

Corruption Threatens to Bring Down China and Russia

By [Washington's Blog](#)

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Region: [Asia](#), [Russia and FSU](#)

Corruption Threatens BRIC Giants

We pointed out last year that [China is plagued by corruption and phony bookkeeping](#).

Reuters [notes](#):

President Hu Jintao warned China's incoming leaders on Thursday that corruption threatened the ruling Communist Party and the state

Hu acknowledged that public anger over graft and issues like environmental degradation had undermined the party's support and led to surging numbers of protests.

"Combating corruption and promoting political integrity, which is a major political issue of great concern to the people, is a clear-cut and long-term political commitment of the party," Hu said.

"If we fail to handle this issue well, it could prove fatal to the party, and even cause the collapse of the party and the fall of the state. We must thus make unremitting efforts to combat corruption."

The run-up to the carefully choreographed meeting, at which Hu will hand over his post as party chief to anointed successor Vice President Xi Jinping, has been overshadowed by a corruption scandal involving one-time high-flying politician Bo Xilai.

"All those who violate party discipline and state laws, whoever they are and whatever power or official positions they have, must be brought to justice without mercy," Hu told delegates, one of whom was his predecessor, Jiang Zemin.

"Leading officials, especially high-ranking officials, must ... exercise strict self-discipline and strengthen education and supervision over their families and their staff; and they should never seek any privilege."

The New York Times said last month that the family of Premier Wen Jiabao had accumulated at least \$2.7 billion in "hidden riches", a report China labeled a smear.

We have no idea whether Wen Jiabao's family really has \$2.7 billion stashed away. But given that the family of Egyptian dictator Mubarak holds [\\$40-70 billion](#), and Libya's Moammar Gaddafi was worth [\\$200 billion](#), it is within the realm of possibility.

Russia is facing its own corruption problems:

- Putin just fired his [defense minister](#) and [chief of the armed forces' General Staff](#) for fraud
- Several senior officials at the Russian Space Systems company are [suspected of involvement in a number of fraudulent schemes](#)
- Russian voters have videotaped numerous forms of voter fraud - including [ballot-stuffing](#), [erasable ink](#), [carrousel voting](#) and other shenanigans - in recent elections

University World News [noted](#) in 2010:

The level of corruption in Russian universities is steadily growing despite the efforts of local authorities to eradicate it. According to necessarily rough estimates, bribes paid for admission to Russian universities in 2009 totaled \$1 billion. This is 40% more than in 2007, with the average bribe rocketing five times higher in just the last two years.

Mark Levin, a professor at the Higher School of Economics in Moscow who has studied the issue, said corruption in universities took place not only during the entrance examinations but also those at the end of semesters. Levin said some students preferred to pay money to pass examinations and obtain a diploma.

Radio Free Europe [reported](#) in 2009:

Sixty percent of Russians admitted to giving bribes in a recent poll. Earlier this year, President Dmitry Medvedev said corruption is so bad it threatens Russia's very stability.

And Time [reported](#) last year:

"Russia has 140 million hardworking people and 1 million people who want to steal from them," says William Browder, CEO of Hermitage Capital Management, a London-based investment fund.

Browder should know. The American-born financier has been at the center of one of several high-profile controversies that have exposed parts of the Russian bureaucracy as something akin to an organized-crime family. Once the largest foreign portfolio investor in Russia, he created a stir by confronting corporate managers over shady dealings. That led to his banishment from the country and a scam in which, Browder claims, government officials used his corporate documents to steal \$230 million in tax revenue. One of his lawyers died suspiciously while in pretrial detention. (The Russian government is investigating the death, as well as a tax-evasion case against Browder.)

Billionaire Alexander Lebedev, who controls the National Reserve Bank and the country's most popular opposition newspaper, has publicly accused a cabal of police and secret-service agents of seeking to seize his assets through an intricate conspiracy, which he has linked to recent police raids at his offices, intimidation of his staff and alleged demands for multimillion-dollar bribes. Earlier this year, he wrote an open letter to Putin appealing for an investigation of these "werewolves in epaulets." Without curtailing corruption and strengthening the legal system, Lebedev says, Russia can't compete with China or India. "The political system here is an impediment to economic growth," he says. "You can hardly find an aspect of life that cannot be explained by the huge dominance of corruption at the highest echelons. It has come to the point that it couldn't get worse."

Actually, it could. The corrupt and intrusive state is scaring off what the Russian economy needs most: investment. Over the past six quarters, a net \$65 billion of private capital flowed out of the country. Without that cash, Russia can't spur growth, rebuild decrepit infrastructure, upgrade its industrial base or create jobs for college graduates. In a March speech, Medvedev admitted that the investment climate "is very bad, very bad" and corruption had "a stranglehold" on the economy. "We cannot let this situation continue," he warned.

In part, the roadblock may be a resistant bureaucracy still not detached from its Soviet roots. "There is no respect for private property and economy in the minds of the majority of bureaucrats," Dvorkovich complains. The biggest obstacle might be Putin. Medvedev sits in the Kremlin, but Putin remains the ultimate arbiter in the economy, and there is little to suggest he has joined the small-government tea party. "He believes in the traditional Russian way — the state should be the biggest player in everything," says Maria Lipman, a political analyst at the Carnegie Endowment for International Peace in Moscow. The sort of liberalization propounded by Medvedev would threaten the sources of patronage and control that ensure Putin's position. [Putin has since [replaced Medvedev](#) as president.]

Of course Putin doesn't want real reform ... instead, the man wants to expand his [current net worth of \\$40 billion](#).

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