

Crime and Corruption: Enduring Problems of Post-Soviet Development

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In 1994 *Demokratizatsiya* published its first issue on organized crime and corruption. The issue, a compendium of Russian and American authors, focused on the severity of the problem and its centrality to post-Soviet economic, political, and social development. At that time, it was a daring and unconventional approach to post-Soviet studies. The publication provoked a significant response, and many were startled by its conclusions. The editors of *Demokratizatsiya* concluded that more attention needed to be paid to crime and corruption because few in the post-Soviet studies community or the policy community understood the significance of those issues. In our analyses we identified it as a security issue, a human rights problem, and a development issue. The regional focus of the journal has taken in the diversification of the crime and corruption problem, which has grown over the decade.

Throughout the rest of the 1990s, *Demokratizatsiya* published much on those issues and addressed not only domestic problems of crime and corruption but Western complicity. The corruption of foreign aid to Russia and the former Soviet states became an important recurring theme in our issues. The pioneering work of Janine Wedel on corruption and collusion in foreign assistance was published in 1996. The ideas first published in *Demokratizatsiya* in 1996 were recognized in 2001 by the prestigious Grohmeyer prize for major contributions to humanity.

Demokratizatsiya's critique of the crime and corruption issue was not confined to Russia. Works identified the criminal-political nexus in Ukraine, since affirmed by the indictment of former prime minister Pavel Lazarenko in Switzerland for money laundering and the ongoing criminal investigation of his activities in the

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United States. Essays on Kazakhstan addressed the problem of corruption, particularly that linked to the energy sector.

Human trafficking out of the former Soviet Union and nuclear smuggling, issues of increasing concern were addressed in *Demokratizatsiya* before they became so topical. The multiple consequences of these crimes were presented in the multidisciplinary fashion that characterizes the journal.

The controversial position that *Demokratizatsiya* took in exposing the crime issue in the mid-1990s required courage on the part of our journal and the Helen Dwight Reid Educational Foundation, which publishes the journal. But the leadership of Heldref insisted that it was the responsibility of a foundation to publish controversial works that might not otherwise reach the public and policy makers.

In 2002, it is hard to believe that *Demokratizatsiya*'s attention to the issues of crime and corruption took courage and aroused controversy. It is now the common belief that corruption is a major impediment to Russian development, that significant portions of foreign aid, World Bank loans, and IMF financial transfers never reached their targets and were diverted internally or transferred to offshore accounts. Anticorruption programs are now a major focus of the United States, the European Union, and other donors to Russia and other states of the former Soviet Union.

Organized crime and corruption have not been static phenomena. Russian organized crime and corruption are much more global than a decade ago. The problem of capital flight and international money laundering continues unabated, but the problem is cumulative. The outflows of capital now total in the hundreds of billions, denying Russia the investment capital it needs. The money lost through these outflows far exceeds the foreign aid committed to the region.

The major changes in the problem can be identified as follows:

- Russia has high rates of homicide that are now more than twenty times those in Western Europe and approximately three times the rates recorded in the United States. The rates more closely resemble those of a country in civil war or in conflict than those of a country ten years into a transition.
- Corruption and organized crime are globalized. Russian organized crime is active in Europe, Africa, Asia, and North and South America.
- Massive money laundering is more than a problem of capital flight. It allows Russian and foreign organized crime to flourish. In some cases, it is tied to terrorist funding.
- Crime and corruption differ significantly in diverse regions of Russia.

Homicide

Many expected the Soviet Union to explode in violent conflict. Although there have been many regional conflicts, including the ongoing war in Chechnya, widespread political violence has not occurred. Instead, in Russia there has been an unprecedented rise in interpersonal violence, particularly homicide. This suggests that the violence is inner directed rather than outer directed and may be a substitute for more overt civil conflict.

The present homicide rate in Russia is approximately 22 per 100,000, far exceeding that recorded in the Soviet period. The vast majority of homicide cases are those connected with family members or known individuals. But homicide numbers have also increased because of the contract killings associated with organized crime groups. Contract killings are most prevalent in large urban areas and in regions of Russia with valuable enterprises and natural resources. The enormous increase in homicides is a consequence of such factors as the greater availability of arms, the reduced quality of emergency medical care, and the increased familial tensions resulting from high unemployment and the absence of social benefits. The armed conflict in the Chechen region may also contribute to the rise in violence in other regions of the country.

The homicide rate is approximately half that found in countries wracked by civil war, such as Colombia. Although Russia's violent conflict is confined to one part of the country, its patterns of homicide more closely resemble those of countries with serious internal conflicts. Its homicide picture diverges significantly from those in countries such as Ukraine that have much lower rates of homicide but no armed conflict within its borders. The divergence suggests that there are great differences in the processes of transformation in these regions.

Globalized Corruption

The globalization of Russian corruption has tarnished Russia's international image and undermined its state capacity. Capital flight and money laundering deprived Russia of the possibility of investing in its infrastructure, paying salaries, and maintaining the quality of its institutions and social services. Russia's billions could not be laundered without the complicity of many Western experts in the banking sector, the legal profession, and the accounting professions. For this reason, the offshore entities of Enron closely resemble those of Gazprom and Itera.

Russia's corruption is not confined by the borders of Russia. The recent bribe payers index of Transparency International put Russia in twentieth place among the top bribe payers. South Africa identified Russians as major "corrupters" in its region. Russians use corruption to internationalize their businesses and buy assets abroad.

Through front companies, trust agreements, and other vehicles to hide wealth, the corrupt and criminalized elite of the Soviet successor states have been the major beneficiaries of the globalized economy. The most deleterious aspect of this globalized corruption is that great portions of Russia's assets are now in offshore havens, outside the reach of Russians and are so successfully hidden that they cannot be recovered.

Globalized corruption has led to massive asset stripping from Russia, Ukraine, and Kazakhstan, and to a lesser degree from the smaller successor states. The hundreds of millions of dollars tied to Pavel Lazarenko, the former prime minister of Ukraine, and the enormous sums tied to President Nazarbayev of Kazakhstan in Switzerland suggest that there is a common trend in the former Soviet states. Elites grab the resources and the ordinary citizens lack the

capacity to address the looting of their countries. Instead national resources become part of the globalized economy.

Post-Soviet Organized Crime

Post-Soviet organized criminals are now major actors in international organized crime. They have acquired the distinction because of the diversity of their activities, the global reach of their operations, their links with other organized crime groups, and the sheer volume of their activity. Their involvement in weapons trade internationally and in massive money laundering has made them threats to national security on a regional and international level.

The audacity of their crimes also makes their criminality receive great visibility. The recent indictment of Alimzhan Tokhtakhounov, an Uzbek member of post-Soviet organized crime, for fixing the Olympics is indicative of this high profile crime. Tokhtakhounov, even though he never set foot in the United States, was indicted in federal court in Salt Lake City for influencing Olympic skating judges to favor the French team. Residing in Italy because of his expulsion from France, he sought to acquire a coveted French residence permit to live in his expensive Paris apartment by currying favor with the French. His involvement with the Olympic fix was disclosed by wiretaps placed on his phones in Italy at the behest of the FBI.

The case highlights several of the most important features of post-Soviet organized crime. First, the crime is so transnational that criminals can be indicted for crimes committed outside of the former Soviet states. Second, the offenses are committed in two continents simultaneously. Third, undercover policing techniques requiring cooperation between American and Italian law enforcement are needed to address this crime.

Post-Soviet organized crime groups engage in a full range of illicit activity that includes human trafficking, drugs, and weapons. In the Far East, they also trade in Russia's valuable natural resources such as fish and timber. Their crime partners are the organized criminals of Japan, the Koreas, China, and Vietnam.

Central Asian organized crime groups are major players in the international drug trade because of their proximity to the massive drug production of Afghanistan. They are also key actors in human trafficking between the Indian subcontinent and Afghanistan and western Europe. Many of these individuals are trafficked through Russia and Ukraine en route to their final destinations.

Organized crime groups with greater proximity to Europe are involved in all types of illicit activity and money laundering in that region. Recent arrests in Italy reveal illicit funds in the hundreds of millions of dollars and networks that stretch across western Europe.

The organized crime links are evident throughout the world. In Florida, a Russian organized criminal linked drug traffickers from Latin America with corrupt military from Russia to procure helicopters and submarines for the Cali cartel. A submarine under construction in Colombia for drug traffickers was being built with the assistance of Russian-speaking engineers. These are only a couple examples of the extensive links now evident between Ukrainian and Russian criminals and the Colombian drug cartels.

Conclusion

Ten years after the collapse of the Soviet Union, crime and corruption remain enduring problems for the post-Soviet states. Although they were once seen as peripheral to development, the post-Soviet experience has dramatically illustrated that these problems are fundamental to the course of development. Moreover, understanding the dynamics of the crime problem can provide a key diagnostic tool in assessing social and political stability. The fact that terrorism thrives in regions with rampant corruption makes the problem all the more salient in the contemporary environment.

The rise of the oligarchs and their control of such a significant share of the Russian and Ukrainian economies have eclipsed some of the economic significance of organized crime. But the continued importance of contract killings in key industrial sectors suggests that important operative links endure between the industrial oligarchs and organized crime.

The centrality of the crime and corruption issue was evident to citizens of the successor states before the West was sensitized to these problems. This gap in perceptions was central to the failure to develop effective assistance programs for the Soviet successor states. *Demokratizatsiya*, in helping to identify the importance of crime and corruption for a Western audience, helped move the debate, and we hope that it contributed to development strategies more attuned to the needs and concerns of the citizens of the former USSR. But often this change in tactics came too late to address the now deeply embedded problems of organized crime and corruption.