G20 Fails to Take on Global Bribery

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by Ben W. Heineman, Jr.

Faced with a decline in world trade for the first time in a quarter century, members of the G20 at their summit in London agreed on the importance of strengthening global financial institutions, resisting protectionism and promoting global commerce and investment.

The assembled nations committed to increase IMF resources by $500 billion, to support a Special Drawing Rights allocation of $250 billion and to increase international finance institution lending by $100 billion. An additional $250 billion was committed to support trade finance.

The communique proclaimed: "we reaffirm the commitment...to refrain from raising...barriers to investment or to trade."

Unfortunately, the summit failed even to mention the pernicious protectionism created by developed nations' failure to enforce the OECD Convention on Combating Bribery of Public Officials, ratified in 1999. This Convention, building on the the United States' Foreign Corrupt Practices Act, required the 34 signatory nations (now 37) to pass laws which made bribery by their multinational corporations in foreign nations (especially the developing world) illegal.

The laws have been enacted. But, according to a Transparency International report, 18 of the original 34 ratifying nations--including the UK and Japan--have taken little or no action in enforcing the foreign bribery laws. (Disclosure: I am on the board of Transparency International-USA.)

Even among nations that have undertaken investigations there have been few successful prosecutions or stringent settlements, although in some nations that pace of activity is increasing. Enforcement means more than just punishing offending companies. It involves creating pressure in each jurisdiction for corporations to implement durable anti-bribery programs and foster a business culture that fuses high performance with high integrity.

The United States is one nation which has taken its anti-bribery laws seriously, bringing approximately half of the cases under the Convention since 1999 ratification, even though it has only 10 percent of OECD country exports. This unequal enforcement is especially galling during a world recession when there is a frantic scramble for global orders and sales. Global companies headquartered in the developed world can continue to bribe overseas with relative impunity when non-enforcing nations ignore their obligations under the Convention in order to promote national trade and shelter national jobs.

This non-enforcement is especially pernicious because paying bribes in emerging markets impairs development, erodes institutions, undermines rule of law and injures the poor.

The irony of the G20s silence about erratic and incomplete enforcement of the OECD anti-bribery convention is that the summit made a big deal about "taking action against...tax havens," citing an OECD list of nations not conforming to international standards for exchange of tax information. Of course, those tax havens are generally little guys: from Andorra to Monaco to Liechtenstein.

But in a case like the anti-bribery convention, when the big guys like the UK and Japan are culpable, the problem is ignored.

But it's now more important than ever to counter the bribery by developed nation's multi-nationals, because of the governmental money flowing, as a result of the G20 summit, to the developing world for counter-cyclical spending, infrastructure and social projects. Some of that money will flow back to unscrupulous multinationals doing business there.

The G20 was also silent about another dimension of global anti-bribery efforts: the vital need for the international financing institutions, like the World Bank Group, to prevent corruption in their programs. Those IFIs need to make sure grants and loans are used for their intended purposes and not paid to kleptocratic leaders or corrupt contractors. The communique spoke of strengthening the IFI's "longer term relevance, effectiveness and legitimacy" but failed to discuss the fundamental problem of corruption in IFI programs, which severely compromises all those goals.

The dirty, but not very secret, existence of corruption in the developing world--flowing, in important part, from developed world companies---cannot be ignored in this downturn. When the G20 rails against other forms of protectionist, uncompetitive and illicit practices, it must also take on bribery, a decade after many of those countries promised they would.

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Ben W. Heineman, Jr., GE's former Senior Vice President for Law and Public Affairs, is senior fellow at Harvard Law School's Program on the Legal Profession and Program on Corporate Governance and senior fellow at the Kennedy School's Belfer Center for Science and International Affairs. He is the author of the recent book, "High Performance with High Integrity" (Harvard Business Presss 2008).