



The Promises and Perils of Multinational Corporations: The Nigerian Experience

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Abstract: This article explores the concept of multinational corporations, their evolution, and impact on the developing economies with Nigeria in focus. Several theories of multinational enterprises were reviewed and how these theories, as well as the activities of the multinational firms, are related to the development of the Nigerian economy. Arguments put forward by different scholars were also discussed. Finally, it was recommended that for the Nigerian economy to develop, conscious actions have to be taken to move the economy from an import-dependent to an exporting economy.

Keywords: Multinational corporations, Nigerian economy, Economic development, Theories of multinational enterprise

1. Introduction

The growing importance of multinational corporations in the global economy, international trade policy formulation and implementation can no longer be ignored by scholars, management experts, consultants, and corporations. This has brought increasing attention on the perceived contributions of multinational corporations on the economic development of nations. As noted by Kumar (2015) in the current competitive level of the global economy, multinational corporations play an indispensable role especially in an emerging economy like Nigeria.

In a recent study, Osuagwu and Ezie (2013) submit that, despite the negativity associated with the operations of some multinational corporations in Nigeria, it has its positives as well. These positives come from the perceived contributions of multinational firms in the advancement of the country's technology, opening opportunities for sustained employment for the country's youthful population. In a similar line of argument, Kumar (2015) claims that "multinational companies (MNCs) play an important role in linking rich and poor economies and in transferring capital, knowledge, ideas and value systems across borders of different countries."

However, there have also been contestations as to the role of multinational corporations in the economic well-being of countries. Odunlami and Awolusi (2015) noted that Multinational corporations are exploitative, encourage capital flight and may pose threats to a country's laws and sovereignty. The controversies trailing the perceived benefits and/or damages of multinational enterprises in the world economy and in the Nigerian economy specifically, inform the need to explore the relationship between multinational corporations and economic development of the country. Therefore, this study is set to investigate the influence multinational corporations have on the economic development of Nigeria, based on existing literature.

2. Meaning and Evolution of Multinational Corporations

Multinational corporations comprise businesses operating or having business interests in more than one country, mostly headquartered in the parent country. There have been several definitions of the multinational enterprise, which are also known as transnational corporations (Kumar, 2015). Lazarus (2001) defines a multinational corporation as a "business organization whose activities are located in more than two countries". Similarly, Dunning (1992) defined a

multinational enterprise as "an enterprise that engages in foreign direct investment and owns or controls value-adding activities in more than one country". In a more recent publication, Kumar (2015) defined multinational corporations as "those large firms which are incorporated in one country but which own, control or manage production and distribution facilities in several countries." Therefore, multinational corporations are involved in the transactions of a large volume of businesses. According to Udoka (2015), multinational corporations are organizations which operate strategically on an international 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."

All the definitions cited above suggest different distinct characteristics of multinational enterprise. Lazarus pointed out that, for a corporation to qualify to be called multinational, it must have functional offices in at least two countries. While, Dunning suggested that, the organization must be involved in foreign direct investment and should be operating not just in its parent country. Kumar supported this view. However, he noted that they should have production facility or distribution channel in several countries. All the definitions seem to agree that, multinational corporations should be present in more than two countries.

The historical development of multinational companies in Nigeria can be traced as far back as the mid-nineteenth century however they started to gain a lot of attention in the middle of the 20th century. According to Ajayi and Omolekan (2013), the genealogy of multinational corporations in Nigeria can be traced as far back as the colonial dispensation. United African Company, then known as Nigerian Motors Ltd a subsidiary of the Royal Niger Company was established by the British government and involved in the extraction of raw mineral resources (e.g., ore, coal), exporting the raw mineral and in the merchandising of general goods in the 1930s.

With the discovery of oil in the Niger Delta in the 1950s, there was an influx of multinational corporations in the country. This was led by the Royal Deutch Company (Shell), the coming of these wealthy foreign companies into the country cannot be said to have not benefited the country as the multinational corporations have provided jobs to thousands of youths in the country (Ajayi and Omolekan, 2013). As suggested by Abdul-Gafaru (2006), multinational corporations help in the development of local manpower through the transfer of knowledge, experience, technology which may not be available locally. However, contemporary social, political and economic discussions are awash with unsavory tales about the activities of multinational corporations in the country. Some scholars, such as Onimode (1982) regard multinational corporations as "monsters that have consistently and systematically stultified economic development in various parts of the world." The deservingness viz-a-viz the demerits of multinational corporations in the economic development of the country is x-rayed in this work.

3. Theories of Multinational Corporations

Several theories have been expounded to enunciate the activities and roles of multinational corporations. Such theories include but not limited to: "Eclectic Paradigm General Theory of Multinational Enterprises" – (Dunning, 1979; 1980; 1988); "Internalization (Transaction Cost) Theory of MNEs" - (Buckley and Casson, 1976); "Product Cycle Theory" – (Vernon, 1966; 1979); "Hymer-Kindleberger Theory" – (Hymer, 1960; Kindleberger, 1984, 1989); "The Aliber Theory" (Aliber, 1970); "Location Theory of International Investment". However, in this work, three theories that have been shown to have relevance to the relationship between multinational corporations and the economic development of Nigeria will be reviewed. These are: "New Trade Theory" – (Krugman, 1970); "Unequal Exchange Theory" – (Emmanuel, 1972); and "Dependency Theory" – (Prebisch, 1950).

3.1 The New Trade Theory

The New Trade Theory was developed in the 1970s by the notable scholar Krugman Paul. The basic assumption of the new trade theory is that every country has a comparative advantage over other countries if the country constantly produces a particular product or is known for rendering a specific service.

The New Trade Theory (NTT) was a notable departure from the more popular neoclassical economic theory. Its cardinal departure point was hinged on the fact that countries can achieve competitive advantage by producing what they know how to produce and continuously gaining experience by producing same product over time (Sen, 2010). A related study by Eluca, Ndubuisi-Okolo, and Anekwe (2016) pointed out that "a critical factor in determining international patterns of trade is the very substantial economies of scale and network effect that can occur in key

industries. These economies of scale and network of effects can be so significant that they outweigh the more traditional theory of comparative advantage”.

However, concerns have been raised by scholars pertaining the workability of the new trade theory (Sen, 2005), specifically, as it concerns the effect of firm size and market structure of the country. New trade theory is also said to encourage monopoly in a market and may discourage international corporations from doing business in a country adopting it. Nevertheless, new trade theory recognizes the importance of “scale economies, imperfect markets, and product differentiation” (Bhattacharjea, 2004; Sen, 2010).

3.2 Dependency Theory

The dependency theory was developed by Prebisch and his colleagues, at the United Nations Economic Commission for Latin America in the 1950s, who believed that economic advancement in the industrialized nations did not result in economic growth in the less industrialized business partners. In their research, they discovered that there was an inverse relationship between the economic growth of the western countries and their less developed partner countries. As noted by Ferraro (1996), Prebisch's position negates the neoclassical theory, which theorized that the economic advancement of one country is advantageous to all countries (this is known as "Pareto optimal"), though the reward may not be symmetrically distributed.

Prebisch's work compendiously captured the relationship between the developed countries and their poorer partners. This condition of the relationship was aptly Ferraro (1996) as "poor countries exported primary commodities to the rich countries which then manufactured products out of those commodities and sold them back to the poorer countries. The value added by manufacturing a usable product always cost more than the primary products used to create those products. Therefore, poorer countries would never be earning enough from their export earnings to pay for their imports". The dependency was defined by Sunkel (1969) as "as an explanation of the economic development of a statement regarding the external influences - political, economic, and cultural - on national development policies". Similarly, Dos Santos (1971) submitted that, dependency is a circumstance "which shapes a certain structure of the world economy such that it favours some countries to the detriment of others and limits the development possibilities of the subordinate economics", a condition which the economy of some countries is patterned by the advancement of a different country. That is, the development of one leads to the under-development of another. The dependency theory sophists presuppose that there is no possibility of economic autonomy for a dependent state since they are continuously being underdeveloped by their more industrialized partners. The theorists are of the view that the less developed states should formulate and implement policies that will lead to less importation of goods, while still selling their products on the international market, this will help preserve their foreign exchange.

3.3 Unequal Exchange Theory

The continuous underdevelopment of third world countries by the Western countries motivated Emmanuel Arghiri to proposed the unequal exchange theory in 1972. According to Houston and Paus (1987), Emmanuel's unequal theory precisely describe "the proportion between equilibrium prices that is established through the equalization of profits between regions in which the rate of surplus value is institutionally different. Since the differences in rates of surplus value are the direct result of wage differentials, inequality of wages as such, all other things being equal, is alone the cause of the inequality of exchange".

Though there has much criticism of Emmanuel's hypothesis that "unequal exchange" is accountable for the underdevelopment of the third world countries (e.g., Gibson, 1980; Foot and Webber, 1983; Houston and Paus, 1987). Houston and Paus (1987) recommended a total abandonment of this theory since they proposed that the idea of equal exchange is not achievable and that unequal exchange cannot be used to explain disproportionate development among partner nations. However, in recent studies (e.g., Eluka, et al., 2016), this theory has been used to explain the underdevelopment of dependent countries. As in the case of Nigeria where the county exports its crude oil and other natural resources at a very cheap rate to the multinational companies who took it out to refine and sell the refined products back to the country at exorbitant prices.

All the theories discussed shared common fundamental characteristics that the development of one country is at the expense of another. Therefore, all countries especially the fewer development states should strive to be self-sufficient

in its basic and endeavor to export more goods than they import. The applicability and relevance of these theories to the Nigerian situation are discussed in the following paragraphs.

4. Multinational Corporations and Economic Development in Nigeria

Since the independence of Nigeria in 1960 from its colonial masters (England), the country has witnessed a 'zig-zag' like kind of development. The country is still ranked as a developing country despite its enormous natural endowments; and her contemporaries (e.g., India, Singapore) having advanced their economies to enviable levels. The underdevelopment of the country, it is largely claimed, is partly caused by the exploitative nature of multinational firms operating in the country (e.g., Irogbe, 2013; Eluka et al., 2016). Irogbe (2013) authoritatively puts it that "MNCs, whose goal is the maximization of profits, are not philanthropic institutions and they serve the interests of no one but themselves." This opinion captures the whole essence of the negativity associated with multinational corporations in Nigeria. Likewise, Eluka et al. (2016) state that multinational corporations are "in the habit of employing expatriates to fill in the key positions. That is why they adopt the ethnocentric model of staff selection where expatriates are given preference regarding recruitment and selection. This is inimical to the economic growth and development".

However, some authors have differing opinions. They maintained that multinational corporations help in the creation of working opportunities for the host country citizens (Tirimba and Macharia, 2014). They also proposed that multinationals alleviate the technological know-how of the host country through the transfer of knowledge from the expatriate workers to the local employees. Similarly, defenders of multinationals opined that multinational corporations act as engines of development to their host communities (Roach, 2007). Multinational firms are believed to enhance growth and development of their host countries and reduce the reliance on export goods which leads to higher level of competitiveness of the host countries' economies, resulting in efficiency and self-sufficiency in the long-run (Bakare, 2010; Odunlami and Awolusi, 2015).

5. Conclusion and Policy Recommendations

There have been several arguments that multinational corporations contribute enormously to the underdevelopment of developing such as Nigeria. However, the review above shows that most developing countries also derive some gains from the presence of multinational companies in their domain. Drawing strength from the dependency theory, Nigeria been a dependent state, stands no chance of development unless conscious steps are taken to move the country from being a dependent state to a producing state.

Therefore, it is recommended that:

- Steps should be taken to encourage local manufacturers through the provision of a conducive operating environment for them to operate and compete favorably with foreign counterparts.
- Basic amenities/social infrastructure such as roads, electricity, pipe-borne water should be put in place in order to reduce the cost of doing business in Nigeria.
- There should be tax waivers for young local producers.
- The government should also help in the provision of start-up capital for fresh graduates who are willing to venture into manufacturing.

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