The Role of MNC's in the development of developing Countries?

By

Eborka, Nkechi Faith
Department of History and international Studies, Faculty of Arts
Nnamdi Azikiwe University

Abstract

Multinational corporations are those corporations that have operations in their home country and at least one foreign nation. These corporations have dominated the economic sphere for many years, especially the developing world who lack the required skills and capital to carry out some complex operations. The activities of these corporations have been the subject of debate for quite some time, while it is generally agreed that they are important to the economy of the developing countries, the activities of these corporations have been a constant debate among scholars and laymen alike. While some agree that the presence of multinationals are a true blessing to the developing nations because of the many advantages they offer, other disagree stating that the multinationals are not only exploitative but their continued presence on the continent is detrimental to the growth of these developing countries. This paper will therefore attempt to look at the activities of the multinational companies in these developing countries using Africa as a study, but most importantly, it will look at how the activities have aided the development or degradation of the developing countries.

Introduction

The world we live in today is stratified. This division is economic. On one side, we have the developed countries that consist of the European countries who were involved in colonizing (Ikime, 2018) most of the countries that are today referred to as the developing countries. For some reason, this part of the world experienced the Industrial Revolution (Izuegbu, 2004) before others and were ahead of them in the area of technology and science, Europe in her bid to consolidate on this experience of growth and innovation colonized the rest of the world in the early 19th century until the 20th century, when the various people began to demand and gain independence from colonial rule. (Momoh, 1985).

With the decolonization of the various people (Iyoha & Itsede, 2003) came the need to exert some form of control over them, this was necessary if they were to continue to reap the gains that came from controlling the affairs of these poorer states, their mode of operation in all of these states was the same, one of which was that multinational corporations were formed, through which they continued the exploration services that were hitherto carried out during the colonial era. Today, there are hundreds of these multinational corporations scattered all over the world. Engaged in different activities from exploration, mining to production.

A common feature in the economic sphere of most developing countries is the presence of multi-national corporations. These corporations are sometimes referred to as transnational corporations. Multi-national Corporations have been defined in different ways by different scholars. Britannica have defined multi-national corporations (MNC) as any corporation that is registered and operates in more than one country at a time. Generally, the corporation has its headquarters in one country and operates wholly or partially owned subsidiaries in other countries.

The International Labor Organization (ILO) has defined the MNC as a Corporation that has its management headquarters in one country known as the home country and operates outlets in several other countries known as the "Host countries"(Greeshma,). Multi-national Corporations generates at least 25% of their revenue outside of their home country.

From the foregoing, it is clear that a basic feature of multinational corporations is their ability to maintain productions at the same time in different countries. This feature grants it a number of advantages over others. It is little wonder therefore that all over the world, big Corporations keep expanding their operations to other countries, especially, the developing countries, who are known to possess a good number of desirable natural resources but are unable to fully utilize these to bring about development and better living conditions for their citizens.

History of Multinational Corporations

History has it that the first multinational corporations that were formed were set up to build colonial factories or port cities (Gelderblom, 2013)

It is worthy to note that the first corporation to have expanded massively into other lands that it was given the name "multinational Corporation was the Dutch East India Company" Some writers claim that the history of multinational corporations started with

the history of colonialism, these companies were given the task of carrying out trade between the home country and the colonies. An example of these were the Swedish Africa Company, Hudson Bay Company, British East India Company and others (Royle, 2011) Following agitations for independence and the general decolonization of the affected people, some of these colonial charter companies were dissolved, this may have given rise to the formation of multinational corporations, to fill the mining of gold, silver, coper and oil. (Micklethwait, 2003)

Today, there are a number of Multinational Corporations scattered all over the world. Some of the notable names include: Apple, Microsoft, Mc, Donald's, and Coca-Cola, Toyota, Amazon, Shell, Chevron, Amazon and others

Features of Multi-National Corporations

1. Highly Centralized- A basic feature of multi-national corporations is that they are highly centralized in their mode of operation. Ideally, the Home Countries coordinates and super sees the affairs of the host country. This structure gives it a uniform mode of operation all over the countries where they are domiciled.

2. They are usually very large and Powerful Organizations- For a company to maintain presence and operation in a number of countries, such company must have a large following and tough management procedures and personnel's.

3. Advanced methods of Operation- A key feature of multinational companies is that these companies aims at minimizing the cost of production to the barest level, while at the same time, they aim to maximize profit. To do these they employ the best production techniques that help them avoid unnecessary waste thereby maximizing output.

4. Payment of Taxes- Multinational are expected to pay taxes in the countries where they operate. These taxes are charged according to the nature and size of the business.

Roles of Multinational Corporations play in Developing Countries

There are certain roles that Multinational Corporations perform in the countries where they operate. These obligations are supposed to improve the lot of the citizens. These roles include but are not limited to:

1. They Encourage Exports- Maybe this is the most important role that multinationals play. They promote the exchange of goods and services across different borders. With their wide network and extensive links, they are very efficient in the discharge of this service.

Multinationals are very efficient in the production of low-cost goods that sells rapidly in poorer countries, whose desire for a more conspicuous lifestyle is readily met by these huge corporations. A good example will be the case of China, whose industries have continued to churn out numerous goods from its numerous multinational companies on a daily basis, these products have flooded the international market globally, especially the undeveloped nations.

2. Transfer of Technology- Quite naturally, multinational companies possess more knowledge in the production and distributions process than most companies in developing nations. This is so because most multinational companies are more experienced than others, having been in operation for a longer time and are located in more technologically advanced countries.

The transfer of these advanced technology to the developing countries help them increase the quality and speed of their production. Apart from introducing the developing to better technologies that can greatly improve their production system, they also invest some time in teaching these people how to make use of the newly acquired technology.

3. Provision of Employment- A major challenge that plagues most developing countries is that there are very few jobs to go round the ever-growing population. This is because there are very industries being cited in these places. The Urban areas are over-populated with school levers in search of skilled labor, on the other hand, there is still a lacuna waiting to be filled with unskilled labor.

The presence of multinational companies can cure a percentage of this problem. They do this by employing some of the indigenes to work in their establishment. In fact this is one of the prerequisite that an MNC must fulfill before it is granted permission to establish operations in the home country. It is believed that MNC account for about one-fifth of all paid employment in non-agricultural sectors of the developing countries economy

Provision of Infrastructure: A fact that even the worst critics of multinational companies cannot deny is that this companies provide infrastructure that are beneficial to the host country. Some of these include the provision of roads. Rails, structures and others.

While it has often been argued that these are just for the promotion of production and the export of both raw materials and finished goods in and out f the home country. The fact remains that these infrastructure, once provided remain the sole preserve of the host country. These can be used to meet other needs and services.

Perhaps. This is one of the greatest roles that multinationals can play to fast track the development of these developing countries.

Advantages of Multinational Companies to Developing Countries

Considering the continued existence of these multinationals over the years in various countries, there must be some advantages that these companies have over others. What remains to be seen is how these advantages they graciously offer have transformed the lives of the many underdeveloped countries they operate at.

- Multinationals possess advanced skills and technologies in both the production and mining process, that when applied to production are capable of improving the trade flows in a country. With the increase in trade flows will also come an increase in the standard of living of the people. This is one of the reasons that MNC are favored in developing countries.

  Increased trade flows can greatly reduce the over reliance of these developing countries on the more advance nations for aid, which is believed to be responsible for the weakened economy of these nations. Some of these nations rely on foreign aid for the provision of over 40% of their budget.

  According to Galilee (2019), the current level of trade for Europe is at 60%. North America experiences a 40% level of trade, while the Southeast Nations achieve 30%, the current level of trade for African nations according to this statistics is 12%. If this is so, multinationals may be able to boost this ratings to at least 50% or more of trade of these nations.
- Multinationals are famous for their ability to reduce the production cost of the goods and services they provide in the various countries where they are located. This is because their wide reach allows them the rare opportunity to source for the best raw materials and the best labor providers all at an affordable cost. With these, they are able to provide goods at a minimized cost than other companies would (Prasanna, 2022)
- Better Welfare for their Members and the provision of Employment- hitherto, that is before the challenge of colonialism (Hubner, 2022) most African countries were engaged in the agricultural sector, even after independence it is believed that over 70% percent of the population are still engaged in this profession, as opposed to like 5% in the developed nations, it is the multinationals that can boost this statistics in these developing countries and also pay better wages.

  It has been observed that unlike the local companies MNCs pay better wages than the local companies in developing countries. This is so because they intend to attract the best hands from the indigenes, who may not otherwise work for them

without these beautiful packages. MNCs also pay taxes to the government of the host country. This helps in the development of the economy.

- Innovation- on an average percentage, the average multinational corporation spends about 5 to 10% of its annual budget on innovation research, an example is the apple, Samsung among others. Innovation is a great part of the multinationals operation. This is because most large corporations face a stiff opposition from larger corporations also. To keep afloat and maintain the continued patronage of their customers, they are constantly inventing ways that they can be above, this leads to more innovation in the area of manufacturing and production of goods. Only the production of useful goods can guarantee their continued existence in the global market place.
- High-Quality Products- while this remains debatable, it may be true that multinationals are known for their production of goods high in quality. The argument ofr this is that they have at their disposal better technological know-how, professional staff and management officials, better equipment and more capital. Armed with these, it is natural that the multinationals should produce goods that are higher in quality than the local companies. But, if the multinational use these advantages to produce goods with a higher quality remains largely unknown, for the most part, it has been observed that multinationals are more interested in maximizing their profit.
- They provide an inflow of Capital-Many developing countries rely on the cash inflow from the developed world to sustain their economies. Most multinationals have their headquarters in the developed countries through the training of the locals in their training centers, building of world class factories, providing educational facilities so that these home factories can provide goods with the same quality as those in the home country (Gaille, 2019)
- Provide Infrastructure to the Local Companies- before production can begin, some level of infrastructure needs to be in place, and some of these include roads, bridges and others. With the presence of multinationals in a developing country, these begin to spring up at different parts of the country, making it easier for the staff of such corporations to move from one place to another in a bid to perform their duties. According to Galilee (2019) the Coca-Cola Company is spending $30 billion during its 2020 Vision development program to double its revenues as more people transition to the Middle Class
- Heterogeneity of the Local Economy- it is no news that many developing economies apart from relying on the provisions of subsistence agriculture are reliant on the sale of primary products for their survival. They are mostly unable to convert these into many other forms that can be satisfactorily used in the

economy. With the emergence of multinationals in the economy, more products are introduced into the economy for the locals to choose from and enjoy, what is more, they can also be involved in the production process of these products.

- They also give the consumers a consistent quality level. The centralized nature of the multinational companies that is operated from the home office ensures that the products that are churned out from their various outlets bears the same quality levels, they are not subject to unnecessary fluctuations. This may be one of the strong points of multinationals that has endeared it to numerous customers. An example is Domino's, McDonald, Walmart, Shoprite and others. Even if the structures and services rendered may be slightly different, the value proposition of these companies remain the same across various nations.

Disadvantages of Multinational Corporations Organizations to Developing Countries

1. Importation of Skilled Labor- it is no news that multinational corporations make use of both skilled and unskilled labor in the operation of their industries, often, these multinationals prefer to bring in the skilled laborers from the home country. Perhaps, they believe more in the expertise of these skilled workers from the developed countries. However, the case the fact that most of the manufacturing process is carried out by these skilled workers is worrisome and counter-productive to the developing countries which graciously host these companies.

It is true that the amount of time needed to train a highly-skilled individual may take a number of months or years, many multinationals intend to start production immediately. For this reason, they would bring in skilled hands from other economies. The error in this is that the wage paid to these skilled hands are spent overseas instead of the home country. This capital flight is bad for the economy of these African states.

2. Environmental Pollution- the activities of these multinational have been known to cause some environmental hazards like the pollution of rivers (Tamuno, 2011). Leading to the gradual loss of their landscape of the home country, a good example is the activities of oil companies like Shell and Chevron and the many hazards that their exploration activities have on the locals in the communities (Ikime, 2018).

One reason why these multi nationals favor the developing countries is that maybe due to corruption or poor legislation, their laws are very porous and allow for a number of activities that will be frowned at in the more developed world. So that while the governments are focused on the profits accrued from the business with the multinationals, they turn a blind eye to the environmental harm that is being caused.

Some poor African countries also trade in waste because they earn revenue from the disposal or recycling of these waste. They also employ the services of the locals in scavenging for these waste from very unsanitary environments. These agents of waste collection are probably unaware of the dangers that these jobs offer due to a high level of illiteracy and poverty.

3. They maintain the unbalanced International Division of Labor System- for quite some time, since the colonial era and after it, Africa and other developing countries have supplied the international market with cheap raw materials to feed her numerous industries. The finished products are then sold to the African nations at exorbitant rate. Thereby perpetuating the poor state of these already disadvantaged nations.

Many multinational companies are attracted to these countries where they can get cheap raw materials for their industries. Some of these companies do not bother with the provision of some infrastructure like good roads and bridges that can help improve the economies of these African Countries. This attitude and the unbalanced nature of the trade between the African countries and the developed world have left the 3rd world nations in a deplorable state.

4. Capital flight- perhaps the greatest challenge that the African nations face with the relationship is how they can be convinced to spend their profits in the country. Even those multinational companies that graciously provide the developing nations with some basic infrastructure, they still export the surplus made from the host country to their home country. This is not injected back in to the economy o the host country.

5. Monopoly of the Market- A great way that the multinational companies try to dictate the economies of the African markets. This is because they are better equipped and more knowledgeable in the production process. This makes it possible for them to sell goods at a lower price than the average local producer who may have to source for the materials needed for production from more expensive vendors.

These monopoly of the markets have sometimes led to the closure of the businesses of the local vendors leaving the market at the mercy and dictates of the multinationals, who in turn proceed to maximize their profits at the expense of the host country.

It is true that multinational companies have been greatly demonized by both observers and professional, one of the reasons why the multi-nationals have a negative reputation despite the many positive development they bring to the host country is that the history of

multi-national companies is linked with the start of colonialism. Some of the first multinational corporations were used by the then European monarchs to conduct international expeditions. Some of these companies include the East India Company, Hudson Bay Company, Swedish African Companies and others (Chen, 2022).

Another reason, may be that the activities of these multinational companies have been closely linked to the theories of neocolonialism, which is defined by Britannica (2013) as the control of less developed countries by developed countries through indirect means. By this, it is believed that the developed countries use the multinationals as tools in their attempt to perpetrate their colonizing activity of the continent. So that even though the nations have gained independence, they are not able to grow economically because their overdependence on the foreign powers who do all they can to keep them at the bottom of the development chain, giving rise to restlessness and acute poverty in these African nations.

As a concluding note, it is safe to say that while the multinational companies have brought some gains to the economy of the African nations, the welfare of Africans have not improved as a result of their activities, so much that, Africa as at today is in a state of decline and woe. One then begins to doubt the sincerity behind the activities of these big players, who instead of helping the African states achieve modernization, the reverse is the case. According to the Marxist dependency theory, if states must rise above the disadvantages they suffer as a result of the activities of the multinationals, they must oppose not only the internal structures of dependency, but also the imperialist world order and this will call for the development of national, continental and global strategies. (Martins, 2021)

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