China – Compliance Risks and Solutions

China has become the second largest economy in the world due to its manufacturing expertise, superior logistics, lower labor costs, strong government support of business, including tax incentives, and lax oversight of environmentally risky practices. However, **writes Jeffrey Klink**, a former U.S. Department of Justice prosecutor and CEO of Klink & Co., organizations also are increasingly facing bigger and more complex risks in China.

“Vendor kickback schemes are endemic throughout China and only increasing. Theft of intellectual property remains a major issue for global businesses in China. Theft, embezzlement and fraud continue on as if no one is watching,” Klink says.

He discusses a case study about an American company that purchased a profitable Chinese manufacturing operation. Soon, however, the company began seeing increasing compliance issues regarding irregularities involving vendors and senior employees.

Klink & Co.’s investigation revealed, “Vendors, reportedly producing large quantities of goods for our client’s manufacturing needs, were located in alleyways, deserted buildings and residential apartments.” And many vendors were actually shell corporations based in off-shore banking locations.

He concludes his article with a seven-point list of takeaways of what the American company could have done differently.

Read the article.