MULTINATIONAL ENTERPRISES AND CAPITAL FLIGHT FROM HOST AFRICAN NATIONS: AN X-RAY OF THE CHALLENGES OF RETAINING TRADE REVENUES FOR CONTINENTAL DEVELOPMENT

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ABSTRACT

Orientation: *Multinational Enterprises (MNEs) have been documented to significantly influence the socio-economic fortunes of their host nations particularly in Africa and most of the 'developing world'.*

Research purpose: *Whilst it is not disputed that some of these MNEs bring a measure of 'economic value' to their host nations in Africa, reports also abound to the effect that they sometimes serve as conduits for the repatriation of vast sums of money to their home countries or 'safe havens' outside of their host nations. From a purely social scientific, human development point of view, this paper, as a preliminary empirical effort, examines how the reported phenomenon of capital flight from selected African countries could potentially negatively affect the lot of the host nations of MNEs.*

Motivation for the study: *There is a need to put into empirical perspective some of the factors plaguing the socio-economic development of Africa. This paper undertakes that task from the perspective of capital flight from selected African host nations of MNEs.*

Research design, approach and method: *Drawing largely from anecdotal and popularly reported cases from, at least, three geographical regions of the continent. This paper employs targeted systematic reviews and case research of selected reported cases to analyze the phenomenon under consideration. This interpretivist, qualitative approach was adopted with a view to put forward a somewhat empirical evidence of the potential socio-economic effects on human development indicators occasioned by capital flight from the continent.*

Main finding(s): *As is to be expected, the study determined that the phenomenon of capital flight is a reality though often shrouded in largely complex, sometimes opaque channels and practices. It was further found that whilst the human development impacts can often be gleaned, the extent of the economic effect, though enormous in monetary terms, cannot always be precisely determined.*

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Practical implications: *One of the 'practical values of this type of study is that it enables the extrapolations that can be undertaken by monetary or other economists to project the economistic impact of MNEs on their host nations in Africa thus advancing the vigilance that would be necessary to mitigate against the potential negative impact of capital flight on the development of the host nations.*

Contributions: *Loosely straddling the fields of Development Economics and Human Capital Development the paper promotes the interrogation of often difficult phenomena to trigger the debates that are necessary to advance development in Africa from a trans-disciplinary viewpoint.*

Keywords: Multi-national Enterprises (MNEs), Human Development Index, Capital Flight, Poverty, International Trade.

INTRODUCTION

This paper examines the occurrence of capital flight from African economies via some selected multinational enterprises in operation in the continent. This analysis focuses particularly on how this flight impacts on the human development indices of selected countries, *i.e.,* Nigeria, South Africa and Zambia. The role of the unlawful disappearance of nations' wealth and assets in exacerbating poverty and general under development have been well documented. The roles of multinational enterprises in influencing nations' economic fortunes have also been well documented (Abugre & Anlesinya, 2019). In the present paper, an attempt is made to bring these two elements together by examining the perceived or real role, if any, of multinational enterprises in the siphoning of capital from their host nations in selected African countries. And if so, shine a light on how this activity may adversely be affecting the economies of those nations. This task is undertaken by reviewing selected anecdotal and popularly reported cases. Basically, capital flight is the large-scale exodus of financial assets and capital from a nation, sometimes, due to events such as disease (for example, an outbreak that is epidemic or pandemic in nature), economic or political instability (e.g., undemocratic change of government such as a coup), currency devaluation or the imposition of capital controls. Flight of capital may be legal, as is the case when foreign investors repatriate legitimately earned capital back to their home country or illegal, which tends to occur in economies with capital controls that restrict the transfer of assets out of the country. Capital flight can impose a severe burden on poorer nations since the lack of capital impedes economic growth and may lead to lower living standards.

This paper further seeks to look at the financial implication and the effect of capital flight on the socio-economic, and especially, human development of the selected African host nations-South Africa, Zambia and Nigeria. Most invariably, once "capital inflow" gets into the host nation by way of the investment of MNEs, it sometimes turns into "capital retention" within the economy if the host nation operates a "rigid government policy". Subsequently such retained capital should ordinarily have a positive impact on the "human development" indices of the nation. In reality, however, some MNEs supposedly bring "capital inflow" into the host nation but turn around and evacuate them along with more than just the trade revenue profit to their headquarters, or some other 'safe haven' destination (Allen-ILE & Olabiyi, 2019). Frequently such 'funnelling' of funds merely serves as a conduit for "capital flight" especially where there is "weak government policy" within the host nations. This kind of activity may ultimately have a

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negative effect on the socio-economic activities and "human development" in the host nation. The ability of host nations in Africa to stridently manage trade revenues, it is believed, will significantly contribute to improve human development.

Though it is expected that MNEs should serve as vehicles for capital inflow into the host nation in view of the fact that most African nations are underprivileged and have serious challenges in retaining trade revenues for continental and human development they have rather chosen to prey on such nations. This practice starkly highlights the "Lucas paradox" or "Lucas puzzle" (the economic observation or truism that capital does not often flow from developed countries to developing countries, as is popularly perceived).

Additional factor that compounds the above situation is that most African countries are encouraged to operate open and/or mixed economic system that absolutely paves the way for flight of capital or finance to always occur. This state of affairs makes it difficult for host nations to develop the financial and economic framework necessary to retain and tie down trade revenues that will always contribute towards economic growth and human development of the host nation.

LITERATURE REVIEW

Conceptualization of Multinational Enterprises

The actions of multinational corporations are strongly supported by economic liberalism and the free market system in a globalized international society. According to the economic realist view, individuals act in rational ways to maximize their self-interest and therefore, when individuals act rationally, markets are created and they function best in a free market system where there is little government interference. As a result, international wealth is maximized through the free exchange of goods and services (Mingst. 2014).

To many economic liberals, "multinational corporations are the vanguard of the liberal order" (Mingst, 2014). They are the embodiment, par excellence, of the liberal ideal of an interdependent world economy. They have taken the integration of national economies beyond trade and money to the internationalization of production.

A Multinational Corporation (MNC) is usually a large corporation incorporated in one country which produces or sells goods or services in various countries (Doob, 2013). The two main characteristics of MNCs are their large size and the fact that their worldwide activities are centrally controlled by the parent company.

MNCs may gain from their global presence in a variety of ways. MNCs can benefit from:

- Economy of scale by spreading R and D expenditures and advertising costs over their global sales.
- Pooling global purchasing power over suppliers.
- Utilizing their technological and managerial know-how globally with minimal additional costs.
- Using their global presence to take advantage of underpriced labour services available in certain developing countries.
- Gaining access to special R and D capabilities residing in advanced foreign countries (Eun & Resnick, 2017).

Clouding all the above supposed benefits, however, still remains the problem of moral and legal constraints upon the behavior of multinational corporations in view of the fact that they are effectively "stateless" actors. This is one of several urgent global socio-economic problems that emerged during the late twentieth century (Koenig-Archibugi et al., 2004).

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An Overview of Capital Flight: A Synopsis on African

Of recent, the capital flight menace has eaten deeply into the socio-financial and human capital development fabric of African states and there is need to undertake a careful examination on the occurrence. Reports of research by the Organization for Economic Co-operation and Development (OECD) shows that each year Africa loses up to USD$50 billion through money laundering, tax evasion, diverted revenues, offshore investments and other forms of capital flight. Such high levels of capital outflows and lost revenues deprive African governments of the ability to mobilize domestic resources and have a material impact on economic development (Booth, 2019). Analyses of the report of a global study by global financial integrity (2020) equally emphasize illicit outflows and inflows. Each is found to have remained persistently high over the period between 2005 and 2014. Combined, these outflows and inflows are estimated to account for between 14.1 and 24.0 percent, on average, of trade in developing countries (Spanjers & Salomon, 2017). African nations forfeited USD$1.4 trillion through capital flight over a 46-year period from 1970-2015 according to a report by the University of Massachusetts Amherst's Political Economy Research Institute (2019). The trajectory of capital flight is terrifying and absolutely detrimental with figures from global financial integrity demonstrating the extent to which capital flight is continuing to hurt the Africa region, with average illicit outflows totaling between 7.5% and 11.6% of sub-Saharan Africa's total trade between 2005 and 2014 (GFI, 2020). The 2015 Direction of Trade Statistics dataset from the IMF (2020) shows that dollar value of illicit outflows from resource rich countries such as South Africa amounted to ($10.2 billion) and from its counterpart, Nigeria, it amounted to ($8.3 billion).

Elements and Dimensions of Capital Flight within Host Nation Environment

In addition to economic growth measures, the Human Development Index (HDI), was created to emphasize that people and their capabilities should be the ultimate criteria for assessing the development of a country (UNDP, 2019). The HDI can also be used to question national policy choices, ask how two countries with the same level of GNI per capita can end up with different human development outcomes. These contrasts can stimulate debates about government policy priorities (UNDP, 2019). The Human Development Index (HDI) is a summary measure of average achievements in key dimensions of human development: A long and healthy life, being knowledgeable and having a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions (UNDP, 2019) (Figure 1).

Based on various empirical data, in this paper, the model that can be used to consider the phenomenon of capital flight by MNEs from African host nations is conceptualized as follows:

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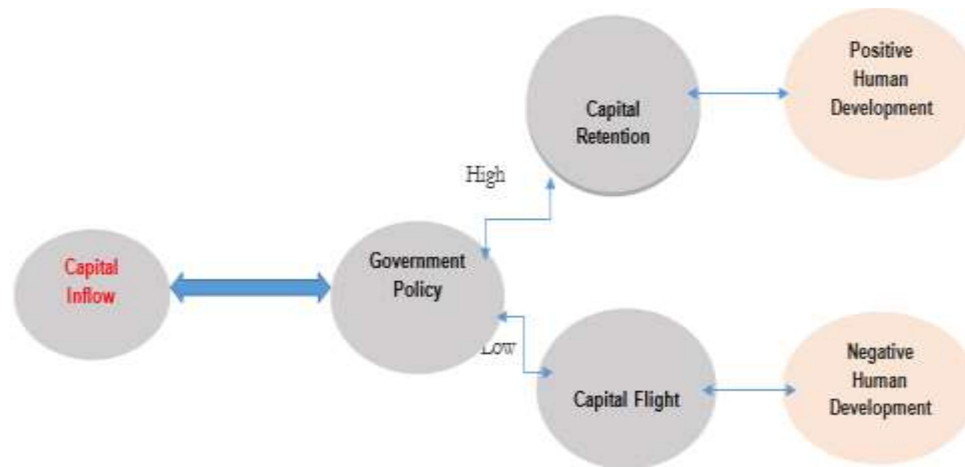

FIGURE 1

DIAGRAMMATIC REPRESENTATION OF A MODEL OF CAPITAL FLIGHT. NOTE: CASES: TRADE REVENUE OF MNES IN NIGERIA, SOUTH AFRICA, AND ZAMBIA

DISCUSSION

Nigeria

The case scenario examined in Nigeria relates more to the general commercial and fiscal compliance (or non-compliance) activities of an MNE. It is the position of this paper that ultimately, the outcome of such activities has financial implications for the host nation. In this case, the Central Bank of Nigeria (CBN) lodged a dispute against a major telecommunications MNE (MTN Nigeria) established in 2001 as a subsidiary of the giant, global telecommunications group with headquarters in South Africa for breaching the country's monetary and foreign exchange regulations in that CBN alleged that the said corporation, in collusion with four other domestic banks, between 2007 and 2015, irregularly and illegally transferred huge amounts of funds out of Nigeria. This action was deemed to have been in breach of the Central Bank of Nigeria (CBN) Act, the foreign exchange (monitoring and miscellaneous provisions) act and the money laundering (prohibition) act, Section 20(1). The CBN demanded that the MNE repatriate, back into Nigeria, the amount of USD$8.1 billion being the value of the transferred funds. The matter was eventually settled after the MNE negotiated to pay USD$52.6 million. The colluding local banks were fined USD$16 million. Consequent upon this allegation, the attorney-general of the federation also sued the MNE for taxes to the tune of USD$2 billion. As is to be expected, the MNE denied all the allegations.

An interesting development in this matter was contained in a national news media report (This Day Newspaper of 25th October, 2018) in which the Nigerian minister of finance, Zainab Ahmed, declared that the above case, amongst others, was having a "negative effect on investor confidence, *i.e.,* foreign direct investment into Nigeria. As the literature (Eun & Resnick, 2017; Wilburn, 2003) has shown, this is one of the refrains often used to bolster and overlook certain MNE excesses in their host nations. The other argument that was advanced by the MNE in this case, was that the impositions would compel them to further cut down on labour costs and effectively negatively influence the employment situation in the country.

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Prior to the above developments, the same MNE had, in October 2015, been fined the sum of USD$5.2 billion by the telecommunication regulatory authority, the Nigerian Communications Commission (NCC) for contravening regulatory requirements in that it had failed to disconnect, as instructed, 5.1 million unregistered SIM cards on its Nigerian network. The MNE eventually reached a settlement with the authorities and was let off the hook after paying a reduced amount of USD$1.671 billion. Commenting on the above two cases, Ofentse Dazela, a telecommunications analyst observed that "while companies in all markets are subject to rules and regulations, the 'noise' coming from Nigeria around compliance is now a cause for concern for stakeholders with vested interests in that market. One interesting aspect to capital flight that the Nigeria case highlighted is that the phenomenon of capital flight perpetrated by MNEs can also be 'intra-continental' in nature.

Zambia

Zambia's reported 'colonization' is due to its government's failure to repay a US$8B debt to China for infrastructural projects undertaken by the Chinese under programmers like the "belt and road" initiative (Mumbi, 2018). "It is unfortunate that China is re-possessing Africa by engaging deceitfully the egocentric African leaders. It was also emphasized that the Chinese have taken over African neighborhoods, marketplaces and major business sectors such as mining and real estate under the disguise of multinational trade or enterprise" (Mumbi, 2018).

Today, the uncontrollable over borrowing of the Zambian government has led to losing of national resources and assets to the Chinese. It is reported that the Lusaka International Airport was taken over by the Chinese. Even the State's electricity company, ZESCO, is poised for takeover by the Chinese government due to loan default, but the government has been denying the reports.

They (the Government) have been trying to play cool like everything is ok but they have actually been in secret talks over how their national electricity company will be taken over by China" (Mumbi, 2018). "The issue of whether Zambia possesses the required socio-economic and financial muscle to repay that debt is in contention considering the amount involved. It is typical of the Chinese strategy.

Moreover, is not the only thing Zambia has suffered from China; the Chinese already own 60% shares of the Zambian national broadcasting corporation which means, the Chinese have an influence over what should or should not be premiered on their sets.

Recently, Zambia's president, Hon. Edgar Chagwa Lungu, visited China and signed another US$30 million loan for the modernization of his country's Mulungushi international conference centre and another US$30 million for the expansion of the electricity supply for the Lusaka East multi-facility economic zone" (Richard Krah, 2018). It is noteworthy that in the Zambia case another foreign sovereign state is the direct or indirect 'MNE actor'.

South Africa

Following the democratisation and elimination of racial disparity in South Africa in 1994, many multinational enterprises came back into the country. With the opportunity of starting on a clean slate and in a bid to tame capital flight the South African government introduced a number of strident and highly regulated government policies that would also serve to limit some of the

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trade excesses of unscrupulous MNEs. One observed positive aspect of these regulations is that it has compelled several MNEs to set up their production or manufacturing facilities locally (ILO, 2017). The expected economic consequence of this is that it would have contributed to job creation and capital or trade revenue retention. However, some of these supposed local companies continue to bear the brand identities of their parent companies as producing under new local brand names would have made them unrecognizable. The unintended consequence of this situation is that a loophole was created for the wholesale repatriation of revenues to the proprietary rights holders in foreign jurisdictions whilst the operational costs burdens are left to be resolved locally. Thus, for example, a company like de Beers may be technically local in identity, but in terms of financials, its revenues must be repatriated to its London headquarters.

This is the case of Chinese manufacturers in South Africa. The manufacturing companies are not as competitive and productive as MNEs from developed countries and indigenous SA firms. Base on their weakness, they have been producing and selling products under the brand names of indigenous SA firms. They do not have the power of brand recognition nor the R and D capabilities to differentiate their products; therefore, they have depended on the brand recognition and sales channels of indigenous SA firms to expand sales. In relation to the operation of Chinese companies in South Africa, this conundrum was clearly illustrated (Kimura, 2013).

Challenges and Drawbacks of Capital Flight for the Africa Host Nation

Having undertaken the above review, it is also necessary to examine the implications of capital flight for the economies of host nations.

Indebtedness: It has often been alleged by commentators that China's trade strategy in Africa encourages indebtedness amongst borrowing nations. "They come to Africa with the money. They give and they give (loans) but once you default, they start to take over strategic assets within the host nations. What China has done is that they have studied African countries that have corrupt governments and greedy leaders. That is the trouble with most African nations. That is why most African nations found themselves in this situation. "China's long-term goal is the effective ownership of the commanding heights of Africa's economy" (Mumbi, 2018).

This commentator goes on to allege that "…it appears to reinforce the often repeated, but unconfirmed refrain in the minds of sceptics that one of the biggest problems with China's operations in Africa is the fact that many of the deals are done in 'secret'.

In many cases, we do not know what we signed on to. We do not know the kind of agreements they made because all of them were done hush-hush and behind-the-scenes. All that was been told is that China is giving African nations money, or they are funding this or that infrastructure project in Africa region. But not knowing that debt settlement is set at a certain percentage and failure to pay this percentage, big trouble lies ahead" (Mumbi S, 2018). Most loan indebtedness is entered into under legally binding contractual conditions which can be difficult to extricate one from. The implication is that in the event of default, the creditor is entitled to enforce recovery in any legitimate way possible.

Machinery Relocation: Multinational companies are also often regarded as vehicles for the transfer of technology from developed to the less-developed countries. The conventional view in this regard is that they allow developing countries like Nigeria, Zambia and even South

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Africa to profit from their advanced research and development. But the negative part and that they sometimes make available to African nations technologies that would otherwise be out of our reach. Most of these machines are operated by their foreign personnel; this put the promotion and development of human capital of the host nation in jeopardy (Aribisala, 2013). In some cases, no real skills are transferred as the expertise for the operation of the machinery are imported in along with the technology. This practice, thus, holds back the technological advancement and even the skills development of the personnel in the host nation.

Wealth Relocation: A major benefit deemed to accrue from the investment activity of multinationals in Nigeria, Zambia, South Africa and other Africa countries is the provision of capital. It is something of an article of faith that multinationals are a source of needed financial resources for the host nation through the transfer of their capital in the investment process, as well as through their privileged access to international capital markets (Aribisala F, 2013). Theoretically, this would go a long way to bolster capital accumulation in Africa, thereby providing one of the basic prerequisites of economic growth.

However, the validity of this much-touted school of thought is doubtful. There is considerable evidence to the contrary, indicative that instead of being purveyors of capital and generators of savings for Africa, multinationals promote imbalance by exporting capital from the developing to the developed countries (Aribisala, 2013; Kimura, 2013).

Foreign-exchange savings: The proponents of multinational activity also claim that they add valuable foreign exchange to their subsidiary coffers through their trade effect. The view here is that, given their competitive products that are backed by unique marketing skills, they will earn foreign exchange from host nations from the proceeds of their international trade. In addition, they maintain that multinationals generate foreign-exchange savings for Africa by producing domestically goods that would otherwise have been imported.

The truth is that the monopolistic control of technology by the multinationals enables the parent companies to exact rents from their subsidiaries. Multinational transactions involve the payment of licensing fees and royalties by the subsidiary to the parent company in the home-country. This enables the multinationals to charge the host nation exorbitant rents for technology, and to defray Africa on disproportionately high share of the cost of research and development (Aribisala, 2013).

CONCLUSION

It would seem that in a number of instances, the so-called MNEs have their domain or habitation in African host nations with presumed intent of importing financial and trade revenues for the development of their host nations. This presumption is often touted as positively contributing to social, economic and human development goals of the host nation. In agreement with Eweje (2009), however, the analysis of selected African countries, undertaken in this paper reveals that MNEs do not always deliver the claimed benefits and thereby do not meaningfully contribute to the host nations. It is common cause that MNEs will continue to find developing countries to be an attractive destination to do business because the abundance of natural resources in these countries. Another collateral attraction for MNEs is the potential high investment returns. In fact, it can safely be concluded that the development of the socio-economic and human capacity of the host nation is an afterthought to the goal of MNEs. Thus, the economic and financial benefits that accrue to MNEs far outweigh the contributions they

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make to their host nations. One factor that has been established by this analysis is that, over the years, MNEs have served as dubiously effective vehicles for capital flight from their host nations, especially in Africa. Therefore, multinationals in developing countries like Nigeria, South Africa and Zambia end up being exporters, as opposed to importers, of capital.

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