

Summary of Proceedings

**ORGANIZED CRIME AND
THE CORRUPTION OF STATE INSTITUTIONS**

Prepared by
Bill Lahneman and Matt Lewis

November 18, 2002

The Inn and Conference Center
University of Maryland, College Park, MD

Organized by
The Center for International and Security Studies at Maryland
University of Maryland, College Park, MD

Panel 1: The Effects of Organized Crime on Governments

Louise Shelley, director of American University's Transnational Crime and Corruption Center, said that all discussions about organized crime should be understood in an historical context. The relationship between organized crime and government does not form overnight. For example, the roots of organized crime go back to the 1860s in Italy, and even earlier in Japan although the state-organized crime relationship was shaped by events in the 1920s in Japan. Shelley maintained that organized crime groups have survived because they have performed functions for the state and have developed along with the state.

Shelley said that periods of rapid economic expansion or post-war reconstruction allow openings for greater criminal involvement with the state. Often, militaries are directly involved in organized crime activities. Afghanistan, Colombia, and the Balkans are examples of such post-conflict situations. Mozambique is an example of where there has been peaceful conflict settlement but major organized crime penetration into the state. Property redistribution and privatization also foster the conditions that allow organized crime to take hold.

Shelley said that criminals seek political power or influence consciously or unconsciously, aligning themselves with parties or personalities. There is no ideological determinant of where they are going to go, but they often use nationalism as a cover for their actual motives.

Shelley stressed that success in combating organized crime comes from government and civil society working together. There must also be broad citizen and media involvement.

Nikos Passas of Temple University began his presentation by noting that criminal groups seek to corrupt state institutions primarily to influence societal actions that affect their legal or illegal business environment. They try to get public officials to act in the best interests of their private concerns, regardless of what is best for the public interest. Corrupters also seek the covert privatization of government functions. The discussion of corruption transcends the debate between organized crime and white-collar crime.

Passas asserted that kleptocrats – ruling elites whose principal motive for entering government is to rob the state of resources – are devastating to their economies. The effects of this “grand or widespread corruption” affects interstate relations, lowers the quality of life, slows human advancement, and facilitates the violation of human rights.

Politically, corruption damages relations with aid sponsors (i.e. sympathy fatigue), helps protect dictators, and increases refugee flows and illegal immigration. Additionally, corruption normally preserves the *status quo* by fueling fatalism and preserving inequalities of power.

The economic effects of corruption include incomplete public works, poor infrastructure, low educational standards, general government inefficiency, poverty, food shortages and disease. Corruption also affects the international capital system.

Organized crime and terrorism are intertwined, but to different degrees at different times and places. This relationship can include both legitimate and illegitimate enterprises.

Passas noted that a high level of corruption is not necessary to enable criminals or terrorist groups to raise money for individual terrorist operations.

Passas observed that the penetration of a government by organized crime can produce some positive effects. It usually reduces violence, and imparts a degree of predictability to government policies.

Passas also noted that intelligence and law enforcement agencies are better equipped to deal with organized than disorganized crime. But defining success is different when evaluating organized crime and terrorism. With terrorism, 99% of an organization's assets can be captured, but the 1% that remains can still pose a huge problem. With organized crime on the other hand, if you stop 30-40% of criminal activity, that is a positive result.

Phil Williams of the University of Pittsburgh presented "Organized Crime and the State: A Framework for Analysis." He addressed organized crime from a broad perspective, contending that organized crime is partly related to a new medievalism that reveals a crisis of state authority requiring a new security paradigm for the 21st century (i.e. the forces of disorder vs. the forces of governance) at the national, regional and global levels.

Williams asserted that organized crime is most often found in network form and is most concerned with profits. (It is important to distinguish organized crime activities from organized crime networks.) Profits are only a means for organized criminals, and not an end in themselves. Money is raised for both macro (strategic) and micro (operational) levels.

The macro level is expensive and includes terrorist infrastructure, terrorist training, terrorist efforts to acquire WMD and to buy government support. The micro level is where cells engage in drug trafficking, credit card fraud and robberies in order to fund operations.

Warlordism is a complex hybrid of political competition for power and wealth obtained through the control of territory, markets (legal and illegal) and natural resources. It is a mix of organized crime, rent-seeking insurgency and ethnic warfare.

The threats and vulnerabilities of governments to macro and micro level threats and warlordism depend on the effectiveness of existing governance structures and efforts at the national, regional and global levels.

It is important to understand the political-criminal nexus (i.e. the distribution of power and the flow of influence). Here it is important to distinguish between the weak state where the issue is primarily one of capacity and the strong state where there is opportunity for choice between collusion and confrontation.

Williams listed the following points of state vulnerability:

1. Territorial vulnerability (urban/rural/no-go zones) and border controls.
2. Functional holes (regulatory framework, criminal justice system). Can be either filled or exploited by organized crime.
3. Economic entity (economic management leads to macroeconomic problems). Also an attractiveness of organized crime to certain sectors (i.e. tourism and financial).
4. Underdeveloped social control institutions, electoral systems, and corrupt distributive entities.
5. The state's legitimacy and the patterns of affiliation in the society (i.e. clan, tribe, family).

Organized crime uses coercive diplomacy—mix of corruption and violence. Their networks extend from the underworld to the upperworld and they try to consolidate their gains into political capital.

Panel 1 Discussion

John Steinbruner asked if it was sensible to think about organized crime/corruption as a global phenomenon, and how accurately could one measure this phenomenon? **Nikos Passas** noted that, since organized criminal organizations are very fluid, measuring their cohesion and actual performance is difficult and, as a result, we don't necessarily have the empirical evidence to paint the comprehensive picture that we would like. However, he stated that the phenomenon is definitely global. It is difficult to tell if it is increasing or decreasing because there is more attention being paid to it after 9/11, so it seems like there are more examples, but in fact it is hard to determine an exact measure. **Louise Shelley** said that changes in wealth distribution between wealthy and non-wealthy countries have increased. Accordingly, restrictive policies by wealthy countries that keep out or limit migration will push people to use the services of organized crime to facilitate their movement to more affluent societies. This is evident on the southern border in the United States but is also observed in many other regions. We know that the sex trade is increasing because in the last two decades there has been significant inflation in consumer goods in such important markets as London but not in the cost for sexual services.

Passas said that organized crime can exploit many other political and economic asymmetries that exist in today's world in addition to the opportunities presented by increased restrictions on the movement of people. Additionally, government promises unfulfilled lead to organized crime.

Raphael Perl said that, from a congressional perspective, people hook their budgets to current threats. Today there is pressure to link crime to terrorism, as funding to counter terrorism is more readily available. However, when we look at the organized crime-terrorism nexus, we must keep in mind that these are two different spectrums. An important challenge facing the national security, intelligence and law enforcement communities is to what degree organized crime can be used as an ally to combat terrorism. Even in organized crime groups there is patriotism; how can this be exploited? **Mark Galleotti** said he was skeptical of using organized crime to fight terrorism because organized crime can sometimes be terrorism.

Deborah Diamond asked whether panelists viewed organized crime as a threat to national security while intelligence and law enforcement assets are focused on combating terrorists. **Peter Reuter** said that it's hard to provide a basis for the claim that organized crime poses a security threat. It is a mixture of international trading and extortion, but extortion of officials and others outside of the United States. **Phil Williams** said that threats depend on vulnerabilities. Organized crime is a law and order problem in most countries. Nuclear trafficking and arms trafficking is also a huge issue. It is difficult to find a direct link between organized crime and national security, but it affects the international environment. **Shelley** said organized crime affects oil and gas issues. There is an intersection of corruption in the oil and gas industry, especially in Georgia. It is definitely a national security issue. **Michael Levi** said that it depends over what term, short or long, are we determining that national security is at stake? National security may not be at stake in the short-term, but it surely is in the long-term.

Jay Okey asked about the political manifestations of organized crime. He said he understood that transitional states are vulnerable but we have heard less about the extremes, i.e., the rich and poor countries? **Passas** said that, for criminal enterprises to operate, state institutions must be functioning in order to make their illicit business activities more predictable. Thus, there is a definite incentive for organized crime to operate in relatively stable societies. In such circumstances, there is a nexus between criminals and legitimate business. **Passas** said that underdeveloped countries have had troubles all along. As far as the west is concerned, we have been unsuccessful. Supply of illegal goods is up, so price is dropping. Border control is critical, and it is something that western states have done poorly. In border control cases, outreach and alliance building is critical. Iraq is one example where there is an infrastructure for everything, but there is no control of borders. Only 20 percent of illegal items is intercepted by Customs, largely because the government has neglected defenses against low-tech smuggling methods. **Perl** said that terrorists exploit mismanaged states and that corruption facilitates mismanaged states. **Williams** said that mismanaged states are precisely where organized crime and their money set up bases of operations.

Williams said that in Africa organized crime is hopefully going down. There has to be at least cosmetic conformity in multilateral institutions. Terrorist groups do not launder a lot of money, but they move a lot of it.

Panel 2: Organized Crime in Latin America

Peter Reuter of the University of Maryland discussed organized crime and corruption in Colombia. He asserted that Colombia is the only case where a criminal group has directly attacked a modern government. Is this organized crime though? Drug trafficking in Colombia has affected the state and local governments.

Reuter asked if organized crime requires corruption. Without centralized corruption, it is difficult to control the criminal market. Corruption allows the police to sell monopoly control of illegal activities, making the crime level more predictable and manageable for them.

Reuter said that the Medellin cartel was not a cartel, but a syndicate, since it could not exclude or set prices. Medellin diversified from drug trafficking because it needed front organizations to launder its vast revenues from the illegal drug trade. The cartel had to find creative and legitimate ways to integrate into the economy. The Cali cartel, on the other hand, had the image of Joe Kennedy in their minds – bootlegger become legitimate political player.

In the early 1980s, the cartels did not have small armies or militias, but they did purchase violent services from guerillas. By the late 1980s, the Medellin group developed the violent capacities that were needed to protect their agricultural lands. In 1989, they attacked the state directly and engaged in terrorism, causing the government to go after the group's leaders.

In striking at the Cali cartel, the government response was a continuation of Medellin; not necessarily a response to anything specific the Cali traffickers had done, since its tactics were specialized and less confrontational.

Now the industry is decentralized. There are numerous small smugglers and there is a niche for guerillas. Corruption remains rampant.

Why did these groups emerge? The pre-condition was a weak but not a failed state. There was a potential for effective centralized corruption that resulted from a lack of legitimacy of the political establishment encouraged through high-level political corruption.

Ivelaw Griffith of Florida International University spoke about “Vulnerability & Corruption in the Contemporary Caribbean.” He opened with a Robert Keohane quote saying that states that are relatively powerful in most areas are nevertheless powerless elsewhere. He contended that preventing organized crime is one area in which powerful states have been relatively powerless.

Griffith chose to focus on two questions. (1) What are some areas where non-state networks demonstrate their power in the Caribbean? (2) How do those actions impact the vulnerability of states in the Caribbean?

He observed that the following conditions are characteristics of Caribbean non-state actors:

- Organized, though not always with tight hierarchical structures
- Transnational
- Multidimensional operations & impact, though not uniformly so
- Trans-nationalist, multidimensionality of operations

Griffith said that organized crime groups in the Caribbean region primarily engage in narco-trafficking, migrant smuggling and illegal arms trafficking. Poverty, institutional weakness and poor working conditions facilitate the impact of corruption on the state. While public sector corruption gets the most press and greatly affects the state, there is also a great deal of corruption in the private sector as well. Corruption has a multidimensional impact on state governance, integrity and sovereignty because it compromises agents and agencies of national security and public order, it violates laws and norms, causes the public to lose confidence in the government,

affects FDI, increases costs to administer the government and undermines the positive sovereignty of states.

To combat organized crime and corruption in the Caribbean it would require new conventions and laws, new arrangements and institutions and adaptations in policy and practice.

Griffith concluded that public policies to fight organized crime can have negative consequences. Accordingly, as we think of how to cope with crime, we must be mindful of unintended consequences.

Thomaz G. Costa of the National Defense University discussed Brazil, Argentina and Paraguay's tri-border area. He outlined three models for the relationships between organized crime and government that prevail in the region.

- Model I - Organized crime exists as a deviant organizational behavior/practice. In these cases, the state combats it within the limits of marginal returns, and of accepted social practices (racketeering, prostitution, and contraband are typically seen as part of normalcy).
- Model II - Organized crime is a marginal behavior/practice in relationship to the government. The state fights the practice but containment or elimination is hampered by fear, lack of resources, slow judicial processes, lack of confidence of citizens in law enforcement, and by the bribing of individual public officials in strategic positions.
- Model III - Organized crime encroaches upon government structures, using public resources to advance individual and collective criminal gains. The instruments of the state, including the police force, become the symbiotic vehicles for the survival and permanence of crime cartels and the political regime itself.

Costa also said a fourth model could be described where an individual or group of individuals in power drain the public coffers or demand bribes from citizens for provision of services.

Costa said conditions in the tri-border area fit Model II. A synergy of factors has established a unique scenario for the association of international terrorists with the local organized crime environment and social networks. The concern with the presence of Muslim extremists in this region stems from the impact of social conditions, economic incentives, permeable political structures and weak governance locally, as well as from consequences of events elsewhere that cause individual or family displacement.

Characteristics of the tri-border area:

- The central geographic location tying three countries with unstable economics, mixing four currencies systems.
- Centers of tourism: the falls of Inuacu, with 3-4 million visitors/year, and the Itaipu Dam, with 500,000 visitors/year.

- Weak exercise of customs and immigration control.

The resulting dynamics of the region:

- Trade hub; extensive import and export of products sensitive to currency exchange fluctuations, counterfeit products and high value goods.
- Extensive currency exchange opportunities.
- Illegal activities.
- Extensive social mobility.

The resulting issues:

- Illegal activities are not salient when compared to other problems.
- Terrorism is not perceived as a direct threat.
- Illegal economic activities are perceived as a social valve.
- Bottlenecking of the judiciary system weakens law enforcement.
- The intelligence dilemma: can anyone confirm the presence of terrorists in the region?

Panel 2 Discussion

Phil Williams said that Russia and Italy are also examples in which organized crime groups have gone after governments; Colombia is not the only example. It is important to understand the hierarchy vs. leadership distinction. With the FARC there is not a consistent methodology.

Peter Reuter replied that Colombia is different in that organized crime performed a frontal assault against the government, rather than those criminal justice officials who were pursuing it. This is different from what happened in Italy and Russia. On another point he said that regional monopolies might be associated with small corners of the country, but it is unclear to what extent.

Louise Shelley asked how significant is the trickle down affect from money laundering? **Ivelaw Griffith** replied that the money-laundering trickle down is not significant in absolute terms, but relatively speaking it can be. He noted that the state also benefits from money laundering because there are unwitting state entities that participate.

Raphael Perl pointed out the ease of obtaining new and different identities in Latin America and asked how the United States could work with countries to prevent this. **Nikos Passas** interjected that getting multiple identities is also very easy in Europe.

Ivelaw Griffith said that multiple sovereignties also present a complicating factor, with attendant problems. For instance, in the Caribbean, in addition to the independent nations, there are still colonial entities and, hence, French, Dutch, and British jurisdictions, with differing laws, norms, and operational modalities.

Thomaz G. Costa asked why do we have the tri-border area where it is? Why do these areas not transform themselves? He stated that property rights are the biggest reason. The United States is

not threatened by organized crime because organized crime eventually moves their assets to the United States. It is important to look at the weakness and fragility of the states. He observed that multiple identities are also a huge issue in the United States, especially in the credit card area.

Panel 3: Organized Crime in Eastern Europe and Eurasia

Mark Galeotti of Keele University (UK) presented “The Limits on Statist Cohabitation; Organized Crime and the Russian State.” He said that Russian organized crime has reached a level of maturation. Out of the process has come large groupings/networks that generally lack a formal structure but possess some sense of identity to an area. For example, he said that Chechens are a known quantity in terms of organized crime. Chechen organized crime is sort of a “brand-name” that connotes the same thing to most Russians.

Galleotti said that most criminals are unsophisticated, but there is a sophisticated sociology that has emerged around organized crime in Russia. Russian organized crime is very bureaucratic in that mid-level managers have a portfolio of businesses. They operate within a spectrum where the balance between opportunity and risk is tenuous.

How does this affect the Russian state? Galleotti stated that Putin does not seem bothered about organized crime, but rather is more concerned with power. For Putin to take on organized crime he will have to take on other authorities that directly support him. In any case, the Russian police do not have the resources to do the job. Organized Chechens still operate around Moscow; as long as they don’t take a tough stand against the government, they are left alone.

Galeotti concluded that organized crime in Russia is a sophisticated system. Most organized criminals don’t have to penetrate Russian business because they are already in business.

Nikos Passas discussed trade diversion and the illicit use of correspondent banking by organized crime. Correspondent banking allows a foreign bank to facilitate transactions with customers through a U.S. host bank. He noted that, under current regulations, banks will raise red flags only if there are suspicious wire-transfer activities. He also quickly outlined nested correspondent banking and basic hawala.

Passas then focused on money laundering and transfers in Ukraine, a country where most of the money flows through financial institutions that are legitimate. Many Ukrainian financial institutions have private security and counter-espionage capabilities that give them protection from within as well as from outside. In Ukraine, criminal activity involves actions by officials of financial institutions through the use of fictitious private enterprises for the conversion of money and tax evasion.

Michael Levi of Cardiff University (UK) talked about the wider political perspective of crime. He mentioned the role of media and said in many cases the media is also corrupt. We drive out unorganized crime by ratcheting up social control, raising the barriers to entry into crime. In

most societies, organized and unorganized crime cohabit. Moreover, neither organized crime nor corruption arrive fully formed either as forms of offender collaboration nor, often, as goals of individuals, except where there exists already a highly criminalized culture. One can have serious corruption without organized crime if a country is too poor to be attractive. Depending on criminals' wealth and social embeddedness, bribery cultures are in a sense risky for organized criminals because foreign powers can corrupt with even larger bribes: Afghanistan might be an illustration. In the Balkans, sports represent a major cultural arena, which give organized criminals, politicians and businesspeople a legitimate excuse for mixing together without having to use phones or leave suspicious records, and for granting valuable hospitality. We can construct these as laundering vehicles too, since turnstile data – if they exist at all – can be manipulated.

Despite credibility issues and sample sizes of 70-170 firms, the World Bank construct of Business Environment and Business Performance showed large variations in the types of decisions purchased by bribes as well as levels of bribery, with Latvia being particularly affected. But the role of *organized crime* in that State capture is harder to define. Only Lithuania of EU candidate (now accession) countries has a truly independent anti-corruption agency and it is not primarily concerned with organized crime (though to the extent that organized crime depends on the corruptibility of public authorities, transforming the latter will affect the former).

Louise Shelley contrasted the present situation in Russia and Ukraine in regards to the relationship of crime groups and the president. In Ukraine, President Kuchmas has close connections with the criminal world and many consider him a criminal. However, while criminals had close ties to president Yeltsin, the same is not true with Russian President Putin. Yet regions of Russia are dominated by organized crime. In Georgia, there are many people with close ties to the criminal world in leading governmental positions. Many Balkan and Baltic states' governments are also infiltrated by organized crime.

The amount of crime in regions close to Chechnya is significant. Conflict, organized crime and regular crime are correlated in conflict areas and have major economic impacts. In regions without such violence, organized crime victimizes small businesses that cannot pay protection monies.

The Russian military is also directly involved in weapons sales and organized crime. The immunity, real or implied, under which the military operates has had a significant impact on the organized crime problem. Drug use in the Russian military is rampant.

In the Balkans, peacekeepers contribute to organized crime activity, especially in brothels and the sex trade. However, peacekeepers do not understand that they are contributing to organized crime activity.

The result of these situations is that citizens lose faith in the legal system and those citizens who do testify against organized crime syndicates are not protected. There is a problem of corruption at all levels of the court system.

Success in countering organized crime and corruption cannot come from government alone. Limitations that have been put on civil society and the media in Russia reduce the capacity to mobilize against organized crime. Domestic forces must be encouraged through the use of external pressure by foreign governments and multinationals.

Panel 3 Discussion

Phil Williams asked how important is legitimization as an option? **Michael Levi** replied that making Russia meet international standards would have a chance to bring them into line. **Mark Galleotti** noted that criminals wouldn't totally divest themselves of illicit activities. Furthermore, it's often hard to know what is legitimate and what is not. Under Putin, Russia is coming to realize that organized crime is a national security issue. It drains the national security budget and leads to warlordism. How do Chechens arm themselves? The answer to this question is obvious – through criminal activities. However, Russian crime magnates want to become legitimate now.

Nikos Passas said that information about financial institutions and transparency is nothing to get too optimistic about. How do we identify a transaction as suspicious in the first place?

Panel 4: Organized Crime in Africa and Asia

Obi Ebbe of the University of Tennessee-Chattanooga said it is important to define what we mean by organized crime in Africa, since it is not the traditional “Italian type.”

He provided six factors that frame organized crime in Africa:

- Colonial amalgamation and the concept of the “national cake”; (i.e. everyone wants a piece of the national cake).
- Colonial administrators and foreign contractors (over-valued contracts).
- Political independence and the emergence of dictatorship. Tribal leaders used dictatorships to cover the leader's criminal enterprises, resulting in predatory states. (A predatory state is a government that resorts to wholesale abuse of government power and where the head of state rules and decrees much like the head of an organized crime family using criminal individuals and syndicates to loot his country's treasury.)
- Socio-cultural factors: secret societies.
- High amount of unemployment among young workers and university graduates.
- Africa's central location in the intercontinental drug trade.

Ebbe explained that in Africa there is government-organized crime and business-organized crime. Government-organized crime can be widespread with high-level ministers and heads of state acting as the “boss.” Business organized crime focuses on the traditional types of organized crime, such as child and slave trafficking, trading of body parts, theft and terrorism.

Steps need to be taken to control organized crime in Africa. One effective policy is in South Africa, which has an information compensation system where the informant is given 1/3 of the value of the confiscated commodity. Regional cooperation and INTERPOL bureaus need to be strengthened and expanded. Finally, national legislatures need to enact and enforce legislation against organized crime and money laundering.

Aileen Marshall, of the Global Coalition for Africa said organized crime is increasing in Africa and most African countries are very vulnerable to organized crime. Corruption or organized crime is not the focus of western policymakers toward Africa because Africa is perceived as a place of poverty and conflict. However, Africa is not homogeneous. Botswana has little corruption while Nigeria is very corrupt. Corruption matters more in Africa because, with its low stage of development, there are more problems in coping with these issues.

Drug trafficking is an entry point to Africa for organized criminals in all cases, and African countries are major transit locations. However, there is a progression to a mix of legal and illegal activities that is based on countries and opportunities. Organized crime groups are not hierarchical in Africa and they tend not to change with the state.

Organized crime's penetration of African governments is difficult to assess, but corruption is the entry point. Groups penetrate governments for different reasons: facilitation of activities, protection and collusion.

Countries in transition, in conflict, where governance has broken down, and where the legitimacy of the government is questioned are targets of organized criminals. Almost all states in Africa fall into one of these categories.

It is difficult to ascertain the overlap of crime and terrorism. Some groups could share objectives and terrorists could use some organized criminal groups. It is more likely that terrorist groups are engaging in organized crime, not vice versa. Organized criminals don't want to get too involved in terrorism because it would eventually endanger their profit-making ability.

Governments have responded but in most cases are ineffectual. Most African governments are slow to recognize problems, others are overwhelmed by other problems and law-enforcement agencies are ill equipped to deal with the problem. Enhancing law enforcement and domestic legislation is critical to targeting organized crime.

Raphael Perl of the Congressional Research Service discussed corruption in North Korea. While North Koreans are starving, the country is not underdeveloped in the sense of industry and technology (i.e. weapons programs). It is a country where the state is the criminal enterprise. Criminal activities bring in \$1 billion a year for North Korea.

Perl described corruption as a societal dynamic in three models. In Model I, the corrupt official or "general" makes a deal and shares the pot; in this system, everyone has clear expectations that are generally met. In Model II, the general takes all and keeps it for himself—he doesn't share

because he doesn't have to share. In Model III, there are low-level payoffs throughout the society—one does things for people and something reasonable and proportionate is expected in return. Models II and III are the types of corruption seen in North Korea. North Korea has in the neighborhood of a \$1 billion trade deficit and it makes this up through organized criminal activity, especially the drug trade and arms sales.

Corruption has had a strong impact on North Korean society. We are beginning to see rogue criminal operations from North Korea. Increasingly, corruption and criminal activity independent of the state can be expected to take on a life on its own. Increasingly, mid and low level bureaucrats have adopted corruption to ease the impact of economic deterioration. What type of organized crime and corruption occurs in North Korea? It occurs at all levels. For example, at the lower-levels, it occurs at farmers markets and through hiding of food by procurement authorities. The North Korean government also uses the tactic of asking for donations from international NGOs, some of which will respond by giving equipment while others will give cash. Perl noted that cash donations are more likely to be retained by North Korean elites than be used for humanitarian purposes.

Some policies make corruption inevitable. Managers of state enterprises have been given the freedom to run their own operations and must find their own sources of financing. Internationally, North Korea's embassies are largely self-supporting. If people get a chance to leave North Korea, they must often pay bribes, including bribes to soldiers at the border.

Perl stated that we know the least about the North Korean elites, although there are extensive reports about their indulgence in consumer items, and reports that the Kims have stashed over \$4 billion overseas.

How do we get more information? The best way is through defectors. Second, NGOs active in North Korea can be a good source of information. Third, it is critical to trace money sources. One of the major weaknesses that can be exploited for information is when North Korea attempts to interact with the criminal underworld. Generally, we should seek to find out about the Kim family's finances, mine uncooperative nations with which North Korea trades (such as Iran, Libya, Iraq—as well as Pakistan, Russia, and China) for information, seek out the North Korean Diaspora, and utilize their special economic zone area near the Chinese border as a source of information on corruption patterns.

Perl concluded by stressing that corruption, though not without considerable negative aspects, is a powerful tool for promoting consumer sovereignty and free market activity in a closed society such as North Korea.

Panel 4 Discussion

John Steinbruner asked if a framework similar to that used by Raphael Perl, essentially examining fiscal intakes, could be used in Africa? **Aileen Marshall** replied such a framework might work in Nigeria and South Africa, but elsewhere it would be more difficult to apply.

Jay Okey asked if an increase in organized crime could actually help things? Would it deliver better services? Is it a sign that economies are strengthening? **Aileen Marshall** said that this is a rational, but dangerous, assumption. African countries are investment hungry. Accordingly, how investment is controlled is very important. Where large-scale organized crime exists, there will be a large criminal economy parallel to the legitimate economy that these governments seek, which is harmful. If you allow organized crime to become too strong in the early stages of a country's development, the economy quickly becomes path dependent.

Thomaz G. Costa asked if there is any hope for Africa? **Aileen Marshall** said that there is the presence of large amounts of national resources in many places where governments lack legitimacy, so the effective management of state institution and resources is critical. Botswana is an interesting case because it was a poor country before independence, and it established good governance. In Botswana there was at least some institutional framework for fighting corruption and organized crime, while Tanzania is a place with extensive corruption. So there is hope for some countries, but less for others.

Raphael Perl asked if Africa warrants added attention as a potential hotspot for international crime? **Aileen Marshall** said countries like Tanzania, Kenya and Sudan warrant examination to detect such trends. Additionally, post-conflict countries such as Angola and Congo are also important candidates for penetration by organized crime.

Session 5: Roundtable Discussion

Phil Williams said it seems like a criminal state might be replaced with a criminal society in North Korea. We must also ask what are the lessons from Milosovic? Williams then offered a series of questions, observations and conclusions about the day's discussion.

- What are the positives of organized crime? Could it be an alternative driver for development?
- Organized crime provides safety nets.
- The nexus of terrorism and organized crime is tenuous.
- Many countries that provide havens to *al-Qaeda* are not countries with significant organized crime groups.
- Most organized crime groups aren't interested in monopolies, but rather in market share.
- It is important to understand the differences and relationships between the subsistence economy and the illegal economy.
- The structure of organized crime groups is important. Is there a hierarchical or a network structure?
- An organized crime network is not a place where resources are concentrated.
- One theme of the day is to expect the unexpected. We heard about Nigerians in Moscow and Chinese in Tokyo.
- Generational change will take place. Are we going to see a second generation of oligarchs in Russia?

- Organized crime groups are seeking to diversify their activities.
- There is a difficulty of getting appropriate tools to the appropriate entities of the state to combat organized crime.
- It is important to differentiate between captured states, criminal states, contested states
- We have to examine how to change the incentive structure.
- We must also ask what is the appropriate focus and level of analysis? Is it the state or the sub-state? One important example in this regard is Ukraine.
- The day's discussion regrettably omitted China and Indonesia.

Michael Levi said that it is important to differentiate between organized crime and organized crime groups. He made the following points:

- It is likely that most people will forget about Africa in the end because they think about organized crime in terms of national interest.
- Corruption will be bracketed off as a governance issue.
- It is important to examine what leverage can be exercised over countries that are considered “basket cases,” such as Bulgaria and Romania.
- Countries can be corrupt on more than one level.
- Few benchmarks can be used to measure organized crime.
- The issue of Diaspora is one theme that has been repeated. Diasporas have always allowed strong international networks to flourish along ethnic lines.

Raphael Perl said that the day's discussions seemed to indicate that there are links between organized crime and terrorism. How do we make it attractive for organized crime not to work with terrorists? What are the incentives?

John Steinbruner said that we should attempt to refine our methods for classifying groups into legal and illegal categories. For example, *hawala* has many practical and legal uses.

Thomaz G. Costa said the Brazilian government thinks there should be a greater international focus on the tri-border area.

Jay Okey said that many countries are becoming more and more concerned about the PR obstacles they face. When it comes to organized crime, are there some countries that we should be more concerned about than others? It's a phenomenal challenge of prioritizing and storytelling. We have to determine what is the most immediate need—here we see a metaphor to the AIDS issue—it can't be “solved” but it can be managed.

John Steinbruner said that we face issues of defining and protecting legal integrity. How much organized crime can be tolerated and what do we do about it? We still don't understand the consequences of the actions we are taking today. We need to learn how to control what we are doing especially if increased transnational organized crime will lead to global economic decay. Issues of prevention and strengthening enforcement mechanisms revolve around enforced transparency. The destructive dynamics of organized crime and transparency are significant especially in terms of civil conflict.