

## **Multinational Enterprises As Power Enclaves: Evidence From Developing Countries**

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**Abstract:** *This paper focuses on the ascendancy of Multinational Corporations and how they wield their powers in developing countries. Whereas protagonists of Multinational Corporations see them as drivers of economic boom, critics content that they spell doom to developing nations. Thus, the paper dissects corporate power along the dimensions of (i) Industry Concentration Ratios, (ii) Corporate Economic weight, (iii) Control over Labor Unions, (iv) Corporate Tax and Subsidy, (v) Political Influence, and (vi) The Power of International Mobility. Evidence shows that, despite the negative outcomes as a result of the presence of multinationals, developing countries do not have any other choice than to embrace these corporate immigrants. Far reaching recommendations are made that are not only aimed at creating synergy between developing countries and MNCs, but will also foster a harmonious environment for global commerce and trade.*

**Key words:** *Multinational Corporations, Power Enclaves, Developing Countries*

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### **I. Introduction**

Multinational Corporations (otherwise known as Multinational Enterprises, Transnational Corporations or Global Enterprises) are known to improve the socio-economic indices of developing countries in the areas of increased capital inflow, provision of employment, transfer of technology and improvement of skills, as well as infrastructural cum economic growth. According to Worasinchai and Bechina (2010), MNCs are agents of globalization which increase Foreign Direct Investment of host countries, thereby having a desirable ripple effect on political and structural stability. Worasinchai and Bechina (2010) further submitted that, apart from job creation and stimulation of economic growth, “the infiltration of MNCs in developing countries has a potential to augment the salary level of employed people, hence increasing the buying power of the local citizens, which in turn will lead to increased tax payments”. Moreover, the influx of more capital due to the presence of MNCs will encourage government to embark on more social spending - such as in the educational, health, utilities and infrastructural sectors.

As a result of these perceived advantages derivable from the activities of MNCs, most governments all over the world strive to create enabling marketing and investment environment for MNCs to thrive.

Despite the glowing benefits of the presence MNCs in developing countries, some governments and scholars have frowned at the capability of MNCs to subdue host countries. The monumental size and financial prowess of Multinational Companies (MNCs) naturally explains their capacity to dictate both the magnitude and direction of the economic and political paths of nations. In the midst of the pampering, MNCs trample upon domestic economies, and often threaten to move away if they perceive a shortfall of patronage from host countries.

According to Porter (1990), host nations are of the opinion that their local economies could collapse if firms decide to quit; thereby making such countries to lower legal and environmental restrictions.

In line with this, Armstrong (1991) contends that “because of the size of many multinational enterprises, there is considerable concern that they will undermine through political means the sovereignty of nation states”. He further opined that multinational enterprises could be deployed by home governments to drive their foreign policies at the international scene. This instance of using Multinational enterprises as foreign policy tools of their home countries has spelt doom to the economic development of host countries (Ugwu, 2010).

Furthermore, although developing countries are seen to benefit from the activities of MNCs, especially in the areas of job creation and technology transfer, several scholars (e.g. Meyer, 2004; Nwankwo, 2004; Abdul-Gafaru, 2006; Eze, 2011) have repudiated the much hyped technology transfer by MNCs to host developing countries – claiming that it is obsolete, overpriced, inappropriate and inconsistent with the factor endowment of host nations. Moreover, Rawlings (2007) submits that MNCs have metamorphosed to power enclaves which

manipulate local policies, offer bribes and engage in sinister political activities in developing continents such as Africa.

## **II. Literature Review**

### ***Multinational Corporations: Meaning, Nature and Purpose***

The terminology “multinational corporation” was first introduced into literature by Lilienthal (1960) - who, in a bid to differentiate portfolio investment from direct investment, defined MNCs as ‘such corporations...which have their home in one country but which operate and live under the laws of other countries as well’.

Multinational Corporations are business entities whose operations traverse the boundaries of more than two countries (Hill, 2005). Vernon (1966) submits that multinationals are firms “with a parent company that controls a large cluster of corporations of various nationalities” which “have access to a common pool of human and financial resources and seem responsive to elements of a common strategy”. Similarly, Sundaram and Black (1992) define an MNE as “any enterprise that carries out transactions in or between two sovereign entities, operating under a system of decision making that permits influence over resources and capabilities, where the transactions are subject to influence by factors exogenous to the home country environment of the enterprise”. Dunning and Lundan (2008) submit that “multinational or transnational enterprise is an enterprise that engages in foreign direct investment (FDI) and owns or, in some way, controls value-added activities in more than one country”. Thus, though MNCs carry out business in several countries, all administrative directives emanate from the home country.

A business cannot be categorized as multinational if it merely engages in foreign trade or does contracts with foreign companies. There are various criteria in measuring the extent of multinationality of firms. Corporations are adjudged as multinational if (i) they have several subsidiaries abroad; (ii) they carry out business in many countries worldwide; (iii) the proportion of accruals from the subsidiaries is high when measured against the total assets, profits or revenue; (iv) their workers, stakeholders and managers have various countries of origin; and (v) their operations in host countries are on a full scale, than just sales offices, including a great amount of manufacturing and research and development activities (Dunning, 1993). As a rule of thumb, any business that either has 10% voting stock or realizes one quarter of its revenue from foreign subsidiaries is classified as a Multinational Enterprise. On a salient note, MNCs are characterized by: stupendous assets and turnover, multiple networks of international branches or subsidiaries, management structures and processes controlled from the home countries, huge economic and technological prowess, superior quality of products, intensified advertising campaigns and fat budgets, and competent/highly skilled employees and managers.

According to Šaková (2004), Multinational Corporations can operate in the form of “private, public or mixed ownership and can be owned by the bodies of host, and domestic country. Mostly they act in the form of a joint-stock company within the holding structure”. They are formed to satisfy the perceived interests of primary stakeholders (managers, employees and shareholders), though some engage in social responsibility as a response to demands from host communities and countries. In order to compensate the stakeholders for their contributions, a profit maximization process becomes the *raison d'etre* of MNCs. Thus, financial risk is mitigated as MNCs create surplus through predominant avenues such as Foreign Direct Investment.

The purpose of MNCs finds expression in their objectives. Bartlett and Ghoshal (1992) listed global efficiency, flexibility and Organizational learning as the three strategic objectives of MNCs, whereas Behrman’s (1972) taxonomy suggests that MNCs operate as: (i) natural resource seekers, e.g. Royal Dutch Shell (United Kingdom), ExxonMobil (United States), China National Offshore Oil Company (CNOOC) and China National Petroleum Corporation (CNPC); (ii) market seekers, e.g. Shoprite, Spar and Woolworths; (iii) efficiency seekers, e.g. Foton car assembly company in Kenya; and (iv) strategic asset or capability seekers, e.g. Huawei from China and Ranbaxy from India.

According to Dunning (1993), natural resource seekers “invest abroad to acquire particular and specific resources of a higher quality at a lower real cost than could be obtained in their home country”. Market seekers “invest in a particular country or region to supply goods or services to markets in these or in adjacent countries”. “The motivation of efficiency-seeking FDI is to rationalize the structure of established resource-based or market-seeking investment in such a way that the investing company can gain from the common governance of geographically dispersed activities”. Strategic assets or capability seekers “comprise those which engage in FDI, usually by acquiring the assets of foreign corporations, to promote their long-term strategic objectives – especially that of sustaining or advancing their global competitiveness”. Most of the transnational organizations combine two or more of the above mentioned objectives while embarking on foreign direct investment.

### ***The Ascendancy of Multinational Enterprises***

The origin of Multinational Corporations is traceable to the advent of the colonial and imperialistic business ventures of John Watts and George White who founded the British East India Company on December 31<sup>st</sup> 1600; and the Dutch East India Company set up by Johan van Oldenbarnevelt on March 20<sup>th</sup> 1602, which continued for many more years. The major objectives of these companies were financial growth and territorial expansion. Most of the territories were acquired in the Far East, Africa and the Americas. However, the actual metamorphosis of these business ventures into modern day MNCs happened in the 19<sup>th</sup> century. This was catalyzed by the spirit of capitalism, the emergence of gigantic factory systems and networks of production and optimization processes.

The quest for expansion of MNCs continued in the 19<sup>th</sup> century and early 20<sup>th</sup> century by the United States of America and some European countries, whereby they engaged in the exploitation of natural resources and the acquisition of new markets predominantly in Latin America, The Middle East and Africa. Such periods witnessed the emergence of transnational companies such as The US agribusiness giant United Fruit Company which controlled 90 per cent of US banana imports by 1899; and Royal Dutch/Shell which accounted for 20 per cent of Russia's total oil production at the start of the First World War. Up to 1945, MNCs from US and Japan grew in leaps and bounds. Examples of such transnational companies are Exxon of US and Mitsubishi of Japan. Beyond 1945 to present, Multinationals from US, Europe, Japan, China and other emerging economies have continued to make great investments on a planetary scale.

Current statistics reveal that there are over 65,000 MNCs with over 850, 000 subsidiaries as against about 7,000 MNCs in the 1970s. For instance, ABB, an electrical Transnational Company indigenous to Switzerland has its presence in 140 nations; Royal Dutch Shell either explores, refines or markets oil in over 100 countries; Heinz, the food processing giant of United States, has its tentacles in six continents while Cargill, the biggest grain company in the United States, does business in 54 nations. A foremost chemical firm in the UK, known as ICI, has production centers in 40 countries and sales outlets in 150. Also, Wal-Mart has established business in 28 countries, including over 11,500 retail stores with over 2.3 million employees worldwide.

Multinational Companies are now in control of over 70% of the total volume of global trade. Moreover, 300 of the biggest MNCs own and control over 25% of all assets worldwide, which amount to over 5 trillion US dollars. In 2001, General Electric had total revenue of 126 billion dollars which is more than the income of all the countries of Sub-Saharan Africa put together, excluding South Africa. The *Global Justice Now* reported that as at September 2015, out of the 100 largest economies, 61 were multinational corporations whereas 39 were countries. Only nine countries are bigger than Wal-mart, but Wal-mart is bigger than Spain, Australia and Netherlands; Royal Dutch Shell is bigger than Mexico and Sweden; Toyota Motor is bigger than India, Belgium and Switzerland and; Samsung Electronics is bigger than Turkey, Denmark and United Arab Emirates.

### ***Corporate Power***

In a controversial anthology written by women from around the world, Shiva (2016) remarked that "The myth of "free choice" begins with "free market" and "free trade". When five transnational corporations control the seed market, it is not a free market, it is a cartel." This inordinate quest for dominance by the MNCs - as noted by Shiva - is not restricted to the agricultural sector, but traverses a wide range of sectors. It all boils down to the general notion that MNCs are power thirsty in every sense of the word.

Russell (1963) states that "of the infinite desires of man, the chief are the desires for power and glory", and power is the ability of an individual or entity to control others. Power could be spiritual, intellectual, physical, political, institutional and economic in nature. MNCs possess one or two, or combinations of these typologies of power thereby enabling them to emerge as the "dominant governance institutions on the planet, with the largest among them reaching virtually every country in the world and exceeding most governments in size and power" (Korten, 1995).

Roach (2007) submits that corporate power could be measured by (i) the Concentration Ratios of MNCs in an industry, (ii) Corporate Economic weight, (iii) Control over Labor Unions, (iv) Corporate Tax and Subsidy statistics, (v) Political Influence, and (vi) The Power of International Mobility. Industry concentration ratios refer to the income generated by the largest companies expressed as a percentage of the total income of firms in the industry. It could also be described as the percentage of the aggregate financial and fixed assets in the industry being controlled by the few large companies in a sector (Polat, 2007). Industry concentration ratios could be determined from economic data of the firms within an industry. The indices considered are: brand value, number of employees, sales volume, total annual revenue, net annual income, market share.

The top seven auto manufacturers, i.e. Renault-Nissan, Volkswagen, Toyota, General Motors, Hyundai-Kia, Ford and Honda, have more than 45% of global motor vehicles sales. As at the first quarter of 2017, the first four had sold over 20% of the 77.8 million forecast volume for the year. Vehicle Sales statistics for Q1 2017 reveal volumes of 5,268,079 for Renault-Nissan alliance; 5,155,591 for Volkswagen; 5,129,000 for Toyota Motor, while General Motors sold 4,700,000 vehicles (Bach, 2017; *Statistica*, 2017). Furthermore, the

seven major MNCs in the oil industry account for more than 42% of global production and sales. They are: Exxon Mobil, China National Petroleum Corp. (Petrochina), Chevron, Total, China Petroleum & Chemical Corporation (Sinopec Limited), Royal Dutch Shell and Saudi Arabian Oil Company (Aramco). The *Fortune Global 500* reports that Sinopec and Petrochina are the 3<sup>rd</sup> and 4<sup>th</sup> largest multinational companies, with consolidated revenues of \$267.5 million USD and \$262.6 million USD respectively, as at 2016.

**Table 1:** The Fortune Global 500 top 10 list, 2016

S/N	Multinational company	Home country	Annual revenue(\$m)	Employees
1	WalMart Stores	United States	485.873	2,300,000
2	State Grid	China	315.199	926,067
3	Sinopec	China	267.518	713,288
4	Petrochina	China	262.573	1,512,048
5	Toyota Motor	Japan	254.694	364,445
6	Volkswagen	Germany	240.264	626,715
7	Royal Dutch Shell	Netherlands	240.033	89,000
8	Berkshire Hathaway	United States	223.604	367,700
9	Apple	United States	215.639	116,000
10	Exxon Mobil	United States	205.004	72,700

Also, Multinationals rule like dinosaurs in the electronics world. As at January, 2017, the top 10 companies in the electronics sector are: Apple, Samsung, Microsoft, Sony, Panasonic, Dell, LG, Hewlett Packard, Fujitsu, and Toshiba. Specifically, an example could be drawn from the smartphones sub-sector wherein Apple and Samsung top the list of firms. Apple’s statistics shows Brand value of \$234.7 billion, Annual revenue of \$215.64, Net Income of \$45.69, Global market share of 13.7%, Sales of 344.3 million smartphones, with over 116,000 employees worldwide. Samsung follows Apple, having Brand value of \$6billion, Annual revenue of \$177.4, Net Income of \$16.2, Global market share of 20.7%, Sales of 300 million smartphones, with over 300,000 employees worldwide.

**Table 2:** Sales statistics of Top Smartphone Companies on a global scale in 1Q17 (Thousands of Units)

Vendor	1Q2017 Units	1Q17 Market Share (%)	1Q16 Units	1Q16 Market Share (%)
Samsung	78,671.4	20.7	81,186.9	23.3
Apple	51,992.5	13.7	51,629.5	14.8
Huawei	34,181.2	9.0	28,861.0	8.3
Oppo	30,922.3	8.1	15,891.5	4.6
Vivo	25,842.2	6.8	14,001.0	4.0
Others	158,367.7	41.7	156,654.2	45.0
<b>Total</b>	<b>379,977.3</b>	<b>100.0</b>	<b>348,224.2</b>	<b>100.0</b>

Source: Egham (May, 2017)

Both *industry concentration ratios and economic indices* of the MNCs are tracked within a specified period in relation to broader figures in the economy.

The third measure of corporate power is the *Declining Power of Labor Unions*. A corporation is powerful when countervailing forces within it are not strong enough to reduce its influence. Roach (2007) avers that labour unions could be regarded as the most potent opposing forces in the corporate world. A stronger Multinational Company signifies a weaker labour union; *vice versa*. Union membership is a proxy indicator of the strength of unions. Global statistics show that for the past 60 years, union membership has been on a sharp decline (Wachter, et al., 2003; Western & Rosenfeld, 2012). This signifies a gradual depletion of the strength of labour unions.

For instance, between 2015 and 2016, union membership rate in US dropped from 11.1% to 10.7% (*the U.S. Bureau of Labor Statistics reported today*). There were 17.7 million union workers in the US in 1983 with a union membership rate of 20.1%, whereas there were 14.84 million and 14.6 million unionized employees in 2015 and 2016 respectively. The reasons for the decline in union membership are traceable to “increasing global economic competition and capital mobility, rapid pace of technological innovations in production, restructuring privatization of public services, rise of contingent employment arrangements, and mounting resistance of employers to unionization” (Aganon, Serrano & Certeza, 2009). Moffat (2017) echoed that the introduction of automation in the workplace, sponsoring of bills to discourage unionism, decline in strike success, employment of part-time workers, negative publicity about corruption within high-ranking union members and employment shifts from manufacturing to services are the major causes of a shrinking labour unionism.

Fourth, the power of multinational could be assessed by their ability to negotiate taxes downwards in the countries they operate. Corporations achieve this goal by influencing tax legislation, interpretation and enforcement. Thus, powerful MNCs ensure that they pay minimal tax rates in the countries of operation.

Farnsworth and Fooks (2015) remark that for the past 30 years, MNCs have succeeded in influencing governments to reduce corporate taxes and increases in several tax waivers and benefits. As if this is not enough, TNCs occasionally evade and avoid paying tax, thereby leading to government revenues rates far below expectation. Tax reduction methods used by MNCs have been well known for decades. They include transfer pricing, the use of lower-tax jurisdictions, over-charging entities in higher tax countries to reduce taxable profit and (legally) completing a transaction in a lower tax country, different to the country which the business relates to. A notable reference is the report of the National Audit Office (NAO) of the UK that 220 of the 700 largest firms in the UK completely avoided paying corporate tax in 2005/06 (Comptroller and Auditor General, 2007). Moreover, Amazon, Apple, Google, HSBC, Starbucks and Vodafone are among the clique of wealthy multinationals that have allegedly utilized one or more of these tax reduction strategies in recent years (Clark, Lai & Wojcik, 2015).

Fifth, MNEs could also exercise power by making donations to politicians or pressure groups, by lobbying relevant stakeholders, or by outright bribery. Generally, MNEs buy political influence; manipulate economic policies; control the media; engage in propaganda and advertising in educational institutions; and use state security apparatus to silence the public and protect their facilities. The matrix of corporate power has traversed both domestic and international boundaries, often looming larger than most democratic governments. According to Berry and Pollan (2009), "this massive ascendancy of corporate power over democratic process is probably the most ominous development since the end of World War II, and for the most part "the free world" seems to be regarding it as merely normal." Corporate power has reached astronomical proportion to the extent that it now seems MNCs do not need to lobby governments anymore. MNCs are synonyms of governments.

The high political power quotient of multinational firms could be exemplified by their capacity to lobby and influence the outcome of the North American Free Trade Agreement (NAFTA), and the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). In 1992, MNCs flexed their political muscles by undermining some sensitive sections of the document compiled at the United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro. For 17 years, The United Nations had made attempts to regulate the behavior of MNCs by setting up a Centre on Transnational Corporations (CTC), but this effort met its Waterloo in 1993 due to the neutralizing political power of MNCs. Rather, a pro-MNCs division on Transnational Corporations and Investment surfaced with the aim of catalyzing foreign direct investment.

Lastly, MNCs demonstrate power of transnational mobility by their ability to transfer resources across national borders. Unlike nation states whose sovereignty is limited by geographical space, MNCs have the liberty and impetus to move to any corner of the globe. Highly mobile MNCs easily relocate productive assets or switch to new contractors in order to counterbalance the shocks occasioned by changes in government policies, legislation and other disturbances in the business environment of host nations. Governments may impose strict regulations or lower their standards. Such decision may depend on the influence of MNCs, the economy of the host nation and the need to protect domestic firms and employees. Generally, MNCs locate their productive assets in countries that make the highest concessions in terms of taxes, tariffs, environmental and human rights policies, labour laws and other social considerations. For instance, a lot of MNCs legally incorporate their business in tax havens such as Bermuda and the Cayman Islands in order to make super profits.

Mobility of MNCs could be exemplified by the incident in 2014 where Burger King moved its headquarters from US to Canada where tax rate is lower. Also, in 2010, the hard-drive manufacturer, Seagate Technology, moved from Cayman Islands to Ireland in order to reduce its tax obligations and to reap from the "extensive network of tax treaties" in the new location.

At present, it seems MNCs are the most powerful business entities on the planet, not only economically but also politically, as there is no nation or organization that can boast of taming them. Governments are not in a hurry to hold multinational corporations accountable because doing so may be an excuse for them to move to more "friendly" countries. According to Gibson (1984), MNCs have become a global equivalent of the *zaibatsu* - the wealthy enclave - that direct "the course of human history, had transcended old barriers. Viewed as organisms, they had attained a kind of immortality. You couldn't kill a zaibatsu by assassinating a dozen key executives; there were others waiting to step up the ladder, assume the vacated position, access the vast banks of corporate memory".

### ***Multinational Corporations: Commendations and Condemnations***

Throughout the 1970s to the early part of 1980s, governments of most countries demonstrated great antipathy towards multinationals. This scenario later changed in the 1990s as the osmotic forces of globalization created a new atmosphere for synergy between multinationals and various governments of nations (Luo, 2001). Governments of nations embraced MNCs owing to the expectation that citizens' living standard will improve. Despite the cooperation between nations and MNCs, there also exist a litany of unpalatable outcomes. It is therefore not a surprise that management literature is awash with commendations and condemnations as regards the activities of multinational corporations. Some say MNCs are sources of boom while others argue that they

spell doom to the socio-political and economic fabric of host nations. Stopford (1998) succinctly put it that “while some regard them as ruthless exploiters, others view them as benign engines of prosperity. But today's multinationals.... are reinventing themselves in diverse ways that confound the assumptions of critics and advocates alike.”

Protagonists posit that MNCs are harbingers of prosperity because they engage in Foreign Direct Investment which translates to improvement of the economic indices of host countries. Transnational companies also: (i) pay taxes and royalties to increase revenues of governments and local communities (ii) transfer technology, skills and knowledge to employees in foreign subsidiaries, (iii) make quality goods and services more available at cheaper selling prices, (iv) step up competition in the local economy where they operate, (v) create markets for local firms (vi) create jobs or employment and (vii) embark on corporate social responsibility. Rugraff and Hansen (2011) submit that “the local firms may learn from the collaboration, for example learn about more advanced standards and organizations, and thus upgrade to more advanced activities. With regard to firms unrelated to the MNCs, MNCs may demonstrate new production technologies, marketing practices and managerial approaches that may be adopted by the local firms, and former employees of MNCs may inject dynamism into local firms if hired there”. They further added that “MNCs may use their financial and organizational strength to push for further development of the commercial infrastructure and regulation in the host country, something that also may benefit local firms”.

On the other hand, MNCs are subjected to virulent attacks because they are seen as unrepentant predators possessed with the spirit of greed; and are allegedly bent on exploiting the resources of host nations in order to make stupendous profits. These corporate immigrants have always been accused as the propagators of the waves of socio-political and economic turmoil that hitherto envelop most host countries. Moreover, MNCs are criticized not only because they are seen as powerful forces that seek to control host nations and render local industries comatose, but also for engaging in opaque transactions and unethical practices such as bribery, corruption, profit shifting, transfer pricing and tax avoidance. They have received frontal attacks for despising and destroying the socio-cultural value systems of host nations (Chukwuemeka, Anazodo & Nzewi, 2011) and for repatriating huge capital to head quarters. Bakan (2004) contend that these corporate immigrants have low sense of responsibility as they subject employees to “sweat shop labour” without fair wages, defile the environment with toxic wastes and pollutants, abuse human rights and treat employees’ safety and wellbeing with levity. Lastly, critics contend that MNCs transfer antiquated and expensive technology to less developed nations which cause untold economic inflammation because such technologies are incongruous with factors endowments of such countries, and are capable of bringing about job losses (Eze, 2011).

### **III. Evidence from Developing Countries**

In social context, power is the ability of an individual to exert his or her will on another, whether there is resistance or not. In this respect, multinational corporations could be viewed as legal persons that manipulate the socio-political and economic environment of nations in order to achieve their profit making objective. The impregnable size, the mighty financial strength, the great political influence and the power of trans-border mobility possessed by MNCs enable them to have their way in developing countries, irrespective of whether there is antagonism or not.

The aggregate assets of the top 10 multinational enterprises is estimated to be \$285 trillion, exceeding the \$280 trillion estimated value of 180 nations - of which Ireland, Indonesia, Venezuela, South Africa, Nigeria and Ecuador are inclusive. The combined sales of Mitsui and General Motors supersedes the GDPs of Denmark, Portugal, and Turkey put together, and over 50 billion US dollars more than all the GDPs of the nations in sub-Saharan Africa. In fact, over 153 corporations have revenues far above several African, Asian and South American countries.

For instance: Honda Motor, Amazon, HP, Boeing, Nestle and Citigroup are each bigger than any of the developing countries except Brazil, Mexico, India, Venezuela, Turkey, Argentina and Indonesia. Of the 138 developing countries as classified by the World Bank, only Brazil can boast of having economic power in the midst of MNCs. Furthermore, total employment statistics reveals that MNCs account for over 12% of the salaried workforce in developing countries (Šaková, 2004). For instance, half of Ireland’s workforce is employed by corporate immigrants which also account for 67% of the country’s GDP, while 10 multinationals in Australia each have annual income that exceed the total revenue generated by the country. Furthermore, the take home pay for workers employed by multinationals in Turkey is about 120% higher than the national average. The growth rate of MNCs in Turkey is 11.5% per annum while indigenous enterprises experience a rather slow rate of 0.6%.

Also, multinational enterprises exert enormous power on labour unions in developing countries. Employees are at the mercy of the forces of globalization and the race to the bottom dynamic of MNCs (Mosley & Singer 2015). Multinational firms operating in host states may dictate labour related outcomes. They do so as “firms acting as developers or sources of labor-related standards; firms serving to transmit standards across

national borders; and firms influencing host country governments' adoption of new, or enforcement of existing, labor rights laws" (Mosley, 2011). In Brazil, MNCs restrict the operational scope of labour unions (Scherer, 2007). The case in Malaysia paints a more dismal picture for trade unions as MNCs in the country deliberately avoid any avenue to negotiate with unions and even went extra mile to expunge existing minimum standards, stop minimum wage legislations, neutralize collective bargaining and transfer several expatriate staff to the home country. The MNCs championed trade liberalization and deregulation without considering the potential impact on workers' welfare. Moreover, corporate immigrants based in Korea have demonstrated acute antipathy to trade unions. Schipper (2016) remarked that employees in MNCs that manufacture electronics in developing countries such as Malaysia, Mexico, Thailand, the Philippines, Indonesia, India, and China are paid abysmally low wages and face the problems of "12-hour shifts, mandatory overtime, unpaid overtime, obstruction of trade union rights, widespread use of agency labour, wage deductions, such as punitive fines, exposure to health and safety dangers, discrimination and harsh treatment by management".

Despite the unpalatable treatment union members receive from MNCs in developing countries, there seems to be no strong or viable opposition. This is because most governments and peoples of developing nations entertain huge fear that MNCs might opt to leave if they enforce policies that radically address labour rights. They fear that such reaction could lead to acute unemployment and economic implosion.

Also, MNCs take advantage of the weak socio-political, economic, technological, legal and cultural indices of developing countries to bring about the signing of tax treaties which translate to tax incentives (breaks/holidays, concessions); and even engage in other economically injurious practices such as tax evasion/dodging, tax avoidance, profit shifting, over-invoicing and unauthorized transfers (Fuest & Riedel, 2010). Thus, whereas the purpose of tax incentives is to achieve an inflow of foreign direct investments to the developing countries, the outcome has always been a radical degeneration and erosion of the economic base of host countries.

The amount of revenue lost by developing countries as a result of granting tax incentives to MNCs is staggering. For instance, Kenya's revenue base is depleted by \$1.1 billion a year due to tax incentives for MNCs. This figure is far above Kenya's budget for healthcare. Through tax incentives, Nigeria sacrifices 0.5% (close to \$2.6 USD billion per year) of its Gross Domestic Product to only MNCs that are making new entry into the country. According to the *Centre for Research on Multinational Corporations*, between 2005 and 2013, Nigeria parted with \$677 million USD for granting tax holiday to three key multinational oil and gas corporations, namely: Shell, Total and ENI. By 2016, this figure rose to \$3.3 billion USD. Moreover, in the same year, 2016, the country reportedly lost about \$1 billion to tax evasion. The federal government announced in its executive meeting that the country lost \$178 billion USD to unapproved subterranean capital outflows in the last 10 years.

The *Oxfam International* reported in 2016 that tax dodging by MNCs costs low income countries over 100 billion US dollar per year, which is enough to satisfy the educational needs of 124 million children and provide health care for six million sick infants for a year. Despite this scenario, developing countries cannot but help to continue to grant tax incentives. As of 2014, Indonesia exempted Samsung from paying tax for 10 years, while Vietnam offered 15-year tax holiday.

The race-to-the-bottom mantra of transnational corporations keeps resonating in developing countries as many MNCs conceal substantial parts of their profits; and dodge taxes in host countries by incorporating in other nations that are collectively called tax havens (Arezki, Rota-Graziosi & Senbet 2013). Most tax havens are very small countries with average population of less than one million, and are more buoyant than other countries. According to Mitchell (2006), an Offshore Financial Center (OFC) or tax haven is 'any jurisdiction, anywhere in the world, that has preferential rules for foreign investors'. Again, MNCs engage in tax evasion and profit shifting with reckless abandon because of weak legislative cum taxation architecture in developing countries.

Janský and Prats (2013) submit that "when corporations have links to tax havens they enjoy higher incentives, because of low tax rates, and opportunities to shift income because of the secrecy provisions tax havens offer". Tax havens are the planet's reservoirs of filthy lucre (euphemistically categorized as stateless income); and they are located on every continent. Oxfam listed the 15 worst tax havens in a calibrated order as: (1) Bermuda (2) the Cayman Islands (3) the Netherlands (4) Switzerland (5) Singapore (6) Ireland (7) Luxembourg (8) Curaçao (9) Hong Kong (10) Cyprus (11) Bahamas (12) Jersey (13) Barbados, (14) Mauritius and (15) the British Virgin Islands. For instance, multinationals with massive investments in Nigeria, such as SABMiller, British Petroleum and Shell have 3, 6 and 18 subsidiaries respectively, incorporated in the country; but have 108, 537 and 455, respectively, as affiliates in tax havens. By having several subsidiaries in tax havens, multinationals device avenues to shift the profits they make from developing countries. It is has been estimated by *Tax Justice Network* and the IMF that, as at 2016, there was a global revenue loss of \$500billionUSD - \$600billion USD per annum due to the clandestine activities in tax havens. Out of this

amount, it costs developing countries at least \$200 billion USD a year, which is far above the yearly assistance of \$142.6 billion USD they receive for developmental purposes.

Furthermore, multinational corporations do not only possess economic power, but have become quasi-governmental institutions with seeming political omnipotence on a planetary scale. They trample upon the laws of nations and literally put pressure on governments to bow to their whims and caprices. By so doing, most governments end up tailoring their policies in such a way that the competitiveness and dominance of MNCs are further enhanced. Thus, these corporate immigrants engage in political maneuvers for the ultimate realization of the race-to-the-bottom logic.

Whereas developing countries find it difficult to have their say when key decisions on global trade are being made, MNCs set the pace of deliberations because of their enormous political power. Fortified by their stupendous wealth, MNCs have deployed more than 10,000 expert negotiators and lobbyists at Brussels to influence decisions at the World Trade Organization. A whopping sum of about one billion Euros is being spent for this purpose. At Washington DC, about 17,000 public relation experts and lobbyists are stationed by MNCs to influence key decisions in order to protect and champion their interests. Regrettably, no developing nation can afford to spend such resources to influence international trade policies.

In particular, MNCs have influenced the politics of several host nations, most especially the low income countries. For instance, the United Fruit Company, held sway in Central American states and converted these entities into the so called "banana republics". According to Wells and Elias (2005), "Royal Dutch Shell cooperated closely with the Nigerian military government in suppressing local resistance to oil extraction policies and practices in Ogoniland. Shell made it possible, at company expense, for the military regime violently to suppress environmental campaigners".

Multinationals have also sponsored the ousting of some governments which they perceived to be antagonistic to the interests of their head quarters. Examples of such cases where MNCs sponsored the overthrow of governments are: Guatemala in 1954, Sudan in 1971, Chile in 1973, Nigeria in 1976, Nicaragua in 1989, Iraq in 2003 and several others. Moreover, Patey (2007) asserts that "Multinational Corporations (MNCs) have played a significant role in some of the most destructive civil wars of the developing world. From Colombia, Sierra Leone, Angola, the Democratic Republic of Congo, Azerbaijan, to Myanmar, MNC engagement has aggravated conflict and fed pervasive corruption through the extraction of lucrative natural resources, such as oil and natural gas, timber, diamonds, and other precious minerals". It has also been observed that MNCs silence non-governmental organizations and other groups which are opposed to their antics and activities, by attracting the arrow heads of such groups with juicy employments or ensuring that they are exterminated. Also, MNCs go to the higher institutions of developing nations to recruit the best brains and potential activists so that such set of persons would not constitute opposition in the future. Furthermore the power of MNCs remains untamed in developing countries as the laws of these countries are not able to hold the multinationals accountable in many occasions. The advent of International Center for Settlement of Investment Disputes (ICSID) and international arbitration "supercourts" has given powers to MNCs to sue host countries. Most developing countries emerge as losers at the international arbitration courts because they can hardly pay the huge sums of money involved in the lawsuits. Developing countries sometimes end up paying multinationals large amount of money as compensation.

For the past two decades, over 100 countries have been sued over 500 times, and most of these are developing countries. A review of 400 randomly selected cases between states and MNCs from 1990-2017 reveals that 38% of cases were decided in favour of governments and 35% in favour of MNCs, while the remaining 27% were settled outside court. Some states that became victims of the political/legal power of MNCs are: Mexico (fined \$16.7 million USD for stopping Metalclad from dumping toxic waste in a remote town in the 1990s), Ecuador (paid Chevron \$78 million USD in 2010), Venezuela (paid \$650 million USD to Holcim, a Swiss cement multinational). In 2012, Ecuador was forced to pay \$1.8 billion USD to Occidental Petroleum for cancelling an oil-exploration contract with the Houston-based MNC in 2006 – a figure that almost corresponds with Ecuador's health budget for the fiscal year. Furthermore, in 2015, Venezuela was fined \$455 million USD for seizing two bottling plants from Owens-Illinois Inc., an Ohio-based MNC, in 2010. Examples of cases won by states are: the case of Uganda versus Heritage Oil and Gas Ltd., in 2103, whereby the MNC was fined \$434 million USD in favour of Uganda with respect to tax related dispute; the case between Pacific Rim (now Oceana Gold) and El Salvador in which Pacific Rim was fined \$8 million USD this year, in favour of El Salvador for mining related dispute. Despite the fact that states won some cases at the international arbitration panels, the money they spend during the settlement processes, as well as the attendant distractions in policy execution amount to colossal loss when compared to the awards.

Finally, the capacity to move across national borders is a source of power for MNCs. David (2005) contend that "this freedom of movement by multinationals tends to penalize governments which seek to maintain standards of social welfare, environmental regulation or tax regimes, many of the measures which governments have used in the past to develop a coherent industrial policy for their country are no longer

possible". Most developing countries and citizens fear that jobs and revenues will deplete when MNCs leave. Scenarios that warrant relocation of MNCs include: political unrest, pressures from non-governmental organizations and social-activist groups, unfavourable legislation and policies, high taxation and non-cooperative attitude of host country.

With respect to developing countries, relocation of head quarters of MNCs has been a recurring decimal for several years (Hedlund, 1986; Bartlett & Ghoshal, 1989). For instance, in 1998, the Anglo American Corporation - the largest and most renowned company in South Africa which accounted for a quarter of the country's GDP - relocated its Head Quarters from Johannesburg to London. The decision was taken due to the intolerable restrictions of the new South Africa (Birkinshaw, Braunerhjelm, Holm & Terjesen, 2006). Since the beginning of the 21<sup>st</sup> century, MNCs in the export-intensive coastal region of China have been moving to Indonesia, Vietnam and Cambodia in droves (e.g. the relocation of Tiffany & Company, Samsung, Intel, Foxconn, Toyota, and Tata Motors ) due to high cost of labour, monopoly, corruption, and safety issues in china (Yang, 2016). According to Hsu (2014), "multinationals no longer enjoy the preferred status that they did ten or fifteen years ago. Wages are rising, the legal enforcement environment is tougher, licensing procedures have become more difficult, the price of raw materials is rising, transparency is low, and local Chinese businesses are becoming more competitive". Other cases of mobility of MNCs include: significant number of MNCs in the offshore and marine sector, moving their departments and expatriates from Singapore to Malaysia (e.g. the relocation of McDermott, Technip and Subsea 7) due to the depreciation of the Malaysian currency which translates to lower costs of real estate and housing for expatriates. Moreover, a handful of MNCs in Thailand's garment sector are on the verge of relocating to Myanmar due to the daily minimum wage of \$10 USD pegged by the Thai government. In April this year, General Motors threatened to leave Venezuela for an 'illegal judicial seizure' of production facility – a situation that puts nearly 2,700 jobs at stake.

In short, multinationals are the quintessential cross-border corporate locomotives which decide to change location whenever they perceive host nations as uncomfortable. They tend to avoid any environment that operates contrary to their expectations. Their capacity to evade policies of states, trade union demands, and other entities; and subsequently chart their preferred courses of actions, has given them vast measures of strategic advantage.

#### **IV. Conclusion and Recommendations**

It is undeniable that multinational corporations have tremendous impact on developing countries as they continue to penetrate markets and surmount great barriers, in order to actualize their profit maximization objective. As transmitters of knowledge and technology, as well as vehicles of foreign direct investment, MNCs inject prosperity into nations. However, there is an abiding feeling that multinationals are more powerful than most nations, especially the developing countries. Specifically, transnational corporations have become very powerful in terms of financial strength, industry concentration, ability to subdue labour, capacity to influence taxes and subsidies, political influence, and mobility. Thus, it seems developing countries are cautious of wooing multinational due to the woes that are experienced as they carry out business in the affiliate nations. In several quarters, MNCs are seen as insensitive, voracious and exploitative cankerworms, destroyers of livelihoods, manipulators of government and society, enemies of the environment and principal drivers of the race-to-the-bottom logic. Yet, developing countries rely heavily on MNCs to the extent that they find it difficult to implement policies which will fall short of the approval the multinationals. The fact remains that the power of multinational corporations in developing countries may continue to wax strong despite the challenges and repudiations.

Based on the above, the following recommendations are hereby made:

- (i) Governments and civil society should not make a sweeping claim that multinational corporations are exploitative and injurious to the socio-economic and political health of nations. This is because not all MNCs engage in the primitive accumulation of profit and wealth. Some MNCs are socially responsible and responsive, and adhere to code of ethics that meet global acceptable standards. Besides, it is known that developing countries stand to reap a lot of benefits due to the presence of MNCs.
- (ii) Governments should put in place frameworks that will foster cooperation with MNCs, which could lead to continuous and increased inflow of foreign direct investment. However, the frameworks should be designed in a way that they do not jeopardize the interests of local stakeholders and the health of indigenous firms.
- (iii) Developing countries should not see MNCs as "father Christmas" but rather harness their own resources and maximize the capabilities of indigenous firms in order to compete favourably with multinationals in the global marketplace. This can be achieved by consciously leveraging on the dynamic capabilities of the indigenous firms through networking, risk-taking, innovation and experimentation.
- (iv) States should not transfer their responsibilities to MNCs. This is because MNCs tend to command more respect from the public, and thus become more powerful, when they perform social responsibilities that are

abandoned by government. When MNCs do the work government is supposed to do (e.g., construction of roads, provision of pipe borne water, healthcare, etc), the MNCs increasingly assume the status of alternative government.

(v) Multinationals should have constructive engagement and dialogue with host countries and live up to public expectations by virtue of their size and financial strength. Multinational corporations should be conscious of the fact that profitability alone is not the measure of organizational success. In as much as they believe in making profits, they should also pursue other long-term, enduring and rewarding goals such a corporate image and identity.

(vi) Multinational Enterprises should see tax payment as not just a legal requirement, but also as a vehicle for delivery of public value from which they also benefit. They should be transparent about their business operations and tax obligations.

(vii) Governments and appropriate international bodies should synergize to craft strategies that will extinguish the race to the bottom logic exhibited by multinationals. They should work out a mechanism that will allow for realistic, productive and fair corporate tax rates for the benefit of all. The input of developing countries should be sought when such policies and being made or strategies being crafted.

(viii) Government and relevant international world bodies should direct MNCs to make available yearly financial reports of their operations in all subsidiaries, in order to checkmate profit shifting and other forms of tax tricks. Blacklist of MNCs that are irresponsible in corporate tax payment should be regularly published.

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