

# Corruption Fatigue Turns the Tide in Petro-States, But Russia Defiant

By [Peter Kaznacheev](#)

May 27, 2016



One of the first decisions of Brazil's new interim cabinet was to create a Ministry of Transparency and Oversight and reopen an investigation of 31 engineering and construction companies associated with the Petrobras scandal.

The recent probe into bribery schemes is a reaction to a nationwide anti-corruption movement which led to the impeachment trial against Dilma Rousseff and the suspension of her presidency.

Events in Brazil represent a broader global trend — a consolidation of societies against corruption and economic irresponsibility in oil exporting countries.

Brazil is the most noticeable case so far in a number of ways. As the largest economy in Latin America and number seven worldwide, the country clearly has a lot of weight on the regional and global scenes.

The scope of the protests in the country exceeded all expectations. In March, during the biggest demonstrations, nearly seven million took to the streets across the country on one day. All the rallies were peaceful and highly organized – a major change from the Latin American tradition of revolutions and coups d'état.

Oil and corruption were at the center of the scandal which ignited the protests. The state oil company Petrobras is one of the largest producers of oil in the world, with a cumulative production of over two million barrels of crude per day.

While Rousseff headed its board of directors, contractors received profitable deals in exchange for financing politicians of the ruling Workers Party and their election campaigns.

What is the significance of Rousseff's case beyond Brazil? The investigation into corruption at Petrobras is indicative of a powerful tendency: over the last year and a half, growth in anti-corruption sentiment has become apparent in a number of oil-exporting countries.

Until 2014, record high oil prices served as a buttress for corrupt and inefficient systems of public administration in petro-economies. Now, with much cheaper oil (crude prices saw the sharpest fall since the 1980s,) and the curtailment of incomes, the dissatisfaction with the status quo is on the rise in many oil economies and, consequently, their political landscape is changing as well.

Last year, in Nigeria the economic crisis and an uncompromising anti-corruption campaign led by Muhammadu Buhari contributed to a change of the political regime. Similar to Brazil, the main scandal was connected to the national oil company which for many years sold unaccounted oil on the black market and proceeds were then transferred to state officials' pockets.

Later last year, the 1MDB scandal sent shock waves through Malaysia after the discovery of a \$700 million transfer wired into the bank account of Prime Minister Najib Razak. The global anti-graft trend culminated with the publication of the Panama Papers bringing into the spotlight a whole list of politicians from oil exporting countries. Among them are Brazil, Venezuela, Russia, Angola, Algeria, UAE and Saudi Arabia.

More than half a century after a wave of nationalization of oil companies and the creation of OPEC, the state-dominated model of "resource nationalism" has failed to fulfill expectations in many countries. On the whole, it produced negative results: worsening rent-seeking and corruption, a fall in private investments, and a loss of overall economic efficiency. The realization of this is the main reason behind the rise of discontent in a number of oil economies that we are seeing today.

Some governments have sensed the trend and are taking steps to make the oil rent redistribution more transparent. The decision announced by the young Saudi prince Muhammad bin Salman to privatize a share in Saudi Aramco through an initial public offering is a first step in that direction.

While some other petro-states are likely to follow suit in order to pre-empt public anger, others are reluctant to make changes and are even tightening the screws. Notably, Russia's government dismissed the Panama Papers revelations as a Western ploy. Venezuela's Nicolas

Maduro is on a full-scale offensive against the opposition which won parliamentary elections at the end of last year.

Attempts to guard the status quo may work for a while but eventually thwarting change is a short-sighted policy. In a globalized world the availability of information and the speed of its distribution have reached a new level.

Investigations into abuses of power by state officials and mismanagement of funds immediately become known to millions of people. Hence, in a global information age, societies are beginning to show much less tolerance for lack of transparency in public administration.

Peter Kaznacheev is an energy economist and formerly a senior advisor in the Russian Presidential Administration (2003 – 2005). He is director of the RANEPA Center for Resource Economics.

*The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.*

Original url:

<https://www.themoscowtimes.com/2016/05/27/corruption-fatigue-turns-the-tide-in-petro-states-but-russia-defiant-a53050>