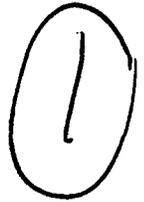


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THESIS

Understanding Organized Crime Groups in Russia
and Their Illicit Sale of Weapons
and Sensitive Materials

By
David M. Lowy

Thesis Advisor:

Dana P. Eyre

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**Understanding Organized Crime Groups in Russia
and Their Illicit Sale of Weapons
and Sensitive Materials**

by

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United States Air Force / Civilian
BA, California State University Fullerton, 1991**

**Submitted in partial fulfillment of the
requirements for the degree of**

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ABSTRACT

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TABLE OF CONTENTS

I.	INTRODUCTION.....	1
II.	A SIMPLE ECONOMIC THEORY OF ORGANIZED CRIME.....	6
III.	DESCRIPTION OF ORGANIZED CRIME IN RUSSIA.....	12
	A. SOVIET PERIOD.....	12
	B. CONTEMPORARY.....	16
IV.	POLITICAL ENVIRONMENTAL ANALYSIS.....	21
V.	ECONOMIC ENVIRONMENTAL ANALYSIS.....	28
	A. FISCAL RESPONSIBILITY.....	29
	B. PRODUCTIVITY.....	31
	C. CONVERSION.....	32
	D. INSTITUTION BUILDING.....	34
	E. PRIVATIZATION.....	37
VI.	STATE SECURITY ENVIRONMENTAL ANALYSIS.....	42
	A. LAW ENFORCEMENT.....	42
	B. LAWS.....	46
	C. COURT SYSTEM.....	48
	D. PRISONS.....	49
	E. PHYSICAL SECURITY OF STATE PROPERTY.....	51
	F. IMPORT/EXPORT CONTROL.....	53
	G. POLITICAL INTERFERENCE.....	55
	H. CORRUPTION.....	57
VII.	SOCIAL ENVIRONMENTAL ANALYSIS.....	59
VIII.	WEAPONS AND SENSITIVE MATERIALS MARKETPLACE....	64
IX.	THREATS TO REGIONAL/INTERNATIONAL SECURITY.....	70

X.	CONCLUSION.....	80
	BIBLIOGRAPHY.....	86
	INITIAL DISTRIBUTION LIST.....	94

EXECUTIVE SUMMARY

Since the fall of the Former Soviet Union (FSU), Russia has witnessed a tremendous increase in organized crime. One of the most recent activities of Russia's organized crime groups is the illicit sale of weapons and sensitive materials. As a result, these groups now pose a significant threat to regional and international security with obvious implications for U.S. land, air and naval forces. Nevertheless, when organized crime groups in Russia are viewed as rational, "corporate like" entities, that seek to maximize profits and minimize risks, then the reason for these activities can be understood. Russia's organized crime groups assess the opportunities, risks and benefits of committing crimes. Furthermore, their assessment is dependent on the status of Russia's political, economic, state security, and social environments. Therefore, this thesis provides an analysis of Russia's environments and shows how they impact organized crime groups' assessment of opportunities, risks and benefits, resulting in their decision to sell weapons and sensitive materials.

When organized crime groups survey Russia's political environment, they see chaos. Not only is there a lack of strong, consistent leadership in this environment, there is political infighting, and a large bureaucracy rife with corruption. This is convenient for crime groups because they

can continue with their activities virtually unobstructed, in addition to easily bribing officials.

The status of Russia's economic environment is equally as poor. There is a general lack of fiscal responsibility, low productivity, a failure to convert inefficient industries, and an inability to effectively privatize enterprises. Consequently, the debilitated economic environment provides increased opportunities for organized crime groups. Some of these opportunities are the ability to acquire privatized enterprises or loans that will never be repaid. Specifically related to weapons, the state of this environment gives crime groups an opportunity to acquire surplus arms produced by unconverted industries.

The state security environment is probably in the worst condition. This environment has problems plaguing the law enforcement, court and prison systems, legal code, import/export control apparatus, and those involved in the physical security of state property. In addition, there is a large degree of political interference and widespread corruption in this environment. This situation greatly reduces the amount of risk for organized crime groups. When the police are ill-equipped, the courts overburdened, "loopholes" exist in the law, and prisons overcrowded, these groups have little fear of getting caught, prosecuted, or punished. As for opportunities to commit crimes, weapons and such are poorly protected making them easy targets for theft.

Combined with the vast corruption in this environment these thefts are made even easier to accomplish.

Finally, Russia's social environment has its problems as well. To begin with, Russian society has been demoralized by the loss of the imperial status that it held in the FSU. In addition, Russian society is fearful of things that may result in the reappearance of an authoritarian system. Moreover, a declining morality, shaped by over 70 years of trying to "get around" the system, makes the people more willing to commit crimes in order to survive. Simply put, the condition of the social environment spells little chance for significant reforms in Russia; Thus, less of a chance that organized crime groups will be adversely effected.

To better focus the efforts aimed at stopping proliferation by Russia's organized crime groups, the obvious recommendation is to continue reforming the environments. This can be accomplished by doing such things as stopping political infighting, slowing inflation, or building a legal infrastructure. More specific recommendations would be to open new businesses instead of converting inefficient ones, have better cooperation between the investigative and intelligence functions in the state security environment, and obtain an accurate inventory of all weapons and sensitive materials. No matter what is done to fight proliferation by Russia's organized crime groups, it is clear that time cannot be wasted and reform must continue.

I. INTRODUCTION

One of the most pressing issues concerning Russia today is the presence of organized crime groups that dramatically increased in size and scope of activities since the fall of communism and the collapse of the Former Soviet Union (FSU). Although organized crime groups were well established throughout the FSU since the Bolshevik revolution, the repressive nature of the Soviet system kept most of their activities within the realm of providing black market industrial and consumer goods. The end of the FSU however, did not bring about the end of these highly resilient organized crime groups. On the contrary, the deteriorated state of Russia's political, economic, state security, and social environments have allowed organized crime groups to broaden their size and the scope of their criminal ventures. Consequently, one of the most recent and disturbing criminal undertakings by these groups is the illicit sale of weapons, weapons components, strategic and nuclear materials, and technologies with military applications. This situation poses a significant threat to regional and international security, a threat that, if left unchecked, may jeopardize many of the potential gains achieved by the fall of communism and the end of the FSU.

The fact that weapons and sensitive materials are being sold on the black market should not be a surprise. By

definition, Russia's crime groups are organized, rational, almost "corporate like" enterprises, with a primary goal of maximization of profits. And if this is true, then their activities are essentially being determined by an assessment process. This process involves the assessment of opportunities to commit various crimes, the risks involved in committing those crimes, and the potential benefits to be gained. Moreover, the results of this process (or the criminal activities chosen to be committed) are dependent on the state of the environments in which organized crime groups operate. In other words, organized crime groups in Russia are basically surveying the status of Russia's political, economic, state security, and social environments and assessing the best crimes to commit based on the opportunities, risks, and potential benefits that are presented.

Hence, it will be the purpose of this thesis to use an economic theory of organized crime to show why some organized crime groups in Russia (as well as the "near abroad"¹) are engaging in the illicit sale of weapons, weapons components, strategic and nuclear materials, and technologies with military applications. In order to accomplish this task, the thesis will first present a general theory of how organized crime groups make decisions. It will then be demonstrated how

¹Although this thesis focusses on Russia, much of the information presented also applies to the "near abroad."

this theory can be used to understand the activities of organized crime groups in Russia; and more specifically, their illicit sale of weapons and sensitive materials. This section will then be followed by a description of organized crime in Russia during the Soviet period and how it exists in Russia today. Next, a description and analysis of Russia's political, economic, state security, and social environments will be presented. Within each of these sections there will be further analysis of how organized crime groups can take advantage and benefit from the status of the environments. This will lead into the next section of the thesis which provides an overview of the market for illicit sales of weapons and sensitive materials by organized crime groups in Russia. Following this will be an analysis of the threats to regional and international security presented by illicit sales of this nature. The thesis then concludes with a summary of the organized crime situation in Russia, an overview of what is being done to combat these groups, and some predictions for the future.

Doing research on this particular topic is somewhat difficult since accurate information on the nature and activities of organized crime groups is not readily available. This problem is further compounded by the fact that these groups are in the FSU; an area of the world that until quite recently would not admit to having organized crime groups. Moreover, whatever information that can be attained is based

on activities where the perpetrator is caught or where the illicit activity is discovered. Concerning statistics, inconsistent reporting methods used in the FSU are resulting in figures that vary widely depending on the source and have a tendency to understate actual activity. Therefore, all of the statistics cited in this thesis are meant to be indicators of particular activities or behavior, not concrete descriptions of them.

Considering the above difficulties in researching organized crime groups in Russia, this thesis was accomplished by using an economic theory of organized crime as a base and then carefully looking at the available empirical data from a wide range of sources to assess the applicability of the theory. A great deal of the source material came from various newspapers, journals, magazines, the Foreign Broadcast Information Service (FBIS), and other periodical literature covering the mid-1980s to the present time. The bulk of these references however, were written between 1989 and 1994 because it was during this period of time that the best information about contemporary organized crime in addition to organized crime during the Soviet period could be found. Several books were also used, but they mostly aided in researching the theory portion of the thesis. Moreover, books describing contemporary organized crime groups in Russia were simply not available. Last of all, interviews with several experts in such areas as organized crime in Russia, nuclear issues, and

economics were conducted to obtain the best possible information and analysis of Russia's environments and its organized crime groups.

II. A SIMPLE ECONOMIC THEORY OF ORGANIZED CRIME

Organized crime, for purposes of this thesis, can be defined as an on-going criminal enterprise, carried out by a conspiratorial cohort that is organized by lines of authority and linked to corruption by officials.² Its main goal is achieving maximum material income subject to the constraints of available opportunities and potential risks of prosecution. This definition is further strengthened by an insightful list of characteristics of organized crime groups provided by author Larry J. Siegel in his text on criminology. According to Mr. Siegel, organized crime groups are: conspiratorial; usually organized along hierarchial lines; has economic gain as its primary goal; is not limited to providing illicit services; may engage in sophisticated activities; uses predatory tactics; is quick and adept at control and discipline; has a reputation for violence; is not synonymous with the Mafia (Mafias are a subset of organized crime groups); does not include terrorists seeking political change; uses hijacking of shipments and cargo theft as other sources of income; engages in the fencing of high value items; and can maintain international sales territories.³

²Interview with Scott Norwood, Professor of Organization and Management, San Jose State University, by David M. Lowy, on 28 January 1994.

³Larry J. Siegel, Criminology (New York: West Publishing Company, 1986), pp. 384-385 and 388-389.

The above definition and list of characteristics of organized crime groups or criminal enterprises illustrates that they are rational entities with a desire to achieve maximum benefits with a minimum amount of risk. It is not a coincidence that this situation is very similar to the cost-benefit analysis done by non-criminal enterprises before conducting a normal business transaction.⁴ Yet, identifying this similarity in the decision making process of criminal and non-criminal enterprises is nothing new. Ever since noted economist Gary S. Becker published his article on this very subject in 1968, expanding the use of economic theory to explain the occurrence of many forms of crime, including its more organized forms, has been very popular.⁵

Becker's economic approach to crime basically states that individual criminals as well as organized crime groups assess the opportunities to commit various crimes, the risks involved in committing those crimes, and the potential benefits to be

⁴William J. Baumol, Economic Theory And Operations Analysis (Englewood Cliffs, N.J., 1972), pp. 319-321.

⁵Despite the many similarities between criminal and non-criminal enterprises, it is the method by which the two groups accomplish their objectives that sets them apart from each other. Ordinary corporations and businesses will engage in legitimate business activities through legitimate means. Organized crime groups on the other hand, will engage in illegitimate business activities through illegitimate means, or legitimate business activities through illegitimate means.

gained if they are committed.⁶ In addition, he implies that this assessment process is dependent upon the status of the environments in which criminals or organized crime groups are required to operate. This is because it is within the environments (political, economic, state security, and social)⁷ that opportunities, risks, and potential benefits are to be found. It logically follows that any changes in the status of these environments would undoubtedly impact the outcome of the assessment process that organized crime groups engage in before committing a crime. For example, an increase or decrease in the effectiveness of some part of the state security environment in detecting a particular crime, would be met with a subsequent increase or decrease in the amount of risk associated with committing that crime. Ultimately, an organized crime group would then have to decide whether or not the increase or decrease in risk justifies the potential benefits they could receive by engaging in the illegal activity.

In sum, the economic theory of organized crime that will be the basis of this thesis states: Crime groups, being organized, rational, "corporate like" entities, will engage in

⁶Gary S. Becker, "Crime and Punishment: An Economic Approach," The Journal of Political Economy, March/April 1968, pp. 169-180 and 201-209.

⁷The term "environments" can be broken down into many different categories. Yet, in this thesis the basic categories were best encompassed under the headings of political, economic, state security, and social.

a process of assessing the opportunities, risks and potential benefits of committing various crimes. Moreover, the outcome of this assessment process is entirely dependent upon the environments in which these groups operate. In that, increases or decreases in the quality and effectiveness of the environments will be reflected in increases or decreases in the amount of opportunities for organized crime groups to commit various crimes, the amount of risk to those groups in committing those crimes, and the potential benefits to be gained if they commit those crimes. It is worth noting however, that organized crime groups cannot be assumed to have perfect knowledge of their environments. Therefore, these criminal enterprises do not always make correct assessments.⁸ For if organized crime groups always assessed things correctly, they would be caught even less than they are now.

Consequently, this theory may be used to provide valuable insight into the reasons why criminal enterprises engage in different types of activities, and possibly predict their future behavior. To do this, a researcher would just have to analyze the environments that an organized crime groups operates within, and then go through the same assessment process to determine the opportunities, costs and potential benefits of various crimes. Unfortunately, the researcher is

⁸Richard F. Sullivan, "The Economics of Crime; An Introduction To The Literature," in An Economic Analysis Of Crime: Selected Readings, ed. Lawrence J. Kaplan (Springfield, IL: Thomas Books, 1976), p. 20.

limited by the same lack of perfect knowledge in analyzing the environments that organized crime groups are. As a result, the researcher is left to rely upon patterns of criminal behavior and activity, making the best possible interpretations and predictions based on the available information.

Nonetheless, this theory can be quite useful in understanding and explaining the illicit activities of organized crime groups in Russia. In order to accomplish this task, one need only illustrate how the conditions of Russia's political, economic, state security, and social environments have impacted: 1) the opportunities to commit various crimes; 2) the risks associated with committing those crimes; and 3) the potential benefits to be gained from committing those crimes. In doing this, a clearer understanding of why these various types of crime are being committed can be attained.

More specifically, by applying the economic theory of organized crime to Russia, insight can be gained as to why organized crime groups in Russia are venturing into the illicit sales of weapons, weapons components, strategic and nuclear materials, and technologies with military applications. If an analysis of Russia's political, economic, state security, and social environments concludes that there are increased opportunities, decreased risks and/or sufficient potential benefits in committing crimes involving weapons and sensitive materials, then a rise in these types of crime

should be expected. On the other hand, if an analysis of Russia's environments shows that there are decreased opportunities, higher risks, and/or low potential benefits to be gained in committing crimes of this nature, then a decline in these types of crime would be expected.

III. DESCRIPTION OF ORGANIZED CRIME IN RUSSIA

A. SOVIET PERIOD

Organized crime groups in Russia and the rest of the FSU (until 1991, few accounts distinguished between the two) existed in one form or another during the entire Soviet period. During the Bolshevik revolution in 1917, organized crime groups, comprised of predominantly thieves and murderers, used their skills to aid the Bolsheviks⁹. During the 1920s, when cooperatives were allowed by the New Economic Policy, organized crime groups frequently engaged in extorting protection money from wealthy businessmen¹⁰. However, the fact that the Soviet economic system failed to meet the needs of the state or the average Soviet citizen created an environment that enabled organized crime groups to develop the complex black market network for which they are best known. By providing industrial goods to the state, and consumer goods that were not readily available in state stores to citizens, organized crime groups were able to integrate themselves into Soviet society. As the black market system grew, organized crime groups grew with it and eventually became, "the

⁹Stephen Handelman, "Why Capitalism and the Mafiya Mean Business," The New York Times Magazine, 24 January 1993, pp. 38 and 40.

¹⁰David Remnick, "Violent Mobsters Strong-Arm New Soviet Cooperatives," The Washington Post, 12 February 1989, Sec. A, p. 36, col. 1.

lubricant that made the inefficient Soviet economy run."¹¹ The power of organized crime groups and the black market system they had mastered was further aided in the 1970s and early 1980s by the enormous corruption of political elites in the Brezhnev regime that "sponsored" their activities.¹² There were other types of crime being committed in Russia; yet, the repressive nature of the Soviet police state always managed to limit most activities of organized crime groups to satisfying Soviet industrial and consumer needs.

Following his rise to power in the mid 1980s, Mikhail Gorbachev implemented the policies of *glasnost* and *perestroika* aimed at the social and economic restructuring of the Soviet Union. These policies allowed a fundamental shift in the nature and character of organized crime groups in Russia and the types of activities they engaged in. To begin with, Gorbachev's campaign against alcoholism opened up a new and extremely lucrative market for organized crime. "It created much the same effect as Prohibition did in the United States as a new wave of bootleggers and bathtub vodka-makers cashed in."¹³ Gorbachev's revival of cooperatives was countered by organized crime group's revival of protection and extortion

¹¹Handelman, "Why Capitalism," p. 40.

¹²Arkady Vaksberg, The Soviet Mafia, trans. John and Elizabeth Roberts (New York: St. Martin's Press, 1991). This book provides an excellent account of Brezhnev era organized crime.

¹³Jack Anderson and Dale Van Atta, "Underworld Undermining Gorbachev," The Washington Post, 2 October 1989, Sec. B, p. 14, col. 4.

rackets. Organized crime groups also used cooperatives to launder money¹⁴ and facilitate their entrance into legitimate business. Nevertheless, there were marked increases in other illegal activities including narcotics, prostitution, gambling¹⁵ and the bribery of state officials and managers of state enterprises.¹⁶

Like their counterparts in other countries, they have allotted spheres of influence, they control cooperatives, markets and groups of speculators, foreign currency speculators and prostitutes, and they are engaged in swindles involving the sale of automobiles, robbery extortion, and the burglarizing of apartments.¹⁷

As a result of easing restrictions on travel in and out of the Soviet Union, organized crime groups were also beginning to forge relationships, "mostly of a businesslike character," with foreign nations and other organized crime groups.¹⁸ For example, Soviet organized crime groups began to establish connections with the alleged base of a criminal underworld in

¹⁴Fred Coleman, "The Mobsters of Moscow: Reform Opens Up a New Field For Organized Crime," Newsweek, 31 October 1988, p.44.

¹⁵Gambling was legalized in some areas of the FSU.

¹⁶Francis X. Clines, "Cops and Robbers, Gangs and Vice; Moscow Finds Out It Has Them All," The New York Times, 6 December 1990, Sec. A, p. 20, col. 1.

¹⁷David E. Powell, "Soviet Society," in Soviet Update, 1989-1990, eds. Anthony Jones and David E. Powell (San Francisco: Westview Press, 1991), p. 64.

¹⁸Francis X. Clines, "Soviets Find Organized Crime Gaining Hold," The New York Times, 14 June 1989, Sec. A, p. 14, col. 1.

the Soviet emigre community of Brighton Beach in Brooklyn, New York.¹⁹

There were also significant changes in the nature and character of organized crime groups. First of all, they were becoming more and more violent. This change was not only represented in the commission of more violent crimes; organized crime groups were beginning to use terrorist like tactics, carry weapons, and engage in shoot-outs. This can be explained by their desire to maintain or expand their spheres of influence.²⁰ These spheres of influence were divided by territory and/or market for criminal activity.²¹ In some instances ethnicity played a role in determining the territory or market for organized crime groups, but it was not a requirement. All this aside, a shortage of police officers, and the misuse of the existing police force, only made matters worse.²² Further compounding the situation was an inadequate legal system riddled with loopholes. To add insult to injury, the ability to bribe state officials made it even easier for members of organized crime groups to avoid prosecution. It is no wonder that, between 1986 and 1989, 2,607 criminal groups

¹⁹Ibid.

²⁰Natasha Lebedeva, "A Long, Bloody Summer," Newsweek, 30 August 1993, p. 39.

²¹Norwood.

²²Powell, p. 62.

exhibiting the characteristics of criminal organizations were identified in the FSU.²³

B. CONTEMPORARY

The current phase in the evolution of organized crime groups in Russia began with the collapse of communism and the fall of the FSU in August of 1991. For these groups, the resulting political, economic, state security, and social instability has fueled their continued progression towards a capitalist, entrepreneurial, and predatory orientation. In effect, Russia provides an environment well suited to the needs and desires of organized crime groups. This fact can be seen in the dramatic increase in the number of criminal groups operating throughout Russia. Independent experts from the Russian corporation, RAU, published a study revealing that for the year 1992,

More than 4,000 organized criminal groups were brought to light in Russia, including more than 1,000 with international and interregional connections. One group out of four enjoys the protection of corrupt bureaucrats in various state structures.²⁴

Another report states that as of December 1993, the Moscow region alone has 156 organized crime groups. Of those 156

²³"How to Fight Boom in Organized Crime?," The Current Digest Of The Soviet Press, 19 Apr 1989, p. 2.

²⁴"Crime Wave, Corruption What Can Be Done?," The Current Digest Of The Post Soviet Press, 10 March 1993, p. 12.

groups, 72 of them have teamed up to form 21 larger groups.²⁵ Although accurate statistics are difficult to obtain, estimates reflect that the number of organized crime groups has nearly doubled since the mid-1980s.

Besides increased numbers, these figures point to the degree of complexity and sophistication organized crime groups have achieved in recent years. To begin with, there has been a dramatic increase in the amount of confirmed international connections organized crime groups in Russia now possess. According to the Federal Bureau of Investigations (FBI), United States connections for Russian/Eurasian organized crime groups include the cities of New York, Miami, Los Angeles, Chicago, and several others.²⁶ Organized crime groups in Russia also have connections to other organized crime groups in Israel, Belgium, Poland, and Austria just to name a few.²⁷ Besides the obvious benefits of having an international sales territory for black market commodities, these international connections are also used for bringing in people to do "muscle

²⁵Larisa Kislinskaya, "Russian Gangs Join Forces in War Over Spheres of Influence," *Tass*, 15 December 1993.

²⁶Interview with experts from the Federal Bureau of Investigation, European/Asian Unit, by David M. Lowy, 16 December 1993.

²⁷"Russian Mafia Reportedly Increasing Activities," from *DIE WELT*, in Daily Report Western Europe, FBIS-WEU-94-027, 9 February 1994.

work" or perform "hits."²⁸ Another example of complexity and sophistication is that larger organized crime groups in Russia are beginning to take over and eliminate smaller competing groups. These smaller groups are then forced by necessity to offer their services to the larger group.²⁹

For organized crime groups in Russia, taking over competing crime groups has allowed them to engage in the same crimes they have committed in the past, while also seeking new highly lucrative territories and markets to exploit. These new markets range from cocaine trafficking in Moscow to infiltration of the taxi and tourist businesses in St. Petersburg. Financial crimes, however, seem to be one of the largest growth activities for organized crime groups in Russia. Financial crimes include such things as banking crimes, counterfeiting, embezzlement, and illegal bank acquisitions. Organized crime groups in Russia have engaged in false check and other bank transaction schemes, and even opened up their own banks to launder money.³⁰ In 1992, an organized crime group in the Chechen Republic attempted to steal over 25 billion rubles from the Russian State Bank. Had they succeeded, experts believe it would have caused the

²⁸Interview with William Pollard, Detective, Los Angeles Police Department Organized Crime Intelligence Division, by David M. Lowy, 17 December 1993.

²⁹Handelman, "Why Capitalism," p. 34.

³⁰Lebedeva, p. 39.

collapse of Russia's already weakened monetary system.³¹ All that aside, the perpetrators managed to steal over \$700 million before being caught.³² On top of that, "the Russian mafia helped make \$12 billion 'disappear' from the country's primitive banking system this year (1993)."³³

There are essentially four major classifications of criminals that make up the membership of the various organized crime groups in Russia today. These classifications are: 1) Career criminals that make their living solely from criminal activity; 2) Opportunistic criminals that engage in criminal activities on a very limited or one time basis; 3) Corrupt officials that engage in criminal activities to enrich themselves or to increase their power or status; and 4) Juveniles, who are young and immature and their activities do not reach the complexity of the others types of criminals.³⁴ As for the types of organized crime groups, there have been many attempts to classify them to no avail. Probably the best way to categorize organized crime groups in Russia is just to

³¹Handelman, "Why Capitalism," p. 15.

³²Andrew Jennings, "From Marx to the Mafia," New Statesman & Society, 14 May 1993, p. 18.

³³Dorinda Elliot, Michael Elliot, Kari Huus, Melinda Liu, Andrew Nagorsky, Tim Padgett, Steven Strasser, Scott Sullivan, Niccolo Viverelli, and Douglas Waller, "Global Mafia," Newsweek, 13 December 1993, p. 30.

³⁴Norwood.

say that it has to do with spheres of influence.³⁵ Basically, the four classifications of criminals listed above will come together in various manners to form an organized crime groups based on a combination of such things as territory, market and ethnicity. Each factor may or may not figure into the formation of a particular organized crime group, and no one factor is more important than any other.

³⁵"Strategic, Radioactive Materials Smuggling," from *KOMMERSANT*, in Daily Report Central Eurasia, FBIS-USR-94-001, 5 January 1994.

IV. POLITICAL ENVIRONMENTAL ANALYSIS

Russia's political environment can be characterized as nothing less than chaotic. The country is currently experiencing the pain and frustration of leaving behind an authoritarian past on a path towards the tenets of democracy and a free-market economy. Nonetheless, it has been a very rough road politically, and Russia still has a long way to go. Unfortunately, the great degree of turmoil and lack of a functioning government that currently characterizes Russia's political environment is at the same time providing great opportunities for organized crime groups.

To begin with, Russia has not found stable and consistent leadership in its President, Boris Yeltsin.

One of the few features common to successfully reforming countries has been a leader with a clear sense of where he wants his country to go and a willingness to stick by his purpose when the going gets rough - Vaclav Klaus, or Lech Walesa, for example.³⁶

If providing a clear and consistent vision of Russia's future and then sticking with it under pressure is the sign of an ideal leader for the Russian people, then Yeltsin does not fit the bill. When Yeltsin first emerged on the political scene, he set his sights on "modernizing the Soviet Communist Party."

³⁶"The road to ruin," The Economist, 29 January 1994, p. 24.

Failing in this task, he donned the appearance of a "Russian revivalist" and successfully aided Russia in emerging as a separate and distinct nation following the collapse of the Soviet Union. Amidst strong popular support, President Yeltsin put on his third "face," that of a liberal democrat. With this change, he began the tremendous undertaking of bringing Russia into the West. In order to do this, Yeltsin initiated a wide range of economic and political reforms with the hopes of bringing Russia closer to democracy and a free-market economy. Yet, it now appears that this particular undertaking is going to be beyond his capabilities. Due to political fallout, he is backing-off of the reform process. As a result, Yeltsin's "fourth incarnation" has become that of a "neo-conservative." Unfortunately, this is a "face" that advocates a strong Russian state, at the expense of continued democratic and free-market reforms.³⁷

Mr. Yeltsin's inconsistent pattern of leadership is not the only cause of Russia's political turmoil. On the contrary, there are other geopolitical problems in Russia that have contributed to the deteriorating political situation of the country. These problems have also had a large part in determining the character of Yeltsin's leadership, which culminated in his most recent change from liberal democrat to "neo-conservative."

³⁷"Enter yet another Yeltsin," The Economist, 22 January 1994, p. 51.

One of the biggest problems has been the paralyzing effect of the fighting between president and parliament.³⁸ This is due to the fact that Russia has had no tradition of democracy to draw guidance from. Moreover, Russia has been left to utilize government institutions inherited from the now-defunct Soviet Union, a direct result of Russia's inability to develop governmental institutions of its own. However, the crux of the problems between the executive and legislative branches can be traced back to Russia's ill-conceived and constantly amended constitution. By not providing a clear division of powers, the constitution left presidential and parliamentary forces in a continuous battle for "control over monetary, fiscal and industrial policy."³⁹ And as a result, the political system was undermined as one faction disregarded and ignored the programs, decrees, and/or laws developed and put-forth by the other faction.⁴⁰ This situation finally came to a head in October 1993, when Yeltsin enlisted the aid of the military to forcibly dissolve the Parliament.

Unfortunately, dissolving the Parliament did not turn out to be the cure for Russia's political problems as hoped. The new parliamentary elections were held on 12 December 1993. The overall reform effort in Russia was dealt a tremendous

³⁸Steven Erlanger, "In Kremlin, Hints and Allegations: Corruption, Real or Not, Has Paralyzed Russia's Government," The New York Times, 25 August 1993, Sec. A, p. 5.

³⁹"The road to," p. 24.

⁴⁰Erlanger, "In Kremlin," Sec. A p. 5.

blow when the pro-reform political parties (Russia's Choice, the Yavlinsky-Boldyrev-Lukin bloc, the Party of Russian Unity and Concord, and the Russian Movement for Democratic Reform) failed to get a majority of seats in the State Duma, Russia's relatively powerful lower chamber of Parliament.⁴¹ This can be attributed to Yeltsin's failure to create a presidential party of reform, and the fact that the reform candidates were very poor politicians.⁴² As a result, the voters' disgust over such things as a declining standard of living and a general break-down of law and order, led to a victory by the anti-reform blocs (Liberal Democratic Party, Communist Party of the Russian Federation, and the Agrarian Party).⁴³ Led by the ultra-nationalist Vladimir Zhirinovskiy, who also fared very well in the elections, the anti-reform blocs "have formed a tactical alliance only three votes short of a majority."⁴⁴ Consequently, President Yeltsin has been saddled with a new Russian parliament that may cause as much friction between president and parliament as its predecessor.

To make matters worse, the political forces that support the continued existence of the grossly inefficient military industrial complex have reasserted themselves as well. For

⁴¹Vera Tolz, "Russia's Parliamentary Elections: What Happened and Why," RFE/RL Research Report, 14 January 1994, p. 1.

⁴²"The road to," p. 24-25.

⁴³Tolz, p. 4-5.

⁴⁴"Ungovernable?" The Economist, 15 January 1994, p. 50.

their support in disbanding the Russian parliament in October 1993, Yeltsin granted the Russian military a bigger role in governmental decision making.⁴⁵ This move has already manifested itself in promises of increased defense spending to accompany a highly "ambitious" military doctrine. In addition, the Ministry of Defense has been made exempt from customs duties on military hardware sales abroad.⁴⁶

Moreover, representatives of the industrial sector have organized themselves into an effective lobbying group, and have already found a "friend" in Prime Minister Viktor Chernomyrdin.

This, unelected bureaucrat-turned-prime minister has packed his team with men from industrial interest groups whose party, Civic Union, did not win a single seat in the proportional-representation part of last months [12 December 1993] election.⁴⁷

Chernomyrdin has forced key reformers like Yegor Gaidar and Boris Federov out of government and currently endorses the continued use of inflationary subsidies to inefficient industries. Yet, these types of political change are by no means new to Russia.

⁴⁵Stephen Foye, "Updating Russian Civil-Military Relations," RFE/RL Research Report, 19 November 1993, p. 44.

⁴⁶Marat Salimov, "Defense Ministry gets export privileges," Commerzant International, 7-13 February 1994, p. 12.

⁴⁷"The mess in Moscow," The Economist, 29 January 1994, p. 13.

Since the Russians embarked on economic reform in January 1992, they have had three prime ministers, four finance ministers, two central-bank governors, two parliaments, five governments and umpteen changes of policy.⁴⁸

The Russian government has also contributed to the long list of problems plaguing the political environment by continuing to maintain a very large bureaucracy. The Russian bureaucracy tends to overlap and over-regulate, and the general consensus is that, "Too many ministries and agencies make things worse. Only a few are effective."⁴⁹ Furthermore, the bureaucracy is suffering a "brain drain," as low pay and low prestige are driving the only people with talent into the private sector. Of those that remain, many are engaging in corrupt practices to make up for what the government does not pay them.⁵⁰ Through the imposition of complex regulatory processes and licensing requirements that characterize the bureaucracy, civil servants encourage the offering of bribes in return for special considerations.⁵¹ According to the Ministry of Internal Security, of the 2,700 corruption cases uncovered in 1992, two-thirds involved civil servants.⁵²

⁴⁸Ibid.

⁴⁹"Ungovernable," p. 50.

⁵⁰"Yeltsin, Rutskoï Launch War on Crime," The Current Digest Of The Post Soviet Press, 17 March 1993, p. 10.

⁵¹"Crime in Russia: The high price of freeing markets," The Economist, 19 February 1994, p. 57.

⁵²Ibid., p. 82.

There has also been numerous allegations of corruption in the upper echelons of power; reaching as high as the former Russian Vice President, Aleksandr Rutskoi, and several other senior ministers. Regardless of the truth of these allegations (most are seen as little more than political mud-slinging), they serve to further undermine an already weak political system⁵³

For organized crime groups in Russia, the political situation means increased opportunities to commit various crimes. While the political leadership of the country remains inconsistent and continually engaged in petty bickering and in-fighting, organized crime groups are able to conduct their illicit activities virtually unobstructed. Moreover, these groups can act with little fear that the political environment will allow enough reforms to be instituted to threaten them anytime in the near future. In addition, the vast amount of corruption at all levels of the political environment merely facilitate the completion of illegal acts by organized crime groups. As stated in the definition of organized crime, links to corrupt officials is very important to the success of the criminal enterprise. And if this is true, Russia's political environment is exactly what these groups need for success.

⁵³Erlanger, "In Kremlin," Sec. A, p. 5.

V. ECONOMIC ENVIRONMENTAL ANALYSIS

Russia's economic environment is in extremely poor condition as well, and holds little promise of rebounding anytime soon. Russia's economic environment is deficient in the areas of fiscal responsibility, productivity, institution building, and privatization. Although President Yeltsin, Yegor Gaidar, and Boris Federov began to institute reforms in these areas at the beginning of 1992, they were far from successful. The actions of the Russian Central Bank Chairman, Viktor Geraschenko, and other anti-reformers, managed to block their reform efforts. As a result, one can speculate that since the attempted reforms only went half way, they may have hurt more than helped. It should be understood however, that Russia's economic troubles originated in the Soviet period, and the country's economy has been in a downward spiral for a number of years. Moreover, for the nearly one year that reform programs went more or less unimpeded, the economy showed definite signs of improvement.⁵⁴ Therefore, the reform process only plays a minor role in causing the currently poor state of the Russian economy. One thing is certain though, the deteriorated state of Russia's economic environment has provided many opportunities for organized crime groups.

⁵⁴"The road to," p. 25; and "What is about to be lost," The Economist, 22 January 1994, p. 52.

A. FISCAL RESPONSIBILITY

With regard to fiscal responsibility, the Central Bank's continuing subsidization of the large and grossly inefficient state-run enterprises is considered to be Russia's greatest economic problem.⁵⁵ This is because the Central Bank is having to print rubles in order to pay for the soft-budget constraints they are allowing these enterprises to maintain. In other words, when the expenditures of a state enterprise exceeds its established budget, the Central Bank extends the enterprise a line of credit to cover the overage. Since these credits are unlikely to be paid back, the Central Bank has to print more rubles to cover their own losses. The resulting massive injection of rubles into the economy thus causes inflation and large budget deficits. The effects of these practices are summed up nicely by Geraschenko's statement that, "the Russian government would have difficulty keeping its 1994 deficit below two or three times the 1993 level, when inflation was 900 percent."⁵⁶ Right now, the inflation rate is averaging 20 percent a month.⁵⁷ As for the exchange rate,

⁵⁵The World Bank, Russian Economic Reform: Crossing the Threshold of Structural Change, (Washington, D.C.: The International Bank for Reconstruction and Development/The World Bank, 1992), pp. 105-106.

⁵⁶Samuel Brittan, "Post-communism: the rival models," Financial Times, 24 February 1994, p. 20.

⁵⁷"More shock, more therapy," Financial Times, 7 January 1994, p. 15.

it is approximately 1600 rubles per dollar.⁵⁸ Given all of the negative effects of these inflationary practices, it is hard to believe that they are being continued. Nonetheless, if Russia's goal is maintaining employment, as opposed to stabilizing their currency, then these practices will continue despite the fact that it is only a short term solution.

Organized crime groups have been able to take advantage of Russia's fiscal "irresponsibility" in several ways. One of the ways organized crime groups can use the deficient centralized banking system is to receive low interest loans from the Central Bank, allegedly for the maintenance of an enterprise they may have acquired through privatization. But instead of using the money for the stated purpose, it is placed into a commercial bank, owned or operated by the organized crime group, for re-lending at much higher interest rates.⁵⁹ Another way organized crime groups profit through the banking system is to bribe bank officials into giving low interest three-month credits that are never repaid.⁶⁰ Banks are also being used by criminal enterprises to launder the money they make in other illegal ventures. The money can then be used for more legitimate business activities such as

⁵⁸"The road to," p. 24.

⁵⁹Julie Corwin, Suzanne Possehl, Douglas Stanglin, and Jeff Trimble, "The Looting Of Russia," U.S. News & World Report, 7 March 1994, p. 41.

⁶⁰Ibid.

purchasing privatization vouchers; thus initiating the scenario described above all over again.

Concerning the inflation caused by the irresponsible practices of the Central Bank, organized crime groups benefit from it too. The weakening of the ruble by inflationary practices deteriorates the buying power of Russia's citizens. Consequently, the need to survive makes these citizens easy targets for persuasion by organized crime groups to steal strategic raw materials. For this reason, the Ministry of Internal Affairs has cited inflation as one of the two main causes for the doubling in cases of theft and smuggling of strategic raw materials between 1992 and 1993.⁶¹

B. PRODUCTIVITY

Productivity is also declining in Russia. Industrial output has slipped to about 50 percent of 1989 levels.⁶² There are several reasons for the decline. When inflation is high and consequently causes prices to rise, there is an inability and/or unwillingness to replace equipment in factories. This translates into a lack of productive investment. Instead, money is invested into speculative ventures such as real estate and currency speculation where inflation can be an advantage. In addition, when factory

⁶¹"Strategic, Radioactive."

⁶²Adi Ignatius, "Money to Be Made: For All Russia's Woes, It Offers Quick Riches To Deft Entrepreneurs," The Wall Street Journal, 1 March 1994, Sec. A, p. 10, col. 1.

mangers and workers are on low fixed incomes, they have little incentive to become more efficient and increase production. After all, if the enterprise does not meet its budget, it can always turn to the "benevolent" Central Bank for more subsidies. For organized crime groups, low productivity gives them the justification to strip and sell off an inefficient enterprise, and pocket the earnings. They can also take advantage of subsidies from the Central Bank as described above.

C. CONVERSION

A related matter is the problem of trying to convert the enterprises of the military-industrial complex to civilian use. Russia inherited approximately 60-70 percent of the former Soviet military-industrial complex, encompassing more than 1,700 enterprises and organizations.⁶³ For the most part, these enterprises are inefficient and unprofitable. Yet, they cannot simply be re-tooled for the production of other more profitable items. In order to carry out the conversion program for 1992, these enterprises estimated that they would need credits of over 100 billion rubles.⁶⁴ As

⁶³"Kokoshin Comments on Defense Conversion Prospects," from DELOVIE LYUDI, in Daily Report Central Eurasia, FBIS-SOV-93-098, 24 May 1993, p. 38; and "Defense Industries Committee Head on Arms Sales, Conversion," from DELOVIE LYUDI, in Daily Report Central Eurasia, FBIS-SOV-93-098, 24 May 1993, p. 39.

⁶⁴"Conversion Encountering Financial Problems," from ROSSIYSKIYE VESTI, in Daily Report Central Eurasia, FBIS-SOV-92-227, 11 August 1992, p. 34.

shown above, subsidies that large would surely send inflation through the roof. The World Bank's recommendation for solving the problem would be to shut these enterprises down.⁶⁵ While Gaidar was around, he seemed to be aware of this and was taking action through his monetary and fiscal reforms.

Unfortunately, the prospect of mass unemployment and industrial collapse is more than the people of Russia are willing to take. The former Soviet policy of full employment, no matter how unproductive, has been a great source of security for Russia's workers.⁶⁶ When approximately 80 to 85 percent of Russia's labor force is employed in urban industrial activities, any move to eliminate jobs in this sector is bound to be a cause for alarm.⁶⁷ Not to mention, rapid investment from private sources into the creation of new businesses, which would in turn create new jobs, is highly unlikely. Matters are compounded even further by the fact that mass housing shortages prevent low paid, or unemployed workers, from moving to find new jobs.⁶⁸ This contributes to the creation of severe regional problems as many communities that are centered around one particular industry face the

⁶⁵The World Bank, p. 105.

⁶⁶Sergei Zhdakayev, "A Job No Longer Lasts Forever: The Unemployment Crisis," World Press Review, November 1992, p. 11.

⁶⁷Marshall I. Goldman, "The Chinese Model: The Solution to Russia's Economic Ills?" Current History, October 1993, p. 321.

⁶⁸"The Great Russian Depression Of 1992?" Business Week, 20 April 1992, p. 47.

threat of unemployment. In the end, these problems give people like Chernomyrdin and Geraschenko an opportunity to assert their authority and curb the pace of the conversion program and continue subsidizing inefficient producers.⁶⁹

On the other hand, the problems with conversion present a convenient situation for organized crime groups. For one thing, the failure to convert inefficient enterprises further hampers the overall reform process and thereby increases the feelings of security by criminal enterprises. It is also conceivable that the surplus weapons being produced in these inefficient enterprises of the military industrial complex could be sold to organized crime groups for future sale on the international black market. This is because organized crime groups may be the only outlet that these inefficient factories have for their particular wares. Some degree of credence is given to this idea when estimates show a decline in Russia's weapons exports from \$6 billion in 1991 to \$2.5 billion in 1992.⁷⁰

D. INSTITUTION BUILDING

Another reason for Russia's economic floundering is their inability to develop and build capitalist institutions. Russia is still depending on the legal framework established

⁶⁹"Troika on skids," The Economist, 22 January 1994, p. 52.

⁷⁰Jeff Cole and Sarah Lubman, "Bombs Away: Weapons Merchants Are Going Great Guns In Post-Cold War Era," The Wall Street Journal, 28 January 1994, Sec. A p. 4, col. 6.

by Soviet laws, and is missing a body of civil law that would regulate the economic relationships necessary for a free-market economy.⁷¹

The legal infrastructure covering financial contracts, property rights, bankruptcy, the organization and powers of banks and other financial intermediaries, and other financial regulations need to be redrafted and with more difficulty, enforced.⁷²

To say that the current legislation in the economic environment lacks clarity would be a bit of an understatement. With regard to "murky" property rights, although the government recognizes private property, it is unclear who owns former state property or whether it can be resold. And the absence of clearly defined ownership has had a negative effect on the amount of badly needed investment from the West. According to one Russian businessman, "without 100% guarantees, they won't invest \$1,000. It must be something about the Western psyche."⁷³

The banking system is also in disarray. It lacks proper systems of accounting, auditing, and financial disclosure. In addition, there are not enough trained auditors, accountants and financial specialists to produce reliable information on enterprises and other financial institutions. "This lack of

⁷¹The World Bank, p. 75.

⁷²Ibid., p. 113.

⁷³Ignatius, Sec. A, p. 10, col. 1.

information makes it difficult to evaluate the quality of banks and enterprises, thereby exacerbating the already high level of risks facing potential investors and depositors."⁷⁴

The Central Bank has all of the above problems, in addition to problems of supervision and control of the other banks in Russia. Since the Central Bank has no auditing capacity to check the money that it lends, their only recourse against losses is to cut off credits. Yet, as stated previously, this is an unlikely course of action since the political pressures against this are apparently too great.⁷⁵

The state of Russia's banking system also creates opportunities for organized crime groups. Due to the inadequate design and regulation of this system, organized crime groups find it very easy to infiltrate and take advantage of it. As a matter of fact, organized crime groups are believed to control most of Russia's 1800 commercial banks.⁷⁶

Another institution building difficulty stems from a poor tax collection system, which subsequently leads to an inadequate social safety net. In Russia, corporate taxes, federal and local, can reach 80 percent.⁷⁷ This does not even include such things as customs duties on exports. As a

⁷⁴The World Bank, p. 112.

⁷⁵Corwin, Possehl, Stanglin, and Trimble, p. 41.

⁷⁶"Crime in Russia," p. 57.

⁷⁷Ignatius, Sec. A, p. 10, col. 1.

result, tax evasion is a common practice among businessmen and organized crime groups who in no way want to relinquish their profits to the state. Besides increasing Russia's deficit, it also keeps the government from creating an adequate social safety net; namely unemployment compensation. And as Gaidar discovered, without unemployment compensation, there is little chance of radical reform.

E. PRIVATIZATION

The privatization program is considered by some to be one of Russia's few success stories. Part of Gaidar's original reform program, privatization was supposed to involve the mass sale of Russia's state-owned enterprises. In all, approximately 60,000 small businesses and 6,000 large state enterprises were to be sold.⁷⁸

Under mass privatization, the shares of these companies will be privatized in several blocks. Some shares will be distributed either for free or at deeply discounted prices to workers and managers; some shares will be auctioned to the public through vouchers; and some shares will be sold in cash auctions.⁷⁹

⁷⁸"Crime in Russia," p. 57.

⁷⁹David Lipton and Jeffrey D. Sachs, "Prospects for Russia's Economic Reforms," in Brookings Papers On Economic Activity, eds. William C. Brainard and George L. Perry (Brookings Institution, 1992), p. 230.

Nevertheless, this program has not run as smoothly as hoped. To begin with, only about 31 percent of the designated enterprises have been privatized.¹⁰ And in some cases, the state only privatized parts of an enterprise, thereby allowing it to continue receiving subsidies when needed.¹¹ Moreover, corrupt individuals and organized crime groups have relatively easy access to the purchase of these enterprises and firms since there is usually little time to check the bidders' documents or the source of their funding.¹² There is also little to keep industrial managers from selling off the assets of a privatized company thereby defeating the purpose of the sale in the first place.¹³

Privatization has also led to the problem of capital flight and the continual loss of Russia's natural resources. This is accomplished when natural resources (ie., oil, aluminum, copper, titanium, lead, cobalt, nickel, lumber, etc.) are bought for rubles at "give-away" prices in Russia and sold for hard currency at "dumping" prices abroad. But instead of the huge profits coming back to the Russian economy, they are kept abroad in offshore accounts like the

¹⁰Corwin, Possehl, Stanglin, and Trimble, p. 40.

¹¹Anne Imse, "Russia's Wild Capitalists Take Aluminum for a Ride," The New York Times, 13 February 1994, Sec. F, p. 4, col. 1.

¹²"Crime in Russia," p. 58.

¹³Corwin, Possehl, Stanglin and Trimble, p. 40.

Cayman Islands or Bahamas.⁴⁴ According to Russian economist Nikolai Petrakov, approximately \$15 billion (of Russia's \$48 billion in export revenues⁴⁵) was siphoned out of the economy by these activities in 1993.⁴⁶ Finally, much emphasis has been placed on sustaining and then privatizing state enterprises, although it is not nearly as effective as encouraging brand-new businesses to develop.⁴⁷

The privatization program may be one of Russia's most successful reform programs, but it is also one of the biggest areas where reform and organized crime overlap.

More generally, the onset of privatization of state property, the bulk of the nation's material wealth, released a free-for-all struggle to grab it up, a struggle in which corrupt, criminal and violent methods are not being overlooked, to put it mildly. In this arena the mafia has a double advantage. It commands strong-arm methods like no one else. And, in a country in which inflation has wiped out a great deal of liquid savings, the mafia is widely believed to have accumulated large material wealth (say in foreign currency) to bid for the privatized assets in a proper business like manner.⁴⁸

⁴⁴Imse, Sec. F, p. 4, col. 1.

⁴⁵Ibid.

⁴⁶Paul Klebnikov, "Joe Stalin's heirs," Forbes, 27 September 1993.

⁴⁷Goldman, p. 322.

⁴⁸Gregory Grossman, "The Underground Economy in Russia," International Economic Insights, November/December 1993, p. 16.

Not to mention, since bidders, their documents, or the source of their funding, cannot be thoroughly evaluated, little is being done to prevent organized crime groups from acquiring privatized industries and businesses.

Although not directly related to organized crime, the problems encountered in the attempted privatization of the Gorky Automobile Factory (GAZ) exemplify the ease at which organized crime groups can acquire an industry. In this situation, GAZ management used over \$23.9 million in state subsidies, that were supposed to be used for developing engines, to buy privatization vouchers on the open market. These vouchers were then used by approximately 15 front companies to purchase GAZ stock. The goal in these illegal activities was to preclude outside investment. This is a problem because when organized crime groups acquire an industry or enterprise, it essentially goes from being a state owned monopoly to a monopoly owned and run by organized crime groups. The organized crime groups can then effectively fix prices and manipulate supplies.⁹

In addition, when organized crime groups get their hands on an industry and its resources, the door has been opened for even more illegal activities. For instance, organized crime groups can easily smuggle weapons, strategic materials and other natural resources out of the country. This is

⁹Celestine Bohlen, "Yeltsin Warning Those Who Obstruct Reforms," The New York Times, 17 January 1992, Sec. A, p. 10, col. 1.

facilitated by a rampant amount of bribing of public officials, virtually transparent borders, and incredibly poor export controls.

These types of activities are by no means limited to privatized industries and enterprises. Through corrupt public officials, industry employees and military personnel, organized crime groups have an increased ability to acquire items from state-owned industries, enterprises or military installations. Items that will eventually be sold on the black market. The fact that many of these people are under paid and desperately in need of money just makes organized crime groups' work that much easier. As indicated earlier, this looks to be the predominant method for organized crime groups to acquire strategic and nuclear materials.

Yet, the reason why the privatization process sees a lot of organized crime activity is mainly because it is an inroad for organized crime groups to infiltrate legitimate businesses. Ownership also tends to eliminate many of the obstacles that were previously in the way of their illegal activities. To get an idea of the extent of the organized crime problem in this area, the Ministry of Internal Affairs estimates that over 40,000 state and private businesses are under the control of organized crime groups.⁹⁰

⁹⁰Celestine Bohlen, "Graft and Gangsterism in Russia Blight the Entrepreneurial Spirit," The New York Times, 30 January 94, Sec. A, p. 1, col. 1.

VI. STATE SECURITY ENVIRONMENT

For purposes of this thesis, the state security environment in Russia will encompass the law enforcement, court and prison systems, legal code, import/export control apparatus, and those involved in the physical security of state property.

The integrity of the state security environment has dramatically deteriorated since the collapse of communism. The rise in all forms of crime, especially its more organized versions, have met with little opposition from the various components of the state security environment. Accordingly, these components have proven to be less than adequate in meeting the challenges that crime presents. The biggest deficiencies can be found in the areas of law enforcement, laws, the court system, prisons, physical security of state property, and import/export control. In addition, the large degree of political interference and corruption that transpires throughout the state security environment only exacerbates the difficulties being experienced in this environment.

A. LAW ENFORCEMENT

Largely due to the poor state of Russia's economy, there is a lack of money to fund law enforcement and their anti-

crime initiatives.⁹¹ As a result, Russia's law enforcement personnel find themselves ill-equipped to do their jobs. They lack basic necessities such as patrol cars, weapons, computers, communication devices, and even gasoline.⁹² What little equipment law enforcement does possess, does not compare to the resources at the disposal of organized crime groups. Their resources are more likely to include Kalashnikov assault rifles, grenades and high-powered foreign automobiles.⁹³

Lack of funding has also led to a largely untrained police force. For instance, recruits are being accepted without undergoing proper screening, and are not being trained in up-to-date investigative techniques.⁹⁴ With regard to Chechen organized crime groups, law enforcement's lack of language trained personnel keeps them from infiltrating groups that speak different languages.⁹⁵ Given the wide variety of ethnic

⁹¹Justin Burke, "Russia Launches a 'War on Crime,'" The Christian Science Monitor, 10 May 1993, p. 12.

⁹²"Russia: Mafia Activities," Oxford Analytica Daily Brief, 6 April 1993, p. 2; and Dorinda Elliot, "Russia's Goodfellas: The Mafia on the Neva," Newsweek, 12 October 1992, p. 52.

⁹³Stephen Engelberg, "East Europe Police Join to Fight Smuggling," The New York Times, 20 November 1992, Sec. A, p. 7, col. 1.

⁹⁴"Crime in Russia," p. 58; and Ian Grieg, "The Eastern Mafia: A look at the growth of organized crime in the Commonwealth of Independent States," INTERSEC, September 1992, p. 117.

⁹⁵Joseph Serio, "Shunning Tradition: Ethnic Organized Crime in the Former Soviet Union," CJ International, November-December 1992, p. 5.

groups in Russia, this is undoubtedly a common problem in fighting organized crime. Not to mention, poor training helps explain why law enforcement has not yet acquired "a deeper appreciation of the complex nature of the genuine 'rule-of-law state.'"⁹⁶ The ultimate result is that their ability to fight the rise in organized crime has been severely undermined.

Lack of money has also meant low wages for law enforcement personnel. As a result, many agencies are finding themselves under-manned. The Ministry of Internal Affairs, which is generally considered Russia's regular police force, was down by approximately 8,000 officers in the first part of 1993.⁹⁷ In Moscow alone there are tens of thousands of vacant law enforcement positions. Furthermore, low pay and low prestige are likely to keep these positions vacant into the future.⁹⁸

Contributing to the problem of manning the law enforcement agencies is the rise of private security firms. The financial success of these firms stems mainly from the feelings of insecurity by the citizens of Russia. Consequently these firms are drawing some of the best performers away from traditional law-enforcement jobs; presumably because they can

⁹⁶Mark Galeotti, "Perestroika, Perestrelka, Pereborka: Policing Russia in a Time of Change," Europe-Asia Studies, Volume 45, Number 5, 1993, p. 783.

⁹⁷Burke, p. 12.

⁹⁸Sheila Marnie and Albert Motivans, "Rising Crime Rates: Perceptions and Reality," RFE/RL Research Report, 14 May 1993, p. 83.

offer higher wages and greater prestige." Moreover, the mission of private security firms focusses primarily on body guard activities and resource protection. As a result, they provide little assistance in eliminating organized crime groups. Nevertheless, efforts are being made to coordinate the activities of private security firms and official law enforcement agencies.¹⁰⁰

Other factors have also hampered the efforts of law enforcement. Since organized crime groups frequently commit crimes across borders, or flee to other countries once a crime is committed, law enforcement has had to deal with the problems of federal to local communication and other multi-jurisdictional situations.¹⁰¹ For example, it took the threat of road blocks on all highways going in and out of Kazakhstan before the Khazakh police would agree to extradite a "professional hired killer" back to Russia.¹⁰² Until adequate measures for such things as investigating multi-jurisdictional crimes and extraditing criminals can be arranged, it is

⁹⁹Grieg, pp. 117-118.

¹⁰⁰"Organized Crime Widespread Throughout Russia," from ITAR-TASS, in Daily Report Central Eurasia, FBIS-SOV-94-003, 5 January 1994.

¹⁰¹"The Commonwealth Of Independent States: Organized Crime Links," CJ International, March-April 1992, p. 3.

¹⁰²"Tyumen Law Enforcement Officials Meet Press," from TYUMENSKAYA PRAVDA, in Daily Report Central Eurasia, FBIS-USR-94-028, 5 February 1994.

obvious that organized crime groups will have the upper hand in these situations.

In addition, law enforcement is also hindered by a distrusting society with negative feelings of law enforcement's past association with the repressive Communist regime.¹⁰³ Because of this, citizens are not likely to report a crime they have witnessed. It has gotten to the point that organized crime groups can commit murder in front of dozens of witnesses without fear of being identified, because nobody will come forward to give the police a description.¹⁰⁴ Finally, for efficiency, and as a result of political reasons, various law enforcement entities have had to cope with several confusing organizational changes over the past few years; changes that invariably take time to adjust to and delay their work.¹⁰⁵

B. LAWS

When the FSU collapsed, Russia inherited a body of civil and criminal legal codes that were highly outdated, ambiguous and ill-defined, insufficient and ineffectual for today's purposes. Unfortunately, Russia still has yet to develop a stable legal framework encompassing either legal recourse or

¹⁰³Grieg, p. 117.

¹⁰⁴Handelman, "Why Capitalism," p. 13.

¹⁰⁵"Ungovernable?" p. 50.

due process of law.¹⁰⁶ Instead there is a vast array of legal "loopholes" which give organized crime groups ample opportunity to avoid prosecution. For instance, "there are no laws against money laundering, fraud or organized crime on the books."¹⁰⁷ There is also no Russian equivalent to American conspiracy laws, and no laws against conflict of interest.¹⁰⁸ Russia is also missing anything resembling the American's Racketeer Influenced and Corrupt Organizations Act (RICO). Along these same lines, Russia's criminal code only holds individuals, not organizations, culpable for criminal activities. Not to mention, bribery is still a largely ill-defined term.¹⁰⁹ Basically, the legal code cannot handle the demands being placed on it by rising levels of organized crime.

This lack of a legal base to fight organized crime is a situation that resembles what occurred in the United States prior to the 1950s. Although the organized crime problem in Russia is probably worse than it ever was in America, the lesson to be learned is that Russia needs to undertake an evolution of its legal codes just like the United States did. One step in this direction is being made by the Commonwealth

¹⁰⁶The World Bank, p. 75.

¹⁰⁷Elliot and Elliot, p. 30.

¹⁰⁸Clines, "Soviets Find," Sec. A, p. 14, col. 1; and Corwin, Possehl, Stanglin and Trimble, p. 40.

¹⁰⁹Burke, p. 12.

of Independent States with its signing of the Convention on Legal Aid and Legal Arrangements in Civil, Family, and Criminal Cases. Nevertheless, the Convention has yet to be ratified by the new Russian Parliament.¹¹⁰

C. COURT SYSTEM

Russia also seems to be afflicted with a poorly functioning court system. According to a study done by the World Bank, Russia needs to develop an independent judiciary capable of legal enforcement.¹¹¹ This system is also at the mercy of inadequate legal codes as discussed above. Like their law enforcement counterparts, prosecutors and judges are also under paid and overburdened with cases. In some instances, prosecutors will not open cases because they are heavily pressed for time.¹¹² Compounding matters is the absence of a witness protection program for those testifying in cases or acting as government informants.¹¹³ Finally, there is a shortage of jurors and other court personnel. According to the chairman of the Tyumen oblast court,

¹¹⁰"Bureau To Fight CIS Organized Crime Opens in Moscow," from ROSSIYSKAYA GAZETA, in Daily Report Central Eurasia, FBIS-SOV-94-009, 13 January 1994, p. 3.

¹¹¹The World Bank, p. 75.

¹¹²Fred Hiatt, "Police Force 'Choking On a Flood of Crime,'" The Washington Post, 7 November 1993, Sec. A, p. 41, col. 1.

¹¹³Dorinda Elliott, "Russia's Goodfellas: The Mafia on the Neva," Newsweek, 12 October 1992, p. 52.

People do not want to serve on juries. By law, their place of employment pays them the average wage for the time they spend in court, and who wants that? There are not enough auxiliary personnel in the courts, no process servers, no gasoline, no vehicles or guards to bring criminals to court, etc.¹¹⁴

For organized crime groups, the fact that Russia lacks a functioning court system further mitigates the risk of being prosecuted for an offense. Since the dramatic increase in crime has overburdened the system, it is highly likely that cases will be dropped for lack of time. Members of organized crime groups can also avoid prosecution by bribing government officials to intervene on their behalf and get cases dismissed. Moreover, in the absence of a witness protection program, organized crime groups have a better chance of eliminating witnesses against them; thereby getting cases dropped for lack of evidence.

D. PRISONS

Russia's prison system is clearly in a state of disarray. One account of the condition of Russia's prison system holds that it has been literally "squeezed between dwindling funds and a rising crime rate."¹¹⁵ Because of this, prisons have become glaringly over-crowded, thus facilitating more inmate

¹¹⁴"Tyumen Law Enforcement."

¹¹⁵Fred Hiatt, "Russia fears uprisings in 'the zone' as penitentiary abuses roil inmates," The Star Ledger, 26 September 1993.

disturbances and escape attempts. Russian minister of internal affairs, Viktor Yerin, estimates Russia's inmate population at approximately 500,000 in correctional institutions, and 300,000 in preliminary investigation facilities (jails).¹¹⁶ As a result of overcrowded facilities, Mr. Yerin further stated that approximately ten percent of the inmate population is scheduled for amnesty. This group will include elderly people, juveniles, and first time offenders who do not appear to represent an "undue social threat."¹¹⁷ Besides the problems being caused by overcrowding, there is also a shortage of staff to run the prison system. It has reached the point where prison officials are now being allowed to put the prisons to commercial use. There is fear however, that this "will only provide a pretext for officials to enrich themselves while exploiting prisoners."¹¹⁸

In sum, the state of the prison system reduces the chances that a convicted member of an organized crime group will receive any kind of meaningful and lasting punishment. And for those sent to prison, chances of escape have definitely increased. This is a direct result of prison overcrowding and limited amounts of guards to oversee the inmate population.

¹¹⁶"Internal Affairs Minister on Crime, Police," from *ARGUMENTY I FAKTY*, in Daily Report Central Eurasia, FBIS-USR-94-017, 24 February 1994.

¹¹⁷Ibid.

¹¹⁸Hiatt, "Russia Fears."

Furthermore, the notion of prisons being put to commercial uses raises questions of prison officials using their new-found authority to exploit prisoners for personal gain. Along these same lines, what is to stop these officials from accepting bribes in return for the release of a criminal? Fines instead of prison sentences could be imposed on a convicted organized crime group member, but he is probably in the best position to pay it anyway. Besides, he would be released into society just to commit more crimes.

E. PHYSICAL SECURITY OF STATE PROPERTY

The physical security formerly afforded to state property, namely conventional weapons and nuclear materials, has been weakened under the strain of economic pressures and mismanagement. A strong indicator of this is that military installations and depots, which typically house conventional weaponry, have been subject to increasing amounts of thefts. Based on statements from the Russian Defense Ministry, 6,430 cases of weapons theft from military depots occurred in 1993; up from 3,923 cases the year before. The thefts included such items as tanks, rocket launchers and Kalashnikov assault rifles.¹¹⁹

More alarming though, is the illicit trade in nuclear materials which has also emerged. According to Germany's

¹¹⁹Brian Duffy and Jeff Trimble, "The Wise Guys Of Russia," U.S. News & World Report, 7 March 1994, p. 46.

foreign intelligence service, organized crime groups from Russia were involved in the sale of nuclear-bomb-making materials like enriched uranium and cesium-137. Additionally, materials such as these were reportedly stolen from a Russian Navy storage depot in Murmansk.¹²⁰ Thefts and illicit sales of this nature lend further credence to the idea that physical security of state property has deteriorated.

Some of the reasons being cited for debilitated physical security and the resulting thefts have ranged from low or unpaid wages, to mismanagement and a lack of functioning controls on weapons and material stockpiles. Reasons such as these appear to hold merit when Russian soldiers have resorted to selling their Kalashnikov assault rifles on the black market.¹²¹ Or when as a result of unpaid wages, the Russian Federal Nuclear Center adopts a resolution addressed to President Yeltsin which says:

If this critical situation continues, the Federal Nuclear Center will be forced to discontinue work on state programs, including those connected with international treaties on control, destruction and non-proliferation of nuclear armaments, and those on ensuring the safety of the amassed nuclear weaponry.¹²²

¹²⁰Ibid.

¹²¹Engelberg, Sec. A, p. 7, col. 1.

¹²²"Unpaid Wages Threatens Nuclear Center Projects," from *Moscow Russian Television Network*, in Daily Report Central Eurasia, FBIS-SOV-93-127, 6 July 1993, p. 34.

These circumstances create great opportunities for organized crime groups. If military personnel and workers in the military industrial complex have not been paid or cannot live on their meager wages, they may then be easily induced to steal weapons or sensitive materials on behalf of organized crime groups.

Finally, Vitaly Shlikov, an advisor to Russia's Defense Ministry, has stated that Russia's government is not even aware of what their actual weapons stocks and reserves are.¹²³ This further weakens the amount of security around these weapons. If accurate inventory controls are not available, how will anyone be able to tell if something has been stolen? Therefore, if an organized crime group is not caught in the act of acquiring weapons or sensitive materials, the chances of the crime ever being detected are pretty slim.

F. IMPORT/EXPORT CONTROL

One of the biggest criticisms of the state security environment has been the manifestation of "porous" borders around Russia and the inability to institute better import/export controls. When the Soviet Union collapsed, Russia was left with approximately 8,400 miles of unprotected frontier.¹²⁴ Therefore, smuggling by organized crime groups in and out of the country became much easier as the

¹²³Cole and Lubman, Sec. A, p. 4, col. 1.

¹²⁴Corwin, Possehl, Stanglin and Trimble, p. 38.

chronic problems associated with seemingly "transparent" borders decreased the odds that organized crime activities would be detected.

Illegal cargoes include such things as weapons, strategic and nuclear materials, narcotics, people, and money. In fact, smuggling in all of its forms has been so prevalent that when Russia's customs services increased their manpower from approximately 8,000 to 31,000, there was little resulting difference in the amount of illegal activity.¹²⁵ In addition, the continued use of export licenses, excessive regulations, and heavy customs duties on import/export activity, encourages the bribing of state officials to "let things slide." And once organized crime groups have these corrupt officials "in their pocket," they worry very little about being caught.

The methods used in smuggling are as diverse as the items being smuggled. One method is the use of forged documents such as bogus end-user certificates and passports. Other methods involve disguising the smuggled item. For example, when a shipment of faucets was stopped while leaving Russia, it was discovered that they were made of solid nickel.¹²⁶ With regard to oil, trainloads of this strategic material regularly disappear with the help of "insiders", only to turn up on Russia's black market or in another country.¹²⁷

¹²⁵Ibid., p. 41.

¹²⁶Ibid., p. 36.

¹²⁷Ibid., pp. 38 and 40.

Fortunately, some progress towards finding a solution to Russia's import/export problems is just now being made. As of 1 March 1994, Russia's customs service finally began tracking all exports. It will be some time before the effects of this measure can be seen. It is important to note however, that organized crime groups in Russia have been adept at smuggling for decades. Moreover, many of the networks and connections they use for illicit trade are just as old and are very well established. The difference lays in the types of items that are being smuggled. Not to mention, organized crime groups in Russia are doing extremely well in forging new networks and connections all over the world. Whatever the case, Russia has a long way to go in handling its import/export problems and firming up its borders.

G. POLITICAL INTERFERENCE

Complicating the numerous problems being experienced by the state security environment and its fight against organized crime groups, is interference from Russia's political elites. As mentioned earlier, various agencies within this environment have been forced to undergo re-organizations, cutbacks and mission changes. One of the latest victims has been the Ministry of Security. This last remnant of the KGB was abolished by President Yeltsin at the end of 1993.¹²⁸ Reportedly, this action was not done to improve efficiency,

¹²⁸"Ungovernable?" p. 51.

but because they failed to warn Yeltsin about the coup attempt in October 1993 or come to his aid while it was occurring.¹²⁹ Consequently, the investigative and anti-corruption branches of the Ministry of Security have now been bestowed upon the Ministry of Internal Affairs.¹³⁰ Changes such as these slow the progress of various agencies in fighting organized crime. This is because they are forced to re-organize, re-group and handle internal matters instead of concentrating on their real work.

Another problem is that organizations created to combat crime and corruption have been used to accomplish political agendas. An obvious example of this was former Vice President Aleksandr Rutskoi's misuse of the Commission for the Fight Against Crime and Corruption. Created in October 1992 by President Yeltsin, Rutskoi used his position as head of the Commission in an attempt to discredit other political elites.¹³¹ In the end, Rutskoi discredited himself more than anyone, and led to the Commission's inability to accomplish its mission.

¹²⁹Tim Sebastian, "Bond Ambition," Times Newspapers Limited, 2 January 1994.

¹³⁰"Ungovernable?" p. 51.

¹³¹Marina Shakina, "Makarov Shoot-Out," New Times International, No. 35, August 1993, p. 6.

E. CORRUPTION

Corruption has taken its toll on the integrity of the state security environment too. Mostly due to low pay and low prestige, corruption has become an all too common phenomenon in Russia, engulfing all segments of the state security community. In 1992, over 2,000 crimes were blamed on policemen.¹³² Most reports indicate however, that statistics like these merely represent the "tip of the iceberg." In St. Petersburg, estimates put police corruption at about 70% of the entire force.¹³³ A "top-level Government report" stated that police officers in Tver tip-off "local gangs" when valuable cargo passes through the town.¹³⁴ The conditions are so bad that in fact, "traffic police officers constantly pull drivers over to extract "fines" for imagined infractions."¹³⁵

The military has not been immune from corruption either. Military personnel have been caught trying to sell assorted types of conventional weapons and strategic metals. In early 1993, Defense Minister Pavel Grachev said, in a television address, that 3,000 officers had been reprimanded for engaging in questionable business practices, and 46 generals and other

¹³²"Crime in Russia," p. 58.

¹³³Elliott, p. 50.

¹³⁴Bohlen, "Graft and Gangsterism," Sec. A, p. 1, col. 1.

¹³⁵Howard Witt, "Russia's Organized Crime Problems Spin Out of Control for the Police," The Journal Of Commerce, 10 August 1993, Sec. A, p. 5, col. 1.

officers were facing criminal charges.¹³⁶ Moreover, in June 1993, officers from Russia's Northern Fleet were caught trying to sell 300 kg of technical-grade silver. At the time, the silver was valued at approximately 180 million rubles.¹³⁷ Furthermore, it is not unreasonable to assume that organized crime groups are in a great position to take advantage of these corrupt practices.

Still more alarming, former members of the state security environment (police, KGB, military) are actually joining organized crime groups. They now "ply their former trades for private gain rather than on behalf of the state."¹³⁸ By giving organized crime groups the benefits of their knowledge and training, they can be a big help in circumventing the efforts of the state security apparatus.

¹³⁶Burke, p. 12.

¹³⁷"Officers Caught in Attempt to Sell Strategic Material," from SEGODNYA, in Daily Report Central Eurasia, FBIS-SOV-93-113, 15 June 1993, p. 18.

¹³⁸George Melloan, "Steering Clear of Russia's Mafia's," The Wall Street Journal, 16 March 1992, Sec. A, p. 15.

VII. SOCIAL ENVIRONMENTAL ANALYSIS

In addition to the chaotic political, economic, and security conditions, Russia's social environment is highly problematic and hardly conducive to the further development of democracy and a free-market economy. The causes of this situation result from a combination of over 70 years of communist rule and the country's current geopolitical problems. Because of this, society has become demoralized and remains fearful of the reappearance of an authoritarian system. Unfortunately, these two attributes of society add to the plight of Russia's struggling reform efforts.

The social environment in Russia is characterized by a demoralized people. Russia's citizens took great pride in the great-power status of the FSU. Now that it is gone, they yearn for its return.¹³⁹ They especially miss the imperial status that Russia had exercised as a part of the FSU. For Russians, learning to accept that they are no longer seen as "big brother" to the other republics has been tough. In addition, the people of Russia are used to living under an authoritarian system that, despite its many shortcomings, gave the appearance crime was under control. Now that society has emerged from authoritarianism, crime has soared; thus leaving

¹³⁹Steven Erlanger, "Men, Mostly Nervous, Voted For Russian Right, Poll Says," The New York Times, 30 December 1993, Sec. A, p. 10, col. 1.

society with a sense of lawlessness and despair. In other words, during the Soviet period the people had no law, but they did have order. With the end of the FSU, they now have neither law nor order.¹⁴⁰

Yet, the state's efforts in trying to establish a society governed by the rule of law are being hampered by the people's fear of authoritarianism and decline in morality. As a sad consequence of communist rule, there is a distrust of the country's politicians, police, and military. Not to mention, the culture of Soviet society has been marked by 70 years of trying to "get around" the system. What this means is that people in the FSU have been more willing in the past to engage in illegal activities in order to survive. An example of this is their frequent use of the black market to obtain consumer goods during the Soviet period. Unfortunately, this decline in morality is also impacting efforts to combat organized crime today. People are once again in a position where their livelihood is being threatened. And as in the past, these people will do what they think is necessary to survive; even it means breaking the law.

Ironically, when the economy is in shambles and organized crime is rampant, strong leadership and an equally strong police force may be a big help. Yet, Russia has been slow to adopt the necessary measures to combat the rise in organized

¹⁴⁰Interview with Gabriele M. Rockwell, intelligence analyst, Drug Enforcement Agency, by David M. Lowy, 17 December 1993.

crime for fear that it may appear oppressive to the people. Viktor Yerin, Russian minister of internal affairs believes that, "bringing the military into the streets is always politically damaging for us (the MVD)." ¹⁴¹ For example, when the Ministry of the Interior first tried to form joint street patrols of police and army units to fight crime, it was criticized as "a step toward the reintroduction of the totalitarian system." ¹⁴²

Consequently, continuing activities of organized crime groups have met with little resistance. This demonstrates that backing too far off of authoritarian measures, "before the certainties of a law-abiding society have emerged to take their place," can have a terribly negative effect. ¹⁴³ In essence, Russian society's tremendous sense of lawlessness and fear of authoritarianism creates a dangerous mixture. People have a desire for law and order, but seem unwilling to give the authorities the powers they need to combat the cause of the problem. Therefore, when the problem (crime) goes unchecked, they lose what little faith in the police they have and their sense of lawlessness increases. According to a

¹⁴¹"Internal Affairs."

¹⁴²Burke, p. 12. Since that time however, joint patrols have been introduced and met with a favorable response from the people.

¹⁴³Celestine Bohlen, "Russia's Mobsters Grow More Violent and Pervasive," The New York Times, 16 August 1993, Sec. A, p. 1, col. 2.

report by Russian economist Pyotr Filippov, when lawlessness meets no resistance:

An entire generation is growing up for whom this situation is normal and who in such circumstances will not turn to official authorities, but to unofficial ones. These people are more likely to hire a murderer to punish a guilty or even an unpleasant partner than to go to court or arbitration.¹⁴⁴

Ultimately, the demoralization from Russia's loss of empire and mounting crime have left society angry and suffering from anxiety over their future and the future of their country.¹⁴⁵ Unfortunately, their solution has been to elect Vladimir Zhirinovskiy, whose campaign was "deliberately pitched" to win the support of these people.¹⁴⁶ According to Yuri A. Levada, director of the All-Russian Center for Public Opinion and Market Research, "a vote for Zhirinovskiy was the most dramatic protest available. In a way, he seemed to be the only truly anti-establishment figure."¹⁴⁷ It also indicates that Russian society is still very immature, as they are evidently easily seduced by promises of easy solutions to

¹⁴⁴"Think Tank Addresses Fight Against Mobsters," from IZVESTIYA, in Daily Report Central Eurasia, FBIS-SOV-94-003, 17 February 1994.

¹⁴⁵Erlanger, "Men, Mostly Nervous," Sec. A, p. 10, col. 1.

¹⁴⁶Tolz, pp. 4-5.

¹⁴⁷Ibid., p. 5.

complex problems.¹⁴⁸ Yet, the old saying applies, "be careful what you ask for, you might just get it." "Draconian solutions to the law-and-order crisis are now part of the mainstream political thinking and will probably dominate the agenda of the new State Duma."¹⁴⁹ For instance, Zhirinovskiy has called for measures that would allow the police to carry out summary executions of organized crime figures.¹⁵⁰

¹⁴⁸Ibid., p. 2.

¹⁴⁹Stephen Handelman, "The Russian 'Mafiya,'" Foreign Affairs, March/April 1994, p. 92.

¹⁵⁰"Russian M.P.'s Irate at Killing of Lawmaker," The New York Times, 28 Apr 1994, Sec. A, p. 4, col. 1.

VIII. WEAPONS AND SENSITIVE MATERIALS MARKETPLACE

So long as regional tensions encourage neighbors to arm against each other, the demand for more and deadlier weapons will continue. And so long as the money is there in large enough quantities, ways will always be found around the restrictions that responsible governments attempt to put on the export of arms.¹⁵¹

Because of the deteriorated state of Russia's political, economic, state security, and social environments, organized crime groups in Russia are now engaging in the illicit sale of weapons, weapons components, strategic and nuclear materials, and technologies with military applications. The items that have been sold in these categories range from ammunition, high-powered handguns, kalashnikov assault rifles, rocket launchers, missile systems, and tanks, all the way to strategic materials such as nickel, aluminum, and oil as well as nuclear materials like cesium-137, and high and low enriched uranium. This is just a partial list of the items being sold by organized crime groups. In essence, the only thing that has limited what organized crime groups in Russia have sold, is what they did not have an opportunity to acquire, or the risk involved was not justified by the potential benefits to be gained.

¹⁵¹ "The Covert Arms Trade: The second-oldest profession," The Economist, 12 February 1994, p. 23.

Based on the economic theory of organized crime, organized crime groups would not be going through the trouble of assessing the opportunities and risks of illicitly selling weapons and sensitive materials unless there was a viable market and some potential for big profits. After all, maximization of profit is the primary goal of these groups. Fortunately for them, there is in fact plenty of demand and huge profits to be made by selling Russia's sundry inventory of items with military applications.

It must be taken into account however, that there has always been a large demand for products of the Soviet military industrial complex. Moreover, following the collapse of the FSU in 1991, 60 to 70 percent of this highly lucrative market fell into Russia's hands, as did the demand.¹⁵² A partial list of potential customers in this market today would include China, India, Iran, and Malaysia.¹⁵³ The range of products these countries are looking for could include anything Russia's military industrial complex has to offer, but mainly focusses on larger hi-tech items, whether it be Kilo-class submarines for the Chinese, or MiG-29Rs for Malaysia.¹⁵⁴ To be sure, the Russian government is well aware of this fact and is eagerly attempting to sell these types of arms all over the world.

¹⁵²"Kokoshin Comments," p. 38.

¹⁵³Cole and Lubman, Sec. A, p. 4, col. 6.

¹⁵⁴Ibid.

Nonetheless, organized crime groups in Russia have been able to establish themselves in the weapons and sensitive materials market too. For them, just about any product from the military industrial complex is a potential money maker. Wherever there is a conventional arms embargo for example, there is a lucrative market for black market sales of big and small arms. As a result, places like the former Yugoslavia, Libya, and Iraq have become ideal markets for smugglers.¹⁵⁵ It is estimated that nearly \$2 billion-worth of weapons went into the former Yugoslavia, via "the illegal weapons pipeline," in 1993.¹⁵⁶ Given the vast degree of networks and connections of organized crime groups in Russia, it would not be unreasonable to assume they were among the smugglers that exploited (and still exploit) this market. Moreover, Russia complains that it lost approximately \$7.5 billion in "legitimate" arms sales since it began to comply with international arms embargoes.¹⁵⁷ Since Russia's organized crime groups would have little scruples about selling to places that other countries and their own government have restricted, they are most likely helping to fill the void.

There are other potential "customers" for organized crime groups who are looking for weapons, weapons components,

¹⁵⁵Peter Fuhrman, "Trading in death," Forbes, 10 May 1993, p. 96.

¹⁵⁶"The Covert Arms," p. 21.

¹⁵⁷Cole and Lubman, Sec. A, p. 4, col. 6.

strategic and nuclear materials, and technologies with military applications. Terrorist groups would be interested in many of these items. Moreover, if a terrorist group had a state sponsor (Libya comes to mind), they would be in a good position to afford high black market prices. Drug traffickers, in need of assault rifles, handguns or grenades, would also make good customers of Russia's organized crime groups.¹⁵⁸ Lastly, any country that wanted to discreetly build up its weapons program, conventional or nuclear, would be interested in seeking out organized crime groups in Russia as a potential source. Countries like Iraq and North Korea seem to fit into this particular category.

As exemplified by the above examples, the illicit sale of weapons and sensitive materials is a big business for organized crime groups in Russia today. This would probably explain the 40.7% increase in thefts of conventional weapons and ammunition in Russia between January 1991 and November 1992.¹⁵⁹ Or the twofold increase in thefts from weapons depots between 1992 and 1993.¹⁶⁰ As discussed earlier, there has been a tremendous amount of illicit sales of strategic raw materials like nickel, oil, and technical grade silver going

¹⁵⁸Rockwell.

¹⁵⁹"Increase of Reported Crime in Russia," from a Russian Ministry of the Interior (MVD) Report, as provided in an interview with experts from the Federal Bureau of Investigation, European/Asian Unit, by David M. Lowy, 16 December 1993.

¹⁶⁰Duffy and Trimble, p. 46.

on. The illicit sale of nuclear weapons and weapons-grade nuclear materials is also beginning to occur, but there is little evidence to suggest that it has become widespread. There have been reports of isolated incidents of weapons-grade nuclear materials being stolen though. For example, an employee of a nuclear fuel research center was caught after stealing three pounds of highly enriched uranium.¹⁶¹ On the other hand, there has been a big rise in thefts of low-grade nuclear materials and other radioactive sources. Yet, these thefts have been reportedly carried out by petty thieves and other uninformed individuals looking to make a quick profit.¹⁶² Keep in mind though, with inadequate inventory controls on nuclear materials, only the thefts that are stopped are most likely to be detected.

Concerning the amount of money to be made on weapons and sensitive materials, like any other market the laws of supply and demand apply. For instance, the profit to be made on items that are in short supply or difficult to smuggle would be relatively high. Just the opposite is true of items that are relatively easy to obtain legally, or are in great supply in the black market. Following this logic, organized crime groups would not be expected to sell the same things as the

¹⁶¹Jonathan Beaty, "Russia's Yard Sale," Time, 18 Apr 1994, p. 55.

¹⁶²"Atomic Energy Official Views Recent Uranium Thefts," from Tass, in Daily Report Central Eurasia, FBIS-SOV-93-035, 24 February 1993, p. 40.

Russian government to the same customers. With regard to specific items, the profits to be made on the illicit sale of nuclear materials would mostly likely exceed the profits to be made on the illicit sale of conventional weapons. For example, Germany's foreign intelligence service estimates that a kilo of chromium-50 goes for \$25,000, a kilo of cesium-137 for up to \$1 million, and a kilo of lithium-6 for \$10 million.¹⁶³ Of course dealing in nuclear materials involves much more risk, but given the nature of organized crime groups, potential profits like these can rationalize the taking of very big risks.

¹⁶³Duffy and Trimble, p. 46.

IX. THREATS TO REGIONAL/INTERNATIONAL SECURITY

Since more and more evidence is coming to light that organized crime groups are able to obtain and sell a nuclear warhead or weapons-grade nuclear material, the chances of it occurring can no longer be considered too remote and should definitely not be discounted. A possible scenario for this to occur would begin with a foreign government. The foreign government could sponsor their intelligence service or a terrorist group to acquire a nuclear weapon or weapons-grade material from an organized crime group. The organized crime group would then bribe or intimidate the appropriate people to obtain the requested item. Following this "inside job," (probably accomplished by an underpaid employee) the organized crime group would then give the weapon or material to the intelligence service or terrorist group in return for payment in cash or possibly narcotics.¹⁶⁴ While this is occurring, the organized crime group would have virtually no idea of who the original sponsor was; nor would they care. The government sponsor would then be free to use the weapon or material as they saw fit, with little chance of ever getting caught.

It is very clear from a potential scenario like the one described above that the illicit sale of weapons, weapons components, materials and technologies with military

¹⁶⁴Rockwell.

applications can pose several threats to regional and international security. These threats have manifested themselves in the following manners: 1) increased instability caused by the proliferation of nuclear and conventional weapons or the components and technologies needed to develop them; 2) an inability to accurately track shipments or monitor inventories; 3) increased environmental hazards and potential for nuclear accidents; 4) increased capabilities of terrorist groups and other "uncontrollable elements;" 5) an exacerbation of tensions or conflicts in unstable regions of the world; and 6) an undermining of the anti-proliferation efforts of international organizations.

The first threat to regional and international security is the destabilizing effect on various global communities caused by the increased proliferation from illicit weapons sales. With regard to developing nations and regions, they are "easily destabilized by weapons build-ups and are far more likely to develop into war."¹⁶⁵ This is based on the idea that developing nations are inherently more unstable than their established counterparts. Not to mention, "whole societies suffer in the form of shattered communities and opportunities lost when scarce resources are squandered on wasteful weapons."¹⁶⁶ Yet, the destabilizing effects are not

¹⁶⁵Michael Wines, "Third World Seeks Advanced Arms," The New York Times, 26 March 1991, Sec. A, p. 12, col. 1.

¹⁶⁶Mark Sommer, "Closing the Arms Bazaar," The Christian Science Monitor, 27 August 1992, p. 18.

limited to developing nations. If it is discovered or even perceived that any country is receiving weapons covertly, then the resulting insecurity, fear, or panic may cause a neighboring country to initiate their own weapons build-up. Given the enormous costs involved in developing conventional forces, these neighboring countries may choose to proceed with developing a more cost effective nuclear force. And if they already have a nuclear program they would be far less likely to make agreements to reduce or limit its potential.¹⁶⁷

The second threat organized crime groups pose comes from the inability to track illegal shipments or accurately gauge and monitor the inventories of their customers. For example, to determine the types and quantities of weapons that a country purchases usually relies upon, "intelligence sharing among supplier states."¹⁶⁸ In other words, one of the major ways that weapons sales are tracked is that the supplier country relates to others what it sells. When a country makes a purchase from organized crime groups however, the covert nature of the transaction renders this method of tracking ineffective. Moreover, each time organized crime groups make a transaction, an unknown customer, receives unknown merchandise, increasing their weapons potential by an unknown

¹⁶⁷Roger Molander, "Proliferation of Weapons of Mass Destruction and Implications for Mediterranean Regional Security," in Internazionali Conference on the New Mediterranean Security Environment, eds. Ian Lesser and Robert Levine (RAND, 1993), p. 90.

¹⁶⁸"Curb Deadly High-Tech Trade," The New York Times, 12 April 1991, Sec. A, p. 28, col. 1.

amount. Concerning nuclear weapons and weapons-grade nuclear materials, should speculation that Russia is unaware of what quantities they actually possess prove to be true, then thefts of these items and materials by organized crime groups or their agents would either be undetectable or at the very least take a considerable amount of time to detect, thus adding to an already long list of unknowns.¹⁶⁹ This multitude of "unknowns" contributes to other countries feelings of insecurity, therefore contributing to the threat of destabilization discussed above. Use of the International Atomic Energy Agency (IAEA) has been suggested as a monitoring device for the spread of nuclear weapons and materials, but recent experiences in Iraq and North Korea have raised questions about the IAEA's ability to accomplish this task.¹⁷⁰

Potential damage to the environment, human life and the increased risk of a nuclear accident represent the third major threat from these illicit sales by organized crime groups. This particular threat involves the illicit sale of nuclear materials more than anything else. To begin with, it is a reasonable assumption that organized crime groups are not particularly adept at handling nuclear materials; hence, they are probably unaware of the necessary safeguards required in

¹⁶⁹"IZVESTIYA on Thefts of Radioactive Materials From St. Petersburg Plant," from *Izvestiya*, in Daily Report Central Eurasia, FBIS-SOV-92-227, 24 November 1992, pp. 41-42.

¹⁷⁰"Stopping The Next Nuclear Renegade," The New York Times, 15 February 1993, Sec. A, p. 14, col. 1.

handling, storing and transporting these materials. This lack of knowledge has been evidenced by instances in which thieves have opened up the protective casing surrounding nuclear materials, inadvertently condemning themselves to death.¹⁷¹ In addition, there is a good chance that the recipient of the nuclear materials is also unfamiliar or at least inexperienced at handling them. In either case, their lack of knowledge is extremely dangerous to themselves and the environment. Furthermore, if an organized crime group acquires nuclear materials, but cannot find a buyer for them, there is nothing to keep them from dumping the materials in such places as a back alley, open field or body of water. Besides the obvious environmental concerns, this would be a great risk to human life. Even if a buyer can be found, another potential concern is the increased risk of a nuclear accident resulting from the recipient country's attempts to develop the newly acquired material into a weapon. Another concern, is that if the material is attached to an ordinary high explosive (called a "dirty bomb"), then the resulting effect would not be a nuclear explosion but a conventional explosion that spreads radioactive material over a vast area. For instance, if a "dirty bomb" was used in the World Trade Center bombing, one expert speculated that a large part of New York city would have been showered with nuclear material.¹⁷²

¹⁷¹"IZVESTIYA on Thefts," p. 42.

¹⁷²Loose Nukes, ABC-TV News Primetime Live, 14 October 1993.

The next threat organized crime groups pose by these types of illicit sales is the enhancement of the capabilities of terrorist groups and other "uncontrollable elements." For purposes of this thesis, "uncontrollable elements" are best described as, "countries that have unstable governments or have a history of aggression or a history of terrorism."¹⁷³ Iran, Iraq and Libya fit this description quite well. On the surface however, this particular threat may not seem all that different from what was seen in the past. After all, there has always been arms traders and weapons smugglers to supply any group who could pay. Yet, organized crime groups in Russia add a new dimension to this threat. With Russia's unstable political, economic, and security environments, organized crime groups have been provided the unique opportunity of being able to acquire and supply merchandise rarely seen in the black market arms trade. As previously discussed, organized crime groups may now have greater access to nuclear materials and possibly warheads, the components and technologies needed to build nuclear weapons, and the components and technologies necessary to build the means by which to deliver such weapons. Once in the hand of terrorists or unstable governments, they could use these newly acquired weapons or technologies to blackmail other countries. According to David Kay, Secretary General of the Uranium

¹⁷³Eric Schmitt, "U.S. Aides Worry About Spread of Arms from Sales by the Soviets," The New York Times, 11 November 1991, Sec. I, p. 5, col. 1.

Institute, "In the past it has been easy to dismiss any terrorists claims involving nuclear weapons as a hoax. This will not be possible when uncertainty exists over the whereabouts of weapons-grade material."¹⁷⁴ Furthermore, it is not unreasonable to believe that a terrorist group, renegade state, or unstable government, if given the opportunity, may use a nuclear weapon. Fortunately, the amount of safeguards built into individual warheads help prevent this from occurring. But this would only apply if an entire weapon were stolen, not if these groups acquired the necessary items to build their own. All this aside, developing nations are seeking to buy more advanced weapons and technologies, that organized crime groups are now in a position to sell. Consequently, when the weapons needs of these groups or countries are met, it causes an "erosion in the military edge that enabled Western nations to win so decisively, without heavy casualties to their own forces, in the Persian Gulf War."¹⁷⁵

Nevertheless, it is not just the illicit sale of nuclear and high-technology weapons and materials that is creating a significant threat to international security. Illicit sales of conventional weapons by organized crime groups in Russia, like other types of arms traffickers, exacerbates tensions and

¹⁷⁴David Hughes, "Arms Experts Fear Nuclear Blackmail," Aviation Week & Space Technology, 4 January 1993, p. 61.

¹⁷⁵Wines, Sec. A, p. 12, col. 1.

conflicts in unstable regions around the world. For example, areas like Somalia, Yugoslavia and Georgia have had, "an outbreak of nasty little wars equipped with arms leftover from the big one that never happened."¹⁷⁶ This is due to the fact that in the early 1980s, conflicts between nationalities sharply increased the demand for weapons and ammunition. As a result, organized crime groups in Russia seized upon the opportunity these situations presented. This fact was represented by, "an immediate increase in the number of thefts of weapons from depots and from enterprises that manufacture those articles."¹⁷⁷ It is safe to assume that the illegal supply of weapons and ammunition by organized crime groups, or any proliferator for that matter, serves to prolong armed conflicts. When these conflicts are prolonged, there will inevitably be more military and civilian casualties. And as noted earlier, there is an immense amount of suffering by the peoples of these regions when their resources are thrown away on weapons purchases. When these conflicts go on long enough, hunger, disease, and growing numbers of refugees mandate costly international humanitarian relief efforts. Besides weighing heavily on the economic resources of participating nations, relief missions also tend to be a political nightmare for those involved. Somalia is a prime example of this situation. The stakes for the international community are

¹⁷⁶Fuhrman, p. 100.

¹⁷⁷"Crime Wave," p. 12.

raised even further when it comes time to employ peacemaking and peacekeeping; especially when organized crime groups continue their illegal activities.

Last of all, the illicit sales of weapons, weapons components, materials and technologies by organized crime groups are undermining the non-proliferation efforts of various international organizations as well as their attempts to end conflicts. First of all, the IAEA is one of the organizations that has been assigned to the arduous task of trying to prevent the proliferation of nuclear weapons and the means by which to deliver them. As exemplified by their inability to adequately isolate and detect Iraq's nuclear program, their focus towards making sure that civilian uses of nuclear power do not evolve into nuclear weapons programs is insufficient to meet current threats. The threat put forward by organized crime groups is just one case. Next, United Nations (UN) embargoes are ineffective in preventing smugglers as well as organized crime groups from selling weapons, materials and technologies to embargoed nations. The degree of sophistication these groups possess in forging documents, hiding illegal cargoes, and disguising ships, makes embargoes useless.¹⁷⁸ In Yugoslavia for instance, illicit purchases in 1992 (during an embargo) were estimated at \$300.00 million.¹⁷⁹ This is because, "for every shipment that is stopped these

¹⁷⁸Fuhrman, p. 100.

¹⁷⁹Ibid.

days, many more get through."¹⁸⁰ Moreover, a group of former KGB and CIA agents were allegedly caught smuggling weapons to the embargoed countries of Iraq and Libya.¹⁸¹ Who knows how many shipments got through before they were caught. Another problem is that although non-proliferation has been voiced as a main concern of organizations such as the IAEA, UN, North Atlantic Treaty Organization (NATO), Conference on Security and Cooperation in Europe (CSCE), and North Atlantic Cooperation Council (NACC), there does not seem to be any attention being paid to the threats posed by organized crime groups. Another thought is that international efforts to stop various countries, such as China, from selling weapons and weapons technologies may actually be counterproductive. If successful, these efforts to eliminate sellers has the unintended consequence of eliminating competition for organized crime groups. As a result, buyers are forced to seek out organized crime groups to fill their orders. This then goes back to the problem of monitoring and tracking illegal shipments.

¹⁸⁰Ibid., p. 96.

¹⁸¹"Firm Said Smuggling Russian Arms to Middle East," from DAVAR, in Daily Report Western Europe, FBIS-WEU-93-159, 19 August 1993, p. 16; Further information on this particular event could not be located, but illicit activities involving former KGB and CIA agents is consistent with other reports.

X. CONCLUSION

Organized crime groups in Russia have undergone several transformations in size and types of illicit activities since the Bolshevik revolution, the most recent of which occurred after the collapse of communism and the fall of the FSU. Although the vast number of contemporary organized crime groups in Russia now engage in a wide variety of criminal activities, their most recent ventures involve the illicit sale of weapons, weapons components, strategic and nuclear materials, and technologies with military applications. These particular activities are a cause for concern because they undoubtedly pose a grave threat to regional and international security with severe implications for U.S. land, air and naval forces.

Nonetheless, the fact that weapons and sensitive materials are now being sold by Russia's organized crime groups should not come as a surprise. By looking at organized crime groups in Russia as rational, "corporate like" entities, that seek to maximize profits and minimize the risks involved in attaining those profits, their activities can thus be seen as a result of an assessment process. These groups engage in a process of assessing the opportunities, risks, and potential benefits of committing various crimes. Moreover, their assessment is derived from the status of Russia's political, economic, state security, and social environments in which they are required

to operate. When organized crime groups in Russia survey their environments, they can plainly see a chaotic situation ripe with opportunities to commit crime with little fear of being apprehended. Combined with the enormous potential benefits that can be gained from the illicit sale of weapons and sensitive materials, it seems quite logical that organized crime groups in Russia are participating in these particular activities.

Consequently, having a thorough knowledge of Russia's environments and a comprehension of the assessment of those environments by organized crime groups can be an effective method for focussing the counter proliferation efforts against these groups. The key to doing this is to figure out which particular area in each environment has the biggest impact on the results of their assessment process. Once this has been accomplished, these areas could then be targeted for reforms. When looking at Russia's environments, the easy answer is to say that all of its environments need major reforms. This may be true, but given the constraints of a limited budget, reforms of this magnitude are simply not possible. Moreover, the reforms that can be accomplished should not interfere with the ultimate goals of establishing a democracy and a free market economy (if this is in fact what Russia wants). Although an authoritarian rule may appear to be an easy answer to Russia's organized crime problems, this thesis assumes that it is not the right answer.

Some of the environmental reforms that could possibly be undertaken by Russia to combat organized crime groups' illicit sale of weapons and sensitive materials, as well as other illicit activities, are as follows: 1) Cease the political infighting and encourage more resolute leadership that is determined to carry out reform programs. By doing this, Russia's leadership can then focus on more important issues (organized crime), and allow the reform process to continue unabated; 2) Stop subsidizing inefficient industries. This will reduce the amount of rubles that need to be printed and subsequently slow inflation, thereby reducing the chances that individuals can be bribed to steal weapons and the like; 3) Encourage the opening of new businesses over conversion or privatization of existing ones; 4) Develop a legal infrastructure to cover economic and criminal matters, thus eliminating the vast array of "loopholes" organized crime groups can use to avoid prosecution; 5) Improve the methods of screening for people trying to get loans or take part in the privatization program in order to prevent access by organized crime groups. Criminal record and source of income, for example, could be the focus of the screening; 6) Provide better training and equipment to law enforcement officials so they can increase their enforcement capabilities. Although this is very expensive to do, studies show that the best way to deter a criminal is to increase the likelihood that he will

be caught if he commits a crime¹⁸²; and 7) Put an end to corruption by political leaders, law enforcement officials, and other civil servants. Since organized crime groups rely heavily upon corrupt officials to complete illicit activities, halting corruption would go along way in limiting these activities. Of course, putting an end to corruption is not likely to happen until wages reach the point where people do not feel they have to commit crime in order to survive.

Nevertheless, the above recommendations are of a fairly general nature, and there are more specific recommendations that can be made. To begin with, Russia needs to obtain an accurate inventory of all weapons and sensitive materials. Although conducting an inventory would be of no use in solving past thefts of these items, it would provide a new baseline to help detect future thefts. In the law enforcement arena, the establishment of extradition agreements, language and undercover operations training, and better communication between the investigative and intelligence functions would go a long way in building a credible deterrent against the activities of organized crime groups. As for the legal system in Russia, a Russian equivalent to the American's RICO Act should be introduced. In addition, Russia needs to clarify existing conflict of interest and bribery statutes or introduce them if absent. Even more importantly, Russia needs to develop a witness protection program. This program would

¹⁸²Sullivan, p. 20.

not only safeguard the lives of those who witness a crime, but instill an added measure of security and trust in the minds of Russia's citizens.

In spite of all the shortcomings in Russia's environments that allow for the increase in size and degree of activities of organized crime groups, some positive strides are being made to combat these groups. For one thing, Russia recognizes the fact that it has an organized crime problem and is attempting to coordinate its efforts to fight it. Next, cooperation with regional and international law enforcement agencies is being sought out and conducted. As a matter of fact, technical assistance from the West is one of the best things that is being done to combat the activities of organized groups. Although it may appear that financial aid from the West would also help solve Russia's problems, this is not a wise idea since Russia does not yet have the ability to make proper use of it. Finally, Russia is dedicating more resources to various components within the state security environment for the purpose of combatting organized crime groups and their illicit activities. Other efforts are being made too, but it is clear that Russia's organized crime groups currently have the upper hand in Russian society for now.

One thing is for sure, Russia's organized crime groups are not going to go away overnight. Time has shown that these groups are highly resilient and can adapt to a multitude of situations. As for the illicit sale of weapons and sensitive

materials, organized crime groups in Russia will continue to sell these items as long as the opportunities to do so continue to exist, and the amount of risk involved can be justified by the potential benefits to be gained. Judging by the state of Russia's environments, and the current pace of the reform process, organized crime groups in Russia have little to fear in the near future. Moreover, when Russia reaches the point that these kinds of activities can be stopped, organized crime groups will simply move on to other illicit activities.

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