African Underdevelopment and the Multinationals – A Political Commentary

Emma Chukwuemeka, Ph.D
Senior Lecturer, Public Administration/Coordinator, Postgraduate Studies
Faculty of Management Sciences, Nnamdi Azikiwe University
Awka, Anambra State, Nigeria. P.M.B. 5025 Awka
Tel: 234-080-6096-7169 E-mail: hrvkonsult@yahoo.com

Rosemary Anazodo, Ph.D
Lecturer, Department of Public Administration,
Nnamdi Azikiwe University, Awka Nigeria

Hope N. Nzewi, Ph.D
Lecturer, Department of Business Administration
Nnamdi Azikiwe University, Awka, Nigeria

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Abstract

The paper examined the general operational mode of the multi-national/trans-national corporations in Africa with a view to addressing African underdevelopment. The methodology adopted was content analysis, where relevant records were critically reviewed and analyzed. The major findings revealed among others that trans-national corporations have not helped host nations; rather they have contributed to their underdevelopment. Profits maximized by multinationals are repatriated to the home countries instead of using it to develop the host nations. The so called technology they claim they transfer to host nations is obsolete. Essentially the paper recommends that all African nations where MNCs operate should insist that the indigenes have to occupy sensitive and policy making positions in the MNCs. Legislative incentives should be used to direct foreign investment to manufacturing sub-sector, instead of commercial and communication sub-sectors where the multi-nationals currently dominate. The paper concludes that the aspirations of the host nations to welcome the multi-nationals with the hope of drawing technology from them have become illusive.

Keywords: Multinational, Development, Global, African nations, Politics

1. Introduction:

International business has come of age, with the increasing expands of so many regional bodies such as African union, European union, and the like, these indigenous industries have helped to demolish both actual as well as psychological frontiers to business. Global products standardization has helped but industrial cooperation is gradually becoming the keynote of business in contemporary time (Ugwu, 2010)

As national boundaries disappear with tariffs, more and more goods and services move into international business scene. In the past decades, several foreign subsidiaries have grown into operations, leading to the emergence of transnational corporation firms that have a number of directly controlled operations in different nationals and focuses on world wide perspective (Agi, 1999)

As an economic phenomenon, globalization is a shift from a distinct national economics to a global economy. In today's "global village" the production of goods and services has been in the early nineteenth century, new and larger firms grow and dominated major sectors of the world economy (Chukwuemeka, 2000)

Multinational enterprises, a mild product of globalization argues (Chukwuemeka, 2007), are therefore both a cause and a result of the modern information revolution It is derived by dramatic improvements in telecommunication, increase in computing power, and the development of information networks, such as the internet, web-based commerce etc. These technologies are helping to overcome the barriers of physical distance. The first multinational enterprises established with a global orientation grew out of the merger in 1929 between Margarine U., a Dutch firm and Lever Brothers, a British Company. This company became Unilever later and today, it is one of the biggest trans-national companies in the world. Many of these firms have today become important forces in the world economy (Ogbozor, 2002)

Thus Wells (1990) noted that "given the productive capacity of these organizations, their financial resources and ability in terms of investment, establishment and distribution, they constituted genuine trans-national actors in the economic domain".

Elaigwu (2003) argues that multi-national enterprises tend to bring down economies over night. A few clicks of a computer mouse can devalue a nation's currency very quickly, wasting away the life savings of millions of breadwinners.

Armstrong (1991) argues 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 argues that multinational enterprises could be used as a foreign policy instrument of its home government.

The question that readily comes to mind is "has the role of the multinational enterprises, contributed to the economic development of the host country"?

This paper tries to analyse the plethora of question surrounding the role of the multinational enterprises in the third world nations.

The different leaders of African nations over the years formulated policies and programmes in pursuit of economic growth and development.

The policies and programmes have failed to make impact in the economic development of the new states. The effects of these policies and programmes on the activities of multinational enterprises need no further emphasis. It is open secret that after several years of independence of countries like, Nigeria, Ghana, Ethiopia, Sierra Leone, South Africa etc., only very little improvement has been recorded in just few sectors of the economy of these countries. Some of these economies still operated on monocultures and vertically integrated with the parent industries of the neo-colonials themselves (Izunwa, 2005) It is against this background that the following thought provoking questions and assertions bug the mind. Can African nations be truly independent when the activities of multinational enterprises have partially destroyed local entrepreneurship drive, which have an important effect on development? Does the presence of global firms raise the cost of capital and makes insufficient fund available to local firms? This counters the development posture of leaders of the third world nations,

Agreeing with this point, Bernal (2005), stated that "it is frequently contended that the international firm sups up local capital either by borrowing locally or by receipt of investment incentives". Multinational enterprises do not encourage improvement of balance of payment of host countries. Multinational enterprises have been used as a foreign policy instrument of their home governments, to the disadvantage of host country's economic development (Ugwu, 2010).

Multinational enterprises are accursed of not transferring technology since they fail to impart specialised technical know how to host country nationals.

Therefore, the objective of this research is to assess the extent the trans-national corporations have contributed in the development or underdevelopment of African states.

2. Literature Review

2.1 Africa and Multinationals: An examination

It is generally recognised that the African nations, apart from being the cradle of the human race, compared to the rest of the world, is the best endowed with the richest natural resources the world has ever seen. She has landmass several times the size of Europe. She is rich in oil deposits, gold, diamond, iron or copper, various types of wood etc (.Aja, 2009). And for centuries Africa and Africans built an economy able to produce its own food and its own tools including weapons.

The Europeans who came to Africa in the 15th and 16th centuries were interested mainly in goods like gold and other natural products like pepper, spices and ivory for which there was a great demand in Europe.

Politically, most of the third world nations have been free for a long time. But economically, an enormous position of the continent remains in chains. Basic economic realities remain unchanged from the colonial period.

To fully appreciate the role of the multinational enterprises in the exploitation of the third world nations, it is necessary to understand the character of the new states, its level of development, and basic thrust of their foreign policy. For many years after independence of many third world nations and up till now, they continued by and large with policies which at the international level ensured close collaboration with the metropolis emphasising the special relationship between them and their colonisers (Ake, 1981). The industrial sector was dominated by low technology and the pattern of relationship between her and multi-nationals being based primarily on joint ventures did not encourage the development of an auto centric industrial base. New states lacked the capacity to exploit local raw materials, work intermediate industries and produce capital goods, which along could provide the basis for production and reproduction required for national development.

Import substitution policy initiated in many African states during the colonial period and confirmed by subsequent governments, which hardly took into account the local endowment, led to increased dependence on imported raw materials, industrial inputs, machinery and equipment, technology and expatriate personnel.

Unequal exchange and pre-determined international division of labour persisted. Great reliance was placed on direct foreign investment as a factor to accelerate both financial flows and the so-called technology transfer.

2.2 False claims by multi-national corporations

While Aja (2011) tried to expose multi-national corporations in particular and foreign private capital in general, both the MNCs and foreign private capital, financial institutions are busy rationalizing their activities in Africa. Uzor (2009), Ugwu (2008) and Tunde (2011) argued that trans-national corporations provide finance for investment, provide employment, train and help youths of the host country to acquire skills and technology as well as contribute to government revenue through taxes, fixed royalties and fees. Nwankwo (2004) refuted these claims in very strong terms. According to him MNCs are agents of international economy, MNCs operation in the third world have three general complaints argues Nwankwo (2004). First, he argued that MNCs operation generally have had an adverse impact on the economies of their host states. While not denying the claim that MNCs transfer capital resources from a capital rich nations of Africa to a capital poor nations of the 'South" to capital rich countries of the 'North" though such devices as transfer pricing, over-invoicing of imports, under-invoicing of exports and over pricing of technology. Although critics admit that MNCs may well have created jobs, they contended that multi-nationals, on the balance and when compared with domestic firms, do in fact destroy jobs because they employ capital-intensive technologies of third world countries. The so called technology the MNCs transfer to host third world countries argues Eze (2011) is obsolete, overpriced, inappropriate and inconsistent with the factor endowment of host states. More fundamentally, MNCs create enclave economies. The MNCs operating in African nations offer bribes and make improper payments in order to circumvent local regulations, they also engage in illegal political activities (Rawlings, 2007)

It is pertinent to note that Nigerian foreign policy encourages alien investment. Alien investors were offered various incentives which include a ten-year tax holidays for pioneer industries, generous depreciation allowances, income tax-relief, some market protection, exemption from import duties and the creation of a more competitive business environment. The Nigerian constitution also guaranteed alien investors the payment of 'adequate compensation' in the event of compulsory acquisition or arbitration in case of disputes over the quantum of compensation. In order to guarantee the safety of direct foreign investments, the Nigerian government concluded bilateral and multi-lateral agreements on the protection of capital investments.

Onimodo and Aderiran (1983) contended that MNC are instruments of exploitation by the imperialists and the intensification of the contraction of underdevelopment in Africa. They also stated that two major reasons why MNCs came to Africa are first to tap resources of raw materials like minerals (oil, gold and diamond). They also argued that MNCs are always found in the extractive industries in Africa and the rest of the third world states

2.3 Multinationals and Imperialism

During the past three or four decades, one of the major arguments in the literature on international political economy has centred on the role of the multinational enterprises in the third world. While critics of multinational enterprises see them as the agents of the international economy, their advocates tend to see these enterprises as modern St. George fighting the dragon of underdevelopment (Asogwa, 2000). Those who view multinationals as engines of development maintain.

(a) That multinationals contribute resources that are generally not available or insufficiently available, namely: capital, technology, managerial and marketing skills and

(b) That multinationals create jobs and alleviate balance of payment deficits of their host states through import substitution industrialization.

However this view is utopia and deceptive. Critics of the multinational corporations operation in the third world have three general complaints. First, they claim that multinationals operations generally have had an adverse impact on the economies of their host states (Chukwuemeka and Obingene, 2002). Although critics admit that multinational enterprises may well have created jobs, they contend that multinationals, on the balance and when compared with domestic firms, do in fact destroy jobs because they employ capital intensive technologies of third world countries.

Wright (1992) noted that MNCs technology transfer to less developed countries seldom increases their exports and that MNCs also have a tradition of placing business values above cultural values of the host country. The study conducted by Robert (2001) reveals that multinational enterprises are altering new social, economic and political division. In Nigeria for instance, multinational enterprises have created a sort of new class structure which tends to bring about a new set of social controversy not suited to control present established norms.

It was in recognition of the merits and demerits of the trans-national corporations activities to the world economy that Weather (2000) proposed "four basic relationship that an MNC assumes with a host country. They range from the positive contribution to the country's development to the negative, undermining the culture of the country".

The implications of multinational enterprises to the future regionalism of Africans countries are further compounded by the adverse effects of their activities to the economic advancement of the region, and this increases the threat of suspicion and hostility by host countries since the past few decades. The levels of this threat very between countries. Thus, while Nigeria gave two years (1972 - 1974) for foreigners to sell some of their businesses other countries according to Vernom (2010) "took more radical measures. For instance, Idi Amin of Uganda announced that businesses were going to be taken over by Ugandans. Within weeks, the foreigners were fleeing" (Clark, 2010) some observes including Onwuka (2001) asserted that "since multinational enterprises follow a world-wide strategy of interest, they do not normally conform to the interest of the countries in which they operate". This is due to the fact that most of these firms quite often, conduct much of the research in their home countries with little or no transfer of capital from one country to another.

Monk (1990) is more emphatic when he stated that "as far as transfer of technology by multinational enterprises cannot be applied to African countries without modifications, in which case its specialised nature often leads to capital intensive techniques which cut across the employment policy of African governments".

The consequences of multinational enterprises operating in the third world countries are numerous argued Clark (2010). They are:

(a) The interest of these companies is not tied with the nation they are operating. They are therefore not in a position to assist these nations in solving their economic problems.

(b) They encourage more of commercial activities than productive activities. Therefore third world countries are turned into trading output.

(c) They discourage local production activities

(d) They blackmail government into giving them concession enabling them to repatriate huge sums of profits.

(e) The money made from host nations are not used to develop them

(f) They shift and take control of the more profitable sector of the economy like petroleum.

(g) They compound the developmental problems of third world countries by sending them over-priced obsolete equipment like vehicles, computers etc.

(h) They retard the progressive government of third world countries through blackmail and sabotage.

(i) They engage in monopolistic capitalism e.g. Coca-Cola Company that do not want any other foreign or indigenous soft drink company in African nations where they operate/.

(j) They encourage members of host countries to patronise their products in lieu of indigenous products which they brand inferior.

(k) They encourage privatization of indigenous enterprises and buy the larger shares in such privatised enterprises.

2.4 Multinational Enterprises: Development Implications for Africa

The multinational enterprises have found the right niche for themselves in the social life of the nations of the third world. They use cultural imperialism to destroy the psyche and value system of the new states. The result is that cultural heritage of the third world nations has been thrown to the winds in favour of western styled culture.

Multinational companies equally contributed to the emergence of social class structure in their host states. Some schools of thought argue that the existence of these oligopolies led to a change in economic base and structure of nations of the third world. The shape, the values, testes and attitudes of Nigeria through aggressive advertising and inside information about the market.

It has been stated a numberless times that because of the size of MNCs they could be used to undermine the sovereignty of states through political manipulations Mcphail (1988). The proponents of this view argue that MNCs could be used as a foreign policy instrument of its home government.

There is growing concern that foreign firms will meddle in local politics to foster its own objectives at the expense of local needs. In 1949, for instance, an association of six European firms handled 66% of Nigeria's import and about 70% of export. Other foreign firms virtually monopolised shipping and banking industries. Because of this economic power, the foreign companies through forced regulations forbade competition and employment except for menial jobs in the host nations. This was why Nnamdi Azikiwe, reacting to the refusal by an expatriate bank to grant him loan, said that "political independence without economic freedom is outright slavery (Elaigwu, 2003).

In most African countries, the multinationals, which control their economy, dictate the tune of political process, by converting their economic power into political might. The political intrigues and the many shenanigans of the ignoble ITT in many developing countries readily come to mind. The company plots drastic actions against any government that dares to oppose its interest in the economy for instance, in 1970, ITT meddled seriously in Chilean politics by campaigning against the elections of the late Salvador Allende Gassen because of his Marxist convictions, and when elected the company plotted his brutal overthrow and murder. ITT also disturbed the smooth political process in Nigeria during the 1979 presidential election (.Chukwuemeka and Obingene, 2002).

The Nigeria civil war that lasted for thirty months was partly ignited by the activities of the multinationals. The Eastern Nigeria that housed the then Biafra had about 75% foreign investments hence the firms supported the Federal Government of Nigeria to crush the Biafra rebellion so as to safeguard their investment in that region.

The multinational enterprises because of their vintage position in the host nation's economy often compel the government to grant them concession that may yield them huge profits which they often repatriate to their home countries. At times, MNCs give false information to the government about their economic activities. Nzimiro (2010), noted that most coup d' tats in Africa were the handiwork of the multinational. Such coups were the coup that ousted General Murtala Mohammed of Nigeria; the coups of General Rawlings of Ghana etc. were examples of the coups masterminded by the multinationals.

Technology is a catalytic application of scientific principles to production and managerial processes and has transformed both the mode of production and producing forces of the developed. countries Modern nation, states depended or transformation spread from technological activities of trans-nationals that tend to see technology transfer to less developed countries as a panacea to their growth. The most common type of resource transmission is capital and technology which may be transferred simultaneously. Investors are motivated to move them because of their return in an area of abundance.

Technology embraces knowledge of production process, application of new and improved processes or materials and new application of old processes or materials. The transfer of technology to third world nations by MNCs is to be evaluated in terms of availability of personnel who imbibe it, write it down, interpret it and apply it. Technology can be received but can it be managed to advantage? The transfer of technology by multinationals is illusory since the research of the MNCs are conducted in their headquarters abroad, for example, only a negligible percentages of the local population have benefited from the research programmes of Coca-cola, Peugeot Automobiles, and other MNCs (Ugwu, 2010).

Transfer of technology can be regarded as a hyperbolic statement because no country will like to give its technology out freely and keep itself out of the market. Technology had better been stolen, acquired or developed by a country. Otherwise, why can oil producing countries of the new states not handle the technical aspect of their oil sector alone without the help of foreign firms and oil firms' activities in this sector? Why can't new states boast of their own indigenous manufactured automobiles after years of Peugeot Automobiles and ANAMMCO of Nigeria activities?

These are questions and arguments that buttress the fact that technology transfer is illusive.

From the above tables, the pattern of investment by the multinational enterprises reveal that the activities of the firms are centred in the lucrative sectors of the third world nations economy. This is a clear indication of the fact that these multinational enterprises have only one cardinal aim and objective to exploit any sector of the economy that profit them most. Their industrial pattern of investment was geared towards developing such industries that would generate full demand and mass consumption economy to be self-reliant. It therefore perpetuated economic dependence and moral slavery in the third world nations.. Table 3 reveals that most of their products have local substitutes but due to their monopolistic tendencies, indigenes tend to patronise their goods in lieu of local substitutes. Table 4 shows the pattern of their employment. Their employment is based on high exploitation of indigenous workforce. They also lay off the indigenous workers and their financial entitlements not settled.

3. Conclusion and Policy Recommendations

It could be adduced that the African underdevelopment could be attributed to their continued interaction and unequal romance with international capitalism (Asogwa, 2009). The interaction, which is, based on unequal relationship has distorted the underdevelopment of the new states and at the same time stagnated the development of their productive forces. Even after independence, this relationship has continued to exist. This is exploitative.

Awfully, this relationship has been maintained and encouraged by the ruling class who are the agents of international capital. Olusegun Obasanjo of Nigeria in his eight years tenure of office as President had deep romance with these international capitalists who encouraged him to privatise Nigerian Public Enterprises.

There is no gainsaying that losses which Nigeria derives from foreign investment, have been not only one of the most widely debated expected of foreign investment, but also an area in which divergence of opinions are complicatedly conflicting. The problem here is that no sooner one identified a net benefit of foreign investment, than one notices the negative sides of the seeming advantage.

This is however preponderance of opinion supporting the view that foreign investment is beneficial and can be substantial help to the economy of any developing country.

It is therefore the position of this paper that:

(a) The African nations should delink from the world's capitalist system.

(b) There should be a fundamental structural transformation of the third world society. It should mean the transformation of production that will be devoid of imperialism.

(c) The problems of social infrastructure such as power, telecommunications, manpower, development and so forth should be adequately addressed if the third world is to move forward and take advantage of the trends of globalization.

(d) The on-going unhealthy romance between most governments of the third world and trans-national enterprises including World Bank and IMF should be discouraged and re-assessed to the advantage of the third world nations.

(e) Governments of new states should emphasis the training of their nationals in some professionally skilled areas such as oil sector which is currently the exclusive sector of the multi-national companies.

(f) Host states should encourage the appointment and promotion of their indigenes to the real policy making positions of trans-national enterprises.

(g) Legislative incentives should be used to direct foreign investment to manufacturing sub-sector of the third world nations' economy such industries should be capable of using local inputs for its operations.

We therefore conclude that the aspirations of the host nations to welcome the multi-nationals

with the hope of drawing technology from them has become illusive.

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Table 1. Foreign investment by Type of Activity in Swaziland (1998 - 2007)

	Activities	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1.	Mining & Quarrying	40.1	30.5	37.8	41.1	45.2	45.9	49.1	46.2	50.2	45.1
2.	Manufacturing and Processing	18.2	19.1	18.2	19.2	19.1	22.2	20.0	20.0	19.1	20.1
3.	Transport and Communication	1.1	1.5	1.1	1.6	1.7	1.1	1.1	1.3	1.4	2.0
4.	Agric Forestry and Fishing	2.7	1.9	1.7	1.6	1.2	1.2	1.1	1.3	1.3	1.3
5.	Building and Construction	3.6	4.2	3.8	5.5	2.4	2.5	2.4	2.5	1.8	1.8
6.	Trade and Services	37.6	37.2	31.4	25.6	27.1	24.8	25.2	26.2	24.1	28.0
7.	Others	1.00	0.5	3.7	5.1	3.3	2.3	2.1	2.3	2.1	2.9

Source: Ambe, O (2009) *Journal of International Politics 5 (5)5-10*

Table 2. Number of Manufactured products of the selected five foods/beverages-Multinational Corporations, 2009

Company	Number of food and Beverages products	Number of other products	Total number of products
NFN	15	0	15
LBN	9	14	23
Cadbury	21	2	23
NBL	9	0	9
UAC	7	33	40
Total	**61**	**49**	**110**

Source: Akarakiri, Yusuf and Ilori, *The Quarterly Journal of Administration* 31 (1 & 2) 73-85

Table 3. List of imported raw materials and their local substitutes

SN	Imported raw materials	Local substitutes/alternatives
1	Malted barley	Sorghum, sorghum, malt, maize and rice Grits
2	Hops	Non yet local, R & D has highlighted some possible hops
3	Additives	None yet
4	Enzymes	Non yet
5	Sugar	Local production grossly inadequate
6	Wheat	Local wheat production grossly inadequate. Other cereal flours
7	Fresh milk, milk powder	Local fresh milk production inadequate. Soy milk is an alternative
8	Milk fat	Vegetable fat
9	Butter oil	None yet
10	Flavouring concentrates for spirits	Some local flavours and bitters emerging
11	Flavouring concentrates for soft drinks	No local substitutes for patented soft drinks concentrates, some new formulations may emerge locally
12	Dextrose	None yet, but.possible by acid or enzyme hydrolysis of cassava starch.
13	Glucose	“ “ “
14	Egg power	Raw egg
15	Corn starch	Cassava starch- needs to be modified.
16	Vaccines	Local production inadequate and spectrum not covered
17	Fish hatchery feed	None yet
18	Fish meal	Local production inadequate. Poultry offal as alternative
19	Gum base	Gum Arabic needs processing into acceptable forms
20	Meat poultry	Increase local production of meat, fish and poultry.
21	Fish	“
22	Tea leaves	Increase local production of highland tea and lemon grass tea necessary.
23	Chicory	None yet “yere” to be investigated.
24	Curry, Turmeric	Local sources available but need investigation
25	Essential oils	None yet but possible.Work done at FIIRO to be examined.
26	Hydrolysed vegetable proteins	Soy bean, locust bean, groundnuts, melon seed and cotton seed as raw sources
27	Salt	No substitute is necessary. Local supply is negligible relative to demand. .

Source: Akarakiri, Yusuf and Ilori, *The Quarterly Journal of Administration* 31 (1 & 2) 73-85

Table 4. Other related information about the related companies in Nigeria

Company	Parent Company	Year established	Year quoted on NSE	Turnover 2006	Number of Nigerian employees
NFN	Nestle S.A. of Switzerland	1961	1978	8.128	1,200
LBN	Unilever Holding Ltd UK	1923	1973	9.569	2,200
Cadbury	Cadbury Fry Export Ltd UK	1966	1976	9,200	1,100
NBL	Coca Cola USA	1951	1973	19,912	5,000
UAC	Unilever through CWA Holding Ltd UK	1943	1973	14,107	8,000

Source: Audu, G (2009) *Journal of International Relations,*, 4 (2) 20-30