



ECONOMIC AND SOCIAL IMPACTS OF  
MULTINATIONAL CORPORATIONS  
IN NIGERIA

BY

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requirements for the degree of Master of Human  
Sciences in (Political Science)

Kulliyyah of Islamic Revealed Knowledge  
and Human Sciences

International Islamic University  
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## **ABSTRACT**

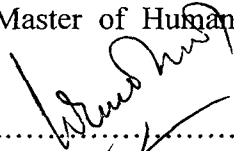
Multinational Corporations (MNCs) are commercial ventures without borders. This study analyses the history and operations of MNCs in Nigeria with particular reference to Shell Petroleum Development Company (SPDC) and Chevron Nigeria Limited (CNL). It is an evaluative study using the framework of Michael Todaro and others. It evaluates the positive and negative impacts of MNCs on Nigeria. It uses data from government documents, periodical reports issued by the respective companies, newspaper reports and other secondary sources. The study found that the MNCs have invested heavily in Nigeria and provided enough benefits in the forms of employment, schools and other infrastructures. However, the study noted adverse consequences resulting from Initial clearing of the mining site, Onshore and offshore Oil spill, Gas flaring, Dredging, and other activities. The companies are aware of environmental pollution and other fall outs but they claim to have taken utmost care in keeping the damages within the tolerable limits. Nevertheless, the damages remain severe and the government of Nigeria apparently has no control in making the MNCs abide by various agreements signed. The study is important and warrants further research using independently derived primary sources.

## ملخص البحث

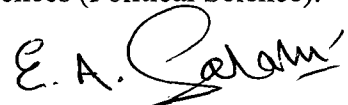
تعد الشركات المتعددة الجنسيات مشاريع تجارية بلا حدود. يهدف هذا البحث إلى دراسة تاريخ الشركات المتعددة الجنسيات وعملياتها في نيجيريا، مع اهتمام خاص بشركة شل للبتروول وشركة شيفرون المحدودة في نيجيريا. إنهما دراسة تقييمية تستخدم إطار مايكل تودارو وغيره، حيث تقيّم الآثار السلبية والإيجابية للشركات المتعددة الجنسيات على دولة نيجيريا. وتعتمد الدراسة على جمع البيانات من المصادر الأولية كالوثائق الحكومية والتقارير الدورية من الشركات المعنية، ويضاف إلى ذلك الوثائق الصحفية، والمصادر الثانوية الأخرى. وقد اكتشفت هذه الدراسة أن الشركات المتعددة الجنسيات قد استثمرت بشكل كبير في نيجيريا، كما أن هذه الشركات قد أفادت الدولة من حيث تقديم فرص للوظائف، وبناء مدارس، وتوفير بنية تحتية أخرى. ولكن الدراسة، من ناحية أخرى، لاحظت بعض سلبيات من طريقة إنكشاف النفط بريًا وبحريًا، وانحراق الغاز، والتجريف، وعمليات تخريب أخرى. وهذه الشركات تعلم، بكل التأكيد، ما تتعرض له البيئة من التلوث وغيره في المنطقة نتيجة استخراج النفط، ولكنها تدّعي اتخاذ أقصى درجات الحرص في الحفاظ على المنطقة. ومع ذلك، فإن المنطقة لاتزال تتعرض لخسائر خطيرة. والحكومة النيجيرية - على ما يبدو - غير قادرة على إجبار هذه الشركات على الإلتزام بالإتفاقات. وإن دراسة مثل هذا الموضوع مهمة جدا حيث إن المجال يحتاج إلى مزيد من دراسات تعتمد على مصادر أولية مستقلة.

## APPROVAL PAGE


I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Human Sciences (Political Science).

  
.....  
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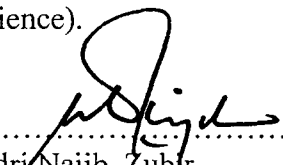
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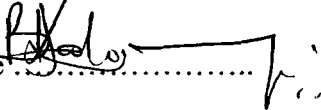
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## DECLARATION

I hereby declare that this dissertation is the product of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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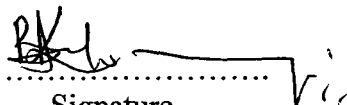
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**ECONOMIC AND SOCIAL IMPACTS OF MULTINATIONAL  
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*This Dissertation is dedicated to my parents, Mr. and Mrs. Ali Balogun (deceased),  
Alhaja Ajoke Akinbami and my friend, Ismail Akinbami. May Allah be pleased with  
them all, ameen.*

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## LIST OF ABBREVIATIONS

API	America Petroleum
ASME	American Society of Mechanical Engineering
CNL	Chevron Nigeria Limited
CSR	Corporate Social Responsibility
EU	European Union
FDI	Foreign Direct Investment
IPP	Independent Power Plant
NAFTA	North America Free Trade Association
UN FAO	United Nations Food and Agriculture Organization
MNC	Multinational Corporation
MNEs	Multinational Enterprises
NGO	Nongovernmental Organization
NACO	Nigerian Agip Oil Company
NAFDAC	National Agency for Food and Drug Administration and Control
NEITI	Nigeria Extractive Industry Transparent Initiative
NNPC	Nigerian National Petroleum Corporation
NOSDRA	National Oil Spill Detection and Response Agency
OPEC	Organization of Petroleum Exporting Countries
PPT	Petroleum Product Tax
SPDC	Shell petroleum Development Company
SNG	Shell natural Gas
SNOP	Shell Nigeria Oil Product
SNEPCO	Shell Nigeria Exploration and Production Company
TNC	Transnational Corporations
TOPCON	Texaco Overseas (Nigeria) Petroleum Company
UAC	United Africa Company
UNDP	United Nations Development Programme
UNO	United Nations Organization

## **CHAPTER ONE**

### **INTRODUCTION**

Multinational corporations are fast growing and empirical studies have identified impressive trends in the transfer of Direct Financial Investment globally. Multinational enterprises were expected to rescue the developing nations from ever chronic economic backwardness. But, studies show that the valuable raw materials taken away by the foreign investors such as crude oil are returned in the form of more expensive goods and services for the developing world to purchase and consume. Incentives readily made available to the foreign investors by some countries with potential ambitions to facilitate economic improvement were abused by most multinational companies. Illegalities in the activities of most of them after their signed contracts with the developing nations have devastating effects on developing countries. In some cases, the behaviours of multinational companies clearly show their keen interest to repatriate the wealth of the host countries to build the economy of the nations in the West. This action has been interpreted as the continuation of imperialism in the globalization era which helps to boost the economies of the developed world from the exploitation of the resources of the poor developing nations.

#### **PROBLEM STATEMENT**

This study looks into the impacts of MNCs on economy and society in Nigeria. Government's reaction to the environmental abuse by the Multinational Corporations in the oil industry in Nigeria is also analyzed. This study concentrates on two major MNCs: Shell Petroleum Development Company and Chevron Nigeria limited.

Shell-BP as a Multinational Corporation in Oil and Gas has invested in Nigeria since 1956, the year it discovered the first oil well for Nigeria at Oloibiri in the Niger Delta after half a century of exploration (NNPC report). In 1971, Nigeria joined the organization of Petroleum Exporting Countries (OPEC) and established the Nigeria National Petroleum Company in 1977. Later, Shell started a joint venture with Nigeria National Petroleum Company (NNPC). In line with the Federal Government Independence Power Plant (IPP) agenda, Shell Petroleum Development Company has said that it would supply about 650 mega watts (MW) to the national grid by the first quarter of the year 2020 (Salau, 2009). The Media Relations Officer of Shell, Mr. Precious Okolobo stressed that “the plant would increase Nigeria's power supply by about 20 per cent of its current operational capacity and the domestic gas supply would provide another 20 per cent” (Salau, 2009).

Another Multinational Corporation of significance in Nigeria is Chevron. Now it is identified as Chevron Texaco Nigeria Limited (KB NIG LTD). It has a well established joint venture worth several million of dollars with Nigeria National Petroleum Company (NNPC). Chevron has been active in Nigeria since 1913, when the products of its parent company, Texaco were first brought to the market. As Texaco Overseas (Nigeria) Petroleum Co. (TOPCON) and later Chevron Nigeria Ltd. (CNL), the company discovered Nigeria's first offshore oil fields in 1963, the Koluama and Okan fields.

In 1997, CNL started the Escravos Gas Project (EGP), the nation's first major project to gather and process natural gas. CNL continued its search for offshore oil, and discovered the Agbami field in 1999, with potential recoverable resources of 900 million barrels of oil equivalent, this was Nigeria's largest ever deepwater discovery (Chevron Official Website). Chevron Nigeria Limited is the operator of the

NNPC/Chevron joint venture in which the NNPC holds 60 per cent with Chevron retaining the balance of 40 per cent (CPI Journal).

This study therefore, attempts to answer the following questions:

1. What is the scope of the Shell and Chevron activities in Nigeria?
2. What are the Corporate Social Responsibility and related financial investment provided by these two Multinational Corporations, Shell and Chevron?
3. What various environmental problems the Shell and Chevron are causing in Nigeria?
4. What are the various ways the activities of the Shell and Chevron are beneficial to the developing countries in Africa, particularly Nigeria?

## **THE OBJECTIVES**

This research aims at achieving the following objectives:

1. To explore the various ways the activities of the Shell and Chevron are beneficial to the developing countries in Africa, particularly, Nigeria.
2. To examine Corporate Social Responsibility as an innovative step adopted by foreign companies like Shell and Chevron to extend corporate hospitality to the immediate environment of the work and the society including the reinvesting of profits in the host countries.
3. To examine environmental degradation that has been observed in Africa and in Nigeria in particular.

## **JUSTIFICATION**

This study is necessary to make detailed findings on the activities of the Multinational Corporations and the reasons behind their bold actions in undermining the laid down rules and regulations of the international community on environmental degradation and pollution. The habit of influencing the political and economic policies of the host countries could take new and uncontrollable dimensions if not checked by the international institutions like the United Nations Organization (UNO), the International Labour Organization (ILO) and other related organs. These activities of Multinational Corporations need to be studied and appropriate actions be taken to check their excesses.

This study finally suggests effective strategies that help in the proper management of natural resources in order to achieve a sustainable future for Africa development in general and for Nigeria in particular.

In addition, Corporate Social Responsibility is an innovative step adopted both by local and foreign companies to extend corporate hospitality to the immediate environment of their business and the entire society including the reinvesting of profits in the host countries. The study will look into the strength of CSR introduced by Shell and Chevron in Nigeria.

Thirdly, environmental degradation has been equally observed in Nigeria, how the activities of Shell and Chevron oil companies caused gas flaring, environmental pollution, devastation and exploring ways and means of solving the environmental problems created by multinational oil companies operating in Nigeria's Niger Delta region.

## **LITERATURE REVIEW**

Multinational Corporations (MNCs) have been studied by many scholars but their areas of focus are different. Some concentrate on multinational activities in a particular region or country, while some treat MNCs on a global scale. Scholars like Geoffrey Jones, Stephen Herbert Hyman, David N. Balaam & Michael Veseth, Mira Wilkins, John Stopford & John H. Dunning, have all written extensively on multinationals and their activities on a global scale, while Africa including Nigeria are treated with specific topics related to MNC activities.

### **Literature on MNCs in General**

Claude Ake, Denis L. Cohen and John Daniel, and few others wrote on political economy of Africa where Multinational Corporations in Nigeria were treated but not in an extensive scale., Cohen and Daniel in their work declared that, it is American MNCs that are in the forefront of the recent drive to exploit Africa's mineral wealth (African Development, December, 1974), especially with regard to copper mining in Zaire, bauxite in Guinea and Ghana, Iron Ore in Gabon and copper in Botswana (Cohen and Daniel, 1982: 70).

Geoffrey Jones wrote generally on the role of entrepreneurs and firms in the creation of the global economy over the last two centuries. He discussed multinationals as some of the primary sources of the flows of investment; in trade and knowledge across national borders which collectively represent the core of globalization process.

He defined multinationals as a firm that controls operations or income-generating assets in more than one country. He stresses that multinationals are owned in their home country and invest in host economies. "Since 1970 United Nations has

used the term *transnational* to describe the same phenomenon. Firm with particularly extensive international operations has sometimes been described as global” (Jones, 2005). But Mira Wilkins says that a multinational enterprise is a business that has investments outside its home nation-investments that are managed and controlled (or where there is the potential for management and control ((Wilkins, 1991). He describes foreign investment in two categories (1) Portfolio investment and (2) Foreign Direct Investment. The former involves the acquisition of foreign securities by individuals or institutions without any control over the management of foreign entity while the latter foreign Direct Investment (FDI) involves management control like control of managerial and operational sector and general decision-making in the overall activities of the entity.

Grazia Ietto-Gillies explains that data of FDI is available as *flows* or *stock*. Flow concepts refer to a period of time, in relation to an economic/business concept. *Inward* foreign direct investment for a specific country is the direct investment by foreign companies into that country. While *outward* foreign direct investment is the investment abroad by companies whose nationality is in another country.

In measuring the MNCs, Grazia Ietto-Gillies says that Foreign Direct Investment (FDI) is conventionally used as a proxy to quantify multinational investment, but it is said to be very problematic as it is hard to define control. His scholarly writings on Multinational activities in Africa as well as in Nigeria are basically on postcolonial era. He acknowledged that joint ventures were frequently used in developing countries in the postcolonial era. This was said to be partly driven by firms seeking market in unfamiliar environments. This motivated British-based Guinness Brewery to enter into a joint venture with Unilever’s trading company, the United Africa Company (AUC) in West Africa.

Stephen Herbert Hymer reviews many theories and models on MNCs. He focuses mainly on FDI and explained that capital transfer consists mostly of direct and portfolio investments as well as loans, all seeking safety, high rates of return and as much control as possible. In the same vein, Hymer notes that technology transfers contain the process know-how (the technology embodied in the production processes themselves), the ability to choose the appropriate technologies, the capability for engineering design and plant construction and the technical know-how required to operate the production facilities, as well as expertise necessary for conducting feasibility and market studies (Ibid, :4). He declared that both capital and technology are strictly controlled by multinational corporations from Western countries through direct investment and licensing agreement. Technical advantages are the sources of quasi-monopoly power and increase profit for multinational corporations operating in situations with imperfect market, particularly in the Third World.

Balaam and Veseth looked at the direction of the flow of the Foreign Direct Investment (FDI). They argued that, it is regionally based, flowing out of countries in the European Union and the North American Free Trade Area into other NAFTA countries. They have supported this flow when mentioned that TNCs tend to evolve and expand to compete in particular markets. While markets for some products are truly regional, especially petroleum and some primary products, many recent markets are regional, driven by EU and NAFTA expansion.

Africa tends to attract very little FDI with a total of just \$17 billion. South Africa was by far the largest FDI recipient with (\$6.7 billion) followed by Morocco with (2.7 billion). The authors claimed that “for the most part of Africa is essentially ignored by TNCs because these countries are not important in transnational markets, because they lack skilled labour, or because political and social instability make them

an undesirable investment target (Balaam & Veseth, 2005). They further argue that most “global” businesses are not really global at all; instead they channel investment to particular regional markets, leaving out large parts of the world’s population, especially in Africa and South Asia.

Mira Wilkins’s works on multinational corporations were found to be much more concentrated on American and European transnational enterprise. Wilkins wanted to consider what was known of American and European multinationals and at the same time to know if there are differences or similarities in the patterns of their development. He notes that “A full-fledged modern multinational can have operations in over a hundred countries, some of which are themselves multi-plant and multifunctional and may have no trade connections whatsoever with the parent firms” (UNCTC, 1983). He also mentioned that the size and importance of some of the contemporary multinationals is awesome, by pointing out that in 1980, General Motors had 746,000 employees, Philips Gloeilampen Fabrieken, 372000, Siemens, 344,000; Fiat 343,000; Unilever, 300,000; Peugeot, 245,000 and British American Tobacco (B.A.T.) Industries, 177,000.

John M. Stopford & John H. Dunning wrote *Multinational Company Performance and the Global Trends*, in 1983. They studied how multinational enterprises have been buffeted by the cross-current of the world recession. How they have reacted to changing and for many, adverse circumstances. The context is based on a review and analysis of recent performance drawn from the information contained in volumes I and II of the *Directory of Multinational Enterprises 1982-1983*. The authors looked at the interpretative text and summary statistics and the provision of rankings of 500 directories of MNEs.

They observed that manufacturing has become more attractive to foreign investors in the 1970s. In general, the expansion of manufacturing has counterbalanced the fall in investment in petroleum and hard minerals. This is due in part to the programme of rapid industrialization in some of the larger and more populous countries, such as Brazil and Indonesia (Ibid, 1981: 17). This leads to the development of resource processing industries, such as Petrochemical production in Middle East, aluminum smelting in Jamaica, and the growth of low-wage manufacturing activities producing goods for export, like textiles and clothing, leather goods, cameras, TV sets and domestic electrical appliances in South Korea, Hong Kong, Taiwan and Singapore.

#### **Literature on MNCs in Nigeria**

Claude Ake, explored more on imperialism and its effects on the economy of African countries than on the activities of multinational corporations in Africa during the early stages of African economic development. However, in this book, he discussed briefly the foreign direct investment in Africa. He explained that, the pattern of foreign investment in the colonial African economies reinforced the complementarity between these economies and the Western economies, and the structural dependence of the former on the latter. He pointed out that “the foreign investment increased the integration of the African economies into the Western capitalist system by promoting the spread of the capitalist mode of production” (Ake, 1981: 38).

He also argued that, despite the low wages in the colony, the real costs associated with the production of manufactured goods were so high that the production of manufactured goods was rarely efficient.... and there was far less uncertainty about the repatriation of capital invested in primary production. Market forces in the global economy tend to work towards the transfer of income from poor

forces in the global economy tend to work towards the transfer of income from poor countries to rich ones, incomes in the African economies rose too slowly to be very significant in producing internally-generated industrialization or even growth (Ake, 1981:39). He stressed that foreign investment increased primary production without significantly raising incomes, thus improving the development of productive forces or even capital accumulation.

Dennis Cohen & John Daniel recognized that the MNCs retain a national base in their ownership and control. They see the expansion of their activities as the most important development in the continuous integration of the international capitalist system. They see MNCs activities in the dependent areas as further enlarging dependency through the following mechanisms:

1. Bringing local capital under foreign control through joint government-MNCs enterprises.
2. Transferring surplus from dependent to dominant areas through profits, dividends royalties, transfer pricing, over-invoicing, trademark and copyright fees, and management contracts.
3. Retarding development through the use of inappropriate technology
4. Inflating profits through monopoly marketing privileges.
5. Distorting the pattern of local development through investing in areas of benefit to the centre investor, not necessarily to the peripheral area.

They also go into some detail about the relationship between MNCs and the neo-colonial state and how this can affect the latter's policies both domestic and foreign and how the nationalization of such foreign enterprises has through continued minority control and management contracts, often give the MNCs greater access to state power, rather than bringing them under the effective control of the state. The

editor of the review looks at the internalization of labour in response to the internalization of capital, in the form of creation of international trade unions, as a significant source of challenge to the increasing domination of multinational corporations over dependent states.

### **A Framework for Analysis**

Multinational Corporations (MNCs) are treated as a foreign source. The term MNC, has a special meaning under Foreign Contribution Regulation Act, 1976 (FRCA). The definition of MNC is in two fold. First, that the corporation should have an office or business in two or more countries. Second, the corporation should have been formed in a foreign country. Corporation has four key features (Black's Law Dictionary, 1999):

1. It is an entity recognized by law;
2. It has a personality of its own, distinct from the persons who formed it;
3. It has only those powers, which its constitution gives it;
4. It has perpetual succession.

Margaret & Karen defined "Multinational Corporations (MNCs) as particular form of non-governmental actors organized to conduct for-profit business transactions and operations across the borders of three or more states" (Margaret & Karen, 2004: 19). MNCs can take many different forms, from licensing local industries to providing foreign suppliers, contract manufacturing and assembly operations.

Their distinguishing features are that, they are companies based in one state with affiliated branches or subsidiaries and having activities in other states. They have the ability to invest own capital landed property, create jobs, influence political actors, offer incentives to host government, lobby for changes in state laws, and threaten to