Lucent case shines spotlight on murky business landscape

By Godwin Chellam

SHANGHAI, April 7 (Reuters) - The ouster of four Lucent <LU.N> executives in China for suspected bribery shines a spotlight on the murky business landscape of the world's sixth-largest economy, but analysts do not foresee widespread fallout.

Reports of commercial corruption abound in China -- part of a nationwide shame and blame campaign -- but a report implicating a foreign company is unusual.

Industry executives are awaiting details of the the affair, which began with a probe into Lucent Technologies Inc's Saudi operations but ultimately unearthed potential violations of a U.S. law that bars the payment of bribes overseas.

Analysts credited the company with taking strong action after an internal audit, but said it highlighted the uncertain business environment in which a growing number of foreign players operate.

"There are a lot of multinationals who take a rather laissez-faire view about bribery, kick-backs and corruption in China," said **Peter Humphrey**, head of a private risk management firm based in Shanghai.

"They take the view that this is part of the culture and part of society... This case will alert many other U.S. companies to keep a careful eye on this kind of thing."

Lucent removed its China operations president, chief operating officer, a marketing executive and a finance manager after finding "internal control deficiencies" involving the Foreign Corrupt Practices Act, the company said in a filing with the U.S. Securities and Exchange Commission.

Details of the potential violations were not disclosed, but the law bars U.S. citizens or their agents from making a payment to a foreign official to obtain or retain business.

While officially forbidden, the act of giving gifts is an age-old tradition in China, and could be construed as bribery. Suppliers also have been known to provide kick-backs to local or foreign companies to win preferential status, experts say.

"It's a slippery slope. The more experienced companies just don't do it. But there're always exceptions," said Bob Broadfoot of the Hong Kong-based Political and Risk Consultancy.

HIGH STAKES

It may be unclear how Lucent ran afoul of U.S. law, but China remains a key market for the once-proud U.S. giant, accounting for 11 percent of global revenues in 2003.

Murray Hill, New Jersey-based Lucent is one of the world's biggest telecoms gear makers along with France's Alcatel <CGEP.PA> and Canada's Nortel Networks <NT.N> <NT.TO>.

It has been in China since 1985, investing $2.5 billion to date and employing 3,000 people. It operates two high-tech Bell Labs and five R&D pods in centres such as Beijing, financial centre Shanghai and the coastal resort city of Qingdao.

The telecoms giant signed a $130 million deal with number two fixed-line operator China Netcom in March. Asked if more executives might leave the company over the affair, a spokesman said: "I don't believe so." He declined further comment.

This is not the first time Lucent has got into trouble in China. Two Lucent scientists and a third man were arrested in 2001, charged with stealing trade secrets for transfer to a state-owned Chinese company.

Experts say corruption is hardly a China-specific problem, citing high-profile cases of accounting fraud at Enron Corp <ENRNQ.PK> and Worldcom Inc <WCOEQ.PK><MCWEQ.PK>.

According to a survey of foreign businessmen released by Broadfoot's consultancy in March, China tied with Thailand and Malaysia as the fifth-most corrupt country in Asia this year.

"You think this kind of thing doesn't happen in the United States? It could happen anywhere," said CSFB economist Dong Tao. "You have to do the business but you also have to have some sort of internal controls."

Analysts say China has taken huge strides since the mid-1980s and early 1990s, when executives liked to refer to the "Wild West" business environment.