



PROJECT MUSE®

A Challenge For Democracy

Christopher Walker, Melissa Aten

Journal of Democracy, Volume 29, Number 1, January 2018, pp. 20-24 (Article)

Published by Johns Hopkins University Press

DOI: <https://doi.org/10.1353/jod.2018.0001>



➔ *For additional information about this article*

<https://muse.jhu.edu/article/683632>

The Rise of Kleptocracy

A CHALLENGE FOR DEMOCRACY

Christopher Walker and Melissa Aten

Christopher Walker is vice-president for studies and analysis at the National Endowment for Democracy (NED). *Melissa Aten* is senior research and conferences officer at the NED.

In recent years, the term “kleptocracy” has roared onto the scene in a way that is distinctive from its prior appearances. Barely a day passes without a new revelation grabbing headlines: Russian officials and oligarchs with extravagant lifestyles and luxurious homes in the poshest settings in Europe; Chinese political leaders and their family members sending untold millions of dollars overseas, beyond the reach of the ever-more-repressive the People’s Republic of China (PRC); the children of African tyrants, flaunting their sports cars and other pricey possessions as they enjoy the rule-of-law protections provided by democratic countries.

New transnational investigative-reporting initiatives, including the Panama Papers and the Paradise Papers, offer an unvarnished view of the illicit, opaque financial dealings that have enabled global graft to flourish on a massive level. The establishment of new governmental programs, including the Kleptocracy Asset Recovery Initiative of the U.S. Department of Justice, reflects the growing recognition that certain forms of corruption call for both a special designation and a more coordinated response. These developments contribute to a growing sense that kleptocracy has reached a new level in our hyperglobalized era.

But is the newfound prominence of this term warranted? Is the twenty-first-century version of kleptocracy something new and different? Or are we simply able to see its components more clearly thanks to modern global communications and the information avalanche that comes with a 24-7 news cycle? The articles that follow examine kleptocracy’s rise and what it means for the health of democracy.

Since its first known appearance in the English language in 1819, the term kleptocracy has flitted in and out of common usage. As Oliver Bullough observes in “The Dark Side of Globalization,” along with

this ebb and flow came an evolution in how the word was understood. When the term reappeared in earnest in the 1960s, the scholar Stanislaw Andreski—who, Bullough writes, was “analyzing something new and troubling”—gave kleptocracy “an entirely new sense.”

At the heart of this “new sense” were the emerging forces of globalization, which “supercharged” what otherwise might have remained large-scale, but still garden-variety corruption confined within state borders. In particular, the rise of offshore finance enabled corruption at the national level to metastasize into a far more complex and vexing international problem. Bullough identifies what he calls the “pathway” of kleptocracy in its present-day form: stealing, obscuring, and spending.

Knowing that their wealth is unlikely to be safe at home, today’s kleptocrats launder their money overseas, storing it in settings where it is protected by strong rule-of-law norms lacking in their own countries. This looted money, channeled through a complex web of offshore accounts and shell companies to obscure the beneficial owners, often lands in high-end real estate in major Western cities such as London, New York, and Miami. Transparency International UK conservatively estimates that property worth £4.2 billion has been purchased with suspect funds in London alone.¹ In Miami and Houston, businessmen linked to the Venezuelan state-owned oil company PDVSA have purchased tens of millions of dollars-worth of real estate, while at home Venezuelans lack basic food and supplies due to economic mismanagement and massive corruption.²

To purchase this high-end real estate, kleptocrats employ a cadre of bankers, accountants, real-estate agents, and lawyers to scrub their corrupt money. While many of the vehicles used to launder money, such as anonymous companies, are not illegal in the United States or the United Kingdom, members of these professions are required to report suspected cases of money laundering to the authorities. Instead, this requirement is frequently overlooked, skirted, or ignored, weakening the rule-of-law norms that are hallmarks of democracy.³

Alexander Cooley, John Heathershaw, and J.C. Sharman, in “Laundering Cash, Whitewashing Reputations,” dissect how the stealing, obscuring, and spending that defines kleptocracy is carried out in practice. Globalized kleptocrats have been able to embed themselves not only in the international financial system but also in the fabric of democratic societies, developing “sophisticated global networks to launder their wealth and avoid international scrutiny.” The authors refer to such networks as “transnational *uncivil* society.”

Kleptocrats, these authors note, launder not just their wealth but also their reputations. In an interconnected world of omnipresent and lightning-fast media, it is difficult to hide; today’s kleptocrats must operate largely in the open. Yet they have devised ways to camouflage and shield their avaricious activities. Their toolkit includes securing multiple citizenships; hiring public-relations experts; and undertaking philanthropic

activities that serve both to launder money and to enable kleptocrats to build up their transnational networks.

Gulnara Karimova, daughter of the now deceased former Uzbekistani president Islam Karimov, used her charitable foundation to these ends. The authors note that her charity entered into partnerships with such respected institutions as the Louvre Museum in Paris and the British Council. Another example of kleptocratic camouflage is a UNESCO prize funded by and initially named for President Teodoro Obiang of Equatorial Guinea, a country whose citizens “lack access to basic medical facilities, while its ruling family has been under investigation for offenses linked to grand corruption in the United States, Switzerland, France, and Spain.”

Brett Carter’s essay “Autocrats versus Activists in Africa” reveals how these trends have taken root in Central Africa. Amid an ongoing struggle against groups seeking greater accountability and transparency, kleptocrats have resorted to a variety of tools to shield themselves. They have used their wealth to fund image-laundering campaigns and to create “powerful constituencies abroad” with “vested financial interests in the survival of autocratic regimes.” This transnational unvirtuous circle is not impenetrable, however. Carter cites the rise of empowered diaspora communities that are using courts abroad to shift “the balance of power between Central Africa’s autocrats and their citizens.”

Malaysia has recently witnessed a case of “steal, obscure, spend” on a massive scale. Cynthia Gabriel’s essay “Malaysia’s Missing Billions” details how enormous sums were siphoned from the 1Malaysia Development Berhad (1MDB) to purchase a luxury yacht, a jet, jewelry, and real estate in the United States. Gabriel, drawing on the U.S. Justice Department’s investigation into financial crimes related to the 1MDB affair, also details the complexity of efforts to combat transnational kleptocracy. The scandal has shaken Malaysian politics to its core: Prime Minister Najib Razak, facing an irate polity after the exposure of his theft, has turned to dangerous identity politics and cracked down on independent media and civil society.

Beyond Greed

The massive corruption evident in these cases is certainly about greed, but sometimes it also has a geostrategic dimension. As Miriam Lansky and Dylan Myles-Primakoff observe in their essay on Russia, the Putin regime, “has used corruption internationally . . . to undermine democratic resolve and principles in established democracies.” This is possible because “kleptocracy puts enormous resources at the Russian government’s disposal, enabling Moscow to coopt foreign business and political elites.” Russia scholar Mark Galeotti calls this phenomenon the “mobilization state”; its essence is that “nothing is beyond [Putin’s] reach; that anybody, any institution, from companies to criminal gangs,

can be called on to carry out missions for the Kremlin.”⁴ This is, in effect, the weaponization of kleptocracy.

Another particularly vivid example of the projection of kleptocratic influence is Azerbaijan’s dealings with the Council of Europe. As Gerald Knaus wrote in these pages,⁵ this small, oil-rich nation in the Caucasus was remarkably successful at the Council’s Parliamentary Assembly in avoiding a vote of censure over the country’s political prisoners, despite the evidence against the regime.⁶ A report by the European Stability Initiative later revealed that key members of the Assembly were lavished with expensive gifts and extensive bribes to ensure this outcome.⁷ In 2017, members of the European Parliament demanded an investigation into what came to be known as the Azerbaijani Laundromat, a “secret \$2.9 billion slush fund” used to pay key figures in Europe to polish the reputation of Azerbaijan’s kleptocratic government.⁸

The case of the PRC presents its own special challenges in any discussion of kleptocracy. In “Does China Fit the Model?” Andrew Wedeman examines the massive anticorruption campaign undertaken by China’s authorities since Xi Jinping took power in 2012. During this time, tens of thousands of arrests have been made, suggesting both the seriousness with which the country’s paramount leadership views this issue and the vastness of the problem. The very fact that the powerful machinery of the Chinese state is working so assiduously in this effort suggests that corruption is deeply embedded, thorough, and systematic. To assess where China fits in comparative perspective, Wedeman applies a definition of “pure” kleptocracy based on six characteristics, including widespread plunder and a single top leader who fills the role of “thief-in-chief.” By this strict definition, according to Wedeman, China does not rank as a kleptocracy. One may wonder, however, whether in today’s world of diffuse transnational networks this does not understate China’s role in fostering kleptocracy.

While corruption poses a persistent challenge in most societies, its scope and impact can be kept in check through a country’s internal accountability and transparency mechanisms, including independent media, civil society, impartial courts, legislative oversight, and political opposition.

Kleptocracy is a system in which public institutions are used for the opposite purpose: to enable a network of ruling elites to steal public funds for their own private gain. In such settings, internal checks on power are neutralized or coopted. The state is captured by narrow interests who use the global financial system to launder and protect their ill-gotten gains. This international dimension of modern kleptocracy creates complex problems that require new, more sophisticated responses.

As Carl Gershman has argued, “in the era of globalization, kleptocracy represents an exceedingly dangerous threat to democracy internationally. . . . Well-resourced kleptocracies . . . project their sophisticated corrupt practices beyond national borders with an ever-increasing impact felt in new and established democracies alike.”⁹

Over the half-century since Stanislav Andreski reintroduced the term, the powerful factors driving kleptocracy have gathered even greater force. Today, we face “kleptocracy 2.0.” Given the ease with which illicit money can flow around the world in the era of globalization, some have called this the “golden age of money laundering.”

The well-resourced kleptocrats and the powerful networks that have been forged around them operate seamlessly across borders; any successful response must be able to do the same. Kleptocracy is a global scourge, and it cannot be defeated with a piecemeal approach that is confined to individual states. A coordinated effort from civil society, the legal and business communities, journalists, and law enforcement is needed. Groups working to address this problem are too often separated into professional, geographic, and linguistic silos. It is imperative to bring these groups together; to encourage them to share and discuss methods, tactics, and lessons from their experiences; and to foster the growth of networks and alliances that will enhance their future efforts.

NOTES

1. Transparency International UK, “Faulty Towers: Understanding the Impact of Overseas Corruption on London’s Property Market,” March 2017, www.transparency.org.uk/publications/faulty-towers-understanding-the-impact-of-overseas-corruption-on-the-london-property-market.

2. Zach Despart, “Corrupt Businessmen Looted Venezuela, and Now Many Live Quietly in Houston and Miami,” *Houston Press*, 18 April 2017.

3. The work of Brooke Harrington and Global Witness makes this clear. See Harrington, *Capital Without Borders: Wealth Managers and the One Percent* (Cambridge: Harvard University Press, 2016); Louise Story, “Report Describes Lawyers’ Advice on Moving Suspect Funds Into U.S.” *New York Times*, 31 January 2016.

4. “The Big Question: Kleptocracy and Russia’s Foreign Policy,” National Endowment for Democracy, 12 October 2017, www.ned.org/the-big-question-kleptocracy-and-russias-foreign-policy.

5. Gerald Knaus, “Europe and Azerbaijan: The End of Shame,” *Journal of Democracy* 26 (July 2015): 5–18.

6. Working Group on a Unified List of Political Prisoners in Azerbaijan, “A Unified List of Political Prisoners in Azerbaijan” November 2016, www.esiweb.org/pdf/List%20of%20Political%20Prisoners%20in%20Azerbaijan%20-%20November%202016.pdf.

7. “The European Swamp (Caviar Diplomacy Part 2): Prosecutors, Corruption, and the Council of Europe,” European Stability Initiative, 17 December 2016.

8. Jennifer Rankin, “European Parliament Calls for Investigation into ‘Azerbaijani Laundromat,’” *Guardian*, 13 September 2017.

9. *Corruption: Violent Extremism, Kleptocracy, and the Dangers of Failing Governance, Hearing Before the U.S. Senate Committee on Foreign Relations*, 114th Cong. (30 June 2016) (testimony of Carl Gershman, President, National Endowment for Democracy, www.foreign.senate.gov/imo/media/doc/063016_Gershman_Testimony.pdf).