

# American Economic Coercion and Elite Re-Globalization\*

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## Abstract

What are the political consequences of US economic coercion? While policymakers focus on creating geopolitically diversified supply-chains, we argue that foreign economic elites have long been buttressing themselves from American economic statecraft. Analyzing the enforcement of the US Foreign Corrupt Practices Act (FCPA), we argue that elites respond to American coercion by moving their money to offshore financial centers as they seek to maintain their corrupt practices and place themselves out of the hegemon's reach. We test our argument using data on nearly 275,000 offshore incorporations from 1980 to 2017: the number of offshore transactions originating from a country more than doubles after that country has been the target of the FCPA. More specifically, elites actively move money to havens that are less likely to cooperate with US investigators in the future. These findings have implications for the anti-bribery regime, debates on weaponized interdependence, and US foreign policy.

**Keywords:** economic statecraft; offshore finance; corruption; extraterritoriality; global governance

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## Introduction

The politics of the global economy are in flux. The US is erecting trade barriers while simultaneously weaponizing its nodal position to coerce foreign adversaries (Farrell and Newman, 2019; Danzman and Meunier, 2023). China is responding by exploiting its own market power, but great power conflict is leaving globalization's biggest success story searching for a new growth model (Zhang, 2023). Multinational corporations (MNCs) are caught in the cross-hairs of this fight, forced to “derisk” and forge more politically sustainable supply chains. While states and firms perpetually struggle to adapt to the weaponization of the global economy, we illustrate that foreign economic elites have long taken steps to short-circuit US economic coercion.

Although most observers think of sanctions as the bedrock of “extraterritorial” action, the US has used its market size to export a range of domestic laws from banking regulations and pharmaceutical standards to anti-trust/competition policy (Bach and Newman, 2010; Putnam, 2016). None of those legal exports is as controversial as US anti-corruption regulations (Bixby, 2010). One of the first countries to outlaw bribing of foreign government officials by its own MNCs through the 1977 Foreign Corrupt Practices Act (FCPA), the US extended its reach in the early 2000s after the ratification of an OECD Anti-Bribery Convention (OECD ABC), charging *foreign* multinationals with economic ties to the US for transnational corruption (Brewster, 2017). The legislation has led to monumental cases like the 2008 \$1.6 billion corruption investigation against German conglomerate Siemens and the 2020 \$2 billion dollar case against Airbus for its attempts to bribe several government officials including in China (Woll, 2023).

How does the extraterritorial enforcement of US anti-corruption policies affect foreign elites? Given the centrality of the dollar to international trade, and the importance of New York to global finance more generally, all economic elites have some exposure to US jurisdiction. We argue that non-American elites fear America's broad jurisdictional overreach. When the hegemon investigates corruption in a foreign country, it alerts that country's elites to the risk that the US poses to

them. Since the US consistently returns to investigate corruption in a target once it is involved in its first FCPA action, domestic elites will fear that the bribes necessary to buttress their economic empires may come under investigation and their assets may be seized. To minimize these risks, we expect that they will obfuscate their wealth, and move it beyond the easy reach of the US, by sending more of their money into offshore tax havens. More specifically, we expect that elites seek to protect themselves by moving their money to havens where US reach is minimal.

To assess these claims, we use data from the range of leaks on offshore financial incorporations released by the International Consortium of Investigative Journalists (ICIJ). Most famous for the “Panama Papers,” the compiled data across all their different investigations gives us unprecedented details on offshoring destinations. Using a generalized synthetic control design, we estimate the effect of the first FCPA action targeting bribery in a given country on offshore financial outflows.

Against our logic, foreign elites may simply not find the US threatening, as most political economy models implicitly assume, and therefore do nothing to change their offshoring behavior. Alternatively, they may fear the US and judge the system as effectively governed, forcing them to *reduce* their offshore incorporations. Instead, we find evidence in favor of our hypotheses: FCPA enforcement in a jurisdiction causes that jurisdiction’s elites to increasingly move their wealth abroad. This could be driven by them trying to obfuscate their future corrupt activity or to avoid US government reach. The results clearly indicate that fear of future enforcement is driving their behavior: elites send their money to havens that have not been target of a previous FCPA action or who are not part of the OECD ABC, which would both indicate that the haven is more likely to be scrutinized or to cooperate with US authorities. We further assess whether elites still prioritize tax avoidance when choosing where to send their money after an FCPA action, and show that elites are willing to give up methods that will increase their income if it reduces the prospects of US reach .

Beyond contributing to debates on bribery and anti-corruption, the manuscript indicates the need for comparative political economy scholarship to expand the range of threats to property that form the basis for many core models of political development. An elite’s home government

is generally taken as the primary actor to fear, through expropriation or cumbersome regulation (Esberg and Perlman, 2023; Mahdavi, 2020). But our findings point to how globalization means that elites fear at least one other sheriff—the United States—and actively take measures to ensure they cannot be easy prey. How elites manage the competing or coordinated threats from both their home government and foreign states is going to become an increasingly important research question as countries and their elites are forced to make trade-offs between the United States and China in a time of derisking.

Moreover, the paper speaks to current debates on the consequences of weaponized interdependence (Roberts, Choer Moraes, and Ferguson, 2019; Drezner, Farrell, and Newman, 2021). Going after the offshore wealth of elites has become core to US economic statecraft, used to tackle issues ranging from human rights violations to kleptocracy to aiding war efforts. While the US has some free reign to put in place these types of measures, and has been mimicked by a range of other major economic powers, our findings indicate that these tools likely have marginal returns. Elites recognize the threats of extraterritorial actions and actively diversify away from jurisdictions that could leave them in positions vulnerable to coercion. They don't stop themselves from gaining from globalization via avoiding taxes or borrowing the rule of law through safe havens. They re-globalize.

## **Elite Protection Strategies**

We start from the premise that economic elites seek to maximize their incomes. While increasing revenue streams will often be a function of expanding market shares and diversifying into alternate industries, elites also employ a range of non-market strategies. Some seek to purchase influence over politicians, “access” corruption, for information that could be useful to their economic endeavors or to bend laws in their favor to increase rents (Ang, 2020). Others resort to “grand” forms of corruption where the purpose of political purchases is to obtain direct revenues from the state

via government contracts (Dawisha, 2015). Across these methods, corruption works as a “tool of government” (Picci, 2024). In recent years, there has even been a groundswell of businessmen winning political office, from Ukraine to the United States, with tangible consequences for their revenue streams (Krcmaric, Nelson, and Roberts, 2023; Szakonyi, 2018; Hou, 2019). Economic elites further spend considerable effort guarding the wealth that their businesses deliver (Beckert, 2022; Winters, 2011). They lobby to lower taxes and, at the extremes, fight for the rule of law and democratization to mitigate the risks from state expropriation (Page, Seawright, and Lacombe, 2018; Albertus and Menaldo, 2018).

As most countries have liberalized capital accounts, the methods elites use to protect both their income and wealth have transnationalized. Scholars have documented wealthy elites teaming up with multinationals to increase the costs of government targeting (Markus, 2007; Johns and Wellhausen, 2016), and listing their companies abroad to gain access to foreign legal protections with the added benefit of laundering any ill-gotten gains (Cooley and Sharman, 2017; Logvinenko, 2021). Tax havens are central to these transnational protection strategies. The 0.01% of the income distribution owns roughly 50% of offshore wealth (Alstadsæter, Johannesen, and Zucman, 2018). Money is sent to places like the British Virgin Islands, Mauritius, and Cyprus for both income generation and wealth preservation logics.

Much like multinational corporations, elites often use tax havens to minimize their tax burdens. They set up offshore to gain access to preferential financing options, and “roundtrip” money back home to lock in the lower tax rates nominally promised to multinational corporations (Ledyaeva et al., 2015; Binder, 2023). The form of corruption that is frequently central to acquiring new forms of revenue has also offshored—most bribery scandals often involve the routing of money through webs of companies into foreign bank accounts to obfuscate both the origins and the purpose of the flows (Cheng-Matsuno and Berliner, 2023). Examples include operations on massive scales, like the infamous Lava Jato, or single transfers (Vilaca, Morucci, and Paniagua, 2023)—the “Godfather of the Kremlin,” Boris Berezovsky, filled up Boris Yeltsin’s Swiss bank accounts to make it look

like the beleaguered president's biography was becoming a bestseller (Klebnikov, 2000).

Recent quantitative scholarship further illustrates that tax havens are crucial to protecting wealth, rather than only buttressing income flows. When risks of expropriation increase in a country, more money tends to be sent offshore (Bayer et al., 2020). Similarly, when political winds suddenly change, we see more outflows (Earle et al., 2019; Kubinec, Morse, and Pandya, 2023). Elites even structure their wealth to ensure that they will have means to be legally treated as a foreigner in their own state to sue their sovereigns via the Investor-State Dispute Settlement process (Kalyanpur and Thrall, 2021).

Undergirding these tactics is the fact that, when money is moved into havens through a web of shell companies, tracking down that money becomes near impossible. Moreover, a rival trying to access that money would require the legal cooperation of the haven's government, which has strong incentives to protect the elite to ensure that its tax haven business model is left intact in the eyes of other elites.

## **When Threats Globalize**

We do not deny that the primary impetus for offshoring income is usually tax avoidance. But the theories and scholarship synthesized above indicate how offshoring is also seen as a central tactic for wealth protection since it can guard an elite from predation by their home government.

Nonetheless, the same forces of global finance raise the potential of alternate state-initiated risks to elites. We argue that it is no longer just the home state, but instead the United States that elites fear. The hegemon has used its market size and focal position in international economic networks to export a host of its regulations. Seminal scholarship on weaponized interdependence analyzes how the US claims jurisdiction over the nodes of the global economy, and uses that authority to cut off adversaries from the system (Farrell and Newman, 2019). Buried within these important developments on the scholarship on economic statecraft is that individuals, and their off-

shore wealth, are becoming crucial targets for a range of US foreign policy prerogatives ([Drezner, 2011](#)).

A substantial proportion of the wave of targeted sanctions is directed at political and economic elites whose travel is restricted and assets are frozen. Some of these are for conventional cooperation in military projects, but the bulk are for broader goals stemming from corruption and human rights abuses ([Nephew, 2017](#)). The response to the Russian invasion of Ukraine was a stark reminder of the integration of foreign economic elites into the American and European financial systems, as a host of countries froze the assets of plutocrats linked to the Kremlin. The US even passed the Magnitsky Act, with nearly 30 other jurisdictions, to freeze and seize the assets of individuals they deem guilty of kleptocratic behavior ([Booth, 2020](#)).

From a foreign elite's vantage point, the earliest and most consequential of US extraterritorial rules is the Foreign Corrupt Practices Act (FCPA). Originally passed in 1977 as a response to a bevy of scandals involving American firms operating abroad, the FCPA made it illegal for US companies to bribe foreign government officials. Jointly administered by the Department of Justice (DOJ) and the Securities and Exchange Commission (SEC), the FCPA is a notorious piece of law. Many in the US political establishment argued that it disadvantaged its citizens with other foreign actors still allowed to engage in normatively illicit activities ([Beck, Maher, and Tschoegl, 1991](#)). Those concerns partly spurred the US to usher the OECD into passing the Anti-Bribery Convention (ABC) in 1997 that de facto makes signatory governments follow the same procedures as the FCPA ([Carr and Outhwaite, 2008](#)).

The passage of the OECD-ABC was *the* pivotal step in the global fight against bribery. As legal scholar Sarah Routh argues ([2018, 631](#)), the OECD ABC centralized authority with the United States: "The treaty also stated that any jurisdiction governed by these pieces of legislation should be interpreted broadly so that no physical connection to the prosecuting country shall be required. Accordingly, for the United States, this treaty served the dual purposes of criminalizing foreign bribery on an international scale as well as ensuring that US corporations were ostensibly on the

same legal playing field as their competitors” (for a similar argument, see [Brewster, 2017](#)).

The passage of the Convention further led the US to amend its national legislation to cover persons and companies with some economic ties to its market ([Routh, 2018](#); [Tomashevskiy, 2021](#)). Since then, companies trading on US exchanges need to follow more stringent reporting standards and would inevitably be subject to the FCPA—these changes were the basis for German company Daimler paying nearly \$100 million to settle a case while British defense mammoth BAE paid \$400 million to resolve a claim investigating the provision of false information regarding the company’s FCPA compliance program ([Wilson, 2013](#), 243-244).

Critically, section §78dd-3 of the amended legislation also allowed for any (domestic or foreign) individual or corporation using American means of commerce—such as mail or US correspondent bank accounts, which are the backbone to any global dollar transfer—to be investigated under FCPA terms. These amendments ushered in an era where deals with tenuous, indirect links to the United States became common matters of FCPA investigation. In 2011, Japanese Construction firm JGC paid \$200 million to settle FCPA claims regarding hundreds of million US dollars paid in bribes to Nigerian public officials for a liquefied gas plant project in the Niger delta. JGC was not publicly traded in the US: the basis for jurisdiction was the use of correspondent bank accounts—*de facto* transacting in the dollar ([Wilson, 2013](#), 245). Luxembourg-based Tenaris was also charged that year with the primarily link being a single correspondent bank transaction worth just over \$32,000 ([Wilson, 2013](#), 246).

On top of this creeping and, from a foreign elite’s vantage point, threatening expansion of authority, virtually no limits are put in place to check the DOJ as it brings more and more claims—very few individuals or corporations have challenged the jurisdictional purview, leading to an absence of clear legal precedent ([Routh, 2018](#), 628). As Wilson (2013, 240) summarizes: “The DOJ essentially controls the disposition of the FCPA cases they initiate and impose their own extremely broad interpretation of the FCPA’s provisions. Settlements receive little judicial oversight. In light of this, federal prosecutors in FCPA cases yield immense power.”

The logic here echoes the recent scholarship on weaponized interdependence. America's nodal position in the global financial architecture, coupled with ambiguous domestic law, allows US bureaucrats to claim authority over and, thereby, coerce the vast majority of foreign elites if they so choose. While other countries now have domestic regulations that allow them to investigate foreign bribery, they lack the central position of the US in the anti-corruption enforcement network. More importantly, (1) elites will fear those other countries far less since no state can challenge the US in terms of its ability to legitimately gain jurisdiction or (2) credibly cut off elites from the global financial system.

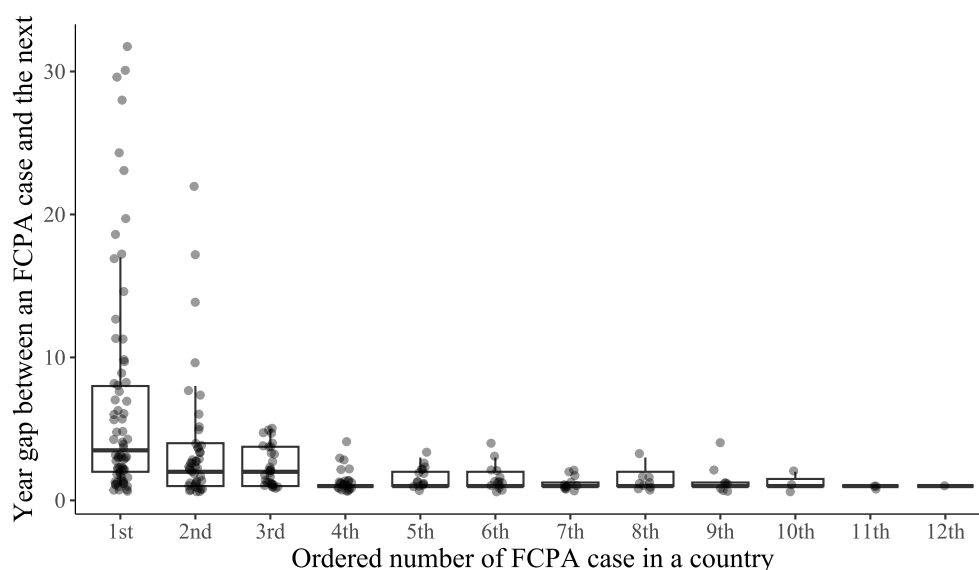
## **Why Foreign Elites Hide from the Hegemon**

In this section we develop our argument and derive testable implications on foreign corrupt elites' wealth protection strategies in response to American coercion via FCPA enforcement. First, we discuss available evidence on the drivers of FCPA cases, to understand the incentives that they create for foreign elites. Next, we present our argument on elites' response in terms of decisions to offshore wealth, including a discussion on the likely destinations of offshoring to protect from FCPA predation. We then derive testable hypotheses.

### **Bureaucratic drivers of FCPA cases**

Given that the DOJ and the SEC have such broad jurisdictional latitude, how do they choose their targets? A recent report from the agencies cited: "tips from informants or whistleblowers; information developed in other investigations; self-reports or public disclosures by companies; referrals from other offices or agencies; public sources, such as media reports and trade publications; and proactive investigative techniques, including risk-based initiatives" as the range of factors that can trigger charges ([Criminal Division of the U.S. DOJ and the Enforcement Division of the U.S. SEC, 2020](#), 54). While most academic work investigates whether the laws have been detrimental to

US interests, those that empirically examine the determinants of cases either focus on functional economic factors (presence of US-FDI, existing levels of corruption) or the geopolitical impetus behind cases (Tomashevskiy, 2021). But across these quantitative assessments, the previous enforcement actions against a country are regularly one of the strongest predictors for *future* enforcement.



**FIGURE 1:** Year gap between an FCPA case for corruption occurring in a country and the next

In the appendix, we replicate these analyses and confirm their findings with our data. We find that any previous FCPA action enforced for corruption in a given country is associated with a 0.10 increase in the probability of the US opening a new FCPA case for corruption in that very country, a substantially higher effect than that of any of the other determinants, including the level of corruption (Table A.1). A descriptive look at our data also confirms that past experience with enforcing an FCPA case in a country makes it easier for DOJ and SEC regulators to enforce again the FCPA for corruption in the same country. The median time it takes for US authorities to come back to the same country after the first FCPA case is just 3.5 years. And with every FCPA enforcement, it takes less and less until the *next* FCPA action in the same country (Figure 1). Past actions in a given country fundamentally reduce transaction costs of FCPA enforcement for

the DOJ and SEC, providing the information (through tips, connections between investigations, self-reports, referrals, media publications, etc.) that facilitates law enforcement.

In any FCPA case, the US government needs to invest in learning the details of a company's business practices, track down the flows of money and where they end up, and substantially document practices that players take great pains to obfuscate. Through the investigative process, US authorities will be forced to learn a great deal about the target's business environment. Even if they were only trying to learn about the specific instance of bribery that initiated the investigation, they would likely uncover, or at least be in a position to learn, a host of other corrupt activity by the "domestic" economic elite.

This is echoed in the DOJ's practices. The organization encourages firms to voluntarily report on the wrongdoings of their competitors via "sweep letters" with the implicit threat that lack of cooperation would mean you are the one that will be served with a subpoena next (Yockey, 2012, 694). One FCPA practitioner confirms that these sweeps "...explicitly encourage companies to volunteer incriminating information about competitors ... Inevitably, industry sweeps become organic and evolve, with government investigators using information from one company as the basis for additional requests to others." (Koehler, 2014, 694). Tomashevskiy's (2021, 391) interviews with the DOJ further corroborate the importance of such inter-firm snitching.

At the same time, by investigating bribery in a jurisdiction US authorities also learn how to navigate—or coerce—the local bureaucracy and work with local authorities. Cross-country cooperation has become critical to any successful investigation. "In 2010, the former chief of the DOJ's FCPA unit stated that a priority of his while at the DOJ was 'forging relationships with foreign prosecutors and regulators who were tackling foreign bribery cases and collaborating with them' in building a network of prosecutors." (Koehler, 2014, 694). In 2013, he went on to say that a critical part of their success in FCPA actions is "the continuing and encouraging rise in cross-border cooperation, and the increasing efforts of our foreign law enforcement partners to hold individual perpetrators accountable." (Koehler, 2014, 694).

Successfully completing a case in a country, then, both increases the odds of another act of corruption being found and further increases the odds of a future victory. This combination nicely aligns with the incentives of the DOJ. The desire for prosecutors to have big wins, while racking up the fewest losses, has become the surest path to internal promotion, as detailed by journalist Jesse Eisinger (2017). This culture had become so rampant that it forced James Comey, when he took over the department, to famously label these prosecutors with no losses as members of “the chickenshit club”: the lawyers strongly prefer working on cases that are the most efficient and least likely to blemish their records.

Collectively, these factors are likely to condition where future FCPA cases will occur and, thereby, how those new potential targets are likely to respond.

### **Why Foreign Elites Choose to Offshore**

Academic and journalistic work on economic sanctions illustrate that firms often set up subsidiaries abroad to obfuscate their trade patterns and undermine US attempts at economic coercion when there is money to be made (Barry and Kleinberg, 2015; Kavakli, Marcolongo, and Zambiasi, 2023). We make a related but distinct argument. We expect that economic elites will set-up offshore not just to complicate their trade routes via conduit states, but instead to buttress their existing corrupt activities and avoid further US coercion. These elites can be the very corporate bribe-payers (or intermediaries) who are alerted of the US enforcement activity and could come under future FCPA investigations. But they also likely include officials that are bribe-takers, who might fear increased domestic enforcement often occurring after an FCPA action (Kaczmarek and Newman, 2011) or who might fear the US going after them via other legal means.<sup>1</sup>

Economic elites want to maintain both their income streams and protect their wealth. Offshore

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<sup>1</sup> Cases like the investigations against FIFA in 2015, that was brought under domestic fraud and racketeering laws (rather than via the FCPA), mean that a range of government officials are likely to fear American authority (Leary, 2017). Jurisdiction was controversially claimed based on bribes paid in dollars and potential harmful effects on the US market. More generally, DOJ prosecutors are open about the importance of using information in one arena to start a case in another arena, as their statements regarding the origins of FCPA cases illustrates.

financial activities can allow them to do so *vis-à-vis* their home government by facilitating bribery payments and by making their assets more difficult to seize if their political fortunes take a turn for the worse. These same logics can operate when facing a threat from the United States.

We assume that the vast majority of economic elites have some exposure to US jurisdiction in general and to the FCPA specifically given the perpetual broadening interpretation of jurisdiction. Elites raise funds through the US financial markets and invest their money in its deep pool of safe assets. America has also become an important and safe tax haven in its own right, with economic elites using both the real estate markets of New York and Miami and the lax tax structures of South Dakota and Wyoming to guard their wealth ([Findley and Nielson, 2014](#); [Michel, 2021](#)). Moreover, much of their trade, and likely corrupt activities, are denominated in the US dollar given its reserve and settlement currency status, which America repeatedly uses to extend its jurisdiction ([Cobham and Janský, 2020](#)).

We expect that an FCPA enforcement by the US in an elite's home state alerts elites to the risks that their otherwise empowering global portfolios create—elites begin to fear that they could be the next DOJ target. FCPA cases are not automatic. As noted in the previous section, they involve substantial transaction costs, which creates incentives for American authorities to build on prior knowledge when selecting future cases. Our analytic wager is that elites are aware of these transactions costs, the potential informational spillovers, and come to fear new enforcement actions. In other words, following an FCPA action they recognize that they are now in a more precarious position. They will therefore seek out new protections, with offshoring serving as a novel set of safeguards. As they will likely still need to keep engaging in some corrupt practices, elites may take on new and more complex methods of structuring the sending and receiving of payments through jurisdictions that provide strong secrecy.

Arguably as importantly, they can move their money abroad as a mechanism to minimize the consequences of any future investigations or sanctions. If the US were to start and win a case against an individual, they are expected to pay substantial fines. If the elite decides not to acqui-

esce, the US could try to seize the individual's assets or put in place further sanctions. If American authorities cannot track that money down, or the individual has cut back their American dependence, the individual would avoid their biggest fear—losing their wealth and the status that comes with it. Moreover, given the investigation clearly places the home jurisdiction in the US' cross-hairs, and given the centrality of asset freezes to US foreign policy more generally, stashing wealth abroad would make even any non-corruption related measures more difficult to enforce.

In sum, the fear of getting caught up in future enforcement by the US incentivizes elites to move their money abroad.

### **How Foreign Elites Choose to Offshore**

Once elites have decided to offshore, they are still left with a choice of where to send the money. Not all tax havens are created equally. Although they all promise low tax rates and the rule of law, their international engagement varies. Most scholarship expects elites to choose havens that share a bilateral tax treaty with their home state as it would maximize their incomes ([Arel-Bundock, 2017](#)). But when trying to avoid the US this may not be the optimal strategy. Another important dimension that will likely condition where elites send their money is a haven's engagement with the international bribery regime. Some are signatories of the OECD-ABC, which would then mandate the jurisdiction to cooperate and, more specifically, share relevant information with an American investigation. At the same time, many havens have been coerced into cooperating in anti-corruption investigations involving the FCPA.

Whether a tax haven cooperates, or has been forced to cooperate, with the global sheriff is all broadly public knowledge as the former takes the form of international treaties while the latter is often publicized when charges are filed by the US. We expect that, as elites are searching for means to avoid the tracking, freezing, or seizing of their wealth, they and their legal teams will actively prioritize moving money to “ungoverned” jurisdictions that are yet to cooperate or be singled out by the hegemon.

When scholars think of tax havens, they largely focus on the economic returns that multinationals gain through “transfer pricing” or by elite individuals to minimize their tax burdens. We instead focus on the political gains by considering the use of tax havens as a mechanism to facilitate corruption and as a method to move assets beyond the reach of the (American) state. Once the US shows up on their doorstep, the transaction costs and information spillovers involved in mounting an investigation instill fear in the domestic elite that they could be next. Our focus leads to the following set of expectations:

**H1:** When the US initiates an FCPA case implicating a country, that country’s elites will respond by increasing transactions in offshore havens.

**H2:** Elites’ offshoring wealth in response to FCPA enforcement will become stronger over time, as the US expands its jurisdiction.

**H3:** Elites will choose to avoid sending their money to havens that are obligated to cooperate with the United States in fear of future US anti-corruption actions.

## **Data and research design**

To study the effect of US extraterritorial action (via FCPA enforcement) on offshore wealth incorporation, we combine two main data sources. First, we retrieve offshore wealth incorporation data from [Kalyanpur and Thrall \(2021\)](#). These data organize information leaked from the International Consortium of Investigative Journalists( ICIJ) on more than 275,000 offshore legal entities used by economic elites from 196 countries to incorporate their wealth in 44 offshore economies. Second, we obtain data on US FCPA enforcement from [Crippa \(2021\)](#) who also arranged information from a repository of anti-bribery textual documents<sup>2</sup> in a tabular format.

We start from the panel of 8,583 country-dyads observed over 38 years (between 1980 and 2017) from [Kalyanpur and Thrall \(2021\)](#). This dataset of directed country-dyads is composed of sender countries (*home*) where the elite’s wealth originates from and receiver offshore countries

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<sup>2</sup> See: <https://www.traceinternational.org/resources-compendium>.

(*haven*) where such wealth is incorporated. As we are interested in extraterritorial US action, we discard observations where either the home country or the haven is the US itself. Home countries thus include a total of 195 countries and havens include the 43 offshore jurisdictions reported in the ICIJ data. Using the offshore leaks provides us a broad and random sample—as they were a result of unexpected actions by whistleblowers and civil society groups, there should be no concerns that FCPA actions impact the data availability. There are however inevitable limitations to the data. The releases from the ICIJ do not include specific wealth amounts and instead only focus on offshore incorporations. In other words, we can see how wealth structures evolve after the FCPA but not the size of the associated flows.

Our main argument generates expectations about the outflows of wealth from locations that are targeted by an FCPA action, regardless of characteristics of the receiving financial haven. We thus collapse this dyadic dataset at the home country-year level (number of observations:  $195 \text{ home countries} \times 38 \text{ years} = 7,410$ ) and sum up the total number of offshore incorporations in financial havens originating from the sender-end of the directed dyads. This procedure yields our first dependent variable, a count of the total number of offshore wealth incorporations originating from the home state and directed to any haven in a given year. We use this variable to test for our overarching argument that elites' offshore incorporation will increase and be sustained following the first FCPA enforcement action in a given country (**H1**). We test our hypothesis that the effect increases with US jurisdictional expansion (**H2**) by aggregating the detected effect in a pre- and a post-1997 time period, with the expectation that countries experiencing FCPA enforcement in the latter should experience stronger effects given the adoption of the OECD ABC and the expansion of US jurisdiction.

We obtain a series of additional dependent variables that take into account characteristics of the receiving-end of offshore flows to test our mechanism and against alternative explanations. We measure the number of offshore wealth incorporations directed, in any year, from the home state

towards havens that have ratified the OECD ABC and those that have not.<sup>3</sup> We use these two variables to test our argument that, when confronted with the need for moving wealth offshore, elites will preferably target havens that do not cooperate with US anti-bribery actions—*i.e.*, OECD ABC non-ratifiers (**H3**).

Finally, we obtain additional variables to rule out that what we observe are tax evasion flows, in response to an FCPA action. We measure the number of offshore wealth incorporation transactions directed towards havens that are characterized as conduits—destinations that can be purposed to redirect illicit financial flows elsewhere—*vs* sinks—safe havens for stashing ill-gotten gains (Garcia-Bernardo et al., 2017). If elites reorganize their affairs to minimize taxes and maintain corrupt practices, they are likely to choose conduits. If, instead, they intend to keep their wealth out of the hands of US authorities, they are likely to “stash” their money in a sink. We classify as conduits the five havens that see the largest *outflows* of offshore transactions in our data. These are: the UK, Hong Kong, Jersey, Panama, and Singapore. Together, they account for more than half (56%) of all *outgoing* offshore transactions originating from financial havens from ICIJ data. We count, in a given year, the number of offshore transactions from any country to any of these five havens (conduits) and those directed towards the rest of the havens (sinks). To validate this variable, we also measure the number of offshore transactions towards havens that have a bilateral tax treaty (BTT) with the homestate and towards those that do not. If transactions were aimed at tax evasion, we should only observe flows towards havens that have a BTT with the homestate, where more favorable tax rates can be exploited, not towards the rest.

We merge these variables with information on FCPA enforcement. From the global dataset on anti-bribery actions in Crippa (2021), we keep only data on enforcement initiated by US authorities (FCPA actions). We also discard observations included in the dataset that refer to anti-bribery cases that were acquitted or closed with no action.<sup>4</sup> Next, we record the first year the FCPA was

<sup>3</sup> Because havens (the receiving end of dyadic offshore flows) can select into the OECD ABC at staggered times, we resort to this aggregated dependent variables as opposed to modelling yearly dyadic flows. Havens that have ratified the OECD ABC are Costa Rica, Ireland, Luxembourg, the Netherlands, New Zealand, and the United Kingdom.

<sup>4</sup> We exclude cases reporting any of the following outcome categories: “Acquittal/Dismissal,” “Declination,”

enforced for bribery occurring in each home country, if ever. Finally, we merge this piece of information with our country-year panel and record the first time a country was “treated” with an FCPA enforcement action (if ever) for bribery occurring within its jurisdiction. In the appendix we report the treatment timing for each of the 105 countries that have been targets of an FCPA action in our analysis (Figure A.1). We code the year of enforcement as the first time a company reports an investigation in its official SEC filings (typically, 6-K or 10-K) or when the DOJ or SEC first announce an investigation (whichever comes first). This leads us to code the year of enforcement as an earlier date than some other well-known datasets (like the Stanford FCPA Clearinghouse).<sup>5</sup> Moreover we stress that, unlike in some sources which code the nationality of an FCPA case as that of the bribe-payer firm,<sup>6</sup> we are interested in the nationality of the bribe-taker public officials.

We use our panel dataset to estimate the average treatment effect on the treated countries (ATT) for FCPA enforcement on offshore wealth incorporation. In our setting, the “treatment” (the first FCPA action for bribery occurring in a country) is staggered across treated countries. A large recent body of work indicates that, in staggered-treatment settings, a traditional two-way fixed effect (TWFE) design with ordinary least square (OLS) can retrieve biased ATT estimates. TWFE operates “forbidden” comparisons between groups treated at different times, wrongly averages heterogeneous ATTs for units treated in different years, and attributes negative weights to such constitutive terms (Goodman-Bacon, 2021; Roth et al., 2023). Several estimators have been proposed to overcome these limitations but the literature still has not settled on a favored solution.

An additional problem, specific to our setting, is that very likely no untreated country in our panel can serve as a plausible counterfactual for targets of FCPA actions. Countries that are targets of the FCPA likely display pre-existing patterns of offshore wealth incorporation that fundamentally differ from those of countries that are never involved in anti-bribery actions. Countries where bribes are common are, in fact, likely to have elites with corrupt wealth, incentives, and means to

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“Dropped,” “No Action.” We re-introduce these cases in a later, secondary test.

<sup>5</sup> In any case, in appendix we find similar results when using FCPA Clearinghouse data, instead (Figure B.10).

<sup>6</sup> E.g., this is the case for the *Corporate Prosecution Registry*: <https://corporate-prosecution-registry.com>.

stash their finance offshore even regardless of an anti-bribery action. That is, the over-time trends in offshore wealth incorporations likely differ between the two groups, well before an FCPA case. Thus, non-targets of the FCPA would constitute a poor comparison for FCPA targets in a typical difference-in-differences setting.

We obviate to this problem by applying the generalized synthetic control (GSC) method proposed by [Xu \(2017\)](#) to our panel. The method allows us to estimate one synthetic version of each FCPA target country, representing how the country would have looked like, absent US anti-bribery enforcement. GSC does that by estimating a synthetic counterfactual having an outcome variable that is as similar to the target as possible, before the treatment. This method is also robust to the problems of staggered treatments and heterogeneous effects. It uses a series of interactive fixed effects to draw on information from untreated observations and synthesize counterfactual units, using cross-validation to estimate a varying number of latent factors that best model pre-treatment unobservable features of the panel. It then averages the resulting individual treatment effects to retrieve an ATT.

In our application of the GSC, we adopt a two-way fixed effect specification to remove all time-invariant differences between countries and country-invariant differences between years. We also include four control variables to improve the quality of the pre-treatment match: the level of democracy of a country, its GDP per capita, a V-DEM measure for whether the country has “transparent laws with predictable enforcement” ([Coppedge et al., 2023](#)), and a measure of the percentage of agreement between a given country’s voting at the UN General Assembly and the US voting ([Bailey, Strezhnev, and Voeten, 2017](#)). The latter control variable is particularly relevant to address the potential concern that geopolitical reasons simultaneously affect FCPA enforcement (see [Tomashevskiy, 2021](#)) and propensity to offshore wealth.<sup>7</sup>

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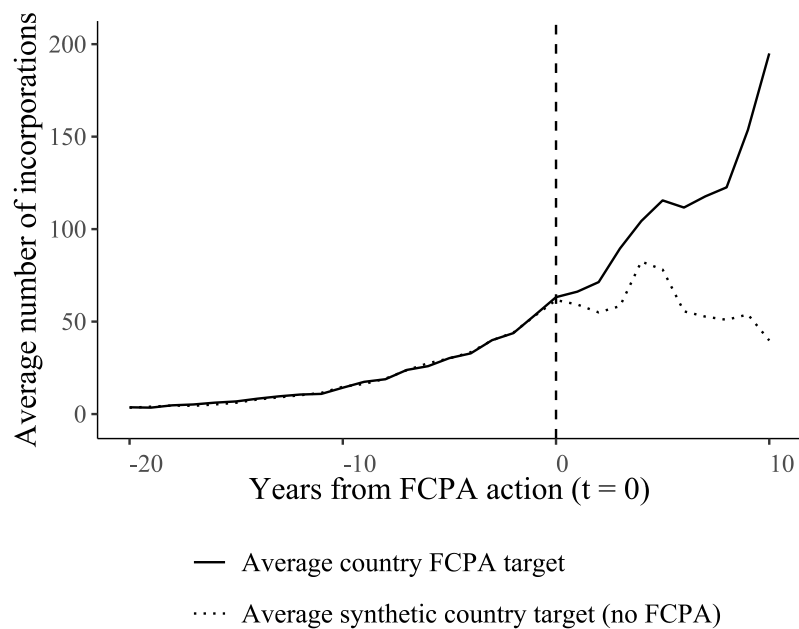
<sup>7</sup> We also remove treated countries that do not have at least seven pre-treatment observed time-points, as this produces significantly more similar treated and synthetic counterfactuals pre-treatment. Finally, we use cross-validation to determine the optimal number of latent factors in our panel between 0 and 5. To improve the quality of our estimation, we employ the expectation maximization algorithm by [Gobillon and Magnac \(2016\)](#). Standard errors are estimated with 1,000 bootstrap iterations.

## Results

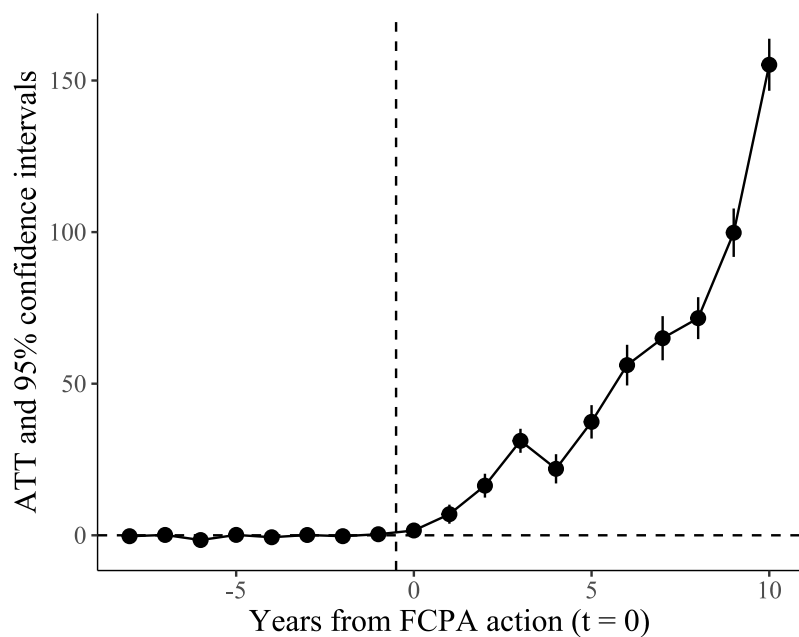
Figure 2 reports our results relative to our main dependent variable—total number of offshore wealth incorporations. We present both average trends between treated and (synthetic) control units—top panel—as well as estimated dynamic effects—bottom. Before treatment, trends of offshore wealth incorporation by treated and synthetic control countries run extremely close, a feature which reassures that the synthetic counterfactual procedure generates control units that are sufficiently similar to the treated ones before treatment. After treatment, we observe a significant increase in the number of offshore incorporations that lasts for the full ten years since the first FCPA enforcement action. The overall estimated ATT of an FCPA action is an increase in the number of offshore wealth incorporations of 65.13 (standard error: 1.63). That is, an FCPA action more than doubles (+179%) the number of outgoing offshore wealth incorporation transactions with respect to the pre-treatment average for treated countries (23.32).

These sustained effects fit with the logic that returns to scale of enforcement instill fear in the domestic economic elite - once the first case is brought forward it can take years for the next to come about, but more often than not that case does arrive and, going forward, the length of time between each future enforcement diminishes. Elites see themselves as potentially coming under attack from the US. By contrast, when we *only* analyze unsuccessful FCPA cases, those that are reported as an “Acquittal/Dismissal,” “Declination,” “Dropped,” or “No Action”, we find no effects on offshore incorporations - in the absence of regulators building up potential returns to scale with enforcement, elites do expect to need to alter their behavior.

Consistent with our hypothesis **H2**, moreover, we find that these effects are much stronger (statistically significantly so) for countries that were targeted by the FCPA after the ratification of the OECD ABC (1997). To show this, we aggregate results from Figure 2 distinguishing whether the country was treated with its first FCPA action before or after 1997 (included). We aggregate individual GSC effects using the procedure recommended by (Xu, 2017) for estimating cumulative



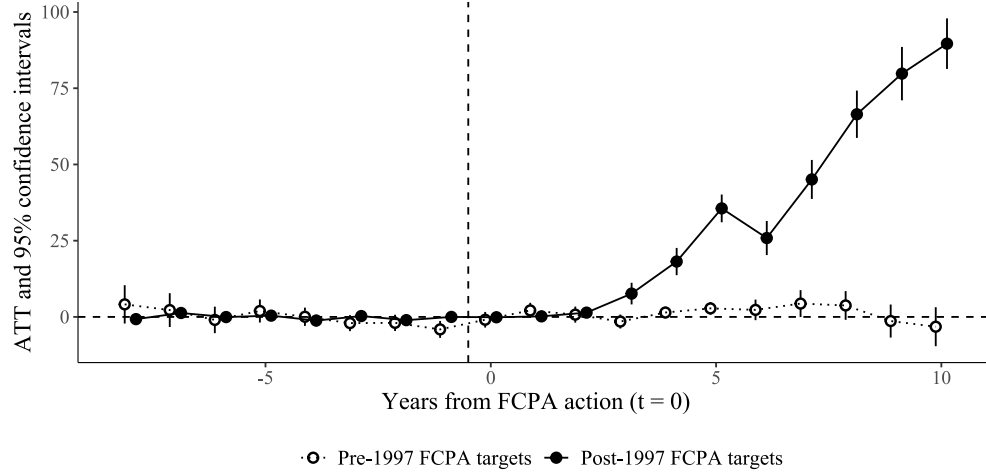
(a) Average trends of offshore wealth incorporation by treated and (synthetic) control countries target of FCPA action



(b) Average effect of an FCPA action on target countries' offshore wealth incorporations

**FIGURE 2:** The number of offshore wealth incorporations increases by 179% over the pre-treatment average after the first US FCPA action. Results from a generalized synthetic control method from [Xu \(2017\)](#).

or sub-group treatment effects. Figure 3 reports the resulting dynamic ATTs. Cohorts treated before 1997 do not experience a significant effect, returning negligible and insignificant estimates. Those treated after this date, instead, experience a stronger and sustained over-time effect.



**FIGURE 3:** The number of offshore wealth incorporations increases more significantly for countries receiving their first FCPA action after 1997. Results aggregate individual estimates from Figure 2.

These findings support two key predictions from our argument. The US extraterritorial enforcement (of the FCPA) alerts local elites of the American threat to their wealth, leading them to increase their offshoring towards financial havens (**H1**). Such effect is particularly strong following expansion of the US jurisdiction (**H2**). In our case, the latter is determined by the 1997 ratification of the OECD ABC, which represented a turning point for US authorities to expand the reach of the FCPA (Brewster, 2017; Kaczmarek and Newman, 2011).

In the appendix, we extensively test the robustness of our findings. We show that results are very similar when we do not include any covariate adjustment and just employ the outcome variable to determine synthetic counterfactuals. Next, we perform a placebo test where we randomly shuffle countries' FCPA treatment status (and timing) and obtain insignificant results, which reassures us that our findings are not an artefact of the GSC design. Second, we estimate ATTs using

seven alternative staggered-treatment estimators,<sup>8</sup> `PanelMatch` (Imai, Kim, and Wang, 2023), and a matrix completion method for estimating a fixed effects counterfactual model (Liu, Wang, and Xu, 2024). Next, we probe the validity of our coding of the FCPA treatment schedule. First, we validate results from our enforcement data: we find similar results when using Stanford FCPA Clearinghouse enforcement data. We also find evidence against the possibility that our main findings are driven by countries that were repeated targets of FCPA actions. We find no differential effect among countries that were treated once or multiple times, which suggests that a single FCPA enforcement action works as a fire-alarm for foreign corrupt elites. It isn't the number of future enforcements, but the fear of future enforcements that drives offshoring. Finally, we perform a jackknife analysis to leave one haven out each time and show that our findings are not significantly driven by any single haven. Even if we exclude the three havens which are responsible for most of the detected effect (Bermuda, British Virgin Islands, and Malta), our estimates are still positive and statistically significant.

The sizeable, robust, and sustained effects we estimated lend support for our hypotheses **H1** and **H2**: the exercise of US power via FCPA enforcement leads elites to move their wealth offshore, increasingly so as the US expands its jurisdiction. But where is illicit finance directed to? In order to answer this question, we now turn to our additional dependent variables of interest: the number of offshore wealth incorporation transactions directed from a given country to havens that have and have not ratified the OECD ABC.

### **Hiding as far as possible from the hegemon**

Here we show that, when choosing where to offshore wealth, elites favor destinations that are jurisdictionally as distant from the enforcement threat (the US) as possible. We provide evidence for our last hypothesis (**H3**) primarily by leveraging the fact that havens under the OECD ABC are

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<sup>8</sup> We use estimators by Borusyak, Jaravel, and Spiess (2024), Callaway and Sant'Anna (2021), De Chaisemartin and d'Haultfoeuille (2020), Gardner (2022), Sun and Abraham (2021), and Wooldridge (2021) alongside a traditional TWFE.

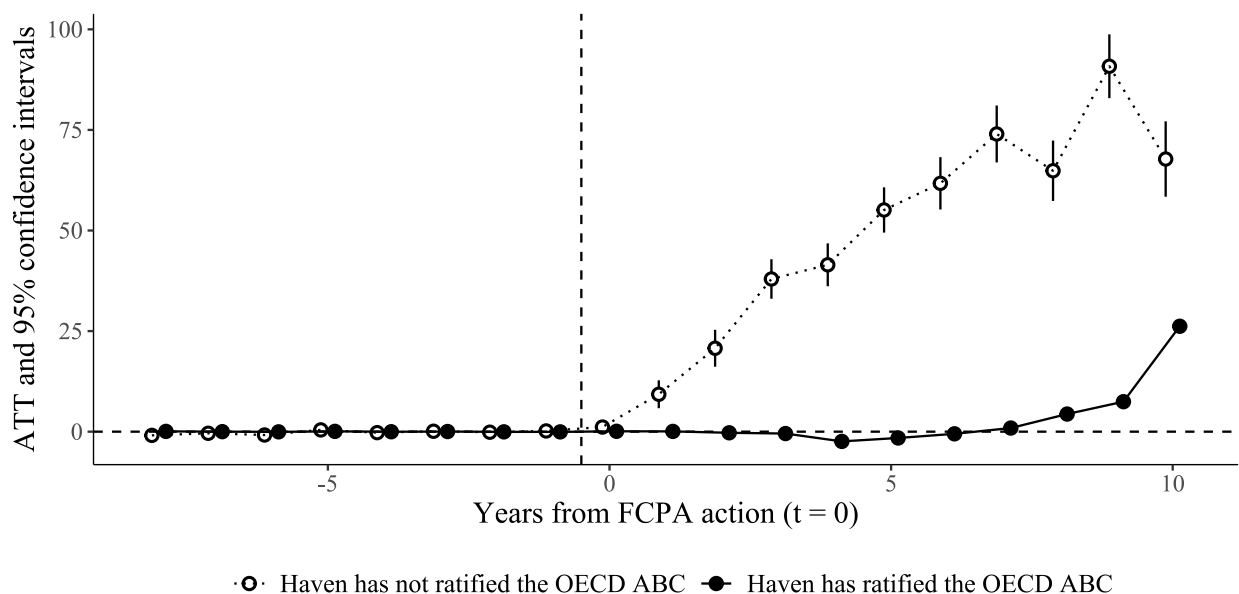
more at risk of future FCPA actions.

We replicate our analysis by estimating the effect of an FCPA action on offshore incorporation directed towards havens in and out of the OECD ABC. When considering havens that are under the jurisdiction of the OECD ABC, we carefully consider the status of the UK's crown dependencies and overseas territories which figure heavily in the list of our havens. The status of the OECD ABC in these territories has been subject to heavy discussions since at least 1999 between the OECD Working Group on Bribery and the UK Government. As these territories are under its jurisdiction, the UK alone has the authority to ratify treaties on their behalf. This has led the OECD Working Group on Bribery to repeatedly request that the UK extends its jurisdiction over these territories, which are key nodes of transnational corruption networks (Cooley and Sharman, 2017). However, the UK's general practice has been to devolve decisions to ratify and implement the OECD ABC to the territories themselves, which they eventually did at staggered times.<sup>9</sup> We consider this staggered timing to code whether the OECD ABC extends to UK overseas territories and crown dependencies.

Figure 4 reports our findings. In these cases, too, pre-treatment differences between treated and synthetic counterfactual countries are negligible. After treatment, we observe a significant increase in the number of offshore wealth incorporations directed towards financial havens that are outside of the OECD ABC. Instead, offshore flows directed towards havens in the OECD ABC do not display a clear, positive post-treatment trend. Initially, the effect even appears to be *negative*, albeit substantively negligible. These effects are statistically distinguishable from each other with a level of significance of 0.05 as evidenced by the fact that dynamic ATTs for these two groups do not overlap.

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<sup>9</sup> Of the crown dependencies, the Isle of Man, Guernsey, and Jersey ratified the Convention in 2001, 2009, and 2009 respectively. Of the overseas territories, Cayman Islands, Gibraltar, and the British Virgin Islands ratified the Convention in 2010, 2013, and 2013 respectively. At the time of writing, Bermuda, Anguilla and Montserrat, Turks & Caicos, and other territories in the Southern Oceans have not yet ratified the OECD ABC. More information can be found by consulting the 2023 final recommendations by the OECD Working Group on Bribery relative to phase 4 of the enforcement monitoring of the Convention: [https://one.oecd.org/document/DAF/WGB\(2023\)38/FINAL/en/pdf](https://one.oecd.org/document/DAF/WGB(2023)38/FINAL/en/pdf).



**FIGURE 4:** The number of offshore wealth incorporations increases, after the first US FCPA action, mainly towards havens that do not cooperate with the US under the OECD Anti-Bribery Convention. Results from a generalized synthetic control method from [Xu \(2017\)](#).

In the appendix, we offer tests to probe the robustness of this heterogeneous effect. Rather than distinguishing between havens that have and have not ratified the OECD ABC, we categorize havens based on whether, at a given point in time, they have been themselves target of at least one FCPA action in the past which, following our logic, should likely alert elites of the possibility of a future action. This group of havens overlaps minimally with OECD ABC signatories.<sup>10</sup> We then re-aggregate our dependent variables measuring the count of offshore wealth incorporation transactions directed towards each group. We find a stronger effect for offshore incorporations headed towards havens that have not been subject to an FCPA action in the past, consistently with our logic. We also perform a specific case-study focusing only on havens under the UK jurisdiction (crown dependencies or overseas territories) and leveraging their variation in ratification of the OECD ABC. We find consistent evidence with the one presented here. These tests further probe

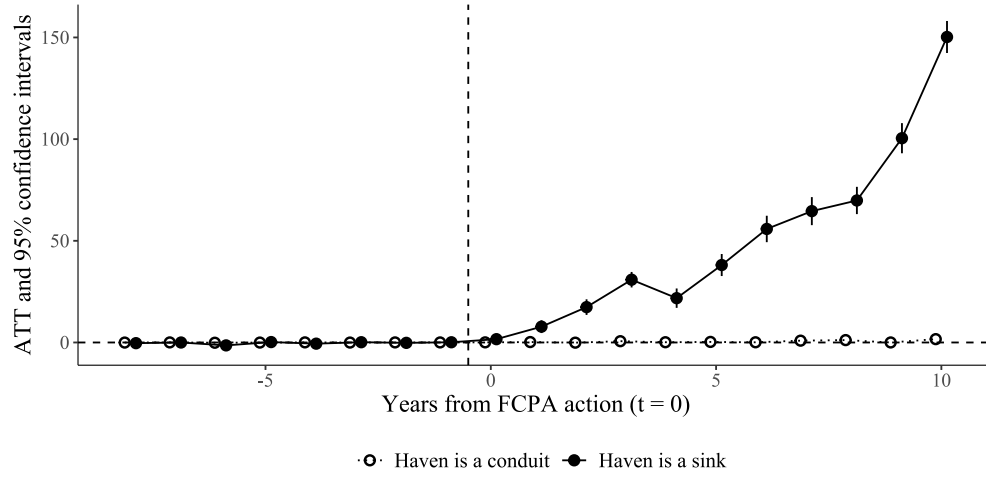
<sup>10</sup> Out of 43 havens in our data, 21 were never subject to an FCPA action nor have they ever ratified the OECD ABC; 3 have experienced both; off the diagonal, we have 11 havens that have been target of an FCPA action at least once but have not ratified the OECD ABC and 8 havens that have ratified the OECD ABC without ever being target of the FCPA.

our logic that elites respond to an FCPA action by attempting to move their wealth to havens that are more jurisdictionally distant from the US.

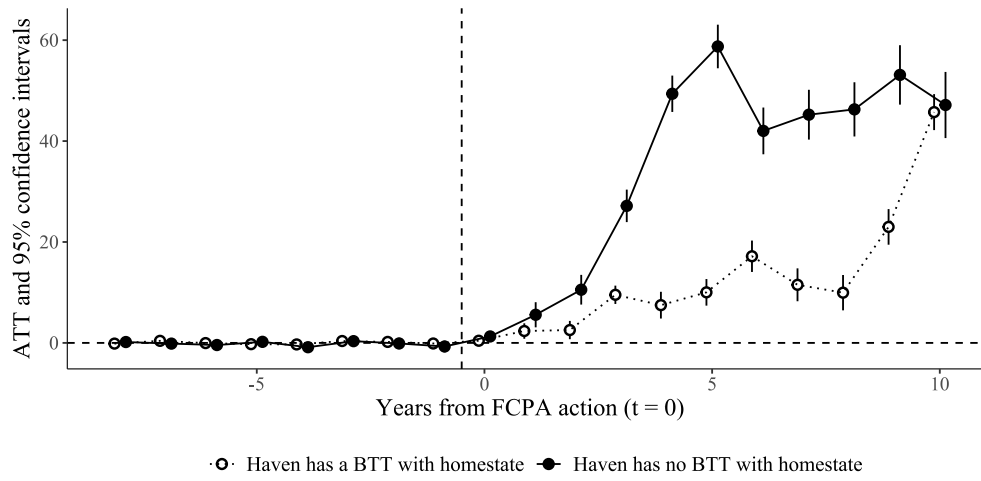
### **Are elites just trying to evade taxes?**

Thus far, our analysis indicates that US anti-corruption actions have a tangible effect on the offshoring behavior of foreign elites. FCPA enforcement does not lead elites to retreat, but instead to re-globalize their wealth structures. But these flows could be the result of elites simply trying to maximize their income—fortifying their tax evasion or the illicit payments necessary for their income generating business practices (rather than attempts to hide their wealth from the hegemon). To discard this hypothesis, we disaggregate offshore wealth incorporation flows into those that are likely to be efficient forms of income protection versus those that are likely be destinations for wealth protection. First, we distinguish between money directed towards havens that we classify as conduits of further offshore transactions—those that account for the largest share of all *outgoing* offshore wealth incorporations—and those that, instead, are sinks ([Garcia-Bernardo et al., 2017](#)). If offshore transactions were mostly aimed at tax evasions, the former should be the favored destinations following FCPA actions. Second, we distinguish between flows directed towards havens that have signed a BTT or not with the homestate. In case of tax evasion, again, the former should be a favored destination.

We replicate our analysis using these disaggregated measures of offshore flows in Figure 5. In Figure 5(a) we find that, post-treatment, offshore flows increase overwhelmingly towards sinks, rather than conduits, with effect differences that are statistically significant at a 0.05 level, as indicated by the lack of overlap. The GSC still achieves negligible pre-treatment differences between treated and synthetic counterfactual countries. In Figure 5(b), consistently with this, we find that the increase is much stronger, and statistically significantly so, towards havens that have not signed a BTT with the homestate. These final results strongly suggest that the offshore transactions leaving a country after an FCPA action are aimed at stashing wealth in safe havens rather than at



(a) Flows towards havens that are conduits vs sinks



(b) Flows towards havens that have a BTT with the homestate or not

**FIGURE 5:** The number of offshore wealth incorporation transactions increases, after the first US FCPA action, only towards havens that are classified as ‘sink’ (not towards ‘conduits’) and towards havens that do not have a BTT with the homestate. Results from a generalized synthetic control method from [Xu \(2017\)](#).

re-routing illicit activities via an offshore financial center offering more convenient tax rates.

## **Concluding remarks**

Is business afraid of the state? Comparative Political Economy scholarship is caught between two views. Some scholars have found that elites are on a constant search for formal and informal institutions to protect their wealth while in other instances elites effectively capture the state. Similarly in International Political Economy, scholarship on Foreign Direct Investment diverges between analyses of MNCs constantly attempting to mitigate the obsolescing bargain, avoiding the pitfalls of direct and indirect expropriation, and illustrations of the “race to the bottom.” In this manuscript we move beyond considering the threats that constrained domestic governments or asset-hungry host states pose to capital, and instead focus on any potential fears inflicted by the hegemon.

When the United States investigates corruption in a foreign jurisdiction, we find that elites from that jurisdiction quickly and substantively move their money abroad. Using data on 275,000 offshore incorporations, we illustrate that flows are directed to tax havens that have uncooperative relationships with the US. While the data does not allow us to directly measure the size of the flows, FCPA enforcement substantively impacts the structures of global wealth protection—transfers appear to be less concerned with maintaining the corrupt deals that elites often use to grow their incomes and instead focused on keeping wealth out of the reach of the “global sheriff.” The findings indicate that scholars need to begin incorporating concerns around extraterritorial action into our core models of political economy, especially under conditions where the demands of one’s home government and that of the United States may diverge.

This paper takes inspiration from the development of the research agenda on tax havens. While scholars initially focused on why some states choose to facilitate avoidance and evasion, the supply-side ([Crasnic, 2022](#); [Palan, 2002](#)), a reciprocal literature focuses on the demand-side, i.e., why do elites from some countries move their money abroad more frequently, how do they

choose their enablers, and, most recently, what are the domestic political determinants of an individual's wealth structure (Earle et al., 2019; Kalyanpur and Thrall, 2021; Kubinec, Morse, and Pandya, 2023). Our analysis contributes to these demand factors by showing the *international* political determinants of offshoring. We hope this inspires future work to examine the effects of how international structures interact with individual-level threats such as how a specific elite's relationship with the US or their home government influences offshoring behavior after episodes of economic statecraft.

The dyadic-level analysis has direct implications for tackling corruption. The anti-corruption regime has been lauded for its widespread endorsement and, over the years, growing enforcement. At one-level our findings are encouraging - the financial flows do not appear to be targeted at havens that are frequently used to route and conceal illicit flows. More damaging, incorporations after an FCPA action are concentrated in havens that have not signed up to international anti-corruption efforts, and are thereby under no obligation to share information on the assets stashed within the jurisdiction.

Much like in the taxation regime, more enforcement against one set of actors enriches governments not party to the higher standards. This "leakage" has received important recent attention on bribery at the domestic level (Chapman et al., 2021), but we provide a complementary transnational pathway driving wealth protection rather than income generation. The obvious but optimistic solution is for states to take a more multilateral approach. Assuming the US continues its extraterritorial endeavors, an alternative method to curtail the gains and use of safe havens would be for the DOJ and the SEC to expand its range of proceedings. Rather than investigate repeated instances of corruption in the same jurisdiction, they could investigate bribery with ties to havens that have yet to come under their scrutiny.

Most importantly, the paper has critical implications for understanding US economic coercion. The results indicate that rather than heading into an era of de-globalization, elites have already been charting a path of re-globalization that subverts the economics sanctions that serve as America's

primary foreign policy tool . Weaponized interdependence is now the language and toolkit of the global economy. As the European Union has shown with its response to the Russian Invasion of Ukraine and China illustrates with with the repeated sanctioning of its neighbors, extraterritorial coercion is set to only heighten. Although the network factors that undergird US hegemony, such as the dollar acting as the reserve currency, appear to be under only limited threat, the reach of the dollar may be curtailed by how elites are responding to its weaponization.

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# American Economic Coercion and Elite Re-Globalization

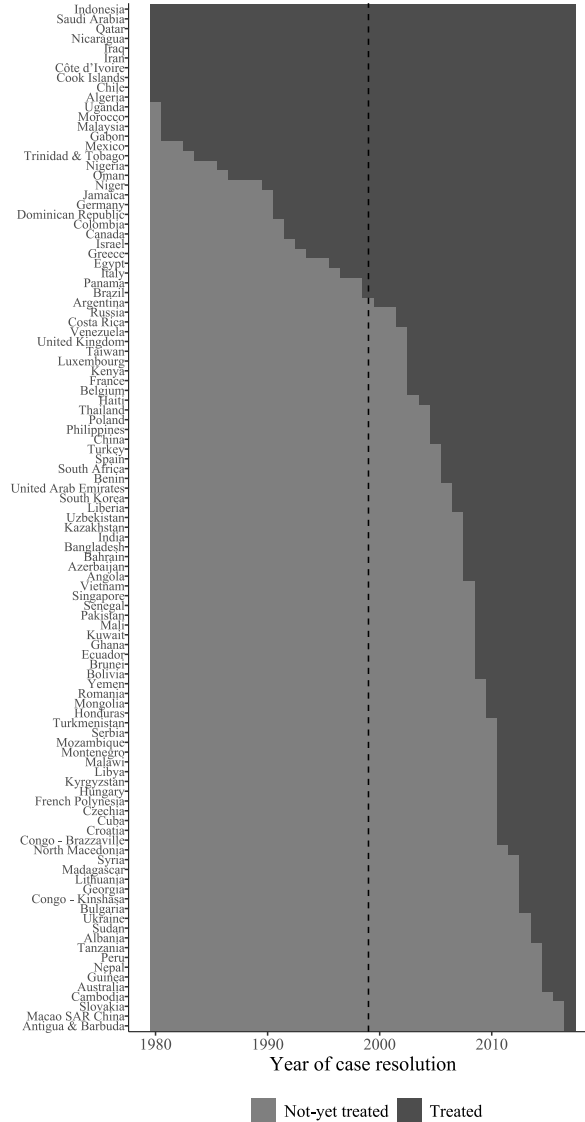
## SUPPLEMENTARY MATERIALS

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## A FCPA enforcement description

### A.1 FCPA actions: treatment schedules and cohorts



**FIGURE A.1:** Treatment schedule of countries that have been FCPA target before the end of our panel (2017). The figure represents the first time a country has been target of an FCPA enforcement action. The dashed vertical line represents the entry into force of the OECD Anti-Bribery Convention (1999). Data from [Crippa \(2021\)](#).

Table A.1: Explaining enforcement of a new FCPA case as a function of previously enforce FCPA cases

|                             | Outcome: FCPA case (binary) |                     |                     |                     |                     |                     |
|-----------------------------|-----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                             | (1)                         | (2)                 | (3)                 | (4)                 | (5)                 | (6)                 |
| Previous FCPA cases (count) | 0.101***<br>(0.005)         | 0.100***<br>(0.006) | 0.099***<br>(0.006) | 0.099***<br>(0.006) | 0.099***<br>(0.006) | 0.112***<br>(0.006) |
| GDP (US\$, trillions)       |                             | 0.003<br>(0.009)    | 0.007<br>(0.008)    | 0.008<br>(0.008)    | 0.008<br>(0.008)    | 0.012<br>(0.011)    |
| FDI (US\$, trillions)       |                             |                     | -0.049<br>(0.148)   | -0.036<br>(0.149)   | -0.047<br>(0.155)   | -0.110<br>(0.136)   |
| Corruption (V-DEM)          |                             |                     |                     | 0.010*<br>(0.004)   | 0.010*<br>(0.005)   | 0.013*<br>(0.006)   |
| Agreement with US (UNGA)    |                             |                     |                     |                     | 0.003<br>(0.052)    | 0.004<br>(0.049)    |
| Democracy                   |                             |                     |                     |                     |                     | -0.018<br>(0.012)   |
| Num.Obs.                    | 7410                        | 6429                | 5642                | 5095                | 4996                | 4706                |
| R2                          | 0.351                       | 0.348               | 0.350               | 0.353               | 0.353               | 0.345               |
| R2 Adj.                     | 0.330                       | 0.325               | 0.325               | 0.328               | 0.328               | 0.318               |
| Std.Errors                  | by: country                 | by: country         | by: country         | by: country         | by: country         | by: country         |
| FE: country                 | X                           | X                   | X                   | X                   | X                   | X                   |
| FE: year                    | X                           | X                   | X                   | X                   | X                   | X                   |

+  $p < 0.1$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

The considered dataset is a balanced panel of country-year observations extending from 1980 to 2017. Linear models estimated with ordinary least squares and fixed effects at the country and year-levels. Outcome variable is a binary for whether a new FCPA case is enforced for corruption occurring in a country. Main explanatory variable is a running count of the number of previously enforced FCPA cases for corruption occurring in that country.

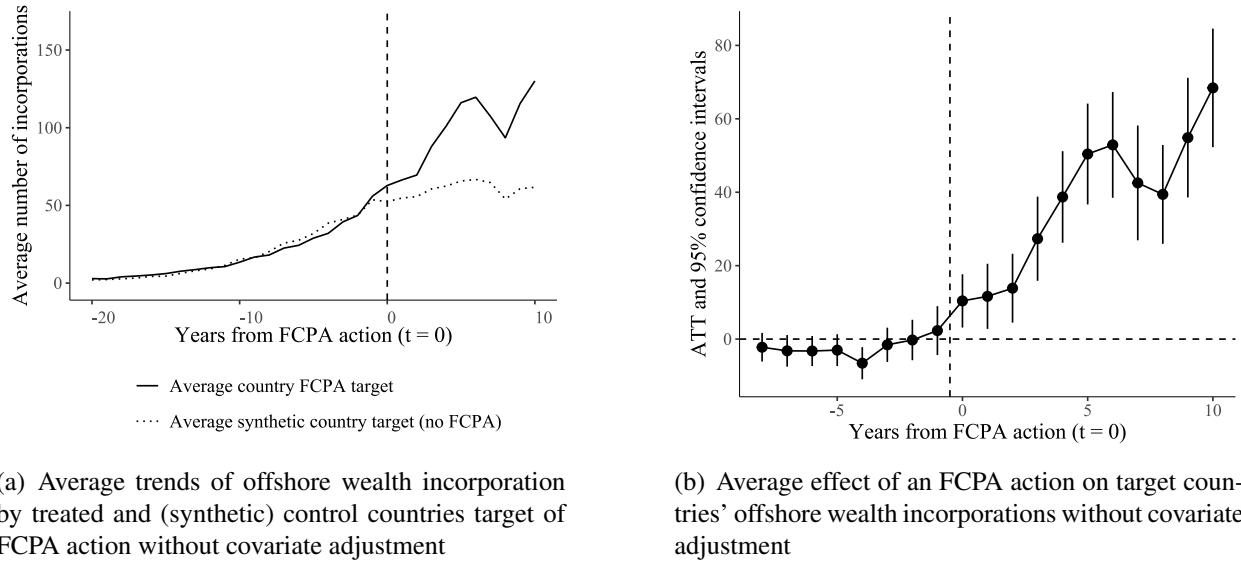
## A.2 Determinants of FCPA enforcement analysis

In order to understand elites' incentives at offshoring as a result of FCPA enforcement, we use our data to study the likelihood that the DOJ or SEC enforce a new FCPA case for corruption occurring in a country. We begin from our balanced panel dataset of 195 countries observed for 38 years (between 1980 and 2017). For any given country-year we code a binary dependent variable, *FCPA case*, measuring whether the DOJ or SEC open a new FCPA case for corruption occurring in that country in that year.

We explain our binary dependent variable in a linear probability model that features the following explanatory variables. First, the running sum of past FCPA cases that have been enforced by the DOJ or SEC for corruption in that very country (*Previous FCPA cases*). Next, we control for the *GDP* of the country, the total inward *FDI*, the level of *Corruption* as measured by V-DEM, the percentage of *Agreement with US* from UN General Assembly votes, and the level of *Democracy*. To remove country and year idiosyncrasies, we fit fixed effects at these levels. Standard errors are clustered at the country level.

Results, presented in Table A.1 show that the number of past FCPA cases is constantly a significant and positive determinant of a new FCPA case. Any past FCPA case experienced by a country increases the probability of a future, new FCPA case by about 0.10. This is a substantive effect unmatched by any of the other determinants. That is: previous knowledge of a country context, with the consequent availability of information, informants, and connection with local authorities, significantly reduces the transaction costs for the DOJ and SEC to enforce a future FCPA case.

## B Offshoring analysis: Robustness tests



**FIGURE B.1:** The effect of FCPA actions on offshore wealth incorporations, results without covariate adjustment. Results from a generalized synthetic control method from Xu (2017).

### B.1 No covariate adjustment

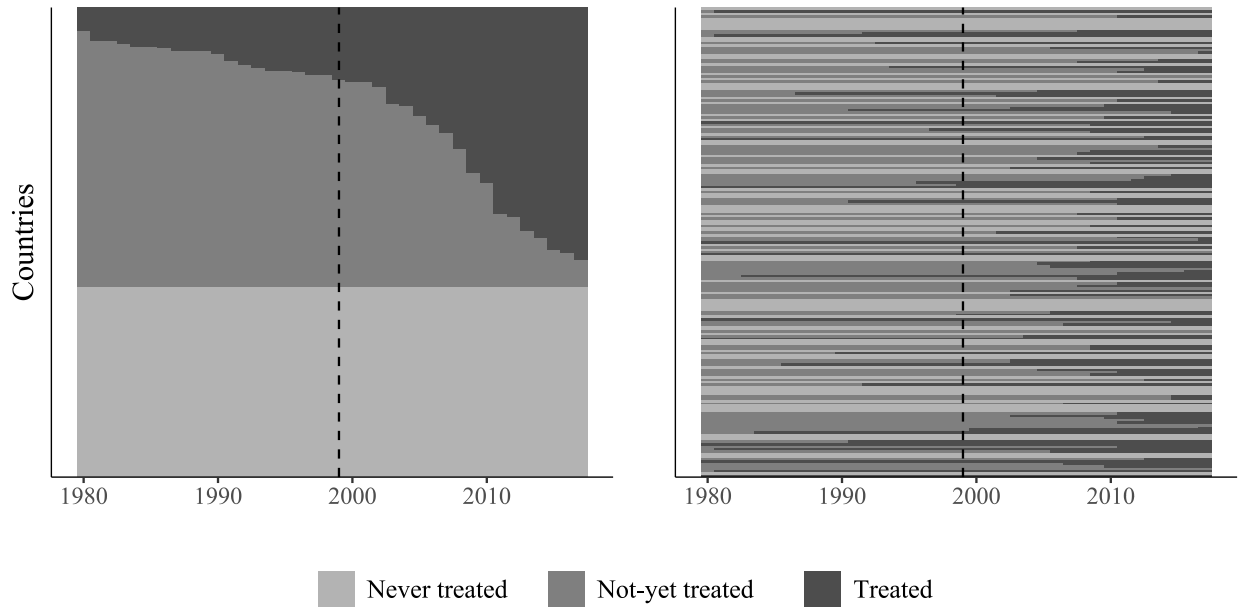
We show that our results are robust to the exclusion of the four covariates employed to synthesize counterfactuals. When we replicate the main procedure followed in Figure 2 without covariate adjustment, we obtain the very similar (albeit slightly noisier) results reported in Figure B.1.

### B.2 Placebos

#### B.2.1 Randomized treatment assignment schedule

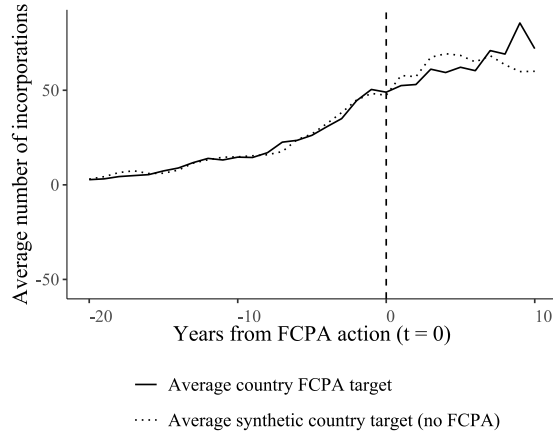
We perform a placebo test for our generalized synthetic control design. We randomly shuffle the treatment status (and timing) of countries included in our main analysis. Figure B.2 reports two panels. The left one presents the real treatment status of countries in our analysis. As the panel shows, the group of treated countries increases significantly in the aftermath of the entry into force

of the OECD ABC (dashed vertical line), which gave US authorities a renewed momentum to enforce widely the FCPA (Brewster, 2017). In the right panel, instead, we report our random allocation of countries to their placebo treatment status and timing. This panel maintains the ordering of countries as in the left panel, to allow a comparison between the real and the placebo treatment assignments. Various countries that are, in reality, treated end up in the never-treated group in the right panel (and vice-versa). Many countries that are treated in reality and that are still considered as treated in the placebo allocation presented in the right panel, instead, change their treatment timing at random.

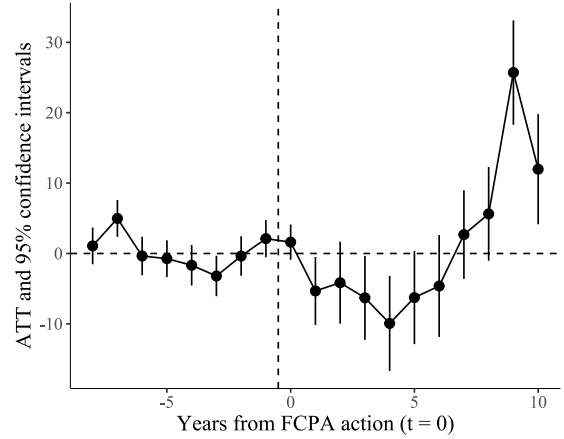


**FIGURE B.2:** The left panel of this figure reports the real treatment status and treatment timing of countries subject to an FCPA action. The right panel reports the treatment schedule for our placebo test, where status and timing have been assigned at random. The dashed line reports the year of entry into force of the OECD ABC (1999).

Figure B.3 reports our placebo findings, where we use the placebo data to replicate the same procedure presented in Figure 2. In this case, too, the model achieves a very similar pre-treatment match between the observed, (placebo) treated flows and the synthetic control ones, this being the goal of the design on the pre-treatment data. Post-treatment, however, we do not observe any significant effect if not for a modest *negative* trend in the first post-treatment years and an isolated positive jump after the ninth year since the (placebo) FCPA action. These confused and null effects on a placebo treatment assignment schedule reassure us that the effects documented in the main text are not an artefact of the design, including its selected observations used to construct the synthetic control units.



(a) Placebo test: average trends of offshore wealth incorporation by treated and (synthetic) control countries target of FCPA action



(b) Placebo test: average effect of an FCPA action on target countries' offshore wealth incorporations

**FIGURE B.3:** Placebo test for the effect of a randomly generated schedule of FCPA actions on offshore wealth incorporations. Results from a generalized synthetic control method from [Xu \(2017\)](#).

## B.2.2 Results from unsuccessful cases

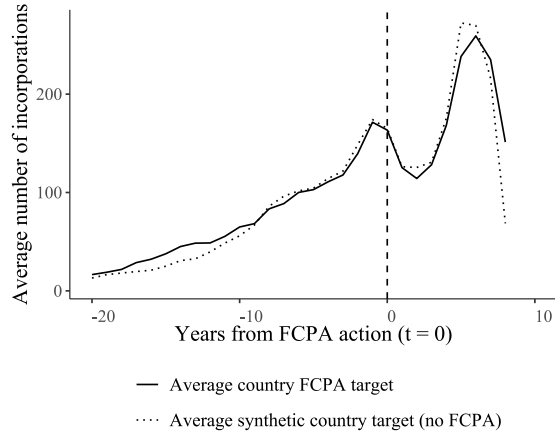
Here, we offer a further placebo test to probe our argument by redefining countries' FCPA treatment schedule after considering only FCPA cases with outcome recorded as either of: "no action," "declination," "acquittal/dismissal," "dropped." Following our argument, these cases should not incite local elites to offshore their wealth at significantly higher rates because lack of a successful enforcement outcome means US authorities did not manage to acquire the informational spillovers and returns to scale that would allow them to enforce again the FCPA in the future. In other words, the FCPA-caused fear factor does not ignite.

In Figure B.4, we present our results when replicating our GSC procedure with this alternative treatment assignment schedule. Coherently with our argument, we find that dropped, declined, acquitted/dismissed, and generally no-action FCPA cases do not manage to ignite any significantly higher levels of outgoing offshore transactions. We interpret this null effect as the lack of an FCPA fear factor due to the difficulty that US authorities would encounter in enforcing the FCPA in the future, as information barriers and transaction costs still loom large.

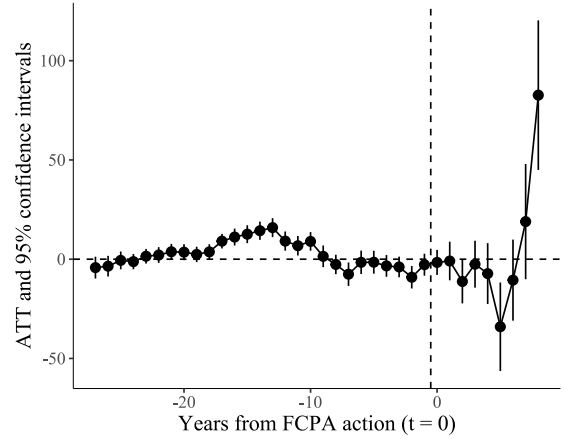
## B.3 Alternative estimators

### B.3.1 Staggered difference-in-differences estimators

Figure B.5 reports dynamic estimates of the effect of FCPA enforcement on all outgoing offshore incorporations from treated countries when applying seven staggered difference-in-differences estimators: TWFE and those by [Borusyak, Jaravel, and Spiess \(2024\)](#), [Callaway and Sant'Anna \(2021\)](#), [De Chaisemartin and d'Haultfoeuille \(2020\)](#), [Gardner \(2022\)](#), [Sun and Abraham \(2021\)](#),



(a) Average trends of offshore wealth incorporation by treated and (synthetic) control countries target of unsuccessful FCPA action



(b) Average effect of an unsuccessful FCPA action on target countries' offshore wealth incorporations

**FIGURE B.4:** Placebo test for the effect of unsuccessful FCPA actions on offshore wealth incorporations. Results from a generalized synthetic control method from Xu (2017)

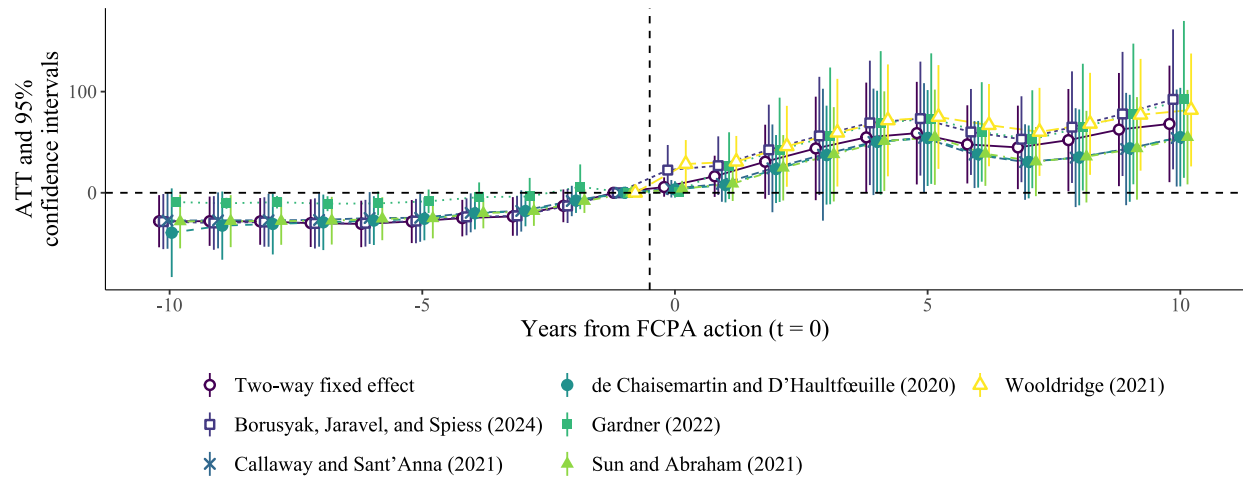
and Wooldridge (2021). Post-treatment estimates inform us that, in the aftermath of the first FCPA enforcement action, countries experience a significantly larger volume of offshore wealth incorporation directed towards all financial havens. Across all seven estimators, we observe an increase in the number of offshore wealth incorporation from treated countries that is statistically significant since the fourth year following the first FCPA enforcement action. Effects are sizeable. For instance, on year 5 since FCPA enforcement, we estimate that the number of offshore wealth incorporations from treated countries increases by about 55 to 75—depending on the estimator.

However, pre-treatment trends of offshore wealth incorporation by treated and untreated countries appear to be already diverging when we consider the years before an FCPA action. These estimates indicate that, on average, countries that will be treated in later time points experienced slightly *lower* levels of outgoing offshore wealth incorporations before receiving the treatment. This distance diminishes as treated countries approach treatment which suggests the parallel trends assumption might be violated in this case. This observation aligns with the expectation, reported in our main text, that FCPA targets and non-targets likely display pre-treatment diverging trends in patterns of offshore wealth incorporation. For this reason, too, we consider our generalized synthetic control our preferred method for estimating dynamic ATTs (given that it is designed so as to achieve non-diverging pre-treatment trends).

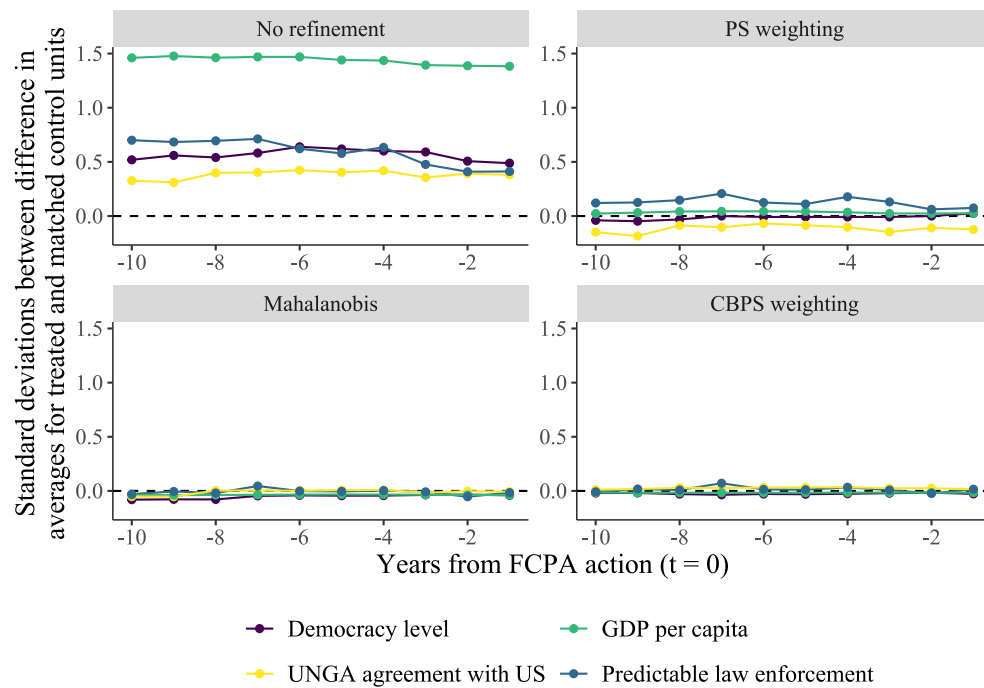
### B.3.2 Estimates from PanelMatch (Imai, Kim, and Wang, 2023)

We show that our results are also robust to using PanelMatch, which we intend as an alternative method for selecting a suitable set of control units to reduce over-time differences among the treatment and control groups before treatment by achieving pre-treatment balance in covariates.

We create four PanelMatch groups. First, we impose no refinement method. That is, we



**FIGURE B.5:** The effect of the first US FCPA action on the number of offshore wealth incorporations. Results from two-way fixed effect and estimators from [Borusyak, Jaravel, and Spiess \(2024\)](#), [Callaway and Sant'Anna \(2021\)](#), [De Chaisemartin and d'Haultfoeille \(2020\)](#), [Gardner \(2022\)](#), [Sun and Abraham \(2021\)](#), and [Wooldridge \(2021\)](#).

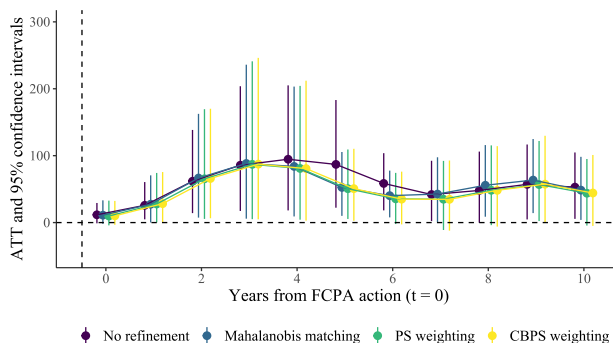


**FIGURE B.6:** PanelMatch estimation. Over-time balance in covariates among treated units and sets of matched control units achieved without any adjustment; with propensity score weighting; with Mahalanobis distance; and with covariate-balancing propensity score weighting.

feed all untreated units into the control group for the estimation. This is useful to illustrate the imbalance in covariates before treatment which motivates diverging pre-treatment trends illustrated in Figure B.5 and serves as a baseline for other adjustment methods. Second, we perform propensity score (PS) weighting on the four covariates which we also feed into our GSC estimation. Third, we perform Mahalanobis distance matching on the same covariates. Finally, we perform covariate-balancing propensity score (CBPS) weighting (Imai and Ratkovic, 2014) on the same four variables. For all our matching procedures, we consider a lag of ten years before the treatment and match units based on the four covariates and the corresponding full matrix of ten-year lags. For Mahalanobis, we match 10 control units for each treated one.

Figure B.6 reports the number of standard deviations between the over-time averages of these four covariates for the treated and matched control units across the four adjustment methods, before treatment. The unrefined matched group shows significant imbalance in covariates before the treatment, with treated countries being significantly richer, with higher levels of democracy, more predictable law enforcement, and with stronger geopolitical alignment to the US than control units. All three refinement methods significantly reduce such differences, however Mahalanobis and CBPS weighting matching achieve comparatively more balanced sets.

We report our `PanelMatch` estimates in Figure B.7. Across all four sets, we estimate a positive ATT after the treatment, detectable until the tenth year following an FCPA action. Effect sizes are comparable to those estimated with the other methods.



**FIGURE B.7:** `PanelMatch` estimation. Estimates obtained with no refinement; with propensity score weighting; with Mahalanobis distance; and with covariate-balancing propensity score weighting.

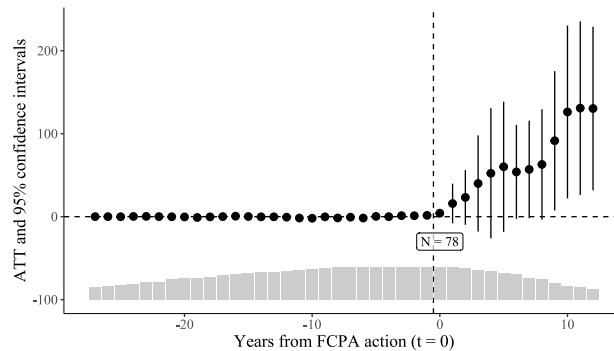
### B.3.3 Estimates from a FE counterfactual estimator (Liu, Wang, and Xu, 2024)

We provide yet more evidence that our results are not model-dependent by showing that we can obtain similar estimates when applying one of the fixed-effect counterfactual estimators proposed by Liu, Wang, and Xu (2024). These estimators impute a counterfactual for each treated unit, in a very similar vein to the GSC proposed by Xu (2017). This family of estimators include a fixed effect models, an interactive fixed effect (like the one we adopt in our GSC method), and a

matrix-completion (MC) method. The authors show interactive fixed effect and MC outperform plain fixed effects.

In order to show that our estimates are robust to an entirely different model than our interactive fixed effects procedure, we adopt here MC as a strategy to estimate counterfactual units. Similarly as in our GSC estimation, we drop units without at least seven pre-treatment observations to improve the quality of the counterfactual estimation and include the very four covariates used in the main analysis.

Figure B.8 reports our findings. MC-estimated counterfactuals are very similar to the treated units before treatment. After treatment, there is a clear upward trend in the estimated ATTs, which becomes significant after around the sixth year.



**FIGURE B.8:** The effect of the first US FCPA action on the number of offshore wealth incorporations. Results from a fixed effect counterfactual estimation using matrix completion (Liu, Wang, and Xu, 2024).

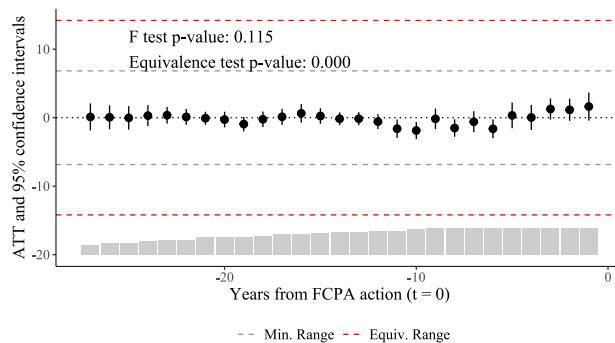
As suggested by the authors, we perform two tests for evaluating the existence of pre-treatment trends that would invalidate our post-treatment estimates. We report results in Figure B.9. Our estimates largely pass both tests. An F-test on the joint significance of the pre-treatment estimates fails at rejecting the null hypothesis of divergence from zero ( $p = 0.115$ ), which reassures that pre-treatment trends are negligible here. Similarly, we reject the null-hypothesis of the equivalence test introduced by the authors—the “two-one-sided  $t$ ” (TOST) test with a very small  $p$ -value ( $p = 0.000$ ). The latter test certifies an extremely good pre-treatment fitting, as suggested by the fact that the minimum range (grey horizontal dashed lines) is well contained within the equivalence range (red horizontal dashed lines) in Figure B.9. Both tests suggest that, here, pre-treatment trends are negligible and not strong enough to invalidate our post-treatment results.

## B.4 Validity of treatment cohorts

### B.4.1 Validation of treatment data by Crippa (2021)

Here, we probe the validity of treatment data from Crippa (2021). We show that we can obtain similar results when using data from the Stanford FCPA Clearinghouse (FCPAC)<sup>11</sup> to determine

<sup>11</sup> See: <https://fcpa.stanford.edu/enforcement-actions.html>.



**FIGURE B.9:** Equivalent tests for pre-treatment estimates obtained with fixed effect counterfactual estimation using matrix completion (Liu, Wang, and Xu, 2024).

the treatment schedule. The two sources differ because the FCPAC is somehow more conservative in its coding choices. It considers as enforcement actions exclusively proceedings that allege explicitly a violation of the FCPA or that are mentioned as an FCPA-related enforcement action by the DOJ or SEC (or both) on their website. Most importantly, it excludes “[p]roceedings that are FCPA-related but that do not allege violations of the FCPA.”<sup>12</sup> Following our theoretical framework, these cases should, instead, be considered in our main analysis, which justifies our choice to use data from Crippa (2021)—who includes them in the data as they are, in turn, based on the TRACE Compendium.<sup>13</sup> When we repeat the procedure adopted in our main analysis, considering the FCPAC treatment schedule, we obtain results in Figure B.10, very similar to the ones in our main text.

#### B.4.2 Compare cohorts treated once and multiple times

Similarly to what we did in Figure 3, here we contrast results for cohorts that received an FCPA action only once and those that received multiple, repeated FCPA actions over time. We use this test to rule out the hypothesis that effects estimated in our main text are driven by the fact that some countries were repeatedly targeted by an FCPA action.

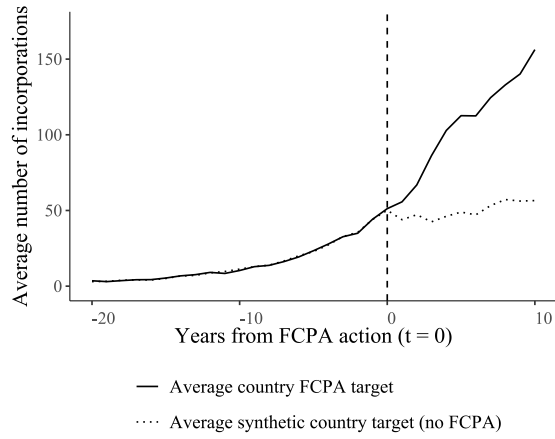
As done in the previous section, we perform this test by aggregating results from Figure 2 distinguishing whether treated countries were target of just one FCPA action or more over time. Figure B.11 reports our findings. For both subgroups of treated countries, we observe a similar, positive increase in offshore incorporations post-treatment.

#### B.4.3 Domestic cooperation with FCPA action

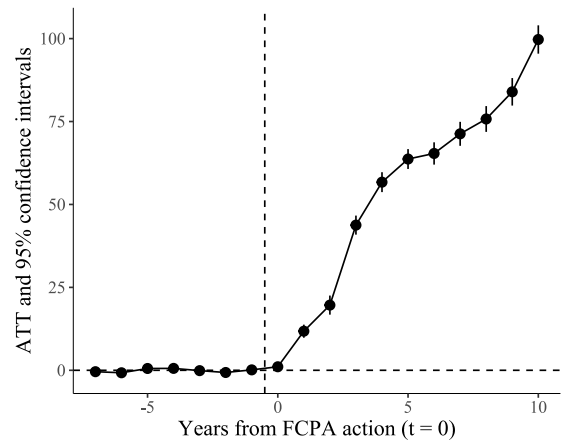
In Figure B.12 we show that results from the main text are confirmed when considering as treatment only the first time domestic authorities of a country target with an FCPA action cooperated with US agencies in that case.

<sup>12</sup> See: <https://fcpa.stanford.edu/about-the-fcpac.html>.

<sup>13</sup> See: <https://www.traceinternational.org/resources-compendium>.

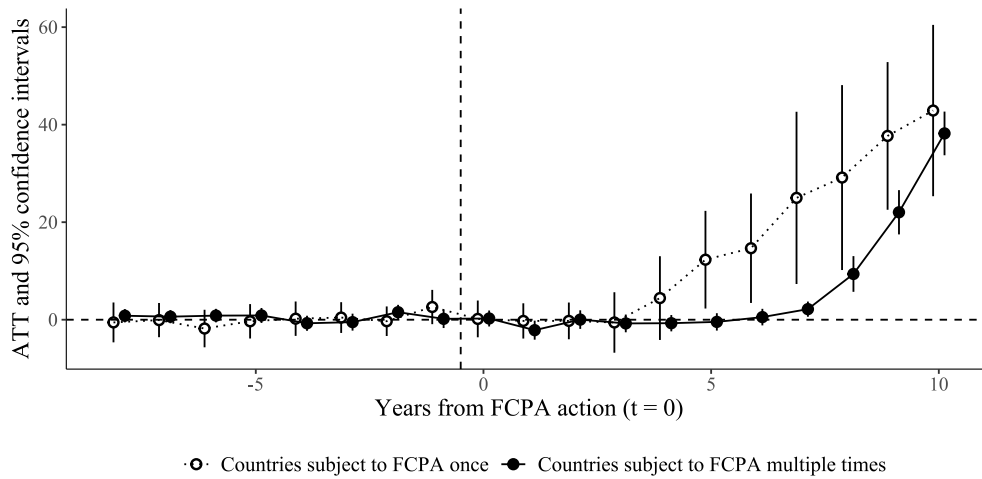


(a) Average trends of offshore wealth incorporation by treated and (synthetic) control countries target of FCPA action

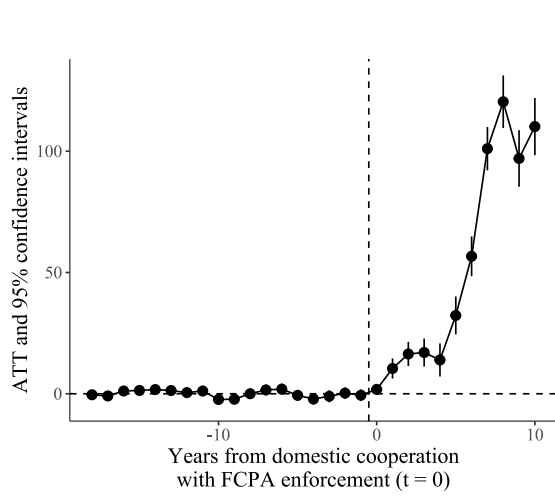


(b) Average effect of an FCPA action on target countries' offshore wealth incorporations

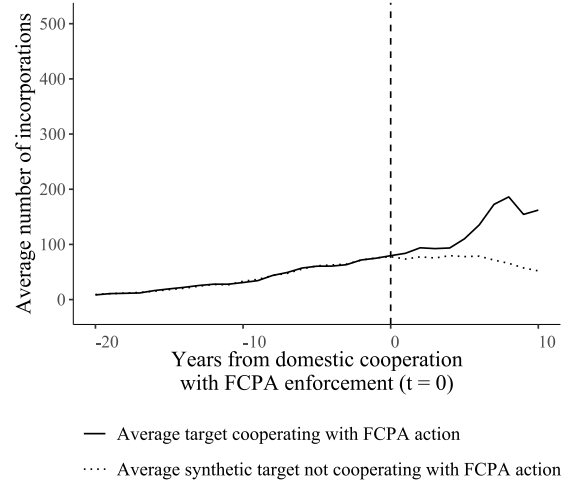
**FIGURE B.10:** The number of offshore wealth incorporations increases after the first US FCPA action. Results from a generalized synthetic control method from [Xu \(2017\)](#) using FCPA enforcement data from the Stanford FCPA Clearinghouse.



**FIGURE B.11:** The number of offshore wealth incorporations does not increase more significantly for countries that were target of more than one FCPA action. Results from a generalized synthetic control method from [Xu \(2017\)](#).



(a) Average trends of offshore wealth incorporation by treated and (synthetic) control countries that cooperated with US authorities on an FCPA action



(b) Average effect of domestic cooperation with an FCPA action on target countries' offshore wealth incorporations

**FIGURE B.12:** The number of offshore wealth incorporations increases after a country is first target of an FCPA action *and* its domestic authorities cooperate with US ones. Results from a generalized synthetic control method from [Xu \(2017\)](#).

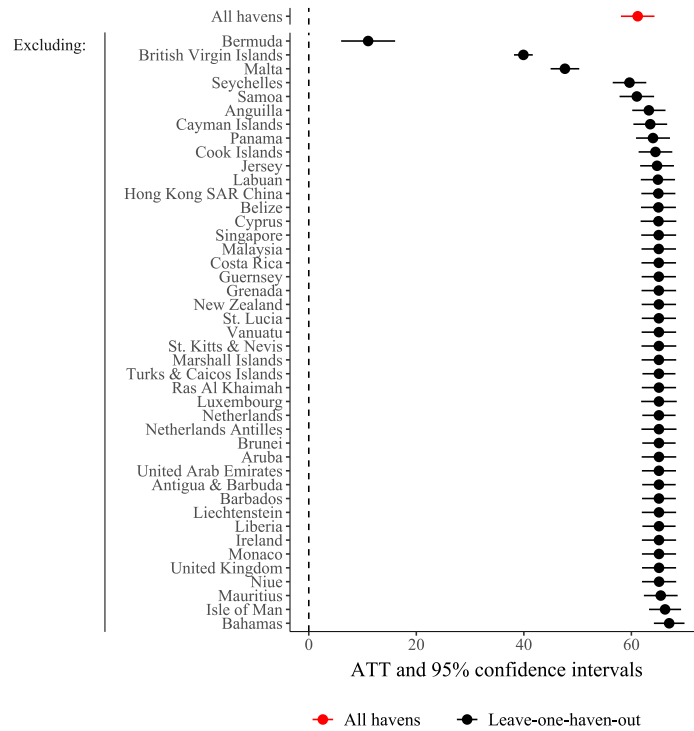
## B.5 Haven jackknife results

### B.5.1 Leave-one-haven-out

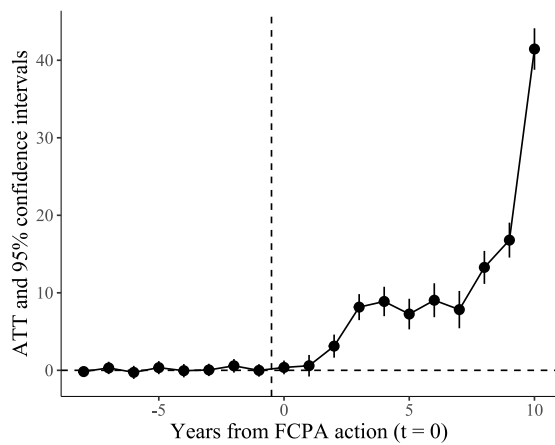
We re-compute our dependent variable for the number of outgoing offshore wealth incorporations after excluding one of the havens at the time and replicate our analysis on these recomputed dependent variables. We intend this as a test for whether incorporations towards any individual haven are driving the effects documented in the main text. Figure [B.13](#) reports the overall ATTs from this jackknife exercise alongside the ATT from our main analysis of Figure [2](#). Although excluding some havens (namely Bermuda, the British Virgin Islands, and Malta) significantly decreases the size of the estimated positive effect, none of these havens is in itself sufficient to fully account for the positive effect detected in our main analysis, a finding which reassures us that no single outlier is present in the data.

### B.5.2 Leave-top-three-havens-out

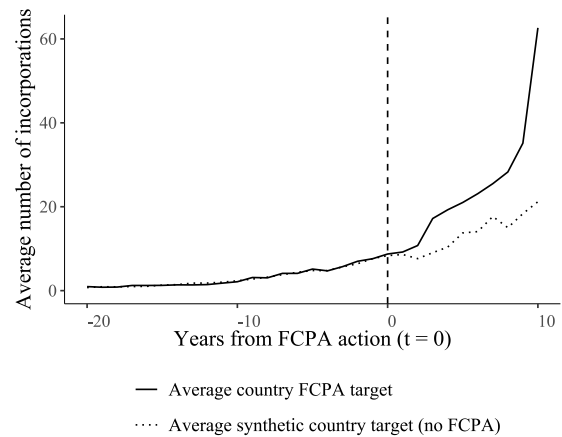
To complement the previous robustness check, we finally exclude from the data all top-three havens that, as indicated by the previous exercise, drive most of the estimated effect. We then re-compute our dependent variable for the number of outgoing offshore wealth incorporations and re-estimate our ATTs by means of the same GSC of our main text. Results, reported in Figure [B.14](#), still indicate a positive effect in the aftermath of an FCPA action. The post-treatment effect size gets small in this very conservative test, however it is still positive and statistically significant.



**FIGURE B.13:** Results from the generalized synthetic control method from Xu (2017) after excluding one haven at the time and re-computing the dependent variable for the number of outgoing offshore wealth incorporations.



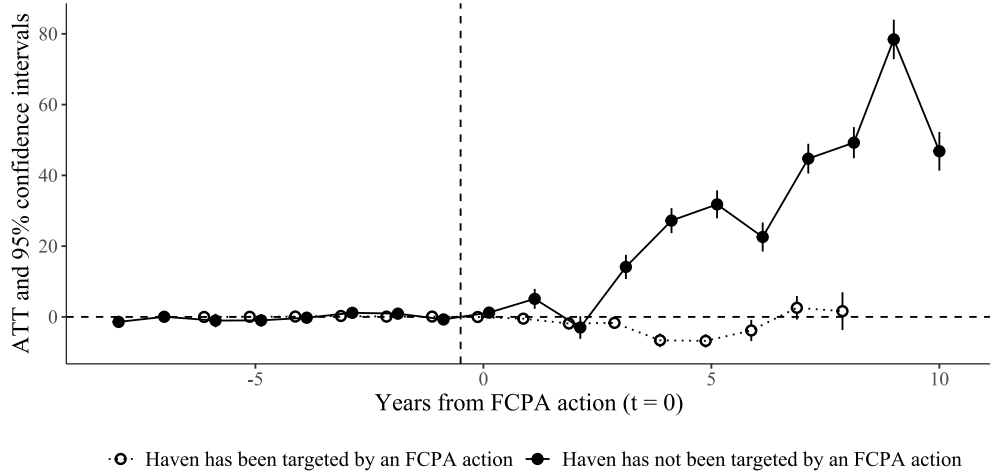
(a) Average trends of offshore wealth incorporation by treated and (synthetic) control countries



(b) Average effect of an FCPA action on target countries' offshore wealth incorporations

**FIGURE B.14:** Estimates when excluding offshore transactions directed towards Bermuda, British Virgin Islands, and Malta. Results from a generalized synthetic control method from Xu (2017).

## B.6 Havens subject to FCPA actions



**FIGURE B.15:** The number of offshore wealth incorporations increases more significantly towards havens that have not been involved in an FCPA action in the past, than towards havens that have been FCPA targets. Results from a generalized synthetic control method from [Xu \(2017\)](#).

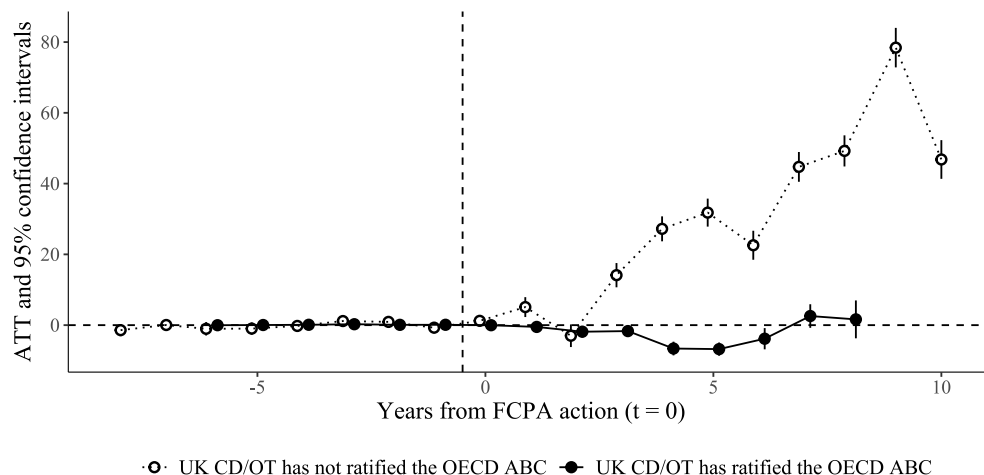
Here, we study how offshore wealth incorporation flows respond to FCPA actions distinguishing whether the potential haven has been subject to an FCPA action itself in the past or not. We re-aggregate our offshore wealth incorporation data based on this characteristics and obtain two dependent variables of interest. We then replicate our analysis using these two variables. We report our findings in Figure B.15. Elites in countries that are targets of FCPA actions offshore their wealth significantly more towards havens that have not been targets of an FCPA action themselves rather than those that have. Differences in these effects are statistically significant at a 0.05 conventional level of significance.<sup>14</sup>

## B.7 Case study: UK crown dependencies and overseas territories

Here, we perform a specific case study of offshore wealth incorporation flows towards havens that are in the UK crown dependencies (CDs) and overseas territories (OTs). We leverage the variation induced by the CDs and OTs ratifying the OECD ABC at staggered times and we intend this as an additional test to study how changes in the OECD ABC membership of potential destinations for offshore wealth transactions (i.e., havens) resulted in different responses for corrupt elites seeking to offshore their wealth in the aftermath of an FCPA action. We argue this is an important test which removes sources of endogeneity at the level of the destination of offshore transactions between UK and non-UK havens.

We consider only offshore wealth transactions directed towards UK CDs and OTs. That is, we consider solely the following havens: the Isle of Man, Anguilla, Bermuda, British Virgin Islands,

<sup>14</sup> The 83.4% confidence interval of the overall ATT for flows towards havens that have been subject to an FCPA action in the past is [0.27, 1.41]. For havens that have not been FCPA targets, this is [39.91, 54.96].



**FIGURE B.16:** The number of offshore wealth incorporations increases more significantly towards UK crown dependencies and overseas territories that have not ratified the OECD ABC, than towards those that have ratified the agreement. Results from a generalized synthetic control method from [Xu \(2017\)](#).

Cayman Islands, and Turks & Caicos. We then aggregate up offshore wealth incorporations data at the sender country-year level, based on whether the UK CD or OT destination of these flows had ratified the OECD ABC or not. We then perform our GSC estimation on these two dependent variables by studying whether FCPA actions targeting the sender country affected these flows differently.

Our findings, reported in Figure B.16, clearly indicate a positive effect of an FCPA action on offshore wealth incorporation occurring in UK CDs and OTs that have not ratified the OECD ABC. The effect is negligible and at times even *negative* when we consider CDs and OTs that have ratified the OECD ABC.