to honor neither requests nor complaints.
- V. *Political power* – the Turkish military's favorable position in society allows OYAK to transfer over to the state profit-losing firms, effectively forcing the government to take on and settle the fund's debts and structural losses.

For these reasons, OYAK has been able to create a capital accumulation and profit-making scheme whereby investments are exposed to very little, if any, risk; its state-backed status allows it to lower its costs while simultaneously maximizing profits;

¹⁷ Satyanath and Göktepe have even found that firms in which "the Turkish military had a controlling financial interest ... enjoyed considerable abnormal positive returns (of up to 5 percent)." See Gökçe Göktepe and Shanker Satyanath. "The Economic Value of Military Connections in Turkey." *Public Choice*, vol. 155, no. 3/4, 2013, 532.

and its position as the country's preeminent political and military actor gives it great clout in effecting economic and financial decisions (Parla, 1998). Such perks have led to an increase in the wealth and standard of living of the Turkish military's mid and senior-level officers, pushing what was once a financially meek occupation into the upper income echelons of society. This evolution, from lowly "servant of the state" to military entrepreneur, culminated in the "embourgeoisification of the higher ranks of the military and their insulation from the ebbs and flows of the global and domestic economy" (p.49).

4.4.2 OYAK's structure

- Permanent members are active officers, non-commissioned officers, and civil servants of the Turkish Armed Forces.
- Membership of the fund is compulsory and has achieved more than 250,000 members.
- The Representative Assembly consists of 50 to 100 members which are designated by senior military commanders representing all three branches of the armed forces as well as the gendarmerie.
- The General Assembly consists of forty members, twenty of which are elected by the Representative Assembly; the remaining twenty are made up of political leaders and leading businessmen from the Ministries of Defense and Finance, certain governmental auditing offices, chambers of commerce, and industry. Of the forty members, only nine are civilian.

CHAPTER 5

CASE STUDY: INDONESIA

5.1 Political context of the pre and post-independence TNI

5.1.1 Initial attempts at civilian control of the TNI

The TNI's involvement in the economic sphere can be traced to the country's fight for independence from the Dutch in the immediate aftermath of World War II. In its early stages, the TNI originated as a set of independent militias tasked with undertaking a violent guerrilla war campaign. The militias were ultimately "controlled and funded by local commanders and societal leaders, who in turn raised money from the population area in which they operated" (Mietzner, 2008, p.228). In 1948, civilian leaders quickly moved in to assert control over the military but soon found this course of action to be unfeasible as the Dutch stepped up their attacks, retaking both territory and military command. The TNI's senior officers therefore established multiple military-run administrations which levied taxes upon local businesses and farms to help fund the national resistance. After the war of independence had finally ended in 1949, the civilian leadership again tried to rein in the military under financial and political control (2008). Consequently, the military became subservient to the official state budget,

affecting both morale and creating widespread unease in the upper ranks of the officer corps. This aggravation was further compounded by Indonesian politicians' purposeful tactic of deliberately keeping the budget of the armed forces as small as possible so as to neutralize the military's tacit veto power. With military regimes gaining prominence in the mid-twentieth century, many of Indonesia's civilian leaders sought to head off the threat of a coup d'état, worried the military's budget would be too large, allowing the TNI to grow into a prominent political actor and thus not adhere to strict civilian control of the military. The civilian authorities' policy of purposefully weakening such an integral component of the independence war angered the armed forces to such a degree — especially in light of the fact it was the army's hard-won efforts that took back territory lost by the civilians' "Bureau of Struggle" — the TNI began to view its relationship with civilians in an antagonistic manner. Therefore, the effort to solidify proper democratic controls over the armed forces proved to be counterproductive in taming the TNI, leading to suspicion and a desire by senior military officers to assert their independence from civilian dictates by seeking out alternative sources of funding.

5.1.2 The TNI: A conceptual framework

The proclamation of the Republic of Indonesia on 17 August 1945¹⁸ represented a watershed moment in the modern era. Belatedly recognizing the national aspirations of colonial territories required European empires relinquishing such prized possessions as Indonesia's almost fourteen thousand islands and 1.9 million square kilometers, the

¹⁸ But not officially recognized until four years later on 27 December 1949.

world's largest archipelago. With this backdrop, the TNI's role in Indonesian society, particularly its political and economic role, requires a thorough understanding of its history, circumstances, and culture which has dominated the TNI's thinking from its inception.

Over the past few decades, three viewpoints stand out in explaining the reasons and motivations for the TNI's non-military influences and activities. The first viewpoint, propounded by Harold Crouch (1975), suggests that the Indonesian military's participation in politics can be attributed to two factors: 1) The military's orientation has been political from the very beginning. Most officers did not join the armed forces because they were interested in pursuing a professional military career; rather, they were motivated by the nationalist struggle against colonialism. Many continued to involve themselves in politics over the years and never regarded themselves as apolitical. 2) This political orientation was strengthened by what these officers saw as the failure of successive civilian governments governing effectively in the post-independence period. The military considered itself as the only political force capable of ensuring order and stability in a nation that had witnessed continuous political turmoil since independence. The second viewpoint (Kingsbury, 2003) takes a much more cynical approach in understanding the prerogatives of the TNI. This position posits that the TNI's primary consideration is not such lofty, altruistic goals as the unity of the state or protection of the country's territorial integrity, but rather its own enrichment aimed at securing and enhancing its own commercial and business interests. The last viewpoint (Rabasa & Haseman, 2002) stresses a financial necessity for the TNI without which the very essence of the TNI would cease to exist. Its off-budget revenues provide a safety net and social services for both enlisted soldiers and senior officers that permit military

personnel to maintain a comfortable standard of living that would otherwise not be afforded to them. The military views its revenues by way of its businesses as ameliorating the dismal financial shortfalls that are appropriated it by the official state budget.

5.2 The Sukarno years (1945-1967): Guided Economy, “Guided Democracy”, and martial law

The TNI’s early involvement in politics crescendoed in 1952 when, on 17 October, the army moved to dissolve parliament, with generals Abdul Haris Nasution and Tahi Bonar Simatupang¹⁹ mobilizing their troops in a show of force, surrounding the Presidential Palace. Their demands were two-fold: first, civilian interference in military affairs had to be halted; and second, the People’s Representative Council (DPR) had to be dissolved immediately and without delay.²⁰ President Sukarno met with both the army and its civilian supporters in the streets and successfully convinced the mutinying officers to disband. Nasution and Simatupang were subsequently defeated and immediately discharged from the army; however, in a feat of political savvy Nasution would return three years later, and in 1957 and 1958 he would order “the institutionalization of the military’s territorial command structure” (Mietzner, 2008, p.229). This network of military units throughout the country expanded upon the TNI’s first forays into post-independence economic management, with businesses and enterprises being created in

¹⁹ At this time, Nasution was chief of staff while Simatupang was the newly created commander of the TNI.

²⁰ The DPR is also known as the House of People’s Representatives. It is the upper house and one of two elected national legislatures in Indonesia. Along with the Regional Representative Council, it makes up the legislative body of the Republic of Indonesia.

order to help with the financing of the TNI's military operations and salaries. Regional rebellions in the 1950s further accelerated the economic engagement of the military. Similar to what Ben Bella and the victorious ALN officers would face in Algeria only five years later, Indonesia would implement a practice that would become commonplace amongst newly formed countries in their quest to secure their territorial as well as economic sovereignty: nationalization. The analogous nature of Algeria's French rule in 1962 with that of the departing Dutch colonial administration presented military officers of both countries an opportunity to embed and assume the burdens of management of nascent commercial enterprises.

The TNI's campaign against Dutch colonial rule did not end with the country's independence. The military's adoption of the view that it was responsible for the creation of the state and not *vice versa*, gave credence to their claims to be a multi-faceted actor whose jurisdiction was not restricted only within the confines of the military and security realms. Thus, the 1950s offered the TNI an opportunity to drive this point forward during the country's struggle to wrest control of West New Guinea away from Dutch authority. The introduction of martial law in March 1957 increased the scope and acceleration of the TNI's business activities by enacting a regime of mass nationalization of Dutch enterprises (Rabasa & Haseman, 2002). These conditions placed

military men in positions of considerable power, especially in the Outer Islands where countervailing civilian forces were relatively weak. Although regional commanders did not always exercise their emergency powers to the full, they often took a direct interest in the administration of economic matters such as tax collection, the issuing of licences, and the granting of other facilities. However, it was not until the end of 1957, when nationalist demonstrators began to take over Dutch enterprises (following an adverse vote on West Irian in the United Nations) that vast new economic opportunities presented themselves. The army immediately responded by using its martial law powers to place all Dutch

enterprises under military supervision. Later, after the nationalisation of these enterprises, army officers continued to participate in the management of the new state corporations which had inherited the dominant position of the Dutch in mining, plantations, banking and trade (p. 71).

5.2.1 The “Middle Way” doctrine

The announcement of martial law in 1957 had brought about a radical change in the culture and ethos of the TNI. Whereas most officers had been preoccupied with traditional army functions such as state security and domestic counterinsurgency before 1957, the age of acquisitions and nationalizations eroded much of the military’s core duties that it had acquired during the war of independence and suppression of regional rebellions. The very essence of the TNI’s founding mandate of being a nationalist revolutionary army began to be questioned, and the freedom fighter was soon supplanted by the bureaucratic manager. Sukarno’s position as a nationalist and political utilitarian often inclined him to support what he believed to be were “indigenously” Indonesian ideas, and the Indonesian soldier first and foremost was to be a guardian of the country’s borders, and not its factories (Koe & Kuliang, 1963). His initial efforts to reign in army excesses in economic affairs gained the approval of Nasution, who took several measures against high-ranking officers which included Colonel Muhammad Suharto (Crouch, 1975). After Nasution took on the portfolio as Minister for Defense and Security, he lead

a new state body (*Paran*) which conducted enquiries into the activities of corrupt army officers and other officials in state corporations; *Paran* was dissolved,

however, by President Sukarno ... partly because of the opposition of highly-placed officers who did not approve of its purpose (p. 522).

This, however, proved to be an uphill battle for Nasution as he soon found out officers who had expressed concern at the military's reputation, integrity, and warfighting capabilities being eroded were in the minority; military perks had become so entrenched and institutionalized that Sukarno disbanded the *Paran*. Instead, in November 1958, Army Chief of Staff Nasution would outline a new doctrine for the military, one in which it would take a "Middle Way" whereby the army itself would not be politically active but would also not remain an idle spectator either. Nasution elaborated further, positing that the TNI was neither an "instrument of the government" nor a military regime, but an independent force responsible for the security and sanctity of the nation and its people (Jenkins, 1983, p. 20). The articulation of further military intrusion upon non-military domains predictably upset civilian parties, most notably the Indonesian Communist Party (PKI) and others who viewed army expansions as a major dilution of the extant party system (Lev, 2009).

5.2.2 The roots of the sukarno/PKI alliance

The precarious nature of the "Guided Democracy" period and resultant nationalizations translated into the military having a substantial stake in the economy, further increasing the army's role and influence in economic and civil affairs. Military officers assigned to manage state enterprises were ordered by superior officers to divert funds into the coffers of the military; at the local level, "communal provision" was directed by army units running their own tax-levying schemes and other myriad commercial activities (Rabasa & Haseman, 2002). However, to the consternation of the military and religious

groups, Sukarno's flirtation with the PKI²¹ became a cause for concern. Army apprehension of Sukarno's cooperation with the PKI only began to express itself after the Constitutional Period (1950-1957), when the country witnessed a gradual thinning out of parliamentary democracy. The rise of the PKI and Sukarno's later dealings with the group — coupled with the establishment of an alternative PRRI/*Permesta* rebel movement (many leaders of whom were former or current military officers) designed to oppose the central government in Jakarta in 1958 — created great unease amongst the senior officer corps as they began to worry about their fledgling stature in the eyes of Sukarno, as well as a potential reduction in their institutional and corporate interests. This angst was especially acute as Sukarno was viewed as a cohesive, unifying personality amongst the armed forces, who regarded the president as an essential figure to the operation and advancement of the young country (Federspiel, 1973). The armed forces, in particular army generals, soon began to accept Sukarno's figure as expendable, with his utility as a known factor to unite the country upon a common ideology to form an archipelago-wide consensus quickly fatiguing itself. Sukarno's lack of an organized base required deft political maneuvering counterbalancing the armed forces, the only major constituent power in society. For this, he turned towards the PKI, the latter having demonstrated itself to be the single most tangible, politically-organized entity capable of possessing the ability to check the ambitions of the military. Thus, Sukarno's alliance with the PKI had been rooted in two overriding factors: maintaining a dominant political position vis-à-vis the army, and Sukarno's wish to finally "complete the

²¹ The PKI had tried for decades to gain a favorable position in Indonesian political affairs. Political parties in the 1950s and '60s had proven to be impotent challenges in the face of the rising PKI. After two major setbacks in 1926 and 1948, the PKI had learned to tap into the frustrations of Indonesia's diverse society, particularly the countryside, and gaining enormous favor.

revolution” as father and leader of the nation (Hindley, 1962). Sukarno’s preference for a Marxist, ultra-nationalism aligned with a “revolutionary coalition” elicited poignant frustrations from the army who sought a less-ideological, more nationalist direction in order to unite the nation’s various disparate political factions and social groups.

By 1960 Sukarno’s political capital had shown signs of extreme exhaustion as the army began to express its chagrin at the rise of the PKI. The influx of Soviet weaponry to deal with the multiple rebellions plaguing the country did nothing to ameliorate the TNI’s attitude towards either the PKI or Communism at large; the TNI had enacted a policy of zero tolerance in its dealings with PKI-led anti-colonial marches, fearing such agitations would be successfully harnessed by the PKI and redirected towards the TNI-dominated system. The PKI skillfully exploited widespread grievances regarding the country’s worsening economic situation, primarily revolving around high inflation and lagging wages. The 1960s were characterized by mass demonstrations in both the countryside and cities, letter-writing campaigns, and deputations at the ministerial level. Sukarno’s increasing hostility towards the West and his inclusion of senior members of the PKI (such as the leader of the PKI, D.N. Aidit) as cabinet ministers constituted a leftward shift in the country’s domestic and international policies (Hindley, 1962).

Sukarno’s cultivations of the PKI had represented less an ideological affinity than opportunistic machinations designed to counter the American-aligned army while simultaneously utilizing the PKI’s status in Indonesian society as a means to extract concessions, weapons, and financial aid from China, the Soviet Union, and other allied Eastern Bloc nations (Harisanto, 1993). After having failed to reign in the army under Nasution’s *Paran*, Sukarno undertook a different strategy to neutralize the army’s near

socio-political-economic monopoly, a campaign that would require a two-pronged approach: first, the promotion of Sukarno loyalist officers to top positions in the army, even including those expressing open communist or Marxist sympathies; and second, cultivating the remaining branches of the TNI — namely, the air force and navy — in an effort to even out and balance the army's influence.

The backdrop of the Sukarno/PKI alliance and the remonstrations of the army, however, didn't quell the TNI's acquisitions and nationalizations; British enterprises were brought under military supervision in 1964, followed by American ones in 1965 (Crouch, 1988). PT Caltex Pacific Indonesia — then a subsidiary of Texaco — had its operations in Central Sumatra (Jones, 1975) taken over by an army-sponsored oil and gas conglomerate founded in 1957, *Permina*, whose management was led by General Ibnu Sutowo, a former army medical officer and veteran of the revolutionary war who owed his position due to Nasution's intervention on his behalf with Sukarno. As Manager-Director of *Permina*, his high-level status as a senior officer permitted him to allot local army units who provided protection rackets for the company's pipelines and infrastructure. In addition to these state-owned enterprises and business cooperatives, Suharto, Sutowo, and others erected a series of charitable foundations, *yayasan*, ostensibly designed to support local and regional governments in their economic development plans but whose real function served to deepen the army's coffers. Under the umbrella of TNI headquarters, the *yayasan* were classed as belonging to each individual branch of the armed forces — army, navy, air force, and special forces units — and received special privileges such as tax exemptions and preferential access for the bidding of state contracts (Rabasa & Haseman, 2002).

The military would steadily deepen its commercial interests while begrudgingly accepting Sukarno's alliance with the PKI. The bloody events towards the end of 1965 would close the door on one chapter of the TNI's economic expansions and open another that would expand the economic portfolio of Indonesia's armed forces even more. The precarious balancing act of Sukarno's "Guided Democracy" in teetering between the disparate and diametrically opposed interests of the TNI and PKI would finally collapse, culminating in the *Gestapu*.

5.3 The *Gestapu*: *Dwifungsi*, corporatism, and the New Order

Despite his best efforts to hedge against the army, Sukarno's last years witnessed an incremental increase in the army's influence as reflected in the "steady expansion of its representation within the political institutions of the state" (Jenkins, 1983, p.20). In the early hours of 1 October 1965, a small cadre of mid-level officers known as the 30 September Movement executed six senior Indonesian generals, hoping to preempt what they considered was to be an imminent *putsch*²² by a Council of Generals hostile to Sukarno's rule. The attempt was repulsed by the commander of the army's Strategic Reserve, Suharto, and other army generals who believed the coup attempt was nothing more than a cover for PKI-aligned officers to turn Indonesia into a Communist-led dictatorship. The army had found the *casus belli* that they had longed for in their struggle against the PKI, and immediately swept through the cities and countryside

²² An in-depth study of the 1965 coup d'état is beyond the scope of this study but its mention requires a brief explanation as it represents the crucial factor leading to Sukarno's downfall. Known by Indonesians as the *Gestapu*, it was a very controversial event in Indonesia's recent modern history. The events leading up to and including the attempted coup and its subsequent purge have been the subject of great speculation and interest. Whereas some believed it to be simply a military coup initiated by the PKI and its sympathizers in the army to seize power, the predominant position now views the issue as an internal army affair with rogue officers acting outside the chain of command. The coup was eventually put down within 48 hours, and Suharto would eventually take control of the country.

massacring real and suspected communists. The accompanying purges and massacres that soon followed in 1965-66 rendered the PKI as an obsolete and defunct political actor. Suharto would command the allegiance of senior officers and would depose Sukarno in 1967, being appointed first as interim president and then president, beginning the New Order.

During Suharto's interim presidency, Nasution believed the army had to amend its "Middle Way" doctrine to better reflect the new landscape of the country. In 1965, the "Middle Way" would give way and evolve to become the regime's *Dwifungsi*, or "Dual-Function." Recognizing and institutionalizing what had been a widely accepted reality, the TNI's directives were now affirmed as possessing a dual-role as a "military force" and as a "social-political force." The latter's activities were defined as encompassing the "ideological, political, social, economic, cultural, and religious fields" (Jenkins, 1983, p.22). The domination of such a wide spectrum of Indonesian society was driven by the army's antipathy to civilian political parties' inability to form consensual pluralities in governing the country, allowing the existence of voids that would have to be filled by more powerful actors. Suharto quickly went on to appoint senior civil service positions with army officers and to proffer key portfolios such as Finance, Economics, and Foreign & Domestic Intelligence to acting generals. The management of the army's businesses required a super cabinet benignly referred to by the government as the Private Assistants. In 1968, of Indonesia's 25 governors, seventeen would be chosen from the TNI (Crouch, 1972). Thus the initial stages of the New Order witnessed an embedding of officers throughout the entire state bureaucracy

as well as at the governor and provincial levels.²³ Naturally, such favorable positions resulted in the evolution of new coalitions, resulting in a triad comprising the government, Western corporations, and local businessmen often from the politically-impotent yet business-savvy Chinese minority. Despite the wave of nationalizations benefitting the army that swept Indonesia during the Sukarno era, Suharto quickly set out to allay the concerns of Western governments and corporations by expeditiously adopting the Foreign Investment Law of 1967²⁴ (Warsita, 1978) and the Domestic Investment Law of 1968²⁵ with the express purpose of not only spurring investment, but hoping to develop and exploit the country's hydrocarbon and timber industries.

5.4 Hydrocarbons and forestry

Under Suharto, the former army general-turned-president, the TNI became the central component of the regime, allowing its officers to wield heretofore nearly unlimited access to the state's finances and facilities:

The New Order period ... witnessed a massive expansion of military businesses, cooperatives and foundations. The military's central position in the regime provided its officers ... with 'almost unlimited access to the resources and facilities of the state and power to influence allocation of import/export licenses, forestry concessions and state contracts' ... In fact, the political weight of the

²³ Suharto also ordered the formation of a coalition of non-party interests to serve as the armed forces' vehicle in voicing its positions in electoral politics in parliament. This milieu of civil servants, workers, and retired military officers would have the intended purpose of taking on the role of a political party whose stated aims would be ambiguous yet laudable in its populist messaging. It would be referred to as *Golkar*.

²⁴ The Indonesian government also devoted a special provision — "Nationalization and Compensation" under Chapter VIII, Article 21 — outlining the government's promise not to "carry out a comprehensive nationalization/revocation of ownership rights of the foreign capital enterprises nor take steps to lessen the right to control and/or manage the enterprises concerned, except if it is declared by Law that the interests of the State require such a step."

²⁵For more information, see Hong Lan Oei's "Implications of Indonesia's New Foreign Investment Policy for Economic Development." *Indonesia*, no. 7, 1969, p. 48.

armed forces was so overwhelming that they were not only able to run a large complex of military businesses, but established effective control over key state enterprises as well (Mietzner, 2008, p.229).

The TNI expected to gain a large share of the state's natural resources, particularly oil and gas, through *Pertamina*,²⁶ the country's largest oil conglomerate. After putting West New Guinea under Jakarta's dominion in the aftermath of independence, the government faced the dilemma of having to fill the shoes of departing Dutch companies so as to avoid a potential collapse of the hydrocarbon industry. Covering the country's petroleum, gas mining, and marketing strategies required the creation of three state enterprises — *Pertamin*, *Permina*, and *Permigan* — which would later merge into *Pertamina* in 1968 (Glassburner, 1976).

5.4.1 *Pertamina* and Sutowo

Pertamina's monopolization of the hydrocarbon sector was largely due to the charismatic personality of General Sutowo. Indonesia's lack of quality infrastructure and a shortage of skilled engineers required the courting of powerful multinationals, many of whom had uprooted their business operations and departed the country during Sukarno's "Guided Democracy." Sutowo's affable qualities and reputation as a dynamic and diligent businessman not only endured him to Suharto, but also with the many corporations whose expertise and financial capital were in dire need by the Suharto regime if the promises of economic development were to come to fruition. The unique position of hydrocarbons in the New Order's modernization scheme was characterized

²⁶ *Perusahaan Pertambangan Minyak dan Gas Bumi Negara*, the State Oil and Natural Gas Mining Company.

by *Pertamina*'s lack of adherence to due diligence and sound fiscal discipline, resulting in the company possessing overarching authority in the dispersal of its revenues; *Pertamina*'s circumvention of traditional modes of bureaucratic constraint provided Suharto with much needed quick and easy cash, especially for distribution to the armed forces:

Thus, as a way of financing the armed forces without the visibility of central government spending, an undetermined, but certainly huge amount of *Pertamina* revenues went to the armed forces, even after the military-controlled oil companies were amalgamated under the single company structure (Ascher, 1998,p. 40).

Sutowo's capacity as "czar" of the oil and gas conglomerate²⁷ acted as an adhesive agent in Suharto's efforts to maintain Indonesia's precarious multicultural balance amongst the archipelago's over three hundred ethnicities and vast island chains stretching more than five thousand kilometers from east to west. *Pertamina* — and the hydrocarbon industry at large — under Sutowo's benefaction was to buttress Suharto's efforts in tempering the army's more praetorian aspects. Keeping Sutowo — a key general who had been appointed during Sukarno's reign — to head up a company that would eventually achieve revenues equivalent to one sixth of Indonesia's entire gross domestic product, was prescriptively designed to cement Suharto's place as president of the republic and to complete the "post-revolutionary consolidation of the military's search for a hierarchical command structure" (Said, 1998, p.536-537). These objectives entailed: 1) complementing the army's funds alongside the state budget; 2) buying the allegiance of enlisted troops in an effort to sway them away from regional commanders;

²⁷ Sutowo would also serve as Minister of Mines, Oil, and Natural Gas in Suharto's emergency cabinets of 1966.

3) and perpetuating the patronage system put in place in Nasution's massive military reorganization of 1969 (Ascher, 1998). Suharto's coalescing around a strategy of placation, appeasement, and incentives were centered on his fears in avoiding a downward spiral similar to the years leading up to Sukarno's ouster. The axiomatic status of the armed forces in the New Order mandated fealty to senior officers via a steady stream of extra budgetary forms of funding to finance the military's lifestyle and operations as an internal security guarantor.

However, Indonesia's "national development company" would soon meet an ignominious fate. After serving as the republic's overwhelming source of foreign exchange and tax revenue, the company would collapse and file for bankruptcy in 1975, depriving the Suharto government — and by extension, the army — of a key source of revenue and financial legitimacy. Fortunately for the TNI, the diversification of its non-government appointed financial portfolios helped absorb the brunt of the crisis.

5.4.2 The TNI's logging operations

One of the TNI's largest sources of revenue outside the state budget and oil rents had historically been the country's vast swathes of forests, constituting the second largest natural tropical forests in the world; at the time of independence, forests had covered 84% of the archipelago, comprising just under two hundred million hectares. To reap the benefits of Indonesia's forests required a repealing of the colonial era Dutch Agrarian Act of 1870 and its replacement by the Basic Forestry Law of 1967 (Rossabi, 1998).

Preparation for the groundwork for the mass appropriation of forestry lands began near the end of the Sukarno era and accelerated immediately after the 1 October

putsch by Suharto and the New Order government. The new government immediately sought to assuage the concerns of foreign firms intent upon exploiting the potential of Indonesia's large untapped forestry industry. Suharto's most pressing need required the mollification of army commanders in charge of the Outer Islands whose campaigns against secessionist movements demanded bridging the gap arising from the shortcomings of the state budget. The military-dominated government successfully employed the language of security to initiate its holdings of land, appropriating nearly 90% of all forest land, and centralizing the government's control over forest resources. *Adat* laws — customary regulations that governed indigenous peoples — were tolerated only insofar as they did not conflict with state interests; the often ambiguous nature of *adat* laws allowed the government to “softly” expropriate and transfer lands to either the military or foreign firms (1998). The mid 1960s witnessed the TNI given land concessions and full control of all productive forests near the Malaysian border of Sarawak and Sabah states. The granting of multiple logging concessions to an army *yayasan*, Yamaker, gave the army a unique function in acting as a liaison entity with non-army firms to subcontract its work out to third parties (Obidzinski, Andrianto & Wijaya, 2007).

The military's position in the cultivation of lands and provision of permits to multinationals bestowed upon it a unique mediator role whose primary responsibilities were infrastructure development, protection of logging activities via army personnel, and the nurturing of newfound partnerships with the Chinese minority. Such lax oversight soon gave rise to illegal and black marketeering as regional authorities became active in bypassing Jakarta in their quest for funds. The TNI moved to create and cultivate relationships with local business leaders; these relationships often benefitted

both sides as the military was able to supplement its income while businessmen were able to boast of having the military on their side in the event that their security or business interests were ever threatened by competition or the local populace. Furthermore, the line between informal and formal, and legitimate and illicit activities, steadily blurred over time. These services ranged from logistical transportation, to racketeering, to personal protection detail for multinational corporations, to logging in the heavily forested areas of Indonesia's tropical islands. Oftentimes, the army would provide commandos to act as security agents for companies undergoing dangerous and labor-intensive operations in areas such as Papua (Misol, 2006). The army would also make extensive use of its heavy machinery inventory by charging a fee-for-use of its military vehicles while simultaneously allowing private corporations to lease out military-controlled bases and properties.

CHAPTER 6

CONCLUSION

The main objective of this study was to map out the most salient commonalities of the economic enterprises of the pre and post-independence militaries of Algeria, Turkey, and Indonesia, and to determine the shape and extent to which the ANP, TSK, and TNI had penetrated their national economies. The anti-colonial struggles which were undertaken by Algeria, Turkey, and Indonesia imbued each country's armed forces with a special status that afforded them unique opportunities and prerogatives that extended well beyond the realm of military affairs. These newly independent governments had to contend with the herculean task of nation building and economic development; however, the expansion of foreign multinationals during the Cold War, the alienation and marginalization of the armed forces, real and perceived threats to the status and prestige of the armed forces, civilian leaders seeking alternative sources of support and power apart from the army, and the inability of civilian governments to establish a minimum consensus of shared values to address the mounting political and social crises resulted in intervening actions by the ANP, TSK, and TNI. Viewing themselves as the midwives of their respective nations' independence struggles, the ANP, TSK, and TNI took on a paternalistic posture in their interactions with what they viewed to be intransigent civilian administrators in their failures to govern effectively. Civil-military relations in the three countries were characterized by animosity and suspicion — albeit to a much lesser degree in Turkey where Atatürk was highly regarded both for his military exploits and civil administration — during and immediately after the wars of independence, with civilian leaders initially adopting various strategies of neutralizing, alienating, co-opting,

allying or outright opposing what they saw as militaries acting outside the scope of traditional military responsibilities.

The expulsion of the French colonial government and the *pieds-noirs* population from Algeria left an economic and political vacuum in the country that necessitated the new nation's leaders to undertake a society-wide modernization scheme to prevent the collapse of the young state. Algerians had to contend with constructing a national identity upon the arbitrary contours of French colonialism that had been imposed upon the Algerian populace for over one hundred and thirty years. Ben Bella's alliance with and then estrangement from Boumedienne's General Staff — coupled with the activation and empowering of popular militias designed to hedge against the ALN — perturbed senior officers who felt threatened by the mobilization of an alternative paramilitary entity. Skillfully deploying the rhetoric of national security and populace solidarity, Boumedienne replaced the Political Bureau with the ALN-dominated Council of the Revolution, representing the solidification of army rule. Recourse to management technocrats and the “nationalized” soldier taking over state-owned enterprises was the primary method of economic development in the Boumedienne era.

The centrality of SONATRACH and the country's over-reliance on hydrocarbons acted as a compounding factor in cementing the role of *le pouvoir*. The lack of technical and specialized skills as a result of Algeria's largely agrarian society meant it had to seek other methods to exploit its hydrocarbon resources far away from the Mediterranean and its population centers in the north of the country.

SONATRACH's technocrats established business partnerships with multiple foreign multinationals such as Shell and Total whose oil and gas infrastructure would be laid down by the Algerian state; cooperation agreements with European countries and

generous funding would be granted to the Algerian state by financial institutions such as the World Bank. Where it lacked the organizational self-sufficiency and autonomous planning necessary to institutionalize its corporate interests, the ANP empowered civilian allies who would oversee the large state-run enterprises that would serve as entities to stave off the rumblings of a restless population while buttressing the coffers of the ANP.

The TSK diverged from the other two case studies in this thesis due to the initial civilianizing policies of Atatürk during the early stages of the Turkish Republic. Wanting to emulate the civil-military relations of major European powers, the TSK was relegated to the military domain through an enshrined article of the country's first constitution. However, due to the rapid economic modernization drive of the country, the rise of the DP, living costs being unable to keep up with army wages, and the relative decline of the status of the *gazi* in Turkish society, the TSK would apply its coup veto in a bid to reestablish the army as the primary component of the state. In 1960, senior officers were bypassed by the perfunctory and impetuous actions of mid and lower level officers who soon established OYAK in the hopes of gaining a foothold in the country's rapidly advancing industrial sector. The Cold War and Turkey's alignment with NATO and the United States provided the needed justification for the TSK to expand its footprint in the corporate economy, taking an aggressive approach to the country's multiple leftist movements. The TSK demonstrated its usefulness to foreign multinationals who sought to maximize profit margins by opening up new factories in Turkey, often under the control of OYAK-affiliated enterprises whose businesses had the added benefit of preventing collective bargaining while minimizing worker right standards.

The interventionist tendencies of the TSK's generals were not confined to any one stratum of the armed forces; the coups of 1960, 1971, and 1980 all proved that lower, mid, and senior-level officers seized the initiative to impose a social, political, and economic order regardless of the country's civilian political dynamics. The sacrilegious nature of OYAK stood the test of time, even while the country moved from *etatism* to a neo-liberal market approach. The TSK utilized OYAK to assert its autonomy in expanding its financial footprint, employing civilian technocrats to run its large commercial empire. While Özal pushed for substantive market reforms to ameliorate Turkey's dismal financial position in the hopes of opening up the market to outside capital, the TSK made sure to protect its prerogatives by maintaining its domination over multiple key sectors including the automobile, finance, cement, and weapons industries. The transition to a more capitalist-based economy in the 1980s paradoxically aided the hand of OYAK who imposed upon the government stringent warnings not to interfere in certain segments of the economy, allowing the armed forces to monopolize key industries.

The precarious internal dynamics of Indonesia, with a departing colonial authority and local and regional insurgencies, forced the civilian leadership to acquiesce to army demands out of fear that the country's hard-fought independence campaign would be jeopardized. The nationalization of Dutch companies and internal agitations provided a pretext for the army's elites to take over and place its officers in senior management roles. The proclamation of the state of emergency in 1957 accelerated the institutionalization of "army entrepreneurs", expanding their reach into not only the country's politics but also its economy. Feeling uncomfortable with Sukarno's overtures towards the PKI, the *Gestapu* presented hardline anti-communist elements within the

TNI an opportunity to decapitate its only institutional competitor. The placing of General Sutowo as head of *Pertamina* and the TNI's connections with foreign logging conglomerates were the most lucid manifestations of the "militarization" of the country's critical export industries.

The overthrow of Sukarno's "Guided Democracy" and the instituting of the New Order era represented more of a continuation and intensification rather than a break from the TNI's outsized role in the Indonesian economy. Despite being the economic shock troops in the wave of nationalizations that the state undertook in the 1950s and '60s, the country's generals struck a delicate balance between enhancing their commercial coffers and wielding mastery over the various institutions of the state such as public enterprises and the *yayasan* while providing an amicable and business-friendly environment for foreign multinationals seeking to invest in Indonesia's vast archipelagic treasures. The praetorian and economic character of the armed forces was institutionalized in its *Dwifungsi* doctrine that allowed the TNI unfettered control over and access to state coffers via its mandate to "save the nation" from what generals viewed as feckless civilian administration. The creation of a political vehicle in the form of *Golkar* allowed officers to further their objectives through the façade of civilianization, permitting the TNI to increase its overall purchasing power. The neutralizing of civilian allies in the country's rubber-stamp parliament, joint ventures with foreign multinationals in the gas and forestry industries, ethnic agitations in the archipelago's Outer Islands, and uneasy partnerships with local businessmen all resulted in the TNI monopolizing the country's resources far away from the prying eyes of journalists or environmental groups. Thus, the embedding of senior officers at the provincial and governor level and the penetration of all key positions within the Indonesian state structure resulted in a militarization of

the Indonesian bureaucracy, ultimately leading to state capture — and with it economic rents.

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