

# RUSSIA AND UKRAINE

Louise I. Shelley, "The Political-Criminal Nexus: Russian-Ukrainian Case Studies."

Symbiotic relationships between government officials and criminals are a potent legacy of the Soviet period. No successor state to the USSR has escaped the phenomenon. These relationships, carefully masked in the Soviet period, have surfaced publicly with a striking intensity in both Russia and Ukraine. Although both countries emerged simultaneously from the USSR, significant differences in the political-criminal nexus are apparent in the short period of Russian and Ukrainian statehood. The divergence of these two societies from the Soviet model suggests that specific political, social and economic conditions have a decisive influence on the evolution of the nexus.

In all societies, the political-criminal nexus is harmful because this coalition places its financial interests above those of the citizenry or the long term objectives of the state. This cancer within a transitional society is particularly devastating because the nexus develops in tandem with the state, denying the construction of a healthy nation.

Russia and Ukraine are societies in transition, their situations contrast sharply with many of the countries addressed in this study. Their laws, economic system and governmental institutions are in a period of profound change. Whereas Russia lost its empire, Ukraine was unexpectedly created without the institutions needed to run a country of 40 million people. During the major transition in both societies, the political-criminal nexus of the Soviet period expanded.

After the collapse of the USSR, Russia needed to downsize its institutional capacity. In contrast, Ukraine needed to immediately create laws and a bureaucracy capable of governing a highly complex society in economic crisis. These institutional demands coincided with the need to build an identity as a Ukrainian state. Inheriting a potent political-criminal nexus with an inferior capacity to cope with organized crime, the nexus poses an even greater threat to Ukrainian state development than in Russia.

Russia with a more developed civil society and diverse political environment is more capable of defending itself against the political-criminal nexus than Ukraine. On a more practical level, Russia also has a greater capacity to combat organized crime because it inherited most of the Soviet Union's specialists in the field of organized crime and its institutional experience. The headquarters of the Ministry of Interior and the KGB which had responsibility to study and address organized crime were in Moscow and therefore inherited by the Russian state. Many of these officials are corrupt and they are concentrated in Moscow. Therefore, the inheritance is not a pure advantage to the Russian state. The political-criminal nexus, however, grows unimpeded in Ukraine because the new state has neither the political will nor the trained specialists capable of controlling the problem.

Contrary to expectations, the privatization of the Soviet state did not lead to a free market economy or a democracy. The process was hijacked from its inception by the

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political-criminal nexus which appropriated the vast wealth of the state by acquiring the banks, natural resources, and enterprises that had once been government property. With their new-found wealth, the new financial elite acquired power in a new form. Their power is not based on the military power of the Soviet state. Rather it is economic and political power that can still operate internationally. Those who dominate the Russian and Ukrainian economies are not only a financial oligarchy. They acquired and retained their enormous wealth in illicit ways that have much in common with those of organized criminals. Nor are they necessarily the energetic entrepreneurs depicted in the Western press.<sup>1</sup>

The economic costs for the citizenry are clear. Lacking capacity to control the criminal-political nexus in this transitional period, state property in Ukraine and Russia has been distributed almost exclusively to the former *nomenklatura* (the party elite) and their criminal associates. As a consequence, the ordinary citizen has become the big loser in the property grab that accompanied the collapse of Soviet power. Most Russians and Ukrainians have almost no equity stake in the future. Instead, millions of citizens in both countries are not paid for months at a time,<sup>2</sup> social services are bankrupt, and the military is on the verge of collapse.

Property redistribution in Russia and Ukraine is accompanied by large numbers of killings because crime groups have defended the property interests of the ruling elite. Minister of Interior Kulikov reported that there were 560 contract killings in 1996 of which only 15% had been solved by Soviet law enforcement authorities.<sup>3</sup> Many abhor the violence but few understand the long-term consequences of the merger of crime groups and the political structure for the citizenry, the press, or the emergent democratic institutions.

In Russia, privatization was more rapid, inspired by the belief that Communism could be made irrevocable only with the return of property to private hands. At the end of the first five years of statehood, the Russian government owned less than 20% of the country's economy, a transfer of property on a scale not seen since the Bolshevik revolution.<sup>4</sup> Western assistance focused almost exclusively on promoting privatization with little attention paid to the legal framework needed to guarantee the fair distribution of property or secure property rights.<sup>5</sup> The West failed to acknowledge or criticize the criminalization of the privatization process. Domestic criticism was muted because many high level Russian officials were complicit in the illegal property grab "*prikhvatizatsiia*" (a word play on privatization). Increasingly all forms of mass media were acquired by the new financial oligarchy, thus precluding the free discussion of the sale and redistribution of state property.<sup>6</sup>

In Ukraine, privatization is occurring more slowly. But as in Russia, there have been no safeguards over the process permitting spontaneous privatization of state assets to occur. Without controls, the Ukrainian privatization process has also been hijacked by a political-criminal coalition. Nationalism, potentially a potent force for state construction in Ukraine, cannot alone counteract the corrosive impact of crime and corruption. The pride in having an independent state cannot counteract the personal avarice of many with access to national resources.

The development of the political-criminal nexus is shaped by the political and economic realities of the successor states. The long term development of the nexus

depends not only on the domestic environment but pressure by foreign countries to address the problem. The pressure is being placed strongly on Ukraine but to a very limited extent on Russia by foreign aid donors and international organizations. Ukraine depends on large scale foreign aid for its survival. The political-criminal nexus is, therefore, a double threat to Ukraine's independence. The domestic drain on its natural resources and the loss of foreign aid undermine its financial and political viability.

### **The Causes of the Political-Criminal Nexus**

Lord Action has written that "absolute power corrupts absolutely." The absolute power of the Communist Party in both political and economic terms explains much of the observable corruption. But there were several unique aspects to Soviet governmental corruption, not the least of these being the crucial alliances which existed with the shadow economy and the criminal underworld.

Several important conditions facilitated the development of the political-criminal nexus. First, throughout the Soviet period citizens were severely restricted in their acquisition of private property. As Locke has pointed out, property is the citizens' bastion against state authority. Second, state interests were always supreme over those of the individual. Third, the rule by law was valued for the maintenance of order and the protection of citizens.<sup>7</sup> But the rule of law where property rights are valued and the state maintains a commitment to legality was absent.<sup>8</sup> Fourth, civil society was totally destroyed precluding the existence of any groups outside of government controlled institutions. Citizens lacked the financial resources or the ability to join private associations which would have allowed them to check the symbiotic relationships that developed between politicians and criminal groups.<sup>9</sup>

Soviet communism created unique preconditions for the development of the political-criminal nexus. In contrast to other societies where personal wealth or the existence of civil society can serve as a bastion against state authority, there were no independent forces to check the growth of the corrupt ties in the USSR. In the absence of a free media, civilian watchdog organizations, or financially independent individuals who could afford to oppose the government, there was nothing to impede the growing links between corrupt officials and participants in the illegal economy. In Poland independent trade unions were checks on the government. The mobilization of workers at the end of the Soviet period never translated into a movement that could help curb governmental corruption.

The law was used to force compliance with state objectives. In the absence of the rule of law, political pressure was applied to all branches of the legal system to produce politically desirable outcomes. Under these circumstances, law and justice were not respected as ends in themselves but merely as tools to achieve ends sought by the state.<sup>10</sup>

Legal officials had value not as objective enforcers of the law but only as persons who could achieve tangible results. Legal authority was personalized. The source was not the law, but the bureaucrat who held the position of responsibility.<sup>11</sup> There was no concept of the independence of the judiciary; the judge was valued for his/her ability to bend the law and adjust to the circumstances.

Legal officials were part of a state bureaucracy where corruption in the post-Stalin period was pervasive and citizens expected to be able to influence officials. Within the Ministry of Interior, certain law enforcement personnel were known to serve as go-betweens for the criminals who sought to influence investigators, prosecutors, and judges and to have contact with state bureaucrats. Not all the personnel needed to be corrupt as the cases needed to be redirected only to individuals who could provide a favorable resolution.

While the Communist Party required certain standards of Party members, there were numerous cases in which Party officials and members of the *nomenklatura* (Party appointees to political and governmental positions) escaped sanction for serious offenses. Party members enjoyed an immunity from investigation and prosecution unless the Party authorized legal officials to proceed.<sup>12</sup> Investigations were often halted even in serious corruption cases because the guilty officials were deemed to be essential economic managers.<sup>13</sup>

The Party was supreme over the government. Therefore, there was no independent governmental oversight over the Party. With a legal system subordinated to the Party, corrupt officials could justifiably feel that they were above the law. The absence of an adequate system of checks and balances contributed to a system where many officials believed that all was possible and there were no limits to their exercise of power. There was little to constrain individuals in a culture where political expediency was preferred over the pursuit of justice.

The Communist Party existed in power for seventy years with no challenges to its authority. The endemic corruption was not unique to the former Soviet Union. Profound corruption has also been observed in other societies dominated by a single political party such as the PRI in Mexico or the Liberal Democratic Party in Japan. Deep-rooted corruption also existed in Italy where a dominant political coalition ruled until it was rooted out by the clean hands investigators in the early 1990s. In Japan, Mexico, and Italy the mid- to late 1990s has revealed the strength of the political-criminal nexus.

A second economy arose to satisfy the unmet consumer needs of the population.<sup>14</sup> In a centrally planned economy geared to the needs of the military rather than the citizenry, there were chronic shortages and the infamous waiting lines that characterized daily life. The sizable shadow economy, run largely by members of ethnic minorities, had long-standing relationships with governmental officials. These relationships were almost never disrupted because loyal Party members could expect to serve without challenges to their authority. The shadow economy required the participation of government and law enforcement officials who were complicit in its existence.

In parts of the former Soviet Union, particularly in the Caucasus and Central Asia, positions in commerce were already being privatized by corrupt officials in 1970s. For example, crucial positions in the trade network were selling for as much as \$100,000 in the republic of Georgia during these years. Individuals who became Ministers of Trade or Light Industry could subsequently sell positions under their control.<sup>15</sup> In turn, those who acquired these positions maintained continuous, unofficial financial arrangements with members of the underground economy, the Party bureaucracy and the legal establishment.

The reason for this prevalence of illicit activity was that even after years of Soviet rule, the trading culture among Caucasians, Jews and Central Asians was not eliminated. These ethnic groups, excluded from positions of power in the central government and circumscribed even at the local level, continued to pursue their financial interests outside of established state structures. As in many countries, where organized crime is dominated by different ethnic groups that are precluded from legitimate social mobility, the Jews and Asian groups were significant figures in the shadow economy.

Individuals operating in the second economy were vulnerable to intimidation by the KGB. Some agreed to serve as informers for the security police in exchange for protection from prosecution. After the collapse of the Soviet Union, there were legitimate opportunities to participate in trade. But overseas trade, particularly the lucrative areas of import and export, were often dominated by former and current KGB personnel who had developed ties overseas over the course of many years. Therefore, the intimidation of the emergent international trading class by members of the security apparatus continued. In cases, partnerships were formed between the semi-licit business class and members of the KGB.

With the advent of *perestroika* and the collapse of the USSR, there was a breakdown of the official governmental institutions but not of the unofficial relationships which existed. Not only did the social control apparatus of the state collapse but also its administrative capacity. Citizens remained totally unserved by the government which ceased to ensure their employment or the provision of goods and medical services.

The problems of corruption were rampant and provided fertile soil for the further development of organized crime. Citizens needed to provide bribes to obtain even the minimum of social services from the government. The problems observed in the USSR were by no means unique to that society. A comparative analysis of socialist economies reveals the close links between major economic transition and organized crime. These problems were already evident in a variety of socialist countries before the collapse of the Soviet Union.<sup>16</sup> These problems became even more acute when privatization occurred without adequate legal safeguards over the process of transfer of state property. According to Los, a long time observer of the illicit elements of socialist economies, traditional property is entrenched in space and time whereas the privatized property of former socialist states has become virtual property that is "Fluid, easily disposable, convertible, invisible, or hidden behind false names or short-lived fronts."<sup>17</sup> With these qualities, it can easily be shipped overseas and laundered to other countries.

Market-oriented reforms in former socialist societies expand the opportunities for illegal opportunities. Criminals stand to benefit because they can insure that the economic transformation occurs in ways favorable to their financial interests. In contrast to healthy market economies, where criminals and corrupt officials have only a peripheral impact on the economy, in the Russian and Ukrainian cases their impact is very significant. The criminalization and corruption of these two economies reveals the inherent limits of transforming unreformable economies. "Quasi-market reforms blur the ideological distinction between legal and illegal markets and between their respective laws."<sup>18</sup> The trajectory of this transition was already evident well before the socialist system collapsed.

The underground economy and the markets for their products rely on unofficial networks and exchange relationships. They exist alongside the official legal system. As a parallel legal system, they challenge the official state authority. As Maria Los has explained,

Informal networks are crucial for organized crime, but they have to cross the lines between the second and the official hierarchies. In the end—states the USSR Deputy Prosecutor General —“underground millionaires and policemen, thieves and prosecutors, judges and speculators, Party-workers and ‘godfathers’ frequently wind up on the same side of the fence.” Nepotism, mutual protection and development of stable patron-client relationships are crucial to the success of the operations.<sup>19</sup>

Over time these relationships become institutionalized. They existed as a parallel power to the state. In the late 1970s and early 1980s, the Party leadership did not authorize legal authorities to move against the criminals or their partners in the political apparatus. By the late 1980s, the leadership of the USSR had enjoyed relative impunity for more than a decade. The punishments meted out by the judiciary and by the Party against high level officials who abused their authority became increasingly rare. The increasing corruption at the highest levels of authority, unimpeded by any official measures, contributed significantly to the collapse of the Soviet Union. The Soviet state survived the end of the Brezhnev era by less than ten years, in part, a consequence of a weak state failing to counteract the rise of political-criminal ties.

## Methods

Different methods of study are available for the Soviet and Russian periods. More direct forms of analysis and social science methods can be applied in the contemporary period when scholars have greater access to information.

The analysis of the political-criminal nexus of the Soviet period requires application of the tools of the historical method. Analysis of the political-criminal ties can be done by examining career paths and patterns of association. To understand the relationships from the side of Party officials, an analysis can be done of their posts, patrons and the regions of the USSR where they served. For example, unraveling the political-criminal nexus of the Ministry of Interior officials in the Brezhnev era requires an understanding of their career trajectory and family ties to the Brezhnev family that will be discussed in greater depth later. The Minister of Interior, N. Shchelokov, had worked closely with Brezhnev for almost his entire career. His Vice-Minister was Brezhnev’s son-in-law. Yuri Churbanov obtained this position after his marriage to Brezhnev’s daughter, Galina. The leadership of the so-called “Uzbek Mafia,” leading Central Asian officials were exploited to promote their economic and political interests. Regional and local officials, linked to the local criminals paid large bribes to the leading government officials to achieve autonomy.<sup>20</sup>

To analyze the relationships for the other end of the chain one needs to understand the milieu of the criminals—their family associations, particularly of mem-

bers of ethnically based groups, and their periods and places of confinement. Individuals from the underground economy were often recruited as informants by the police and the security police while they were under investigation and in confinement. These ties which existed between the criminals and members of the law enforcement and security community have resurfaced in the present environment. They are sometimes exploited by the former law enforcement personnel who now prey on the businessmen who operate on a large scale in the post-Soviet era.

The prison subculture is crucial to an understanding of the political-criminal nexus. Sentences in the Soviet period were so lengthy, the ties which developed in prison equaled or often surpassed those with family members. They became part of a criminal subculture (*urka*). Increasingly, as the Soviet period progressed, this subculture had high political ties.

Analysis of the political-criminal nexus is facilitated by the transnational nature of post-Soviet organized crime which allows wiretapping of conversations across borders. This permits members of various intelligence communities to do this analysis but such information is not available outside this closed community. The trial of Ivankov, a thief-in-law, recently convicted in a federal case in New York revealed his criminal associations which dated back to his lengthy confinement in Siberian labor camps.<sup>21</sup> Wiretaps on his telephone, however, also identified links to high ranking present-day government officials. A visiting high level Russian law enforcement delegation was informed of these wiretaps by a high level official in the FBI. As a member of the delegation reported at a conference in Moscow, the conversations stopped even before the delegation returned to Moscow. This revealed that the political-criminal nexus operated continuously and the criminals received information from law enforcement even while they were traveling in the United States.<sup>22</sup>

Studies of elites and their associates are another way of approaching the topic. Kryshtanovskaya's research on Russia's elite led her to the study of organized crime. This study was not intended as a study of the criminal world but as she has explained, analysis of the elites led inevitably to their links with the criminal world. The KGB lost 50% of its personnel in Moscow and these individuals acquired positions in the banking sector, as executives of the independent security services and some acquired key positions in privatized heavy industry.<sup>23</sup> Studying the social patterns and associations of members of the political and economic elite resulted in a detailed analysis of the political-criminal nexus.<sup>24</sup> Other work to map the elite clans also focuses on the fruits of the corruption.<sup>25</sup>

### **Historical Background: Origins**

The relationships between the political and economic elites and crime groups have deep roots in Soviet society. The literature on the corruption of the Soviet state focuses on the post-World War II period and the rise of a consumer culture in Russia. But the origins of the political-criminal nexus go back much farther in Soviet history and are tied to a much darker period of Soviet history.

In the revolutionary period, the Bolsheviks used released offenders for their own objectives. Links by the Soviet state to the criminal culture were enhanced in the 1930s. The absorption of the criminal subculture into the state bureaucracy began in

the 1930s as criminal elements and homeless youth (*bezprizorniki*) were brought into the security apparatus as enforcers by the state. In addition, long term links were established between state officials and criminals as the professional criminal class became the enforcers for government officials in the massive system of labor camps. Large numbers of criminals were sent to the labor camps where they helped maintain order. The literature of former political prisoners such as Solzhenitsyn reveals much of the close relationships which existed between the brutal professional criminals and the labor camp administration which teamed up against the political.<sup>26</sup> These ties between the criminals and the authorities subsequently provided for further links among other officials, the criminals and law enforcement personnel who were often the conduits.

When the criminal underworld and the homeless youth became enforcers for the state, it expanded the Soviets' capacity to intimidate and eliminate enemies. They were able to coopt violence outside the state, thereby increasing the state's monopoly on violence. This kept the political-criminal nexus contained within state structures during the Soviet era.

The nexus between the criminal world and officialdom evolved over the seventy years of the Soviet period. While Ministry of Interior officials estimate that as little as 3% of the professional criminal class survived the Stalinist labor camp system, the thieves-in-law, the elite of the criminal underworld, reconstituted themselves in the post-World War II period.<sup>27</sup> Increasingly, these individuals performed the dirty work for state law enforcers. Unlike in the Stalinist period, they generally remained outside of state structures contributing to the rise of the political-criminal nexus.

Throughout the Soviet period, state interests were supreme over those of the citizen. During the Stalinist period, many remained committed to Bolshevik ideals. After the revelations of the Khrushchev era, commitment to state ideology declined. Many leaders of the USSR, disillusioned with the state ideology, increasingly viewed the state less as an abstract ideal but instead as concrete institutions which could provide them tangible benefits. Although they were only managers rather than owners of state property, they used their influence over state resources to amass wealth. The possibilities for enrichment increased as the shadow economy grew to satisfy consumer demands unmet by the state.<sup>28</sup>

The shadow economy involved politicians from the local, regional and national level. It joined the traders and entrepreneurs of the second economy with the law enforcers meant to circumscribe their behavior. This curious alliance had to bribe members of the party apparatus who had oversight over the justice system and the centrally planned Soviet economy. Prosecutions, however, were frequently of the business people rather than their official associates.<sup>29</sup> The pervasive circumvention of legal norms associated with the shadow economy, undermined the already limited respect for law within the Soviet state.<sup>30</sup>

Managers of the Soviet economy were also active participants in the second economy as they siphoned off state resources to establish private factories, trade in consumer items and provide a small service sector. These were highly organized schemes in which goods were diverted by managers to the black market in conjunction with the drivers, guards of the warehouses and other employees.<sup>31</sup> The crime



groups running these operations often existed for several years until they were disrupted by authorities.<sup>32</sup> Criminals exploited their knowledge of economic abuse by party officials to establish mutually beneficial relationships. Party member's behavior was often indistinguishable from the criminals who demanded tribute.

The political-criminal nexus provided many advantages for its participants on both sides. The advantages of this relationship differed during various Soviet periods. For example, during much of the Soviet period, political connections provided criminals less harsh treatment by the then very brutal criminal justice system. Because so-called "telephone justice" was a central element of the criminal justice system, a call from a highly placed official could be essential in halting an investigation or leading to favorable treatment by the courts.<sup>33</sup>

The illicit behavior was not without risk. Corrupt officials could be sanctioned by the Party, a more frequently applied tool than penal measures. These penalties provided a limited deterrent for many officials. In Azerbaidzhan in the early 1980s, then Party Secretary Aliiev closed the law schools to the offspring of law enforcement personnel because their ties to the shadow economy were making them a financial elite.<sup>34</sup> Draconian penal measures were infrequently applied to members of the state apparatus although several labor camps, as previously mentioned, existed throughout the USSR to house law enforcement officials convicted of abuse of their positions.

Many economic trials of the 1960s and 1970s revealed the varieties of illicit business activity.<sup>35</sup> Lengthy labor camp sentences were meted out to the managers and entrepreneurs who were tried. Minority members—Caucasians, Central Asians and Jews—peoples with long histories as traders, were the most frequent scapegoats in these prosecutions of underground business. Theft from the state was punished more severely under the socialist system than theft from private citizens. Members of the second economy consequently served long terms in labor camps along with thieves-in-law and other professional criminals. Confined in the same camps for years on end, they developed close ties enduring to the present.

During the Brezhnev years, the prison and labor camp population totaled at least one and a half million individuals.<sup>36</sup> Sentences were long and many lost touch with their families. The criminal ties which developed often became more important than the familial.<sup>37</sup> For this reason it is hard to speak of a crime problem confined to Russia or Ukraine because the criminals' ties stretch across the whole former Soviet Union. The ties that formed between the ordinary criminals, the trade sector who in turn were linked to the *nomenklatura* (the party elite) have emerged in the post-Soviet period as the contemporary political-criminal nexus.

The Brezhnev period saw a rapid rise in the political-criminal nexus with the crony politics he epitomized. As previously mentioned, the Ministry of Interior was corrupted at the top. The Minister, a close friend of Brezhnev and the Vice-Minister, his son-in-law had lucrative links with many crime groups. After Brezhnev's death, his son-in-law, Yuri Churbanov, was sentenced to many years of confinement, following his conviction for accepting large scale payments from the Central Asian mafia. The nine month trial closely followed by the mass media highlighted the links between governmental officials and crime groups in Central Asia. The former

Minister of Interior, Nikolai Shchelokov, a close friend of Brezhnev's and Churbanov's superior, escaped conviction only through suicide.<sup>38</sup>

The Churbanov trial was only the tip of the iceberg. The political-criminal nexus had expanded significantly during the Brezhnev period because there was little deterrence. The risks associated with corruption and criminality declined. There were a few visible investigations carried out by the security police, the KGB, in the mid-1960s to the late 1970s exposing the relationships between the underworld and the ruling elite in several Soviet republics. The prosecuted cases were far from Moscow and did not affect the central government leadership.<sup>39</sup> Apart from these, there was little effort by law enforcers such as the Ministry of Interior or the Procuracy to break the ever strengthening ties among the political elite, the underground economy and the underworld.

The ultimate costs of this political-criminal nexus became apparent only in the final years of the Soviet period when the vast wealth of the Soviet state was finally privatized. As one popular news account reported, "The old bureaucrats dominate much of the privatization process, for example, often deciding who gets what at what price."<sup>40</sup> As one of the leaders of the privatization process, Yegor Gaidar noted, the *nomenklatura* (party elite) "acted gropingly, step by step exploring what it could get away with, not in accordance with a well-considered plan, but obeying a deep instinct. It followed the scent of property as a predator pursues its prey."<sup>41</sup> In Russia, corrupt links were noted in many regions between governmental officials and territorial committees to promote privatization.<sup>42</sup> The source of the capital for privatized enterprises often came from "shadow economy activity—speculation, racketeering, extortion, looting."<sup>43</sup>

The establishment of cooperatives in the late 1980s allowed wealth to be laundered into businesses.<sup>44</sup> The strict controls on the establishment of cooperatives meant that officials could control who was able to move their wealth into the legitimate arena. Often these cooperatives permitted officials to set up their relatives in business. But it also fostered the political-criminal nexus by permitting select criminals to move into legal businesses. They subsequently owed a debt to the officials who allowed them to establish these businesses. The criminals also thrived by having new structures on which to prey.

The political-criminal nexus permitted both the officials and the criminal world to acquire the privatizing property. State officials lacked the financial means to buy the privatizing property because in the Party system their privileges were based on access rather than actual sums of money. Bribes and pay-offs helped officials acquire the assets they would need to acquire the new wealth. Party funds gave Komosomol and Party officials the assets to establish banks and acquire further assets. Former members of the security police assumed an especially critical role in the banking sector. Their links with the shadow economy and the criminal world gave them the money to buy the apartments, cars and to establish the businesses and the front companies which have become such a central aspect of the acquisition of wealth in the post-Soviet period.<sup>45</sup>

The members of the shadow economy and criminal world, through their associations with the managerial and Party elite, were able to secure part of the state prop-

erty that was open for redistribution. Often the new business class served as the intermediaries between the politicians and the law enforcement community which had ties with the criminal world. These links with government officials existed in such crucial sectors as banking, transport, construction and the system of distribution of consumer goods.<sup>46</sup>

Government officials who were privatizing the state's mineral and other natural resources needed to transport these goods to ports and other destinations. Organized crime helped organize the shipment of goods and their delivery in an insecure environment where these valuable loads could easily be hijacked. They also helped enforce the contracts to supply raw materials and distribute raw materials and finished goods. Their role of enforcers of contracts has resulted in parallels being drawn to the Sicilian mafia.<sup>47</sup>

The political-criminal nexus developed because there were mutual advantages. It allowed both the criminals to have access to state property and to deliver these goods to markets. Both groups chose to export most of their capital overseas rather than to reinvest it within the successor states.<sup>48</sup> The process of mass transfer of capital overseas accelerated after 1987 when export licenses began to be awarded on a large scale to politicians and leaders of crime groups. This was particularly pronounced in mineral rich regions where local and regional leaders licensed exports in exchange for significant payments and other benefits.<sup>49</sup>

By the end of the 1980s, *Pravda*, the official government newspaper, was reporting that organized crime and corruption were being fused in the arena of socialist entrepreneurship. The means by which socialist entrepreneurship facilitated this development. The creation of commercial entities and joint ventures both with companies inside the USSR and with partners abroad allowed illicit relationships to be legitimized.<sup>50</sup> There was a reshaping of traditional alliances from relationships based on power to those based on money and access to state resources.

Andropov, Brezhnev's successor in 1982, attacked the political-criminal nexus vigorously. Almost as soon as Andropov became Party Secretary, he attacked corruption at high levels prosecuting individuals who had been spared because of their high-level connections. His attacks on corruption ended prematurely with his death in 1983 and some have speculated that this stopped a series of show trials in the corruption area.<sup>51</sup> Chernenko, in his brief period in office, did not pursue the investigations initiated under Andropov, he was tied too closely to Brezhnev's old guard.

Gorbachev was more focused on opening up the society than prosecuting abuses. Russian data for the decade from 1986 to 1996 show a marked decline in the registered number of offenses for embezzlement by officials (33% decline), bribery (17% decline) and misuse of official position (33% decline). While the reports of crimes declined, the actions taken against offenders declined even more appreciably. Those sentenced for the crime of official embezzlement declined ten times. Whereas in 1986, 26,507 persons were convicted of this offense, in 1994 the number was 2,747. Convictions for bribery went down three times in the same time period.<sup>52</sup>

In contrast to the law enforcement apparatus, the journalists of the *perestroika* era did much to expose the pervasive corruption and criminalization of the economy. The Party system which gave rise to the political-criminal nexus was to be trans-

formed. Gorbachev did not feel there was a need to clean house before reform was initiated. The system was exposed but not eliminated leaving a dangerous legacy for successor states. The political-criminal nexus had, in part, supplanted the state. It created a variety of tangible and intangible benefits for its participants. The acquisition of money was central. Some of this money was to increase influence by buying newspapers and influencing election campaigns. But some of this was money for money's sake, stored offshore in safe heavens. The money was laundered outside of Russia and Ukraine by the criminalized banking sector, multiplying the effects of the political-criminal nexus.

The nexus increased the physical insecurity of both the business and the entrepreneurial elites. The relationships developed between the criminals and the political elite helped eliminate political threats, as seen in the killing of legislators, as well as business competitors. The privatization of law enforcement personnel and of organized criminals, often in the same private security firms, helped enhance the personal security of criminals, businessmen and politicians. These same privatized police organizations could also be used for black mail, extortion and physical intimidation.

The funding of election campaigns gave the criminals power over the politicians. This gave them an immunity from prosecution. But even more important, the ability to shape legislation in the transitional period. Unlike in many societies, the criminals did not have to neutralize the enforcement of the laws. Instead, they only needed to ensure that laws and oversight mechanisms were not adopted. The political-criminal nexus, therefore, distorted the development of democratic institutions and a free market economy.

### **Russia and Ukraine: Points of Similarity**

With the collapse of the Soviet Union, both Ukraine and Russia inherited the Soviet legacy of a political-criminal nexus. The nexus endures because there has not been lustration, the removal of former government or Party officials in Russia or Ukraine. Government officials of the Soviet period enjoy an even more economically privileged position in the successor states because as property is redistributed in these countries without conflict of interest laws or laws to stem corruption, key officials in the national and regional bureaucracies benefit enormously.<sup>53</sup>

The corruption of governmental officials in both countries is extremely serious, according to World Bank research. Surveys in these countries reveal that government credibility is lower than in any other region of the world surveyed. This widespread corruption contributes to weakness of the rule of law and undermines the predictability of the judicial process.<sup>54</sup> The corruption undermines the certainty of business transactions making businesses vulnerable to exploitation by organized criminals. Ukrainians believe that their country has a more severe problem with corruption than Russia and other successor states.<sup>55</sup>

### **Electoral and Legislative Process**

The political-criminal nexus in Ukraine and Russia has several important similarities. It has a major impact on the electoral and legislative process by sponsoring candidates for parliament and pressuring individuals within the legislatures to de-

velop policies that serve their interests. The criminalization of legislatures is a problem both at the national and at the regional level. There is also serious concern that the nexus permeates the highest reaches of power in the administrative branches of government.

Former Ukrainian Prime Minister Lazarenko, reportedly made tens of millions annually through his company's license to import natural gas and oil.<sup>56</sup> He is now a member of Parliament and the leader of the Hromada movement. In December 1998, he was arrested by Swiss authorities for money laundering and was subsequently released on multi-million dollar bail. The Swiss seized bank documents and tens of millions of dollars following repeated inquiries from Ukrainian authorities. The prosecutor-general has accused Mr. Lazarenko of receiving kickbacks to provide private companies the right to exploit Ukraine's natural gas.<sup>57</sup>

Prime Minister Chernomyrdin in Russia, according to intelligence sources, has accumulated millions abroad from the privatization of Gazprom, the Russian gas industry.<sup>58</sup> These industries are backed by their own private security forces which have close ties to the security apparatus, the police and the military and often as well to the criminal world. The largest are attached to the banking and oil and gas industry.<sup>59</sup>

Officials in both Russia and Ukraine aid their long-term associates from the shadow economy with whom they are inextricably linked in complex financial relationships. Sometimes this assistance is not financial but protects them from the application of the criminal law. For example, in the summer of 1997, the Russian Minister of Justice Yakovlev, was forced to resign after videos of him were released by the Ministry of Interior revealing him in a bath house of the Solntsevo crime group with several prostitutes.<sup>60</sup> Pressure for his resignation was strong because many felt his indiscretion made it impossible for him to apply the rule of law with objectivity.

This link is common because as a leading Russian sociologist has explained, the criminal world established informal contacts with politicians. This is done through their traditional meeting places such as tennis courts, bath houses, tennis courts, sanatoria, and summer houses. Criminals and politicians can easily meet in sports clubs where they both naturally gravitate.<sup>61</sup> Yeltsin's sports trainer and sport associates have figured in high level corruption.<sup>62</sup> The National Sports Fund under their command was investigated for depriving the state of millions of dollars while failing to provide services to the citizenry. The quantity of money resulted in violence and links to the criminal world.<sup>63</sup>

The link of crime and sports makes it hardly surprising that many crime bosses head sports clubs that are frequented by politicians and their associates. The associations developed here are often translated into support for election campaigns or for the pursuit of particular interests by the legislature.

In both countries, the legislative process is undermined by the political-criminal nexus. This is particularly crucial in these two transitional societies which need to pass the legal frameworks to develop and regulate a market economy. According to the Ukrainian security service, 44 people with various degrees of criminal activity have already been elected to local political bodies.<sup>64</sup> Penetration also existed at the ministerial level according to Ukrainian President Kravchuk already in 1993.<sup>65</sup>

In October 1995, Russian Interior Minister Kulikov reported that the MVD had

assembled a list of 85 individuals with criminal records running for parliament.<sup>66</sup> President Yeltsin's representative in Novosibirsk declared in late 1997 that criminal elements were competing for seats in the Novosibirsk Oblast Soviet. He asserted that he could document these charges with documents.<sup>67</sup>

A national parliamentary deputy, Yevchen Scherban, one of the richest men in Ukraine was killed in 1996. His death was linked by many to his association with Donetsk governor Volodomyr Shcherban who had made the region's industrial sector one of the most privatized in Ukraine.<sup>68</sup>

In Russia, the impact of criminals on the politicians and the political process is evident from a variety of sources. A Procurator General of a major Russian region was pressured to release a serious organized crime figure after a visit from the executive assistant of a member of the Duma, a noted economic reformer. Immediately after his election, he sent his representative because the politician's campaign had been supported financially by the crime group and they had also helped deliver the vote.

One of the members of the Duma's powerful Committee on State Security has twice been incarcerated for serious offenses, according to an advisor to the committee. Neither of his offenses were linked to the shadow economy but instead were crimes characteristic of members of the criminal world. Records kept by the Ministry of Interior of his incarceration have disappeared and requests to solicit his court record have been deflected.

In both Russia and Ukraine, individuals pursue parliamentary careers because this gives them an immunity from prosecution. Politicians are very reluctant to lift their colleagues' immunity even when confronted with overwhelming evidence of their criminality. This was the case with Mavrodi, the Head of the pyramid scheme MMM, who defrauded millions of citizens in 1994 and 1995 in a gigantic pyramid scheme.<sup>69</sup> He subsequently resisted many attempts within the Russian Duma to deprive him of his parliamentary immunity.

The legislative corruption exists not only on the national level in Russia. The links exist not only with regional and local legislative bodies but can stretch across the entire country. This was recently shown when a member of the Moscow City Duma established many links with crime elements in Sakhalin, the Russian Far East, a region with a highly criminalized economy. The highly respected reporter from the Far East who documented these ties commented that individuals hardly differentiate the criminals from the politicians.<sup>70</sup>

### **Political-Criminal Nexus Overseas**

Links with politicians are being established by Russian organized crime groups overseas as they replicate their domestic practices in other countries. A 900 page investigation by the Italian government revealed the links established by a Russian crime boss residing outside Rome with former members of the Italian security service and the former director of one of Italy's largest state-owned companies.<sup>71</sup> The deputy director of the Italian police in hearings before the U.S. Congress confirmed the serious nature of the links being established in Italy by Russian crime figures.<sup>72</sup>

In Israel, top Russian mafiosi are having contacts with government officials and have been accused of financing campaigns of candidates for the Knesset, parliament,

in the 1996 elections. As one Israeli analyst explains, the groups “have representatives in Israel who make connections with Israeli businessmen, lawyers, and local and national politicians.”<sup>73</sup>

### **Patterns of Exchange: Economic Relations**

The unique aspects of the political-criminal nexus in Russia and Ukraine is the possibility of obtaining enormous financial assets in this transitional period. Unlike in other societies, where the majority of property already is in private hands, in Russia and Ukraine, almost all property was collectively held. The benefits for the political-criminal nexus was not only the receipt of funds but the control of the privatization process and dominance over the banking sector and emerging financial markets.

### **Privatization**

Privatization has allowed for the enrichment of the *nomenklatura* (party elite) of the Soviet era who have moved from being directors of enterprises to owners of enterprises they once controlled. Privatization does not simply mean that individuals acquire goods in an orderly distribution of state property. The criminal-political nexus is central to the manner in which property is redistributed. Much of the property is acquired by combining access to information or goods with use or threat of force by crime groups.

The Russian Minister of Interior in early 1998 commented that state officials who participated in the privatization process accounted for a large part of the 30,000 crimes that were recorded in this area. As he states, “The state’s property transformation process into other kinds of property turned out to be the center of the criminals’ interests.” Significant economic damage, according to Kulikov, was inflicted when the criminal structures and corrupted officials merged. At present, in Russia, those who acquired property in this illicit manner are now trying to legalize their property and penetrate state power structures.<sup>74</sup>

Ukraine has faced this problem most acutely in former centers of Party power in Donetsk and Dneprpetrovsk where conflicts over the redistribution of property have led to numerous contract killings.<sup>75</sup> Official privatization of the economy of Ukraine has proceeded more slowly on the official level than in Russia. But government officials and crimes groups have appropriated significant state resources often exporting their ill gotten gains overseas. The illicit privatization has occurred in mineral rich regions of Ukraine, at military bases in factories and in cities with valuable real estate.<sup>76</sup> Blatant legal violations by the Ukraine State Property Fund were detected. Symbolic sums were paid for valuable state property and the funds gained from these sales were misused.<sup>77</sup> The same process and problems occurred in Russia.

In Ukraine, major conflicts have occurred over shares in the gas and metallurgy monopolies. Shcherban’s killing is tied to the conflict among Donetsk, Dneprpetrovsk and Moscow groups for parts of these privatizing enterprises.<sup>78</sup> It is these lucrative state resources and franchises which have seen the most abuse in the privatization process.

In Russia, organized crime groups used intelligence, false documents and violent tactics to acquire controlling blocks in 53 firms in St. Petersburg and Murmansk. Bureaucrats and bankers were bought off. The personnel of the mafia boss would show up at a firm, state they were distributing humanitarian aid and obtain the addresses of retirees. The retired employees would then be intimidated or given a small sum of money and their shares would go to the crime group. The heads of personnel departments of the firm, either through bribes or threats, would be forced to provide the lists of employees. The same tactics were used with them as with retirees. Management was offered special deals or, if intractable, were intimidated. Registration of these business transactions went on with the knowledge and acquiescence of governmental officials.<sup>79</sup>

Both countries have done little to solve the contract killings or stem the violence accompanying the property redistribution. This impunity has contributed to a sense of frustration among the citizenry and made the new propertied class feel extremely vulnerable as numerous bankers in both societies have been killed.

### **Banking and Financial Markets**

The political-criminal nexus is strongest in the banking sector in both Russia and Ukraine. State funds flow through banks enriching the bankers and the crime groups that control or extort money from the banks. The criminalized banking sector provides many opportunities for money laundering by both domestic organized crime groups and foreign groups which choose to move their money through banks in Russia and Ukraine. The large number of casinos and exchange bureaus facilitate large scale money laundering by drug traffickers and others.

The lack of regulations in the financial markets leaves them wide open to abuse by crime groups. While exchange booths in Russia keep records of all transactions, those exchanging money have to provide limited documentation or identification for the transaction. Registration of banks in Russia has been enhanced to guard against infiltration by organized crime groups but the law enforcement investigators do not have access to the bank records which they need to conduct appropriate investigations.<sup>80</sup>

Inspection of the banking sector in major Ukrainian cities by the office of the Attorney General disclosed numerous violations in the credit sphere and in the work of the banking officials. Even more disturbing was the absence of the necessary response by the Ukraine National Bank.<sup>81</sup>

Banks in Russia and Ukraine are an important source of information for criminal groups on the profitability and assets of certain businesses. Because of the porousness of information in the banking sector, individuals are afraid to keep large sums of money in financial institutions. Employees of banks will sell or provide information to organized crime groups who will then use this information to extort money from businesses. Information concerning clients' bank accounts can also be sold by the criminals to the tax police who then use this information to their advantage. Crime groups use their ties with tax authorities to extort money from businesses who find it more advantageous to pay the crime groups rather than the exorbitant tax rates. Tax officials, paid off by crime figures, also share information they have with crime groups. These groups then extort money from businesses.



The problems in the banking sector exacerbate the problems of capital flight. They not only facilitate the departure of illicit capital but the lack of security of the banking industry means that major institutions and investors do not choose to keep their money in domestic financial institutions.

In Russia, the capital flight, at least partially explained by the political-criminal nexus is estimated at between \$50 and \$150 billion since 1991.<sup>82</sup> In Ukraine, capital flight attributable in part to the growth of corruption and organized crime, is estimated by one top Ukrainian specialist to be \$15 to 20 billion since 1992.<sup>83</sup> Although the Ukrainian figure is substantially below that for Russia, it represents a similar share of the national exports on a proportional basis.<sup>84</sup> As in Russia, much of the capital flight is attributable to the political-criminal nexus exploiting the licensing process for the export of raw materials.

### **Foreign Investment**

The political-criminal nexus is affecting foreign investment. Publicly traded companies in the United States have an obligation to disclose notable problems with their partners, particularly when they have a role in management.

Corruption and insider privatization have contributed to the departure of major multi-national corporations from Ukraine. In Spring 1997, American companies planning to invest nearly \$ 1 billion in Ukraine withdrew asserting that they could not function in the corrupted environment. This situation is jeopardizing extensive American aid to Ukraine. Ukraine, presently the third largest U.S. aid recipient, needs both financial investment and aid to be a viable country

Western companies trying to enter the Ukrainian market are discovering that they must often turn to local partners with close ties to the government whose own histories are often sullied. A recent example of this is the alliance between Mr. Ronald Lauder, a former United States Ambassador, and Mr. Vadim Rabinovitch who was imprisoned for economic crime for nine years during the Soviet period. The deal concerns Ambassador Lauder's Central European Media Enterprises which used Mr. Rabinovitch to establish ties with a Ukrainian studio. A license was issued for the deal despite the interest of other companies in bidding and an existing moratorium issued by parliament.<sup>85</sup>

Motorola recently announced its plans to withdraw from Ukraine, canceling a planned investment of \$500 million. The Motorola announcement followed the Ukrainian government decision to award a license for mobile phones to Kyiv Star whose owners include an adviser to President Kuchma, a Cabinet Minister and a Ukrainian with links to organized crime.<sup>86</sup>

Hearings before the American congress in April 1997 revealed that these were not isolated incidences. As one foreign investor in the telecommunications commented, "Some of us have reason to be very concerned about our safety in Ukraine. As a result of Ukraine's treatment of foreign investors, the nation's total foreign investment after nearly six years of independence is a paltry \$1.4 billion—in a country with 52 million citizens that is the largest country in Europe after Russia."<sup>87</sup>

In Russia, the political-criminal nexus is also a deterrent to investment. American investors such as the Subway sandwich shop have had to pull out when their part-

ners appropriated their investment. The Americans withdrew only after threats of force. But the government in St. Petersburg refused to act. While this is one of the most visible cases, it is hardly unique. The problems of defending foreigners' financial interests in court is made more difficult because there are links between crime groups and high level governmental officials in law enforcement bodies.<sup>88</sup>

The political-criminal nexus impedes the investment of honest foreign capital but encourages the entry of capital of dubious origins. One of the most noted cases of this in Russia is that of the "Aluminum Mafia" linked to former First Vice Premier Oleg Soskovets. Soskovets, in partnership with the Cherny brothers, Russian emigres with links to organized crime promised foreign currency to keep the financially pressed Aluminum industry solvent. Instead of the much needed capital, a subsequent Ministry of Interior investigation revealed, "billions in 'wooden notes' of dubious origin flowed into the accounts of the plants. And the main thing is that a significant part of the payments was performed by falsified telegraph bank payment authorizations."<sup>89</sup>

### **Divergence in Russian and Ukraine Political-Criminal Nexus**

Although many manifestations of the political-criminal nexus were similar in the two societies there was gradual differentiation in the two countries. The legal and economic consequences of the political-criminal nexus are not as devastating in Russia as in Ukraine.

Large scale foreign investors have withdrawn from Ukraine and others have hesitated to invest following the destructive experience of their predecessors. The standard of living in Russia, despite the presence of the political-criminal nexus and the August 1998 bank collapse, is still higher than in Ukraine. Citizens in both countries believe that crime and corruption are out of control and undermining the political and economic transformation. There is possibly an even greater sense of hopelessness in Ukraine than in Russia.

The factors accounting for the differentiation can be explained by the: 1) pace and extent of privatization 2) the institutional capacity to address the problem 3) the extent of civil society and citizen mobilization and the 4) extent of foreign pressure. Institutional factors have more explanatory value than personal characteristics of individual politicians.

### **Pace and Extent of Privatization**

Russia privatized more rapidly. Ukraine has still not privatized much of its property but in the absence of formal privatization there has been an unofficial privatization by officials of valuable state resources that has occurred with much violence perpetrated by crime groups. Licenses have been awarded to favorites in both societies permitting a drain on the economy. In Ukraine, foreign competitors seeking licenses have been threatened with violence and have subsequently withdrawn.

### **Institutional Capacity**

The institutional capacity to address the political-criminal nexus in Ukraine is limited. Russia inherited the organized crime specialists and the specialized bodies to

address the problem from the Soviet state. A literature exists to train practitioners, necessary legislation has been adopted and more international contacts exist for those engaged in law enforcement in Russia.

In contrast, Ukraine became an independent state with almost no expertise in this area and is only now slowly building the capacity to address the problem. Conflicts within the legislature and systemic corruption have impeded the development of the legal framework needed to address the most serious threat to the state. In Russia, the legal framework needed to fight the crimes of a market economy is now in place whereas in Ukraine, the legislature has not been able to adopt any of the necessary laws in either the criminal area or in the commercial area needed to protect emergent property rights.

Neither society, however, lacks adequate law enforcement or a sufficiently independent judiciary to deter the influence of organized crime. Russia, however, has a much larger and better financed system of training for its police and prosecutors than Ukraine which has limited institutional capacity to improve the qualifications of existing personnel. With even more limited financial resources than Russia, it can do little to prepare its personnel for new requirements or to prevent the pervasive corruption that results from the severe underpayment of personnel.

### **Civil Society**

Civil society is still in its incipient stages in Russia but there are hundreds of groups throughout the country that are functioning. Many of these, according to the vice-chair of the Moscow Helsinki Group, are beginning to report issues of corruption and are raising challenges in court.<sup>90</sup> In Ukraine, civil society is much less developed. Furthermore, the population's much more limited resources and the years of repression of Ukrainian society and culture have made it very hard for non-governmental organizations to take root in society. Although it is hard to say that civil society has mobilized in either country, Russians have much more possibility to organize on a particular issue than their counterparts in Ukraine. The possibilities that they may try and confront the political-criminal nexus are higher because Russians non-governmental organizations are better financed, its citizens more highly mobilized and they have access to a more developed media.

Ukrainians still need to build the state and non-state institutions that would give them the capacity to mobilize. Although significant foreign assistance is now being offered to develop civil society in Ukraine, the years of repression during the Soviet period have made it harder for citizens to assert their rights. The even more precarious situation of the citizenry makes it difficult for them to donate the time needed to develop the institutions of civil society.

### **Foreign Pressure**

Intense pressure is presently being applied by the United States on Ukraine to address the political-criminal nexus. The United States is not making such direct statements to the Russian government. The differential political status of the two countries is certainly affecting the tactics taken by the American government. Likewise foreign investors in Ukraine are more ready to challenge the political-criminal nexus in

Ukraine where they hesitate to do this in Russia because they want to be in such a potentially lucrative market for the long haul. The possible long term benefits of access to Russian markets make them accept a situation that is intolerable in the less financially advantageous Ukrainian environment.

While the political pressure might force the Ukrainians to take decisive action, Ukrainians lack the institutional capacity to respond positively. The assistance programs that have been provided focus on economic development rather than the legal safeguards needed to protect the process or to create institutional and civil capacity to address the nexus. Assistance in the organized crime area has been slow in coming and is not coordinated by the United States and with other donor countries. The net result of this external pressure is that organized crime is a very delicate political issue in Ukraine yet few tangible steps have been taken to address the problem.

The divergence in the political-criminal nexus in Russia and Ukraine is already apparent. The coming years will see even more of a differentiation as state development proceeds along different lines in the two countries. Russian authorities, while still short in concrete measures, have gone far in comprehending the costs of the political-criminal nexus. That level of awareness has not yet been achieved in Ukraine. This different consciousness may prove decisive in the coming years.

### **Vulnerabilities of Political-Criminal Nexus**

The political-criminal nexi which exist in the major successor states such as Russia and Ukraine show little vulnerability at the present time. The corruption runs to the top of the political leadership. There is very little incentive to change the existing system for the long term benefit of the state. The idea that individuals' interests should be subordinated to the long term interests of the state is a concept that is alien to most citizens and leaders of Russia and Ukraine.

Despite this pessimistic assessment, the political-criminal nexus is presently more vulnerable than it was in the Soviet period because the political system is more open. While there are not open and fair elections, the control over the electoral process is not as complete as when the Communist Party was in complete control. Therefore, there are more possibilities for changes in political leadership at the national, regional and local level. The strong showing of Lebed in the Russian elections who campaigned against the corruption and organized crime is evidence that many are ready to vote for individuals who challenge the political-criminal nexus.

An even more powerful illustration of the impact of the democratic process on the abilities of the political-criminal nexus to operate occurred with the Yeltsin re-election campaign. A new Criminal Code could not be adopted for years in Russia because elements of the political-criminal nexus fought the adoption of a law that would criminalize the economic activities so central to the political-criminal nexus. Russia remained for years without the criminal laws needed to protect a market economy from criminal activity. Only in the final weeks before the election, President Yeltsin announced on national television that he was signing the Criminal Code. This decision, opposed by many corrupt legislators and presidential advisors, reveals the recognition that political realities limit the ability to steal from the state. Since its adoption, the new Criminal Code has provided a limited check on the

political-criminal nexus. The absence of a new Criminal Code in Ukraine has contributed to the even more serious situation in Ukraine.

The political-criminal nexus may become more vulnerable in the future if greater financial transparency is incorporated into the financial system. The World Bank and the International Monetary Fund are placing intense pressure on the financial systems of Russia and Ukraine to open up their banks, financial institutions and emerging markets to more domestic and external scrutiny. While much of this pressure has been successfully resisted, the costs of this resistance have been clear in the delay of financial payments by international institutions and the failure to receive foreign investment.

Integration into the international financial community requires a greater openness in the financial system. The costs of the absence of this transparency has been made apparent with the Asian financial crisis of 1997. While the world tolerated economic corruption and crony capitalism in countries with high economic growth rates, there is much less tolerance in countries with limited growth and an inability to deliver on their contracts with foreign partners. The scrutiny provided to financial partners with criminal pasts as was the case with Central European Media Enterprises in Ukraine, mentioned earlier, reflects the impact that outside financial monitors can have on the political-criminal nexus.

Part of the Russian press is outspoken and ready to expose problems of the political-criminal nexus. The acquisition of the mass media by the oligarches and the controls placed on the regional press by the local political officials means that the press cannot be as vigilant in exposing corruption as it was in the Gorbachev era. Often journalists are hired by one political-criminal nexus to expose another. While this does not root out the total problem, it ensures that the political-criminal nexus is not entirely invulnerable to exposure.

The process of cultural change and a demand for good government will take a long time to develop. While foreign assistance is pouring millions into the development of civil society, this is still a rather superficial phenomenon in Russian society and a very undeveloped force in Ukraine. As civil society develops there can also be a demand for greater accountability by government officials. Some of this is already being seen in some regions of Russia, it is not yet apparent on any scale in Ukraine.

### **Government and Private Sector Techniques in Identifying Vulnerabilities**

With international financial and political support for the Russian and Ukrainian governments, there is the possibility of placing high level pressure on the politicians to disrupt the political-criminal nexus identified by intelligence and through reports of the international business community. There is little at the moment domestically to make the political-criminal nexus vulnerable in either of these countries.

The political-criminal nexus may be disrupted by attacking the core of the problem, the Russian and Ukrainian banking communities. This is particularly problematic in Russia where the banking oligarchies have achieved control over large sectors of Russia's natural resources and have branched into many other parts of the economy. While criticism came from the powerful Minister of Interior, Kulikov, who also served as Deputy Prime Minister, his capacity to address these structures was lim-

ited as have been those of the Attorney General. The legal system is still subordinate to the president and there is no independent rule of law operating within Russia.

Pressure on the banking community can be provided by the international community but there has been a tendency to exclude the Russians rather to demand certain performance standards. The Ukrainians that lack the resources to expand internationally in the international financial community are exclusively subjected to pressures domestically. Precious little has been done to address either the criminalization of banking or privatization increasing the invulnerability of the political-criminal nexus.

The domestic legal system may be used to point out the financial and human costs of the political-criminal nexus. Yet the court systems in both Russia and Ukraine are still at a weak state and limited resources are available for those to defend their financial interests. Cases of abuse by the political-criminal nexus in Russia referred to the Attorney General have been largely left unprosecuted. In the Ukraine, the powers of the Accounting Chamber have been so limited that their ability to probe the political-criminal nexus is limited.<sup>91</sup> Non-governmental organizations in Russia have taken a few cases to court to contest illegal privatization as a consequence of the political-criminal nexus but these are isolated and have not had a wider impact on the society. The possibilities of recourse in Ukraine are even more limited because of the absence of civil society.

Research centers that expand understanding of the political-criminal nexus may help facilitate the development of strategies to address the problem. While this research may expand the capacity to assess the problem, the connections of the participants in the nexus on the local, regional and national level makes them invulnerable. This information may, however, be useful as the political-criminal nexus expands internationally.

The political-criminal nexus is most vulnerable overseas. The coordination of international law enforcement working groups and intelligence information sharing on participants in the political-criminal nexus operating outside of Russian and Ukraine may allow some action to be taken. Such measures are essential because so much of the assets of these networks are now located in offshore havens and major banking centers.

## **Conclusion**

The political-criminal nexus that emerged in the post-Soviet period represents a transformation of the relationships which existed in the Soviet period. The division of the property of the Soviet state gave ample possibilities for the political-criminal nexus to obtain significant political assets. They were able to transform their power from one that was rooted in the managerial apparatus of the Soviet state and the consumer economy into one with international dimensions and control of very large shares of the domestic economy.

The rise of the political-criminal nexus, while hardly surprising in light of the structure of power relations in the final decades of the Soviet period, precludes full democratization or the rise of a real market economy. In the initial years of the transformation process from a socialist to a post-socialist economy, insufficient attention was paid to the containment of the political-criminal nexus in both Russia and Ukraine. Most

Western politicians and international organizations focused on the collapse of communism rather than the rise of these pernicious alternative power relationships.

The prognosis for the containment of the political-criminal nexus in either country is rather limited at the moment. Ukraine, however, is at a comparative disadvantage because it has failed to sufficiently acknowledge the high costs of organized crime and its political links. This has been done at the highest levels of Russian government although precious little has been done to address the problem.

The Ukraine situation is more difficult because its institutional resources are much more limited than Russia which inherited a disproportionate share of the Soviet Union's financial and institutional resources. With limited civil society and the economic precariousness of much of the population, little can be done to control the problem at its roots.

The political-criminal nexus in Russia and Ukraine will remain a serious problem in coming decades. It cannot be ignored in appraising the development of the domestic political situation in either country or determining foreign policy in relation to these two newly independent states.

## Appendix

A research study presently under way by the Irkutsk Organized Crime Study Center reveals that this more open era also permits scholars to investigate the political-criminal nexus in creative ways. Outside of Irkutsk is a 500 person labor camp used to punish former law enforcement officials sentenced for bribe taking and abuse of their positions. Because the sentences for such crimes are generally short, there are few inmates now incarcerated who were tried during the Soviet era. The former Deputy Minister of Interior, Brezhnev's son-in-law, was freed from this camp in the early 1990s.

One of the objectives of the research is to determine why these individuals in particular were caught when many others managed to evade prosecution for their criminal links. Inmates are now being surveyed on their contacts with the criminal population. The lengthy questionnaire asks how these contacts were established, how did they change over time and what led to them being disrupted. Individual interview sessions with inmates will follow if this initial phase produces results. This will help determine the biases of the sample and why these individuals became vulnerable to prosecution.

The other organized crime study centers are eager to pursue similar research in the other two such camps in Russia if Irkutsk's pilot study is successful. This will give a fuller picture of the regional differences in the phenomenon. A previous study on the psychological motivations of the imprisoned former law enforcement personnel in the same camp netted valuable results and the researchers are guardedly optimistic that this study will also yield information not available in other ways.

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