

# A Perfect Storm

## The COVID-19 Pandemic and Transnational Kleptocracy

By Nate Sibley



The COVID-19 pandemic has exacerbated existing corruption risks worldwide while creating new opportunities for authoritarian regimes to repress political opposition, independent media, and civil society groups. An unprecedented global surge in public spending and procurement that has sidestepped important safeguards against abuse, combined with distraction and disarray in the international community, has created ideal conditions for transnational kleptocracy. Yet authoritarian regimes also are facing unprecedented challenges, as their populations grow less tolerant of the corruption that often undermines the pandemic response.

The new coronavirus swept across a world that had only recently begun to recognize and acknowledge the serious, pervasive harm inflicted by decades of unchecked transnational corruption. From the Arab Spring to Malaysian voters' backlash against the 1MDB (1Malaysia Development Berhad) scandal,<sup>1</sup> populations suffering the consequences of kleptocracy have turned to social media activism and protests to challenge corrupt political systems. In advanced economies, leaks such as the Panama Papers in 2016 combined with Russian attempts to interfere in democratic processes have caused many to reflect on the role that the legal and financial institutions based in democracies have played in facilitating authoritarian behavior and illicit financial flows. Nonetheless, democratic governments still have far to go in their efforts to insulate these institutions against this "corrosive capital."<sup>2</sup> They are only starting to explore measures that target the corrupt underpinnings of adversarial mafia states—the Global Magnitsky Act being a notable example.<sup>3</sup> Meanwhile, authoritarian leaders continue to engage freely in corrupt activities for the reinforcing purposes of illicit self-enrichment, consolidating their power at home, and projecting malign influence overseas.

Even before the pandemic struck, independent media and civil society groups working to expose and document these activities faced increasing repression. Whether the threat came from authoritarian governments or from sometimes deadly attacks by criminal networks linked to powerful interests in politics and business—no longer just in places like Russia and Venezuela, but in democracies like Malta and Slovakia—those who attempted to perform a watchdog role did so with heightened peril.<sup>4</sup> Inspired by the sweeping crackdown launched by Xi Jinping in 2012, several regimes have emulated China's example by coopting anticorruption narratives and launching their own disingenuous campaigns to target political opponents.<sup>5</sup>

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Meanwhile, trillions of dollars continue to be siphoned out of developing countries into tax havens and major financial centers. A recent United Nations (UN) study pegged global money laundering at around \$1.6 trillion per year, and found that more than \$7 trillion in private wealth is being held in secretive offshore accounts—the equivalent of 10 percent of global gross domestic product (GDP).<sup>6</sup> This level of capital flight, sustained over decades, has crippled many countries' capacity to respond to unexpected crises like a global pandemic.

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### **Opaque public spending**

This is the precarious context into which an estimated \$11 trillion in emergency fiscal assistance has been unleashed worldwide in response to the COVID-19 pandemic.<sup>7</sup> Democratic and authoritarian governments alike have suspended or ignored anticorruption safeguards as they scrambled to meet unprecedented strains on their healthcare systems, prop up collapsing economies, and placate fearful and frustrated populations. Anecdotal evidence suggests that the International Monetary Fund's (IMF) early plea to governments to “spend what you can, but keep the receipts” is being adhered to patchily or not at all.<sup>8</sup>

Law enforcement and private sector institutions charged with detecting suspicious financial activity have reported a surge in COVID-related fraud and cybercrime.<sup>9</sup> For corrupt elites, this chaotic environment has created new opportunities for self-dealing, price gouging, bribery, and embezzlement. For obvious reasons, the criminal involvement has been most acute in the healthcare sector, which even in ordinary times loses an estimated \$500 billion to corruption each year.<sup>10</sup> In Russia, wealthy individuals hoarded ventilators and other resources for their own use.<sup>11</sup> Moreover, kleptocratic networks also took advantage of the crisis to engage in reputation laundering by stepping in to supply equipment when local health providers came up short.<sup>12</sup> In South Africa, rampant overpricing of personal protective equipment (PPE) and widespread fraud has created a political crisis.<sup>13</sup> But scarcity has created opportunities for graft in almost all sectors. In Bangladesh, for example, officials were accused of reselling six-hundred thousand pounds of rice intended as food aid for hungry citizens.<sup>14</sup>

### **Restrictions on civil liberties**

In many countries, these heightened corruption risks have been compounded by draconian restrictions on civil liberties. As of September 2020, the COVID-19 Civic Freedom Tracker, a project of the International Center for Nonprofit Law, identified ninety countries with emergency declarations; 124 with measures affecting freedom of assembly; 44 with measures affecting freedom of expression; and 47 with measures that affect privacy.<sup>15</sup> In most cases, these restrictions are legitimate, proportionate, and temporary efforts to prevent further spread of the virus. But others undoubtedly have been implemented primarily in response to perceived threats to governments during this period of uncertainty, or even proactively as an opportunistic attempt to crush dissent while the international community is distracted. Even where they do not directly target efforts to document corruption, these actions can have a chilling effect on investigative activities. The declaration of emergency powers to handle the pandemic response has too often carried echoes of post-9/11 antiterrorism laws enacted hastily by governments whose primary intention was to use them against nonvio-

lent political opponents.

Legitimate justifications for restricting freedom of expression and access to information are few and far between, especially during a global pandemic when access to reliable information saves lives. Yet according to a recent survey of 1,308 journalists in 77 countries, three-quarters reported experiencing deliberate obstruction or intimidation in their efforts to cover the virus.<sup>16</sup> Several countries also have implemented internet shutdowns, ostensibly to prevent the spread of misinformation about the virus or for vague “security” reasons.<sup>17</sup>

Unsurprisingly, whistleblowers who expose the spread of the new coronavirus or the misappropriation of life-saving resources have been especially targeted. Indeed, the origin of the pandemic owes much to the persecution of honest health officials by authorities in Wuhan and subsequent cover-up efforts by Beijing.<sup>18</sup> In Russia, more than a few doctors who have highlighted problems with the country’s coronavirus response have faced an unusually gruesome fate: falling to their deaths from windows, with enough suspicion around the circumstances to suggest deliberate defenestration.<sup>19</sup>

Some governments have also enacted prohibitions on movement and initiated surveillance measures that significantly compromise privacy and civic activity. In China, for instance, track-and-trace technology seems likely to become yet another method of monitoring perceived opponents of the Chinese Communist Party.<sup>20</sup> In much of the world, edicts that limit movement and assembly are vital for preventing further spread of the virus, yet they have the side effect of hindering journalists and researchers from conducting interviews and other in-person research, especially in societies where it would be unsafe or impractical to do so online. In theory, they also prevent citizens from gathering to protest against corruption and other issues—though of course, this has not stopped anyone in Iraq, Hong Kong, Belarus, or indeed the United States from taking to the streets.

### Challenges for kleptocrats

Even though the pandemic has offered numerous opportunities to those who make a living by fraud or exploitation for self-enrichment, in some cases it has reduced corruption risks and hampered the activities of those engaged in it—albeit temporarily. Anecdotal evidence suggests that closed borders and shuttered businesses have significantly disrupted much of the illicit economy that preys on them. This may especially be true of schemes linked to the cross-border movement of goods such as trade-based money laundering, drug trafficking, and the illegal wildlife trade. Incentives for corruption may have been reduced or have disappeared altogether in sectors affected by the economic shutdown, for example where bribes are routinely demanded in return for license acquisition.

Perhaps more significantly in the long term, the potential costs of being caught engaging in corruption are higher as populations ordinarily conditioned to tolerate avaricious political elites begin to lose patience. In Kenya, for example, police fired tear gas to disperse crowds protesting alleged misuse of PPE.<sup>21</sup> Countries that have tried to use the crisis for political advantage by engaging in exploitative or corrupt behavior often have found their efforts backfiring.<sup>22</sup>

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Finally, corrupt leaders should be concerned about the implications of renewed global anticorruption leadership by the United States and its democratic partners. President Biden has committed to countering kleptocracy as a cornerstone of his administration's foreign policy, while the 116<sup>th</sup> Congress overcame partisan divisions to enact the most significant anti-money laundering reforms in nearly two decades.<sup>23</sup>

This is not to downplay the alarming proliferation of corruption risks caused by the pandemic; however, the situation is more complicated than initial fears of an unmitigated kleptocratic free-for-all would suggest.

### **Dealing with the inherent transnational links of modern kleptocracy**

The best thing that democratic governments can do in response is stay the course on enacting vital anticorruption reforms and ramping up measures to target authoritarian kleptocracy overseas. Because contemporary kleptocracy is inherently transnational, improving transparency in advanced economies will assist independent media and civil society groups working to expose and document abuses within authoritarian regimes. Additional support for whistleblowers, strengthened anti-money laundering controls, and improved corporate transparency all will be part of this focus on fighting corruption on all fronts.

The same is true of law enforcement actions and sanctions to hold those responsible for COVID-related corruption and human rights abuses accountable. After all, authoritarian regimes are counting on distraction in the international community to engage in repression that might ordinarily carry adverse consequences. Providing material support for independent media and civil society within kleptocratic societies, for example through the Global Media Defense Fund, and helping them to network with collaborative groups, such as the International Consortium of Investigative Journalists, should also be priorities.

The COVID-19 pandemic undoubtedly has exacerbated existing corruption risks while creating new opportunities for avaricious political elites. At the same time, it has posed some unexpected challenges and exposed vulnerabilities for corrupt authoritarians who are accustomed to exploiting the global economy in secrecy and with total impunity. Public awareness of the harm caused by kleptocracy has never been keener—and never felt more personal than when it involves the theft of resources that should have been used to save lives. Independent media and civil society groups who work to expose corruption may be under severe attack, but they are also more organized and connected than ever before. And with renewed U.S. leadership, many democracies are now working to address financial vulnerabilities that facilitate and incentivize transnational corruption while targeting kleptocracy overseas. It is still possible that we may look back on the COVID-19 pandemic as a turning point, rather than a setback, in the longer struggle against transnational kleptocracy.

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## Endnotes

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