

# International

**SOVIET UNION**


JULY 6, 1987

## SENDING A MESSAGE: NO MORE GRAFT

**GORBACHEV IS USING FIRING SQUADS AND PRISON SENTENCES TO MAKE IT CLEAR**

**A**rriving at Moscow's Sheremetyevo Airport early last year at the end of one of his many foreign trade trips, Vladimir N. Sushkov expected to sail through customs as usual. After all, the gregarious deputy trade minister had a lot of clout. He was well-known among international businessmen and had put together some of the key Soviet trade deals of the détente era. As co-chairman of the U. S.-U. S. S. R. Trade & Economic Council, he had dealt regularly with such American business leaders as former PepsiCo Chairman Donald M. Kendall, Bank of America President A. W. Clausen, and G. William Miller, ex-chairman of Textron and former Treasury Secretary.

Whenever Sushkov returned from globetrotting, a van would meet him at the airport and cart away all of his bag-

gage. Ordinarily, gray-uniformed customs officers would wave him on, but this time they didn't look the other way. They stopped the aide handling Sushkov's luggage and found jewelry and videocassette equipment inside.

Sushkov, who was not detained, raced to his dacha in the posh Moscow suburb of Barviha, where many powerful officials have their country homes. He frantically stashed foreign currency and jewelry in empty coffee tins and began burying them around the grounds. Back at Sheremetyevo, the aide had started talking. Soon the investigators were heading for Sushkov's dacha.

**PUBLIC REBUKE.** This past June 15, after a three-week trial, the 67-year-old Sushkov was sentenced to 13 years in prison for accepting bribes and abusing his official position. His wife, Valentina, a

member of the prestigious State Committee for Science & Technology, was given an 11-year sentence, and several aides were imprisoned as well. According to a recent article in the Soviet newspaper *Labor*, police found \$2.3 million worth of goods that were allegedly given to the Sushkovs by foreign executives hoping to win Soviet trade contracts. Included in the haul were 1,565 pieces of gold jewelry studded with diamonds and other gems.

The Sushkov case is one of the most prominent efforts so far in Soviet leader Mikhail S. Gorbachev's campaign to crack down on corruption in the Soviet Union. Along with his efforts at *perestroika*, or restructuring Soviet society and the economy, Gorbachev is trying to tighten discipline. The crackdown is partly political, designed to put Gorbachev

loyalists in posts held by cronies of the late Soviet leader Leonid Brezhnev, whose regime was notorious for corruption. But observers note that *perestroika* involves much more individual responsibility and decision-making. Honest officials are needed if it's going to work.

Because graft is endemic to Soviet society, checking it amounts to a monumental task for Gorbachev. Called *na levo*, or getting one's way by paying bribes "on the left," it involves swapping gifts for favors. A bottle of vodka for a maitre d' can ensure a choice table in a restaurant. Getting an appointment with a competent doctor calls for more substantial gifts—but never rubles.

Since Gorbachev assumed power in March, 1985, thousands of officials have been dismissed and prosecuted for corruption. One Western diplomat estimates that the total has reached at least 2,000, but "that number could be a hell of a lot higher." Many more officials have been investigated, he says.

In mid-June the Central Committee of the Communist Party announced plans to broaden the powers of prosecutors battling graft. Even the usually omnipotent KGB is affected. Last fall, KGB chief Viktor M. Chebrikov issued an extraordinary public rebuke of KGB officials in the Ukraine who had arrested an investigative reporter who was poking into local corruption involving them.

**HOME RULES.** Of the 15 republics in the vast country, the ones regarded as the most corrupt are those in the Caucasus, including Georgia and Armenia, as well as Kazakhstan and the central Asian republics. Far from Moscow, their populations have diverse cultures and their own ideas about doing business. Foreign Minister and Gorbachev protégé Eduard Shevardnadze made his name not in foreign affairs but as an energetic KGB official rooting out corruption in Georgia.

The biggest scandal by far has been in Uzbekistan, a sleepy central Asian backwater just north of Afghanistan and 1,700 mi. southeast of Moscow, where cotton-growing dominates the economy. For more than two decades, Uzbekistan was ruled by Sharaf Rashidov, who was first secretary of the local Communist Party Central Committee from 1961 until his death in 1983. A

Brezhnev crony, he was a cross between a baby-kissing politician and a medieval emir.

Under Rashidov, Uzbekistan consistently reported brilliant cotton harvests from 1978 to 1983. Some approached 2 million tons—more than the entire output of countries such as Egypt and Pakistan. A 1979 headline in *Pravda* trumpeted: "Remarkable Victory of Cotton Growers in Uzbekistan." Rashidov led Uzbek contingents when they lined up for awards.

**HARVEST HOAX.** But an extensive KGB probe showed that Uzbekistan officials cooked the books throughout those award-winning years. They faked production data, billing Moscow for up to 4.5 million tons of imaginary cotton over five years. Those who pocketed the difference used the money to build dachas or to bribe bureaucrats to help their children get lucrative jobs or gain admission to universities. As the local party boss responsible for everything that went on in the republic, Rashidov was accused of allowing the scheme to develop.

By some accounts, Moscow discovered

the scam when testing spy satellites over Uzbekistan. Rashidov reportedly committed suicide after being confronted with the discrepancies between the satellite photos and the harvest reports.

Curiously, Rashidov was buried with honors in a Tashkent park and a commemorative plaque was placed over his grave. But last year the Uzbekistan Communist Party made Rashidov a non-person. His body and the plaque were removed from the grave site, which was then paved over with asphalt.

The man said to have faced down Rashidov was Yuri V. Andropov, then KGB chief and later Soviet leader. During his brief tenure as General Secretary, Andropov initiated anticorruption drives and economic reforms that Gorbachev has pursued more aggressively.

The Uzbekistan probe has accelerated in the past year, and as many as 2,000 of the republic's officials have been investigated. Deputies have been accused of using payoffs to build grand dachas for themselves and their children. Even the police were involved.

Although graft is rampant throughout the Soviet Union, in Uzbekistan it seemed to take on an anti-Russian flavor that was unsettling to Moscow investigators. Consequently, the Soviet militia is instituting widespread transfers along ethnic lines. Central Asian officers will be sent to European Russia and Slavs will be sent to central Asia to deter corruption.

The investigation has had fatal consequences for Uzbek officials besides Rashidov. Valid Usmanov, former minister of cotton processing and the accused mastermind of the scam, faced a firing squad last fall. In early June, Abduvakhid Karimov, party boss of Bukhara, about 300 mi. west of Tashkent, was sentenced to death.

**OPEN SECRET.** Each stage of the Uzbek probe has been reported in the Soviet press as a kind of Gorbachevian warning that such scams will not be tolerated. But the revelations seem superfluous in Uzbekistan, where the cotton affair was an open secret. "Sure, we knew all about it," says a woman in Tashkent. Adds Elnazarov Tahir, head of an 11,000-member collective farm near Bukhara: "I wondered why certain farms had higher harvests than others.

## ANATOMY OF A SOVIET SCAM

**DECEMBER, 1979** *Pravda* praises "remarkable victory" of Uzbek cotton farmers after reports from local party leaders of record cotton harvests. Sharaf Rashidov, First Secretary of Uzbek Communist Party Central Committee, basks in limelight as party members win awards.

**1982** KGB, Soviet state security arm, testing spy satellites, photographs cotton-growing areas of Uzbekistan. Big discrepancies show up between photo data and local crop reports. KGB Chairman Yuri Andropov confronts Rashidov in Uzbekistan.

**NOVEMBER, 1982** Soviet leader Leonid Brezhnev, noted for hands-off attitude toward official corruption, dies. Andropov, anti-corruption reformist, succeeds him.

**1983** With KGB probe in full swing, Rashidov commits suicide but is buried with honors.

**MARCH, 1985** Mikhail Gorbachev becomes Soviet leader.

**MAY, 1986** Uzbek Central Committee publicly denounces Rashidov. His body is later disinterred and his grave turned into an asphalt strip.

**SEPTEMBER, 1986** *Pravda* details extent of cotton scandal, involving overstatements of harvests by as much as 4.5 million tons.

**LATE 1986** Valid Usmanov, former Uzbek minister of cotton processing, is executed by firing squad.

**JUNE, 1987** Abduvakhid Karimov, party boss in city of Bukhara, is sentenced to death. Cotton scam probe leads to questioning of up to 2,000 Uzbek officials and transfer of many to distant provinces.

**TO RESIDENTS OF UZBEKISTAN, THE COTTON CONSPIRACY HARDLY CAME AS A SURPRISE**



## International

When cotton was in the fields, it didn't seem they would be doing so well. But great production figures appeared."

Rashidov's story shows how simple it can be to mastermind production scams in a centrally planned economy where, ironically, tight controls might seem to preclude such abuses. The scandal also raises new questions about the reliability of Soviet economic data.

With bad data, economic planners can't know what's needed most. Gorbachev instituted a state system of quality-control inspection earlier this year because, at most, only 18% of Soviet products meet world standards. When state quality inspectors swooped down on the Tyazhtextilmash textile company in Tashkent, they "immediately rejected 100% of its output," says Ernest A. Rizaev, first vice-deputy of the city's executive committee. The plant, he adds, badly needs new equipment—and its managers badly need new thinking.

"There were and there are a great deal of problems facing us, and one of the biggest is the question of personnel, the party cadres who supervise *perestroika*," says Rizaev, who got his job under the Gorbachev regime. Since 1984 more than 3,000 Uzbek officials have been sacked, though not necessarily because of corruption. More will lose their jobs as time goes on, he says.

**ETHNIC STRIFE.** Still, falsifications continue in Uzbekistan, and the phony figures involve more than just cotton. In 1986 some 40% of Uzbek production enterprises reported false data to Moscow, according to a regional newspaper. Of 211 farms checked, 147 had lied about fodder production numbers.

In neighboring Kazakhstan, some 4,000 officials reportedly have been investigated for corruption. Four senior party officials have been arrested on bribery and embezzlement charges and could face execution. One is said to be a relative of longtime Kazakh kingpin Dinmohammed A. Kunayev, a Brezhnev protégé whom Gorbachev ousted from the Politburo last December.

Kunayev's firing took a bloody turn. He was replaced by a Russian, breaking an unspoken rule that local officials head ethnic republics. Whipping up nationalist sentiment, Kunayev supporters reportedly inspired at least 2,000 students to riot in the republic's capital, Alma Ata. The resulting violence now seems certain to claim at least one life. On June 22 authorities announced that a

student who took part in the riot will face a firing squad. Four other participants drew prison sentences.

Even more opportunities for bribery may develop as Gorbachev expands foreign trade as part of *perestroika*. So far this year some 70 enterprises have been permitted to deal directly with foreign companies. In addition, the Soviets are promoting the formation of joint ventures with foreign companies to obtain Western technology, management skills, and access to foreign markets. It's al-

to try to implement trade arrangements between the two countries."

While noting that "fine things impress all Soviets," Verity says, "we felt it was important that if he was going to do business in the U.S., we should impress on him from the outset that there are strict limits on gift-giving here. So we'd take him out and give him a good dinner in New York, and that was sufficient. I never had any suspicion he was corrupt in any way."

Although there have been no reports of corruption in Sushkov's dealings with the U.S., Italy would appear to be a different story. The country always held a special attraction for him and his wife. According to the newspaper *Labor*, Valentina's taste for Rome's high life led Italians to dub her "the gold-plated signora." And in 1981, *Labor* says, she introduced her husband to Paolo Straneo, managing director and president of Pressindustria, a Milan maker of chemicals and drugs. Straneo, says *Labor*, was eager to break into the

Soviet market. Once he and Sushkov struck up a relationship, trade flourished between Straneo's company and Soviet oil and chemical, as well as fruit and wine, industries.

Sushkov helped arrange a large Soviet order for chemicals from Pressindustria, *Labor* reports, and in return, Straneo gave the Sushkovs presents worth more than \$200,000. Later he reportedly testified against them in Moscow.

For his part, Straneo concedes that he gave the Sushkovs "token gifts" that included expensive jewelry and clothing. But he says their value was about half the amount estimated by Soviet investigators. Moreover, Straneo insists that there was no direct connection between the gifts and contracts awarded to his company. He adds that he only proffered the gifts after persistent requests from the Soviet couple.

The Sushkovs' sentences look relatively light compared with the executions in Uzbekistan. That might provoke more nationalist sentiment in distant republics like those in central Asia, and more riots in cities like Alma Ata. And committed though Gorbachev may be to rooting out corruption, he faces an awesome battle against an entrenched bureaucracy that seems to feed on graft. Progress will come only at a high price.

By Peter Galuszka in Tashkent, with Karen Wolman in Rome and Charles Gaffney in New York



FORMER ARMCO CEO VERITY AND FORMER TRADE OFFICIAL SUSHKOV



CORRUPTION BROUGHT DOWN PARTY BOSSES KUNAYEV (LEFT) AND RASHIDOV (RIGHT)

ready an established practice at U.S. companies to fly visiting Soviet trade officials on corporate jets. And when business has taken the visitors to the West Coast, they've often made weekend stopovers in Las Vegas.

Nonetheless, Sushkov's American colleagues on the U.S.-U.S.S.R. Trade & Economic Council express shock at his arrest and sentencing. "I never saw any evidence that he was dishonest, venal, or in any way disloyal to his country," says one former U.S. director. "He certainly never gave any indication that he was expecting anything from me or my company."

"He's probably on his way to Siberia," says C. William Verity Jr., former chairman of Armco Inc. Verity, who served with Sushkov on the bilateral council from 1973 to 1985, describes him as "a fine associate, a very outgoing fellow who did everything we asked that he do



# LIVE OFF THE AK-47, DIE BY THE AK-47

**O**n the evening of Oct. 9, the family of Nikolai A. Perevozchikov, a high-ranking police officer in the grimy Russian city of Izhevsk, gathered at his apartment to celebrate the 20th birthday of his son Sergei. After the party, the family retired for the night.

At about 3:30 a.m., gunmen smashed through the apartment's wooden door. Working room by room, they sprayed family members with bullets, killing Perevozchikov, his wife, Nina, his 25-year-old son Igor, and his 23-year-old daughter, Tatyana, also a police officer. Survivors included two of the children's spouses and Tatyana's 9-month-old baby boy, who had been lying beside her as she was shot in bed. Sergei saved himself by diving under the dining-room table after the gunfire woke him.

**CHIEF NEMESIS.** To the 600,000 residents of Izhevsk, wiping out nearly an entire family was shocking enough. But Perevozchikov was also the region's leading specialist on organized crime. He was the nemesis of the local violent gangs that have sprouted up—as they have all over Russia—since the fall of communism. Just two days after the murders, he was to have led Operation Signal, a major police sweep to arrest

gang members and confiscate weapons.

The killers' choice of weapon lent the slaughter an ironic twist. Along with pistols, they used a Kalashnikov assault rifle—Izhevsk's most famous product. Ever since the early 1950s, Iz mash, the largest employer in this military production center some 1,000 km east of Moscow, has been churning out the AK series of weapons, arguably the best assault rifles ever produced.

The AK, with its distinctive banana clip, was designed in 1947 by Mikhail Kalashnikov, now 74, a revered local resident. He invented the rifle after he was wounded in combat and was convalesc-



**FUNERAL IN IZHEVSK:** A police officer and most of his family were wiped out

ing in a hospital during World War II. His goal, as he told the press recently, was to provide Mother Russia with weapons at least as good as the German ones he had faced.

Since then, some 55 million AK-47s and AK-74s have been produced. The AK series has been an outstanding success. Simple, rugged, and reliable, they can fire in conditions ranging from tundra to jungle. During the Vietnam War, U.S. troops scrounged AKs from dead enemy troops because they didn't jam as often as U.S.-made M-16s. Many AKs are in use today by soldiers, guerrillas, and terrorists around the world. They fetch from \$300 to \$1,000 and are produced in factories in eight other countries, including Poland and China. "The Kalashnikov is not just a symbol of our city but of our country," says Viktor U. Selezov, chief engineer of the Iz mash plant.

**FORCED FURLOUGHS.** Under the Soviets, workers at Iz mash and other local state weapons factories were rewarded with high salaries and perks such as access to resorts, special food stores, day care, and summer camps for the kids. They lived cozy lives, sealed off in the Russian heartland. But all that has changed. To the people of Izhevsk, the collapse of the Soviet empire has been particularly harsh. Many have lost their jobs making guns, and many more live in fear that the weapons they made will be turned on them. The Russian military has cut requests for Kalashnikovs fourfold since the 1980s. Now, some of Iz mash's 70,000 workers, many of whom already are on forced furloughs, are facing permanent layoffs.

Some other plants in the city have succeeded in shifting to civilian production. A military-electronics factory, for example, now makes VCRs. The Izhevsk Mechanical Plant, a major maker of Tokarev and Makarov pistols for the military, has shifted its production from 66% defense to 94% civilian by adding such products as food processors and milk-packaging machinery.

Iz mash hasn't enjoyed such success. The plant has made cars and motorcycles for about three decades. But its Kombi and Moskvitch cars look like ungainly boxes, and those Russians who can afford a new car these days favor sleek imports. Iz mash did have a winning motorcycle model, whose liquid-cooled engine made it a hit in such desert nations as Egypt and Syria. But it stopped making the bike, called the

Izhevsk. The problem, company officials say, was that ordinary Russians couldn't afford them, and they didn't appeal to the arrivistes who prefer imported bikes such as high-powered Yamahas from Japan and Harleys from the U.S.

That leaves the crime wave that Perevozchikov was fighting as the most reliable source of business in town. The illegal-arms market is thriving, along with the criminals who are everywhere in Izhevsk and the rest of Russia. "The mafia," says local television reporter Vlada V. Odinsteva, "is now dividing up influence spheres in the city, and murders take place often—murders of businessmen who, in this or that way, are connected with the mafia."

In recent weeks, she says, a bank director was assassinated, two store guards were killed during a robbery, and the car of the chief of a wood-products company was shot up—although he escaped being hit. Murders in the Republic of Udmurtia, which includes

**"When we had  
communism, there was  
no such crime here.  
There was order here"**

Izhevsk, are up 18% from last year, to 320 since Jan. 1.

Republic police recently uncovered five underground factories where gangsters were assembling Kalashnikovs and pistols from parts smuggled out by factory workers, says Valery V. Simyonov, a deputy minister of police. The Izhevsk Mechanical Plant, which makes military pistols, isn't permitted to sell the army models directly to a Russian public that is increasingly terrified about crime. But it is responding to consumer demand by modifying the guns to shoot pellets filled with a Mace-like chemical that can immobilize an attacker. Trouble is, these gas pistols can easily be retooled to fire bullets again—work that was going on in some of the underground factories.

Izhevsk's surging illicit-weapons production also includes exports. Last month, a woman associated with a private, Russian-Cypriot joint venture allegedly arranged for air shipment of 3,000 gas-pellet pistols from Izhevsk Mechanical Plant to Cyprus. She was arrested and the air cargo seized en route when police learned the guns were bound for Chechnaya, a strife-torn Russian republic in the Caucasus, where, apparently, they were to be converted for live-ammo use.

On Oct. 13, three men in their 20s were arrested in connection with the murders of the Perevozchikov family. Two more are being sought. The authorities have said nothing about the possible motive, and while investigator Simyonov won't link the killings directly to gunrunners, he says it's obviously a distinct possibility. Nor can Perevozchikov's association with Operation Signal be dismissed as a motive.

As for the people of Izhevsk, they stoically bore the heightened police presence resulting from the sweep, although in today's Russia they could have protested the searches as violations of their civil liberties. At one checkpoint on the edge of town, for example, traffic cops in flak jackets, along with tough-looking special police forces in camouflage uniforms, roused motorists and searched car trunks and seats. One young traffic policeman carrying a Kalashnikov said they didn't need a special crackdown to find weapons: Five Kalashnikovs had been found in car trunks during routine checks at that spot over the past several months.

**LAST RESPECTS.** On Oct. 11, city residents turned out for the open-casket funeral of the four members of the Perevozchikov family. A crowd of about 30,000, many in tears, waited in line to pay their last respects. They filed past dozens of floral displays and a military band into the hallway of a modern building where the coffins were lined up in a row. Behind each was a large black-and-white photo of the slain family member.

Outside, there was time to ponder the meaning of the murders. A 22-year-old woman sobbed, saying that she had been friendly with Igor Perevozchikov, a former classmate. "His father was a very big man, a very great man," she says.

For others, the murders show what Russia has lost as it lurches toward an uncertain future. "When we had communism," says Nikolai M. Malyshev, 46, who works at the Izmash plant, "there was no such crime here. There was order here. Under our old system... the people were better, cleaner. The people were more decent and honest. Now everybody has freedom and does what he wants, and there is no morality."

Of course, the communists were hardly exemplars of morality. The regime killed millions of Russians. But crime in Russia today is increasingly violent, uncontrolled, and capricious. Fighting it cost Nikolai Perevozchikov and most of his family their lives. And unless Russia succeeds in containing it, crime could spell the end of the nation's fragile progress toward democracy.

PETER GALUSZKA

*Galuszka is BUSINESS WEEK's Moscow bureau chief.*