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Louise I. Shelley

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REVISITING THE PROBLEM OF ORGANIZED CRIME IN POST-SOVIET DEVELOPMENT

LOUISE I. SHELLEY
GEORGE MASON UNIVERSITY

In 1994, the second full year of *Demokratizatsiya*'s publication, I analyzed the impact of organized crime on the development of post-Soviet states in an article entitled "Post-Soviet Organized Crime: Implications for Economic, Social, and Political Development."¹ This article was written at a time when many in the West were sure that the future course of development for Russia and other post-Soviet states was one of free markets and democracy. Most research on organized crime and high-level corruption in Russia would not be published until much later.² My article provided a very different and contrarian approach to this rosy scenario for Soviet successor states. In the article's introduction, I asserted that the infiltration of organized crime into the state would ensure that organized crime would "play a significant role in determining the future course of developments in the Soviet successor states." In my view, organized crime represented an amalgam of traditional criminals, members of the state security apparatus, former military personnel, and law enforcement officials. I did not associate post-Soviet organized crime exclusively with the *vory v zakone*, the traditional thieves in law or professional criminals.

I was especially concerned at the time that the rapid and non-transparent privatization of state property to the benefit of corrupt politicians, organized crime, and their business partners would have persistent and deleterious long-term consequences, leading to the monopolization of key sectors of post-Soviet economies rather than the competitive economies needed for growth.

¹ Louise I. Shelley. 1994. "Post-Soviet Organized Crime: Implications for Economic, Social, and Political Development." *Demokratizatsiya* 2: 3 (Summer): 341-58.

² The major books on organized crime and corruption were only published after 2000. See Frederico Varese. 2001. *Russian Mafia: Private Protection in the New Market Economy*. Oxford: Oxford University Press; Vadim Volkov. 2022. *Violent Entrepreneurs: The Use of Force in the Making of Modern Russia*. Ithaca, NY: Cornell University Press; and Karen Dawisha. 2015. *Putin's Kleptocracy: Who Owns Russia?* New York: Simon and Schuster.

Louise Shelley is the Omer L. and Nancy Hirst Endowed Chair and a University Professor at George Mason University. She founded and directs the Terrorism, Transnational Crime and Corruption Center (TraCCC). Contact: lshelley@gmu.edu.

As I explained in the text:

The existence and pervasiveness of organized crime may preclude the transition to democracy, limit personal freedom and thwart legitimate foreign investment and open market economies. Since organized crime has already partially supplanted many of the weak governments of the Soviet successor states, the citizens may be trading one form of control for another; domination by the Communist Party may be replaced by the controls of organized crime. As in other societies, organized crime will limit free elections, the development of civil society and freedom of the press and media. Labor markets once controlled by state planning and submissive trade unions will instead be subject to the intimidation of organized crime which is already a major employer.

In addition to these paramount problems of post-Communist transition, I pointed out that many criminal and corrupt individuals were entering into politics, becoming members of legislative bodies. The benefits for them were twofold. First, they were granted parliamentary immunity from investigation and could not be prosecuted.³ Second, the presence of criminals in legislative bodies meant that the laws that would be needed to address organized crime and attendant corruption would never be developed. I further pointed to the deleterious consequences of massive capital flight from the former USSR that was already evident in the first years of the post-Soviet period. I suggested that without this needed investment, internal development would not occur. My final concerns expressed almost three decades ago were that the extensive environmental damage that had characterized the Soviet period would continue and that there would be significant exploitation of migrant labor within the post-Soviet states.

I was vilified by many in the policy community⁴ for this analysis, although the Pulitzer Prize-winning journalist Seymour Hersh featured a short section of my then-forthcoming article in a cover story in *The Atlantic*.

In Hersh's article, "The Wild East,"⁵ he wrote that he had been referred to
³ Scott P. Boylan and Catherine L. Newcombe. 1997. "Parliamentary Immunity: A Comparison between Established Democracies and Russia: A Crisis of Democratic Legitimacy for Russia." *Journal of International Legal Studies* 3.

⁴ See Janine R. Wedel. 1998. *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe, 1990-1997*. London: Palgrave Macmillan. She won the Grawemeyer Prize for this book, which discusses the failure of the Harvard Institute of International Development and Larry Summers, among others, to recognize the central role of corruption and organized crime in the post-Soviet transition.

⁵ Seymour Hersh. "The Wild East." *The Atlantic*. June 1994. At <https://www.theatlantic.com/magazine/archive/1994/06/the-wild-east/376360/>, accessed December 24, 2022.

me by people at the State Department who were not allowed to discuss the rise of organized crime in Russia or its possible impact but suggested he speak to me. Hersh, after reading my article, recognized that the trajectory that I posited for post-Soviet development was disturbing but thought it raised valid concerns. As he wrote, “The exponential growth of organized crime in Russia is not only an issue of personal safety and economics—it is becoming an issue of national and international security. The criminal element in Russia is now in the process of hijacking the state.”⁶

Unfortunately, most of the predictions made in my *Demokratizatsiya* article have come true for Russia, as I will explain. In Ukraine, the same processes occurred: the rise of organized crime and the hijacking of the privatization of key national assets by an oligarchical elite often associated with organized crime. Instead of investing in Ukraine, this highly corrupt economic elite exported billions in capital.⁷ But Ukrainians developed much more of a civil society and on repeated occasions, starting with the Orange Revolution in 2004, confronted their leadership and sought another way forward for their political system and their society. Ukrainian civil society sought to address endemic corruption. Ukrainians’ repeated resistance to their corrupt power structure, with its strong links to Russia, contributed to Russian President Vladimir Putin’s view of Ukraine as a threat to Russia that needed to be occupied and destroyed.

The Transformation of Post-Soviet Organized Crime

Organized crime is not as potent a force in many successor states today as it was in the early post-Soviet period. In the pre-Putin era, for instance, organized crime figures in Russia had more autonomy than they do today. Part of Putin’s efforts to assert authority over the Russian state included subordinating organized crime to the state. Instead of being independent masters, organized crime now operates on behalf of the Russian state in both the cyber and real world.

Putin associated with many individuals involved in organized crime during the period when he held a leadership role in the St. Petersburg mayor’s office. Catherine Belton, in her well-documented *Putin’s People: How the KGB Took Back Russia and Then Took on the West*, “traces how an alliance between Putin, the KGB, and organized crime came together in St. Petersburg and expanded its influence to the Kremlin, across Russia, and eventually reaching Western markets and institutions.”⁸

⁶ Ibid.

⁷ Kevin Sullivan, David L. Stern, and Kostiantyn Khudov. “War Has Weakened the Grip of Ukraine’s Oligarchs.” *Washington Post*. December 10, 2022, pp. A1, 10-11.

⁸ Atlantic Council. 2022. *Putin’s People: How the KGB Took Back Russia*, At <https://www.atlanticcouncil.org/event/putins-people-how-the-kgb-took-back-russia/>, accessed December 24, 2022.

Before the war in Ukraine, organized crime figures maintained key alliances with many of the most powerful oligarchs in both Russia and Ukraine.⁹ That is, they have not disappeared but rather transformed over time. Some in Russia are now known as “businessmen,” having laundered their ill-gotten gains into the legitimate economy. These individuals may also hold seats in the Duma or the upper chamber of parliament, the Federation Council, enjoying protection from legal accountability for past and present crime. Indeed, some politicians associated with organized crime groups in the 1990s have now been members of parliament for over two decades. Individuals with pasts in organized crime are also the business partners and associates of now-sanctioned oligarchs. Many of the richest men in Russia, who control massive factories and the oil and gas sector, seized and maintained power over these resources through alliances with organized crime.

How Accurate Were the Predictions?

The predictions for the future development of Russia and other Soviet successor states have largely proved to be correct. None of the large countries that emerged from the former USSR is presently a democracy. Furthermore, some of the successor states—such as Russia and Belarus—are highly authoritarian states that more closely resemble the controlled society of the Brezhnev era than the USSR of the late 1980s. Moreover, in Russia and many of the other post-Soviet states that are not part of the European Union, there is limited entrepreneurship and increasing state control over the economy. Organized crime may not be the prime determinant of these outcomes, but it is apparent that the decisive role of organized crime and corruption in the early post-Soviet transition precluded the possibility of democracy and free markets. It must be noted that these problems are not confined to the Soviet successor states: the central role of organized crime and corruption is evident in some of the former socialist countries of Eastern Europe, where investigative journalists and activists have been killed for their probes of high-level corruption¹⁰ and natural resource destruction.¹¹

⁹ Sullivan, Stern, and Khudov, “War Has Weakened the Grip of Ukraine’s Oligarchs.” Catherine Belton. 2022. *Putin’s People: How the KGB Took Back Russia and Then Took on the West*. New York: Picador Paper lists the mobsters who were the foot-soldiers of the KGB—see pp. xiii-xiv.

¹⁰ Organized Crime and Corruption Reporting Project. 2022. “*The Killing of a Journalist*” Will Have World Premiere at 2022 Hot Docs Festival, At <https://www.occrp.org/en/40-press-releases/press-releases/16145-the-killing-of-a-journalist-will-have-world-premiere-at-2022-hot-docs-festival>, accessed December 24, 2022.

¹¹ Stephen McGrath. “Romania Forest Murder as Battle Over Logging Turns Violent.” *BBC*. October 21, 2019, At <https://www.bbc.com/news/world-europe-50094830>, accessed December 24, 2022.

Russia and Democracy

The optimism of the early 1990s that Russia would turn into a democratic society has been completely shattered by the war in Ukraine and ever-tightening controls over freedom of expression in Russia. Freedom House's "Freedom in the World" index, which assesses political and civil rights, has charted the ongoing decline in freedom in Russia. The 2022 report rates Russia as "unfree," commenting that:

Power in Russia's authoritarian political system is concentrated in the hands of President Vladimir Putin. With loyalist security forces, a subservient judiciary, a controlled media environment, and a legislature consisting of a ruling party and pliable opposition factions, the Kremlin is able to manipulate elections and suppress genuine dissent. Rampant corruption facilitates shifting links among state officials and organized crime groups.¹²

In this assessment, organized crime has not disappeared from the Russian power structure. Indeed, Russia's low rating on democracy is explained in part by the influence of organized crime groups. Their presence and influence contribute to a highly corrupt law enforcement system and the absence of an independent judiciary.

Unfree Markets

Russia and many of the Soviet successor states have unfree markets. The largest post-Soviet economies are dominated by oligarchs tied to the country's ruler. There is no rule of law and no protection from the predatory behavior known as corporate raiding. There is limited access to capital to start businesses and limited potential for entrepreneurship. Only the war in Ukraine has broken the oligarchs' near-total economic control.¹³

Nowhere is the absence of entrepreneurship more evident than in the tech sector, where the post-Soviet states have a competitive advantage, with many highly trained individuals. The rise of large-scale cybercrime, some of it linked to the state, is evidence of the lack of legitimate channels for success for individuals with advanced tech skills.

Corporate raiding is common to many post-Soviet states. It typically combines the use of illegal acts with the misuse of law and legal process to deprive business owners of valuable property. Often, it is a question not merely of illegal deprivation of property rights, but also of

¹² Freedom House. 2022. *Freedom in the World: Russia Country Report 2022*, At <https://freedomhouse.org/country/Russia>, accessed December 24, 2022.

¹³ Sullivan, Stern, and Khudov, "War Has Weakened the Grip of Ukraine's Oligarchs."

significant threats to the lives and welfare of the owners of that property.¹⁴ Raiders misuse a panoply of legal institutions to put a thin veneer of legality over their theft of assets. Members of organized crime networks frequently use violence to intimidate those whose property will be seized.¹⁵

In Russia, hundreds of thousands of businessmen have been arrested and jailed for significant periods as part of corporate raids.¹⁶ In 2019, according to official Russian state statistics, over 317,000 cases were opened against businessmen, a 37% increase compared to the previous year.¹⁷ These cases are not part of state anti-corruption efforts, but rather the criminal acts of well-connected businessmen.

Capital Flight and the Illicit Economy

Insecure property rights, corporate raiding, and the absence of rule of law have led to the departure of massive amounts of money from Russia, Ukraine, and other post-Soviet states in the past three decades. Moreover, some of this money returns and is invested in the underground economy, which in the period analyzed (1994–2011) represented 46% of Russian GDP. Therefore, Soviet successor states have lost large amounts of capital that could otherwise have been invested in education, health, and infrastructure. In 2013, Global Financial Integrity estimated that over the 20 years starting in 1994, Russian elites sent more than \$211 billion abroad. Illicit outflows and inflows in this period totaled over \$764 billion.¹⁸ The problem did not abate after the report was completed: large amounts continued to be sent abroad, especially to the UK, where they were invested in real estate.¹⁹ Since the Russian invasion of Ukraine, a massive international effort has been made to find such assets stashed overseas; the US and its allies have frozen over \$30 billion.²⁰ Yet this is a small

¹⁴ Louise Shelley. 2013. "Crime, Organized Crime and Corruption." In Stephen K. Wegren, ed., *Return to Putin's Russia*, 5th edition. Lanham, MD: Rowman and Littlefield, 196.

¹⁵ Tom Firestone. 2008. "Criminal Corporate Raiding in Russia." *The International Lawyer* 42: 4 (Winter): 1207-29.

¹⁶ Sarah Lain. 2017. *Corporate Raiding in Russia: Tackling the Legal, Semi-Legal and Illegal Practices that Constitute Reiderstvo Tactics*. RUSI, At https://static.rusi.org/201707_rusi_corporate_raiding_in_russia_lain.pdf, accessed December 24, 2022, p. 14.

¹⁷ Yulia Krylova, Judy Deane, and Louise Shelley. 2021. *Reiderstvo 2.0: The Illegal Raiding Pandemic in Russia*, At <https://reiderstvo.org/wp-content/uploads/2021/06/Reiderstvo-2.0-The-illegal-raiding-pandemic-in-Russia-1.pdf>, accessed December 24, 2022, p. 8.

¹⁸ Dev Kar and Sarah Freitas. 2013. *Russia Illicit Financial Flows and the Role of the Underground Economy*, At <https://gfiintegrity.org/report/country-case-study-russia/>, accessed December 24, 2022.

¹⁹ Oliver Bullough. 2022. *Butler to the World: How Britain Helps the World's Worst People Launder Money, Commit Crimes, and Get Away with Anything*. New York: St. Martin's Press.

²⁰ The White House. 2022. *Remarks by National Security Advisor Jake Sullivan at the International Anti-Corruption Conference, December 6, 2022*, At <https://www.whitehouse.gov/briefing-room/speeches-remarks/2022/12/06/remarks-by-national-security-advisor-jake-sullivan-at-the-international-anti-corruption-conference-iacc/>, accessed December 24, 2022.

percentage of the total, a consequence of the absence of beneficial ownership laws and registries in many jurisdictions, which makes it possible to hide assets overseas and evade detection.

Unfree Labor

In the Soviet period, labor unions were tightly controlled and workers could not strike. But the early post-Soviet enthusiasm that the collapse of the USSR would lead to greater workers' rights is now an unrealized hope. As my 1994 article pointed out, organized crime has a long tradition of controlling labor. With organized crime's ascendancy in the first post-Soviet years, there was therefore little chance of improved labor conditions. Russia became a major source, destination, and transit country for internal and external labor trafficking.²¹ Contributing to human susceptibility to traffickers were the social and economic collapse, discrimination against women and minorities, and the conflicts that accompanied the demise of the socialist system. Millions were unemployed, disoriented, displaced, and vulnerable to exploitation—especially those from many countries in Central Asia and parts of the Caucasus.

This problem continues today. Russia was home to at least 12 million migrants before the COVID-19 pandemic.²² The millions of laborers from Central Asia are all too often enslaved or severely mistreated²³ in Russia, working in the underground economy without benefits. They come to obtain employment and send back remittances, but instead some are deprived of their passports and toil in dangerous labor conditions that violate legal norms. Their migration to Russia represents reverse migration from regions once colonized by the Soviet state. There is no prospect that labor trafficking will be sharply curtailed in the near future, as the fundamental conditions that gave rise to the problem still persist:²⁴ a structural imbalance between the demographically declining but richer Slavic states and the poor Central Asian states with growing youthful populations.

²¹ Sergey V. Ryazantsev et al. 2015. "Modern Aspects of Human Trafficking in the Context of Labor Exploitation and Irregular Labor Migration in the Russian Federation." *Mediterranean Journal of Social Sciences* 6: 3 S2 (May). At <https://doi.org/10.5901/mjss.2015.v6n3s2p67>, accessed December 24, 2022.

²² United Nations, Department of Economic and Social Affairs, Population Division. 2019. *International Migration 2019: Report*, At www.un.org/en/development/desa/population/migration/publications/migrationreport/docs/InternationalMigration2019_Report.pdf, accessed December 24, 2022, p. iv.

²³ Laura A. Dean. 2020. *Diffusing Human Trafficking Policy in Eurasia*. Bristol: Bristol University Press, At <https://doi.org/10.2307/j.ctv11g95bc>, accessed December 24, 2022, p. 1.

²⁴ Mary Buckley. 2018. *The Politics of Unfree Labour in Russia: Human Trafficking and Labour Migration*. Cambridge: Cambridge University Press, At <https://doi.org/10.1017/9781108325639>, accessed December 24, 2022.

Controlled Media

In the early post-Soviet period, when my *Demokratizatsiya* piece was written, there was significant media freedom. There were many independent newspapers and even television channels that were not under state control. Over the course of the 1990s, however, newspapers, radio and television were privatized to oligarchs who could be manipulated by the state. By the early 2020s, even greater control of the media prevailed in Russia. The Nobel Prize was awarded to *Novaya Gazeta*, an independent newspaper founded in 1993. Six *Novaya Gazeta* journalists have been assassinated since its founding, including former *Demokratizatsiya* Editorial Board member Yuri Shchekochikhin, who published on organized crime in the journal in the early 1990s.²⁵ Despite having received the Nobel Prize, *Novaya Gazeta* was stripped of its operating license in September 2022 and forced to cease operations in Russia.²⁶ The last remaining independent TV channel, Dozhd, and radio station, Ekho Moskvyy, were likewise shut down after Russia invaded Ukraine, having been declared foreign agents.²⁷

Environmental Destruction

In the Soviet period, no land was privately owned and the state was a very poor caretaker of the natural resources of its vast landmass. The destruction of the Aral Sea to the benefit of cotton production is emblematic of the problems of the planned economy and its failure to consider the environmental consequences of state plans. The rise of organized crime in the post-Soviet period likewise led to many devastating environmental consequences, as selling off Russian natural resources could generate great wealth for these criminals. In the Russian Far East, vast amounts of timber were illegally logged to be sent to Asian markets; the ties of crime groups from that region with the Japanese Yakuza also contributed to overfishing. The illegal timber trade also remains a significant problem in Siberia. In recent years, Russia's illegal logging has been estimated at 15 to 30% of its total, as Chinese demand for timber is significant. Illegal poaching of wildlife is also common.²⁸

²⁵ "A Russian Editor Says He Won the Nobel Because His Slain Colleagues Could Not." *The Economist*. October 16, 2021. At <https://www.economist.com/international/2021/10/16/a-russian-editor-says-he-won-the-nobel-because-his-slain-colleagues-could-not>, accessed December 24, 2022.

²⁶ Pjotr Sauer. "Moscow Court Revokes Novaya Gazeta's License to Publish inside Russia." *The Guardian*. September 5, 2022, <https://www.theguardian.com/world/2022/sep/05/moscow-court-revokes-novaya-gazeta-licence-to-publish-inside-russia>, accessed December 24, 2022.

²⁷ Laura Hazard Owen. 2022. *Russia Blocks TV Rain Its Last Independent TV Channel, and Echo of Moscow Airs Its Last Broadcast*, At <https://www.niemanlab.org/2022/03/Russia-blocks-tv-rain-its-last-independent-tv-channel-and-tv-rain-airs-its-last-broadcast/>, accessed December 24, 2022.

²⁸ Natalie Sauer. "The Fight for the World's Largest Forest." *Climate Change News*.

The Russian war in Ukraine is causing grave environmental devastation. President Putin is one of the autocrats who has undermined cooperation to address the dire threats of the climate crisis. He has relied on the sale of coal, oil, and gas to finance the war in Ukraine, accelerating the release of carbon emissions into the air.²⁹

Conclusion

Organized crime today is not the visibly violent force it was 30 years ago. But the fact that it is less violent has not made it less virulent. Rather, instead of organized crime being represented by the visible presence of violent gangs, it has burrowed deep into many of the Soviet successor states, especially Russia. This has been true since the onset of the privatization process in the Soviet successor states, when vast wealth was transferred to a limited number of individuals called oligarchs. The role of organized crime in facilitating this transition forged key associations between the crime world and the economic elite. Together, they have stripped the post-Soviet states of the financial capacity to rebuild their infrastructure, educate their citizens, and look after their well-being. The long-term associations between criminals and the state have a less apparent but highly pernicious new form. Criminals of the post-Soviet countries are now key actors in the online criminal world—extorting money through ransomware, disrupting critical infrastructure such as the Colonial Pipeline, and undermining health through their significant role in online pharmaceutical markets selling inferior and counterfeit products.

The war in Ukraine is still ongoing. Ukrainian soldiers are fighting to have a society and political system distinct from Russia—one in which despised oligarchs and organized crime do not predominate. If Ukraine can change from its past trajectory, the assets of the state will not be stolen and sent abroad but serve to reconstruct the economy and benefit the country's citizens. If this happens, it will show that the model of state development described 30 years ago in *Demokratizatsiya* can be overcome.

August 10, 2019, At <https://www.climatechangenews.com/2019/10/08/siberia-illegal-logging-feeds-chinas-factories-one-woman-fights-back/>, accessed December 24, 2022; Sally Stoecker and Ramziya Shakirova, eds. 2014. *Environmental Crime and Corruption: Federal and Regional Perspectives*. London and New York: Routledge.

²⁹ Somini Sen-gupta, Steven Lee Myers, Manuel Andreoni, and Suhasini Raj. "How Autocrats Like Putin Foil Climate Efforts." *The New York Times*. November 6, 2022, pp. 1, 10.