

Original Article

# Multi-National Corporations Influence on Human Capital Development in Host Economies

Paul Chukwujekwu Obidike<sup>1</sup>, Foluso Chinyere Osunkwo<sup>2</sup>, Kalu Ebi Uma<sup>3</sup>

<sup>1,3</sup>Alex-Ekwueme Federal University, Ndufu Alike, (AE-FUNAI) Ebonyi State, Nigeria.

<sup>2</sup>Abia State University Uturu, Nigeria.

Received Date: 19 February 2022

Revised Date: 03 April 2022

Accepted Date: 05 April 2022

**Abstract** - To date, most empirical evidence indicates mainly multi-national corporations and their allied links; knowledge spillovers, inter and intra-industry spillovers, vertical and horizontal linkages, imitation research and development (R & R&D), competition and adoption channels, transfer technologies influence upgrading/acquisition and human capital development. This paper evidences and evaluates how Multi-national companies use Inward Foreign Direct Investment (FDI) to stimulate skill upgrading/acquisition and human capital development in the host Sub-Saharan African countries. The study is more of a review and expository of the developmental role of the multi-national in their host economies. From the study, it was obvious that the Inward FDI influences the development of Human capital with possible links at both micro and macro levels in host communities on the demand and supply sides.

**Keywords** - Multi-national corporations, foreign direct investment (FDI), Skill upgrading, Allied Linkages, Human capital development, Developing countries.

## I. INTRODUCTION

There have been divergent views on the role of multinational companies in host economies in Africa. This was based on the perceived and observed facts of activities of this global company in the region. Multi-national companies (MNCs) are seen as organisations that kill local initiatives for economic growth, source of economic disarticulation to the host society and agents of de-capitalisation and de-industrialisation [1]. It was also noted that the technology established by MNCs does contaminate underground water, which is anti-human development since it contributes to the displacement of the host people coupled with other associated problems ( [2] [3]). However, one consequence is that an increasing share of a country's production comes from foreign subsidiaries of multinational corporations (MNCs).

The share of foreign subsidiaries in world production is now 15% of manufacturing and other traded goods [4]. Some Scholars view MNCs as agents of development, employment,

clean environment, and development of the underdeveloped rural areas through their inculcation of ethical, social and environmental responsibilities. An important part of globalisation has been the continued growth of foreign direct investment (FDI). [5] reported that from 1979 to 2007, the ratio of world FDI stock to world GDP increased from 5% to 16%, and the ratio of world FDI inflows to total domestic capital formation increased from 2% to 14%. Because foreign direct investment usually accompanies the transfer of mass production and management knowledge from investors to the host country is likely to spread to domestic companies in the host economy. It is believed that by bringing new knowledge to the host country, multi-national corporations can help narrow the ideological gap between the developed and developing countries that are the source of growth. Therefore, the impact of Inward foreign direct investment on the growth of recipient countries may be more valuable than products that directly generate supplementary national investment. The indirect impact of Inward foreign direct investment inflows on the growth of the host country may include the sum of its externalities to domestic investment through knowledge dissemination and linkages.

Externalities or spillovers related to multi-national companies can be divided into two, namely, Intra and inter-industry contagion effects. Foreign inbound competitors absorb Intra-industry contagion effects. These competitors are promoted to respond to new and improved processes or product technologies introduced by technology importing companies by improving their technological level. In some cases, the demonstration effect of foreign companies can accelerate the diffusion of new technologies. However, another source of secondary effects may be increased competition from foreign entry, forcing local companies to become more effective users of existing technologies or explore new technologies. Such technology dissemination mechanisms include reverse engineering by competitors, increased competition through R&D and product development, and the mobility of employees trained in new technologies in foreign companies.



Another mechanism for disseminating imported technology in the host country's economy is establishing vertical links between companies. Suppliers and customers of foreign companies can benefit from the knowledge gained in dealing with these companies. Multi-national companies may require their component suppliers to provide higher specifications, transformations and technological upgrades, forcing them to adopt the technology. In many cases, they may pass on new designs, drawings, and specifications, which may be an important source of technology dissemination. Similarly, certain knowledge elements can be transferred downstream to foreign company customers in an embedded manner. For equipment manufacturers, disseminating knowledge through this channel can be particularly important. For example, foreign investment to provide more efficient loans can play an important role in the diffusion of new technologies in the host country's textile industry.

In this article, we intend to focus on some of the positive effects of the MNCs, and so we provide some ideas on the subject of skill change, and we will define it from two aspects of the supply and demand of labour. Each side of the labour market will be addressed in turn. The thesis is divided into four parts: this section presents the background of the research, the second section presents the theoretical concepts, the third section explains the mode of transfer of activities and the fourth section get a conclusion.

## **II. THEORETICAL CONCEPTS**

The traditional argument is that FDI inflow promotes economic growth by increasing the stock of capital. At the same time, recent literature points out the role of FDI as an international technology transfer channel. More and more evidence shows that foreign direct investment promotes technological change through technology diffusion because multi-national companies focus on industries with a high proportion of R&D and sales, as well as a large number of technical and professional workers, and the proportion of R&D and sales is high, and the proportion of technology is high. And professional workers [6]. Economic literature believes that technology transfer may be the most important channel through which the existence of foreign companies can generate positive externalities in the host developing economies of African countries. Multi-national companies are the most important source of technology in developed countries to developing countries so they may have considerable technical side effects. However, whether multi-national corporations contribute to these spillovers and vary by context and sector, multi-national companies may be one of the most technologically advanced companies globally. In addition, FDI helps import more effective foreign technology and creates technology spillover effects for local companies.

The diffusion of knowledge from affiliates to national companies is often referred to as the benefits of FDI inflow, so it is necessary to outline the possible channels of diffusion. The general idea that business-to-business interactions can produce secondary effects dates back to [7]. [8] [9] have long been interested in analysing the possibility of interaction between multi-national companies and companies in the host country. Other researchers provided some initial research evidence in which US multi-national corporations reported how often and how quickly their technologies implemented in foreign subsidiaries reached their host country competitors, consistent with the effects of cross-border contagion.

In this approach, technological change plays a fundamental role in economic growth, and foreign direct investment by multinational corporations is one of the main channels for developing countries (LDC) and sub-Saharan Africans to obtain advanced technology. Knowledge dissemination can be carried out through imitation, competition, combination and/or training. Although it is difficult to distinguish these four channels in practice, the basic theories are different. Copycat channels are based on the view that domestic companies can increase productivity by imitating foreign companies' most advanced technology or management practices (the greater the technology gap). In the absence of foreign direct investment, obtaining the information needed to adopt new technologies is too costly for local companies. As a result, foreign direct investment reduces the cost of technology adoption and can expand the pool of technology available to local businesses. The competition channel emphasises that the entry of foreign companies has intensified competition in the domestic market, and domestic companies are encouraged through transactions with these companies. Through the purchase of raw materials or intermediate products, a strong buyer-seller relationship can be developed that results in technical assistance or training in new technologies, and it is necessary to improve the human capital available in the country. Only when the workforce can use the new technology can the new technology be adopted. The entry of foreign companies can incentivise national companies to train their employees. If labour is transferred from a multi-national company to a local company (through labour mobility), the physical movement of workers will cause knowledge to flow between companies.

It has been pointed out in an influential article that the effectiveness of FDI depends on the human capital stock of the host country. Only in countries where human capital is above a certain threshold can foreign direct investment positively contribute to growth. Therefore, FDI leads to growth through technology spillover effects that increase factor productivity. Certain host country conditions are necessary to guarantee side effects. In particular, human capital (an educated workforce) is essential for absorbing new technologies and management skills.

How do these multi-national subsidiaries affect the host country labour market in developing countries? On the demand side, the academic literature on multi-national companies suggests several channels through which the inflow of foreign direct investment stimulates the host country's demand for more skilled workers. These include the transfer of technology to affiliates of the host country; technology flows to host country companies through the market and spillovers; and physical capital investment related to new technologies. We will discuss the theoretical concepts of these different channels. There is convincing evidence of the importance of technology transfer and capital investment within companies to promote the host country's demand for more skilled workers. The evidence about the flow of technology to domestic companies is more complicated, especially through contagion effects.

However, contrary to the usual assumptions, we will argue that, given the strongest evidence for the role of technology transfer in companies and capital accumulation, the absence of side effects is not necessarily bad. Researchers in many fields generally believe that a distinctive feature of these companies is that they have patents on intellectual assets, patented technologies, trademarks, etc., which can be implemented in factories outside their home country. This kind of knowledge intensity is important for understanding the nature of the labour demand of multi-national companies in the host country.

On the supply side, it is less clear how the inflow of foreign direct investment affects human capital development. The main impact of FDI on human capital in developing countries seems to be indirect, not through the efforts of multi-national companies but through government policies that seek to attract FDI through the capital. Once a subsidiary of a multi-national company hires people, its human capital can be further improved through on-the-job training and learning. These affiliates can also positively impact the human capital of other companies (including suppliers) with which they have established relationships. As the workforce is transferred to other companies and some employees become entrepreneurs, this improvement may have an additional impact. Therefore, the issue of human capital development is closely related to broader development issues.

### **III. MODE OF ACTIVITY TRANSFER**

Multi-national companies can promote two different modes of investment in human capital. One is short-term activities at the company level. Individual companies interact with the host country's labour market through on-the-job training and support to local educational institutions. The other is long-term activities at the national level, through which multi-national companies jointly contribute to the general macro-environment in which fiscal policies affect educational policies. To this extent, multi-national companies contribute to the good macroeconomic environment of the

host countries by improving workers' productivity. By providing a relatively stable source of foreign capital, the host country's taxation helps the host country's ability to fund education. We will distinguish between two different supply models through which multi-national companies can promote human capital investment.

Short-term labour supply at the multi-national and company level directly affects work support because the knowledge they transfer can improve the skills of their employees (and with a side effect, it can also improve the skills of domestic employees). They can also indirectly affect the labour supply, for example, by influencing the educational infrastructure of the host country in terms of course selection and vocational training. For example, [10] reported that Intel recently chose to build a large test and assembly facility in Costa Rica because Costa Rica agreed to expand high school training in electronics and English.

Discussions about the skills gap encountered by multi-national companies in the host country's labour market have recurred. Understanding how individual companies are trying to bridge these gaps can provide lessons for host government education initiatives.

First, in the training literature, it is well documented that company education programs often target company-specific skills rather than general skills (for example, [11]). Given the company's inability to obtain a return on investment in general skills, this focus on company-specific skills is understandable. Second, multinational companies often have competitive value. These two points do not mean that individual multi-national companies cannot hire host country labour market agencies to help develop skills. But they must say that multi-national companies' human capital development methods tend to be more targeted at the company than the general human capital issues of computing, literacy, and problem-solving multi-national companies and long-term national labour supply.

Another way for multi-national companies to promote human capital development is a series of long-term activities at the national level. Through these activities, multi-national companies collectively contribute to the macro environment. Fiscal policies can support education policies. As far as multi-national corporations contribute to a good macroeconomic environment in the host country, they also help to improve the host country's ability to fund education.

First, multi-national corporations promote skill acquisition throughout the economy because their affiliated technology transfer and capital investment activities increase demand, thereby increasing the wages of skilled workers. Throughout the economy, if multi-national corporations contribute to the growth of the demand for skilled workers and wages, in the long run, they will promote a general

equilibrium incentive for the people of the host country to acquire skills through education and/or training. If people in the host country have access to these skills acquisition methods, they should respond to price signals from the labour market.

An increase in the economic activity of the affiliates of the MNC means an increase in the fiscal income of the host country (if the tax is work, capital or both). This expansion of this host country's tax base may allow more government investments to be educated and enacted. Of course, the production and taxes of tax IFR will not automatically invest in human capital. However, the production of FDI and the tax will release budget constraints, which allows these larger investments. This broadly accords with recent discoveries of [12] tend to coexist with income growth for a large group of main groups.

Dunning, from the perspective of industrial organisations (1981), formalised a framework that is a company that is a company that has three specific advantages known as OLI. The first is the benefit of the property, that is, the property of the first specific asset. Second, the advantage of the position helps companies to abuse abroad instead of countries at home. And the third is that it is not a contract with internalisation; that is, it is not a contract with other independent companies, but its asset needs better.

International trade has had considerable progress in modelling multi-national companies in a general equilibrium in the last 20 years. This theoretical literature involves the one-dimensional main theory of multi-national companies that focus on the Horizontal or Vertical FDI.

#### **A. Vertical view FDI**

Vertical FDI is when multi-national companies will generate the price difference of international factors. Companies are committed to two activities. Development and maintenance of our knowledge and production site assets. The service of Headquarters is intensive, and the production of physical and human capital and production is intensive for manual work. Suppose the price of the factor is different in the countries. In that case, the companies will be a multi-national company identifying the production at the companies' headquarters with low corporate personnel and expenses of low-rating personnel. These production activities may be slower than the service of the central office but will be by skills compared to their first mix of activities.

#### **B. Horizontal FDI**

Horizontal FDI sees commercial barriers as expensive, resulting in multi-national companies. Formal environments are those in that companies have a high-quality headquarters and one or more production plants. If the commercial cost is low, the company creates all results in national plants and helps foreign consumers through exports. If the commercial

cost is high, companies become multi-national companies by constructing a national and foreign production plan. Each is offered only to consumers in that country. This type of FDI is called horizontal because multi-national companies perform the same activity (production) in all countries.

#### **C. Competition**

Foreign direct investment and the existence of multinational corporations can have a significant impact on competition in the host country's market. However, since there is no universally accepted method to measure the degree of competition in a given market, there is almost no definite conclusion in the empirical evidence.

The existence of foreign companies can greatly promote economic development by stimulating internal competition, which ultimately leads to higher productivity, lower prices, and more efficient resource allocation. On the contrary, the entry of multi-national companies also tends to increase the host country's market concentration, thereby harming competition. Any of the following factors constitute this risk: if the host country constitutes a separate geographic market with high barriers to entry, the host country is small, and the participants have an important position in the international market or the legal host country's framework, the country's competition is weak or enforcement Weak.

Since the early 1990s, global market concentration has increased significantly due to a wave of mergers and acquisitions that have reshaped the global business landscape. At the same time, the increase in the number of strategic alliances has changed the way formally independent corporate entities interact. It is generally believed that alliances can limit direct competition while improving efficiency, but this evidence has not been fully confirmed. There is also a wave of privatisation that has attracted a large amount of foreign direct investment (mainly in developing and emerging countries), which can also significantly impact competition.

#### **D. Research and Development (R&D)**

An obvious sign that multi-national companies are knowledge-intensive companies is their intensity in Research & Development (R&D). In short, consistent evidence is that there is an overlap between countries that do a lot of R&D and countries headquartered in many multi-national companies. It is generally estimated that approximately 90% of global R&D is carried out in five countries; the United States, the United Kingdom, France, Germany, and Japan. These five countries are also one of the main source countries of global FDI flows. At the corporate level, [13] reported that in the past 20 years, the US parent company of US multi-national corporations. In 1994, only 2,727 companies had been doing more than half of the research and development in the United States. United States

### E. Regional line

Theoretical work of Spillover of general discussions leaves the anecdote to extend to formal general audition models. It is generally assumed that Spillers fall with the industry or regional lines. An example of multi-national overflow along the industrial line is [14], increasing access to the intermediate entry of professional varieties. Its best knowledge raises the PTP of the national producer. National companies are often assumed to learn through unofficial contacts of the same affiliation of the industry. The Commercial Fair of E. G. Discussion of the provider/distributor is shown. Exposure to affiliate, marketing and patent products plays a great role. Affiliate technical support reverses engineering if the main contacts are among suppliers and distributors; depending on how they are defined closely or significantly, aspects can be classified as anal situations.

Other spillover mechanisms can operate along the regional line. One commonly proposed approach [7] is job rotation. If at least some specific knowledge of foreign subsidiaries is incorporated into their workforce, this knowledge may also change when the subsidiary employees leave to work for the domestic company. For example, [15] used US patent records to track the movement of scientists between domestic and foreign companies [16]. This knowledge does not have to be company-specific (such as inventory control or management techniques). Suppose the labour mobility between regions in a country is low. In that case, these spillovers are likely to be concentrated in the areas where the branches operate rather than scattered across the country. More generally speaking, regional labour market spillovers can be regarded as an important agglomeration economy that can encourage firms to move closer to each other in space. [17] provides some formal models of aggregation problems. The third channel to promote the host country's demand for skilled labour from foreign and domestic companies is capital investment. Implementing new technologies usually involves new capital investments (computers and office products). To the extent that capital and skills are used to complement the needs of companies, skills enhancement can come not only directly from new technologies but also indirectly from capital investment driven by these new technologies.

### IV. CONCLUSION

This document described how multi-national companies affect both demand and the supply of skills in the labour market. On request, the multi-national affiliate uses solid knowledge assets and increases the demand for more qualified workers as they invest in physical capital. Although these knowledge assets have been transferred, this feature also makes this characteristic demonstrate this patentability, but this is also a national company throughout the country. There's a chance. On the supply side, multi-national companies can facilitate the interaction between micro levels

of individual affiliates, trained workers, and educational and training agencies of households. They can also raise production, stabilise and do this through channels, such as a sense of migration decisions.

It is important to note that multinationals are FDI companies for economic growth and access to capital in developing economies they lack. In recent years, most governments worldwide have widely documented that the domestic policies have made MNCs policies much easier for foreign operations[5]. The story offers many examples of governments (Japan and Korea) that seek development strategies instead of the FDI strategy. A joint company, license and export were common.

### REFERENCES

- [1] L. Amusan, Multi-national Corporations' (MNCs) Engagement in Africa: Messiahs or Hypocrites? *Journal of African Foreign Affairs*.5(1) (2018) 41-62.
- [2] L Amusan, Politics of Biopiracy: An Adventure into Hoodia/Xhoba Patenting in Southern Africa *African Journal of traditional, Complementary and Alternative Medicines*.14(1) (2017) 103-109.
- [3] F Krupp, F. Don t Just Drill, Baby-Drill Carefully *Foreign Affairs*. (2014) 15-20.
- [4] R. E Lipsey, .. Magnus Blomstrom, and Eric Ramstetter. Internationalized production in World Output. In Robert Baldwin, Robert Lipsey, and J. David Richardson (eds.), *Geography and Ownership as Bases for Economic Accounting*. Chicago: The University of Chicago Press. (1998) 83-135.
- [5] United Nations Conference on Trade and Development, *World Investment Report Cross-Border Mergers and Acquisitions and Development*. New York: United Nations. (2000).
- [6] Markusen, J.R. Multinationals. Multi-Plant Economies, and the Gains from Trade. *Journal of International Economics*, 16 (1984) 205-226.
- [7] A Marshall, *Principles of Economics*, 8th Edition London: Macmillan. (1920).
- [8] R E Caves, Richard E. Multi-national Firms, Competition, and Productivity in Host- Country Industries. *Economical*, 41 (1974) 176-193.
- [9] R. E Caves, Richard E *Multinational Enterprise and Economic Analysis*, 2nd Edition. Cambridge: Cambridge University Press. (1996).
- [10] Hanson, Gordon H., Raymond Mataloni, and Mathew J. Slaughter. Expansion Strategic of U.S. Multi-national Firms, In Dani Rodrik and Susan Collins (eds) *Brookings Trade Forum*. (2001) 245-294.
- [11] L M Lynch, Private-Sector Training and the Earnings of Young Workers *American Economic Review*.82(1) (1992).299-312
- [12] Dollar, David, and Aart Kraay. *Growth is Good for the Poor*. Development Research Group. Washington, DC World Bank. (2000).
- [13] M J Slaughter, Production Transfer Within Multinational Enterprises and American Wages, *Journal of International Economics*, 50 (2000) 449-472.
- [14] Rodriguez-Clare, Andres, Multi-nationals, Linkages, and Economic Development. *American Economic Review*, 86(4), September, (1996), 852-873.
- [15] J Song, P Almeida, and G Wu, Learning by-Hiring: When is Mobility Useful?, Paper Presented at Technological Innovation and Evolution Conference , (2001).
- [16] M A Motta, M Fofur, and T. Ronde. Foreign Direct Investment and Spillovers through Workers' Mobility. *CEPR Discussion Paper #2194*. (1999).
- [17] P.R Krugman, *Geography and Trade*. Cambridge: MIT Press.(1991).