

# KLEPTOCRATIC ADAPTATION

ANTICIPATING THE NEXT STAGE IN THE BATTLE  
AGAINST TRANSNATIONAL KLEPTOCRACY

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# EXECUTIVE SUMMARY

Russia's invasion of Ukraine has focused democracies' attention on the overarching threat posed by kleptocratic networks, creating an opportunity to push back against them. Democracies initially reacted with remarkable speed and unity to sanction Russian oligarchs, freeze their assets, and introduce legislation to close opportunities for kleptocratic influence within democratic institutions. Despite the growing recognition of the fundamental threat posed by kleptocracy to democratic governance, accountability, and security, it is no longer clear that the democracies will sustain the momentum and shoulder the resolve to truly tackle transnational kleptocracy—especially as kleptocrats themselves adapt to changing circumstances.

Though often treated as a niche policy concern, rather than a strategic national security interest, the authors of this paper argue that kleptocracy must figure more prominently in democracies' foreign and domestic policymaking calculus. Resilient and adaptable, transnational kleptocracy is on par with strategic threats democracies have faced before.

Kleptocrats have long favored laundering their illicit resources in democratic settings where they are protected by rule of law, which has had a corrosive impact as these assets are weaponized to fund spoiler political parties, foreign influence operations, and, in the case of Ukraine, war. This weaponized corruption is one of the many tools in the autocratic playbook designed to reshape global norms away from democracy, accountability, and governance and toward an entrenched form of authoritarianism that is fueled by kleptocracy.

In addition, the authors illustrate how kleptocratic networks have shown their flexibility and ability to develop new ways to exploit the weakest links in measures designed to curtail them. Indeed, kleptocrats have already begun to redirect their illicit pipelines from democracies into “bridging regimes” or areas that have strong links to the international financial and trade systems, act as important destinations and conduits for ill-gotten wealth, and may be authoritarian or kleptocratic themselves.

Often treated as a niche policy concern, rather than a strategic national security interest, kleptocracy must figure more prominently in democracies' foreign and domestic policymaking calculus.

In response to this top-order challenge, democracies must develop a full-spectrum, unified response that works across all sectors of society and whose elements include:

- Deepening support to civil society partners so they can do more to protect anticorruption champions worldwide from strategic lawsuits against public participation (SLAPPs), intimidation, violence, and imprisonment.
- Scaling up collaborative, networked journalism that has proven to be remarkably effective at exposing and combatting kleptocracy.
- Focusing on kleptocratic-enabling locales abroad, including in settings where democracies have traditionally deemphasized their anticorruption, democracy, and human rights concerns when dealing with strategically important countries. As a result, they have been allowed to act as conduits for illicit financial flows and kleptocratic influence, undermining democracies in turn.
- Enhancing cooperation between democratic policymakers, regulators, law enforcement agencies, civil society groups, investigative journalists, financial institutions, and businesses as a way to enable surge capabilities in the struggle against resilient transnational kleptocracy.
- Addressing the governance conditions in the deeply authoritarian settings that serve as the “source” for kleptocracy to address this issue at its root.

Given its unyielding pace and serious strategic implications, kleptocratic adaptation is a threat that demands a stronger and more purposeful response from democracies worldwide. To rise to the challenge, they should recognize that the Kremlin’s full-scale invasion of Ukraine offers a powerful political justification for reforming and recapitalizing crucial antikleptocracy defenses.

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## INTRODUCTION

Facing a flurry of sanctions and fresh anticorruption laws following the Kremlin's invasion of Ukraine, some of the most dangerous adversaries of global democracy are changing tack. Uncomfortable in the limelight, the world's kleptocrats are running for cover, worried they will be cut off from international financial centers that have long tolerated—even welcomed—their dirty money. In turning a blind eye to murky financial networks inhabited by legions of oligarchs, as well as their proxies and enablers, the world's democracies inadvertently jeopardized their own strategic interests, institutional health, economic stability, and national security.

The time is ripe, however, to reverse this trend and tighten the connection between democracies' anticorruption and anti-autocracy agendas. Unmasked by the Panama, Paradise, and Pandora Papers, among other recent exposés, kleptocrats have already begun to shy away from making sizable donations to U.S. and European charities, think tanks, universities, and private schools to launder their reputations. Top lawyers, lobbyists, and public relations professionals are no longer as solicitous toward them. Once receptive to their gifts and hospitality, kleptocrats' political allies are taking fewer of their calls. And in Washington, policymakers have rolled out several measures specifically targeting them.

But as some democracies become less tolerant of their activities—perhaps, albeit, temporarily—kleptocrats will adapt as they have before. **Antidemocratic regimes are finding new ways to weaponize corruption, financing foreign influence operations and other corrosive enterprises with their ill-gotten gains.** Kleptocratic networks are also increasing their access to the international financial system by funneling vast sums through what we have termed “bridging jurisdictions”: areas that have strong links to the international financial and trade systems, act as important destinations and conduits for ill-gotten wealth, and may be authoritarian or kleptocratic themselves.

Confronting kleptocratic networks will be a defining challenge for democratic societies and their policymakers. Unfortunately, too many democracies fail to prioritize global corruption as a major national security threat or to see how their own laws, institutions, and social norms enable it. Few recognize that corruption is a leading driver of crime, conflict, poverty, and democratic backsliding worldwide, considering it instead as more of a nuisance best tackled by helping foreign anticorruption agencies, journalists, and civil society groups. As a result, democratic policymakers cannot see the cost to democracy of subordinating anticorruption concerns to security and other geopolitical interests they perceive as being more important.

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What does kleptocratic adaptation mean for the world’s democracies, especially those whose welcome mats for kleptocrats are wide and well-trodden? Most important, these strategic shifts represent a warning sign that democracies should heed, prompting them to rethink, refocus, and redouble their efforts to not only combat kleptocracy, but also to sanitize and protect their own systems and institutions from corrupt influences. Doing so will require a shift in conventional wisdom among policymakers and within democratic societies writ large. Until this epiphany materializes, democracies’ response to kleptocracy will remain anemic and ad hoc, hampered by outdated laws, inadequate regulations, substandard enforcement tools, and weak accountability mechanisms incapable of keeping up with the daunting scope and swift pace of kleptocratic adaptation.



## WHY KLEPTOCRATIC ADAPTATION MATTERS

Kleptocratic adaptation is a creeping trend that democracies cannot afford to ignore. Brought into focus by Vladimir Putin's Ukraine gambit, its swiftening pace will increase kleptocrats' capacity to weather socioeconomic and geopolitical shocks until democratic leaders, policymakers, and business, media, and civil society stakeholders address it more robustly. To do so, they must recognize three of kleptocracy's biggest implications for democracy.

First, *kleptocracy poses a fundamental threat to democracies individually and global democracy writ large*. Resilient and adaptable, transnational kleptocracy is on par with strategic threats democracies have faced before. Like imperial expansionism, fascism, Cold War-era communism, and terrorism, kleptocracy is antithetical and damaging to democracy. Yet many democracies have become deeply entangled in global kleptocratic networks, mortgaging their institutional integrity and strategic stability for perceived economic and geopolitical gains. Given the significant profits and potential tax revenues associated with facilitating various forms of illicit and dubious financial flows, and amid substantial lobbying efforts by oligarchs and their enablers, democracies have largely failed to recognize and react to the



steady flow of dirty money that courses through their financial and commercial sectors. In doing so, they have helped kleptocratic authoritarian regimes resist democratization and undermine the liberal, rules-based system built in the wake of World War II.

Second, *autocrats are weaponizing corruption. As well as eroding democracies' resilience from within, authoritarians deliberately leverage kleptocratic networks, among other tools in their antidemocratic arsenals, to achieve specific strategic objectives.* Over the last decade especially, autocrats have used these networks to nourish parties and candidates keen to challenge democratic values, deepen social divisions, and undermine guardian institutions, thus increasing their leverage and weakening their opponents. Since 2014, for example, Russian authorities have secretly funneled at least \$300 million to foreign political parties and candidates in more than two dozen countries in an attempt to shape political events beyond the country's borders, according to leaked U.S. intelligence community findings.<sup>1</sup> Like cruise missiles fired from a submarine, these illicit funds, alongside cyberattacks and the manipulation of social media, can be used to target democracies' defenses.

This approach is especially effective in the United States (U.S.), United Kingdom (U.K.), and other democracies where lax lobbying rules, inadequate enforcement, and shifting ethical norms allow kleptocrats to influence lawmakers' attitudes as well as specific policy outcomes. Kleptocrats remain particularly interested in recruiting veto players: politicians who may not champion their aims, but will work to delay, weaken, or block policy initiatives that threaten their political or pecuniary ambitions. They may also expand their use of more aggressive tactics—blackmail, intimidation, and even violence—to protect their interests. In 2017, for example, hired assassins killed investigative journalist Daphne Caruana Galizia to stop her from exposing corrupt political elites.<sup>2</sup>

Adapting to increased media and civil society scrutiny of their activities, kleptocrats have increased their use of anonymous shell companies, dark-money entities, proxy donors, surreptitious gifts, and promises of future consultancies or appointments to cultivate influence. In the U.K., for instance, the ruling Conservative Party has received numerous large donations from Putin-linked oligarchs and their proxies.<sup>3</sup> In July 2020, Prime Minister Boris Johnson controversially appointed Russian-born media tycoon Evgeny Lebedev to the House of Lords despite his close financial and business relationship with his father, a former KGB spy who has since been sanctioned by Canada for his alleged role in enabling the invasion of Ukraine.<sup>4</sup> Breaking the connections his party and the U.K. financial sector have to global kleptocratic networks is one of the biggest—and most underreported—challenges facing Prime Minister Rishi Sunak.

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Third, *democracies risk being outgunned and outflanked by authoritarian-backed kleptocratic networks*. Historian Anne Applebaum has written about what she calls “Autocracy, Inc.,” whereby:

*Autocracies are run not by one bad guy, but by sophisticated networks composed of kleptocratic financial structures, security services (military, police, paramilitary groups, surveillance), and professional propagandists. The members of these networks are connected not only within a given country, but among many countries. The corrupt, state-controlled companies in one dictatorship do business with corrupt, state-controlled companies in another. The propagandists share resources—the troll farms that promote one dictator’s propaganda can also be used to promote the propaganda of another—and themes, pounding home the same messages about the weakness of democracy and the evil of America.<sup>5</sup>*

She concludes later that, “What really bonds the members of this club is a common desire to preserve and enhance their personal power and wealth.”<sup>6</sup>

Largely unfazed by this threat, democracies have made too few attempts to revise and expand their anticorruption defenses. While some modest progress is underway in the U.S., most democracies have appeared unwilling to undertake major structural policy reforms aimed at broadening and deepening their anti-kleptocracy efforts.

Take the U.K., where a short-lived anticorruption push by David Cameron’s Conservative government fizzled under prime ministers Theresa May and Boris Johnson.<sup>7</sup> According to a 2021 Chatham House report written by seven top anticorruption scholars, “failures of enforcement and implementation of the law—plus the exploitation of loopholes by professional enablers—have meant that little has been done in practice to prevent kleptocratic wealth and political agendas from entering Britain.” As a result, they judged, “the U.K. is ill-equipped to assess the risk of corruption from transnational kleptocracy, which has undermined the integrity of important domestic institutions and weakened the rule of law.”<sup>8</sup> The recently introduced Economic Crime and Corporate Transparency Bill—if passed—will help build on the Economic Crime Act passed in March 2022 in the wake of the Kremlin’s invasion of Ukraine. Together, these bills may help to rejuvenate British anticorruption efforts, but only if law enforcement and regulators are infused with the resources they need to take advantage of them.<sup>9</sup>

Democracies’ inability to enforce their increasingly obsolescent anticorruption laws compounds their failure to keep up with the pace of kleptocratic adaptation. As international corruption networks evolve and change, so too must the countermeasures and safeguards that mitigate the damage they cause. Collaboration and information exchange between government departments, intelligence agencies, law enforcement, revenue bodies, civil society, and the private sector—both domestically and internationally—is broadly lacking. Unless the scope and scale of such cooperation increases significantly, democracies will struggle to detect and deter even a small fraction of the complex relationships and cross-sectoral transactions that underpin transnational kleptocracy.

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In Luxembourg, for example, anti-money laundering safeguards and law enforcement capacity is weak despite its role as one of Europe's major financial hubs, secrecy jurisdictions, and tax havens.<sup>10</sup> Largely self-regulating, the country's financial sector has a long history of welcoming dirty money. Proceeds from Malaysia's multibillion-dollar 1MDB scandal were laundered there, according to the U.S. Department of Justice.<sup>11</sup> Kazakhstan's kleptocratic ruling family has also funneled huge sums through shell companies registered in the mini-state.<sup>12</sup> Luxembourg has even turned a blind eye to an influx of "boss babies": underage company owners, including many whose parents are oligarchs, criminals, or individuals who benefited from their ties to politically influential figures.<sup>13</sup> These include a one-year-old Mongolian toddler who owns part of a major coal company in the Gobi Desert, an eleven-year-old Azerbaijani profiting from state contracts with Turkmenistan and China, and a Russian teenager who counts investments in Canadian and Californian pension systems among her billions of dollars of assets.<sup>14</sup>

It is clear that some democratic authorities, including those in the U.K. and Luxembourg, are struggling to rethink risky and harmful domestic behaviors that enable and embolden kleptocratic networks. In many other countries—Canada, Australia, Japan, and a plurality of European democracies—lawmakers are sitting on the fence, unwilling to tolerate strategic corruption but reluctant to treat it as a national security threat. U.S. policymakers, in contrast, are beginning to wake up to the threat kleptocratic networks—and their ever-shifting dynamics—pose to key institutions and democratic norms. Such awareness puts them in the best position to shape democracies' response to the challenge.



## BRIDGING JURISDICTIONS: AN INCREASING CONCERN

The international system is morphing into an increasingly multipolar world populated by governments that range from more open, democratic, rule-of-law-based administrations, to authoritarian—usually kleptocratic—systems. In the middle are anocracies (defined as polities that mix democratic and autocratic features),<sup>15</sup> many of which try to avoid picking sides. Underappreciated features of this evolving international system are “bridging jurisdictions”: areas that have strong links to the international financial and trade systems, act as important destinations and conduits for ill-gotten wealth, and may be authoritarian or kleptocratic themselves.

Bridging jurisdictions sometimes act as spoilers to nascent pro-democracy and good-governance movements through their use of military, diplomatic, economic, and soft power, plus active facilitation of illicit and licit-but-harmful transactions. Rather than sanctioning and marginalizing them, democracies continue to cultivate extensive financial, economic, military, and diplomatic interactions with these countries due to their perceived larger strategic significance. These jurisdictions thus serve a vital connecting role, providing kleptocratic networks with the means to access the Western financial systems while continuing to use strategic corruption to undermine the international rules-based system.

# TURKEY AND THE UAE

Turkey and the United Arab Emirates (UAE) are two of the most prominent bridging jurisdictions. Both have long frustrated good governance, anticrime, anti-money laundering, and antiterrorism advocates around the world with their willingness to ignore “bad actors” operating within their territories and, in some instances, actively facilitating their activities. Moreover, both countries’ regimes exhibit extremely high levels of regulatory capture, whereby state leaders control the regulatory apparatus.<sup>16</sup> Emirati leaders greatly restrict freedom of speech, civil society, political activities, and other basic rights.<sup>17</sup> Turkey was once a shaky but consolidating democracy but has become more authoritarian under President Erdoğan, who has cracked down on opposition parties, civil society, academia, and the media.<sup>18</sup> Both are rated “not free” by Freedom House.

International sanctions recently imposed on Russia have illuminated the scope and scale of these countries’ roles as kleptocracy facilitators. Tracking yachts and planes associated with oligarchs to Turkey and the UAE has become a Twitter parlor game played by some anticorruption activists, and media stories abound of sanctioned Russians spotted vacationing on their beaches and buying up their real estate. In June 2022, a *New York Times* analysis of flight data showed that before the invasion, private aircraft flights originating in Russia usually flew to Paris, Milan, and Geneva; now, they are flying primarily to the UAE and Turkey.<sup>19</sup>

## Sanctioned Asset-Tracker

*Roman Abramovich was sanctioned by the U.K. government on March 10, 2022 and by the EU four days later for having close ties with Vladimir Putin. One of his private jets, a Boeing 787 Dreamliner, was purchased for an estimated \$339 million.<sup>20</sup> In March, its movements were tracked from Russia to Israel and, later, to Turkey before landing in the UAE, and the Dreamliner has not left Dubai since.<sup>21</sup> Meanwhile, on March 14, Abramovich’s other plane, a Gulfstream jet worth an estimated \$90 million, was found in Istanbul.<sup>22</sup> The same day, the EU placed him on the sanctions list.<sup>23</sup> The plane was last seen in Russia and on June 6, 2022, U.S. officials authorized a seizure of both jets.<sup>24</sup>*

### Sanctioned individual:

Roman Abramovich

### Asset:

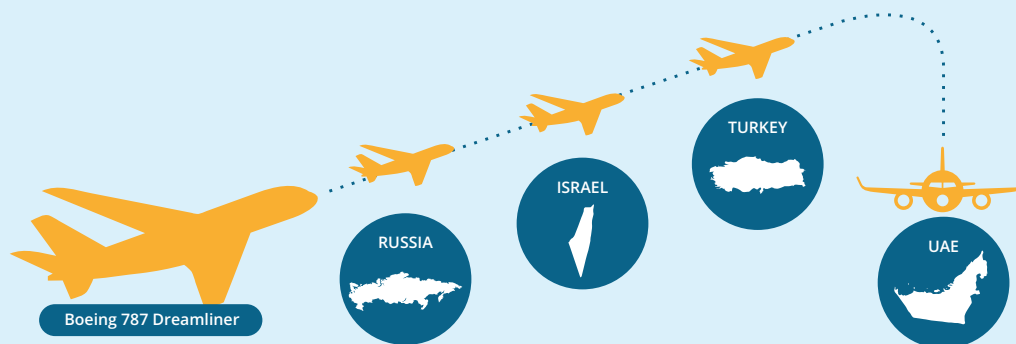
Private plane  
(Boeing 787 Dreamliner)

### Estimated value:

\$339 million

### Sanctioned:

March 2022 by the U.K.





Both countries have long been well-integrated into the Western financial and trade systems, as well as hosts for dirty and dubious money and individuals subject to sanctions. The Global Initiative Against Transnational Organized Crime has noted that Turkish authorities often leverage criminal markets “such as gold and oil trade, human smuggling, and arms trafficking” for their own benefit.<sup>25</sup> In October 2021, the Financial Action Task Force (FATF) placed Turkey on its gray list for failing to prevent money laundering and terrorism financing adequately, placing its financial institutions under additional anti-money laundering scrutiny until at least 2023.<sup>26</sup> Likewise, the UAE has been known as a hub for arms trafficking, terrorism finance, and gold smuggling since the 1990s, and it was a key logistical node for Pakistan’s clandestine nuclear weapons development program.<sup>27</sup> As the *Economist* recently noted, “As London and Hong Kong stall as financial centers, Dubai is seeking to become the world’s last entrepôt, where you can do business with anyone.”<sup>28</sup> Like Turkey, it, too, is gray-listed by FATF.

Despite claims that they are working to address FATF concerns, these regimes have seemingly turned a blind eye as oligarchs and their assets have flooded into their countries in the wake of the invasion of Ukraine. Even more concerning, both also appear to be selectively adjusting legislative and regulatory frameworks to facilitate the activities of these sanctioned individuals and other kleptocratic networks going forward.

Though Turkey was included on the FATF gray list, in early July, President Erdoğan signed a new law that allows individuals and entities to bring cash, gold, and other wealth into Turkey until March 31, 2023. The measure was inserted into a bill on public payroll as a last-minute amendment before it went to the General Assembly for a final vote. This law builds upon loopholes for wealth transfers the Erdoğan regime had created previously, including a similar law passed in 2016.<sup>29</sup> Such laws not only aid sanctioned Russians but also a variety of ill-gotten gains from around the world. Parked in Turkey, these assets will help prop up the country’s economy and, thus, its regime.

Similarly, the UAE’s leadership has been making it much easier for foreigners to acquire long-term residence and even citizenship.<sup>30</sup> In 2019, authorities expanded the “golden visa” program: for 2 million dirham (just under \$550,000) in investments, an investor plus their spouse and dependents can acquire 10-year visas.<sup>31</sup> Individuals whom the Dubai Culture and Arts Authority deem have “specialized talents and researchers in various fields of science and knowledge” can receive a ten-year visa for \$1,000.<sup>32</sup> There is also a sponsor-free, five-year retiree visa for individuals over age 55 who purchase real estate worth \$260,000, or earn \$4,000 per month.<sup>33</sup> In 2021 the UAE announced a new “golden passport” scheme, whereby certain investors can receive full Emirati citizenship, though details about the program remain unclear.<sup>34</sup> Emirati citizenship had previously been very limited and a closely guarded privilege.

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In addition, UAE authorities—those in Dubai in particular—welcome Russian property purchases. Such acquisitions increased by 67 percent in the first quarter of 2022, against the backdrop of the Ukraine invasion in February and resulting sanctions.<sup>35</sup> In the first half of 2022, purchases by Russians and others from former Soviet states were up 100 percent on the year prior.<sup>36</sup> To meet demand, Emirati real estate agencies have added Russian-speaking agents. Cryptocurrencies are often accepted to help Russians bypass capital controls that ban citizens from leaving Russia with more than \$10,000 in foreign currency.<sup>37</sup>

These practices have made the UAE an especially convenient oasis for a variety of unsavory actors and activities. **Oligarchs seeking to avoid sanctions can move themselves and their families to the UAE, park their assets there (literally in the case of yachts and aircraft), purchase homes, and purchase residency or even outright citizenship.** The country's lack of extradition treaties, lack of support to international law enforcement efforts,<sup>38</sup> and willingness to look the other way when it comes to questionable financial transactions enables corrupt individuals to avoid sanctions and other ramifications of their actions, and continue to live the good life. While sanctioned individuals from Russia are the focus today, this escape is available for everyone from Nigerian kleptocrats to Syrian war criminals to Afghan Taliban to corrupt Chinese elites, allowing for a significant level of international impunity for those willing to pay the required fees.<sup>39</sup>

One reason that officials in Turkey and the UAE may feel free to flout international norms is their strategic importance to the U.S. and European democracies. Turkey is a member of the North Atlantic Treaty Organization (NATO) and an important supplier of armaments to Ukraine, especially the well-known Bayraktar TB2 drones. Its support is needed to bring Finland and Sweden into NATO and its strategic location bordering Russia, Syria, and Iraq have made it an important geostrategic player. Recently, for example, Turkey has hosted talks between Russia and Ukraine on food shipments and prisoner exchanges.<sup>40</sup>

From 2009 to 2018, the UAE, for its part, was the fifth-largest arms importer worldwide.<sup>41</sup> It is perhaps the most effective military power in the Middle East outside of Israel, and hosts U.S. military bases.<sup>42</sup> Moreover, business ties between the U.S. and UAE are very close. At least 1,500 American firms have some sort of presence there, and many have their regional headquarters there.<sup>43</sup> The U.S. has an \$11 billion trade surplus with the country.<sup>44</sup>

It's not only the U.S. that prioritizes its military and economic ties to the UAE above other strategic considerations. France also has a navy base there, and in December 2021, French authorities signed the country's largest-ever arms export deal, selling the UAE eighty Rafale multirole fighter jets for \$18 billion.<sup>45</sup> Though the U.K. briefly froze arms sales to members of the Saudi-led coalition that invaded Yemen, which included the UAE, over human rights concerns, the ban was lifted shortly thereafter, and major defense cooperation agreements have resumed.<sup>46</sup>

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Attendees at the opening ceremony of the Dubai Expo 2020, on September 30, 2021.

Moreover, **the UAE has yet to suffer serious reputational effects as a result of its permissive attitude toward dirty money.** Its recent Expo 2020 (actually held in 2021 due to COVID-19) did not experience diplomatic boycotts or mass divestments by multinational corporations. There have also been no announcements of major banks uprooting their regional branches from the UAE for elsewhere. In fact, firms like Goldman Sachs and Bank of America have moved Moscow-based staff to the UAE, especially Dubai.<sup>47</sup> As the *Economist* recently noted, “Every few months a group from the Treasury Department flies out to chide the Emiratis . . . America has done little more than talk, however. The UAE has convinced many Americans that it is an indispensable partner in the region.”<sup>48</sup>

While Turkey and the UAE are the most prominent bridges today, other states could, over time, also become bridging jurisdictions. These countries include petrostates like Saudi Arabia and Bahrain, locales within the European sphere like Northern Cyprus, large regional business and banking centers like Brazil, and places that have traditionally acted as a bridge between authoritarian and democratic centers like Hong Kong and Singapore.





## THE HALKBANK SCANDAL

**The Halkbank scandal provides an illustrative example of how bridging jurisdictions can undermine democracies' foreign policy goals while entrenching kleptocratic practices among elites at home.**

The affair centered on the Turkish state-owned Halkbank, which alongside several other Turkish state banks worked with Emirati-based actors to launder as much as \$100 billion for Iranian elites—helping the regime withstand international sanctions and remain in power.<sup>49</sup>

In the process, Turkish elites allegedly embezzled millions of dollars to spend on themselves and their patronage networks.<sup>50</sup> The complex scheme ran from 2008 through 2016 and involved gold and oil purchases, falsified export records, transactions in multiple currencies, and shell companies in three countries.<sup>51</sup>

Much of the proceeds associated with avoiding Iranian sanctions moved through Western banks, including \$2.2 billion through J.P. Morgan Chase, \$1.3 billion through Deutsche Bank, \$1.2 billion through Standard Chartered, and \$1.1 billion through Citibank, demonstrating how the bridging jurisdictions—Turkey and the UAE—act as important conduits for sanctioned kleptocracies to access the Western financial system.<sup>52</sup> In addition to assisting Iran, the gold-sales part of this scheme also made Turkish exports look much stronger than they actually were.<sup>53</sup>



Huge bribes also changed hands. As Turkish authorities began investigating the Halkbank scheme in 2013, they uncovered millions of dollars in bribes—some stashed in shoeboxes—before Turkish authorities quashed their efforts the following year. Iranian-Turkish businessman Reza Zarrab, who ran a network of bank accounts that facilitated the scheme, was arrested while in vacation in the U.S. in 2016, while the U.S. Southern District of New York District Court indicted Halkbank in 2019 for its role in Iranian sanctions evasion.<sup>54</sup>

While public attention relating to the scandal has largely focused on Iran and Turkey, the scheme could not have worked without the UAE, from which co-conspirators accepted Turkish-bought gold exports and then laundered the proceeds. One alleged perpetrator, Adem Karahan, claimed that he and his associates smuggled 800 kilograms (1,750 pounds) of gold per day through the UAE.<sup>55</sup> The scheme presumably benefitted from the country's unique willingness to accept gold associated with locations flagged by the Organization for Economic Co-operation and Development (OECD) as at risk for conflict minerals.<sup>56</sup>

In 2016, the UAE reported it imported 971 tons of gold worth \$32 billion from around the world.<sup>57</sup> If Karahan was bringing as much gold into the UAE in 2016 as he claims, that would mean that as much as two-thirds of Emirati gold imports that year were associated with the Halkbank scheme, and making such laundering an important foundation of the UAE's economy. In December 2020, under threat of having its gold exports de facto banned from the international market due to the Halkbank and numerous other, gold-related scandals, the UAE began to clean up some of its most egregious practices.<sup>58</sup>

The scandal also highlights how kleptocratic regimes can undermine democratic governments and the rule of law therein by weaponizing corruption. Ankara put pressure on two U.S. presidential administrations to drop the cases against Halkbank and Zarrab.<sup>59</sup> A number of cabinet-level Turkish officials plus a variety of lobbyists acting on behalf of the government also pressured the Department of Justice to drop the case.<sup>60</sup> Some lobbyists earned millions of dollars in the process.<sup>61</sup> In 2019, President Trump's attorney general fired a U.S. federal prosecutor at least in part due to his continued investigation of it.<sup>62</sup>

The Halkbank case underlines how kleptocratic networks operate across multiple countries—Iran, UAE, and Turkey—to launder cash and evade sanctions. Well-connected middlemen, copious bribes, and shell companies abet and enable such wrongdoing. Sanctions dedicated to undermining Iran's weapons of mass destruction were undercut by the actions to the tune of billions of dollars. And as of 2020, parts of the network remain: some associated businesses changed their names, while relatives of Zarrab and other close associates are still involved.<sup>63</sup>

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## RESPONDING TO NEW CHALLENGES

**Given its unyielding pace and serious strategic implications, kleptocratic adaptation is a threat that demands a stronger and more purposeful response from democracies worldwide.**

To rise to the challenge, democracies should recognize that the Kremlin-ordered invasion of Ukraine offers a powerful political justification for reforming and recapitalizing their anti-kleptocracy defenses. Individual actions like seizing suspect superyachts, freezing secret bank accounts, and levying visa sanctions are necessary demonstrations of their resolve. But their long-term impact is negligible if they are not part of a broader anti-kleptocracy strategy reinforced by wide-ranging domestic and international cooperation.

If properly resourced and backed by robust enforcement mechanisms, such strategies will help insulate democracies from global kleptocracy's most corrosive effects. Implementing them, however, will force democracies to make tough domestic policy choices. **The U.S., U.K., Canada, France, and many other democracies need to tighten oversight and regulation of their banking, real estate, and corporate-services sectors, given the degree to which they fuel and facilitate international corruption.**

Increasing their support to civil society organizations and independent media platforms worldwide would allow for better-informed policy changes, identification of emerging threats, and opening of law enforcement investigations. In particular, organizations like the Organized Crime and Corruption Reporting Project (OCCRP) and the International Consortium of Investigative Journalists (ICIJ) already understand that it takes international networks of journalists to investigate transnational crime effectively. Democratic governments should resource these groups and their member organizations, consult the detailed material they turn up, and emulate their strategy of establishing channels for international cooperation in order to tackle global kleptocracy. **Democratic governments should also increase their support to civil society partners—including both international watchdogs and local advocacy organizations—so they can do more to protect anticorruption champions worldwide from strategic lawsuits against public participation (SLAPPs), intimidation, violence, and imprisonment.**

Furthermore, democracies must do more to combat reputation laundering by scrutinizing links their universities, independent schools, think tanks, charities, sports teams, and cultural institutions have to politically exposed persons from high-risk jurisdictions. These ties can be extensive. American philanthropic organizations, museums, and universities, for instance, have accepted millions of dollars from individuals with ties to Putin, including several targets of Western sanctions.<sup>64</sup> Likewise, at least 49 British universities, between 2015 and 2020, accepted a total of £52 million (the equivalent of \$81 million in 2015 dollars) in cash payments from students a *Times* investigation deemed were from “high-risk countries.”<sup>65</sup>

To meet the threat of kleptocratic adaptation head-on, democratic societies must accomplish three major tasks: convince domestic stakeholders to treat kleptocracy as a top-tier strategic challenge; recalibrate their relationships with bridging jurisdictions; and build up their countries’ anticorruption defenses.

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## WINNING INTERNAL DEBATES

Without broad intragovernmental support—political, bureaucratic, diplomatic, and prosecutorial—any attempt to respond to kleptocratic adaptation will fizzle. Often treated as a niche policy concern, rather than a strategic national security interest, corruption must figure more prominently in democracies’ foreign and domestic policymaking calculus. Top leaders must dispel their subordinates’ ambivalence, challenge their flawed assumptions, and hold them accountable for anticorruption failures.

Pragmatically speaking, deconflicting competing priorities will be difficult and, in some instances, impossible. In the latter cases, senior policymakers should explain why other concerns must take precedence over anticorruption and what benefits will be gained in doing so, and commit to periodically reassessing their rationale. Yet such cases should be rare; otherwise, democracies’ defenses against the world’s increasingly adaptable kleptocratic networks will remain weak.

Decisions about the invite list to Washington’s recent Summit for Democracy exemplify situations where trade-offs were made without clear explanation of the costs and benefits. By inviting countries that arguably function as kleptocracies or are dominated by kleptocratic networks, the U.S. signaled that democracy and kleptocracy are not necessarily antithetical.<sup>66</sup> Such mixed messaging is evident in bilateral contexts as well. U.S. Vice President Kamala Harris recently described Nigeria—one of the world’s most entrenched kleptocracies—as a “bastion of democracy.”<sup>67</sup> The U.S. State Department similarly commemorated the June 2022 death of former Angolan president Eduardo dos Santos with a statement recognizing how he “oversaw the country’s remarkable reintegration and transition to peace” without reference to the billions of dollars he and cronies looted from state coffers.<sup>68</sup> Rather than isolated gaffes or omissions, these examples suggest there remains a deep disconnect between anti-kleptocracy policy and traditional foreign policy concerns.

Fortunately, recent policy developments and signs of increasing interagency cooperation suggest that this disconnect may begin to shrink. In December 2021, the White House promulgated the first U.S. Strategy on Countering Corruption, following up on National Security Study Memorandum 1 in which President Biden established the fight against corruption as a core threat to U.S. national security. In Congress, the newly formed, bipartisan Caucus against Foreign Corruption and Kleptocracy is championing several anticorruption bills. In July 2022, the State Department appointed its first Coordinator on Global Anticorruption, tasked with leading the department’s implementation of the administration’s strategy.<sup>69</sup> In September 2022, the U.S. Agency for International Development launched a detailed Dekleptification Guide—a tool for policymakers engaging with countries where there is a window of opportunity to undertake holistic anticorruption reforms.<sup>70</sup> The guide is one of the first signs that the administration’s anticorruption strategy is being operationalized.

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More such “quiet victories” will be needed, however, to settle internal disagreements over the centrality of anti-kleptocracy concerns. Until a robust strategy is agreed upon, democracies like the U.S. will struggle to defend their values and interests against kleptocratic networks’ unrelenting encroachment.

# FOCUSING ON BRIDGING JURISDICTIONS

In addition to bolstering defenses at home, Western countries must also focus on kleptocratic-enabling locales abroad, especially bridging jurisdictions. Traditionally, democracies have deemphasized their anticorruption, democracy, and human rights concerns when dealing with these strategically important countries. As a result, they have been allowed to act as conduits for illicit financial flows and kleptocratic influence, undermining democracies in turn.

Democratic governments will have to engage in difficult internal discussions and probably strategic rebalancing to manage these relationships. **For too long, bridging jurisdictions have been able to profit as kleptocratic entrepôts.** If corruption and kleptocracy are truly the national security threats democratic leaders claim them to be, then they can no longer allow these states to engage in their activities with near-impunity. Western sanctions on Russia, China, Iran, and a host of other countries will be worthless if sanctioned persons and their yachts, businesses, and bank accounts can dodge sanctions merely by adding a waypoint through Turkey or the UAE plus a few anonymous shell companies, trusts, foundations, or charities.

## Sanctioned Asset-Tracker

*Andrey Melnichenko was sanctioned by the EU on March 9, 2022, for having close ties to Vladimir Putin and collaboration on the invasion of Ukraine.<sup>71</sup> A week later, he was also sanctioned by the U.K. and Switzerland. One of his yachts, worth \$300 million, had been last seen in the Maldives on March 10, 2022.<sup>72</sup> On March 17, Motor Yacht A was found in a creek in one of the UAE’s poorest emirates, where it has been stationed since.<sup>73</sup>*

**Sanctioned individual:**

Andrey Melnichenko

**Asset:**

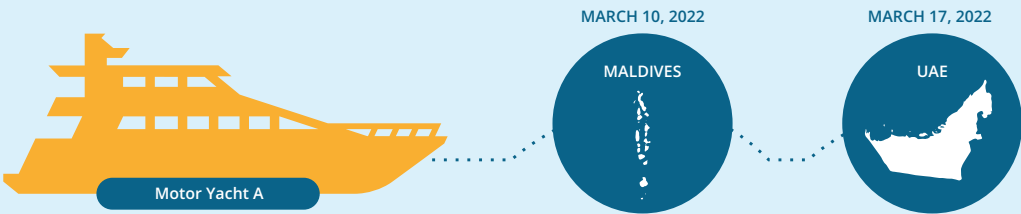
Yacht

**Estimated value:**

\$300 million

**Sanctioned:**

March 2022 by EU,  
U.K. and Switzerland



Bridging jurisdictions have made their status as pirate entrepôts part of their economic and financial strategies; they are not an accident of geography or history. Cleaning up their trade, finance, real estate, and courts in order to sharply decrease the flow of illicit finance could be perceived as threatening the survival of their kleptocracy-friendly regimes. For that reason, democracies should prepare for the possibility that these states move further away from NATO militarily. The UAE's purported willingness to engage with China more closely on military cooperation, plus its joint weapons programs with Russia, along with Turkey's willingness to purchase Russian S-400 weapons systems, should not be assumed to be idle threats. These countries could jump ship and side with autocracies like China more openly in the game of great power politics.

## DEEPENING DEFENSES

If able to reach a consensus—both within their own policymaking structures and with each other—democracies can begin the weighty task of strengthening their defenses against kleptocratic networks' corrosive effects. To do so, they must change kleptocrats' cost-benefit analysis by increasing the financial, reputational, and personal risks they face, as well as neutralize the enablers that facilitate them.

Sanctions against oligarchs and their enablers, for example, are not enough. **Disincentivizing the activities of kleptocratic networks cannot be confined to financial sector, where anti-money laundering safeguards—though often inadequate—nevertheless exist.** To heighten the financial and reputational risks kleptocrats and their enablers face, democracies must also push their educational, sports, and cultural institutions to sever ties with offending states through a combination of regulation, oversight, transparency requirements, and penalties.

In most democracies, however, many such institutions (along with many professional service providers kleptocratic networks rely upon, including lawyers, accountants, and real estate agents) are self-regulating. In the U.K., for example, universities and independent schools are notionally bound by overarching anticorruption laws such as the Proceeds of Crime Act. They are not subject to anti-money laundering rules like those designed to prevent kleptocratic networks from using financial institutions, casinos, and dealers in luxury goods. Education sector professional bodies are not even tasked—as other high-value transaction enablers are—with self-regulation under the auspices of the U.K. Financial Conduct Authority's Office for Professional Body Anti-Money Laundering Supervision, an entity that facilitates collaboration and information sharing among those entities, their members, and law enforcement.<sup>74</sup>

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**To help them identify gaps in their defenses, democracies need to draw upon their considerable intelligence-gathering capabilities and better leverage the expertise and fact-finding capacity of civil society and independent media.**

Currently, democracies are reluctant to gather intelligence on kleptocratic networks—especially when these networks include both foreign and domestic components. Democracies rightfully place careful limits on the scope of domestic intelligence gathering, making it especially challenging to target threats that often consist of both international and domestic elements, such as terrorist groups or corruption networks. Navigating such pitfalls and increasing intelligence agencies' focus on kleptocratic threats would require top-level impetus, additional resources, new expertise, proactive intelligence sharing between like-minded partners, and consultation with civil liberties groups on avoiding overreach that would violate citizens' rights.

In the U.S., the president and his national security advisor would need to position corruption closer to the top of the National Intelligence Priorities Framework, a regularly updated guiding document that determines resourcing, collection, and analysis priorities for the U.S. intelligence community.<sup>75</sup> Congress could also steer the U.S. intelligence focus toward global kleptocratic threats via its annual Intelligence Authorization Act. The 2021 version of the Act acknowledged this threat in a limited way by tasking the Central Intelligence Agency (CIA), Department of Treasury, and Federal Bureau of Investigation (FBI) to submit a report to Congress on corrupt activities by Russian and Eastern European kleptocrats.<sup>76</sup> To provide policymakers and law enforcement with the information they need to deepen democracies' defenses, intelligence agencies must increase their focus on kleptocratic threats and the countries from which they emanate—even if they are “friendly” countries like the UAE, Turkey, and Hungary.

There is also more democracies can do to disincentivize and stigmatize oligarchs and their enablers. For instance, they could require that the ultimate beneficial owners of real estate make themselves known when they make their tax payments on their properties. Any properties where true owners cannot be found could be considered subject to investigation and possible confiscation and auction. Moreover, visa bans could be enacted for sanctioned individuals and their key enablers, such as their lawyers, art dealers, and accountants.

The scope and scale of the policy progress needed to respond to kleptocratic adaptation effectively is significant. Winning internal debates, recalibrating engagement with bridging jurisdictions, and deepening democracies' defenses will require sustained policymaker attention, mindset changes, and closer collaboration and coordination among democracies. It will also demand closer cooperation between democratic policymakers, regulators, law enforcement agencies, civil society groups, investigative journalists, financial institutions, and businesses. Though disastrous, Russia's invasion of Ukraine has focused democracies' attention on the national security threat posed by kleptocratic networks, creating an opportunity—however short-lived—to push back against them.

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