Making Bribery Profitable Again? The Market Effects of Suspending Accountability for Overseas Bribery

Lorenzo Crippa,[a] Edmund J. Malesky,[b,c]* and Lucio Picci[d]

[a]Department of Government and Public Policy, University of Strathclyde, Glasgow, Scotland, UK
[b]Department of Political Science, Duke University, Durham, NC, USA
[c]VinUniversity, Hanoi, Vietnam
[d]Department of Economics, University of Bologna, Italy
*Corresponding author: Edmund J. Malesky; Email: ejm5@duke.edu

Abstract In February 2025, US President Trump signed an executive order blocking the initiation of any new investigations or enforcement actions under the Foreign Corrupt Practices Act (FCPA), which had made it unlawful for US companies to bribe foreign public officials. We analyze market valuations of publicly traded multinationals on US financial markets before and after the announcement. On the day of the executive order, former FCPA targets whose stocks are publicly traded experienced returns on equity markets that were about 0.69 percentage points higher than what would have been expected from stock market trends. The effects cumulated substantively, resulting in capitalization gains for the portfolio of past targets of corporate corruption cases of about USD 39 billion and outsized returns to shareholders. These results allow us to contribute to long-standing debates about how much of the costs multinationals experience from corruption are due to legal enforcement versus the inefficiency and uncertainty it generates for firm operations. When legal enforcement is removed, valuations of firms at risk of corruption rise dramatically, indicating that investors perceive the legal costs as an important threat to investment in corrupt firms. Suspending FCPA enforcement is thus likely to induce market confidence in risky investments.

Scholars have documented that investors avoid publicly traded multinationals that have been flagged for potential corruption or operate in corrupt locations.[1] However, debate remains about the motivation behind this reluctance because two potential drivers are typically conflated and therefore difficult to distinguish empirically. How much of the investor avoidance of corrupt businesses is attributable to fears regarding

1. Cuervo-Cazurra 2008; Jain, Kuvvet, and Pagano 2017; Kwabi et al. 2022.

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the uncertainty and inefficiency of their practices,[2] and how much is due to the threat that their malfeasance will eventually be detected and punished?[3]

We help answer this question by exploiting an exogenous shock that suddenly removed anti-corruption enforcement costs for US investors, while leaving efficiency costs unchanged. On 10 February 2025, US President Donald Trump surprisingly issued Executive Order 14209, which blocked enforcement of the Foreign Corrupt Practices Act (FCPA), a US law prohibiting firms from bribing in international business. President Trump justified the decision by arguing that the law disadvantaged US multinational corporations (MNCs) relative to their global competitors. To test whether this removal of an enforcement threat impacted investment decisions, we study the 261 firms that have an FCPA history, which we define as having been subject to either FCPA enforcement or investigations, and that trade securities on US stock markets. We leverage the unexpected timing of Trump's announcement and implement an event-study design for causal inference on the equity returns of these past FCPA targets, which we compare to both the whole market and a portfolio of 236 similarly situated businesses that have never been FCPA targets.

Suspending legal enforcement sharply increased investment in firms previously designated as FCPA offenders compared to non-offenders. Contrary to President Trump's fairness justification, which implies greater investment in all publicly traded MNCs, past FCPA violators recorded abnormal returns on the day of the executive order, which were 0.69 percentage points above what would be predicted from broader market trends. The effect cumulated substantively over the trading week, resulting in significant capitalization gains for former targets of corporate corruption cases. We calculate a surplus gain in market capitalization, above expected performance, of USD 160 million for the average past FCPA target on the day Trump signed the executive order. This capitalization gain, which materialized for the average past FCPA target in just one trading day, is comparable to the average FCPA fine to date (USD 150 million).[4] However, some of the past FCPA targets recorded gains of (tens of) billions of dollars in capitalization, in some cases larger than the largest FCPA fines in history.[5] All considered, the portfolio of past FCPA targets recorded a net gain in market capitalization of about USD 39 billion on the day of the executive order.

In short, stock market investors saw Trump's order as a signal that investing in corrupt enterprises would be less risky and more profitable in the near future. This generated significant capitalization gains for the firms that were at the highest risk of future corrupt activities, and corresponding outsized returns for their investors.

The tremendous response of investors to the removal of legal enforcement sheds light on a vital question in international political economy. Corruption is costly for firms

2. Dal Bó and Rossi 2007; Garmaise and Liu 2005; Rose-Ackerman 1975.
3. Banerjee, Gupta, and Krishnamurti 2022; Kaufmann and Vicente 2011; Lau, Demir, and Bilgin 2013.
4. Authors' own calculations based on data used in this research note.
5. The top fifty gainers are reported in supplemental Table G.1. See Appendix G for a further discussion of estimated capitalization gains. For the top ten FCPA fines, see <https://fcpa.stanford.edu/statistics-top-ten.html>.

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because it represents a tax on private initiative that reduces efficiency and certainty.[6] The implication is that corrupt business hampers internal controls and strategic planning, raising severe risks for potential shareholders. For instance, budget projections may not fully account for bribery in costing, complicating profit and dividend estimates. Thus, investors should be reluctant to buy into firms known to bribe abroad, whether or not FCPA enforcement was in effect. But others argue that bribery gives firms important first-mover advantages that secure monopolistic positions in foreign markets, with financial gains that can significantly outweigh the inefficiency losses.[7] In this case, firms would be deterred from bribing only if they faced law enforcement costs at least as large as their incentives to bribe.[8] Thus far, the literature has struggled to empirically disentangle whether corruption is costly because of the inefficiencies it creates or because of the associated costs of anti-corruption law enforcement.[9]

By leveraging the fact that Trump's unexpected executive order impacted only the enforcement costs of corruption (it could not reasonably make corruption a more efficient enterprise), we isolate the enforcement effect.[10] Once enforcement costs are lifted, investors bet that firms at risk of further corruption will be more profitable. The finding reinforces our understanding that strong anti-corruption mandates are necessary to deter firms from engaging in bribery.

Our results also have important policy implications when considering the important role of the US in global anti-corruption enforcement. Two scenarios warrant consideration. In the first, a general decline in US enforcement efforts could prompt a similar reduction in enforcement by other jurisdictions, potentially leading to the de facto unraveling of the OECD Anti-Bribery Convention (ABC), the international agreement supporting a global regulation against corporate corruption in international business. A more concerning scenario would emerge if the US Department of Justice (DOJ) were to interpret Trump's FCPA executive order as a mandate to increasingly target foreign firms in FCPA investigations while giving a free pass to national ones, as some recent indications suggest.[11] In such a context, it is reasonable to expect that foreign jurisdictions, perceiving the relationship as increasingly confrontational, would become more reluctant to cooperate with US-led investigations, inverting a legal export and positive feedback effect that has been documented for the past two decades.[12] In the worst case, one of the most

6. Dal Bó and Rossi 2007; Rose-Ackerman 1975.
7. Malesky, Gueorguiev, and Jensen 2015; Zhu 2017.
8. Banerjee, Gupta, and Krishnamurti 2022; Kaufmann and Vicente 2011; Lau, Demir, and Bilgin 2013.
9. Enforcement costs differ from the legal compliance transaction costs that firms face under the FCPA. Here, we refer only to the probability that actual malfeasance will be investigated and punished.
10. To be clear, this design allows us to assess only what happens when enforcement costs decline to zero; it does not allow us to conclude that uncertainty doesn't matter, as such concerns may operate independently of FCPA considerations.
11. US Department of Justice 2025.
12. Crippa, Malesky, and Picci 2025; Jensen and Malesky 2018; Kaczmarek and Newman 2011.

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sophisticated and promising international legal regimes developed in recent decades could be perversely transformed into a tool of international lawfare.

Suspension of the FCPA and the Enforcement Hypothesis

President Trump's Executive Order 14209, signed on 10 February 2025,[13] mandated that the DOJ cease initiation of any new investigations or enforcement actions under the FCPA for 180 days and revise its enforcement priorities.[14]

Since it first passed the US Congress in 1977, the FCPA had made it illegal for US citizens or companies investing abroad to bribe foreign public officials, subjecting them to punishment in the US for acts committed overseas—a legal principle known as extraterritoriality.[15] Twenty years later, the FCPA became the cornerstone of the global regime against corporate corruption, centered on the 1997 OECD ABC.[16] FCPA punishments can include colossal fines, such as the USD 1.6 billion fee imposed on Siemens in 2008 (in coordination with German authorities) for bribing public officials in multiple countries and, in 2020, Goldman Sachs's USD 2.9 billion assessment for facilitating bribery in Malaysia.[17] There is substantial empirical evidence that the FCPA successfully reduced bribery as well as investment in and trade with corrupt regimes by US firms and by foreign firms with activities in the US.[18]

Donald Trump had long been an opponent of the bill, stating his intention to repeal it and referring to it as a "horrible law" in a television interview during his 2016 campaign.[19] Trump charged that the FCPA placed American companies at a disadvantage in international business transactions vis-à-vis competitor firms who do not face the same onerous regulations.[20] Yet throughout Trump's entire first term, the

13. The executive order was made public around 1:00 p.m., Eastern Standard Time. The earliest post we found reporting the executive order on X was by CNBC <https://x.com/CNBC/status/1889014059111968913>, at 1:10 p.m. EST, linking to an article published three minutes earlier <https://archive.ph/AkJNr>.

14. White House, "Pausing Foreign Corrupt Practices Act Enforcement to Further American Economic and National Security," 10 February 2025 <https://www.whitehouse.gov/presidential-actions/2025/02/pausing-foreign-corrupt-practices-act-enforcement-to-further-american-economic-and-national-security/>.

15. Kaczmarek and Newman 2011.

16. Brewster, forthcoming.

17. US Department of Justice 2008, 2020.

18. Christensen, Maffett, and Rauter 2022; Cuervo-Cazurra 2008; Krever 2007; McLean 2011; J. Xu 2025.

19. MSNBC, "Trump Makes Position on Foreign Bribery Clear," 17 November 2017 <https://www.msnbc.com/rachel-maddow/watch/trump-makes-position-on-foreign-bribery-clear-1098742339896>.

20. Such criticisms are, at most, only partially justified. Under the OECD ABC of 1997, all OECD countries (and eight non-OECD countries) have adopted similar extra territoriality legislation and judicial institutions to deter their firms from bribing abroad. The ABC itself was the result of lobbying by the US, out of concern for competitive damages following the unilateral FCPA adoption (Picci 2024, 20–23). Thus, many competitors of US firms are subject to the same anti-bribery limitations as US firms in international business. When enforced, this international agreement effectively caused companies to reduce their bribe propensity (Jensen and Malesky 2018). Although evidence exists that firms from countries outside the agreement (China and Singapore, for instance) compensate for this reduction in corruption by paying *more* bribes (Chapman et al. 2021; Crippa, Malesky, and Picci 2025), the extent to which anti-bribery laws really

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FCPA remained untouched and operational. Consequently, the decision to suspend the FCPA at the beginning of his second term was unexpected,[21] appearing among a wave of executive orders and actions reshaping US domestic and foreign policy priorities.[22]

Studying the immediate financial impact of Trump's reversal of US anti-corruption priorities provides a unique window into how investors understand the threat of international anti-corruption enforcement. Consequently, we analyze the effect of the executive order on stock market evaluations of US-traded companies that have been cited as (potential) FCPA violators in the past.

Two reasons make FCPA histories a useful heuristic for investors to infer future corruption risk. First, FCPA targets are often repeat offenders involved in multiple anti-bribery cases over time. Our data (Appendix A) show that more than 40 percent of all FCPA actions are followed by another action targeting the same firm within ten years. This is explainable in terms of firms' "type" (for example, firms operating in certain industries or countries are more likely to be involved in bribing) and also based on the cost—in terms of evidence—for prosecutors to launch new enforcement actions. Prosecutors might reduce the evidence costs of enforcement with information emerging from past actions[23] because investigations may uncover new information leading to new cases.[24] Similarly, past targets' adoption of compliance and internal monitoring programs often surfaces evidence regarding future FCPA violations. This makes it likely that an FCPA target will risk prosecution or investigation again.

Second, FCPA histories also inform market analysts' measures of reputational risk exposure. In Appendix B, we show that the average reputational risk score of a past FCPA target is about 28 percent greater than that of a comparable nontainted firm. This increase in risk emerges immediately after an FCPA action and persists over several years. Because of such long-term reputational effects, investors might deem firms with an FCPA history as more risky of future corruption. These considerations lead us to believe that investors use FCPA histories as a useful heuristic to gauge future corruption risk. Given the long-term effect of FCPA histories on repeated enforcement and reputational risk, contextual factors—such as how long ago the FCPA action happened—should not be more relevant heuristics than the involvement in an FCPA case itself.[25]

We suggest that financial markets welcomed Trump's executive order as a signal that corrupt business activities—such as the risky ones entertained by past FCPA

put firms at a disadvantage in foreign business competition likely depends on whether corruption operates as the exclusive means of accessing business in foreign countries (Crippa 2025; Perlman and Sykes 2017).

21. *Axios,* "Who Benefits from the White House Pause on Fighting Corruption," 12 February 2025 <https://www.axios.com/2025/02/12/trump-foreign-corrupt-practices-act>.

22. To illustrate the surprise that the shock generated, a humorous meme featuring *Star Wars*'s Obi-Wan Kenobi made its way around top law firms on the day of the announcement: "I felt a great disturbance in the Force, as if a million FCPA attorneys all cried out at once and were suddenly unemployed."

23. For a similar argument, see Crippa and Kalyanpur 2024.

24. Tomashevskiy 2021, 391.

25. We provide evidence to back up this claim in Appendix M.

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targets—would be less costly in the future because the order reduced the probability of bribery investigations, punishment, and fines.[26] That is:

H1: *Companies previously targeted by the FCPA will see improvement in their share prices after the executive order pausing FCPA implementation, compared to similarly situated firms at less risk of new corruption charges.*

Sample Construction and Data Collection

We expect stock market investors to interpret Donald Trump's unexpected suspension of FCPA enforcement as a sudden lifting of law-enforcement-related corruption costs for firms. If investors consider the FCPA costly for its expected enforcement costs, but less so for the burdens of regulation and legal compliance, investing in firms that likely engaged in corrupt activities should have become less risky, and more profitable, after the announcement. If, instead, the regulatory burden of the FCPA hampered the competitiveness of *all* foreign-operating firms, investment in all MNCs should have increased. This expectation can be empirically tested by considering whether stock symbols for firms "at risk of corruption" appreciated after the executive order relative to the rest. This would provide evidence that suspending FCPA enforcement reduced political risk for these firms by green-lighting corrupt behavior.

We start by identifying the firms that investors would consider at risk of corruption (and FCPA action). Measuring foreign bribery risk is complex because corruption occurs out of the sight of stock market investors. However, as we have mentioned, past FCPA enforcement actions or investigations are a valuable heuristic for investors to infer a firm's future corruption risk, due to the repeated exposure of past targets to future FCPA actions (Appendix A) and to the reputational risk induced by FCPA actions (Appendix B).[27] We obtained the exhaustive list of publicly traded firms that faced FCPA enforcement actions or investigations in the past from Stanford's FCPA Clearinghouse.[28] We manually corrected entries due to name and corporate-structure changes since the initial FCPA action.[29] Some firms were later renamed and changed their ticker symbols (for example, Norwegian oil company Statoil, formerly STO on the NYSE, is now Equinor, EQNR on the NYSE). Others underwent mergers and are

26. A counterargument to our expectation would highlight that the FCPA's statute of limitations is usually five years. That is, any halted FCPA action can still be enforced under a future US administration that would reverse Trump's executive order and restore FCPA enforcement. This is a reasonable argument, but we stress that, from the point of view of a financial investor, the Trump administration's dismissive approach to the FCPA still guarantees (at a minimum) four years of potential profits from investing in tainted companies. These are very long time horizons on equity markets, given that a stock market transaction—unlike a foreign direct investment—has virtually no sunk cost for a stock buyer, whose investment can be easily liquidated if FCPA enforcement priorities change in the future.

27. In our main analysis, we study firms that experienced an FCPA action or an FCPA investigation (followed by no enforcement) in the past, as investors might use both types of FCPA histories as heuristics for future corruption risk. In Appendix M, we show that results are similar when we distinguish between the two groups.

28. Stanford Law School 2025.

29. Appendix I demonstrates that our findings do not hinge on these corrections.

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now part of different corporate groups: Fiat is now part of Stellantis; Zimmer and Biomet, formerly independent (and traded as ZMH on the NYSE and BMET on the NASDAQ, respectively), are now Zimmer Biomet Holdings (ZBH on the NYSE). We kept firms in our sample that had been renamed or merged with other firms but were still publicly traded. However, we removed cases involving delisted, bankrupt, or defunct firms—such as Aegerion Pharmaceuticals, which merged with QLT in 2016 to form Novelion Therapeutics but filed for bankruptcy in 2019—or firms that have been acquired and are now entirely owned by other companies. Finally, we removed firms whose trading was suspended on US exchanges due to stock market regulations or geopolitical events—for example, trading of American depositary receipts (ADRs) of the Russian Mobile TeleSystems was suspended after the invasion of Ukraine in February 2022. The result is a list of 286 publicly traded firms that were involved in at least one FCPA action.

Our first sample is the 261 firms that traded securities on a US stock exchange and were targeted in a past FCPA case. From the list of 286 publicly traded targets with FCPA histories, this sample discards 24 firms that trade securities on foreign exchanges (as reported by Compustat).[30] We also discard one company trading penny stock (Corsa Coal).

We built a second sample of firms that were *not* involved in FCPA actions in the past, which our statistical analysis will use to discount the effect of Trump's FCPA executive order from general market trends. From Compustat, we gathered the Standard and Poor (S&P) 500 as of February 2025 (that is, the 500 largest companies by capitalization that trade on US markets). Excluding the 89 firms that were also involved in an FCPA action (and thus belong to the first sample of companies) brought the 500 down to 411.

Finally, we built a "placebo" sample of firms that are comparable to past FCPA targets but have never experienced an FCPA action. We use this portfolio to substantiate our claim that we are estimating the effect of the executive order on the political risk *of tainted firms*, as priced by investors, rather than a generic reduction of FCPA legal-compliance-related costs for similarly situated multinational firms. From the Compustat list of firms trading their securities on North American stock exchanges, we excluded past FCPA targets. From the remaining firms, we used propensity-score matching to select a portfolio of 236 firms that are as similar as possible to past FCPA targets, based on observable covariates.[31] Except for not having ever been involved in an FCPA action, this matched placebo sample is significantly similar to past FCPA targets in terms of foreign activity via subsidiaries, financials, and industry characteristics.[32] For instance, past FCPA targets and

30. We consider firms trading on the NYSE or the NASDAQ-NMS, or those trading ADRs over the counter.

31. In Appendix K, we show that results are similar when using other matching techniques.

32. We matched on the following covariates. For measuring the activity of the MNC via (foreign or US) subsidiaries: the number of countries of foreign operations; the number of US-based, non-US-based, and total subsidiaries. For financials: whether the firm is an S&P 500 constituent, the number of common outstanding shares, the average price at closing in December 2024, and the total asset value. We then matched on the exchange market (NYSE, NASDAQ, or over-the-counter). And we matched on the two-

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placebos operate, on average, in eighteen and nineteen foreign jurisdictions, respectively, and own fifty-eight and fifty-six foreign subsidiaries. They are also similar in terms of financials, with about USD 123 billion and USD 106 billion, respectively, in average assets. Finally, they are similar in terms of industry, equally representing all considered sectors, including those with high corruption exposure, such as mining, construction, heavy manufacturing, and pharmaceuticals.

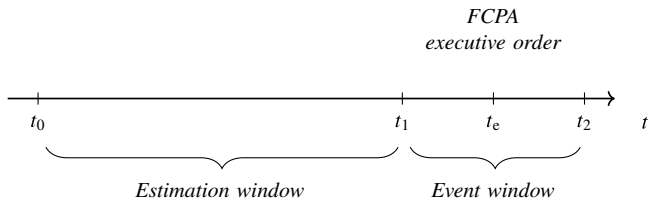

FIGURE 1. *Research design: estimation and event windows*

For each firm, we gathered stock prices at closing on each trading day from 3 June 2024 (180 trading days before Trump's order) to the end of the trading week of the announcement (14 February 2025). We use the price at closing on a trading day to compute our outcome variable of interest: RETURNS, defined as the percentage change in stock price at closing between two trading days.[33]

Research Design

We apply the standard two-window event study from corporate finance. Here, we describe our procedure for the sample of past FCPA targets, but we apply the same design to the matched placebo sample. The goal of the design is to estimate each firm's counterfactual RETURNS after Trump's FCPA executive order.[34] We compare observed and counterfactual RETURNS to estimate whether (and in what direction) the event affected risk as market participants priced it. To this aim, we divide RETURNS to each firm i into two time windows: an "estimation window" before the event and an "event window" after it (Figure 1). The estimation window spans the days $t \in [t_0, t_1)$; the event window covers the days $t \in [t_1, t_2]$ and includes Trump's FCPA order (t_e, 10 February 2025).

For each firm in our sample, we estimate counterfactual RETURNS in the event window using information from the estimation window, which entirely predates the

digit industry classification from the North American Industry Classification System. We describe and document the procedure in Appendix C.

33. We present summary statistics in Appendix E.

34. We explicitly refer to the predictions from market models as "counterfactuals" from the vantage point of a large literature in corporate finance and international business studies that uses the same causal terminology (e.g., Eden et al. 2022, 805). "Counterfactuals" obtained from market models are as precise (or more) as those that can be obtained with synthetic control or difference-in-differences methods (Castro-Iragorri 2019).

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event. Using data from $t \in [t_0, t_1)$, we estimate a model of daily RETURNS ("market model") for each firm in the sample of past FCPA targets, as a function of predictors ($\boldsymbol{X}$). Once a market model is estimated for each firm, we use it to predict firms' RETURNS over the *full* period in consideration, $t \in [t_0, t_2]$. Equations 1 and 2 represent these two steps. When looking at the estimation window—$t \in [t_0, t_1)$—the prediction is useful to assess the quality of our models (e.g., in terms of R^2). When stretched out-of-sample and into the event window—$t \in [t_1, t_2]$—this prediction offers RETURNS to a firm i that are counterfactual to the event, under the assumption that no other unrelated shock impacts only the subset of firms of interest.

$$\text{RETURNS}_{it} = \alpha_i + \boldsymbol{X}'_{\boldsymbol{it}}\boldsymbol{\beta_i} + \varepsilon_{it} \mid t_0 \leq t < t_1 \tag{1}$$

$$\widehat{\text{RETURNS}}_t = \hat{\alpha}_i + \boldsymbol{X}'_{\boldsymbol{it}}\widehat{\boldsymbol{\beta_i}} \mid t_0 \leq t \leq t_2 \tag{2}$$

Traditional applications use aggregated market indexes—such as the S&P 500 or the Dow Jones—to build a matrix $\boldsymbol{X}$. However, these indices themselves are composed of market movements of companies that might be impacted by Trump's FCPA announcement. For instance, eighty-nine (18 percent) of the firms in the S&P 500 composite index are themselves past FCPA targets. Therefore, using aggregate indices could bias counterfactual RETURNS. To overcome this, we follow the suggestion of Meredith Wilf.[35] We construct a matrix $\boldsymbol{X}$ using individual RETURNS to each of the 411 S&P 500 firms that have never been targets of an FCPA action. Using these 411 stock movements to construct counterfactuals allows us to discount broader market trends that affected traded companies in February 2025. Because our estimation has more predictors than observations (we have at most 180 trading days for each market model), we use the least absolute shrinkage and selection operator (LASSO)[36] to select which S&P 500 firms are the most predictive for each past FCPA target. LASSO excludes nonpredictive S&P 500 firms from each market model.[37] Effectively, for each past FCPA target, we generate a specific index that is the most predictive of stock RETURNS by weighing the S&P 500 constituents that yield the best fit in the estimation window.

When performing this estimation, we choose to employ LASSO (and the 411 individual firms' RETURNS as predictors) as opposed to estimating Equation 1 using ordinary least squares (OLS) and an aggregated market index (such as the S&P 500 composite). We arbitrarily choose the length of the estimation window $[t_0; t_1)$. Also, we choose an arbitrary number of LASSO cross-validation (CV) folds. We tested fifteen possible sets of market models resulting from all combinations of these arbitrary choices—we considered OLS and LASSO, estimation windows of 180, 90, or 30 days, and LASSO CV folds of 3, 5, 10, or 15—and selected the single combination that

35. Wilf 2016.
36. Tibshirani 1996.
37. LASSO associates a set of non-negative weights to each predictor and selects the single set of weights that maximizes the fit through cross-validation. This process generates 95 lambdas (penalty coefficients) that balance the bias–variance trade-off, and the algorithm chooses the lambda with the minimum mean cross-validated error. The optimal set of weights assigns zero weights to nonpredictive S&P 500 constituents.

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yields the best prediction (in terms of average R^2): the LASSO implemented on an estimation window starting thirty days and ending five days before the event, with 15-folds CV (average R^2 of these market models is 0.673 for past FCPA targets, 0.669 for matched placebos). In Appendix D, we fully describe our estimation results and show the R^2 distribution yielded by these fifteen combinations. In Appendix H we demonstrate that our results are robust to varying these arbitrary choices.

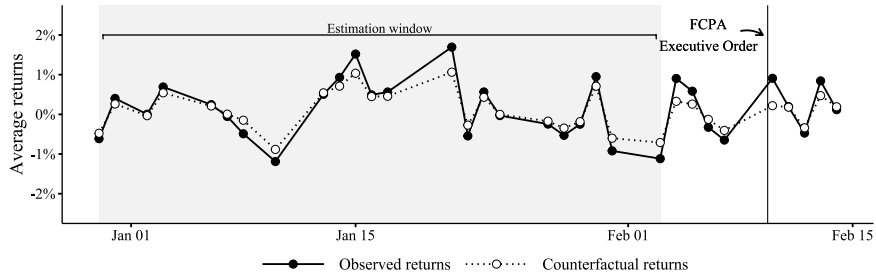

FIGURE 2. *Average observed and counterfactual* RETURNS *for past FCPA targets before and after Trump's suspension of FCPA enforcement*

Once LASSO market models are estimated, we focus on event-window data —$t \in [t_1, t_2]$—and obtain two measures for each firm: abnormal returns (AR) and cumulative abnormal returns (CAR), as shown in Equation 3. AR are daily differences between observed and expected RETURNS, representing the residuals between observations and counterfactuals. CAR are the running daily sum of AR for a firm after the event. They help assess whether a positive (negative) event effect accumulates to a significant gain (loss).

$$\begin{aligned} \mathrm{AR}_{it} &= \mathrm{returns}_{it} - \widehat{\mathrm{returns}}_{it} \quad | \; t_1 \leq t \leq t_2 \\ \mathrm{CAR}_{it} &= \sum_{\tau=t_1}^{t} \mathrm{AR}_{i\tau} \quad | \; t_e \leq t \leq t_2 \end{aligned} \tag{3}$$

The final step is to study the daily evolution of average AR and CAR. We do so by calculating event-window daily average AR and CAR and testing whether these averages are statistically distinguishable from zero. In Appendix J, we complement this approach with firm fixed-effect linear regressions and parametric and non-parametric tests proposed by the corporate finance literature. Across our statistical tests, we impose a level of significance of 0.05.

Results

We find that investors interpreted Trump's suspension of FCPA enforcement as a significant reduction in their risk of investing in companies likely entertaining corrupt behavior. Figure 2 reports average observed and counterfactual RETURNS for past FCPA targets in the estimation window (shaded gray area) and event window. In the

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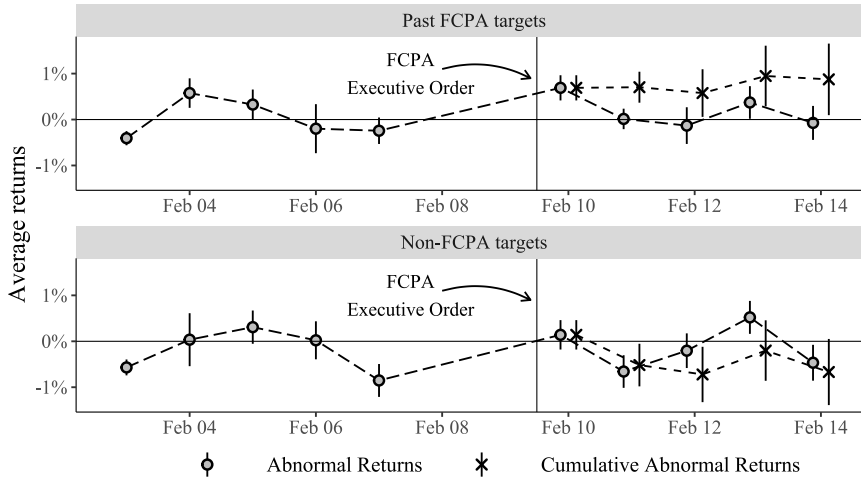
estimation window, our market models achieve a reasonable predictive power of 67 percent (see Appendix D), with counterfactual RETURNS closely following the observed trend. In the event window, and following Trump's executive order, past FCPA targets realized larger RETURNS than would be expected based on information from just a few days before.



Note: Full estimates in supplemental Table F.1. Vertical bars are 95% confidence intervals.

FIGURE 3. *Effects of Trump's suspension of FCPA enforcement on average AR and CAR of past FCPA targets and matched placebo firms never implicated in an FCPA case*

How substantial is the positive effect? To answer this question, we estimate the daily average AR and CAR. We present estimates for past FCPA targets—and 95 percent confidence intervals—in the top panel of Figure 3.[38] Before the executive order, past FCPA targets recorded returns that were abnormal and statistically significantly above market expectations on 4 February (0.576 percentage points) and 5 February (0.326). They, too, might be related to Trump's lenient approach to corporate corruption. On 4 February, Trump's appointee Pam Bondi took office as attorney general. The next day Bondi, formerly a lobbyist and generally seen as a supporter of corporate interests,[39] issued a memorandum mandating that the DOJ adjust its enforcement priorities (including of the FCPA) to focus on the "total elimination of cartels and transnational criminal organizations."[40] Investors might

38. Numeric estimates are reported in Appendix F.

39. *The Guardian*, "Who Is Pam Bondi, Trump's New Pick to Lead the US Justice Department?" 22 November 2024 <https://www.theguardian.com/us-news/2024/nov/21/who-is-pam-bondi-trump-pick-attorney-general>.

40. See Appendix N and *JD Supra*, "US DOJ Outlines New Enforcement Priorities for Corporations and Individuals," 19 February 2025 <https://www.jdsupra.com/legalnews/us-doj-outlines-new-enforcement-8279099/>.

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have interpreted this memo as an early deregulatory signal that the FCPA's original mandate was to be weakened, and decided to buy into former FCPA targets. We return to this possibility later.

After Trump's FCPA executive order of Monday, 10 February, previous FCPA targets closed their trading days with returns that were, on average, 0.69 percentage points above market expectations, a statistically significant difference. We calculate that this amounts to an increase in market capitalization for the average past FCPA target of about USD 160 million in just a single day,[41] which is comparable to the average FCPA monetary sanction (USD 150 million). Some firms, however, recorded capitalization gains on the order of (tens of) billions of dollars—sometimes larger than the largest FCPA fine ever imposed.[42] We report individual estimated effect sizes in Appendix G. When summed up, the portfolio of past FCPA targets recorded capitalization gains of USD 39 billion.[43]

How persistent were these gains? The effect on AR vanished by the day after the executive order (Figure 3), consistent with the "efficient market" presumption that new price-relevant information is quickly absorbed in a company's stock price.[44] Yet it cumulated to a substantively positive CAR (reaching a maximum of +0.948 percentage points) that is detected over the entire trading week. Event studies of this kind are not well suited to study long-term changes in prices, given that they model daily percentage changes. In Appendix L, we use two alternative designs that allow us to study changes in stock price over a much longer term: difference-in-differences and generalized synthetic controls. With both, we find a substantial and sustained increase in stock prices for past FCPA targets, following the executive order. With generalized synthetic controls, in particular, we can estimate an increase in market capitalization, for the average past FCPA target, of about USD 6.5 billion, detected even more than a month after the executive order.

Are we confident that such effects are specific to FCPA-tainted firms? Our research design already discounts broader market trends and shocks (at least to the extent that they affected the 411 S&P 500 firms we use to construct our counterfactual). To further probe the internal validity of our estimates, we turn to our placebo sample of 236 comparable firms that were not involved in a past FCPA action. We report average AR and CAR when replicating our procedure for this placebo sample in the lower panel of Figure 3. In this comparable portfolio of firms that were never FCPA targets, we detect an isolated positive effect after 4 February, suggesting that the Bondi memo might have provided

41. We compute the change in market capitalization for each firm by multiplying the number of outstanding shares per firm by the price at closing on the last trading day before the executive order and by the AR on the day of the event (divided by 100, as AR is expressed as a percentage). Next, we average the calculated change in capitalization.

42. For a top ten of FCPA sanctions, see <https://fcpa.stanford.edu/statistics-top-ten.html>.

43. Effects on AR are comparable to those estimated by political scientists in the context of other price-relevant events, such as the effect of favorable global climate negotiations for firms that are part of the European Union Emission Trading Scheme (+0.7 percentage points, see Genovese 2021); the distributional effect of domestic pro-climate rulings for renewable energy and fossil fuel firms (±0.5 percentage points, respectively, see Voeten 2025); or the effect of international banking regulations for financial companies (e.g., −0.8 percentage points, see Wilf 2016).

44. Malkiel 2003.

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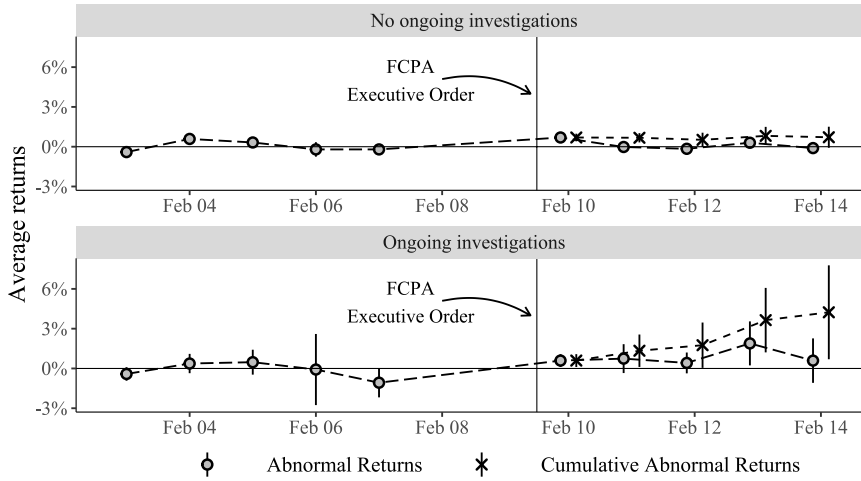
price-relevant information for this sample of firms, too, generating a pre-event effect that is not statistically different from that documented for the FCPA sample (see Table F.1, columns 5 and 6, for differences in effects). But we detect no effect of Trump's executive order on the placebo portfolio of firms, neither on AR nor on CAR, reassuring us of the internal validity of our findings.



Note: Full estimates in supplemental Table F.2. Vertical bars are 95% confidence intervals.

FIGURE 4. *Effects of Trump's suspension of FCPA enforcement on average AR and CAR of past FCPA Targets with ongoing investigation or not*

Next, we provide evidence that it was the firms at the highest risk of legal enforcement that experienced the largest abnormal returns. Firms with ongoing FCPA investigations were those that, directly before the executive order, were facing a stronger and immediate FCPA enforcement risk—as opposed to a potential future risk informed by past FCPA involvement. In Figure 4, we leverage this intuition and partition the sample of past FCPA targets by whether they were experiencing a disclosed ongoing FCPA investigation at the time of the executive order (12 firms) or not (249 firms). Despite the smaller sample size, we detect a stronger effect for the sample of firms experiencing an ongoing FCPA investigation, which cumulates to a 4.234-percentage-point increase at the end of the trading week—almost five times as large as the largest CAR effect documented in the full sample (Figure 3). Again, despite the small sample, this cumulative CAR effect is statistically significantly larger than that experienced by the past FCPA targets without a (disclosed) ongoing FCPA investigation (see supplemental Table F.2). This finding further confirms our argument. Investors took Trump's executive order as implying a lower enforcement risk for firms that were currently at the highest risk of anti-corruption legal enforcement actions.

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Robustness Tests

We perform several robustness tests. In Appendix H, we show similar results when changing the arbitrary choices adopted in our estimation phase (estimation window lengths, number of cross-validation folds, and the choice of LASSO over OLS). In Appendix I, we find similar results when excluding firms with poorly estimated counterfactuals; one firm at a time from the samples of past FCPA targets and placebo firms; the ten past FCPA targets who realized outlier-sized gains; firms trading ADRs over the counter; and past FCPA targets whose ownership history we manually reconstructed; and when we limit the sample of past FCPA targets to those that are matched to the placebo firms (that is, those for whom we have covariate information). In Appendix J, we show similar findings when adopting linear regression models with firm fixed effects, industry fixed effects, or other parametric and nonparametric tests proposed by corporate finance to account for event-induced changes in the variance of RETURNS. Appendix K demonstrates that we obtain comparable results if we select a placebo group of non-FCPA targets with matching techniques other than propensity scores (coarsened exact matching and entropy balancing). In Appendix L, we show that our findings do not even hinge on the chosen research design: we find similar effects with a difference-in-differences and with a generalized synthetic control method,[45] where we use matched placebo firms as a control group. Finally, in Appendix M we explore heterogeneous effects for the sample of past FCPA targets. We distinguish between whether the past FCPA targets were subject to an enforcement action or just to an investigation; we distinguish past FCPA targets based on whether they changed their names since the FCPA action; and we study how estimated effects varied based on the last time a firm experienced an FCPA action. We find no evidence of heterogeneous effects according to these features, a null effect which indicates that investors largely use FCPA histories, regardless of contextual factors, as a heuristic for future corruption risk.

We dedicate a set of final considerations to the significant effect detected on 4 and 5 February, in conjunction with Pam Bondi taking office and circulating a memo to DOJ employees redirecting enforcement priorities. We argue that this memo, although it provided price-relevant information to investors (hence the early effect detected for past FCPA targets and matched placebo firms on those days), did not clearly anticipate the decision to suspend FCPA enforcement in the upcoming executive order. The FCPA is the subject of only two paragraphs of the five-page memo, which rather aimed at reshaping all DOJ priorities (not just FCPA enforcement) to "pursue [the] *total elimination* of Cartels and Transnational Criminal Organizations (TCOs)" (emphasis in the original). In the paragraphs concerning the FCPA,[46] the memo never alludes to the possibility of halting enforcement. On the contrary, Bondi orders the DOJ to *expedite* enforcement of the FCPA for cases of bribery associated with cartels and TCOs, which would no longer

45. Y. Xu 2017.
46. We reproduce these verbatim in Appendix N.

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require authorization for investigation by the Criminal Division or the involvement of the Fraud Section. That is, the memo indicates a shift in priorities (from corporate crime in and of itself to corporate crime linked with TCOs) but does not suggest a halt to enforcement. The positive effect detected on those two days for both samples should thus be understood as a result of this broader deregulatory shift at the DOJ in conjunction with Bondi taking office, not as an anticipation of the suspension of FCPA enforcement. Confirming this interpretation, and in contrast to the effect of the FCPA halt, we detect a comparable positive effect for both past FCPA targets and untainted placebo firms on the day the memo was issued.

Conclusion

President Trump's executive order to pause enforcement of the FCPA disproportionally benefited tainted multinationals—those that had been targets of FCPA investigations or enforcement actions and were at the greatest risk of lapsing back into corrupt behaviors. The average benefit for these "at risk" firms was USD 160 million in increased capitalization, a value that matches the size of the average FCPA fine imposed thus far, and it happened in a single day. Taken together, the portfolio of past FCPA targets realized an abnormal gain in market capitalization of USD 39 billion that day. Additional long-term analyses (reported in Appendix L) identify an average capitalization gain of about USD 6.5 billion, detectable even a month after the executive order. Our results rule out the primary alternative explanation. If investors were reacting to the reduction in compliance costs for foreign business, as Trump suggested, we would not see a difference between the set of tainted multinationals and the placebo set of firms operating in similar industries with similar global reach.

These findings help answer a hotly debated question about corruption and the governance of global finance. Is corruption (and, more generally, foreign corporate misconduct) costly in and of itself, or is it costly because of anti-corruption enforcement? We find that investors may be willing to accept the inefficiencies inherent in "at risk" businesses if they believe that the penalties are minimal.[47]

While it was beyond the scope of this research note, an immediate next research step is to explore the heterogeneous impact of the pause in FCPA enforcement. Which types of firms saw the greatest benefits? Appendix G provides an ordered list of the fifty greatest beneficiaries of the executive order. Those with the largest abnormal returns appear to be in extraction, construction, transportation, and communications, which are widely believed to be the most corrupt industries in the world because of the necessity of acquiring local permissions and licenses, as well as their exposure to arbitrary regulations.[48] Investors may have sensed that these firms would now have a competitive advantage in permission and access. In addition, the firms that saw the largest gains in capitalization are truly global operators, such as Toyota, Walmart,

47. Banerjee, Gupta, and Krishnamurti 2022; Kaufmann and Vicente 2011.
48. *CNN Money*, "World's Most Corrupt Industries," 3 December 2014.

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Siemens, HSBC, and Exxon, with branches, subsidiaries, and outlets all over the world, including locations highly prone to corruption. In these cases, investors were likely responding to lower perceived costs of potential anti-corruption enforcement in their regular operations. At this stage, these patterns are impressionistic. Careful coding and testing are necessary to uncover how the firm-level heterogeneity relates to our larger story.

Our findings raise new questions for the international political economy literature. First, regarding the global anti-corruption regime, what will happen to international anti-corruption efforts like the OECD ABC, which was strongly advocated for by the United States with the purpose of expanding extraterritorial enforcement to the countries of major US partners and competitors?[49] Data from Crippa, Malesky, and Picci on the enforcement of anti-corruption laws by OECD ABC countries, reported in Appendix O, indicate the disproportionate role of the US in the anti-corruption regime: 59 percent of all worldwide anti-corruption cases prosecuted against companies between 2000 and 2018 have been filed by US authorities.[50] And 24 percent of them were US actions against non-US firms. In the past, such global anti-corruption efforts have even induced other countries to increase their own anti-corruption enforcement.[51] The new US action could spur a wave of retrenchment and reversals among other states, who might no longer see the benefits of constraining the actions of their MNCs.[52]

Second, what will be the impact on corruption in third-party states, particularly emerging markets, from the US withdrawal and the potential OECD ABC knock-on effects? Previous work saw a reduction in corrupt activity but also a reluctance among businesses from restricted states to invest in more corrupt countries and sectors.[53] Will we see a corresponding increase in corruption in third-party states that lack the capacity or political will to investigate and punish corruption within their borders?

Our results are also relevant for the international political economy scholarship on the governance of global capital. Scholars have documented both positive and negative consequences of multinational production and foreign direct investment for the advancement of social norms abroad, such as labor standards, environmental protection, and anti-corruption.[54] Research has attempted to disentangle the forms of global governance that best mitigate the adverse consequences of global finance and induce multinational firms' compliance with norms, probing instruments such as hard law, soft law, public–private partnerships, and market enforcement.[55] The latter mechanism, in particular, highlights that market actors (such as investors) can indirectly enforce global governance by financially sanctioning companies that stray from appropriate standards of behavior. As with the research gap in corruption

49. Abbott and Snidal 2002.
50. Crippa, Malesky, and Picci 2025.
51. Kaczmarek and Newman 2011.
52. Brewster 2017.
53. Crippa 2025; Cuervo-Cazurra 2008.
54. Positive: Malesky and Mosley 2018; Prakash and Potoski 2006. Negative: Christensen 2019; Malesky, Gueorguiev, and Jensen 2015; Pinto and Zhu 2016.
55. Findley, Nielson, and Sharman 2013; Jensen and Malesky 2018; Morse 2019; Thrall 2021.

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studies, however, it is unclear whether such an effect materializes because sanctioned behaviors are inherently costly and inefficient or because of the fear of legal repercussions.

We contribute to this debate by showing that, when the threat of legal consequences is removed, investors stop imposing financial sanctions on firms at risk of misbehavior (in fact, they appear to reward them), potentially undermining that deterrence. These results highlight the limits of governing global capital through financial pressures. In a context where governments (such as the current US administration) couple deregulation with anti-globalism, this yields dire predictions for the possibility of holding MNCs accountable for foreign misconduct. As in Trump's first term, when scholars were concerned that a retreat of the US from global economic governance could empower business interests,[56] we warn that rolling back corporate regulation can create dangerous market confidence in risky corporate activities. In times of vigorous law enforcement, regulation can direct market actors toward less risky and more socially desirable investments. Our results show that, when regulation is suspended, this benign steering of market behavior can fail, with investors potentially unwilling to sanction misconduct.

Finally, we contribute to work on the benefits that connected market actors can accrue from sharp changes in economic policies introduced by unconstrained leaders,[57] demonstrating their relevance in the second Trump administration. In a recent viral Substack post, political scientist Rory Truex described President Trump's inclination to use his office to reward himself and his supporters as "tinpot dictatorship."[58] Discussing the numerous recent changes in trade and financial policies, Truex speculated that anyone with inside knowledge of the timing of these announcements could make a fortune in the market. Our results provide tangible evidence of this possibility by showing the outsized gains earned by early investors in tainted companies after Trump's executive order.

Certainly, these are only a small subset of the questions and implications that will emerge from that action. The pause of FCPA enforcement has initiated the unwinding of an international political economy architecture that has existed for almost five decades. Governments, firms, and citizens are only now beginning to respond to the dramatic change in incentives that has been unleashed.

Supplementary Material

Supplementary material for this research note is available at <https://doi.org/10.1017/S0020818325100970>.

56. Johns, Pelc, and Wellhausen 2019.
57. Betz and Pond 2023; Faccio 2006; Fisman 2001; Fisman et al. 2012.
58. Rory Truex, "The Art of the Steal: Trump, Corruption, and Tinpot Dictatorship," *Civic Forum*, 9 March 2025 <https://rorytruex.substack.com/p/the-art-of-the-steal>. See also Olson 1993; Wintrobe 1990.

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Authors

Lorenzo Crippa is a Lecturer in Political Economy at the University of Strathclyde. He can be reached at l.crippa@strath.ac.uk.

Edmund J. Malesky is a Professor in Political Economy at Duke University and Scientific Director of the Green-X Center at VinUniversity. He can be reached at ejm5@duke.edu.

Lucio Picci is a Professor in Economics at the University of Bologna. He can be reached at lucio.picci@unibo.it.

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Corruption; enforcement; Foreign Corrupt Practices Act; FCPA; uncertainty; Donald Trump; cumulative returns; tainted firms

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