THE ROLE OF MULTINATIONAL CORPORATIONS IN GLOBAL ECONOMIC PRACTICE: LITERATURE REVIEW

Kehinde Segun Isaac, Covenant University
Ayodotun Ibidunni, Covenant University
Oladele J. Kehinde, Covenant University
Daniel Ufua, Covenant University
Kehinde Busola Elizabeth, Covenant University
Dorothy Oyo-Ita, Covenant University
Chima Menyelim Mathias, Covenant University

ABSTRACT

It’s been known that the activities of various multinational companies drive economic globalization to a very large extent. This research work enumerates some facts in terms of their dominant role in all phases of globalization. Therefore, the importance of multinational cooperation’s in foreign direct investment and foreign production is examined likewise their contributions and impact to the international transfer of technology and knowledge to foreign trade. This study made use of articles, scholarly journals, and textbooks in reviewing the multiple activities of MNC in relation to their growth, national economic development, policy issues and technology transfers. From the studied literatures, we found out that MNCs have made great contributions to global economic growth and development, though it may vary, as the extent or level of technology transfer and internalization all remain a mirage, while other MNCs are known to be involved in various unethical business activities that darkens their corporate image. It sheds more light on the opinion that MNCs are important, as they are the conveyors of globalization. Moreover, to further attract foreign investors, countries should to their own part in strengthen and broadening their economic and political policies to help facilitate effectiveness and efficiency in order to further attract FDI inflow. In addition this study also brought to light some of the links, benefits and relationship between the MNCs and global economic development, and this would enable policy makers to discuss on valuable contributions to bring to the negotiating table.

Keywords: Technology Transfer; International Sourcing; FDI; MNC; Globalization; Economic Practice.

INTRODUCTION

Multinational enterprises (MNE) are enterprises that are involved in foreign direct investment, which is simplified as investments in which an organization acquires a substantial or equitable controlling interest in a foreign Company or sets up a domestic subsidiary in a foreign nation. The terms MNE and FDI will be used concurrently, as FDI, are by definition bound to MNCs.
Multinational enterprises have become increasingly important when it comes to international economic integration. In recent decades, FDI has been on the rise at a rapid rate that exceeds both the rate of income and that of growth of international trade.

A typical MNE functions normally with its headquarters or (HQ) based in one nation that is home Nation, while other branches are located in other countries. In other related fields, a MNC is basically a transnational corporation or a multinational enterprise (Tatum, 2010). Today, many nations depend heavily on foreign capital, especially FDI. It's been the driving force for economic development as most economies have become interdependent. Hill (2005) explains MNE as any enterprise that has multiple production activities or networks in multiple foreign countries. They move into host nations in various ways and use multiple strategies. They sometimes come into countries through exporting their goods or services to first examine the market complexity and then to find out if their own existing or original goods can gain an equitable market share. For those Companies, they have to rely majorly on export agents. All of These foreign assembly operations are established in order to save transportation cost to the fact that there is a limit to what foreign export is able to achieve for a company owing mostly to tariff quotas and barriers and to cost of transportation or logistics. In order to contain the increasing demands in those foreign Nations, the company then considers a variety of options one of which is licensing or FDI which is a very critical step. Unfortunately, there has been little research that aids in the understanding of such policies.

There is an ongoing debate that certain sectors can easily secure greater levels of protection for themselves than other industries. Thanks to the merits associated with them, elected governments make economic and political and decisions to provide stable environments when it comes to marketing and investment needs of the multinationals. Consequently, MNCs are able to exact influence and sometimes control domestic policy outcomes of host Nations especially those of the developing nations, by making threats to move jobs elsewhere (Abdul-Gafaru, 2006). Other literature examines the trends in outsourcing to foreign corporations or to affiliate corporate entities abroad. Moving jobs to low-cost nation’s act as a driver and simultaneously the resulting outcome of globalization. The major objective of MNCs is profit maximization at lowest cost. This in Actual sense was what brought about MNCs. So the business ideology of investing in foreign territory was never to better a host nation but to exploit it as much as possible in order to bring about more development to the home country (Ozoigbo & Chukuezi, 2011).

Using perspectives of information technology, a show of weakness in the protection of intellectual property in most developing nations is what prevented both up and down stream transfer of technology and its activities. Likewise the unauthorized use of proprietary knowledge causes fears and is majorly what prevents foreign enterprises from being involved in technology transfer practices with multiple local firms. Iyela (2009) stated that corruption brings about an increase in cost of doing business therefore foreign investors would be attracted to investing in Nations with decreased rate of corrupt practices which would result into investments profits. There is also the risk that MNCs are a facilitator to patronage problems in resource endowed developing nations, worsening the resource curse. The Marxists opinion on the rise of the MNCs is seen as an historical progressive aspect of capitalism. It was noted that the insecurity issues which has led to cases of hostage taking, kidnappings and deaths of innocent people is what naturally discourages foreign investment. Instead companies will have a preference for nations with peaceful and stable investment territories (Osuagwu & Obumneke, 2013). Another basic objective of MNCs is to secure the least production cost of goods for the global markets. Concurrently, MNCs are often
accused of destructive practices such as pollution, environmental damage, human rights abuses, and corruption practices. Be these cases fair or not, many MNCs now attempt to contain these offense able set of problems in the host nations through the implementation of CSR strategies being that such issues may risk the continuous success of their business (Hashimu & Ango, 2012).

MNCs are to known to contribute to over 64% of non-governmental jobs in host Nations. (Tirimba & Macharia, 2014). In the past decade MNCs had millions of employees working in developing Nations and were literally responsible for hundreds of millions jobs created indirectly (Quinlivan, 2005). Historically MNCs are what creates wealthy Nations. This has been evident, with the United States and United Kingdom in leading positions, and other countries and like Japan, and EU countries following closely. In modern day it can be seen in Arab Nations like Saudi Arabia, Qatar, and Kuwait etc. Using the US as an example, it can be said that there exist a uniformity of interest between the MNCs and the US government. In order words policies of the US encourages enterprise expansion into foreign territories and also offer protection to them.

The role of MNCs is basically to channel financial and physical wealth or capital to Nations with declining capital and infrastructural shortages. As a result of this, wealth is then created which produces employment. In addition to this, newer streams of tax revenues emerge from MNCs, enabling developing nations to invest in their infrastructures, provide better security to life and property, strengthen human capital etc. According to the UN, by improving capital flows efficiency, MNCs can help to reduce world poverty, and can also provide positive externality. Nations are therefore encouraged to cooperate and seek peaceful resolutions to internal and external conflicts (Quinlivan, 2005).

Generally, MNCs can help to improve economic activities in the developing Nations and can also provide opportunities that helps improve the standards of living, and promote economic growth. The purpose of this study is to examine the importance and roles that the MNCs play when it comes to global economic practices, and strategies they implemented to cope and adapt with the trends of the business world.

THE ROLE OF MULTINATIONAL FIRMS IN INTERNATIONAL TRADE: THE CASE OF JAPAN

This research work made an enquiry on three questions: First "Do MNCs play a dominant role in Japanese trade?" If so, Secondly "Do companies dominate in global trade before becoming MNCs?" Or rather, Thirdly "Do companies expand in international trade and then dominate global trade upon becoming MNCs. Concerning the first, United Nations Conference on Trade and Development (UNCTAD), indicated that MNCs "accounted for two to three-quarters in terms of global exports, and over one-third of global exports are mostly between companies affiliated with one another". Such fascinating findings can shed light on the impact of MNCs in global trade, but they cannot still be treated as definite. This is probably due to the fact that exports of the US accounts for about 17% of global exports. In relation to the last two questions, multiple researches have investigated the relationship that exists between FDI and exports at the company level and discovered a positive relationship existed. This research work investigates the impact of MNCs in global trade making us of data gotten from companies in Japan between the year 1994 and 2000. It was discovered that MNCs were a minority set of Companies, but nevertheless, they dominated trade in Japan. For example, in the year 2000, about 12% of companies in Japan were categorized as MNCs, but they only accounted for around 92% and 80% of all Japanese imports and exports.
Moreover, around 80 percent of MNCs were either importers or exporters while about 81% of domestic Companies were neither importers nor exporters. Over the years, MNCs rise amongst the ranks of importers/exporters. MNCs dominate global trade, due to the fact that they were large importers or exporters before they became MNCs. Furthermore, MNCs expanded their exports upon becoming a multinationals firm. That is, MNCs emerged from being importers or exporters.

The research demonstrated that exporters decided on becoming MNCs via making foreign investment. The results suggested that MNCs were engaged in FDI and exporting concurrently, and this finding raised the question on the truth of many academic researches that assumed companies choose either FDI or exports. These findings implied that Companies don't choose to either undertaking FDI or exporting, contrary to other findings. Rather, exporters made the decision to undertake FDI. The company's FDI decision should be defined in such a way that a company can be involved both in FDI and export at the same time.

**THE STRUCTURE OF NIGERIA’S MANUFACTURING SECTOR COMPOSITION**

This paper aimed at reassessing and underlining the roles of MNCs in the new paradigm of international economic governance. This study was more of a theoretical approach, with more of its emphasis on its outcome/results and more research in future. The economic crisis of recent exposed the weaknesses and shortages of cooperation in world economy and only diplomatic resolutions led to the implementation of urgent solutions. Moreover, as the world economy seemed to be out of global recession for now, at least in few Nations of the world, countries have begun to focus on social and fiscal policies in an attempt to overshadow the raging effects of the global crisis, and the need to improve global economic governance and cooperation relationships seem to be on a decline.

Challenges and changes in recent international economic governance are wildly diverse and rapidly change on the global arena. The major challenge of MNCs and the role they play in world economy is located in the international economic governance approach. Furthermore, it is seen as utopian at first and regarded as egotistically ambitious in its attempt towards redefining the global system.

**GLOBALIZATION AND MULTINATIONAL CORPORATIONS: THE NIGERIAN BUSINESS ENVIRONMENT IN PERSPECTIVE**

In recent decades, economists and scholars have fought wars of semantics in order to examine what globalization defines itself to be, and what it's clearly not, who gains the most from globalization and who isn't. It is seen as a discus of tidal controversies, and it is seeming that there would be no consensus on the concept. The global arena is converging politically, socially, and focusing on this research study, "economically". The policies (domestic and international alike) of multiple governments have pushed towards globalization, from China and India opening up their economy to the world to Arab countries embracing trends of globalization. Hence, it is placed on an emphasis on the unique importance or role of political globalization. More so, the fate of this interdependence is said that the economic failures or successes of a country may an inverse positive or negative effect on others. This can be seen in the current 2019 US-China trade war, another could be seen in the 2019 terrorist attack on Saudi Aramco’s oil plant that had a global impact on world oil supply and oil prices.
The critical views on the subject of globalization are becoming much politicized, making the crucial issues seem blurred. More attention must be made on the purpose and beneficial importance of globalization to all. Regular evaluations must be done to examine in real terms the accomplishments and impacts when it comes to sailing the boat of globalization. As MNCs will obviously continue to seek newer undeveloped markets across all national territories in order to attain the basic goal of maximizing profit for its shareholders. Furthermore, the major issue stakeholders would face would therefore be to ensure and synergize the viability and potential of the business ecosystem for both MNCs and other local companies.

ROLE OF MULTINATIONAL CORPORATIONS IN THE INDIAN ECONOMY

The MNCs in recent years have a changing impact on the global economic eco-system. MNCs are a strong force especially in the global economic arena. When it comes to international finance and trade, the MNCs have begun to show enormous power. For instance the Tata group's show of political influence in the Indian economy. In the 1970s, the MNCs were responsible for around one eighth of all global trades. It's been calculated that trading activities within the MNCs (intra-company trade), accounted for around one third of the global trade. If we were to sum up these figure, of the estimated total trade and exchange that is carried out between multinational firms and various other unrelated companies, then the multinational corporation would be involved in about two- thirds of total trade. Since the sources of FDI and foreign capital are mostly from MNCs, they've been permitted to freely do business in India, but are subjected to a few government laws (Kanchan, 2016).

Some of the important reasons for the change in policy towards MNC include, increase in government revenue, increase in employment opportunities, mass production of goods and services, good international relations amongst others. This study discovered that MNCs impacted national and local policies by causing countries to complete with one another in order to become attractive to the MNCs so investment would be made in their country. This can be seen when multiple states in the US and countries battled amongst each other for Amazon to locate its second headquarters in their state or country. Amazon was offering to create over 50 thousand new jobs, increase wages in the region etc. Secondly, in a host nation, the existing administration will most likely offer multiple incentives such as subsidies, and tax cuts, reduced tariffs etc. in order to entice investment offers in their country or state. Similar to the Amazon case as multiple states in the US were offering tax breaks of over $3 billion dollars, another state offered for Amazon not to pay tax for few years, others offered tax cuts with subsidies for the future employees of the company.

Today MNCs are integrated in a complex manner as they are highly dependent on intense forms of communication and their behavior is more of proactive and rather than that of reactive. Similarly, they're faced with increased competition primarily from online companies that are gradually expanding their share of the market. For instance Amazon taking on Walmart in the US and Alibaba was taking on eBay in China. A potentially successful strategy would be based on the additional value each product generates, on its way towards making an impact on the industry, and also on the maturity stage of the market, so as to enable the firm to secure a very dominating and profitable market share. The study further concludes by stating that capital inflow of Multinational enterprises may be permitted on certain levels or sectors of the economy but definitely not at the very cost of the national security and national interest.

MULTINATIONAL CORPORATIONS AND THE NIGERIAN ECONOMY
The major objective of every multinational enterprise is basically profit maximization at least obtainable cost. This in actual sense was the feature that brought about the emergence of MNCs in the first place. So the basic concept in foreign country investing was never to cause improvement or development to the host country but to exploit and extract a lot of resources from them just to develop their own home nation (transfer back the revenue, or finished goods back to home nations) (Ozoigbo & Chukuezi, 2011). These could be seen in the late 90s and early 2000s when the bulk of technology were produced in Asian countries due to low factors of production then shipped to the west and Europe, yet citizens in the host countries couldn't afford the technologies that they produced with their hands. This research work tries to understand and investigate the activities of MNCs in Nigeria and how it has helped to influence and Impact the Nigerian economy. This study analyzed how MNCs acted as stewards of imperialism in the various economies they've operated. Several activities of the multinationals in the country has generated negative reaction from several economic theorists. Researchers went on further to regard MNCs as monsters that have systematically and consistently choked economic growth in various countries of the world. Most researchers have an understanding that multinationals are very exploitative, as the bulk of natural resources and minerals discovered in underdeveloped nations which were meant for its national development are not been effectively utilized partially due to de-capitalization of the national economy in the form of profit repatriation. The end goal of MNCs is to secure the least production costs of goods for the global markets. For instance Apple Inc makes it's phone in China, and the cost of making an iPhoneX for instance is around $300 plus, but it's been sold for as much as $800 and sometimes over a $1,000, and the profit is sent back to the home country which is the US. No wonder Apple Inc has a cash pile of over $250 billion dollars in it's reserve. This objective can be achieved by acquiring or moving manufacturing to the most cost efficient territories for manufacturing or for obtaining tax reliefs and tax breaks from the host nations. This principle confirms with the Marxist view that see the multinationals as agents of capitalism. The multinationals try in all possible ways to cut down or reduce expenses to its minimum and maximize its profit. The multinationals most often have their HQ in a nation with multiple domiciliary branches in other nations and then maintains an experienced management outfit. Some of the negative effect of multinational corporations in Nigeria discovered in the course of this study includes:

**Profit Repatriation**

There is an argument that most of the generated profits are not directly invested back into the host country but are diverted to the home nations of the Multinationals, thereby leaving the Nigeria economy industrially underdeveloped. For instance companies like Jumia, MTN; DSTV operates majorly in Nigeria but has its headquarters in Europe, South Africa and other foreign countries.

**Political Instability**

Due to the fact that these companies require a stable host country before they invest in, they try to protect the existing or current administration when a reactionary leader takes over government. For instance during the second tenure of obasanjo/atiku administration, it was notes that MNCs made sizeable donations towards the administration to keep the party in office so as to obtain favorable government contracts. These Multinationals try as much as possible to maintain
the status quo. Other negative effect include; structural distortion, technology backwardness, cultural degradation etc.

The benefits of MNCs to any economy are diverse. For instance the Nigerian economy would have seen more developments than other countries such as Indonesia, Malaysia, turkey and even Brazil yes Brazil, had it been not for policy inconsistencies and reversals. MNCs transfer capital, technology, and entrepreneurship culture, where ever they find themselves. They increase income and investment in the host nations, they develop quality managerial skills, they also improve the balance of payment BOP of host Nations decreasing importation and increasing exportation. They also stimulate grassroots production and enhance effectiveness and efficiency in the manufacturing and production process. Also, it is well noted that an array of the well-known Nigerian entrepreneurs and businessmen of today started out by working for these MNCs, where they acquired various managerial, technical skills and knowledge that propelled them to launch out on their own.

Studies have shown that multinationals have employed the services of the political elite in developing nations and an attempt to increase their return on investment potential and gain market edge by giving of bribes and various lucrative incentives to secure government favor when it comes to contracts in the country and to minimize or hide taxes and custom duties. It is worthy to note that MNCs are, first and foremost, business entities of their home Nations. The home nation would always most definitely get first priority whenever multinationals need to take hard decisions. If at all faced with a market downturn, MNCs will without doubt close facilities in host countries so as to protect those located in home countries. This study further it argues that despite the negative practices of multinationals, they however make huge and valuable positive contributions especially when it comes to employment opportunities, development and creation of technology, increase in living standard, etc.

MULTINATIONAL CORPORATIONS AND ECONOMIC DEVELOPMENT IN NIGERIA

MNCs are those firms having branches in multiple Foreign Nations. They’re most times subjects to quick changes in global monetary price rates, duties, tariffs, trade restrictions, and of recent trade wars. A host of the well performing MNCs have launched manufacturing locations where labor is cheapest, and ensures low cost and flexible transportation cost for shipping to their markets. For instance conglomerates like Toyota, Apple have multiple facilities in foreign countries; meanwhile others like Sony rely on outsourcing production to cheaper contractors. It has been discovered that weak governance, zero accountability, poor leadership, and practices of corruption has slowly developed into a problems in the country. This, according to various literatures, has prevented government officials from paying attention to the need to invest in human capital development, which in return builds the skill and knowledge that the workers get via various training, experience and most importantly education. The goal of the research was to examine the extent to which MNCs spurred economic development in Nigeria. This work made used articles, journals, and textbooks all in an attempt to review the activities of MNCs in relation to the economic development of the country, all in relation to technological transfer, growth and development, and issues related to policy. From the study, we found out that MNCs have made positive contributions towards Nigeria's economic development. Though it varies, as the depth of technology transfer and internalization still remain a mirage, and at the same time, some of the
multinationals are still largely involved in unethical business activities that demonize their corporate image and that of the country.

MNCs transfer technology; they create employment and job opportunities for the citizens of host countries, and improve living standards. Concurrently nationals of the host nations who worked for and underwent training by foreign companies acquire the skills and adaptive knowledge they obtained when working for these multinationals to launch their very own companies. Thanks to the presence of FDI in host Nations, they have experienced unparalleled increase in BOP, and increase in capital and financial resources. In addition, the Nigerian federal government has been able to widen their tax portfolio through the income streams generated by the MNCs. Taxes paid by multinationals has been allocated towards developing infrastructures, improve security, and boost up the country's economy. This study discovered that there was a gap in technology from multinationals in the country, and seems to be expanding despite the increase in inflows of FDI into the Nigerian economy. Moreover, there exist an urgent desire to enhance the learning capacities of the local establishments in Nigeria, through the adoption and implementation of strategic foreign direct investment, and effective technology transfer policies that would in return help to safeguard any negative effect of a diminishing foreign direct investment inflow from the multinationals. The researcher further stated that in order to attract more FDI, the government should do more to broaden and strengthen its policies to help foster better effectiveness of costs by reducing tariffs imposed on imported inputs, likewise it should improve and upgrade the telecommunications, and transportations industries and also invest in infrastructures, so as to attract FDI inflow away from the newly industrialized and developed economies. The researcher further concluded by stating that since this paper brought to light some of the linkages, relationship and benefits between MNCs and economic development, this study may give policy makers and scholars helpful findings to table down on the negotiating table.

DISCUSSION

This paper examined the role of MNCs in global economic practices. Trade, using the data gotten from the multiple literature, it can be said that multinationals emerge as a result of being involved in exporting of commodities or goods and services. In simple words, and potential MNCs are usually large exporters/importers.

Our findings are very well in line with evidences obtained through novel research studies that view MNCs as engines of economic and national development. It also maintain that MNCs contribute huge resources and capital that are normally not available in host country or its availability is insufficient, they are; technology, capital, marketing and managerial skills, job creation, reduce poverty levels, fix balance of payment, improve living standards etc (Chukwuemeka et al., 2011). MNCs have been prosecuted for offering bribes, and incentives and alleged corrupt activities so as to secure competitive edge.

Our study suggests that MNCs increase their operations in host nations, as they help to drive progressive economy. More MMCs should be created rather than downsizing them as it would help nations with very low living standards, and help create gainful employment opportunities to its citizens. Also, Taxes paid by multinationals can been used to build and improve infrastructures and boost the national economy. Likewise multinationals bring in foreign currency which would be beneficial in the foreign exchange market. When we narrowed down our study to the manufacturing and production sector, we discovered that The influence of a MNCs can be
gauged based on the effects it has on the local suppliers, as it creates fresh demand and sets new quality standards.

CONCLUSION RESEARCH IMPLICATIONS FOR POLICY MAKERS

Drawing from the insights of examined literature, it is crucial for the policy and decisions makers to understand that, contrary to expectations, foreign direct investments may not always lead to national growth, rather, it may increase both economic and markets risks. Taking all these insights altogether first and foremost, entities of their home Nations. The home Nation would always most definitely get first priority whenever Multinationals need to take hard decisions. If at all faced with a market downturn, MNCs will without doubt close facilities in host countries so as to protect those located in home countries.

We recommend a coordinated, flexible and systematic approach that would be focused on developing the subsidiaries of the MNCs. Our study suggests that it is more realistic for the government of a host nation to concentrate its efforts on upgrading existing subsidiaries and also to encourage local manufacturers and producers to become multinationals, so as to reap the fruits of their labor. And also laws must be put in place so as to discourage corrupt practices, and polices must be put in place to encourage inflow of FDI and also protect local in strategic industries. In principle, stricter sanctions and penalties have the hammering potential to curb corrupt activities.

Furthermore, this study brought to light the major linkages, relationship and benefits between MNCs and global economic development. The study may also assist policy makers and scholars helpful findings to table down on the negotiating table. Moreover, it should be noted that each individual nation irrespective of region, language or culture would require a different mix or combination of policies depending on its institutional and technological profile. This approach is in principle more of a theoretical one, with emphasis on it's results and may open up avenues for future research.

ACKNOWLEDGEMENT

The Authors of this study would love to acknowledge the management of Covenant University and the office of Covenant University center for research innovation and Discovery (CUCRID), for their motivation and support in sponsoring the publication of this study.

REFERENCES


