Transnational kleptocracy and the international political economy of authoritarianism

A special issue in the Journal of International Relations and Development, 2023

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In August 2003, at the Alfred Marshall Lecture in Stockholm, the political economist Daron Acemoglu and colleagues noted that the greatest puzzle about kleptocracies 'is their longevity, despite the disastrous policies pursued by the rulers' (Acemoglu, Robinson, and Verdier 2004: 163). As weakly institutionalised polities, kleptocracies – defined as those countries 'where the state is controlled and run for the benefit of an individual, or a small group, who use their power to transfer a large fraction of society's resources to themselves' (Acemoglu, Robinson, & Verdier 2004: 162) – do indeed challenge most theoretical conceptions in political science, international relations, and international political economy (Pitcher & Soares de Oliveira 2022). Two decades on, this puzzle has hypertrophied rather than abated and thus gained far more attention from academics in these fields. Not only do kleptocracies endure, but they have been globalized to the extent that their elites are no longer content to capture and command their own states. Now they are transnational, buying assets, purchasing reputations, and gaining influence in democracies. Their divide-and-rule strategies are not merely national but transnational.

This special issue on transnational kleptocracy and the international political economy of authoritarianism embarks from two emergent and related claims in the literature. First, both the academic and policy literatures have called attention to the entrenched corruption evident in authoritarian and democratic regimes, particularly those in resource rich, developing countries. Increasingly the research recognizes that tackling corruption must take into account the global 'gatekeepers' or 'enablers' of corruption. These consist of an array of creditors; multinational companies and their subsidiaries; intermediaries in banking, real estate, law and accounting firms; influential families; and even policymakers, often based in transnational financial centres such as London or New York, or in offshore tax havens such as the British Virgin Islands or the Netherlands. They help to facilitate the creation and maintenance of corruption by powerful politicians and their supporters in a host of 'kleptocratic states' from nominally democratic Nigeria to autocratic Russia. These enablers provide the mechanism for 'the rise of kleptocracy' (Walker & Aten 2018).

Second, the resurgence of authoritarianism in states that have putatively transitioned to democracy cannot be fully explained either by identifying the contribution of domestic factors, or by distinguishing a set of geographical proximities and international linkages that have enabled authoritarian regimes to continue, resume, or emerge. Rather, a broader repertoire of international political economy relations has made possible the incorporation of authoritarian politicians and business elites into existing global economic networks. Integration into such networks has not only enabled these authoritarian elites to realize private gains but also, at times and under certain circumstances, strengthened the authoritarian regimes from which they originate.

This special issue explores the existence of transnational kleptocratic networks and the international relations of authoritarian state power. Working on two parallel tracks, the contributions expose and analyse partnerships between kleptocratic elites and their professional enablers, while also assessing linkages between autocratic states and the international economy. These two levels of analysis help us to understand the rise and resilience of kleptocracy and autocracy as related but distinct phenomena, and they are framed by the following questions: What accounts for the accumulation of wealth by kleptocrats in contemporary democracies and autocracies? What role do intermediaries or enablers, especially in the West, play in sustaining kleptocrats? What are the ways in which autocracies rely on the international political economy to seek profits and insure regime survival? How do autocratic and Western elites interact? What has been the impact of transnational kleptocracy and the international political economy of authoritarianism on domestic economies and politics?

Our eight articles examine various aspects of the emergence of transnational kleptocracy and the new international political economy of authoritarianism. Four of the articles in the special issue focus on the role of non-state actors in capturing the state, laundering money through offshore companies or purchasing assets in democracies, thereby transnationalising kleptocracy. A further four articles turn our attention back to public authorities, asking what such a global political economy allows authoritarian states to do. Together, these eight papers paint a picture of blurred boundaries and revolving doors between private and public sectors where state power in the economy is an effect of a set of relations between elite networks, firms, and national and international authorities. Moreover, in many cases, state power is no more than a second-order effect of practices of capital accumulation and authoritarian influencing.

Transnational kleptocracy

The engagement of states with markets and firms beyond their borders is not new. Encouraged and protected by states, metropolitan firms from Britain, France, Portugal, Germany, and Belgium were able to reap profits from the reliance on forced labor during the colonial period in Africa. Foreign firms and colonial powers mutually benefitted from such relationships. Such company-states set the groundwork for the emergence of kleptocracy on a global scale (Phillips & Sharman 2020). Even after the formal end of colonialism, multinational companies enjoyed privileged access to newly independent states from Costa Rica to Kenya and often acted in concert to realize financial and political gains from their relationships. Not only were they instrumental in encouraging governments in Central America to repress workers' demands for rights, but also in the regions in which they were based they silenced workers' voices, denied them access to better wages and working conditions, and actively employed campaigns of disinformation to undermine calls for improvements.

After World War II, several developments in the financial system encouraged greater global economic integration. Although the initial conditions that defined the Bretton Woods agreement limited international capital movements, developments from the 1960s facilitated the proliferation of new financial instruments such as the Eurodollar market, offshore banking, the relaxation of financial regulations, and the elimination or reduction of residency requirements for investors, which presented new opportunities for states and investors across the global economy (Palan 2003; Binder 2023). The widespread adoption of market principles and the liberalization of trade and capital markets following the break up of the Soviet Union further accelerated cross-border transactions. Authoritarian and democratic regimes alike and High Net Worth Individuals (HNWI) in those regimes took advantage of these new opportunities to realize economic gains and to preserve or enhance state power.

To understand the modes of interaction that were emerging between state and business in the transition economies of East and Central Europe during the 1990s, Hellman, Jones, & Kaufmann (2003) distinguished two distinct kinds of relationships that firms were forming with governments. On the one hand, some firms made efforts to persuade state officials to shape rules and regulations in their favor. These firms were often 'incumbent' firms such as state-owned enterprises that predated political and economic collapse. They relied on formal and informal access to the state to exert influence. On the other hand, some firms relied extensively on private payments to politicians and state officials in order to shape the 'basic rules of the game' in their favor, which Hellman, Jones and Kaufmann termed 'state capture' (2003: 755-756). These 'captor firms' were often new, large, private companies, that engaged in various forms of corruption such as vote buying, illegal campaign contributions, and control over judicial decision-making in order to determine the content of policy and legislation (Hellman, Jones, & Kaufmann, 2003: 757, 763). The eleven cases of 'high' state capture (out of 22 countries total) the authors identified were evenly divided between democratic and authoritarian regimes[1], suggesting first, that state officials were susceptible to corruption regardless of regime type, and second, that private companies were able to operate in different economic and political contexts to tilt the playing field to their advantage just as United Fruit had done in Central America in the early twentieth century.

Since its initial formulation, use of the term 'state capture' to describe contemporary interactions between state and business has moved beyond Eastern Europe. Scholars have applied it to countries as politically and economically diverse as Serbia, South Africa, Sri Lanka, and Turkey as **David-Barrett** observes in this issue. However, the concept raises a conceptual problem in that, in David-Barrett's words, 'this framing of business as the captors of politics probably always overstated the separation between the two spheres, when in many transition states, the distinction between the public and private sector was in fact blurred'. To understand state capture, we need to move beyond the notion of business utilizing politics and take blurring seriously as a critical component of capture. Both private and public

[1] The binary distinction between authoritarian and democratic countries used here collapses the four regime types (closed autocracies, electoral autocracies, electoral democracies, liberal democracies) developed by Lührmann, Tannenberg, and Lindberg (2018). To determine regime type of individual countries we rely on indicators for electoral democracy from the variable graph from the graphing tools platform provided by Varieties of Democracy (2023).

sectors, David-Barrett argues, are second-order effects of a ‘captor elite’ which deliberately blurs boundaries to advance the interest of their factions.

Moreover, the initial formulation of state capture highlight the practices by firms to capture policy and law in ways that would benefit their economic activities. In her article, David-Barrett expands the concept of state capture to include the deliberate efforts by politicians and state officials to pursue linkages with private firms that will bring them lucrative financial and political rewards at the expense of larger developmental and welfarist goals. Extending the insights of contributions to the volume edited by Carpenter and Moss regarding regulatory capture (2013), she argues that state capture stretches beyond policy formation to policy implementation and enforcement. The politicians and state officials who drive this ‘politics-led’ capture use their access to political office and political power to secure formal and informal partnerships with firms operating in those sectors of the economy that bring substantial returns, such as mining and finance. They then may partially implement policies that will favor companies with which they are associated or selectively enforce laws that will punish rivals. Capture occurs in any polity which combines authoritarian governance and market rivalries. If the regime becomes stable and enduring, kleptocracy emerges.

However, the article by **Glasius** reminds us that authoritarian political economies also occur where states are weak and companies are strong. Her study of United Fruit demonstrates the ways in which the company acted as forcefully as a nation state in controlling its workers. The company’s control was spatial rather than territorial, extending across the Americas in a manner which lead it to be labelled ‘the Octopus’ in the first half of the twentieth century. By relying on its own police force, ties to paramilitary groups, and connections to state agents, it suffocated dissent and thwarted the emergence of effective unions through brutal repression, jailing striking workers, deportation, or removal of ‘troublemakers’. As the company evolved into the twenty-first century, Glasius argues that it became more diffuse, and relied more on horizontal relationships with corporate and state partners. Such an authoritarian and transnational political economy where the state takes an ‘ancilliary role’ and shares power with business is more oligarchic than kleptocratic.

The accumulation of wealth by these ‘kleptocrats’ and ‘oligarchs’ - as the literature often refers to them- is aided and abetted by a host of ‘enablers’, ‘providers’, ‘gatekeepers’ and intermediaries often based in the West, who take advantage of the laxity of international regulations and the invisibility of contemporary financial instruments to transfer payments, hide assets, launder money, and invest in property. The term ‘enabler’ entered the policy discourse on economic crime more than ten years ago with a report by the World Economic Forum and subsequent adoption of the term by the UK and US governments (Levi 2021: 102-3). Levi and Soudijn define ‘financial enablers’ as ‘people who, as experts in their field, are contracted by the criminal to solve particular financial bottlenecks’ (2020: 606). Previous approaches to the role of enablers encouraged a rather binary interpretation of their role as money managers for kleptocrats. They were either enabling corruption or they were not. In fact, the practices of intermediaries occupy different points on a continuum. Intermediaries blur the line between engaging in licit and illicit activities when they direct the flow of money from the gains of kleptocrats to offshore tax havens, the purchase of real estate, or the buying of art.

In this volume, two papers unveil the role of enablers on behalf of their kleptocratic clients through close readings of court cases. **Prelec and Soares de Oliveira** jettison the simple licit/illicit binary in favor of an approach that recognizes the embeddedness of professional enablers in a complex global financial system that consists of both ‘upstream’ and ‘downstream’ activities in the value chain for corruption. Those professionals involved in upstream activities often work directly with kleptocrats to move assets and hide ill gotten gains. Besides the kleptocrats themselves, it is these individuals who are the objects of popular condemnation when the mainstream media publishes stories about corruption. But as Prelec and Soares de Oliveira observe, of greater concern, are those downstream professionals who may comply or not comply, willfully or unwittingly, with existing international or national law in the course of their activities, but who nevertheless contribute to the corruption value chain. Prelec and Soares de Oliveira illustrate their conceptual framework by analysing the lawyers, bankers, oil companies, and property managers who transferred funds and made transactions on behalf of Nigerian kleptocrats.

The study by **Heathershaw and Mayne** considers those ‘downstream’ enablers in the UK and their power relative to public authorities. They take the single and exemplary case of the Unexplained Wealth Order (UWO) issued against the properties of the daughter and grandson of the former President of Kazakhstan. This case forms part of a larger dataset of 88 properties owned by wealthy post-Soviet elites in Britain, who are either ‘incumbents’ or ‘exiles’. ‘Incumbents’ are foreign political figures or their relatives, or heads of companies in countries of the former Soviet Union who own property in the UK as opposed to 'exiles' who consist of former politicians, business people, or their relatives who either voluntarily went into exile, or were forced out of their country and then invested in the UK.

As one of the first of the National Crime Agency's flagship cases, the UWO was supposed to be a landmark case. Its aim was to establish that a sitting member of the political elite of a foreign country could be successfully prosecuted, particularly in the face of overwhelming evidence. In this instance, the source of wealth was the organized criminal activities of Rakhat Aliyev, the late husband and father, respectively, of the defendants and a former member of Kazakhstan's political inner circle. Despite the abundant evidence, Mishcon de Reya, lawyers for the defendents, were able to defeat the orders. The case demonstrates the role of enablers in finance and real estate in purchasing the properties and the role of the legal enablers in defending successfully the origins of wealth. Although the case fits a larger pattern of advantages that incumbents retain over exiles in the UK, Heathershaw and Mayne argue that in this case incumbency was not a sufficient explanation for success. Enablers made the difference – not only winning their client's case but also defeating a major new tool in the state's battle against kleptocracy.

Authoritarian regimes in the international political economy

Although taking advantage of potentially lucrative political and economic opportunities has not been limited to authoritarian contexts, autocracies and their supporters have derived particular economic and political benefits from transformations in the global economy. The second strand in this special issue examines the ways in which contemporary authoritarian regimes participate in the global system to accumulate wealth and to stay in power. Even here, however, our authors move beyond existing conceptual boundaries in the literature. The states they study extend beyond national regimes to transnational elite networks of power. Their state enterprises are not merely multinational in a territorial sense but spatially distributed to thwart legal accountability, maintain secrecy, and enable capital flight.

The contribution by **Pavlović** asks whether a non-democracy can emerge in a regional context characterized by an explicit policy of democracy promotion. He contends that the experience of accession to the European Union by states in the Western Balkans provides an affirmative answer. Building on work by Börzel (2015), Börzel and Hüllen (2014) and others that trace the strategic strategic compromises between so-called democracy promoters and their illiberal partners, Pavlović suggests that instead of viewing the progress of Western Balkans countries in meeting the accession criteria as stalled, the EU now has consciously adopted a policy of building hybrid regimes in order to expand the European 'neighbourhood'. While it does not accept full blown autocracies into the fold, by signalling repeatedly that it tolerates non-democratic institutions, state capture, and rent-seeking, the EU engages in a bargaining game with these countries that Pavlović labels 'hybrid regime enabling' or 'hybrid regime enhancing'. Although an earlier literature on postcommunist transition assumed that linkages to Western market economies and democracies would be sufficient for similar liberal political and economic orders to emerge, he argues that the EU's links with states in the Western Balkans have actually created new opportunities for incumbent elites to engage in patronage and corruption, and to remain comfortably in power.

Camba and Epstein highlight the diverse mechanisms and relationships employed in the international political economy by autocratic regimes to insure regime survival over time. Referring to these practices as 'authoritarian hedging', they delineate the ways in which Presidents Rodrigo Duterte in the Philippines and Viktor Orban in Hungary have relied on foreign multinationals based in Europe, China, and Russia as well as foreign heads of state to consolidate power. In contrast to the existing literature, they highlight the very active and deliberate ways in which these leaders in the different contexts manipulate their relationships with foreign capital to pursue domestic goals from repression to cooptation in order to survive. In the Philippines, Duterte intimidated existing investors from the United States and Europe by offering enticements to 'rebalancers', that is, new investors from China. Inviting in new investors enabled him to gain leverage against other investors and to consolidate his own coalition. In Hungary, Orban has relied on generous subsidies to woo investors in spite of widespread criticism of growing authoritarianism.

Whereas Camba and Epstein call attention to the strategies of autocratic leaders in manipulating or enticing foreign capital to consolidate power, **Wei and Palan** detail the intricate, complex web of subsidiaries that Chinese state banks have created offshore in Hong Kong to more fully engage with the international economy while at the same time continuing to operate in the domestic economy. Using the technique of 'equity mapping', they reveal how two Chinese state owned banks, the Bank of China and the China Construction Bank, have established a vast network of joint stock companies, offshore subsidiaries, 'floating companies' and holding companies largely registered in Hong Kong. Although they agree with a common claim in the literature that the intricate linkages with Hong Kong enable capital flight and tax evasion, they assert that the complex arrangements in Hong Kong also allow these banks to balance their obligations and interests in both domestic and international jurisdictions in which they work.

Lastly, the article by **Thorley** examines property transactions by China in London. Although London does not exhibit quite the state capture described by David-Barrett, nevertheless, Thorley demonstrates that large donors from authoritarian countries use their substantial economic power to sway policy in the UK. Just as Prelec & Soares de Oliveira and Heathershaw & Mayne detail the role of enablers and intermediaries for African and post-Soviet elites respectively, Thorley unveils the ways in which Chinese and Hong Kong firms, party state actors, state officials, and business elites rely on a host of law firms, real estate agents, and influencers to expand into the UK economy. But the objective is not simply economic gain. According to Thorley, 'there appears to be a link between the donations to the UK's political elites and favorable policy outcomes in terms of the goals of the commercial groups behind the donations'. Here the two strands we highlighted at the beginning of the introduction elide and influence each other. The increasing interaction of state and markets in the contemporary period have fostered transnational kleptocracy. The participation of authoritarian countries in the international political economy both contributes to, and benefits from, the opacity and openness of the international system although they are not the only kleptocrats.

Beyond the new empirical and theoretical insights provided by the papers in this special issue, our aims are to emphasise the dearth of research on transnational kleptocracy and the international political economy of authoritarianism as well as the timeliness and significance of this research agenda.[2] The determining impact of transnational connections on the survival of authoritarian regimes as well as the personal trajectories of politicians and oligarchs is clear (Cooley & Heathershaw 2017). However, it would be inaccurate to explain the practices described in this special issue primarily in terms of "authoritarian diffusion", whereby kleptocrats make use of easily instrumentalised tools within western financial and political centres. They certainly generate a demand for the services that metropolitan enablers so competently provide. But the supply of such money- and reputation laundering services is an

[2] In this regard, see also the contributions to Pitcher & Soares de Oliveira 2022.

endogenous, highly problematic development of late capitalism in the major capitals and financial centres of the West. Such service provision is deliberate, ingeniously innovative, and implicitly condoned by western authorities in London, Paris, Lisbon, Zurich, etc. In sum, this special issue holds analytical implications not just for the transnational politics of kleptocracy and authoritarianism, but for the domestic politics of western financial centres themselves.

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