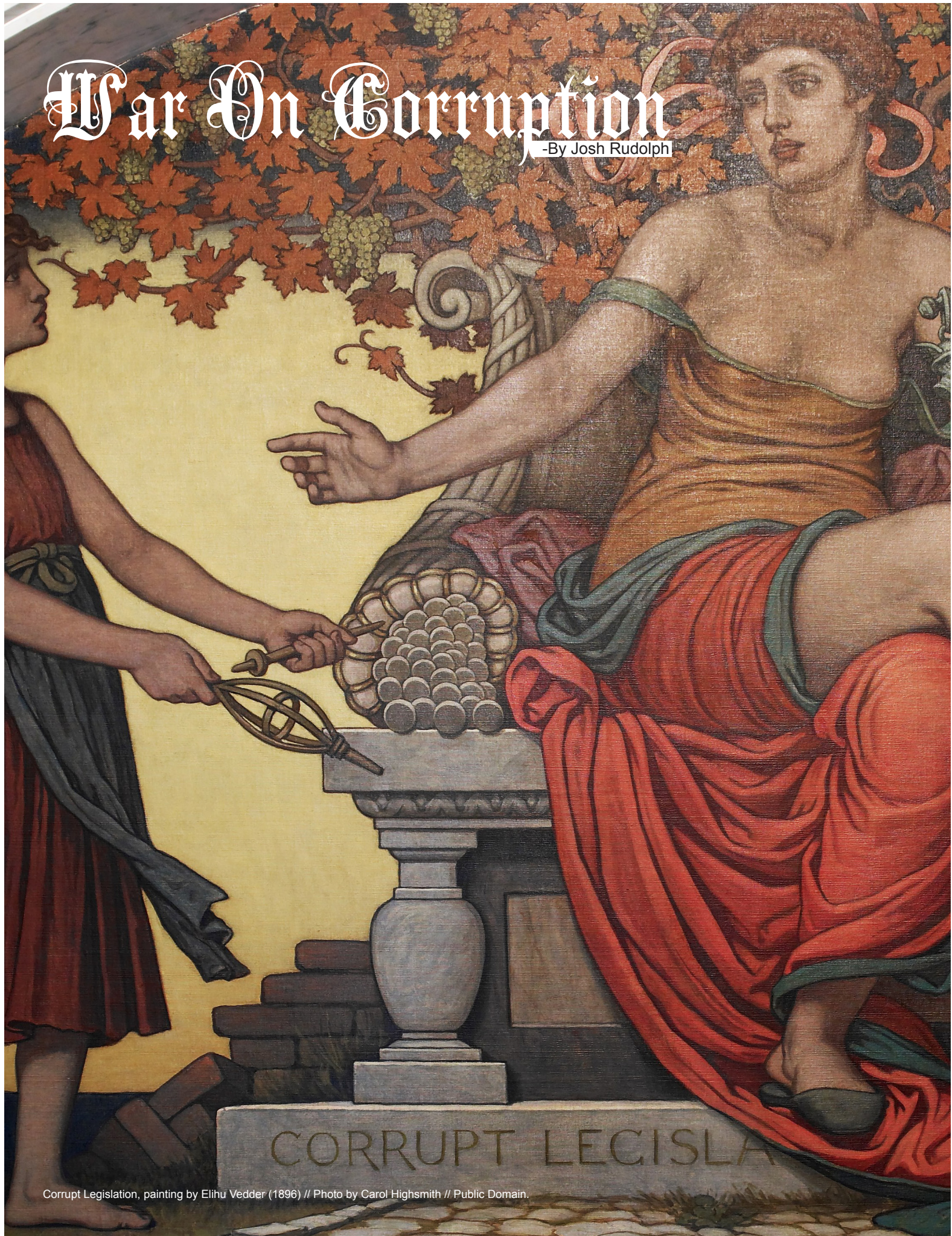


War On Corruption

-By Josh Rudolph



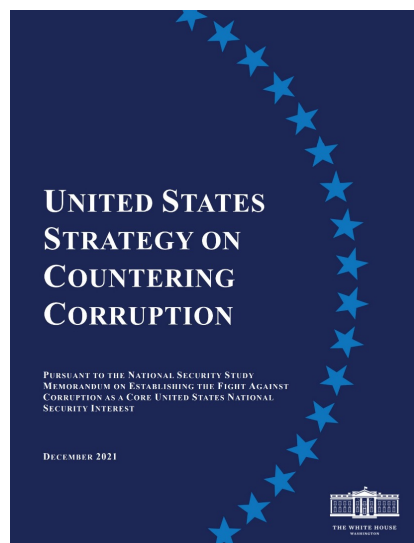
Kleptocracies seem to enjoy powerful coherence between their domestic and foreign policies, given that they wield power at home and abroad through the same corrupt assemblage of actors, networks, tactics, and resources. By prioritizing the fight against corruption and kleptocracy, the United States can similarly pursue the most internally coherent grand strategy since it combined the containment of communism with neoliberal deregulation to win the Cold War. Doing so will require deeply reorienting foreign and domestic policy priorities by featuring the opposite side of the U.S. economic model, with less cowboy and more sheriff: well-regulated clean capitalism under the rule of law.

The Biden administration is spearheading the most serious effort in recent memory to organize the United States around fighting corruption. Sustaining that momentum beyond Russia's invasion of Ukraine and through the second Summit for Democracy in December 2022 will require making permanent new task forces and other responses, broadly scoping financial rules around real estate and investment advisors, increasing the emphasis on domestic ethics reform, launching defamation defense and rapid response funds, developing a strategy to end offshore financial secrecy, working with Congress on the most ambitious program of anti-corruption legislation since Watergate, and cooperating with other major democracies to crack down on professional enablers of corruption.

DOMESTIC - FOREIGN COHERENCE

To sustainably tap into a country's resources and talents, its domestic political culture and foreign policy must align. Historically, foreign policies that have had the widest amount of social support — from the French Revolution to the ideological struggles of the twentieth century — have been underpinned by broad domestic consensus about matters of justice.^[313]

In the twenty-first century, kleptocratic regimes such as Russia and China have emerged with a powerful degree of overlap between the players, networks, maneuvers, and plunder deployed to buy elite loyalty at home and exert influence abroad. The same oligarchs and other proxies whom kleptocrats rely upon to prevent democracy or rule of law from sprouting at home are also tasked with undermining democratic processes in other countries. The foreign and domestic sides of this coin — kleptocracy within autocratic countries and foreign interference to undermine the sovereignty of other countries — are rooted in the political exploitation of corruption. Corrupting foreign democratic processes also helps autocrats maintain domestic power by stoking fears of an enemy at the gates as justification for repression, by undermining liberal democracies as attractive alternatives to authoritarian rule, and by persuading domestic citizens that aggression abroad — such as Russia's unprovoked invasion of Ukraine — creates space on the world stage for the restoration of



national or imperial greatness. All this allows kleptocrats a solid degree of coherence between their domestic and foreign policies.

However, kleptocracies have two major vulnerabilities. First, nobody likes to be stolen from. Unlike in the Cold War — when autocrats were organized as communists who could at least claim some

moral high ground against supposedly cutthroat capitalists — kleptocracies have no compelling ideology. This lack of appeal was most recently displayed by Russia and China's joint response to Biden's Summit for Democracy, in which Moscow and Beijing claimed to also be democracies.^[314]

This assertion was quite absurd considering that their populations are not free to choose their leaders or policies. Second, their dirty money is stashed in the West. Because their way of maintaining power involves destroying the rule of law at home, the safest place for kleptocrats and oligarchs to protect their stolen money from future confiscation is to launder it abroad and secretly buy mansions, yachts, jets, and other assets in countries with deep markets, secure property rights, and anonymous entities.^[315] That means that Western governments could cut off the lifeblood of kleptocracy if they get serious about finding this dirty foreign money.

Anti-corruption offers a strategic imperative that has eluded the West since the Cold War ended: an organizing principle that could make foreign policy coherent with the domestic political situation. A foreign policy centered around anti-corruption would counter adversarial regimes organized as thieves weaponizing corruption rather than communists stockpiling missiles as in the past. Combatting kleptocracy can be done with more consistency than containing communism, as it requires fewer tradeoffs around supporting corrupt autocrats who keep communist elements at bay. By embracing the struggle against corruption and kleptocracy, Western foreign policy can align with people all over the world aspiring to rid their own countries of graft — a key driver of protests in recent years leading to changes in several governments.^[316] Support for rule of law around the world also advances U.S. economic interests by providing U.S. exporters with a level playing field. Facilitating such a reality positions U.S. companies to win business contracts without having to compete against bribes paid by Chinese state-owned companies or bids underwritten by the laundered money of Russian oligarchs.



As for U.S. domestic political interests, fighting corruption is one of the only issues that could receive support from most Americans, whether they hear Joe Biden elevate anti-corruption as a “core national security interest,” Donald Trump boast that he will “drain the swamp,” or Bernie Sanders castigate a “rigged system.” All those characterizations would apply to the professional enablers — such as lawyers, real estate agents, hedge fund managers, and others — who secretly handle the proceeds of corruption without having to ask where the money comes from or alert the government to suspicious activity.^[317] Biden has enjoyed broad domestic political support for sanctioning Russian oligarchs and seizing their yachts.^[318] The extent to which messages about corruption resonate with Americans is unfortunately unlikely to change soon, as it is ultimately driven by levels of income inequality that remain at historic highs. As such, organizing U.S. policy around fighting corruption will remain as well-suited to the domestic political economy as it is to the challenge of foreign kleptocracy. But the public will grow inured to the language and habituated to impunity unless political momentum starts translating into reforms and accountability at home.

These developments — kleptocracies weaponizing corruption while publics hunger for justice — point to anti-corruption as a natural ingredient to any new grand strategy meant to replace the deregulatory approach to capitalism that was in place at the end of the Cold War and then overstayed its welcome. Neoliberalism was arguably well-suited to U.S. strategic interests during the Cold War because it showed how the ideological opposite of communism could deliver more growth and liberty. American foreign and domestic policies should now contrast with kleptocracy by delivering a series of historic

results that would usher in a new era of well-regulated clean capitalism under the rule of law.

BIDEN’S ANTI-CORRUPTION MOMENTUM

During Donald Trump’s four years in office, Americans perceived corruption in the United States to be worse than ever before, as Trump attacked COVID-19 relief

**Kleptocracies
weaponizing
corruption while
publics hunger for
justice points to
anti-corruption
as a natural
ingredient to any
new grand strategy.**

oversight, whistleblowers, oil company disclosures, anti-bribery laws, and the truth about election integrity.^[319] Since the 2020 election, the United States has mobilized against corruption like never before. The first step was to use democracy and the rule of law to preserve democracy in the face of corrupt efforts to thwart the transition of power. The second step came in 2021, when President Joe Biden established “countering corruption as a core United States national security interest,” using his first national security study memorandum to task executive

departments and agencies with developing a U.S. strategy on countering corruption.^[320] The third step was in December 2021, when the release of that strategy kicked off the Summit for Democracy, which focused on fighting corruption as one of the three areas for policy deliverables.^[321] The fourth step has been the strong U.S.-led response to Russia’s invasion of Ukraine: severely sanctioning the world’s leading kleptocracy, seizing the yachts of Russian oligarchs, establishing task forces to target their other assets and enablers, and coordinating all the above with the European Union and other allies.

Together with regulatory releases by the Treasury Department, the most powerful series of U.S.

developments in December aimed to give law enforcement access to financial information about U.S. real estate, shell companies, investment advisors, lawyers, accountants, trust administrators, and other movers of dirty money. With sufficient follow-through, this initiative could show Americans what it looks like to actually do something about “draining the swamp” by cleaning up at home while also targeting that second Achilles’ heel of kleptocracies. Meanwhile, the State Department and USAID launched a host of new policy programs to hold crooks accountable, while the White House gave the entire government marching orders to coordinate and prioritize anti-corruption across multilateral engagement, bilateral diplomacy, foreign assistance, and more. Coordinated by the White House, departments and agencies must provide annual progress reports to the president, with the first such report coinciding with Biden’s planned second Summit for Democracy in December 2022. Most recently, in response to Russia attacking Ukraine, the U.S. government sanctioned the Kremlin’s oligarchy and established two new task forces to enforce sanctions and otherwise hold the Russian kleptocracy accountable: the U.S.-focused Task Force KleptoCapture and the multilateral Russian Elites, Proxies, and Oligarchs (REPO) task force.^[322]

To sustain this historic momentum, the Biden administration should prioritize seven deliverables this year.

First, the U.S. government should permanently entrench its new anti-corruption task forces and coordinating bodies into the bureaucratic systems of the executive branch. In 2021, before the Justice and Treasury departments launched Russian oligarch enforcement task forces in response to the war in Ukraine, USAID and the U.S. Department of Commerce each established an anti-corruption task force, the State Department established a coordinator on global anti-corruption, and the intelligence community committed to increasing its prioritization of corruption. Each department and agency’s progress report at the second Summit for Democracy should include plans to establish permanently resourced and well-staffed bureaus, offices, and units with strong authorities and dedicated high-level leadership. This would make the new structures robust to changes in administration and well-positioned to take on future challenges such as strategic corruption perpetrated by China.

Second, the Treasury should promulgate anti-money laundering regulations for the real estate and investment advisory markets in a manner that covers a broad scope of professionals. For real estate, that means title insurers, real estate agents, escrow agents, and real estate lawyers, and potentially also property management companies, real estate investment companies, and real estate development companies.^[323] These professionals should not only have to identify beneficial owners but also establish full anti-money laundering programs to scrutinize property transactions

and report suspicious activity. Rules for investment advisors should cover SEC-registered advisors and those managing less than USD 100 million, as well as those solely advising venture capital funds, family offices, rural funds, single-state funds, and overseas advisors with fewer than 15 U.S. clients.^[324] Separately, as Treasury continues setting rules for its forthcoming company ownership registry, it should broadly provide timely and easy access to the database and establish a system of verifying information for accuracy.^[325]

Third, the Domestic Policy Council should contribute domestic ethics initiatives to Biden’s anti-corruption strategy in 2022 just as comprehensively as the National Security Council developed foreign policy programs in 2021. Upon seeing the strategy in December 2021, former head of the Office of Government Ethics Walter Shaub was disappointed that it did not include sections on the Office of Government Ethics, whistleblowers, the Federal Election Commission, presidential emergency powers, executive branch aggrandizement, Justice Department independence, or conflicts of interest.^[326] These omissions should be remedied by December 2022.

Fourth, as USAID and State launch eight programs to focus foreign assistance on transnational corruption and support anti-corruption reformers, they should prioritize not only standing up new bureaucratic structures but also influencing facts on the ground around the world. One example of that would be establishing a new independent nonprofit insurance company to extend liability coverage at modest cost to journalists who seek protection from defamation lawsuits meant to deter them from fearless reporting. Another example would be surging anti-corruption programming in countries that entered windows of opportunity for reform in the past year or two, like Moldova, the Dominican Republic, and Zambia, as well as countries that end up entering new windows in 2022, like if incumbents ruling through cronyism such as Kassym-Jomart Tokayev of Kazakhstan or Alexander Lukashenko of Belarus get replaced by new leaders committed to fighting corruption.

Fifth, the administration should build upon and flesh out its pledge that “departments and agencies will work with partners in multilateral fora to push for ending offshore financial secrecy.”^[327] Key to ending offshore financial secrecy would be Treasury working through the OECD to lead an international campaign pressuring secrecy havens to swiftly adopt, administer, and enforce radical reforms, employing some of the same senior officials who recently orchestrated the successful campaign for a global minimum tax. And while Treasury, State, and Justice have other carrots and sticks to encourage offshore jurisdictions to turn away from offering financial secrecy, USAID and Commerce bring diverse sets of tools, from support for the local anti-corruption civil society to commercial diplomacy and economic assistance, to help havens pursue alternative development plans. Countries do not intentionally set down the path of becoming the secrecy haven for the world’s worst dictators, crooks, and human rights abusers, but encouraging them to

abandon the associated revenue streams would require an interagency strategy invoking the full toolkit of economic statecraft. This interagency initiative should be led by the White House and undertaken in close collaboration with the United Kingdom, given that the worst offending small island havens are British Overseas Territories and crown dependencies.

Sixth, the Biden administration should work with Congress to advance a comprehensive program of anti-corruption legislation — such as the following examples — unseen since the historic series of new laws that followed Watergate. Most importantly, and key to ensuring Treasury spends the last two years of Biden's term implementing landmark reforms, the administration should follow through on its pledge to work with Congress on legislation like the bipartisan Enablers Act.^[328] Congress should also grant the administration's request to boost the budget of the Financial Crimes Enforcement Network and update the Corporate Transparency Act to make ownership data public and broaden the scope of reporting entities to cover all U.S. trusts, partnerships, foundations, and any other entities and arrangements deemed important by Treasury. The Protect Our Democracy Act would guard against presidential abuses of power, from rules governing emergency declarations and foreign emoluments to transparency around presidential pardons and tax returns. The Ban Congressional Stock Trading Act would prohibit lawmakers and their families from buying and selling stocks while in office. The Foreign Extortion Prevention Act would criminalize the demand side of bribery. Congress should resuscitate the five out of six counter-kleptocracy bipartisan provisions that were originally included in last year's defense authorization act before being removed at the last minute by a few individual Republicans.^[329]

Seventh, the Biden administration should build on its close coordination with allies on Russia sanctions to similarly coordinate anti-money laundering reforms with the four major democracies that — together with the United States — are home to most of the professional non-bank enablers who move and hide dirty money on behalf of the world's worst dictators and crooks. In particular, the United States and Australia are the only two democracies that still need to impose anti-money laundering laws on non-bank enablers, while the United Kingdom and Germany need to enforce the rules they have on the books, and Switzerland needs both a broader law and stronger enforcement. All democracies would do well to dedicate more resources toward administering transparency mechanisms like ownership registries and enforcing financial integrity laws and other measures of accountability. That diplomatic effort would capitalize internationally upon the Biden administration's leadership to clean up the financial system at home by pressuring key allies to do the same, forming the foundation for a broad-based international system to keep out dirty money.

CONCLUSION

Clean capitalism under the rule of law offers an appealing contrast to kleptocracy, analogous to how free-market

deregulation once outmatched communism, making anti-corruption just as essential to U.S. grand strategy in the twenty-first century as neoliberalism and containment were during the Cold War. Corruption is also public enemy number one within democracies, where publics are losing faith in the fairness of their political and economic systems.

Building resilience to this threat through historic and concrete anti-corruption reforms would show that democracies can deliver for their citizens and defend themselves from autocratic corruption in ways that are coherent with the domestic values of inclusive and liberal democratic capitalism under the rule of law.

[313] Henry A. Kissinger, "Domestic Structure and Foreign Policy," *Daedalus* 95 (2) (Spring 1966): 503-529.

[314] Anatoly Antonov and Qin Gang, "Russian and Chinese Ambassadors: Respecting People's Democratic Rights," *The National Interest*, November 26, 2021, <https://nationalinterest.org/feature/russian-and-chinese-ambassadors-respecting-people%E2%80%99s-democratic-rights-197165>.

[315] Paul Massaro and Amelie Rausing, "Russia's Weaponization of Corruption (And Western Complicity)," *Commission on Security and Cooperation in Europe*, June 6, 2017, <https://www.csce.gov/international-impact/russia-s-weaponization-corruption-and-western-complicity?page=5>.

[316] Samantha Power, "Administrator Samantha Power on a New Vision for Global Development," remarks given at Georgetown University, Washington, DC, November 4, 2021.

[317] Josh Rudolph, *Regulating the Enablers: How the U.S. Treasury Should Prioritize Imposing Rules on Professionals Who Endanger National Security by Handling Dirty Money*, (Washington: *The Alliance for Securing Democracy*, September 2021), 3.

[318] Scott Clement, "A Shift in Americans' Willingness to Pay More for Russia Sanctions," *The Washington Post*, March 4, 2022, <https://www.washingtonpost.com/politics/2022/03/04/americans-are-united-behind-russia-sanctions-even-if-it-increases-prices/>.

[319] "United States - Transparency," *Transparency International*, accessed December 7, 2021, <https://us.transparency.org/>.

[320] President Joseph R. Biden, "Memorandum on Establishing the Fight Against Corruption as a Core United States National Security Interest" (Washington DC: *White House*, June 3, 2021), <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/06/03/memorandum-on-establishing-the-fight-against-corruption-as-a-core-united-states-national-security-interest/>.

[321] "United States Strategy on Countering Corruption," *The White House*, (Washington: *White House*, December 2021), <https://www.whitehouse.gov/wp-content/uploads/2021/12/United-States-Strategy-on-Countering-Corruption.pdf>.

[322] Attorney General Merrick B. Garland Announces Launch of Task Force KleptoCapture (Washington: *Justice Department*, March 2, 2022); U.S. Departments of Treasury and Justice Launch Multilateral Russian Oligarch Task Force (Washington: *Treasury Department*, March 16, 2022).

[323] Josh Rudolph, *Regulating the Enablers*, 49-51.

[324] Josh Rudolph, *Regulating the Enablers*, 20-23.

[325] Josh Rudolph, "Regulating Beneficial Ownership for National Security," *The Alliance for Securing Democracy* (blog), April 29, 2021, <https://securingdemocracy.gmfus.org/regulating-beneficial-ownership-for-national-security/>.

[326] Walter Shaub, *Twitter Post*, December 7, 2021, 12:12 p.m., <https://web.archive.org/web/20211207201210/https://twitter.com/waltshaub/status/1468312387732262917>.

[327] "United States Strategy on Countering Corruption," *The White House*, (Washington: *White House*, December 2021), 28.

[328] Without mentioning the Enablers Act by name, Biden's anti-corruption strategy unambiguously described its key provisions when committing to "[work] with the Congress as necessary to secure additional authorities ... to make sure that key gatekeepers to the financial system—including lawyers, accountants, and trust and company service providers—cannot evade scrutiny." *United States Strategy on Countering Corruption*, *The White House*, 11 and 23.

[329] Josh Rogin, "Opinion: Backroom Defense Bill Lets Dictators and Kleptocrats off the Hook," *The Washington Post*, December 8, 2021 <https://www.washingtonpost.com/opinions/2021/12/08/backroom-defense-bill-lets-dictators-kleptocrats-off-hook/>.

Josh Rudolph is Fellow for Malign Finance at the Alliance for Securing Democracy (ASD) at the German Marshall Fund. He is an expert in the financial channels that enable autocratic efforts to undermine and interfere in democratic institutions. Rudolph has researched and authored leading work on authoritarian malign finance, strategic corruption, and kleptocracy, as well as public policies to deter, detect, defund, and defend against these threats. He regularly gives private briefings and public testimonies to governmental bodies, including the U.S. Congress to the European Parliament. Josh Rudolph frequently appears on national and international television, radio, and podcast programs, and has published work in *The Financial Times*, *Foreign Affairs*, *Foreign Policy*, *The American Interest*, *Dallas Morning News*, *Just Security*, and *The Hill*. Before joining ASD, he served in a range of U.S. Government positions at the intersection of finance and national security. Josh is currently serving a full-time assignment as Senior Policy Fellow on USAID's Anti-Corruption Task Force under the Intergovernmental Personnel Act.