

Research on Anti-Corruption in Overseas Investment of Chinese Multinational Enterprises

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Abstract: Since the proposal of the Belt and Road Initiative, China has consistently adhered to the principle of extensive consultation, joint contribution, and shared benefits. It has actively promoted projects aimed at improving people's livelihoods and garnering public support. These efforts have provided significant support and impetus for global economy development. From the perspective of Chinese multinational enterprises (MNEs), analyzing the reasons for corruption in developing countries along the Belt and Road and examining the adverse impact of corruption on MNEs' investments. Furthermore, it seeks to review and study the corruption problems and risks that Chinese MNEs should be mindful of during outbound direct investment. Based on these findings, suggestions will be put forward regarding the adoption of a risk early warning and response mechanism by Chinese MNEs when investing abroad, as well as measures to enhance the internal anti-corruption mechanisms of MNEs. The objective is to provide recommendations for optimizing the internal and external investment environment for Chinese MNEs.

Keywords: Multinational Corporations, Corrupt Practices, The Belt and Road, Overseas Investment

1. Introduction

According to the 2022 Statistical Bulletin of China's Outward Foreign Direct Investment (The Statistical Bulletin), jointly issued by the Ministry of Commerce of the People's Republic of China, the National Bureau of Statistics, and the State Administration of Foreign Exchange, it comprehensively reflects the situation of China's outward direct investment in 2022. This includes outward FDI flows and stock, direct investment in major economies worldwide, as well as the composition of outward direct investment investors. According to the Statistical Bulletin, China remains one of the world's largest foreign direct investors, with its outward direct investment flow reaching US\$163.12 billion in 2022, ranking second in the world [1]. This indicates a positive trend in China's outward direct investment. Additionally, according to data from China's Ministry of Commerce, in terms of investment, the two-way investment between China and countries along the Belt and Road surpassed 270 billion US dollars from 2013 to 2022. By the end of 2022, Chinese enterprises had invested a total of US\$57.13 billion in overseas economic and trade cooperation zones established in countries along the Belt and Road, thereby creating 421,000 local jobs [2].

However, in comparison to outward foreign direct investment in developed countries, a majority of the countries that China invests in along the Belt and Road are developing countries. As most

developing countries have imperfect institutional system and face diverse corruption issues, it has significantly impeded their development. In light of this this paper takes the overseas investment of Chinese MNEs as a focal point to explore the corruption problems they may encounter during the process of overseas investment and propose corresponding countermeasures.

2. Corruption in Developing Countries along the Belt and Road

2.1. Causes of Corruption in Developing Countries

It can be seen from the development history of most developing countries that around 1990, some socialist countries in Eastern and Central Europe experienced violent political turmoil one after another, and thus entered a process of rapid political and economic transformation and established a market economic system successively. However, a series of problems has also arisen, among which corruption is the most typical, especially in a wide range of fields, such as public procurement, medical care, justice and other fields [3]. The reasons why corruption is so widespread are diverse. First of all, from a political perspective, developing countries may have problems such as authoritarian regimes, nationalism, high centralization, and the lack of effective political systems during the transition process. At the same time, some countries have not established sound legal norms, resulting in a chaotic social order and a poor political environment. Corruption at the top level of the state and corruption in the judiciary are serious, and collusion with multinational corporations and even criminal groups is particularly common [3].

Second, at the economic level, with the acceleration of the process of modernization and industrialization, the entry of a large amount of foreign investment, the continuous expansion of industrial scale, and the increase of trade opportunities have objectively provided opportunities for corruption to breed. For example, the Eurobarometer is a polling tool used by the European Commission, the European Parliament, and other EU institutions to regularly monitor European public perceptions of EU-related issues and attitudes towards topics of a political or social nature. Among them, the investigation on corruption belongs to the special Eurobarometer, and from 2005 to 2019, the EU has organized seven investigations, six of which are related to corruption. The Eurobarometer Business Survey on Corruption 2015 shows that 74% of Romanian respondents, 72% of Bulgarian respondents, 68% of Czech respondents, 62% of Croatian respondents, 43% of Polish respondents, 42% of Hungarian respondents believe that corruption is widespread in public procurement managed by state and local authorities (EU average 53%) [3]. Compared to 71% of Europeans in 2019, who believe corruption is widespread, although the results of the 2021 Eurobarometer poll in July are slightly lower, the majority of Europeans still believe that their countries are corrupt [4]. Among them, corruption in Central and Eastern European countries is particularly prominent in the areas of public procurement and health care.

Finally, ideologically, people in developing countries may perceive corruption differently than in other countries. In many developing countries, people who engage in corrupt practices are generally not socially condemned in a broad sense. In regions like Southeast Asia, it is not seen as immoral for individuals to use their official positions to secure employment for their relatives. In regions such as the Middle East, Africa, and India, nearly half of the workers believe that bribery and corruption are deemed acceptable during times of economic downturn [5].

2.2. Judicial Practice of Corrupt Acts

The corruption case of the Odebrecht construction company in Africa [6] is taken as a case study. On July 9, 2018, Odebrecht's executives and employees were accused of illegally profiting through bribery of government officials and manipulation of tenders and engineering projects. These actions not only breach business and professional ethics, but also seriously tarnish the company's reputation

and image. In the course of the investigation, judicial officers found that the company's corrupt practices involved a wide range of government officials and business people in various countries and regions. During the trial, the company's executives and employees were charged with a range of offenses, including embezzlement, money laundering, bribery, and other related crimes.

The implications of this case are far-reaching. Firstly, the case highlights the gravity of corruption in Latin America and draws global attention and criticism towards the region's political and economic structures. Secondly, the verdict of the trial had a substantial impact on Odebrecht's reputation and future business prospects, leading to severe financial difficulties for the company. Lastly, this case has stimulated discussion and self-reflection on the importance of business and professional ethics, which holds immense value in fostering a healthy and regulated global business atmosphere.

To summarize, the Odebrecht construction company's corruption case in Africa is a serious issue involving corruption and money laundering. It is important to note that this is not an isolated incident in the developing world today. Therefore, corruption along the Belt and Road in developing countries is not uncommon.

3. The Detrimental Impact of Corruption on MNEs' Investments

Corruption in the host country has several adverse effects on the direct investment of Chinese MNEs. Firstly, it deteriorates the investment environment and increases uncertainty due to the clandestine and illegal nature of corruption. This, in turn, raises investment risks for Chinese MNEs and dampens their enthusiasm for investment. Secondly, the absence of laws and systems to curb the misconduct of government officials creates an unhealthy atmosphere that fosters corruption, provides a "hotbed" for government officials in the host country. As a result, investors in vulnerable positions may be compelled to pay additional bribes to ensure the effective implementation of contracts, thereby increasing their operational costs. Thirdly, the more prevalent corruption is in the host country, the lower the quality of public goods produced by the government, such as government efficiency, judicial systems, and regulatory frameworks. The absence of clear market rules leads to economic disorder, ultimately diminishing the anticipated investment returns for MNEs. However, influenced by the weak institutional framework in the host country, multinational investors often resort to bribery in order to navigate through the erected barriers and secure certain "favor" such as investment licenses, tax breaks, or police protection [7]. Lastly, corruption tends to create a path dependence over time, encouraging government officials in the host country to continue extorting investors. For instance, it may be implied that paying more bribes is necessary for the effective execution of contracts [8].

4. Corruption Problems that Chinese MNEs may Face in the Investment Process

The investment of Chinese MNEs in countries along the Belt and Road has not only elevated the industrial development level of the host country but also contributed to the improvement of global economic efficiency of MNEs. Nevertheless, companies must navigate several risks and challenges. Specifically, corruption is a primary risk area that Chinese MNEs should be vigilant against during the process of outward foreign direct investment. These risks and challenges include:

4.1. Corruption Problems that Chinese MNEs may Face in the Investment Process

Since the 1970s, with the rapid pace of economic globalization and the emergence of developing countries, a significant influx of cross-border direct investment has flowed into these nations. However, many of these developing countries have undergone substantial political and economic transformations, leading to a profound impact on their cultural traditions and business practices [9]. Consequently, corruption issues have become prevalent in the corporate investment process. It is worth noting that a substantial portion of Chinese enterprises' investments in countries along the Belt

and Road initiative are focused on infrastructure development, such as railway construction and photovoltaic power generation. These industries are characterized by long construction cycles, high uncertainties, and relatively low returns, making them susceptible to bribery and other illegal activities aimed at expediting project progress.

4.2. The Adverse Impact of Corruption on the Investment Environment of Chinese MNEs

Firstly, corruption in the host country can have detrimental effects on the investment environment, leading to a loss of trust from Chinese enterprises. They become wary of potential issues such as fund misappropriation and embezzlement, which ultimately dampens their investment intentions. Moreover, corruption increases the operating costs for MNEs. Public resources are wasted due to corrupt practices, depriving these enterprises of valuable resources and unnecessarily inflating costs. Additionally, dealing with corruption-related challenges in the host country requires significant time and effort, further escalating operating costs of MNEs.

Secondly, corruption also result in market chaos and unfair competition. MNEs overseas engage in bribery through various means. They may bribe foreign senior officials or political parties to influence decision-making processes. Besides, bribes may be offered to low-level public servants to expedite bureaucratic procedures. Personal or intimate connections may be utilized to secure government contracts. These corrupt practices allow MNEs to gain a monopolistic position in the market. This monopoly status hinders the authenticity of the market feedback, making it challenging for these enterprises to accurately assess the true market conditions. Consequently, wrong investment decisions, such as blind investments, are more likely to occur, which adversely affects the profitability of MNEs [10].

Lastly, corruption can hinder economic growth to a significant degree. Misallocation and waste of resources are common results of corruption, leading to the uneven development of local industries. This can impede the entry of high-tech MNEs from China, thus hindering technological progress and innovation. Ultimately, this slows down the pace and quality of economic growth.

4.3. The Impact of Corruption on the Internal Affairs of China's MNEs

Firstly, if a Chinese MNE obtains a monopoly position in the market through corrupt means, it will damage the image and credibility of Chinese MNEs. This can lead to a loss of trust from consumers and financiers towards these enterprises, undermining their reputation in the host country. Moreover, corruption can result in the misuse of internal resources and reduce efficiency within the enterprises. This can harm the long-term development interests of Chinese MNEs in countries along the Belt and Road.

Secondly, the top management of China's MNEs may be susceptible to bribery from local enterprises in the host country. This creates a negative atmosphere within the multinational corporation group and disrupts normal management order. Consequently, internal management chaos can ensue, compromising the stability and development of the enterprise [11]. Furthermore, it can dampen employees' motivation and enthusiasm for work, leading to reduced productivity and confidence in the enterprise, thus affecting overall performance.

Lastly, whether it is bribery or other forms of corruption, engaging in such illegal practices for market access and competition undermines China's image. Therefore, Chinese MNEs should strengthen anti-corruption efforts and establish effective internal oversight system to punish corrupt behaviors within their organizations. This is crucial for maintaining the healthy and stable development of these enterprises.

5. Preventing Measures to Prevent Corruption in MNEs

As previously discussed, corruption in both host countries and MNEs can have significant negative impacts on the development of MNEs. To prevent corruption within MNEs this paper proposes several preventive measures that can be implemented:

5.1. The Impact of Corruption on the Internal Affairs of China's MNEs

To prevent corruption and bribery in foreign investments, it is crucial for Chinese MNEs to have a thorough understanding of local laws, regulations, and business environments. This includes anti-corruption and commercial bribery provisions, which must be carefully considered before any investment is made. Conducting pre-investment legal research can help MNEs identify compliance requirements, avoid the risk of non-compliance due to ignorance of local laws, and prevent corruption resulting from violations of regulations.

At the same time, Chinese MNEs also need to establish an integrity risk prevention mechanism. They should conduct a comprehensive investigation of the procedures involved in their business activities, identify integrity risk points, formulate risk prevention measures, strengthen risk early warning and monitoring, and promptly review whether there is bribery and corruption. In addition, when China develops industries in the field of infrastructure construction locally, it is necessary to strengthen the management of local suppliers. Priority should be given to suppliers with good integrity records when suppliers to clarify the integrity responsibilities and obligations of both parties. This helps to avoid problems such as project delays caused by the influence of the corrupt atmosphere.

5.2. Establishing a Risk Early Warning Mechanism

In view of the adverse impact of corruption in the host country on the investment environment, operating costs, unfair competition, and hindering the development of enterprises and local economies, China's MNEs should establish a risk early warning mechanism to prevent corruption. Timely detection of problems is of positive significance for China's overseas investment activities. When corruption is discovered, timely measures should be taken to correct it and cooperate with local regulatory authorities to investigate and deal with it.

At the same time, MNEs need to strengthen internal audit and risk control by establishing internal audit institutions, conducting regular audits and risk assessments of key links such as finance, procurement, and sales. This helps promptly discovering and correcting existing problems to prevent corruption.

5.3. Establishing and Improving the Internal Anti-Corruption Mechanism of MNEs

In view of the impact of corruption on the internal affairs of China's MNEs, it is important for these companies to establish a sound internal anti-corruption mechanism. This includes formulating anti-corruption policies, establishing internal supervision institutions, and implementing a whistle-blowing mechanism. These measures help companies detect and correct corrupt practices in a timely manner, and protect their reputation and interests. Furthermore, it is necessary to enhance the integrity awareness of employees. To prevent senior management of China's MNEs from being bribed by the host country, it is important to strengthen integrity education and training of employees. This helps improve their integrity awareness and moral standards, emphasizes the value of honesty and integrity, and cultivate employees' consciousness to abide by laws, regulations and enterprise rules.

5.4. Strengthening International Cooperation

When facing corruption in the host country, China's MNEs can strengthen international cooperation and collaborate with relevant institutions of other countries to jointly combat transnational corruption. In the United States, a cooperative model of enforcement and self-regulation has been fully applied to punish commercial bribery crimes. Both the Department of Justice (DOJ) and the Securities and Exchange Commission (SEC) have the authority to enforce corruption cases that violate the Foreign Corrupt Practices Act (FCPA). The FCPA has extraterritorial enforcement effect against U.S. citizens, domestic companies and affiliates, as well as foreign companies listed in the U.S. and natural persons acting in the United States.

The Ministry of Justice has the power to take criminal and civil enforcement measures against the commercial bribery committed by the aforementioned parties, while the SEC can only take civil enforcement measures. Generally, they maintain a coordinated and cooperative relationship during the investigation process [10]. Additionally, MNEs should actively participate in international anti-corruption organizations to promote the development of global anti-corruption efforts.

6. Conclusion

This paper explores the corruption problems and prevention strategies that Chinese MNEs may encounter during overseas investment. By analyzing the reasons for corruption in countries along the Belt and Road, this paper suggests measures to avoid the impact of corruption on outbound investment. These measures include gaining an in-depth understanding of local laws, regulations, and business environment, establishing risk early warning system, and improving the internal anti-corruption mechanisms of MNEs. It is worth noting that the global economy is slowly recovering from the impact of the epidemic, and the outbound investment of Chinese MNEs will be affected by more complex factors. Therefore, there is an urgent need for further research on the new types of corruption that MNEs may encounter during outbound investment. In particular, the anti-corruption measures taken by Chinese MNEs in compliance with the process of investing in countries along the Belt and Road should receive more attention and research from all walks of life. This can help improve the sound development of Chinese MNEs investing along the Belt and Road in the future.

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