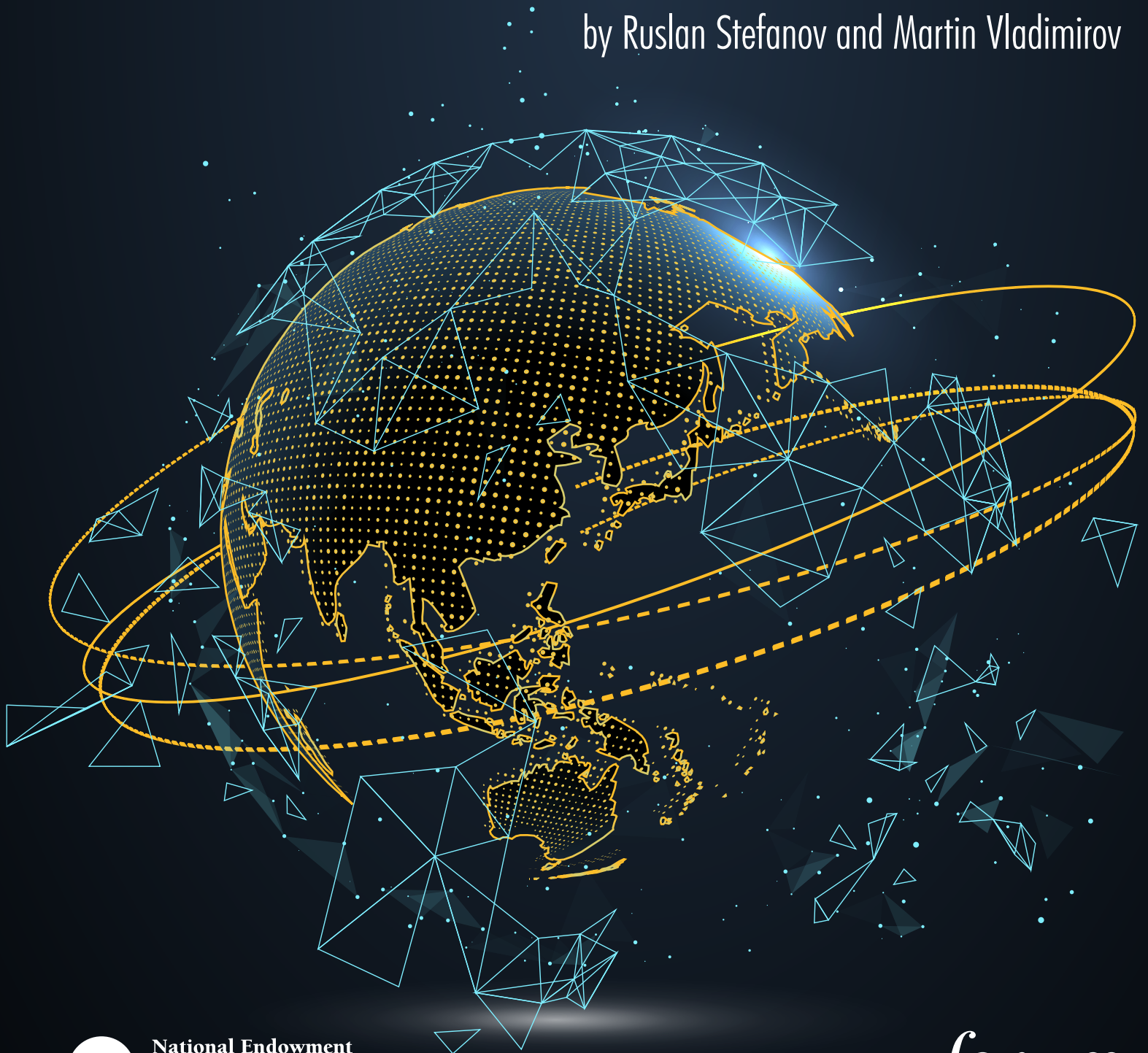


Deals in the Dark

Russian Corrosive Capital in Latin America

by Ruslan Stefanov and Martin Vladimirov



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ABOUT THE SHARP POWER AND DEMOCRATIC RESILIENCE SERIES

As globalization deepens integration between democracies and autocracies, the compromising effects of sharp power—which impairs free expression, neutralizes independent institutions, and distorts the political environment—have grown apparent across crucial sectors of open societies. The Sharp Power and Democratic Resilience series is an effort to systematically analyze the ways in which leading authoritarian regimes seek to manipulate the political landscape and censor independent expression within democratic settings, and to highlight potential civil society responses.

This initiative examines emerging issues in four crucial arenas relating to the integrity and vibrancy of democratic systems:

- Challenges to free expression and the integrity of the media and information space
- Threats to intellectual inquiry
- Contestation over the principles that govern technology
- Leverage of state-driven capital for political and often corrosive purposes

The present era of authoritarian resurgence is taking place during a protracted global democratic downturn that has degraded the confidence of democracies. The leading authoritarians are challenging democracy at the level of ideas, principles, and standards, but only one side seems to be seriously competing in the contest.

Global interdependence has presented complications distinct from those of the Cold War era, which did not afford authoritarian regimes so many opportunities for action within democracies. At home, Beijing, Moscow, and others have used twenty-first-century tools and tactics to reinvigorate censorship and manipulate the media and other independent institutions. Beyond their borders, they utilize educational and cultural initiatives, media outlets, think tanks, private sector initiatives, and other channels of engagement to influence the public sphere for their own purposes, refining their techniques along the way. Such actions increasingly shape intellectual inquiry and the integrity of the media space, as well as affect emerging technologies and the development of norms. Meanwhile, autocrats have utilized their largely hybrid state-capitalist systems to embed themselves in the commerce and economies of democracies in ways that were hardly conceivable in the past.

The new situation requires going beyond the necessary but insufficient tools of legislation, regulation, or other governmental solutions. Democracies possess a critical advantage that authoritarian systems do not—the creativity and solidarity of vibrant civil societies that can help safeguard institutions and reinforce democratic values. Thus, the papers in this series aim to contextualize the nature of sharp power, inventory key authoritarian efforts and domains, and illuminate ideas for non-governmental action that are essential to strengthening democratic resilience.

ABOUT THE AUTHORS

Ruslan Stefanov is director of the economic program at the Center for the Study of Democracy. He is co-director and coauthor of *The Kremlin Playbook*, a joint project initiated with the Center for Strategic and International Studies on Russia's economic footprint and influence in Europe. He is the knowledge and development coordinator of the Southeast European Leadership for Development and Integrity (SELDI.net), the largest regional civil society anticorruption network in the Western Balkans, Turkey, and the Eastern Neighborhood. He is a member of the Free Enterprise and Democracy Network and the Development Institute of the Center for International Private Enterprise, the Advisory Board of the Cluster for Research on the Informal Sector and Policy at the University of Sheffield Management School, and the International Association for Energy Economics.

Martin Vladimirov is a senior analyst at the Center for the Study of Democracy, where he focuses on energy security in Europe and the Balkans, the energy transition, alternative energy technologies, and the geopolitical dimensions of energy and financial markets, with a strong interest in Russian and Chinese economic influence in Europe and globally. He is coauthor of *The Kremlin Playbook* report series, which covers Russia's economic footprint and influence in Europe. He has worked as an energy analyst for *The Oil and Gas Year*, which produces in-depth overviews of the energy sectors of the major oil and gas producers around the world. He has also worked as an independent energy consultant on several projects for international oil companies in the GCC and MENA countries. He is also an affiliated expert at the European Geopolitical Forum in Brussels. Previously, he worked as an energy and economic analyst for CEE Market Watch, where he produced analyses of economic and energy issues in Iran, the Southern Caucasus, and Central Asia.

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EXECUTIVE SUMMARY

Since the early 2000s, Russia's ability to wield state-owned and nominally private economic entities as political instruments has allowed it to achieve an outsized global influence.

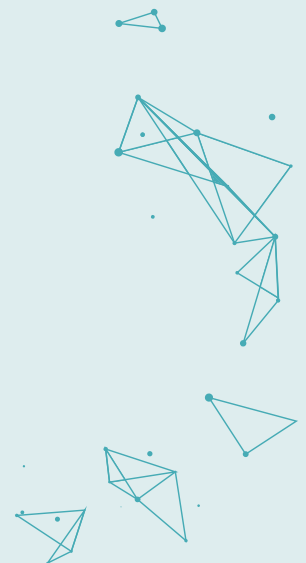
Relying on a feedback loop of state-friendly business and political interests, the Kremlin has successfully pursued a strategy based on the strong fusion of economic and political power. It has used state-capture tactics to gain a foothold in strategic markets including energy, telecommunications, and banking, while its networks employ corrosive capital—opaque financial flows that undermine the rule of law and democratic governance in target countries.

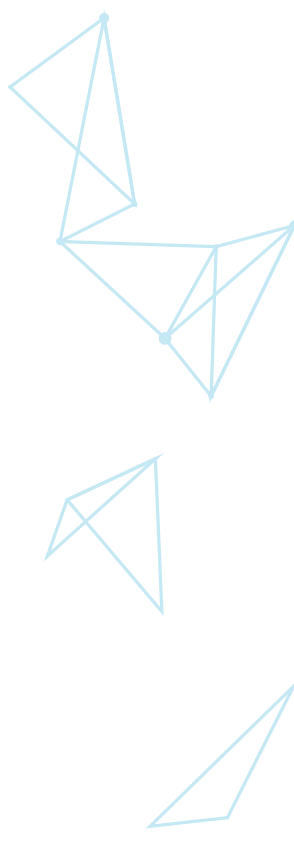
This report analyzes Russian strategic corruption efforts relevant to two Latin American democracies—Argentina and Bolivia—with recurring governance challenges that are common to other states in the region. Although these countries do not represent the biggest share of Russia's economic footprint in Latin America, they illustrate the early stages of politically driven penetration by large investment initiatives from authoritarian states. Understanding the mechanisms and strategies linked to corrosive capital is an essential step toward detecting and preventing more comprehensive authoritarian influence.

Weaknesses in public governance and wider society are what make the strategies of authoritarian influence viable in Latin America and elsewhere. Addressing these vulnerabilities will require a range of interventions by civic, political, and other actors.

- Civil society groups in Bolivia and Argentina require more advanced means to **conduct investigations** into corporate ownership, foreign investments, and intergovernmental agreements involving Russia and China, in order to **flag high-risk deals** in which there is a risk of state capture.
- There is a need to create **regional NGO networks** focused on recurring state-capture vulnerabilities in Latin America to broaden awareness of the common loopholes that allow for the entry of corrosive capital and attempts to lock countries into costly and asymmetric economic relationships.
- Governments in the region must strengthen their **anti-money laundering legislation** and work on the creation of **independent institutions for financial intelligence and tax collection**.
- Civil society should advance efforts to **close existing geographic, socioeconomic, and racial cleavages**, which are exploited as part of social media disinformation campaigns in favor of authoritarian interests.
- The weaponization of trade and capital by authoritarian states must be combated through a stronger policy of **strategic investment by the United States and other democracies**, which would carry with it the introduction of more competition and transparency.

Civil society-led efforts to expose domestic and foreign state-capture practices are the most effective check on potentially corrosive capital inflows—and their adverse knock-on effects. But resources are limited, and capacity is strained by a lack of transparency, the absence of independent oversight over government finances, and inadequate checks and balances on government activities. Addressing these governance challenges will not only guard against the corrosive effects of foreign authoritarian sharp power, but also help bolster the institutions and culture of democracy in Latin America.





For most of the 1990s, Russia's new political elite seemed to strive for a trusting relationship with U.S. and European leaders.

The latter reciprocated by facilitating Russia's gradual integration into the global political, economic, financial, and trade systems. It was logical to presume that Russia would continue to reform and adopt some version of an open democracy and market economy. After Vladimir Putin rose to the presidency in 2000, however, the Kremlin's fixation on enhancing Russia's status as a global power led to the country's gradual estrangement from integration efforts. At the same time, Putin oversaw a consolidation of all the domestic networks of power in the public and private sectors, including in the judiciary and the media. With autocratic control effectively restored at home, the regime was in a position to continue its campaign by projecting antidemocratic power abroad.

The fusion of state-friendly business and political interests in Russia fueled a vertically integrated strategy of political and economic expansion, with a special focus on the energy sector. The process began in the former Soviet Union, then extended into Central and Eastern Europe and the Western Balkans. Finally, it was rolled out globally, with Moscow seeking reengagement with former Soviet channels of influence in the Middle East, Latin America, and Africa, and pursuing disruptive tactics in Western Europe and the United States.

The Kremlin's ability to wield state-owned and nominally private economic entities as political instruments, swiftly and without visible deliberation, has allowed it to achieve an outsized global influence—still far short of Soviet stature, but above and beyond what modern Russia's modest resources would suggest.¹ The deployment of massive disinformation and propaganda campaigns using modern technologies has further enhanced its ability to exploit governance gaps and other vulnerabilities around the world at a fairly low cost.²

FROM STATE CAPTURE TO CORROSIVE CAPITAL

A mastery of “state capture” techniques lies at the heart of the Kremlin's strategy for international influence. State capture denotes the process by which private interests (captors) take advantage of critical vulnerabilities in public governance systems to achieve effective wholesale privatization of public functions, which allows them to extract undue advantages and key assets in pursuit of personal enrichment or political power.³ Ultimately the captors could achieve the status of designated or chosen “free riders,” meaning they are exempt from or in control of most rules that apply to other actors in a given field or sector. Yet captors may still appear to be a natural, formally legal part of the economic or governance system, providing them with a veil of legitimacy and plausible deniability, and allowing them to, for example, enter the international financial system as a private, independent player.

The Russian regime has successfully used its domestic system of state capture to engage with existing or aspiring captors in targeted countries and dominate strategic markets such as energy, telecommunications, and banking.⁴ Having gained an economic foothold, the Kremlin's networks employ “corrosive capital” to further exploit local vulnerabilities, break down democratic governance institutions, and entrench themselves in the decision-making centers of the host country.

Corrosive capital refers to opaque financial flows from authoritarian states such as Russia and China that aim to undermine the rule of law and democratic governance in other countries.⁵ It can take the form of an ostensibly private investment or acquisition that appears detached from any political motive, an explicitly government-sponsored transaction that aims to advance the strategic interests of an authoritarian power, or an exploitation of existing state-capture practices in the target country to ensure the success of the authoritarian power's influence efforts.

Although the routes by which corrosive capital may enter a country are essentially innumerable, certain trends have emerged:⁶

- Authoritarian states often sponsor intergovernmental or commercial loans that mimic traditional development assistance but feature nontransparent negotiations and hidden terms. The loans are channeled in ways that support state capture. For example, funds may be directed to specific companies with guaranteed high profit margins, which then support the reelection campaign of the incumbent political leadership.
- Large-scale infrastructure projects are favored as an opportunity to lock the target countries into a long-term, asymmetrical economic relationship that can be leveraged for future political influence. These projects similarly exploit and further entrench existing state-capture practices in key local institutions.
- Authoritarian governments in many cases remain in the background, operating through foreign direct investment (FDI) facilitated by corporate entities based in offshore tax havens with unclear ownership structures. These entities, which may ultimately be linked to a state company or a business magnate with close ties to the state, seek out strategic or particularly profitable sectors, those with high entry barriers like state licensing requirements, natural monopolies such as regional power, heating, and gas distribution companies, or those that are highly dependent on state subsidies.

Corrosive capital from authoritarian states takes advantage of key governance weaknesses in the target country, particularly unreliable rule of law and lack of independent oversight of government finances and decision making. These gaps are then sustained through the purposeful debilitation of anticorruption, antitrust, and public procurement laws and of their impartial enforcement in practice.

FROM CORROSIVE CAPITAL TO SHARP POWER

Once corrosive capital has been injected into the host country, it becomes a powerful tool for the exercise of foreign political influence in the form of “sharp power,”⁷ meaning the cooptation, manipulation, or censorship of figures and institutions in the media, academic, cultural, and policymaking spheres.⁸

For the Kremlin, propaganda and disinformation have become crucial instruments for distorting public opinion in foreign countries and shifting the policy agenda in a direction consistent with Russian foreign policy objectives. Multilingual state-sponsored news services such as RT, Sputnik, and Russia Beyond cater to and seek to attract local audiences that distrust the West and liberal democratic ideology. In a cash-strapped media environment, both traditional and online outlets in targeted countries are vulnerable to either capture by local Russia-linked oligarchic networks or dependence on the free content provided by Russian state news agencies. Although this Russian media influence strategy has been most visible in Europe, no region is immune to the threat.

This paper analyzes cases of Russian corrosive capital and sharp power directed at two Latin American democracies—Argentina and Bolivia—with recurring governance challenges that are common to many other states in the region.⁹ Both countries feature polarized political environments in which illiberal practices have flared up over the last two decades. Despite the overall competitive nature of their electoral systems, powerful political factions have often captured the decision-making process for the benefit of specific regional, ethnic, or private interests.

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Although these countries do not represent the biggest share of Russia's economic footprint in Latin America, they illustrate the early stages of politically driven penetration by large investments from authoritarian states. A better understanding of Russian activities in settings like Argentina and Bolivia could inform efforts to detect and prevent much more comprehensive authoritarian influence like that seen in Venezuela.

Where appropriate, this paper will draw parallels to China and its government's use of similar instruments to project power in Latin America. However, while China is clearly the larger and more potent authoritarian power, the Russian state has been surprisingly adept at leveraging modest

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resources to advance its goals in the region, and its activities have received less attention from analysts. Whereas Beijing has typically placed major loans and public debt at the center of its strategy, Moscow has offered political support to governments that share its desire to offset U.S. influence, and it has tried to develop business relationships with local oligarchic networks with the aim of promoting large-scale projects for its state-owned energy conglomerates.

PATTERNS OF RUSSIAN INFLUENCE IN LATIN AMERICA

The methods used by the Kremlin to expand its influence in Latin America were tried and tested first in Central and Eastern Europe, where it has gained a dominant position in strategic markets by forging corrupt relationships with local elites, locking governments into long-term, expensive infrastructure projects, and creating structural trade dependencies. Moscow has combined this economic power with Cold War-era security networks and renewed media offensives, all against the backdrop of increasing demonstrations of military power.¹⁰

The pattern in Latin America has been very similar despite the Kremlin's much more modest reach and overall success. With the exception of Venezuela and to a lesser degree Cuba and Nicaragua, Moscow has not been able to penetrate strategic economic sectors, has implemented few large-scale projects, and is dwarfed by China in terms

of trade and investment in the region. However, it has been able to take advantage of state-capture vulnerabilities, political corruption, and the strong fusion between political and economic power in order to advance large deals of questionable economic value. In some countries, including in Bolivia, these projects have been used to achieve an outsized political influence.

While the Kremlin has used similar strategies in Argentina and Bolivia, it has tried to adapt them to local conditions. In Argentina, political decision making is more dispersed, and transfers of power between rival political blocs have been more frequent, making the implementation of large-scale, long-term projects extremely difficult. In addition, the scale of the proposed projects requires financial resources that Russia simply does not have in an era of domestic economic retrenchment.

By contrast, at least until 2019, the Kremlin benefited from close ties to longtime Bolivian president Evo Morales and the Movement Towards Socialism (MAS) party, which had concentrated significant power in the country and remains a formidable political force. This allowed Russian state-owned companies to push through projects without significant resistance or oversight from independent democratic and regulatory institutions. The recent electoral victory of MAS presidential candidate Luis Arce could reinvigorate economic relations with Russia, after a period in which interim President Jeanine Añez tried to suspend several major joint projects.

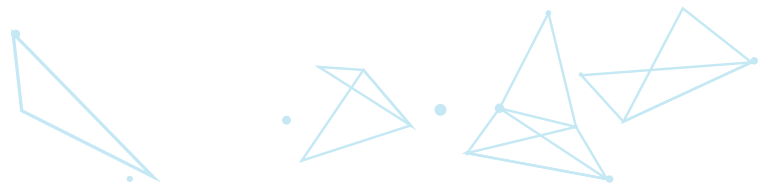
MAPPING THE ECONOMIC FOOTPRINT

Russian economic and political influence in Latin America is a far cry from the days of the Soviet Union. For most of the first two decades after the Cold War, Russia's interest in the region seemed to have steadily declined. However, bilateral ties with Venezuela improved during the rule of Hugo Chávez, especially around the time of the Russian-Georgian War of 2008, when Venezuela—along with Nicaragua—recognized the Russian-backed separatist republics of South Ossetia and Abkhazia. Chávez poured billions of dollars into purchases of Russian arms and military equipment and allowed Russia to penetrate deeper into the economic fabric of Latin America. Moscow has been especially active in developing closer interaction with the Bolivarian Alliance for the Peoples of Our America (ALBA) led by Cuba and Venezuela, which included Bolivia until it withdrew under the Añez interim administration in November 2019. The election of MAS candidate Luis Arce to the presidency may see Bolivia's return to ALBA.

Although the Kremlin has maintained the closest political ties with former Soviet allies and the ALBA group, its most important trade partners have been Brazil, Mexico, Argentina, Chile, and Ecuador. Russia's trade with the region, at about \$13.5 billion per year, is relatively small, representing only 2 percent of its trade with the world and around 0.7 percent of Latin America's external trade. Yet some countries, including Venezuela, Nicaragua, and Peru, are heavily dependent on Russian military imports.¹¹ Russia is also a major market for Brazilian and Argentine food products.

Russia is not a major source of FDI in Latin America. If the Caribbean island tax havens are excluded, Russian investment in the region has been below \$3 billion from the beginning of the century to the end of 2019. China, by comparison, has invested over \$110 billion since 2003, with most going to the extractive, transportation, energy, and finance industries. FDI from the United States in turn is around ten times greater than that from China.¹² However, determining the true extent of Russian capital inflows is difficult, as the details of agreements are often confidential, or some investments are channeled through offshore shell companies that obfuscate their ultimate beneficial ownership.

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CHINA AS AN EMERGING ECONOMIC POWER IN LATIN AMERICA

The People's Republic of China has emerged as one of the most important economic partners for Latin America, accounting for more than 10 percent of the total foreign direct investment (FDI) in the region, valued at \$110 billion, since 2003.¹³ Initially, the country poured enormous investments into natural resources such as copper, lithium, gold, and oil. However, in the last five years, the focus has shifted to the industrial and service sectors, where China has increasingly supported the construction of power plants and transport and communications infrastructure. Between 2005 and 2019, Chinese entities were involved in 86 infrastructure projects in Latin America and the Caribbean, with a total value of \$76.8 billion.¹⁴

China's growing economic influence has in many cases taken advantage of and exacerbated preexisting governance deficits, including environmental mismanagement, lack of independent oversight for major infrastructure and energy projects, and the weak transparency, regulation, and enforcement of public procurement contracts. In Ecuador, for instance, the national government ignored the enormous environmental risks associated with the construction of the Coca Codo Sinclair hydropower dam despite strong opposition from civil society groups.¹⁵ A \$1.7 billion loan from China's Export-Import Bank provided 85 percent of funds for the project, which was built by the Chinese state owned enterprise Sinohydro.¹⁶ Another example can be found in Venezuela, where China has disbursed close to \$20 billion in loans—guaranteed with crude oil and other mineral resources—over the past two decades in a series of highly inflated plant construction agreements.¹⁷

China's economic influence is especially relevant in Bolivia, where under former president Evo Morales it became a key trading partner and provided billions of dollars in loans to finance infrastructure projects like highways, bridges, mining plants, and hydroelectric dams.¹⁸ The latter hydro projects have been marred by controversies related to their social, economic, and environmental impacts.¹⁹

Argentina also plays a pivotal role in China's economic strategy in Latin America. Currently, China is Argentina's largest partner for imports and third largest for exports.²⁰ In recent years, Chinese companies have pursued a \$10 billion deal to construct the Atucha III nuclear power plant, which will add an additional 745 MW to the already-existing nuclear complex, and sought to develop the country's enormous shale oil and gas potential, along with investments in the science and technology sector. Indeed, in 2018 more than fifty Chinese companies were operating in Argentina's science and tech industry.²¹ China has also put a special focus on alternative energy sources. For example, its Export-Import Bank provided 85 percent of the financing to build the Caucharí solar park in Argentina, the largest of its kind in Latin America, provided that a large majority of materials be purchased from Chinese suppliers.²²

The case of a Chinese-built space center in Argentina's Neuquén province demonstrates how the host country has struggled to ensure transparency and independent oversight in its relations with China. A 2012 agreement between the two countries, negotiated in complete secrecy during the presidency of Cristina Fernández de Kirchner, granted China's space agency rent-free rights to a 494-acre plot of land in the remote province for a 50-year term.²³ The agreement gives the Chinese agency—which is run by the People's Liberation Army (PLA)—complete authority over activities on the base and provides a tax exemption on all services and goods related to its operation.²⁴ Construction on the base began years before Argentina's Congress formally adopted the agreement in 2015, and lawmakers, journalists, and staff from Argentina's own space agency have had only limited access to the site.²⁵ Attempts during the administration of President Mauricio Macri to renegotiate the terms of the contract and incorporate formal oversight mechanisms achieved few results, garnering an unwritten promise that the PLA would not use the base for military purposes.²⁶

Russia has become more economically active in Bolivia and Argentina in the last ten years. The growth in bilateral economic ties followed a warming in political relations, as both Latin American countries came to be dominated by populist-leftist governments that sought to push back against U.S. influence in the region.²⁷ In pursuing these partnerships, the Kremlin relied heavily on its state-owned energy companies to establish an economic presence and attempt to influence the domestic and international policies of the host governments.

ARGENTINA: CHANGES IN GOVERNMENT HAMPER THE KREMLIN PLAYBOOK

In Argentina, the bilateral political relationship with Russia has a strong background in the Cold War. Moscow's support for the country during the Falklands War of 1982 led Argentina to reorient its large agricultural exports to the Soviet Union.²⁸ After nearly two decades of relative decline in economic ties following the 1991 Soviet collapse, the relationship improved under the left-leaning populist presidency of Cristina Fernández de Kirchner (2007–2015), who shared Putin's views on the need for a change in the international order. Fernández de Kirchner's interest was also spurred by the search for alternative economic partners in the aftermath of the global financial crisis that began in the United States in 2007. In 2008, Russia and Argentina signed a strategic partnership document that has since led to 180 bilateral agreements in a number of economic and political areas.²⁹

Amid the ongoing debt crises that successive Argentine governments have endured over the years, Russia has been considered—alongside China—as a potential source of financial relief, and the Kremlin has been seen as a political partner in the pushback against the country's traditional international creditors. In the end, right-leaning president Mauricio Macri (2015–2019), who inherited a debt-ridden state from his predecessor, did not turn to either China or Russia for help and was able to negotiate an agreement with U.S.-led banks and hedge funds in 2016.³⁰

Nevertheless, on the back of these generally closer ties between Argentina and Russia, bilateral trade has grown by some 350 percent in the past decade, hovering between \$1.2 billion and \$1.5 billion annually, making Argentina Russia's third-largest trading partner in Latin America.³¹ Argentina remains a major exporter of food products and grains to Russia, and Russia in turn has exported fuels and energy equipment. Moscow has at times leveraged Argentina's dependence on agricultural exports to overcome political obstacles. In 2015, when President Macri made the decision to withdraw the television license of the Russian state-owned propaganda channel RT, the Kremlin threatened to ban Argentine beef exports and suspend investment in infrastructure projects. Several weeks later, Macri reversed the decision and allowed RT to continue operating on the Open Digital Television (TDA) platform.³²

STRATEGIC CORRUPTION AS A CHANNEL FOR RUSSIAN ECONOMIC INFLUENCE

The Russian regime has arguably enhanced its influence in Latin America by leveraging its security services' control over inherited Soviet-era smuggling networks, now under the operation of organized crime groups linked to Europe. Such networks have been used in the past to smuggle drugs and arms to and from paramilitary groups or cartel organizations in Latin America. Transnational criminal groups, including those based in Russia, have used Argentina and Bolivia as transshipment points for Andean cocaine headed to Europe and other markets.³³ The most notorious case of Russian government links to organized crime involved the Russian embassy in Buenos Aires, Argentina, which served as a base for the shipment of 389 kg (more than 850 pounds) of cocaine in 2016.³⁴ The Russian authorities appeared to cooperate with their Argentine counterparts in investigating the ultimate destination of the drug shipment, but investigative media reports found that the Russian government had used its logistics infrastructure to enable the illegal trade.³⁵ In addition, the investigations pointed to the involvement of high-ranking diplomats in the cocaine trafficking, with some of the shipments reportedly destined for Russian lawmakers.³⁶ Russia has also allegedly used illicit channels and intermediaries to evade sanctions against Venezuela and sell its crude oil and gold abroad via intermediaries.³⁷

In addition, Russian banks have been crucial in facilitating the movement of illicit funds from the Nicolás Maduro regime in Venezuela to Europe. One of Russia's largest state-owned banks, Gazprombank, is being investigated over a transfer of \$1.2 billion from Petróleos de Venezuela (PDVSA), the national oil company.³⁸ A small joint Russian-Venezuelan bank, Evrofinans Mosnarbank, has also been placed under U.S. sanctions for allowing the Maduro regime to process payments to suppliers of PDVSA and other state companies.³⁹

Infrastructure projects have played an important part in Moscow's efforts to build up its economic and political presence in Argentina. As president, Cristina Fernández de Kirchner signed a series of intergovernmental agreements envisioning roles for Rosatom and Inter RAO in the construction of nuclear and hydroelectric power plants in the country. However, as in European countries such as Bulgaria and the Czech Republic, Russian entities face competition from China in Argentina's nuclear power industry. In 2015, under Fernández de Kirchner, Nucleoeléctrica Argentina SA and Rosatom signed an agreement for the construction of a fourth nuclear plant in Argentina. But Rosatom's participation has so far not materialized, as the Macri administration later signed agreements with Beijing to construct a plant at the Atucha site, known as Atucha III. Rosatom nevertheless kept its prospects alive by reaching a new cooperation agreement with Macri in 2018, during the Group of 20 summit in Buenos Aires. Since then, the Russian government has continued discussing collaboration on nuclear power projects, but has not received a firm commitment from the administration of President Alberto Fernández, who defeated Macri in the 2019 election.

Despite the increase in commerce and the promise of major infrastructure projects, investment ties between Russia and Argentina have remained weak. Very little explicitly Russian capital has actually entered Argentina—about \$2 million in FDI stocks as of the end of 2019. This figure, however, probably understates the true value of Russian investment. Many Russian companies invest abroad, including in Argentina, through subsidiaries registered in countries like the Netherlands or Switzerland.⁴⁰ Because central banks publish FDI data only for the immediate source of investment, it is often difficult to understand who is the ultimate beneficial owner making these investments.

IN PURSUIT OF ENERGY PROJECTS POWERED BY OLIGARCHIC PARTNERS

"Capital investments can become corrosive when parasitic intermediary companies are included in the deal and political insiders facilitate the involvement of state institutions or companies."

The Russian state-owned companies Gazprom, Rosatom, and Inter RAO have all sought to develop large-scale energy infrastructure projects with Argentine counterparts. In an attempt to advance these agreements, Moscow leveraged its existing connections with business networks that were close to the Argentine government. Although most of the projects ultimately failed to materialize, they showcased the Kremlin playbook of using powerful local businesses and political insiders to ensure that Russian firms receive preferential access to lucrative assets.

In terms of corporate presence, Russia has been most active in the oil and gas sectors. The most well-documented example has been the entry of the privately owned but Kremlin-friendly Russian oil company Lukoil into the Argentine market. The company tried unsuccessfully to acquire a share in fuel distribution using intermediaries that were close to the Fernández de Kirchner government in 2008 and again a decade later. Lukoil planned to invest \$500 million for the construction of a fuel storage plant; in return, Argentina's state-owned oil and gas company, then known as ENARSA, would have bought liquid fuels from the Russian company for five years to supply the Manuel Belgrano thermal power plant in Campana, in the province of Buenos Aires.⁴¹

In addition, ENARSA and Lukoil planned to jointly explore for hydrocarbons in the Argentine marine shelf. The deal, which was signed on the sidelines of Fernández de Kirchner's visit to Moscow in 2008, was facilitated by Federal Planning Minister Julio de Vido, who was responsible for managing the public funds for state-led projects. He was allegedly assisting the Argentine businessman Horacio Sambucetti, previous owner of the Argentine oil storage firm RHASA and one of the closest business-sector allies of Fernández de Kirchner.⁴²

Interestingly, the proceeds from the Lukoil-ENARSA agreement would have benefitted an obscure firm called POBATER, again linked to Sambucetti, which had previously partnered with the Venezuelan state oil company, *Petróleos de Venezuela (PDVSA)*, and ENARSA to establish RHASA.⁴³ Although POBATER was represented by Sambucetti in the agreement with Lukoil in 2008, he denied owning the firm and its connections to RHASA, saying he had been chosen only as a representative.

This case clearly shows how capital investments can become corrosive when parasitic intermediary companies are included in the deal and political insiders facilitate the involvement of state institutions or companies. The purpose of such obscure firms could be to layer and distribute hidden profits or mask the allocation of corrupt payments.⁴⁴ The deal also shows how Russian businesses can leverage an existing state-capture network involving politically well-connected private interests, which try to circumvent competitive procedures in a sector with strategic importance for the Argentine economy.

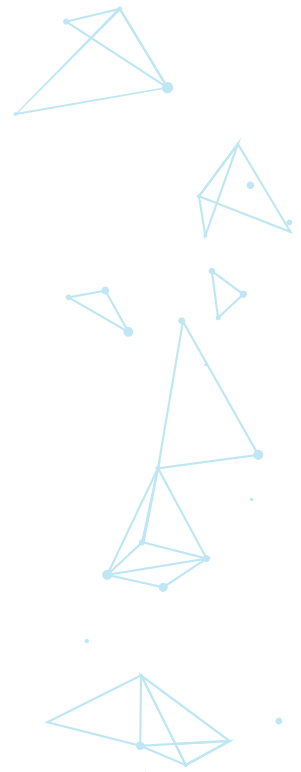
In 2017, Lukoil tried to acquire the company *Oil Combustibles*, which owned 220 gas stations and operated the San Lorenzo refinery.⁴⁵ As with the 2008 deal, Lukoil worked with businesses that were close to the incumbent government, this time during the presidency of Mauricio Macri. Lukoil pledged to invest \$300 million via a partnership with the *OP Investments* company, which operates in the Latin American asset-management sector. Its owner, Ignacio Rosner, was said to be close to Macri.⁴⁶ *Oil Combustibles* itself is part of the powerful holding *Grupo Inaldo*, whose owners have previously been detained on tax evasion and embezzlement charges involving some \$8 billion allegedly owed to the Federal Public Revenue Service (AFIP).⁴⁷ They were released in October 2019 after the alleged involvement of incoming president Alberto Fernández, who at the time was seen as heavily influenced by his vice president, former president Cristina Fernández de Kirchner.⁴⁸

Although in the end *Oil Combustibles* was not sold to Lukoil, as the deal was stopped by the AFIP in 2018, it would have given the Russian firm exclusive access to the whole regional business of the fuel distribution company, in line with the business strategy of its subsidiary, *Lukoil Pan-Americas*. The latter is headquartered in New York and sells oil-based products through intermediaries in Paraguay and Brazil. In 2018 it signed a deal with Ecuador for the supply of fuel oil.⁴⁹ If successful in Argentina, Lukoil could have implemented a strategy similar to the one it has pursued in Southeastern Europe, where it has successfully taken over a significant share of the refining, wholesale, and retail fuels markets. This dominance in the region has allowed Lukoil to charge monopoly prices and meddle in the strategic decisions of governments, including by financing nonbusiness activities that aim to expand Russian political influence.⁵⁰

BOLIVIA: ACHIEVING INFLUENCE THROUGH STATE-OWNED COMPANIES

The Russian economic footprint in Bolivia, as in Argentina, is relatively small in terms of trade, investment, and corporate presence, but the Kremlin has attempted to maximize its political influence by focusing on strategic markets and long-term infrastructure deals.

Imports from Russia stood at \$68 million in 2018, the latest year for which data were available, though this was an increase from a mere \$2.4 million a decade prior. Imports from China, the country's most important trading partner, were worth nearly twenty times that amount. Exports to Russia are also miniscule, valued at less than \$3 million in 2018. Official Russian FDI in Bolivia is practically nonexistent, although Russian capital may be channeled through third countries with preferential tax regimes. For example, two of the most important Russian businesses operating in Bolivia, Lukoil and the international arm of Gazprom, are both registered in the Netherlands. As a result, their investments appear in the official statistics for that country, which is among the five largest foreign investors in Bolivia, representing about 6 percent of the total.



Gazprom has entered the Bolivian energy market by joining the rush for natural gas exploration and production. It holds a 20 percent stake in a \$130 million project for the development of the Incahuasi gas field,⁵¹ spanning the Ipati and Aquio blocs of hydrocarbon reserves.⁵² Gazprom is also participating in the Azero Exploration Project, under an agreement signed in 2008 with the Bolivian state oil and gas company Yacimientos Petrolíferos Fiscales Bolivianos (YPFB). The French energy major Total, Gazprom, and YPFB signed a 2013 joint-venture agreement for the future production phase of Azero, with the Bolivian partner holding 55 percent and the other two firms taking 22.5 percent each.⁵³ The drilling of exploration wells began in 2019.⁵⁴ However, the biggest planned investment by Gazprom so far has been a \$1.2 billion contract for the development of the hydrocarbon reserves of the Vitiacua area.⁵⁵ The agreement has yet to pass through the Bolivian parliament, as the political crisis stemming from the disputed 2019 elections put a hold on many initiatives dating to the presidency of Evo Morales (2006–2019). The new administration under President Luis Arce could restart work on the project, although the ongoing COVID-19 pandemic has put a dent on the development of many flagship Russian-led energy projects around the world.

Apart from Gazprom and Lukoil, the biggest Russian company operating in Bolivia is Rosatom. The state-owned nuclear energy firm has been very skillful in locking countries into long-term energy infrastructure deals with questionable economic feasibility. Its success in developing a nuclear research facility in Bolivia (see box below) is a vivid example of this strategy, which comes straight out of the Kremlin playbook for Central and Eastern Europe. There, Moscow has exploited structural market deficits, the lack of independence among regulators, and widespread shortcomings in the management of local state-owned enterprises to lure host countries into costly and unnecessary energy infrastructure projects. Cases in point include deals pertaining to the Belene and PAKS II nuclear power plants in Bulgaria and Hungary, respectively, each worth about \$10 billion. In South Africa, Rosatom was accused of bribing then president Jacob Zuma to approve a \$75 billion contract for the construction of power plants.⁵⁶

Moscow has facilitated these types of projects by recruiting powerful local brokers with offers of government-sponsored business opportunities and premium returns. Cultivating these networks of influence not only advances the Kremlin's strategic business interests, but also contributes to its foreign policy goals. In effect, the projects leave host countries in a condition of long-term technological and financial dependence on Russia, as in most cases the financing for the project—even when it comes from the Russian state—is underwritten by guarantees from the host government.

A POLITICALLY DRIVEN CONTRACT WITH NO OVERSIGHT—THE CASE OF ROSATOM IN BOLIVIA

An intergovernmental agreement between Russia and Bolivia authorized the Russian state-owned nuclear energy firm Rosatom to construct a \$300 million Nuclear Research and Technology Center (NRTC) at 4,000 meters above sea level in El Alto, Bolivia. Rosatom began developing the project in 2017, but actual construction did not begin before a meeting between Presidents Vladimir Putin and Evo Morales in July 2019. In fact, the NRTC was never formally approved by Bolivia's Legislative Assembly, nor was a feasibility study conducted.⁵⁷ The government ushered the development of the country's nuclear energy capacity by establishing the Bolivian Atomic Energy Agency (ABEN), which coincided with the initiation of the El Alto project one year earlier.⁵⁸ After Morales left office following the disputed October 2019 presidential election, the interim government suspended the project, but recent reports show that work on it has continued and will probably accelerate under the new Arce administration.⁵⁹

Sergey Kiriyenko, the former president of Rosatom and current deputy head of the Russian presidential administration, has closely coordinated the nuclear company's business strategy with the Kremlin's foreign policy goal of increasing its political influence in Bolivia.⁶⁰

A FEEDBACK LOOP OF POLITICAL AND BUSINESS INTERESTS

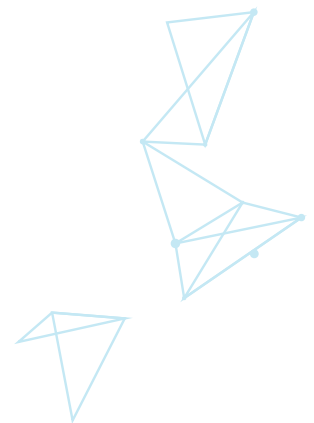
All major investment initiatives by Russian companies in Bolivia have featured similar patterns involving the use of political and business intermediaries and other characteristics associated with state capture. Typically, the deals are signed at the intergovernmental level, benefiting political incumbents, and are then carried out by close associates, to the economic benefit of specific private actors. The blurring of the lines between public and private interests, and between political and business interests, makes it easy for the Kremlin to exploit conflict-of-interest vulnerabilities if necessary.

A key intermediary for the development of energy cooperation between Russia and Bolivia has been Juan Ramón Quintana, who was Morales's minister of the presidency and the architect of many policies concerning the economy's strategic sectors. He is believed to have also controlled decision making at the national oil and gas company, and to have installed political operatives there to ensure the approval of specific controversial deals.⁶¹ As recently as 2019, during Morales's visit to Moscow and the signing of agreements with Rosatom and Gazprom, Quintana declared that the Russian presence in Latin America is "essential."⁶² He argued that Russia, unlike the United States, was contributing to the creation of a responsible international order in which the sovereignty of states is respected. After Morales left office that year, Quintana may have worked with the Maduro regime in Venezuela to siphon funds out of Bolivia to benefit Morales. Quintana's former secretary, María Palacios, was discovered in January 2020 carrying \$100,000 in cash during a trip to Argentina, where Morales had self-exiled.⁶³ She said she was working for PDVSA in Bolivia and was carrying money for the Venezuelan company's Argentine offices, but investigators noted that the money had not been declared and that she had made more than forty trips from September 2019 to January 2020. Moreover, the PDVSA office in Bolivia had been inactive since 2018,⁶⁴ and the origin of the funds was unclear. Bolivia's interim administration claimed that the money was destined to finance Morales's operations in Argentina.

Russian state-owned companies also took advantage of close political ties between the Kremlin and Morales's government to become more active in Bolivia's defense and infrastructure sectors. Rostec, an infrastructure development company, applied together with the Italian holding firm Azimut in 2019 for a tender for the construction of an international transportation hub at the current Viru Viru airport in Santa Cruz.⁶⁵ Rostec also expressed interest in building medical facilities and supplying medical equipment, and sought to expand its exports of military equipment in keeping with Morales's repeated statements expressing his intention to replace U.S. or European weapons systems with Russian alternatives. Russia extended a \$100 million credit agreement to enable Bolivia to purchase helicopters in 2009,⁶⁶ and in 2018 there was another attempt to sign a deal for transport helicopters and Yak-130 fighter jets,⁶⁷ though the sales never materialized.

Because the Kremlin's business and political interests in Bolivia were so closely intertwined with Morales's presidency, Moscow did not hesitate to lend support as the Bolivian leader faced a controversial reelection bid in 2019. Rosatom dispatched political strategists in January of that year in an effort to boost the incumbent's fading popularity.⁶⁸ These spin doctors, trained in managing local political campaigns in Russia, focused on social media and the blogosphere, amplifying Morales's campaign messages and attempting to smear or discredit his opponents.⁶⁹

The Russian regime's political preferences became particularly evident in the aftermath of the October 2019 presidential election. Despite indications from the first-round vote that Morales would face a runoff against his main challenger, he claimed an outright victory amid signs of fraud, triggering large street protests and outbreaks of violence. After losing the support of the security forces, Morales was forced to resign in November 2019. The ouster triggered a forceful response from Russian state media outlets and Russia-linked social media users in Bolivia.⁷⁰ The U.S. State Department revealed that social media accounts used to support Russian interests in Bolivia



became extremely active, publishing more than 1,000 posts a day.⁷¹ The Kremlin has continued to call the episode a coup d'état, even as it recognized the interim government as essential for a peaceful transition in Bolivia and signaled that it would expand economic cooperation with the country.⁷²

NURTURING A CIVIL SOCIETY RESPONSE TO AUTHORITARIAN INFLUENCE

Although Moscow has failed to implement many of the large-scale projects it has pursued in Latin America, its strategy in Argentina and especially Bolivia has exposed serious governance vulnerabilities and state-capture risks. Many countries in the region lack strong legal safeguards and public institutions that could ensure transparency and independent oversight, meaning civil society has an important role to play in shining a light on intergovernmental agreements with Russia, in particular those related to large-scale infrastructure projects and strategic mergers and acquisitions.

There is still very little understanding in the region about the mechanics of authoritarian influence from Russia and other states, and the links between state-capture vulnerabilities and sharp power.

However, democratic backsliding, economic uncertainty, and shifting geopolitical priorities also affect the independence of nongovernmental organizations (NGOs), media, and academia in Latin America, undermining their ability to act as a strong voice for civil society. They could benefit from a more global and regional approach, expanding their capacity by strengthening mutual links across Latin America and with international peers.

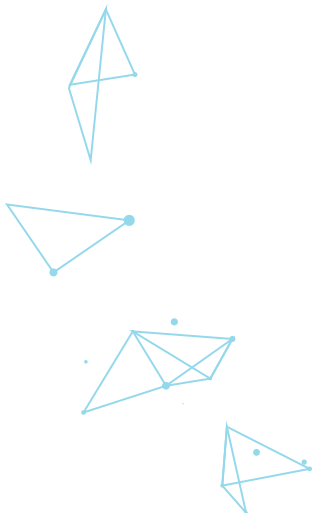
Civil society groups, investigative journalists, and media outlets in Bolivia and Argentina will need more advanced means to conduct investigations of corporate ownership, foreign investments, and intergovernmental agreements involving Russia and China. There is also a need for the creation of regional NGO networks focused on recurring state-capture vulnerabilities in Latin America. This will broaden awareness of the common loopholes that allow for the entry of corrosive capital and lock countries

into costly and asymmetric economic relationships, which could ultimately translate into political dependency. In the media sector, investigative journalists in the region lack the capacity to closely and continuously track money flows and business-political relationships. There is also a dearth of knowledge about campaign finance laws and legislation regulating intergovernmental agreements. As resources are limited, it is important to enlist the domestic private sector in a common pushback against deals that might displace them economically and adversely affect the rule of law.

Weaknesses in public governance and society, including strategic corruption and state capture, are what make the strategies of corrosive authoritarian influence viable in Latin America and elsewhere. Addressing these deficits will require a range of interventions by civic, political, and other actors, including the following:

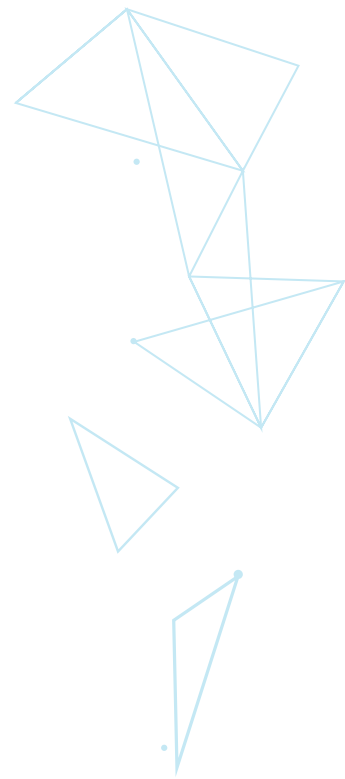
- **Flag high-risk deals:** Local civil society groups, with the support of international partners, should identify potential cases in which there is a risk of state capture, particularly in regulated industries with high social sensitivity, such as energy, health care, and media. Public procurement and large infrastructure projects are specific points of concern.
- **Foster open competition:** Latin American countries need to increase transparency and competition in their economies to minimize opportunities for corrosive capital investments. Proposed intergovernmental agreements should be assessed through independent cost-benefit analyses and governed by strict transparency guidelines.

"Many countries in the region lack strong legal safeguards and public institutions that could ensure transparency and independent oversight. Civil society has an important role to play in shining a light on intergovernmental agreements with Russia."



- **Probe opaque investments:** National security agencies, antitrust authorities, and financial market regulators should strengthen their capacity to investigate money-laundering activities in cooperation with civil society actors and whistleblowers. It is crucial that the agencies remain insulated from direct political meddling in order to avoid state-capture vulnerabilities. These authorities should work to establish the final beneficial ownership of FDI inflows to prevent the acquisition of critical assets by unknown actors that could be promoting the strategic agenda of authoritarian governments.
- **Close money-laundering loopholes:** The governments of Argentina and Bolivia need to strengthen their anti-money-laundering legislation and work on the creation of independent institutions for financial intelligence and tax collection. Adequate controls have to be introduced to prevent cross-border smuggling of currency and close gaps in the use of offshore destinations for laundering illicit proceeds internationally.
- **Build regional cooperation:** In many cases, the Russian and Chinese regimes have used a regional strategy in Latin America involving multiple states and different private and government entities, often exploiting the weakest links in terms of governance. It is important to introduce regional approaches for monitoring state-capture vulnerabilities and for institutionalizing the enforcement of democratic governance standards. This could involve regular regionwide diagnostics that include a broad coalition of civil society, business, and policy actors.
- **Counter political disinformation:** Corrosive investments often operate in tandem with authoritarian efforts to shape the information environment. Therefore, an enhanced policy response to prevent the capture of influential media outlets, and the introduction of early-detection mechanisms for disinformation campaigns, are critical for countering election meddling and attempts to promote social unrest. It is particularly important for civil society and public institutions in Latin America to develop a public-private partnership approach to cracking down on the abuse of social media for political ends, including abuse by foreign powers. Such manipulation can easily exploit social vulnerabilities and divisions to tilt the scales in favor of a particular candidate.
- **Boost foreign investment from democratic sources:** As Latin America is still struggling to establish a sustainable economic development path and manage the economic impact of the COVID-19 pandemic, the weaponization of trade and capital by authoritarian states must be combated through a stronger policy of strategic investment by the United States and other democratic economies, which would carry with it the introduction of more competition and business transparency. Greater economic involvement by democratic powers would reduce the region's dependence on corrosive capital from authoritarian states, and would allow governments to prioritize financial transparency and the expansion of economic reform policies.
- **Mend social divisions:** Civil society, supported by the international community and donor organizations, should work on closing existing geographic, socioeconomic, and racial divides, which have all been exploited through the use of social media disinformation as part of campaigns to mold public discourses in Bolivia and Argentina in favor of authoritarian interests.

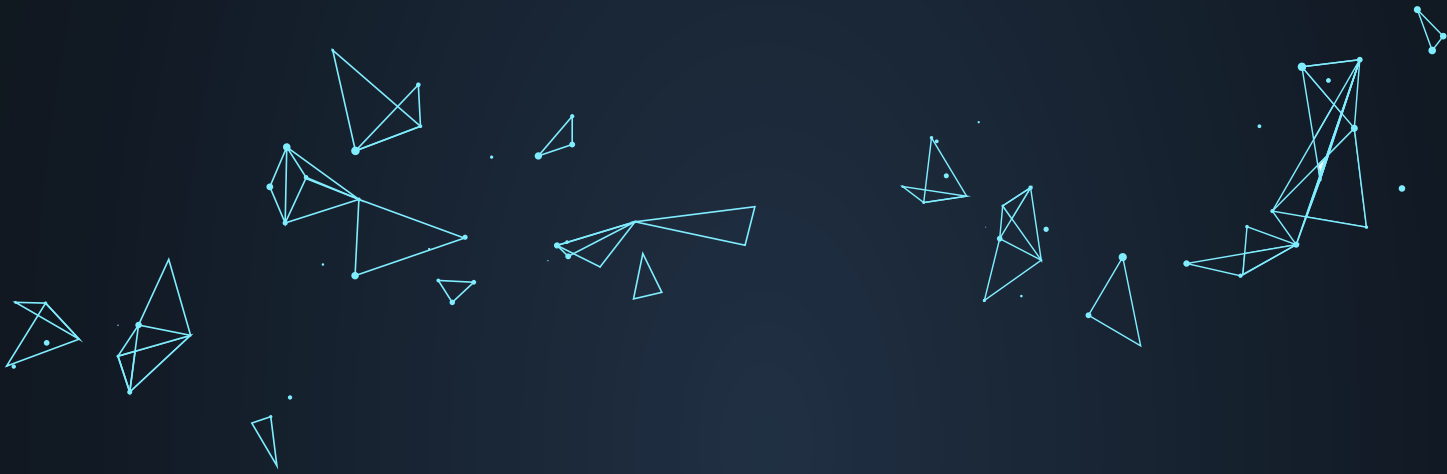
A lack of transparency, the absence of independent oversight over government finances, and inadequate checks and balances on government activities are among the key governance gaps that authoritarian states might exploit to seed the strategic sectors of young and emerging democracies—such as those in Latin America—with state-directed capital. Enhanced civil society-led efforts to expose domestic and foreign state-capture practices are the most effective check on potentially corrosive capital inflows linked to large-scale infrastructure projects and strategic mergers and acquisitions. Such approaches ensure improved adaptability and resilience to external shocks as well as potential illiberal tendencies by domestic actors. Addressing these governance challenges will not only guard against the corrosive effects of foreign authoritarian sharp power, but also help bolster the institutions and culture of democracy in Latin America.



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