

# Multinational Corporations and the Nigerian Economy

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## Abstract

The paper seeks to examine the activities of Multinational corporations (MNCs) in Nigeria and how it has influenced the Nigerian economy. Specifically, it analyses how MNCs has served as agents of imperialism in any economy where they operate. Most economists believe that the MNCs are exploitative as natural resources found in developing countries such as in Nigeria meant for its development are not productively utilized due to de-capitalization of the economy in form of profit repatriation. It argues however that in spite of the negative activities of MNCs however, they contribute positively in the areas of technological development and creation of employment opportunities. The paper sorts out to examine the nature, objective and operations of MNCs in the Nigerian economy.

**Keywords:** Multinationals, Corporations, Effects

## Introduction

Over the years, Multinational corporations (MNCs) have been a source of controversy ever since the East India Company developed the British taste for tea and a Chinese taste for opium (Stopford, 1998). A typical multinational corporation (MNC) normally functions with a headquarters that is based in one country, while other facilities are based in locations in other countries. In some circles, a multinational corporation is referred to as a multinational enterprise (MNE) or a transnational corporation (TNC) (Tatum, 2010). They enter host countries in different ways and different strategies. Some enter by exporting their products to test the market and to find whether their existing products can gain sizeable market share. For such firms, they rely on export agents. These foreign sales branches or assembly operations are established to save transport costs because there is a limit to what foreign exports can achieve for a firm owing mainly to tariff barriers and quotas and also owing to logistics or cost of transportation. Most of the firms are encouraged by the low wage rates

and other environmental factors. To meet the growing demands in the foreign countries, the firm considers other options such as licensing or foreign direct investment which are critical steps. Some continue with export even when they have settled for the FDI option. Every step takes strategic planning and is motivated by profit through sales growth. The idea of multinational corporations has been around for centuries but in the second half of the twentieth century multinational corporations have become very important enterprises. Tatum (2010) proposes that multinationals operate in different structural models. The first and common model is for the multinational corporation positioning its executive headquarters in one nation, while production facilities are located in one or more other countries. This model often allows the company to take advantage of benefits of incorporating in a given locality, while also being able to produce goods and services in areas where the cost of production is lower (Ozoigbo and Chukuezi, 2011). The second structural model is for a MNC to base the parent company in one nation and operate subsidiaries in other countries around the world. With this model, just about all the functions of the parent are based in the country of origin. The subsidiaries more or less function independently, outside of a few basic ties to the parent. A third approach to the setup of an MNC involves the establishment of a headquarters in one country that oversees a diverse conglomeration that stretches to many different countries and industries (Tatum 2010; Robinson 1979). With this model, the MNC includes affiliates, subsidiaries and possibly even some facilities that report directly to the headquarters. Such direct investment means the extension of the managerial control across national boundaries (Gilpin, 1987). Rugman et al (1985), who prefer to use the name multinational enterprises, say that the concept of the MNE is that “the difference between Domestic Corporation and the MNE is that the latter operates across national boundaries”. While institutions are important for economic development, particularly in resource rich countries, the interaction between multinational corporations and host country institutions is not well understood (Wiig and Kolstad, 2010). There is a risk that multinational corporations facilitate patronage problems in resource rich countries, exacerbating the resource curse. Multinational corporations (MNCs) in service industries have given this sector's large and growing impact on the global economy (Goerzen and Makino, 2007). The Marxists view the emergence of the multinational corporations as a historically progressive aspect of capitalism in the process of developing, at international level (Gilpin 1987; Stopford 1988). In all these views both Marxist and non-Marxist, the common basis is productive activity in more than one social formation. Another point to be noted right away is that in a social formation there may be many multinationals with different nationalities and also many corporations of the same nationality. In a social formation where there are many MNCs from different nations, there are higher possibilities of conflicts than where they are mainly from the same country.

The nature or objective of MNCs is maximization of profit at the lowest possible cost. Actually it is this feature that gave rise to MNCs. So the idea of investing in foreign land is not to better the lot of the host nation but to exploit as much as is possible in order to develop the home country (Ozoigbo and Chukuezi, 2011). Presently multinational corporations have dominated discussion on political economy. Activities of the MNCs in Nigeria have generated a repulsive reaction from many economic theorists like (Onimode 1982). Onimode(1982) went ahead to regard MNCs as monsters that have consistently and systematically stultified economic development in various parts of the world. The merits as well as the demerits of

the MNCs in Nigeria, the consequences of economic exploitation of MNCs in Nigeria and suggest ways for restitution will be discussed.

The rest of the paper is structured as follows after the introduction. Section (II) examines Multinational Corporations (MNCs): Concept and Objective. Section (III) Discusses the Multinational Corporations as Agents of Imperialism. (IV) Discusses the Negative Impact of Multinational Corporations in Nigeria (V) Examines the Positive Effects of Multinational Corporations in Nigeria, while the last section is the conclusion.

### **Multinational Corporations (MNCs): Concept and Objective**

The term *multinational corporation* (MNC) can be defined and described from differing perspectives and on a number of various levels, including law, sociology, history, and strategy as well as from the perspectives of business ethics and society. Multinational corporations are companies which seek to operate strategically on a global scale. A multinational corporation is a company, firm or enterprise that operates worldwide with its headquarters in a metropolitan or developed country. Hill (2005) defines Multinational Enterprise as any business that has productive activities in two or more countries. Certain characteristics of Multinational Corporations should be identified at the start since they serve, in part, as their defining features. Often referred to as “multinational enterprises,” and in some early documents of the United Nations they are called “transnational organizations,” Multinational Corporations are usually very large corporate entities that while having their base of operations in one nation—the “home nation”—carry out and conduct business in at least one other, but usually many nations, in what are called the “host nations.” Multinational Corporations are usually very large entities having a global presence and reach (Kim, 2000). Multinational corporations (MNCs) can spur economic activities in developing countries and provide an opportunity to improve the qualities of life, economic growth, and regional and global commons (Litvin, 2002).

According to Gilpin (1987) ‘the principal objective of multinational corporations is to secure the least costly production of goods for world markets. This goal may be achieved through acquiring the most efficient locations for production facilities or obtaining taxation concession from host governments. This objective confirms the views of the Marxist who see the MNCs as progressive agents of capitalism. As a result of this capitalist motif, the MNCs try in every way possible to cut down expenses and maximize profit. As stated, the MNCs usually have their head office in one country with a cluster of subsidiaries in other countries and maintain a very high standard management outfit. This managerial expertise gives rise to maximum efficiency, that is, maximum result at minimum cost.

At the same time, they are often also accused of destructive activities such as damaging the environment, complicity in human rights abuses, and involvement in corruption. Whether these accusations are fair or not, many MNCs are now attempting to manage these complex set of issues in the host countries by implementing corporate social responsibility (CSR) strategies because such issues may risk the success of their operations.(Bulus & Ango,2012). It is not in the nature of the MNCs to solve social or economic problems of the host countries. Luis Echeveria, the former Mexican President had the belief and feeling that there is the need for transnational corporations to respect the social and

cultural fabric, as well as the development priorities of the countries in which they are investing (Robinson, 1979). This attitude of MNCs should encourage all those who are clamoring for the involvement of MNCs in activities that are not attuned to or in line with the activity of maximizing profits. They should begin by way of redefining and re-stating the meaning and nature of the MNCs to have the well-being of the host nation at heart.

The MNCs are very faithful to the capitalist principle and would do anything to resist the tendency to make them deviate from their age – long tenets. Rugman (1985) states that the MNCs tend to succeed always due to the financial muscles they exercise. In view of this development some governments believed that they had lost control over their national economy to MNEs. The balance of power between MNEs and national governments often appeared to be firmly, and unfairly, on the side of the MNEs. In view of this situation, the relationship between the multinational corporations and the host economies most of the times borders on love – hate relationship. The host governments feel cheated while the MNCs feel that they are doing the right thing. It can be held that from the onset, the MNCs have not been honest with the host country from their deceptive stand during the sealing of the contractual deal. Robinson 1979 puts it this way, that ‘the transfer of the surpluses is also made possible by the weak bargaining position of the host countries which compels them to provide a number of concessions to the multinationals which encourage the increased imports of the items assembled abroad. Within this framework, increased liberalization of trade or increased capital movements can only lead to an aggravation of the gap between the rich and the poor countries, as the latter will not be able to retain their “fair” share of the surplus generated. In all these, it can be said without fear of contradiction that absolute exploitation is intrinsic in the nature of the multinational corporations. Hence, they devise any possible means to sustain this objective.

However, CSR can be an ambiguous tactic because it is often unclear what a corporation can and cannot be held responsible for, particularly when weak governance and institutions are involved.

### **Multinational Corporations as Agents of Imperialism**

Industrial societies are changing at an unprecedented speed, influenced mainly by globalisation or rather by global interdependence. They are also influenced by technology, education, commerce, social networking and so on.

In the heart of these changes are businesses which have continued to grow unhindered even in the midst of all sorts of adversities. The more they grow the more they build immunity around them to prevent failures. As they grow, they acquired enormous political clout and power. They go into mergers and acquisition and some of those M&A are hostile. The influence of the big businesses is so pervasive that even if you don’t want them, you may find that sooner than later their products would find you. This is influenced by the convergence of ideologies, tastes, technologies, free and easy movement of people and capital, and international political cooperation. Young people nowadays identify more with products more than with countries. Coca-Cola products are in every nook and cranny of the planet. The same can be said of many other products such as Jeans, Nike, Red Bull, Power Horse, Levi and other designers’ dresses and fashion accessories. Apple products like computers, iPad, iPod, and so on are in high demand everywhere in the world. Sony play stations are equally in high

demand. Blackberry is all over and young people identify with all their series. HP, HP Compaq, Sony, Dell and Acer Computers and their components are all over the world and nobody really bothers where they are made any more and who really owns them.

This phenomenon brings rise to the growing belief that traditional nation state would inescapably lose influence over individuals. Consequently, the question being asked is whether globalisation would bring about the end to the traditional nation state as societies tend to use technology to connect with global partners and achieve goals once realised at the local level.

Historically MNCs are creations of wealthy countries. This has been the case, with the United Kingdom and United States in leading positions. While some regard MNCs as ruthless exploiters, others view them as benign engines of prosperity (Stopford 1998). During the era of colonial exploitation of Africa and the other third world countries, Europe featured prominently. Europe exploited African countries directly by way of physical presence in the form of civil administration while America exploited them indirectly through the activities of their MNCs. According to Gilpin 1987, the term multinational corporation for a long time was largely a euphemism for the foreign expansion of America's giant oligopolistic corporations. The point being made here is that America took the lead in this neo-colonialism in the form of MNCs. Other countries are also involved in this neo-colonialism. However during the last two or three decades of the last century, the American dominance was challenged. Hence, there existed and exists serious competition among the MNCs of many nations in almost all the world markets. In the last decades of the 20th century Japan has proved to be the country that gives America the greatest challenge. It has been observed and rightly too, that Japanese MNCs especially in the third world countries are merely for the purpose of getting raw materials or lower- cost components to the international markets. Therefore, it is very rare to see any Japanese MNCs venturing into manufacture investment abroad, that is, in the third world countries.

The main reason for holding the position that the MNCs are the vehicle of neo-colonialism arose from the fact of the type of relationship that exists between the MNCs and their home governments. Taking America as an instance, it has been observed that there is a complementarity of interest between the MNCs and the United States government. Therefore, the US policies have continued to encourage corporate expansion abroad and not only that but offered protection to them. An example of this is the stand of the American government any time there is conflict between the youths of the Niger- Delta and the oil companies of US nationality in Nigeria. The current kidnapping of oil workers by the youth of the Niger – Delta is a case at hand. Again, American multinationals have contributed in no small measures in stabilizing the US balance of payments special thanks to the fact that they are the major earners of foreign exchange to purchase goods and other economic utilities. (Ozoigbo and Chukuezi, 2011)

Equally important in this regard is that the multinationals are the most veritable mechanism to spread abroad the US ideologies especially that of free enterprises system. In all these, the home countries of the MNCs are doing indirectly what Europe did directly during the colonial period namely, the exploitation and the oppression of their periphery states by milking them of their all-important raw materials and transferring same to their respective

nations for economic development and thereby systematically under-developing the periphery states.

### **Negative Effect of Multinational Corporations in Nigeria**

The clash between multinationals and host countries has been most intense in the less developed economies. Individual critics and public officials have leveled vociferous charges against the policies of international corporations and their alleged negative consequences for the economic well-being and development of the host nations (Gilpin, 1987). In spite of the Nigerian Indigenization programme in the 1970's, the activities of the multinationals in Nigeria have sustained and intensified the contradictions of underdevelopment in many ways (Akor, 2001). This view prompted the reaction of Onimode (1982) and to conclude that there is more myth than reality in the developmental activities of the MNCs in Nigeria. He further stated that a thorough empirical analysis of the impact on the Nigerian economy and consciousness will reveal the following:

**i) - Profit Repatriation:** This theory argues that most of the capitals in the form of profits are not invested in the country but sent to the home countries of MNCs for investment, thereby rendering Nigeria industrially underdeveloped. The royalties or pittance paid to the government by these MNCs cannot because of its meagerness be employed into heavy industrial projects. In brief, the MNCs export abroad the capital that would have been used to develop Nigeria thus; the MNCs distort the economy and the economic development in Nigeria because the capital needed for development is no longer here in the country but abroad.

**ii) - Technological backwardness:** It is in the area that the MNCs are regarded as the worst culprits because it is in this section that the MNCs play their greatest trick imaginable. The MNCs by way of purporting to help industrialize Nigeria create a branch-plant economy of small inefficient firms incapable of propelling overall development. The local subsidiaries exist only as enclaves in the host economy rather than as engines of self-reliant growth. These corporations intentionally and deceitfully introduce inappropriate types of technologies that hinder indigenous technological developments. These MNCs employ capital intensive productive techniques that cause unemployment. All these prevent the emergence of domestic technologies. Before the advent of the MNCs, in Nigeria, there were so many assorted types of technologies all over the country, though they were of low scale type. The MNCs rather than help them grow knocks them off systematically through the introduction of more advanced technologies. The MNC both retain the control of the most advanced technology and do not transfer it to Nigeria or the rest of the developing economies at reasonable prices.

The negative impact of MNCs on Nigeria is most noticeable in this area of technology transfer. Ozoigbo and Chukuezi(2011) noted that there are four main reasons for this assertion;

**a)** Most of the imported technologies came under the industrial property system of restrictive patterns and license. This is a very sensitive barrier for Nigeria. The implication of this is that Nigerians cannot copy and internalize these technologies even if they have the capacity and willingness to do so because it is illegal for them to do so. Because of this, Nigeria has to make do with dependent development, which has several deleterious economic consequences.

**b)** The MNCs jealously guard the technological know-how of their technologies by way of refusing to make use of competent staff. The MNCs instead use mere technicians who are at the last rung of productive process and simply assemble together what they knew not how it was produced. By implication Nigerians cannot learn from the technicians the intricacies involved in the production of the material or product.

**c)** Another point of skillful deceit by the MNCs is the fact that where qualified and competent indigenous staff are to be exposed to the technological know-how of a type of production. Sometimes the type of technology they are exposed to is so sophisticated that they are mesmerized by it. In some cases, the high capital that may be needed simply embarrasses the nation in that they cannot afford it instead she prefers to forget about it.

**d)** The MNCs increase the mal-distribution of income in Nigeria and other less developed countries. The case of oil workers earning in a month what some federal civil servants earn in a year does not augur well with the development of the nation. This step creates a class-conscious society, which does not help development as such. Therefore, the type of technology that the MNCs imported into the country is the one that serves the few urban elite because only they have the resources to get at it while the generality of the populace continue to face stark underdevelopment.

**iii) - Structural Distortion:** The principle of industrialization in an open economy of the Nigerian government in relation to the MNCs has given the MNCs the freedom to choose their line of operations, the locations of their industry and other productive processes. The MNCs natural base is usually in urban centers of the Nigerian society like Lagos, Kaduna, Enugu and Port- Harcourt. The industries in these cities are mainly those of oil and consumer goods. This urban concentration of MNCs distorted the structure of the society by enhancing an uneven "development".

**iv) - Political Instability:** Because these corporations require a stable host government, which of course is sympathetic to capitalism, they try as much as possible to cause directly protect the existing government whenever a reactionary leader or group seems to take over the government. The MNCs try to maintain the status quo that is, dependent development which encourages the emergence of authoritarian regimes in the host country and go ahead to create alliances between international capitalist and domestic capitalist elite. This exploitative alliance is sustained by the intervention of the corporations' home governments in the internal affairs of the less developed countries. In this fashion foreign investment tends to make the host country politically dependent upon the metropolitan country (Gilpin, 1987).

It is on record that the MNCs kept President Mobutu of Zaire in power for so long because he was tutelage to them and with MNCs they sucked dry the economy of Zaire. The MNCs equally were responsible for the early exit and assassination of Patrice Lumumba because he would not allow their exploitative activities. The same story is true of Captain Thomas Sankara of Burkina Fasso and so many others. So the multinationals in the third world and Africa in particular have gained much from the political instability that exists here and there. Africa now has the greatest number of countries experiencing one kind of political crisis or the other. In all these, the wicked hands of the MNCs and their home governments are there very glaringly.

**v) - Cultural Degradation:** The adverse effects of the presence and operations of MNCs in Nigeria are also felt in the area of our cherished cultural heritage. Indeed, there are negative effects of foreign direct investment on the cultural and social well-being of Nigeria and other

fewer developing countries. The domineering presence of the MNCs in Nigeria is characterized as constituting a form of “cultural imperialism or *coco-cola ization* of the society” (Gilpin, 1987), through which Nigeria and indeed, the rest of the developing countries lose control over their culture and social development. These multinationals undermine the traditional values of the Nigerian society and introduce through its advertising and business practices new values and tastes inappropriate to the Nigeria nation. An instance of this is the introduction of foreign violent and crime-laden films and videos as well as pornographic materials into Nigeria. It has been rightly observed that these foreign values are not only bad in themselves but are detrimental to the development of the country because they create demands for luxury and other goods that do not meet the true needs of the common masses.

In considering the issue of the transfer of inappropriate technology, it has to be noted that Nigeria and other third world economies want not only the most advanced technologies but also labour-intensive technology, which will serve as appropriate technology, in order to maximize employment. Furthermore, the transfer of capital-intensive technology by the MNCs is beneficial to the less developing economies like Nigeria. This is true because what would have taken a lot of time doing, machines do better in a lesser time and thereby save costs. The charge of cultural imperialism, despite its veracity, has to be stated at the same time that the very process of economic growth or development itself is destructive of traditional values, since it necessarily involves the creation of new tastes and unaccustomed desires. MNCs are inherently exploitative. Stopford (1998) states that advocacy groups often portray multinationals as globetrotting sweatshop operators, indifferent polluters, and systematic tax evaders. Exploitation remains a problem. But how much of this is a function of business in general, rather than MNCs in particular? He claims that smaller, local firms often can be much more exploitative than foreigners. Multinationals typically pay at or above the going wage and provide superior training. But even if most MNCs are well intentioned, they suffer from a credibility gap.

Perhaps unwittingly, MNCs can fuel public concern by being culturally insensitive, not honoring promises made by their predecessors, and being inconsistent in other aspects of their "social contract" with local society. With regard to the environment, international big business is both the creator of pollution and the only resource available for its cleanup. The MNCs' record on pollution pales in comparison with those of many local businesses and state-owned enterprises. The issue of tax evasion continues to generate acrimonious debate, despite guidelines produced by the Organization for Economic Cooperation and Development. Multinational corporations protest that they pay their taxes responsibly. When many MNCs conclude that the host government had abandoned its favorable investment climate. They cut back on capital spending, closed some plants, and moved money offshore.

### **Positive Effects of Multinational Corporations in Nigeria**

Inspite of all the negative attributes about the activities of the MNCs in Nigeria and the rest of the third world countries, there are some elements of positive impact in the operations of the MNCs.

The benefits of multinational corporations to an economy are numerous. Nigeria would have been more developed than Malaysia, Indonesia and even Brazil if not for policy reversals and inconsistencies.

Multinational corporations transfer technologies, capital and the culture of entrepreneurship. They increase investment levels and income in the host countries; they promote improvement in their immediate environment; create access to high quality managerial skills; improve the balance of payment of host countries by increasing exports and decreasing imports; help to equalize the costs of factors of production. They stimulate domestic production and enhance efficiency and effectiveness in the production process; they stimulate positive responses from local operators.

Most of the well known Nigerian entrepreneurs started by working for the multinational corporations, where they acquired relevant skills and knowledge that gave them the impetus to launch out.

Multinational corporations also acquire raw materials with ease from any overseas source at competitive prices and can easily export components and finished goods for assembly or distribution in foreign markets. They create several other opportunities in the host country that create employment and improve living standards of the host communities.

Looking at the fortune of about 500 companies Nigeria, only very few play big in the Nigerian economy, although their products are sufficiently visible. Nigeria is a big consumer of the products and services of multinational and transnational corporations and deserves to host a good number of them at this stage of our development.

### **Conclusion**

MNCs are evidently in cognizance as regards to the contract that they signed is one sided and they are not worried because it is part of their nature to maximize profit. Therefore, they are very cautious and clever in dealing with the Nigerian government. MNCs have used the political elite in developing countries to seek to advance their global earnings and competitive advantages by offering bribes and other inducements to secure government contracts in Nigeria and to reduce legally allowed taxes and custom charges. The cases provide some insight into the politics of international business and entrepreneur culture and into the opportunities created by the advance of globalisation and the deeper institutional structures in developing countries which facilitate corrupt financial practices (Otusanya, Lauwo and Adeyeye,2012). Moreso, anytime the government wants increased tariffs and company taxes, MNCs will counter that move and at the same time try to make gains through the process of double accounting. MNCs are, first and foremost, creatures of their home countries. The home country always gets first priority whenever MNCs have to make hard choices: If faced with a downturn in the market, multinationals will close facilities abroad to protect those at home. The influence of a multinational can also be gauged by its effect on local suppliers as it creates new demand and sets new standards of quality. All these elements are part of a world where the local production of MNCs in overseas markets now greatly exceeds the sum of world trade. The resulting deep integration of national economies is growing so fast that any suggestion in developed economies that the domestic-policy agenda

can be isolated from the global economy seems antediluvian. Governments in some of these countries like Nigeria now find that they must contend with both host-and home-country influences in their negotiations with MNCs.

In principle, stricter penalties and sanctions have the potential to curb corrupt practices, but the prospect of these being introduced in Nigeria, as the evidence shows, is unlikely. More severe penalties should be imposed on directors of companies and threats of corporate closure should be entrenched in a global agenda against corruption.

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