

**First World Criminals, Third World Crimes – Recent
Transnational Corruption Cases.**

Part I: Introduction and Overview

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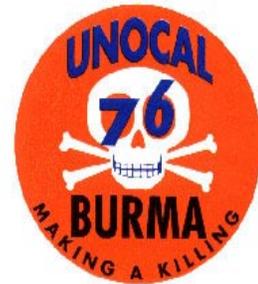
Ever since a series of unprecedented corporate scandals erupted in the US in late 2001, students of corporate corruption and First World media have focused mainly on the **misbehavior by First World companies, banks, and investment companies in their own backyards.** As



indicated by the unfinished prosecutions of Enron, Worldcom, and Tyco, plus the recent US mutual fund trading scandals, this kind of big-ticket corporate crime continues to be an important problem.



However, from the standpoint of developing countries, there is even more to learn from a recent flurry of transnational corruption cases that all involve **serious criminal misconduct by leading First World multinationals in Third World countries.**



The **hit parade** includes:

- France’s huge oil company, **Elf Aquitaine**, formerly France's largest state-owned company, and now part of **Total S.A.**, the world’s fifth largest oil



company. A French court case that ended just last week has helped to expose a vast network of bribery and corruption that

operated throughout Africa, Asia, and Latin America, as well as Europe, for more than four decades -- with the complicity of France's highest officials. **(See Part 2.)**

- A half dozen leading **Canadian** and **European** engineering and construction firms that are now being prosecuted for bribery with respect to a **huge World Bank-financed dam project** in the tiny African country of **Lesotho**. As we will see, despite Lesotho's courageous efforts, the World Bank and First World export credit agencies have been reluctant to punish the companies involved.

(See Part 3.)



- The giant Swiss “trade services” **SGS**, which has recently been shown by a Swiss court to indeed have been deeply indicted in bribing former Pakistan Prime Minister Benazir Bhutto, and leading members of her government, during both of her two administrations in the 1990s. The resulting bribery scandal may have had a profound impact on Pakistan’s efforts to develop democratic institutions. **(See Part 4.)**



- The US’ own **Halliburton**, **Enron**, **ExxonMobil**, and **Unocal** have all been recently implicated in corruption and human rights violations in several developing countries, including **Kazakhstan**, **Nigeria**, **India**, **Brazil**, **Burma**,



Equatorial Guinea, Guatemala, and the



Philippines. Once again, they have been able to do so with impunity. **(See Part 5.)**

- Leading **global defense contractors**, which have recently been implicated in bribery schemes that have had a profound impact on several developing countries – and on the First World as well. **(See Part 6.)**

This article is the first in a **series** by **Submerging Markets** that will examine such cases in detail. One of our objectives is just to tell a few colorful stories. But we believe that there is also a great deal to learn from these cases about the way the world really works. In particular:

- These cases raise serious questions about the First World's ability and willingness to prosecute large corporations and banks for bribery, fraud, and other crimes that occur beyond its borders. So long as company managers don't steal from their shareholders (and perhaps even then), they appear to be safe.
- The cases suggest that existing international mechanisms for prosecuting such corporate crimes are woefully inadequate, and that we need to consider creating the equivalent of an **International Criminal Court** for transnational corporate crimes. After all, the victims of these crimes are not just *relatively-affluent* First World investors, but the residents of some of the world's poorest countries.
- These cases beg the question of whether the privatization of corruption-ridden state enterprises necessarily reduces corporate misbehavior. They also provide an interesting vantage point from which to assess recent First World criticisms of efforts by countries like Russia and China to crack down on corruption among their own business elites.
- These cases clearly show just how corrosive the effects of **international arms sales**, in particular, have been on developing country institutions.
- Most important, these cases suggest that the standard "country by country" approach to understanding international corruption that has been employed by organizations like **Transparency International (TI)** is inadequate, because it ignores the fact that First World countries - and some leading developing countries -- often exert a profound **negative** influence on corruption levels far beyond their borders.

Of course, corruption varies with country income levels -- poorer countries have fewer resources for law enforcement, and they also have often suffered from "exploitative states," which hardly encourages respect for the law. As for "national culture" explanations for corruption, as Alex Gerschenkron used to say, we start out by being suspicious of such "uncaused causes" -- but then one visits Italy! There is a obviously great deal of "petty-ante" corruption throughout the developing world, from the *morditas* ("bites") made famous by Mexican and Costa Rican policemen and Nigeria's "dash," to Kenya's "*kitu kidogo*" and "sodas," to baksheesh in the Middle East. And, as the examples of Russia, Mexico, Argentina, and China demonstrate, there is no shortage of unscrupulous Third World entrepreneurs.

However, as the cases examined in this series illustrate, much of the most heinous transnational corruption involves giant development projects, massive bribes, and secret haven bank accounts, where the transgressions are on such a grand, systematic scale that they require ***the active connivance of First World banks, transnational companies, and governments.*** This kind of big-ticket corruption requires **a transnational system** – a global network, not only of willing bribees in "corrupt" developing countries, but of eager corporate bribers, private bankers, First World government officials and spies, as well as "see-no-evil" development bankers at the World Bank and the IMF. Of course all these folks reside in First World countries that get "top-shelf" rankings every year from Transparency International.

In short, these cases suggest that the standard "neoliberal" approach to corruption and transparency, which emphasizes "institutional reform" at the level of individual countries, may be ***necessary*** for political development, but it is certainly not ***sufficient.***



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