Columbia Business School
AT THE VERY CENTER OF BUSINESS™
Center on Japanese Economy and Business

CENTER ON JAPANESE ECONOMY AND BUSINESS

日本経済経営研究所

Working Paper Series

Sept. 2020, No. 376

The Darkside of Pursuing Growth in the Product Cycle — Corruption, Graft, and Bubbles

William V Rapp

This paper is available online at www.gsb.columbia.edu/cjeb/research

COLUMBIA UNIVERSITY IN THE CITY OF NEW YORK

The Darkside of Pursuing Growth in the Product Cycle – Corruption, Graft, and Bubbles ©

William V Rapp

Research Associate
Center on Japanese Economy and Business
Columbia Business School
NYC, NY

85 River Road
Scarborough, NY 10510

wvr201@nyu.edu

September 2020

Abstract

This paper examines how MNEs operating within the International Product Cycle and an Improving Value-Added Chain between and within countries and industries can feel compelled by competitive pressures to expand globally through sales and FDI into emerging markets in order to find market growth and/or lower costs and then be trapped by graft and corruption and the risks associated with the US Foreign Corrupt Practices Act or similar statutes in other OECD countries. It also explains how herding, global competition and instant communication can create Financial Bubbles that amplify and exacerbate the existing corruption. It then offers MNE executives some possible approaches for identifying and managing corruption pressures including factor reversal and on-shoring strategies.

Keywords

International Product Cycle
Export-led Growth Model
Financial Bubble
Corruption
Foreign Direct Investment
Digitalization

Introduction[1]

After World War II the pressures for global economic recovery spurred a lot of intellectual activity on how countries could first recover and then grow economically in order to avoid a repeat of the conditions that had led to the Great Depression and which many felt had contributed to the War that followed. Two major policy paths forward emerged from this global discussion. The evolutionary growth model that ultimately evolved into the export led growth model (Burenstam-Linder 1961, Leontieff 1954, Chenery 1960, 1965, 1975) and the import substitution model designed to leapfrog the need to develop light industry before moving into more capital and skill intensive activities such as steel or other heavy industry. The latter approach was especially promoted within command economies such as Russia and China but also had proponents in India and various Latin American countries such as Brazil and Argentina.

Japan's rapid growth and economic success followed by that in South Korea, Southeast Asia, China and most recently Vietnam combined with the collapse of the Soviet Union and the bankruptcy/hyperinflation of many Latin American countries in the 1980s assured the dominance of the evolutionary export led growth model. This was further supported by the trend since the 1980s for the reduction in national barriers to trade and investment (FDI) that has driven the globalization of markets, production and supply chains (Hill 2017).

Industry And Firm Development Within The Export Led Growth Model

One can observe historically for most products, services, and industries operating within the export led growth model a certain development pattern. As explained above, countries like

[1] This paper draws on the development model proposed by Hollis Chenery and others on how as economies grow, they move up the value-added chain to more and more sophisticated products and services on both an inter and intra industry basis. This is then combined with the International Product Cycle put forward by Vernon (1966), Rapp (1967) and others on how new innovations are normally produced in advanced countries and then migrate to lesser developed or emerging markets seeking growth and lower costs, enabling these economies to move up their own value added chains but beginning with lower costs given declining costs of technological transfers.

Japan and South Korea that followed the Chenery model began by simple primary product processing requiring little skilled labor and relatively less capital-intensive production methods. They then developed simpler manufacturing industries that produced products with high domestic demand, such as textiles and handicrafts. Subsequently vertical integration stimulated demand for machinery, steel, and so on. As this industrial development progressed, so did capital accumulation and development of the labor skills that facilitated exports of these less labor and skill intensive products with a move up the economic value chain to the production of more technically complex as well as capital intensive goods. Generally increased incomes followed improved productivity, better skills and capital accumulation. This helped create the domestic demand conditions that supported higher value-added products and services. In this way the evolutionary model created self-re-enforcing conditions in the development process.

To quote Chenery and Syrquin (1975): "General models of structural change applicable to all countries can be derived from the following types of assumptions: 1. Similar variation in the composition of consumer demand with rising per capita income, dominated by a decline in the share of foodstuffs and a rise in the share of manufactured goods 2. Accumulation of capital – both physical and human – at a rate exceeding the growth of the labor force 3. Access of all countries to similar technology 4. Access to international trade and capital inflows.

These basic aspects of consumer demand, technology and trade change over time as a result of technological progress, population growth, the rising level of world income, and consequent changes in trading conditions and the supply of external capital."[2]

Balance of payments and macroeconomic effects accompanied these developments, though starting the process generally required an emerging country and its firms to acquire external

[2] Chenery, H. & Syrquin, M. 1975. *Patterns of Development 1950-1970*. Oxford University Press

capital. They will thus generally begin the process by borrowing capital that is in short supply and in the process become an Immature Debtor, though since the 1980s and especially 2000 FDI has played a more important role (UNCTADSTAT, 2020). The more successful a country is at the development process the more its industries will grow and expand, requiring more capital. It then evolves into a Mature Debtor. Once it becomes globally competitive in certain industries, however, it will begin exporting and the shift begins to Immature Creditor and Mature Creditor. Japan, South Korea and China are all now creditor nations due to their successful export development, though this has also led to accusations that they are maintaining at least in the case of China undervalued currencies.

However, this is less credible for Japan that has seen its currency go from 360=$1 in the 1960s and early 1970s to under 100=$1. More complex economic factors thus seem at work in ways that go beyond the scope of this paper [Aliber, 2013; McKinnon, 2013]. Yet it does seem to be true that successful exploitation of the international product cycle that results in export-led-growth can result too in accumulation of foreign exchange reserves and accusations of neo-mercantilism.

A key aspect of this process, however, is the fact that by taking an evolutionary approach that produced products and services appropriate to a country's factor endowments, the follower countries became competitive in those products and services just as the more advanced countries were shifting into higher value added products and services. This has led to the dynamic shifts in comparative advantage that have occurred since the 1950s. Vernon (1966) noted this same dynamic in his work on international product cycles. Under Vernon's concept new products were developed in the United States and then exported. After a while, production shifted to other countries as demand in those countries expanded and they were able to produce the product more

cheaply. Eventually as the product or service became commoditized labor costs in particular would drive production towards developing countries and emerging markets and the US would become an importer. An early example of this idea was developed by Akamatsu (1962) for the global textile industry that has continued to this day. The International Product Cycle as shown in figure 1 is often called the Flying-Geese theory of product evolution given its pattern of development.

Nike shoes are an excellent example of this process at work as well. While its first athletic shoes were developed in Oregon, they were made by Tiger Shoes in Japan. When Japan became too expensive given its rapid economic development, production shifted to Taiwan, then South Korea, China and most recently Vietnam. At the same time an evolving middle class in these countries became a market for its products.

Emergence Of National Champions And The Strategic Response Of FDI

Japan's success within a protected economic environment led to modifications in the Vernon (1966) model. As explained in Rapp (1973), in continuing to add value within the economic growth process, resources and technology not only shifted between industries (inter-industry development) but within industries (intra-industry development). Nippon Steel has stayed competitive despite the rise of Chinese steel production by being able to roll ultra-thin steel for lighter and lighter cars. Similarly, Toyota's continual improvement in its lean production system combined with a global FDI strategy has kept them at the top of the auto industry.

At the same time the emergence of such national champions from protected environments in Japan, and then Korea (Hyundai, POSCO, Samsung), or China (Bao Steel, Alibaba, Baidu) forced MNEs in the advanced Triad countries including Japan to make sure they captured some of the growth in the newly emerging countries through aggressive innovation, marketing and FDI to deny potential new rivals the domestic growth, scale and experience that could then lead to lower

costs and the penetration of foreign markets. This was a shift from the traditional FDI pattern and foreign business strategy for Triad MNEs that usually has begun with exports and/or FDI to other developed countries and then moved to Developing Economies (footnote 5).

Typical FDI US And European MNEs

Before and after WW II the typical pattern for a large internationally based company competing with other large international players in the global marketplace when it first invested abroad was to extend its base products' and technologies' commercial life and to respond to profit opportunities that were as high or higher than what it could find in the US. This normally meant investment for US firms in other developed countries such as Canada and Europe and for European firms, investments in the US, Canada or other European countries. Therefore, most FDI was to other developed nations. Its first activity might be a sales and marketing office in Europe with exports from the US followed by local production as the market developed and expanded (UNCTADSTAT, 2020).

However, Japan's rapid development beginning in the 1950s and its export penetration of important foreign markets for textiles, then steel and ships and finally autos and machinery by the 1970s raised government and industry concerns about the large changes in the world economic order and in global competitive advantage. It also forced a rethinking by established as well as newer US and European MNEs regarding economic growth and the emergence of new global competitors such as Nippon Steel, Toyota and Fuji Film. Under this new thinking using FDI to penetrate a high growth market became an important strategic response to capture that market growth but also to deny potential rivals the scale and experience they needed to become competitive (Rapp 1973). Texas Instruments' JV with Sony and P&G's investment with C. Itoh and Sun Homes are early examples of this though with somewhat different results. Then as

Japanese production became less competitive given higher wages and Yen appreciation Japanese firms too began entering high growth emerging markets in early 1990s but not before using FDI to hop over rising protectionism in the US and Europe after 1985 Plaza Accord.

Evolving MNEs And Competitive Responses

The traditional product growth cycle is shown in the first graph in Figure 1 and its international extension, the Flying Geese or International Product Cycle theory, is shown graphically in combination with the next two graphs. This process finds its explanatory power in skill changes in the labor force, rising wages and the increased domestic and export demand for more sophisticated products as a country successfully develops and per capita incomes rise. But as indicated above an important shift began in the 1980s through the influence of MNEs' FDI on this evolutionary process because some of these firms could through FDI capture the demand that otherwise would have supported the development of new competitors or national champions in the follower countries. Companies such as Intel in microprocessors and Honda in motorcycles and scooters have been particularly adept at this process.

Further with advances in globalization since the 1980s that reduced barriers to trade and investment combined with dramatic advances in communications and transportation many firms found they could create and optimize a global supply chain that allowed them to shift suppliers quickly as economic situations changed. Advances in computers combined with increasingly high capacity communications such as video conferencing have also facilitated the ability for firms to manage such operations globally and thus expand their global footprints. This situation was true for manufacturers such as IBM and Toyota, branded consumer goods such as Apple, Nike and Disney and big box stores such as Walmart and Home Depot. It also occurred in less visible areas such as toys, nails and eyelashes (Kahn, 2003; Barboza, 2006).

These developments have had two major effects on trade and the FG pattern of development. One the MNEs can influence the competitive migration of particular industries from one country to another such as Nike's decision to build a shoe factory in Vietnam rather than expand output in China, Walmart's decision to shift low cost apparel production to Bangladesh or Sumitomo's decision to go to Cambodia for wire harnesses used in cars [Bradsher, 2013].

Secondly these developments have in many cases negatively impacted the ability for national champions to emerge in a follower country to compete in global markets as major MNEs have remained globally competitive through FDI in these follower markets such as Toyota, Honda or Hyundai in automobiles. Despite China being the largest car market in the world the Chinese firm Geely was only able to enter the global market through the acquisition of Volvo and lags way behind the leaders in global market share. Similarly, Tesla seems to be taking the lead in electric automobiles in the Chinese market. This continued global competitiveness in turn will redirect resources in follower nations to those companies and industries facing weaker competition or in newer industries where national market share can be captured more quickly given government support such as Alibaba, Baidu, and Tencent in China.

Historically the competitive migration of industries such as textiles, apparel and toys seem to move most easily along the lines of the international product cycle. At the same time it is clear that in oligopolistic industries such as autos and tires the competitive dynamics have been influenced through FDI from strong global competitors from the innovator nation or earlier followers such as Japan that have successfully maintained their global competitive advantage and have thus prevented the emergence of a large number of new global players. This phenomenon has also been affected by continued innovation, efficient customization, global organizations, low cost capital, and factor reversal within these oligopolistic industries. Further since the early 1980s

established MNE's competitive response times have become quicker when demand and supply situations shift due to exchange rates, economic growth and regionalization.

Traditional Flying Geese Paradigm Of Industry Migration

For Akamatsu (1962) the process of competitive migration began with the UK in the 19th Century as the textile industry innovator and for Ray Vernon (1966) it began with the US as the innovator in a wide range of industries including autos, steel and electronics. Initially the innovator sells in its own advanced market and having established a competitive position begins to export, initially to other advanced countries. As the product or service becomes commoditized, though, and foreign competitors with lower labor costs enter the innovator's export markets, often with government protection or assistance, the innovator country loses competitiveness and will eventually import the product or service.

The idea is that with successful industrialization per capita incomes rise but there are shifts in demand to higher quality goods in existing industries such as textiles, apparel and electronics and to demand for new more sophisticated products such as a movement from bicycles, to motorcycles to cars. Thus per capita income can be used as a measure of a country's level of development and the kinds of products or services its population will demand over time (Chenery & Syrquin, 1975).

These shifts in demand also represent a shift in comparative and competitive advantage as growth slows in the industries and products losing relative demand. At the same time there are always follower nations moving into that space that are gaining advantage through higher relative growth and lower labor costs. In this way as countries move up the value-added ladder into higher quality technically more sophisticated products or services, they shed industries in which they are

losing relative advantage while gaining advantage in those immediately ahead relative to the countries that are more advanced in the development process.

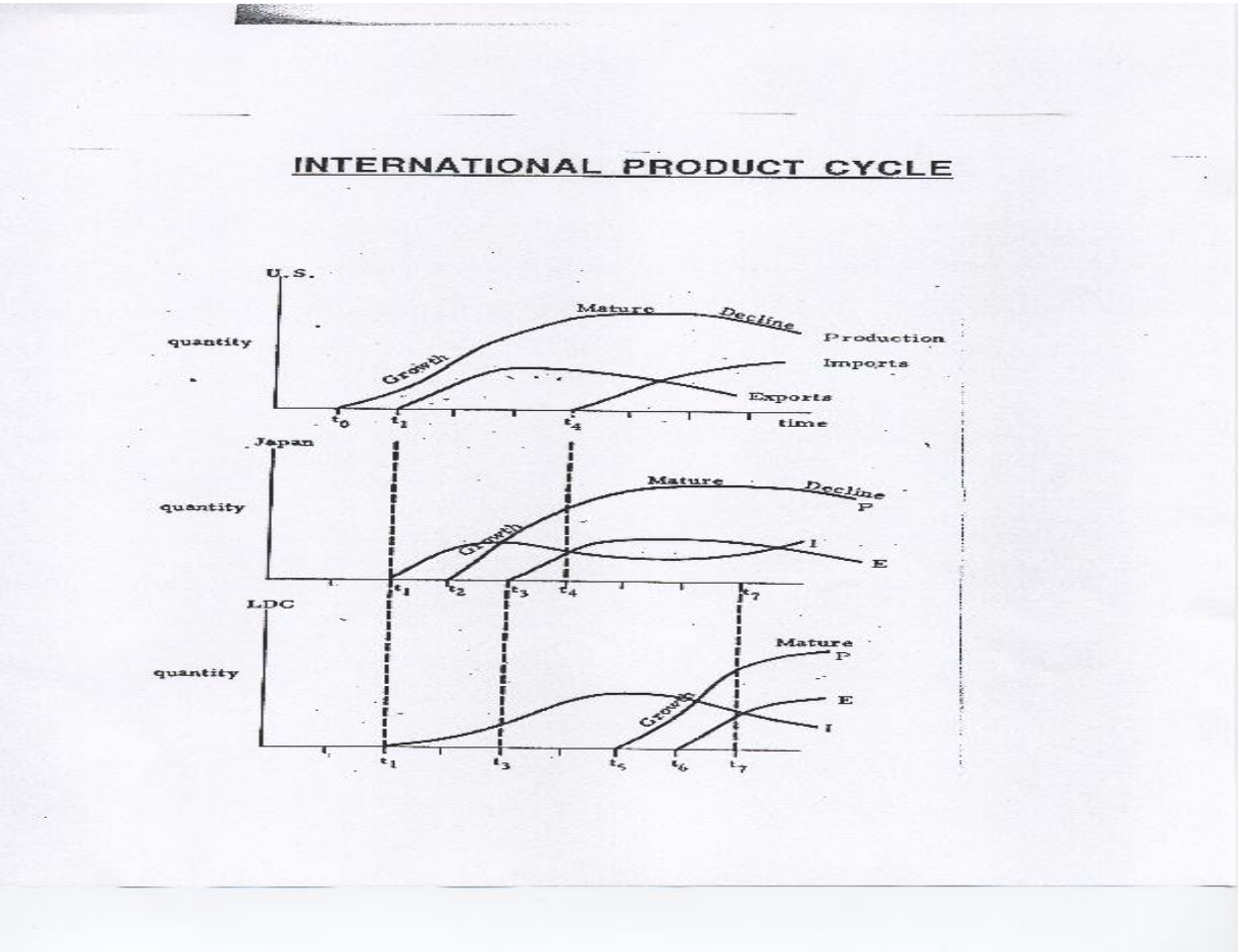
Several countries in East Asia such as Taiwan, Korea, Singapore, Thailand and most recently China have explicitly followed this development model emulating in particular Japan's industrial development and industrial policies from the 1950s through the 1970s (Rapp, 1993). In this way the theory tries to explain a country's pattern of industrial development at a point in time as well as how it will evolve from that point.

Under the classic international product cycle theory, a country is either an innovator or follower in a particular industry. If it is an innovator as noted above it is usually at the forefront of economic development and is first producing for its own market and then for other more advanced countries in terms of exports (Figure 1). The advanced followers are thus initially importers, but as local demand grows, they begin the production process again but because they are growing more quickly than the innovator, they are gaining competitive and comparative advantage. So, they begin first exporting to next follower, etc. (Figure 1).

Experience Curve Effects And Technology Transfer

While Akamatsu (1962), Vernon (1966) and Rapp (1967) were able to show that these product cycles and shifts in competitive and comparative advantage had actually occurred, a theoretical problem did arise with respect to the FG theory with the identification of Experience Effects (Rapp, 1973). That is beginning in the 1970s it could be verified that real costs dropped by a certain percentage for every increase in experience or accumulated production. Logically then the firm with the largest global market share would have a decisive competitive advantage that followers should never be able to match, an obvious paradox since such firms did lose competitive

advantage in both highly competitive, e.g. textiles, as well as more oligopolistic industries, e.g. steel and autos. Figure 1 (author).



The theoretical and actual solution to this paradox was resolved by showing the starting point for a follower's new accumulated production curve was constantly falling over time due to technological improvements, global knowledge spreading and education. It was also impacted by exchange rates and lower labor costs. Thus follower countries in the early stages of development with weaker exchange rates, lower labor costs and access to global technologies could begin the production process at much lower initial costs than had been borne by the innovator and only needed to grow faster in order to catch up and pass the innovator in terms of price competitiveness (Rapp, 1973) as Japan did during the 1960s and 70s in autos and many other countries had done historically in textiles (Akamatsu, 1962).This process was then followed by Taiwan in textiles and

electronics and Korea in textiles, shipbuilding, steel, autos and electronics. Further, in all three cases the countries were able to establish national champions that were then able to become major international global competitors such as Toyota, Nippon Steel, Sony, Matsushita, Honda, Mitsubishi Heavy, TSMC, Acer, Hyundai, POSCO, and Samsung.

However, in the 1980s things began to change. American firms such as Intel began to understand this process of competitive migration. In addition, major Japanese firms that had so successfully initiated these developments against US and European competitors also had a clear understanding and were not anxious to be replaced competitively by the next follower as for instance Toyota had done with GM (Rapp, 1993). Toyota for example has located almost identical assembly plants worldwide all using its lean production system (Rapp, 2004) Locations include a mix of emerging markets like Thailand but also advanced countries such as France and the US. This globally integrated plant dispersion with its digitally connected global supply chain (Rapp, 2004) hedges operationally against changes in exchange rates and new competitors. Organizational learning can thus occur, and new strategies can be developed globally using Foreign Direct Investment (FDI) and IT interconnectedness as a strategic tool.

The idea has been to strategically use FDI supported by a global organization that can now be digitally organized and connected globally to capture the growth in the follower country by bringing the company's full resources to bear including a global supply chain and global R&D, thus shutting off or reducing the possibility of a national champion and potential global competitor from developing and allowing the foreign firm to reap the benefits of the new lower experience curve and the rapidly growing local demand in the follower country. At the appropriate time the MNE could also establish a new and more competitive export platform. Honda, for example, has an explicit country strategy that relates per capita income and certain products such as 50cc

motorbikes at an early development stage. Then as economic development progresses, Honda moves their marketing emphasis up within the two-wheel category to bigger more expensive bikes and then it shifts to small four-wheel vehicles and then moves up the automobile scale as the populace becomes more affluent, a process viewed by the author in India.

This migration strategy also allows Honda to begin training personnel and to develop a service, financing and distribution organization at a very early stage of a country's motorization. It will also shift production of those vehicles to that country as scale builds in each product category. Global production for small motorbikes is therefore no longer Japan but China and to the extent there is still Japanese demand for these bikes Honda imports them from China just as Toyota has imported some cars to Japan from Thailand.

From this and other examples it is clear the dynamics of the international product cycle and shifts in competitive and comparative advantage are still occurring. The theory remains valid and important but now highlights the strategic role of digitally connected global supply chains, global FDI and global organization. Widespread reductions in national barriers to trade and investment combined with major advances in communications and transportation have interacted with these shifts in comparative and competitive advantage, enabling MNEs to manage these complex global supply chains on a just in time basis as each product cycle evolves. Growth since the 1980s in intra-company trade relative to inter-company trade much less global production illustrates its business and policy importance (Hill, 2010). Yet it is clear that while for many industries such as autos and electronics FDI has changed the nature of the product cycle away from the creation of powerful new global competitors who are national champions, this does not appear to be true for textiles and apparel, steel or newer IT based businesses. Capital and scale do not appear to be the

controlling factors. Rather it seems to be who controls the technology or intellectual property rights needed to be globally competitive[3].

If a country can easily access the latest technology and intellectual property rights are not an issue, then lower labor costs can be a competitive advantage in industries such as apparel that are labor intensive. Since industrial sewing machine companies are happy to sell to anyone, this condition applies to apparel especially when large retailers such as Walmart appear willing to shift production to a new location for a few cents per hoodie (Hill, 2010). Further if emerging countries recognize this and are willing to support such Infant Industries under recognized international exceptions, the industry can flourish as has occurred in apparel in Bangladesh (Hill, 2010). As Akamatsu (1962) noted textiles and apparel for this very reason tend to be bell weathers of shifting competitive dynamics.

This kind of industrial policy can even work in industries requiring much more capital such as steel or metal refining since again large engineering companies such as Bechtel, Brown-Boveri and the engineering division of Nippon Steel are ready to design and build such operations while equipment is readily available from firms such as Mitsubishi Heavy or Siemens. Therefore, in these areas new National Champions such as Bao and Mittal Steel can and do emerge. Further, as these companies grow rapidly in response to a country's modernization, they move down their experience curves more rapidly as well (Rapp, 1973). Their country's exchange rates for them then become relatively undervalued, promoting their exports and further cost reductions in a virtuous or beneficial cycle that also tends to shift national resources to those sectors (Rapp, 1973).

[3]Industries requiring high upfront development costs but easily copied low cost production, e.g. pharmaceuticals, movies and software must be able to quickly build large user bases that lower fixed cost per unit or user while achieving enforceable intellectual property rights. Successful firms soon become country-based oligopolies. However, piracy and national policies can result in problems despite the TRIPS negotiated treaties of the 1990s as with India in Pharmaceuticals. Near monopolies can also lead to competition-based actions such as the EU's against Google.

This is especially true when access to global markets is expanding. Ending the MFA or Multi Fibre Arrangement [1974-2004][4], for example, first benefitted China and then Bangladesh [Hill 2010]. Further lower ocean transport costs and less expensive access to raw materials such as cotton and synthetic fiber for apparel, iron ore and coking coal for steel and copper concentrates for the copper smelting needed for auto parts and wire production have facilitated these industries' growth. Containerization as well has made low cost global distribution possible for the final product.

FDI IN THE INTERNATIONAL PRODUCT CYCLE

Though the use of FDI as a source of capital and technology may not have significantly changed the development of an export led growth model from a nation's development perspective, it does seem to have changed the global competitive dynamics from a company perspective. That is when there has been MNE Organizational Learning and that MNE can control its technological, competitive and/or organization advantages on a global basis through tacit learning (Rapp, 2004), its core competencies (Hill, 2010), and/or intellectual property rights such as trademark [TM], copyright [©], or patents, then the competitive evolution of the international product cycle is quite

[4] As explained in Wikipedia (2020c) "The Multi Fibre Arrangement (MFA) governed the world trade in textiles and garments from 1974 through 2004, imposing quotas on the amount developing countries could export to developed countries. It expired on 1 January 2005. The MFA was introduced in 1974 as a short-term measure intended to allow developed countries to adjust to imports from the developing world. Developing countries have a natural advantage in textile production because it is labor-intensive, and they have low labor costs. According to a World Bank/ International Monetary Fund (IMF) study, the system has cost the developing world 27 million jobs and $40 billion a year in lost exports. However, the Arrangement was not negative for all developing countries. For example, the European Union (EU) imposed no restrictions or duties on imports from the very poorest countries, such as Bangladesh, leading to a massive expansion of the industry there. At the General Agreement on Tariffs and Trade (GATT) Uruguay Round, it was decided to bring the textile trade under the jurisdiction of the World Trade Organization. The Agreement on Textiles and Clothing provided for the gradual dismantling of the quotas that existed under the MFA. This process was completed on 1 January 2005. However, large tariffs remain in place on many textile products. Bangladesh was expected to suffer the most from the ending of the MFA, as it was expected to face more competition, particularly from China. However, this was not the case. It turns out that even in the face of other economic giants, Bangladesh's labor is 'cheaper than anywhere else in the world.' While some smaller factories were documented making pay cuts and layoffs, most downsizing was essentially speculative – the orders for goods kept coming even after the MFA expired. In fact, Bangladesh's exports increased in value by about $500 million in 2006."

different in that the emergence of national champions in mature industries becomes less likely and nations have less control from an industrial policy viewpoint on when production in a particular area will shift to the next follower. In effect MNE's in such industries have used FDI and corporate learning to capture the benefits of the flying geese pattern of development and have influenced its evolution (Kojima, 2000; Ozawa, 2008).

Large retailers such as Walmart, Home Depot, Sears, Best Buy, Tesco, Marks & Spencer, H & M, 7-11, and Amazon, internationally recognized brands such as Apple, Hermes, Gucci, Brooks Brothers, and Sony and strategic investors such as Intel, Toyota and GE have become the drivers of this development. Importantly their decisions in many cases are currently and will be in the future influenced by factors and considerations other than the industrial or economic policies of their suppliers' countries. GE, for example, moved part of its air conditioner production from Asia to the US because Walmart, Home Depot and Buy Best noted their demand for room air conditioners rose and fell very quickly based on the first really hot day to which production in Asia could not respond given the short lead time. GE did not consult the Asian countries involved just as United Technologies and Ford have moved some US operations to Mexico despite complaints from the Trump Administration.

These big box stores did not want to wait for GE to ramp up production in Asia to supply the increased demand since the heat wave may have passed and demand declined by the time the additional supply completed its voyage in a container ship. In addition, for certain high value products such gas turbines, tour buses, servers, mainframe computers, aircraft, and mining equipment, quality becomes more important than low cost and buyers are willing to pay more for high quality if it ensures their operations will operate continuously except for regularly scheduled maintenance. In these cases, the manufacturing paradigm of process [mass production] and low

labor costs driving product design has been reversed to where demand, high quality and design drive process.

Though not yet entirely clear, three other drivers that could shift competitive advantage and may influence and even reverse current supply chain decisions are working conditions in places like China and Bangladesh that adversely affect a MNE's brand image (Kahn, 2003), available water, and lower US energy costs. Such considerations can also push firms towards more efficient customization (Rapp, 2004) where the required skill set is very different than in emerging markets thus impacting a major driver for shifting comparative advantage. To the extent that MNEs in oligopolistic industries feel a competitive pressure to copy their peers so they do not capture a major competitive advantage, these developments can impact these industries globally (Knickerbocher 1973). Such considerations and onshoring opportunities can affect too how these MNEs can respond to and manage the corruption pressures in the emerging markets with the lower labor costs and higher growth rates that have been driving the international product cycle and FDI since 1980 when global FDI in emerging markets was only $7.3 billion out of $54.4 billion worldwide (13.4%) but by 2019 had risen dramatically to $739,640 billion out of $1,539,880 worldwide (48%) .[5]

The first major FDI wave came in the early 1990s in Southeast Asia, especially Thailand, and Mexico. Japanese MNEs in particular faced with both a Bubble collapse in Japan and a highly appreciated Yen and were looking for lower cost export platforms and with the help of its large trading companies shifted manufacturing to Southeast Asia. They were followed by other MNEs who did not want to lose competitive position. Similarly, after Mexico officially joined NAFTA

[5] UNCTADSTAT (2020) – http://unctadstat.unctad.org: these figures include transition economies as emerging or developing; figures for 1990, 2000 and 2010 are respectively - $34649 billion/$204,886 billion = 16.9%; $237,513 billion/$1,336,613 billion = 17.8%; $685,809 billion/$1,396,203 billion = 49.1%.

(North American Free Trade Agreement) in 1993 large MNEs from all the Triad nations charged into the Mexico in order to establish a lower cost manufacturing base within a huge new regional market. These were classic displacements, however, that triggered economic and financial bubbles (Kindleberger & Aliber, 2011). The Foreign investment booms in both countries led to a rise in demand for labor, construction and real estate and a surge in both economic growth and inflation. Stock market prices started rising as well. These developments then attracted hot money in terms of dollar loans and portfolio investments.

As explained above emerging markets are generally capital short and thus interest rates are usually higher than dollar denominated debt while security markets are relatively small. Borrowers and securities firms thus sought to take advantage of the surging demand from foreign lenders and speculators with everyone relying on the various Central Banks continuing their dollar pegged exchange rates. However, there were real risks to this strategy especially in Thailand as well as some other Asian countries. “Much of this borrowing was used to make speculative investments in property and industrial capacity. The result was the creation of excess capacity. In 1997, several Asian currencies started to fall sharply as international investors came to the realization that there was a speculative investment bubble in the region, they took their money out of local currencies, changing it into U.S. dollars, and those currencies started to fall precipitously.” Due to the currency conversion run the central banks rapidly lost reserves and needed to abandon the dollar peg. The resulting devaluations in turn dramatically raised the level of foreign borrowing in terms of local currency. The crisis, though, “started in Thailand” (Hill, 2014) and the reason was partly due to a related financial corruption scandal similar to the Lehman collapse that triggered the U.S. 2008 financial crisis.

As Richburg and Mufson (1998) explained at the time a “year ago, as Asia finished another year of sky-high growth and its leaders boasted of a dawning Pacific Century, a little-noticed bank scandal in Thailand provided a hint of the shock the region was about to receive. The scandal, at the Bangkok Bank of Commerce, involved billions of dollars in questionable loans, including one to a convicted swindler known as the "Biscuit King." The bank's managers disguised their malfeasance using financial shell games, such as backing loans with vastly overvalued property.

The mess at the Bangkok bank exposed the weakness of Thailand's banks and the lack of government oversight in a deregulated financial system run amok. And though few guessed it at the time, that obscure and complex scandal was the portent for a larger economic meltdown that not only would send Thailand reeling into recession, but later would sweep through Indonesia, Malaysia, the Philippines and, eventually, South Korea, the world's 11th-largest economy.

By the end of 1997, the crisis had left behind bankrupt corporations and failed financial institutions across Asia, and a pile of regional currencies worth up to 40 percent less than before. It exposed a mountain of bad debt wrought by shoddy lending practices, and it underscored a generation of corrupt political and business practices long concealed by high growth figures. And perhaps most importantly, the crisis pierced the bubble of confidence that had allowed Asia to prosper for a decade on foreign investment.” When the financial tide runs out, Kindleberger and Aliber (2011) have explained that historically the rocks of scandal and corruption will then appear.

The Mexican crisis followed a similar format in response to the high rate of economic growth, high interest rates and the apparent prosperity that resulted from the flow of foreign investment and the preparations for entering NAFTA. “Mexican government officials had been stating publicly they would support the peso’s dollar peg. … Encouraged by such statements, $64 billion of foreign investment money poured into Mexico between 1990 and 1994 as corporations

and money managers sought to take advantage of the booming economy. However, many currency traders concluded the peso was overvalued and would have to be devalued and they began to dump pesos on the foreign exchange market." (Hill, 2014). The net result was an unsustainable loss of reserves and in December 1994 the government devalued the peso. This led though to exposure of a huge $55 Billion Bank-Bailout Scandal (Rosen, 2007).

Rosen (2007) has explained that the scandal was "centered on the bank-insurance fund - the Banking Fund to Protect Savings (Fobaproa) - established in 1990 to safeguard the nation's bank deposits. By 1995, the PRD charges, Fobaproa had become a fund to sustain the corrupt practices of certain well-connected bankers and top politicians of the long-ruling institutional Revolutionary Party (PRI). To the political opposition, the name of the hitherto obscure agency has now become shorthand for the financial impunity enjoyed by those at the highest levels of political and economic power. …

Fobaproa became a household name this past March, when President Ernesto Zedillo sent Congress a packet of financial reform initiatives that included a proposal to convert all the fund's liabilities into taxpayer-funded public debt. The PRD quickly obtained and released the names of some of the individuals whose debts had been taken over by Fobaproa and who would have the pressure reduced on their obligations to pay if the Zedillo plan were to go through. A few turn out to be on the Forbes list of Latin American billionaires, and many turn out to be prominent contributors to the PRI. In the face of the secrecy surrounding Fobaproa, the PRD - backed cautiously by the conservative National Action Party (PAN) - has demanded a public reconsideration of the entire bank rescue plan. …

Mushrooming debt became a genuine debt crisis when the peso collapsed in December 1994. Investors of all nationalities fled, interest rates skyrocketed, and thousands of small and

medium debtors could no longer make regular payments on their debts. In response, the newly inaugurated Zedillo Administration poured money into the fund to shore up the reeling banks. Throughout 1995 and 1996, one bank after another was rescued from the brink of insolvency by the plan that allowed them to sell their hardest-to-collect loans to Fobaproa. It has now become clear that the banks sold so many uncollectable loans to Fobaproa that the fund meant to be the "safeguard" of the nation's savings will not be able to meet its own obligations when they begin coming due in six or seven years. It has also become clear that much if not most of that uncollectable debt had more to do with the planned unwillingness than with the circumstantial inability of debtors to pay, …

The amount guaranteed by Fobaproa has now reached about $55 billion. Curiously, the net worth of all Mexico's banks adds up to only about $8 billion, a juxtaposition of numbers that has given observers pause. The pause is lengthened as new revelations sustain the notion that Mexican banking - to which households, farmers and entrepreneurs of modest means have only modest access - has become, in the words of economist Julio Boltvinik, ‘a set of loose agreements among fellow millionaires.’ Indeed, over half the debt currently owned by Fobaproa is acknowledged by all sides to be contained in just 600 accounts, belonging to an even smaller number of financial groups. There are also suspicions that the Zedillo proposal is meant to bail out several bankers who ‘lent’ themselves large sums and cannot pay themselves back or who simply never intended to. …

Fobaproa, in fact, had been bankrupted by one of those self-loan specialists-a high-rolling, now fugitive-from-justice banker named Carlos Cabal Peniche only three months before the December 1994 peso devaluation. In September 1994, Cabal Peniche, one of the politically connected owners of Mexico's reprivatized banking system, skipped the country for Monaco, a country with no extradition treaty with Mexico, leaving his two banks, Banco Unión and Banco

Cremi, well over $2 billion in debt. … At least three other bankers or businessmen are currently under indictment for bank fraud."

CORRUPTION IN EMERGING AND DEVELOPING COUNTRIES

Various measures and indices are available that indicate a country's level of development as well as its perceived corruption. One widely used measure of development is real GDP per capita while one for corruption is the Corruption Perception Index (CPI) published annually by Transparency International. In turn research has shown, not surprisingly, that countries with lower levels of development as indicated by low levels of real gross domestic product per capita appear to have higher levels of corruption. Thus, as MNEs have moved down the development scale in terms of markets and FDI in response to the international product cycle and the global changes in comparative and competitive advantage it represents, they have inevitably encountered higher levels of corruption that must also managed and addressed.[6] Indeed the failure to deal with corruption can significantly impact a MNE's corporate organization and economic results due to the US Foreign Corrupt Practices Act and related statutes in other OECD countries.

FOREIGN CORRUPT PRACTICES ACT AND THE OECD CONVENTION

[6] According to Wikipedia (2020a), "The **Corruption Perceptions Index** (**CPI**) is an index published annually by Transparency International since 1995 which ranks countries 'by their perceived levels of public sector corruption, as determined by expert assessments and opinion surveys.' The CPI generally defines corruption as 'the misuse of public power for private benefit'. The 2019 CPI, published in January of 2020, currently ranks 180 countries 'on a scale from 100 (very clean) to 0 (highly corrupt).' Denmark, New Zealand and Finland are perceived as the least corrupt nations in the world, ranking consistently high among international financial transparency, while the most perceived corrupt country in the world is Somalia, scoring 8–10 out of 100 since 2012. South Sudan is also perceived as one of the most corrupted countries in the world due to constant social and economic crises, ranking an average score of 13 out of 100 in 2018." Political corruption in particular covers: "Bribery, Cronyism, Economics of corruption, Electoral fraud, Influence peddling, Kleptocracy, Nepotism, Slush fund, Political scandal, Simony.
Further a "study published in 2002 found a 'very strong significant correlation' between the Corruption Perceptions Index and two other proxies for corruption: black market activity and an overabundance of regulation. All three metrics also had a highly significant correlation with real gross domestic product per capita (RGDP/Cap); the Corruption Perceptions Index correlation with RGDP/Cap was the strongest, explaining over three fourths of the variance."

The Foreign Corrupt Practices Act or FCPA was enacted in 1977 after a series of Congressional Hearings.[7] A number of large MNEs were targets of the Congressional inquiry including Lockheed Aircraft Corporation, Gulf Oil Corporation, Mobil Oil, United Brands Company, Northrop Corporation, Ashland Oil and Exxon Corporation. "The Lockheed scandal, in particular, prompted significant congressional concern given that during the time period the payments were made Lockheed was the recipient of a $250 million federal loan guarantee intended to keep the firm out of bankruptcy." (Goncalves, 2016)

[7] It was amended in 1988 and again in 1998 (Goncalves, 2016). "The Securities and Exchange Commission (SEC) and the Department of Justice (DOJ) are jointly responsible for enforcing the FCPA, since it amends both an SEC Act and the criminal code. SEC enforcement applies to companies it regulates while the DOJ enforces the Act against all other domestic companies. This split was criticized even before the act was passed. In 2010 the SEC created a specialized unit for FCPA enforcement. In 2012, the SEC and the DOJ issued their first joint guide to the FCPA."
"The anti-bribery provisions of the FCPA make it unlawful for a U.S. person, and certain foreign issuers of securities, to make a payment to a foreign official for the purpose of obtaining or retaining business for or with, or directing business to, any person. Since the 1998 Amendment of FCPA they also apply to foreign firms and persons who take any act in furtherance of such a corrupt payment while in the U.S. the meaning of foreign official is broad. For example, an owner of a bank who is also the minister of finance would count as a foreign official according to the U.S. government. Doctors at government-owned or managed hospitals are also considered to be foreign officials under the FCPA, as is anyone working for a government-owned or managed institution or enterprise. Employees of international organizations such as the United Nations are also considered to be foreign officials under the FCPA. A 2014 federal appellate court decision has provided guidance on how the term 'foreign official' is defined under FCPA." (Wikipedia, 2020b)
Because the Act concerns the intent of the bribery rather than the amount, there is no requirement of materiality. Offering anything of value as a bribe, whether cash or non-cash items, is prohibited.
The FCPA also requires companies whose securities are listed in the U.S. to meet its accounting provisions.[34] These accounting provisions operate in tandem with the anti-bribery provisions of the FCPA, and require respective corporations to make and keep books and records that accurately and fairly reflect the transactions of the corporation and to devise and maintain an adequate system of internal accounting controls. An increasing number of corporations are taking additional steps to protect their reputation and reduce their exposure by employing the services of due diligence companies tasked with vetting third party intermediaries and identifying easily overlooked government officials embedded in otherwise privately held foreign firms. This strategy is one element of an effective FCPA Compliance Program, as it shows a sincere attempt to avoid business situations where high risk (prior history or proximity to unethical behavior) individuals are concerned.
Regarding payments to foreign officials, the act draws a distinction between bribery and facilitation or 'grease payments', which may be permissible under the FCPA, but may still violate local laws. The primary distinction is that grease payments or facilitation payments are made to an official to expedite his performance of the routine duties he is already bound to perform. The exception focuses on the purpose of the payment rather than on its value. Payments to foreign officials may be legal under the FCPA if the payments are permitted under the written laws of the host country." (Wikipedia, 2020b)

The scandal itself involved Prime Minister Tanaka of Japan and the sale of planes to All Nippon Airways (ANA). More specifically "Lockheed hired underworld figure Yoshio Kodama as a consultant in order to influence Japanese parastatal airlines, including All Nippon Airways (ANA), to buy the Lockheed L-1011 TriStar instead of the McDonnell Douglas DC-10. On February 6, 1976, the vice-chairman of Lockheed told the Senate subcommittee that Lockheed had paid approximately $3 million in bribes to the office of Japanese Prime Minister Kakuei Tanaka for aid in the matter.

Lockheed paid ¥2.4 billion to earn the contract from ANA. ¥500 million of the total was received by the Prime Minister. ¥160 million was received by ANA's officials. ¥1.7 billion was received by Kodama. On October 30, 1972, ANA announced its decision to purchase 21 Lockheed L-1011 Tristars, which cost approximately $5 million each, even though it had previously announced options to purchase the DC-10." (Wikipedia, 2020).

While this situation may seem to lie outside the Emerging Market argument in fact at this time Japan was a high growth emerging market with a fixed exchange rate, comprehensive exchange controls, and an industrial policy that controlled the allocation of resources such as bank loans and regulated the entry of foreign companies through FDI as noted above in the cases of Texas Instruments and Proctor and Gamble (Rapp, 1977). The act itself as amended applies to a wide range of companies and individuals including foreign entities listed on a US exchange (footnote 7). Daimler AG and Siemens, for example, were successfully prosecuted under the Act (Goncalves, 2016; Hill & Hult, 2017; Hill, 2014). As detailed below, it has been enforced in a range of companies, industries and countries that overwhelmingly involved MNEs from Triad nations operating in Emerging or Transition economies.

The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions was signed on December 17, 1997 and entered into force on February 15, 1999. There are currently 44 signatories, all 37 OECD countries plus: Argentina, Brazil, Bulgaria, Costa Rica, Peru, Russia, and South Africa. There is an OECD monitoring group that keeps track of activities in signatory countries (OECD, 2020). This convention is constantly being reviewed and updated.

According to Deming (2010) the "Convention requires parties to criminalize the bribery of foreign public officials on a comparable basis to domestic bribery." Further, "[j]urisdiction is established over offenses that are committed in whole or in part by 'any person' acting within a party's territory. This means that, regardless of citizenship, any individual or entity acting within a party's territory will be subject to its anti-bribery prohibitions." **BAE Systems**, for example, was jointly pursued by the UK and the US with a combined penalty of over $445 million (Goncalves 2016). See also U.S. v. BAE Systems involving Saudi Arabia (44/100), Hungary (55/100) and Czech Republic (49/100), (Tarun 2010). Deming (2010) also notes there is an Inter-American Convention against corruption that came into force in March 1997 and as of 2010 had been ratified by 33 countries plus a UN Convention which is generally "not mandatory". However, there are no listed cases indicating joint enforcement under these Conventions similar to BAE Systems or Siemens.

Between 1977 and 2019 there have been 643 FCPA enforcement actions, 397 by the DOJ and 246 by the SEC with a significant expansion after 2005 (Stanford Statistics 2020), perhaps reflecting the large jump in FDI to Developing and Transition Economies between 2000 and 2010 and continuing through 2019 (UNCTAD, 2020 – footnote 5). Examining some larger enforcement

actions, though, indicates that virtually all have involved developing, transition or emerging market countries.[8]

CORRUPTION CASES[9]

1) Of all enforcement actions as of 2014 **Siemens** lead with $800 million in FCPA penalties (Goncalves 2016, Hill 2014). Its FCPA violation involved several executives paying millions of dollars to Argentine (CPI 35/100) officials to gain contracts worth billions. "During the course of this scheme, Siemens representatives met in the U.S. to negotiate these payoffs, and also used U.S. bank accounts for the transfer of funds, which is what gave the FCPA jurisdiction in this case." In addition, Siemens was found in SEC v. Siemens to have also made improper payments in Bangladesh (26/100), China (39/100), France (71/100), Iraq (18/100), Israel (60/100), Mexico (34/100), Russia (28/100), Turkey (49/100), Venezuela (18/100) and Vietnam (31/100) with total penalties including those imposed by other governments coming to $1.7 billion (Tarun 2010). In addition, it agreed to enter a strict and extensive compliance program similar to the one outlined in footnote 13 (Tarun, 2010).

2) In 2013 cases were settled against the French oil and gas company **Total S.A.** and Swiss based **Weatherford International** a wellbore solutions company providing services to the oil and gas industry. "Total settled on $398.2 million for alleged corruption with Iran." (Iran is 25/100.) "With respect to Weatherford, DOJ and SEC announced a joint FCPA resolution with the Swiss oil services firm on November 26, 2013. According to the charging documents, between 2002 and

[8] Where available, ratio after each country indicates its rating out of 100 in the Corruption Perception Index for closest year to events described with 100/100 being least corrupt and 0/100 the most. In 2019 countries perceived as least corrupt were New Zealand and Denmark 87/100 while Somalia was considered most 9/100. As a reference looking at the countries in the OECD but excluding Columbia that was only admitted in April 2020, out of 36 countries in 2019 only four have a ratio below 50/100: Greece 48/100; Hungary 44/100; Turkey 39/100; and Mexico 29/100, while 18 have ratios over 70/100 and 26 are 60/100 or better. Overall there are 38 of 179 CPI listed countries with a CPI 60/100 or greater and 59 with a CPI 50/100 or greater.

[9] 2012 CPI for each named country is given in parentheses after its name as CPI number over 100. 2012 is the default CPI year listed unless otherwise stated.

2011 Weatherford, through its subsidiaries and third-party representatives, made corrupt payments to obtain or retain business in six foreign countries including Albania, Algeria, Angola, Congo, Iraq, and another, unnamed Middle Eastern country." (Goncalves, 2016). The CPIs for the five countries named are respectively: 33/100, 34/100, 22/100, 26/100, and 18/100.

Weatherford was also prosecuted under the Trading with the Enemy Act for sales to Cuba (46/100), Iran (25/100), Mexico (35/100), Syria (20/100) and Venezuela (19/100). (Goncalves, 2016).

3) Corruption within **Daimler-Benz** is particularly notable because it was discovered after the merger with Chrysler by a former Chrysler auditor who noticed several suspicious payments. "For example, in 2002 Daimler's Chinese subsidiary paid $25,000 to a Texas company listed at a residential complex in Houston." The auditor suspected bribery and reported it to the SEC that then began a joint investigation with the DOJ. "The investigation took eight years, … investigators uncovered a pattern of corruption so widespread that an SEC official described it as 'standard operating practice at Daimler.' … Texas company was a shell organization established to launder the money, and the payment was to be passed on to the wife of a Chinese government official who was involved in contract negotiations for about $1.3 million in commercial vehicles. In another case, bribes were given to secure the sale of passenger and commercial vehicles to government entities in Russia. … In total, the investigation uncovered hundreds of such payments in at least 22 countries that were linked to the sale of vehicles valued at $1.9 billion. … Threatened with court proceedings in the United States, in 2010 Daimler entered into a consent decree with the SEC under which it agreed to pay $185 million in criminal and civil fines." (Hill, 2014). China's CPI is 39/100 and Russia's is 28/100.

4) Another oil services company caught by the FCPA was the UK firm **Aibel Group Ltd**. "From 2002 to 2005 Aibel arranged at least 378 corrupt payments to Nigerian officials totaling about $2.1 million. The payments were coordinated through an affiliate's office in Houston and were paid through a freight forwarding company. Aibel's work in Nigeria involved a deepwater oil drilling operation known as the Bonga Project, for which the company provided engineering, procurement, and subsea construction equipment. … Aibel pleaded guilty to single conspiracy and substantive counts of violating the FCPA. … As part of the plea agreement, it will pay a $4.2 million criminal fine and serve two years on organizational probation. Among other things, it's required to report periodically on the progress it makes implementing antibribery compliance measures." (Cassin, 2009). Nigeria's CPI is 27/100.

5) Also corruptly involved in an even larger Nigerian (27/100) energy project was **Kellogg, Brown and Root (KBR)** that then impacted its parent Halliburton based on its failure to properly control and monitor its subsidiary. When charged "KBR admitted paying Nigerian officials at least $182 million in bribes for engineering, procurement, and construction contracts awarded between 1995 and 2004 to build liquified natural gas facilities on Boney Island, Nigeria. The contracts to an international joint venture led by KBR were worth more than $6 billion." As part of the final settlement KBR and Halliburton had to disgorge $177 million, pay a $402 million criminal fine, and was enjoined "from aiding and abetting violations of the record-keeping and internal control provisions." Further, "KBR's former CEO, Albert 'Jack' Stanley, pleaded guilty in September 2008 to conspiring to violate the FCPA."[10] (Cassin, 2009).

[10] On February 24, 2012 CBS News reported that "After years of sentencing delays, a former KBR Inc. chief executive received two and a half years in prison for his role in a scheme to bribe Nigerian government officials in return for $6 billion in engineering and construction contracts. …
Albert "Jack" Stanley also must serve three years of probation and pay $1,000 a month in restitution after he is released." At https://www.cbsnews.com/news/ex-kbr-chief-gets-30-months-for-nigeria-bribery/.

6) **Marubeni Corporation –** Seems to be a serial offender in that having been involved in the Lockheed scandal that contributed to passage of the FCPA one would have thought they would be more circumspect. As explained in Gonclaves (2016), though, they were caught violating the Act in 2012 and again in 2014. In 2012 they were found to have acted "as an agent of the TKSJ joint venture, which comprised Technip, Snamprogetti B.V., Kellogg, Brown & Root Inc., and JGC Corporation." While in this capacity from 1995 to 2004, "the joint venture won four consecutive contracts in Nigeria worth more than US$6 billion, as a direct result of having paid US$51 million to Marubeni to be used to bribe Nigerian government officials."

Then in 2014 the company "agreed with the DOJ to pay a US$88 million fine after pleading guilty to taking part in a scheme to pay bribes to high ranking Indonesian officials in order to secure a lucrative power project." Nigeria CPI is 27/100 and Indonesia 32/100.

7) **Smith & Nephew – "**The SEC's complaint against Smith & Nephew PLC alleges that its subsidiaries used a distributor to create a slush fund to make illicit payments to public doctors employed by government hospitals or agencies in Greece. On paper, it appeared as though Smith & Nephew's subsidiaries were paying for marketing services, but no services were actually performed. The scheme basically created off-shore funds that were not subject to Greek taxes to pay bribes to public doctors to purchase Smith & Nephew products." (SEC, 2012a). The result was that "the company paid US$ 22.2 million to the DOJ and SEC, and Bizet International Sales and Support Inc. paid US$11.8 million to the DOJ for bribery of foreign government officials. Both companies entered into a deferred prosecution agreement." (Gonclaves, 2016). Greece's 2012 CPI is 36/100.

8) **Biomet Inc. –** The Indiana based medical device company in 2012 through acts by its foreign subsidiaries was charged "with violating the Foreign Corrupt Practices Act (FCPA) when

its subsidiaries and agents bribed public doctors in Argentina, Brazil, and China for nearly a decade to win business." (SEC, 2012b). The result was that in 2012, "the company paid a criminal fine of US$17.3 million to resolve charges of FCPA violations and US$5.5 million in disgorgement of profits and prejudgment interest to the SEC." (Goncalves, 2016). CPIs for the three countries are 35/100, 43/100, and 39/100 respectively.

9) **Goodyear Tire and Rubber Company –** In 2015 the company "paid over US$16 million to settle SEC charges that it violated the FCPA when its subsidiaries paid bribes to land tire sales in Kenya and Angola. Goodyear was also required to report its FCPA remediation efforts to the SEC for a three-year period. The settlement reflects Goodyear's self-reporting, prompt remedial acts and significant cooperation with the SEC's investigation." This is a clear example of how a large MNE's FDI in an emerging market can result in corruption exposures and charges under the FCPA. (Gonclaves, 2016). Kenya's CPI is 27/100 and Angola's 22/100.

10) **Alcoa World Alumina LLC** is another example of how FDI through foreign subsidiaries can entangle a large MNE in corruption and expose it to the FCPA. In 2014, "Alcoa's subsidiaries paid over US$110 million in bribes to Bahraini officials to influence negotiations with a government operated aluminum plant. Alcoa ended up paying a total of US$384 million to settle the case with the SEC and DOJ. The SEC found that Alcoa did not conduct due diligence or otherwise seek to determine whether there was a legitimate business purpose for the use of a middleman in Bahrain, who was paying bribes to Bahraini government officials." (Goncalves, 2016). Bahrain's CPI in 2014 was 49/100.

11) Similarly **Avon Products** paid a price for actions by its Chinese (39/100) subsidiary when in 2014 "Avon agreed to pay $US 135 million to settle charges that it had failed to establish controls to detect and prevent US$8 million worth of payments and gifts from a subsidiary's

employees and consultants to Chinese government officials. Avon was required to retain an independent compliance monitor to review its FCPA compliance program for a period of 18 months, followed by an 18-month period of self-reporting on its compliance efforts. In reaching the settlement amount, the SEC considered Avon's cooperation and significant remedial measures." (Goncalves, 2016).

12) Like Smith & Nephew **Johnson & Johnson** is another firm caught paying bribes through a subsidiary to public sector doctors in Greece (36/100). "The company paid US$70 million dollars in 2011 to settle criminal and civil FCPA charges for bribes to public sector doctors in Greece. Its subsidiary DePuy Inc. was charged in a criminal complaint with conspiracy and violations of the FCPA." (Goncalves, 2016).

13) **IBM** & Argentina (35/100) in SEC v. IBM Corp. illustrates how a MNE can be charged for financial reporting violations related to corruption and not just under FCPA. "In December 2000, the SEC settled with International Business Machines Corporation (IBM) for violations of the books and records provision, Section 13(b)(2)(A) of the Securities Exchange Act of 1934, relating to bribes paid by former senior officers of its Argentine subsidiary. During 1994 and 1995, senior management of IBM-Argentina, S.A., a wholly owned subsidiary, entered into a subcontract with Capacitacion Y Computacion Rural, S.A. (CCR). Money that IBM-Argentina paid to CCR was subsequently given to Argentine government officials. IBM's senior management did not follow procurement and contracting procedures when it provided false documentation and reasons why CCR had been hired. Payments to CCR were recorded by IBM-Argentina as 'third-party subcontractor expenses' and were the incorporated into the parent's 1994 Form 10-K. IBM agreed to an injunctive order prohibiting future violations of the books and records provision along with a $300,000 penalty." (Tarun, 2010)

14) In 1985 the DOJ charged a New Jersey based avionics supply firm, **W. S. Kirkpatrick, Inc.**, "with paying a Nigerian national $580,973 to obtain a $10.8 million dollar contract from the Nigerian Government in violation of the Foreign Corrupt Practices Act. The company immediately entered a plea of guilty to the charge." The then CEO, Harry Carpenter, had learned the Nigerian government was interested in buying various devices such as ejection seat trainers for one of its airbases. He then contacted a Nigerian intermediary who indicated he needed a 20% commission to close the deal. The commission would be allocated 2.5% for the intermediary, "5 percent for the Air Force, 2.5 percent for a group of Nigerian medical officers, 5 percent for the National Party of Nigeria, 2.5 percent for the Defense Minister and 2.5 percent for other key defense personnel. Kilpatrick was awarded the $10.8 million dollar contract," but illegally paid the intermediary about $1.7 million, violating the FCPA. (Deming, 2010). Nigeria's CPI is 27/100.

15) **Goldman Sachs** & Malaysia (49-50/100 – CPI 2012-2013). July 2020 CNBC reported that "U.S. investment bank Goldman Sachs has reached a $3.9 billion settlement with the Malaysian government over the multibillion-dollar 1MDB scandal, … The deal includes a $2.5 billion cash payout by Goldman and a guarantee by the bank to return at least $1.4 billion in assets linked to 1MDB bonds, Malaysia's finance ministry said in a statement. … Malaysian prosecutors filed charges in December 2018 against three Goldman Sachs units for misleading investors over bond sales totaling $6.5 billion that the bank helped raise for sovereign wealth fund 1MDB (1Malaysia Development Bhd). Goldman Sachs has consistently denied wrongdoing, saying that certain members of the former Malaysian government and 1MDB lied to it about how proceeds from the bond sales would be used. The units of Goldman Sachs pleaded not guilty to the charges. Goldman Sachs confirmed the $3.9 billion settlement and said it had reached an agreement in principle with Malaysia to resolve all criminal and regulatory proceedings in the country involving the firm. U.S.

and Malaysian authorities say about $4.5 billion was stolen from 1MDB, in an elaborate scheme that spanned the globe and implicated former Malaysian Prime Minister Najib Razak and Goldman Sachs, among others."[11]

The background to this historic scandal which became public in 2015 is that "Malaysia's then-Prime Minister Najib Razak was accused of channelling over RM 2.67 billion (approximately US$700 million) from 1Malaysia Development Berhad (1MDB), a government-run strategic development company (masterminded by Low Taek Jho, commonly referred to as Jho Low), to his personal bank accounts. … After the 2018 election, the newly elected prime minister, Mahathir Mohamad, reopened the investigation into the 1MDB scandal. Malaysian authorities barred Najib Razak from leaving the country, then seized cash and valuable items from premises linked to him. Najib was charged with criminal breach of trust, money laundering and abuse of power, while Jho Low was charged with money laundering. The U.S. Department of Justice pursued its own investigation into 1MDB, alleging that more than US$4.5 billion was diverted from 1MDB by Jho Low and other conspirators including officials from Malaysia, Saudi Arabia and the United Arab Emirates. Najib was subsequently found guilty of seven charges connected to SRC International, a dummy corporation associated with 1MDB, and was sentenced to twelve years imprisonment." (Wikipedia, 2020d).

In turn Goldman became involved because they underwrote several of the bonds used in the fraudulent scheme through their Asian subsidiary. In December 2018 after a lengthy investigation and a change in political parties "the Attorney-General Chambers of Malaysia filed criminal charges against subsidiaries of Goldman Sachs, their former employees Tim Leissner and

[11] Available at https://www.cnbc.com/2020/07/24/goldman-sachs-and-malaysia-reach-a-settlement-agreement-over-1mdb-scandal-sources-say.html.

Roger Ng Chong Hwa, former 1MDB employee Jasmine Loo, and Jho Low in connection with 1MDB bond offerings arranged and underwritten by Goldman Sachs in 2012 and 2013. The prosecutors were seeking criminal fines in excess of $2.7 billion misappropriated from the bonds proceeds, $600 million in fees received by Goldman Sachs, as well as custodial sentences against the individuals accused." (Wikipedia, 2020d).

In addition to these detailed case examples, Robert Tarun (2010) lists the following SEC and DOJ enforcement actions where the companies and countries (CPI) involved are noted:[12] **Baker Hughes Inc./KPMG** & Indonesia (32/100) and Kazakhstan (28/100) in SEC v. KPMG & Siddhartha and SEC v. Mattson & Harris; **Chiquita Brands International, Inc** & Columbia (36/100), settled SEC 2001; **Bell South Corp**. & Venezuela (19/100) and Nicaragua (29/100), settled SEC 2002; **BJ Services Company** & Argentina (35/100), settled SEC 2004; **Schering-Plough Corp.** & Poland (58/100) settled SEC 2004; **Oil States International Inc.** & Venezuela (19/100) SEC cease and desist order; **Dow Chemical** & India (36/100) in SEC v. Dow Chemical Co.; **Delta & Pine Land Company and Turk Deltapine, Inc.** & Turkey (49/100) settled SEC 2007.

Textron & Bangladesh (26/100), Egypt (32/100), India (36/100), Indonesia (34/100), Iraq 18/100), United Arab Emirates (68/100) in SEC v. Textron, Inc.; **Bristow Group Inc.** & Nigeria (27/100), settled SEC 2007; **Electronic Data Systems Corp.** & India (36/100) in SEC v. Srinivasan; **Chevron Corp** & Iraq (18/100) in SEC v. Chevron Corp.; **Akso Nobel, N.V.** & Iraq (18/100) in SEC v. Akso Nobel, N.V.; **Con-Way Inc.** & Philippines (34/100) in SEC v. Con-Way Inc.; **ITT** & China (39/100) in 2009 settled SEC; **Nature's** Sunshine **Products, Inc.** & Brazil (43/100) in SEC v. Nature's Sunshine Products, Inc., Douglas Faggioli, and Craig D. Hall; **Avery**

[12] As the paper examines the actions of MNEs operating within the international product cycle enforcement actions against only individuals have been excluded.

Dennison Corporation & China (39/100), Indonesia (32/100), and Pakistan (27/100) in SEC v. Avery Dennison Corporation.

Bobby Benton & Mexico (34/100), Venezuela (19/100) in SEC v. Bobby Benton; **NATCO Group Inc.** & Kazakhstan (28/100) in SEC v. NATCO Group Inc.; **Lucent Technologies** Inc. & China (39/100) in SEC v. Lucent Technologies Inc.; **UTStarcom Inc.** & China (39/100), Mongolia (36/100), and Thailand (37/100) in SEC v. UTStarcom Inc.; **Invision** & China (39/100), Philippines (34/100), Thailand (37/100) in SEC v. Invision; **Titan Corp.** & Benin (36/100) in SEC v. Titan Corp.; **Baker Hughes Inc.** & Angola (22/100), Indonesia (32/100), Kazakhstan (28/100), Nigeria (25/100), Russia (48/100) in SEC v. Baker Hughes Inc. & Roy Fearnley; **Ingersoll-Rand** & Iraq (18/100) in SEC v. Ingersoll Rand Co.; **Westinghouse Air Brake Technologies Corp.** & India (36/100) in SEC v. Westinghouse Air Brake Technologies.

Flowserve Corp. & Iraq (18/100) in SEC v. Flowserve Corp.; **Volvo AB** & Iraq (18/100) in SEC v. Volvo AB; **Willbros Group, Inc.** & Bolivia (34/100), Ecuador (32/100), Nigeria (25/100) in SEC v. Willbros Group, Inc.; **Fiat S.p.A & CNH Global N.V.** & Iraq (18/100) in SEC v. Fiat S.p.A & CNH Global N.V.; **AGCO Corporation** & Iraq (18/100) in SEC v. AGCO Corporation.

The listed DOJ enforcement actions are: **Metcalf & Eddy** & Egypt (32/100) in U.S. v. Metcalf & Eddy;[13] **Syncor International Corp.** & Taiwan (61/100) in U.S. v. Syncor Taiwan, Inc.; **Mercator, Inc.** & Kazakhstan (28/100) in U.S. v. Giffen and U.S. v. Williams; **ABB Vetco Gray Inc.** & Angola 22(/100), Kazakhstan (28/100), Nigeria (25/100) in U.S. v. ABB Vetco Gray

[13] The DOJ settlement involved a detailed compliance program that has been considered a template for such agreements. It includes an "articulated corporate policy prohibiting violations of the FCPA", assigning senior officers responsibility for policy compliance, establishing a review committee, corporate procedures against delegation of substantial individual authority, procedures to vet agents and consultants, regular officer and employee training, detailed disciplinary mechanism for violations or failure to detect FCPA violations, a reporting system outside normal supervisory channels, warranties against payments to foreign officials or hiring of foreign agents or subagents without written corporate consent (Tarun, 2010).

Inc.; **Monsanto** & Indonesia (32/100) in U.S. v. Monsanto; **Micrus Corp.** & France (71/100), Germany (79/100, Spain (65/100), Turkey (49/100) entered settlement agreement with DOJ; **Diagnostic Products Corp.** & China (39/100) in U.S. v DPC (Tianjin) Co.; **Statoil** & Iran (28/100) in U.S. v. Statoil; **Schnitzer Steel Industries** & China (39/100) and Korea (55/100) in U.S. v. SSI Korea; **Vetco Gray Controls Inc.** & Nigeria (27/100) in U.S. v. Vetco Gray Controls Inc., Vetco Gray UK Ltd. & Vetco Gray Controls Ltd.

Paradigm B.V. & China (39/100), Indonesia (32/100), Kazakhstan (28/100), Mexico (34/100) , Nigeria (27/100) agreement DOJ; **York International Corp.** & Bahrain (51/100), Egypt (32/100), India (36/100), Iraq (18/100), Turkey (49/100), UAE (68/100) agreement DOJ; **AGA Medical Corp.** & China (39/100) in U.S. v. AGA Medical Corp.; **Faro Technologies Inc.** & China (39/100) agreement DOJ; **Nexus Technologies** & Vietnam (31/100) in U.S. v. Nexus Technologies; **Latin Node, Inc.** & Honduras (28/100) and Yemen (23/100) in U.S. v. Latin Node; **Control Components Inc.** & China (39/100), Korea (56/100), Malaysia (49/100), UAE (68/100) in U.S. v. Control Components, Inc.; **Helmerich & Payne Inc.** & Argentina (35/100) and Venezuela (19/100) agreement DOJ.

Out of the 62 listed cases all involved a MNE from an advanced Triad nation of Europe, North America and Japan. In all except six cases the nations involved in the corruption actions had CPIs below 60 while in only one of those cases was there a single country involved. In the other five there were also countries with CPIs below 60 included as part of the enforcement charge.

If the CPI corruption cutoff is lowered to 50, then in all but fourteen cases, the countries involved are below 50 with again only one where there was a single country involved that was above 50. Thus in 61 out of 62 cases there was at least one country and often more than one with a CPI below 50 involved in the enforcement action, clearly supporting the argument that MNEs

from the Triad nations chasing growth within the IPC in the Developing or Transition economies have encountered high levels of corruption that have to be managed.

MANANGING CORRUPTION IN THE INTERNATIONAL PRODUCT CYCLE

Similar to gambling and prostitution, corruption seems to have existed in many forms throughout history. It is thus unlikely to ever disappear. However, it does represent a tax on an economy and therefore contributes to a misallocation of resources and slower growth, which is why most governments have laws against it, though not always with effective enforcement. Under U.S. leadership, however, the Triad nations in particular have taken a more aggressive stance in terms of prosecuting MNEs both large and SMEs that have violated the laws put in place since 1977.

Therefore, as a matter of prudence as well as ethics, management should have an established program to manage and prevent involvement in corruption situations when they arise, either in fact or prospectively. Further, given the data presented in this paper this program should be especially alert when the firm is entering or operating within an Emerging market, particularly if they have a low CPI and/or a history of FCPA violations. One place to start is with voluntarily establishing the type of compliance program that the DOJ and the SEC have imposed on violators such as Siemens.

As explained above such a program includes: an "articulated corporate policy prohibiting violations of the FCPA", assigning senior officers responsibility for policy compliance, establishing a review committee, having corporate procedures against delegation of substantial individual authority, having procedures to vet agents and consultants, establishing regular officer and employee training, having a detailed disciplinary mechanism for violations or failure to detect FCPA violations, having a reporting system outside normal supervisory channels, having

warranties against payments to foreign officials or hiring of foreign agents or subagents without written corporate consent. (Tarun, 2010).

Further, if the firm does become involved in corruption either directly or through a subsidiary operating in an Emerging Market as noted in most of the cases cited in this paper, it is important that management move quickly to notify the SEC and DOJ since they will "give meaningful credit to corporations who cooperate with regard to FCPA infractions." (Goncalves, 2010). Some of the means by which a firm may get SEC cooperation credit include:

"– Real-time reporting of the company's investigation and findings, allowing the SEC to leverage these findings into its own investigation and interview witnesses contemporaneously; …

- Bringing foreign employees to the U.S. for interviews;
- When the wrongdoer is or was an employee, letting the SEC know that the employee has already left or will be terminated;
- Helping the SEC interview witnesses; and
- Thinking creatively to provide the necessary documentation to the SEC rather than using foreign data protection laws to block their production.

The FCPA also requires companies whose securities are listed in the U.S. to meet its accounting provisions." (Goncalves, 2010).

In addition to these organizational and administrative actions, MNEs should also strategically pursue operational hedges against corruption by when possible investigating and investing in new technologically advanced facilities that would reduce the need to chase growth or lower costs within the international product cycle in Emerging markets. Factor reversal through digital and other technologies that radically reduce labor costs can shift supply chains back to

higher CPI Triad countries with more reliable lower cost energy that can also put supply closer to the end- market. Being closer to the market will then reduce inventories and improve responses to shifts in market demand. GE's onshoring of air conditioners illustrated this possibility.

Of course, some MNEs will continue to complain that the cost and difficulty of compliance puts them at a disadvantage in competing with MNEs from Emerging markets, especially China, that are less concerned with issues of foreign corruption. There have also been claims that the FCPA and its OECD counterpart have discouraged FDI in the Emerging markets and have ceded profitable business opportunities to rivals such as China. While studies on this issue are mixed (Gonvales, 2010), the rapid and continuing growth in FDI to the Developing and Transition economies (UNCTADSTAT, 2020 - footnote 5) would seem to offer contradicting evidence. Further, it is not clear how much benefit the Chinese have gained through pursuing some corrupt practices in their Belt and Road (BRI) Initiative.

Since it was announced in 2013 several Belt & Road projects have progressed to the point where China has been accused of being a neo-colonialist and putting several developing countries into a debt-trap through predatory lending. These claims have in certain cases been amplified by accusations of corruption that some countries feel might justify repudiation of a portion of this debt. Such repudiation in turn could prove much more costly to the Chinese firms and banks involved than the FCPA actions against MNEs cited in this paper (Dezenski, 2020; Bradscher, 2020; Hillman, 2019).[14]

14 "The purpose of the BRI is to leverage the perceived success of the Chinese economic model to spread Beijing's opaque, authoritarian model of governance. The BRI is one of the soft-power tools Beijing wields for global engagement and the projection of power abroad. … The BRI is not likely to fulfill this lofty vision. China is not only exporting steel and concrete, but also corruption, opacity, and waste. These features are not incidental side effects of working in countries where graft is already endemic, but rather an upside for China. Beijing maintains a policy of "non-interference" in foreign lands, and it has never been committed to its own transparency. Through the BRI, China has been pumping billions of dollars into knowingly corrupt regimes, making scandals inevitable. … Chinese-driven corruption now permeates high-profile BRI projects. For now, there is little risk for Beijing. Chinese influence is still near its high-water mark (despite increasing scrutiny of China's pandemic response), and BRI recipients may be even

Regardless of how these developments evolve and their effect on global trade and investment, though, it remains clear for Triad based MNEs that anti-corruption laws will remain and vigorous enforcement against corruption will continue. Since Emerging growth markets generally have low CPIs, MNE managements must remain vigilant and have appropriate and effective organizational, functional and production strategies to counter the increased corruption they are likely to find when entering or competing in these markets.

CONCLUSION

The increase in the globalization of markets, production and supply chains since the early 1980s due to the declining national barriers to trade and investment facilitated by increased digitalization and vast improvements in transportation have combined with the value added growth model to force MNEs from the Triad nations to continually revise their international trade and investment strategies to meet shifts in comparative and competitive advantage within an expanding international product cycle. These strategic changes have occurred in several related dimensions as they seek to capture growth in the Emerging markets to reduce the potential development of national champions that could become future global competitors while also keeping existing

more dependent on Beijing as they grapple with post-pandemic economic recovery. However, the eventual exposure of systemic corruption, paired with a lack of accountability, is bound to generate a public backlash.

Detailed case studies of BRI projects in Malaysia and Kenya demonstrate the consequences of China's failure to engage in open and transparent conduct. In Malaysia, massive BRI corruption has not only generated significant anti-Chinese sentiment, but also led to the ouster of the incumbent prime minister and his political party – something unprecedented in Malaysia's six-plus decades of independence. Kenya, meanwhile, is prosecuting Kenyan and Chinese officials and facing unmanageable debt resulting from a railway project that went massively over budget and was never completed. This calamity was the result of implausible expectations, opaque contracts, and a closed bidding process." (Dezenski, 2020).

"The rush of new Belt and Road contracts follows a public pullback by Chinese officials in 2018 after projects in Malaysia, Sri Lanka, Pakistan and elsewhere were criticized by local officials and others as bloated and costly." (Bradscher, 2020)

Quoting Jonathan Hillman (2019) of the Center for Strategic and International Studies: "As Chinese companies push deeper into emerging markets, inadequate enforcement and poor business practices are turning the BRI into a global trail of trouble. A long list of Chinese companies have been debarred from the World Bank and other multilateral development banks for fraud and corruption, which covers everything from inflating costs to giving bribes."

competitors in sight. This has resulted in a huge increase in intra-company trade and a very large expansion in FDI to Developing and Transition Economies between 2000 and 2010 that has continued through 2019 supported by a sophisticated communications and transportation network.

At the same time the data indicate that the levels of corruption in these Emerging markets is substantially higher than in the Triad countries exposing MNEs seeking growth within the international product cycle to more instances where corruption may be perceived as necessary to do business, thus leading some MNEs into corrupt business practices. Digitalization may have increased the ability of wrongdoers to transfer or hide funds in these instances, but it has also increased the ability of government enforcement agencies to trace and access such data, especially through a globally connected financial system network. Thus, in response to these developments, the Triad countries, especially the United States, have vigorously pursued various instances of global corporate corruption in the Emerging markets, particularly since 2005.

Further the SEC and DOJ have done this on an extra-territorial basis so that being a non-U.S. MNE has proved to be no defense[15]. Therefore, it remains increasingly important for managers as they operate globally to have a robust strategy in place to manage these pressures. Digitalization and improved communications among a firm's subsidiaries and head office can of course play an important role in terms of record keeping and tracking transactions. But there also needs to be a firmwide strategic commitment at all levels to the strict enforcement of a set of priorities and a commitment of resources. This means human participation and compliance plus financial resources, since as yet computers are not the ones asking for or taking the bribes.

[15] The FCPA would apply to any Chinese company whose securities are listed on a US exchange.

References

Akamatsu, K. 1962. "An Historical Pattern Of Economic Growth In Developing Countries," *The Developing Economies*, 1, Tokyo, pp 4-25.

Aliber, R. 2013. "The Andy Warhol View Of The Economic Prospects For China," Working Paper, Hanover, NH.

Barboza, D. 2006. "Shortage of cheap labor in China," *NY Times*. at https://www.nytimes.com/2006/04/02/business/worldbusiness/shortage-of-cheap-labor-in-china.html

Bradscher, K. 2020. "China Renews Its 'Belt and Road' Push for Global Sway". *NY Times*. at https://www.nytimes.com/2020/01/15/business/china-belt-and-road.html

Buremstam-Linder, S. 1961. *An Essay of Trade and Transformation*. John Wiley & Sons.

Cassin, R. 2009. *Bribery Everywhere*. Cassin Law, LLC.

Chenery, H. 1960. "Patterns Of Industrial Growth". *American Economic Review*. 50, 624-54.

Chenery, H. 1965. "The Process of Industrialization". Paper presented to the World Congress of the Econometric Society.

Chenery, H. & Syrquin, M. 1975. *Patterns of Development 1950-1970*. Oxford University Press.

Deming, S. 2010. *The Foreign Corrupt Practices Act and the New International Norms*. 2 ed. American Bar Association (ABA Publishing).

Dezenski, E. 2020. *Below the Belt and Road*. Foundation For Defense Of Democracy. at https://www.fdd.org/analysis/2020/05/04/below-the-belt-and-road/

Goncalves, M. 2016. *The Foreign Corrupt Practices Act Fundamentals and Practices*. Asme Press.

Hill, C. 2010. *Global Business Today*, 7th ed., McGraw-Hill, NY.

Hill, C. 2014. *Global Business Today*, 8th ed., McGraw-Hill, NY.

Hill, C. & Hult, G. 2017. *International Business, Competing In The Global Marketplace*. 11th ed., McGraw Hill.

Hillman, J. 2019. "Corruption Flows Along China's Belt and Road." Center For Strategic And International Studies. at https://reconnectingasia.csis.org/analysis/entries/reconnecting-asia-analyzing-chinas-belt-and-road/

Kahn, J. 2003. “Chinese Girls' Toil Brings Pain, Not Riches,” *NY Times*. at https://www.nytimes.com/2003/10/02/world/chinese-girls-toil-brings-pain-not-riches.html

Kindleberger, C. & Aliber, R. 2011. *Manias, Panics, and Crashes*. Palgrave. 6th ed.

Knickerbocher, F. 1973. *Oligopolistic Reaction and Multinational Enterprise*, Harvard University Press, MA.

Kojima, K. 2000. “The ‘flying geese’ model of Asian economic development: origin, theoretical extensions, and regional policy implications”. *Journal of Asian Economics*, 11, 375-401.

Leontief, W. 1954. “Domestic Production and Foreign Trade - The American Capital Position Reexamined”. *Economia Internazionale*, (VII), 1. 1954.

McKinnon, R. 2013. *The Unloved Dollar Standard*. Oxford University Press. NY.

OECD. 2020. *OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions* OECD Convention on Combating Bribery of Foreign Public Officials. At http://www.oecd.org/corruption/oecdantibriberyconvention.htm.

Ozawa, T. 2008. “History Repeats Itself: Evolutionary Structural Change and TNC’s Involvement in Infrastructure Overseas, Flying-Geese Style”. Columbia University Center On Japanese Economy and Business, Working Paper 261.

Rapp, W. 1967. "A Theory of Changing Trade Patterns Under Economic Growth: Tested for Japan," *Yale Economic Essays*, New Haven, Conn., Fall 1967, pp. 69-135.

Rapp, W. 1973. “Strategy Formulation and International Competition.” Columbia Journal Of *World Business.*

Rapp, W. 1977. "Japan: Its Industrial Policy and Corporate Behavior," *Columbia Journal of World Business*. Spring, pp. 38-58.

Rapp, W. 1993. "Japanese Foreign Direct Investment in the Product Cycle." *Proceedings of the Association of Japanese Business Studies*, January.

Rapp, W. 2004. *Information Technology Strategies*. Oxford University Press.

Richburg, K & Mufson, S. 1998. “In Hindsight, Signs Of Asian Crisis Appear Clear.” *Washington Post*. At https://www.washingtonpost.com/archive/politics/1998/01/04/in-hindsight-signs-of-asian-crisis-appear-clear/dd754b32-ec9b-4c60-b301-bb982f745875/

Rosen, F. 2007. “The $55 Billion Bank-Bailout Scandal”. NACLA. at https://nacla.org/article/55-billion-bank-bailout-scandal

Stanford Statistics. 2020. “DOJ and SEC Enforcement Actions per Year.” at http://facpa.stanford.edu/statistics-analytics.html

Tarun, R. 2010. *The Foreign Corrupt Practices Handbook*. ABA Publishing.

UNCTADSTAT. 2020. “Foreign direct investment flows and stock”. UNCTAD. at https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=96740

U.S. Securities And Exchange Commission. 2012a. “SEC Charges Smith & Nephew PLC with Foreign Bribery”. SEC at https://www.sec.gov/news/press-release/2012-2012-25htm

U.S. Securities And Exchange Commission. 2012b. “SEC Charges Medical Device Company Biomet With Foreign Bribery”. at https://heinonline.org/HOL/LandingPage?handle=hein.journals/secdoc108&div=66&id=&page=

Vernon, R. 1966. “International Investment and International Trade in the Product Cycle”. *The Quarterly Journal of Economics*, Volume 80, Issue 2, 190–207.

Wikipedia. 2020a. Corruption Perception Index. at https://en.wikipedia.org/wiki/Corruption_Perceptions_Index

Wikipedia. 2020b. Foreign Corrupt Practices Act. at https://en.wikipedia.org/wiki/Foreign_Corrupt_Practices_Act.

Wikipedia. 2020c. Multi-Fibre Arrangement. at https://en.wikipedia.org/wiki/Multi_Fibre_Arrangement.

Wikipedia. 2020d. “1Malaysia Development Berhad scandal”. At https://en.wikipedia.org/wiki/1Malaysia_Development_Berhad_scandal.