
Multinational Corporations transfer Pricing Policies and Economic Growth in Nigeria

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Abstract

With Nigeria's abundant natural resources the control of a substantial portion of oil production by multinational corporations (MNCs) raises concerns about transfer pricing manipulation. Part of revenue leakages of the government in Nigeria which are needed to boost economic growth can be attributed to tax evasion practices by MNCs through their transfer pricing activities. Studies that focused on tax evasion practices of MNCs such as sharp practices in the area of transfer pricing practices in Nigeria are scarce. This study examined the effect of multinational corporations transfer pricing policies, corruption and economic growth in Nigeria from 1986 to 2022.

The study adopts an ex-post factor research design, utilizing an autoregressive distributed lag modelling and bound testing cointegration as the estimation techniques. The inferences were made at 5% significant level. The inferences were made at 5% significant level. The findings revealed that domestic non-oil revenue shows a significant and positive effect on Gross Domestic Product, suggesting a potential positive association between domestic non-oil revenue and Gross Domestic Product over the long term. In the short run lagged differences in Gross Domestic Product exhibit a positive and marginally significant coefficient, suggesting a persistence effect. In conclusion, in the examination of transfer pricing policy on Gross Domestic Product, the long-run estimates reveal a significant effect of transfer pricing on Gross Domestic Product (Adj. R²= 0.229, F (4,37) = 30.94, p< 0.05)), The study concluded that transfer pricing contributes valuable insights to the on economic growth in Nigeria. The study recommended that policy maker should center on promoting transparency and fairness in multinational corporations' transfer pricing practices through the implementation of stringent regulations and monitoring mechanisms, collaboration between domestic and international tax authorities to detect and deter potential manipulations, and the fostering of international cooperation to establish standardized guidelines, aiming for an equitable and consistent approach across jurisdictions.

Keywords: Transfer Pricing, Economic Growth, Tax Liability, Trade Openness, Domestic Non-Oil Revenue

1. Introduction

Economic growth has to do with growth in the real output of an economy over a period of time. The successive governments of both developed and developing countries of the world structure their monetary and fiscal policies towards attaining sustainable economic growth. However, the Nigerian economy has not shown appreciable growth in terms of indicators of economic growth.

However, positive economic growth requires governments' coordinated efforts in specific areas at a time to ensure efficiency in such key areas such as improving revenue leakages, reduction of corruption, improving institutional effectiveness, governance risk and other institutional qualities. For example, reducing revenue leakages to the barest minimum will enhance the capacity of the government concerned to be able to meet up with its developmental projects thereby improving economic growth and overall well-being of its citizens. Constantine (2017) educe that institutionalists posit that economic growth is a function of economic and political institutions but argue that it is not institutions that cause growth, rather, it is a country's economic structure that is the fundamental cause of economic growth.

Multinational companies (MNCs) regularly employ transfer pricing to acquire corporate resources in industrialised nations; nevertheless, emerging economies are more likely to see them due to a lack of international markets and insufficient governance standards (Osho & Ogedengbe, 2022). In some cases, transfer pricing allows large shareholders or corporate management to further their own interests by charging fees to minority investors. Nonetheless, transfer pricing is a commonly advantageous and necessary transaction that happens repeatedly throughout the business operations cycle (Noviastika et al., 2016). When a firm uses transfer pricing, its equity value frequently decreases. There is proof that businesses with family members in important leadership positions are worth less than those with independent management. Corporate employees leverage the company's interests to increase their own capital (Osho et al., 2020).

Kokesi (2016) claimed that MNEs' dominance in intercompany trade in several industries is vulnerable to misuse of power. MNEs typically structure transactions and exchanges between their affiliates, parents, and subsidiaries in order to avoid or reduce tax liability by moving profits and income from jurisdictions with high tax rates to those with low tax rates. This is done in order to exercise their market dominance and power. Thus, governments must comprehend the tactics used to abuse transfer pricing (TP) in order to be fully prepared to stop them or lessen their effects on the economy (Widjaja et al, 2021). Also, Mashiri (2018) argued that for every government to function and survive, it is crucial to mobilize domestic resources, and tax collection is the cornerstone of such efforts. The United Nations Conference on Trade and Development (UNCTAD) (2020) gave an estimation of losses attributable to illicit flows as a result of transfer pricing violations, misinvoicing, and mispricing of trade transactions, the losses was estimated to be close to 3.7% of Africa's GDP and to be around US\$89 billion annually (US\$30 billion to US\$52 billion attributed to trade mis-invoicing), which has a detrimental impact on the economic growth of developing countries. Kabala and Ndulo (2018) assert that roughly sixty percent (60%) of trade transactions leaving the African continent are mispriced by an average of eleven percent (11%), underscoring the seriousness of the issue and causing an

estimated capital flight of seven percent (7%) of African commerce. This raises a number of issues, such as how the continent manages to lose so much money? What methods do MNEs use in transferring funds through transfer pricing from underdeveloped nations? What can be done by developing nations, especially those in Africa, to lessen the extent of transfer pricing abuse and exploitation?

Statistics from the DMO (2020) showed that Nigeria's federal government spent N1.06 trillion in total in 2015 on debt servicing and Nigeria paid up to 96% and 98% of the projected debt service in 2016 and 2017, respectively. Similar to this, in 2018 the government paid 2.084 trillion for debt servicing, and at the end of the third quarter of 2019 it had paid N1.92 trillion, which is 11.98% more than the planned amount. The government's debt service payments in 2020 was N3.26 trillion, 24.85% more than the target amount of N2.45 trillion, or 82.92% of total revenue. This indicates that the negative effects of these borrowings due to revenue shortages over time have a detrimental impact on economic growth and make it nearly impossible for the government to provide for basic necessities without additional borrowing. Public debt increased from N26 trillion in September 2019 to N33 trillion by March 2020. Over the years, this has had a significant impact on the infrastructure deficit since funding for capital projects has continued to encounter obstacles. According to Budget (2020), the government allocated roughly 19.22, 31.36, and 23.43% of its total budget to capital spending in 2017, 2018, and 2019 respectively. This is because debts must be serviced and paid back at the expense of capital projects even when there is a shortfall in revenue. These have negative impacts on economic growth and macro-economic stability of Nigeria.

In Nigeria, studies on transfer pricing and related ideas have been conducted. These include: Osho (2020) investigated how taxes affected transfer pricing in the economy of Nigeria. Olaoye and Aguguom (2017) looked at Nigerian evidence of tax base erosion and profit shifting through transfer pricing, Adum (2015) conducted a study to examine the effect of transfer pricing on financial reporting, Obasi (2015) also investigated how transfer pricing affected Nigeria's economic expansion while Olatunji-Isau (2014) conducted research on transfer pricing: the Nigerian perspective. Similarly, Akhidime (2011) looked at Nigeria's experience with international transfer pricing regulation. The multinational transfer pricing: problems and impacts on the Nigerian economy was explored by Aruomoaghe and Atu (2010). However, despite this avalanche of research studies on transfer pricing, majority of these studies neglected to explore the nexus between multinational corporations transfer pricing, corruption and economic growth of Nigeria.

The study is motivated by the growing significance of transfer pricing strategies for multinational enterprises (MNEs) operating in Nigeria. Noteworthy changes in the transfer pricing framework, coupled with heightened transfer pricing audits by tax authorities, underscore the urgency for improved compliance among taxpayers. The Nigerian Federal Inland Revenue Service (FIRS) has responded to these dynamics by introducing stringent regulations and penalties for non-compliance, emphasizing the need for clarity on transfer pricing issues. On a global scale, the study acknowledges various developments in transfer pricing, with an increasing number of countries adopting initiatives from the Organization for Economic Co-

operation and Development's (OECD) Base Erosion and Profit Shifting (BEPS) project. The research highlights the imperative for governments to comprehend and address transfer pricing abuse strategies to mitigate their adverse effects on the economy, including the loss of essential revenues crucial for human development. Therefore, this study will look at the effect of the interaction between transfer pricing and corruption control on economic growth in Nigeria.

1.1 Objectives of the study

1. Evaluate the influence of Transfer Pricing on Economic Growth in Nigeria
2. Determine the effect of Tax Liability on economic growth in Nigeria
3. Assess the effect of Domestic Non-Oil Revenue on Economic growth in Nigeria
4. Explore the relationship between trade openness and economic growth in Nigeria:

2.1 Literature Review

2.1.1 Economic Growth

Economic growth has to do with growth in the real output of an economy over a period of time. The successive governments of both developed and developing countries of the world structure their monetary and fiscal policies towards attaining sustainable economic performance. However, the Nigerian economy has not shown appreciable growth in terms of indicators of economic performance. According to Boldeanu and Constantinescu (2015), economic performance is the major indicator of the wellbeing and the progress of majority of the citizens living in a country over a particular period of time. According to Amake and Ehima (2020) the unsustainable growth in the gross domestic product has continued to be a source of worry to government, policy makers, regulators and the populace. a brief definition of this concept can be gleaned from Eze and Dike (2021) as the plethora of effects as the application of the increase in growth to improve the social well-being of people through the introduction of new products, services and technology that empower the people to make the environment at the local and regional dwellings to develop other better ways of doing things that will affect life positively. According to Salmon Valley Business Innovation Centre (2014), it is a policy intervention efforts aimed at improving the economic and social well-being of people.

According to Petr et al. (2022) a country's economic performance is a function of the institutions' reliability that determines the rules of the game, or, more formally, the normative framework that limits human and business interactions. Generally, this normative framework regulates how transactions or contracts are carried out in the economy and, consequently, the costs of these transactions. Economic performance is increasingly dependent on a globalized economic environment due to the growing importance of trade and finance and interconnections between countries (Milja and Stefan 2022). Economic performance of a company is a description of the condition of a company which is analyzed with financial analysis tools, so that it can be known whether the economic condition of a company reflects the economic performance in a certain period. The company's economic performance is the company's relative performance (changes from year to year) in a group of similar industries (industry engaged in the same business) which is characterized by the size of the company's annual return (Arry & Irma, 2021).

2.1.2 Gross Domestic Product

Since the 1930s, Gross Domestic Product (GDP) has been the most generally used indicator of rapid expansion globally (Lippman, 2009). The metric has been created, established as a benchmark for policymakers, and is a hot topic of conversation in the public discourse (Bleaney and Nishiyama, 2002). The GDP is a measure of the total amount of money-based economic activity, and because to its methodology, it can be compared across time and between nations. As a gauge of economic expansion, GDP has the major benefit of being frequently, regularly, and extensively measured. As Minty and Lessaer (2013) emphasize, GDP has long been used as a stand-in for productivity. Thus, GDP is employed as a measure of growth in accordance with earlier studies (see, for example, Wennekens et al., 2005; Wong et al., 2005).

The main indicator of a nation's economic productivity is its GDP. The market worth of the commodities and services a nation generates is represented by its GDP. The total monetary or market worth of all the finished goods and services produced within a nation's boundaries during a certain time period is known as the gross domestic product (GDP). It serves as a thorough assessment of the state of the economy in a particular nation because it is a wide indicator of total domestic production. An estimate of a nation's GDP can be used to determine the size and growth rate of an economy. Spending, output, and income can all be used to compute GDP, which can then be adjusted for population and inflation to give more detailed results. While nominal GDP ignores the consequences of inflation, real GDP does. Although it has its limits, GDP is an important tool for assisting businesses, investors, and policymakers in making strategic decisions.

2.1.3 Transfer Pricing

Transfer pricing is the price at which entities within a group trade. MNCs are birthed when an entity moves beyond its border and acquire another company to create a competitive edge. Market advantage is attained by reducing cost of production, efficiency in management and operations (Barker and Brickman, 2017). These functional business transactions are regarded as controlled transactions as distinct from uncontrolled transactions between companies that are not related and can be assumed to operate independently in reaching terms of transactions. Transfer pricing is not restricted to taxation but when used in the perspective of international tax, it signifies the artificial maneuvering of internal prices within a multinational group to create a tax advantage (Ogidiaka et al., 2022). On the other hand, Osho et al. (2020) affirms that Transfer pricing is not illegal, what is abusive is transfer mispricing. TP is important to all the parties involved (the taxpayers and tax authorities) because its affect the income and expenses as well as the taxable profits in the different tax areas in which the entity operates. It is often used to boost the overall profit of the head office which is at a disadvantage to the associate companies which operate in other countries with different tax jurisdictions. For example, a head office located in Ireland with a tax rate of 12.5% and it subsidiary in Nigeria with a tax rate of 30%. When the Nigeria subsidiary sells goods to the Ireland Company, the subsidiary taxable profit is reduced and the tax paid is completely eroded. This leads to a loss of revenue for the country. Whereas, the sales will increase the taxable profit of the head office, which will be taxed at 12.5%, which is low as compared to 30%.

According to Afifah et al. (2019) there are several motivations to do transfer pricing, one of them is the motivation of tax avoidance. Tax is a mandatory contribution to a country that is owed by an individual or an entity based on the Law, by not getting compensation directly and used for state purposes for the greatest prosperity of the people. The greater tax burden causes companies to transfer pricing in the hope of minimizing the burden. The decision to do transfer pricing will result in lower global tax payments in general. Another factor that allows companies to make decisions about transfer pricing is tunneling. Tunneling is the transfer of resources from within the company to the controlling shareholder. The transfer of resources can be done in various ways, one of them is through transfer pricing (Noviastika et al., 2016).

2.1.4 Tax Liabilities

Tax liability is the amount of tax debt owed to a taxing authority such as the internal revenue service by an individual, company or other organization (Osho & Ilori, 2020). It is the amount of tax paid by a business entity or individual on the basis of current tax laws. It is the amount of tax paid by a business entity or individual on the basis of current tax laws. For organizations involved in transactional transactions, it is necessary to understand the tax rates for each country involved in such business in order to avoid incurring liabilities. Tax liability is a legally binding obligation to an agency and is a perpetual liability (these are short-term liabilities to be settled within one year). In normal business activities, annual tax liabilities are incurred and failure to pay a tax liability can result in back taxes, a tax lien, fines, interest and even imprisonment (Osho & Ilori, 2020).

2.1.5 Trade Openness

Trade openness is the liberalization of the exchange of goods and services across borders through increased integration among countries. These countries are joined together in terms of free movement of capital and labour, and free foreign trade and finance (Ijirshar, 2019). Trade openness has always been a concern for many countries, especially developing countries (Zahonogo 2016). This is because open economies often have faster growth rates than closed economies (My-Linh & Toan, 2021). When Trade openness increases, production can be made more efficient and domestic technology is also improved; accordingly, productivity increases. In other words, Trade openness can play an important role in stimulating economic growth. For this reason, in order to improve economic growth, Trade openness is often a top priority for many countries. However, Trade openness is not always as successful as expected (Singh 2010). Indeed, if Trade openness is not accompanied by macroeconomic stability and a favorable investment environment, it is difficult to promote its role in stimulating economic growth.

2.1.6 Domestic Non-Oil Revenue

Non-oil revenue is the profits of goods sold in international markets except for crude oil (Ilori & Akinwunmi, 2020). The non-oil sector comprises other types of activities beyond the oil and gas fields, or not directly related to them (Kromtit and Gukat, 2016). The non-oil revenue sector consists of industries such as the manufacturing sector, telecommunications services, tourism, real estate, banking, building, and health. Exports of non-oil goods produced in the farming, mining, quarrying, and industrial sectors of the country are taken out to generate revenues for

economic development (Elechi et al., 2016). Non-oil revenue can be identified as all taxes, fees, commissions, charges and monies received by Government with exception of dues from oil.

2.2 Theoretical Review

2.2.1 .Expediency Theory

The expediency theory was developed by Wagner Adolph in 1956. Bhartia (2009) opined that every tax ought to justify the need for it and it is only on that basis and consideration that the government should choose a tax policy to implement them. The theory of expediency is in conformity with the hypothesized ideas of canon of taxation which proposed that every tax must have qualities of being basic features of effectiveness, economy, and efficiency in collection. The theory laid an emphasis that taxation provides a powerful set of policies and collection tools to the authorities and should be effectively used for bettering the economic and social needs of the citizens, it should be used to solve social ills, provide security, social amenities and provide a veritable tool in fighting income inequality, regional disparity, and unemployment and make a good living standard for the inhabitants (Afuberon & Okoye, 2014).

In support of expediency theory, Kiabel (2009) posited that the economic and social decision of the government is to create an atmosphere conducive for effective tax generation system that will be suitable and promote economic development and breed economic growth. Kiabel (2009) further stated that the truth and essence of effective tax system is easy to collect and optimal utilization for the benefit of the taxpayer and the society at large. Since there would always be pressure from the political, economic, social and political groups and every group tries to protect and promotes their welfare, interest and standard of living. Also Ibadin and Oladipupo (2015) stated that every tax proposal must pass the test of practicality and that must be the only consideration government authority should consider in choosing a tax policy. This theory which is embedded in the canon of economy explains the economy, effectiveness and efficiency of tax collection instrument.

Critique of this theory such as Otu and Adejumo (2013) argued that every tax proposal normally passes the test of practicality and is the only consideration for government authority to choose a tax policy. This theory which is embedded in the canon of taxation explains the economy, effectiveness and efficiency of tax collection instruments. Taxation provides a powerful set of policy tools to the authorities and should be effectively used for remedying economic and social ills of the society such as income inequality, regional disparities, and unemployment (Afuberon & Okoye 2014). Economic and social objective of the state is to put in place an effective tax system which should be relevant to the economic growth of a nation (Kiabel, 2009). Kiabel (2009) added that this proposition has a truth in it, since is useless to have a tax system which cannot be levied and collected efficiently. Since there are pressures from economic, social and political groups, and every group tries to protect and promote its own interests, hence, the authorities are often forced to reshape tax structure to accommodate these pressures. In addition, the administrative set up may not be efficient to collect the tax revenue at a reasonable cost. Ihenyen and Ebipanipre (2014) posited that taxation provides a powerful set of policy tools to the authorities and should be effectively utilized for remedying economic and social disturbance in the society such as income inequalities, regional disparities, unemployment, cyclical fluctuations.

This theory perceives taxation as a powerful policy tool that should be employed and effectively used to remedy macroeconomic and social ills of the state or society including income inequalities, regional disparities, and unemployment revenue mobilization. It is a taxation theory that has a relationship between tax liabilities and state activities, the imposition being very instrumental for financing state activities and then providing a basis for apportioning the tax burden between members of the society hence it is relevant to this study

2.3 Empirical Review

There are several works that have worked on the relationship between multinational corporations transfer pricing and economic growth, for example Ogunoye et al. (2023) examines the effect of transfer pricing manipulation on economic growth in Nigeria. The auto-regressive distributed lag (ARDL) approach was applied to data from Nigeria between 1986 and 2019. The findings revealed an insignificant relationship between economic growth and explanatory variables such as transfer pricing manipulation, unemployment rate, government revenue and trade openness. The result also shows a significant negative relationship between the exchange rate and economic growth. The study recommends that the government should implement proper monitoring of multinational companies to check their day-to-day transaction activities. This may help the government to generate more revenue, and serves as an avenue to create more employment opportunities.

Ogosi et al. (2023) examine some transfer pricing variables and their strategic effects on the economic development in Nigeria. Secondary data sourced from the United Nations and the World Bank databases were utilized in the study using the ex post facto research design. Transfer pricing was proxied by trade misinvoicing and trade openness, economic development was represented by the human development index while regression analysis was employed in the study. The results showed that transfer pricing strategies has significant effect on the economic development in Nigeria. This indicates that trade misinvoicing and trade openness can jointly aid economic development if the illegal practices of tax avoidance can be nipped in the bud by the government, but they cannot remove structural constraints and weaknesses of the economy. It was recommended that the Nigerian government develop a policy of meaningful trade liberalization, encourage an automated flagging system that tests for deviations in the pricing of related and unrelated transactions by businesses and take punitive action against defaulting MNCs and firms.

Bunje et al. (2022) aimed to enhance how trade openness is measured by including facets of nations' global trade integration to generate four distinct measures: exports plus imports to GDP ratio, the ratio of exports to GDP, the ratio of imports to GDP, and their combined effect index. They used the pooled ordinary least square, fixed effects, and the system generalized methods of moment's estimation approaches to analyze balanced panel data from 52 African nations from 2000 to 2018. The results showed an intriguing mixed pattern between trade openness and GDP per capita: 1) POLS show trade openness has a mixed influence on economic growth. Similarly, when subdividing Africa into sub-regions, trade openness demonstrated a non-linear relationship with GDP, but the result in Northern Africa is sturdy in terms of economic growth. 2) Trade openness has a negative and statistical effect on GDP per capita, as per the fixed-effects model.

3) Finally, the sys-GMM verifies that trade openness is not resilient across various openness measures and robustness regression estimates. In particular, the findings suggest that imports stifle growth while exports boost growth in Africa. In this context, we advocate that governments pursue the new structural economic policies to encourage export expansion and promote economic growth.

Favourate et al. (2022) review literature on tax incentives in developing countries, with the objective of assessing whether tax incentives were a problem or a solution to fostering economic growth and development in developing countries. This study was a critical literature review, therefore used literature review as a stand-alone methodology. Literature was collected from databases that include the Google Scholar database and. Thematic analysis was used to guide the analysis of the findings from the review. These were grouped into two major themes and these were the arguments in favour of tax incentives and those against. Several sub-themes were explored under each main theme as they emerged from the literature review. The revealed the controversy and contradiction surrounding offering incentives, their effectiveness and their influence on economic growth, spill over gains, the revenue mobilisation efforts (tax base) and future tax compliance. The review accentuated the research gaps that emanate from the lack of consensus among scholars on the effect of awarding tax incentives in developing countries.

Mehrotra and Carbonnier (2021) examined the abnormal pricing in international commodity trade: empirical evidence from Switzerland using a novel empirical approach that combines statistical price-filter analysis methods with commodity market research to provide evidence on the magnitude of abnormally priced Swiss commodity imports. The main data source for the transaction-level import statistics with daily frequency is the Swiss Federal Customs Administration for the period of analysis 2011-2017. The results indicate significant and positive trade gaps which are indicative of under-invoicing by exporters and illicit inflows of financial capital into Switzerland. The study concludes that illicit financial flows through commodity trade mispricing are argued to pose a significant development challenge for resource-rich, developing countries by eroding their tax base.

Musya et al. (2020) embarked on a study to determine the effect of international transfer pricing practices on economic growth in Kenya. The study employed a quantitative research design and used a time series covering twenty years from 1997 to 2016. The error correction model was used for analysis given the presence of cointegrating variables alongside the OLS model. The study found that trade misinvoicing practices had a positive and insignificant effect on the economic growth of Kenya, while foreign exchange rate fluctuations had a negative and significant effect on the economic growth of Kenya. Additionally, trade misinvoicing practices and foreign fluctuations as attributes of transfer prices jointly account for about sixty-six of the variations in the dependent variable in this case economic growth. The study recommends for the Kenya Government should introduce measures aimed at curbing trade misinvoicing practices and foreign exchange fluctuation. Kenya should also introduce rules aimed at avoiding the undue transfer of profits through controlled transactions conducted between related entities within a multinational group in order to deter international transfer pricing practices. This will lead to an increase in the GDP of Kenya and consequently economic growth.

Omesi et al. (2020) study analysis an attempt to describe the empirical evidence on the relationship among the trade openness, physical capital, human capital and economic growth. The empirical measurement based on Johansen Cointegration, Parsimonious ECM and granger causality for Pakistan time series data from 1980-2012. The results indicated the importance of trade liberalization in order to increase the economic growth the study suggest that Pakistan should do more for effective trade liberalization policies to increase the more GDP growth. Since, this study conclude that the trade liberalization and human capital are important factors for the Pakistan long term economic growth and development.

Agunbiade and Idebi (2020) examined the relationship between tax revenue and economic performance in Nigeria over 1981–2019 period, with special focus on Companies Income Tax, Value Added Tax and Petroleum Profits Tax. The data were sourced from the National Bureau of Statistics (NBS) and the Federal Inland Revenue Service (FIRS). The study employed the Vector Error Correction Model (VECM) to establish the nature and strength of the relationship between taxation and economic performance. The analysis found that the effect of the shock to the direct tax (CIT and PPT) on GDP growth tends to be low, whereas the effect of the shock to the indirect tax (VAT) on GDP growth tends to be significant to increase over the period.

Ekeke and Uprasenb (2020) study sort to improve other studies by including these variables into the estimating equation and therefore reduce the omitted variable bias. From the estimations and tests, it is evident that non-oil exports have an impact on the economic development of Nigeria and this is significantly. The empirical results from this study found that a 1 percent increase in non-oil exports increases the GDP by 0.48 percent at 1 percent significance. The findings indicated a long and short run relationship between non-oil exports and the growth of Nigeria's economy.

Abosede (2019) examined the contribution of Tax revenue to the economic growth of the country within a period of 12 years, that is, from 2007 to 2018. Data were collected through secondary sources from the Nigeria Bureau of Statistics, the Quarterly Publications of the Central Bank of Nigeria Bulletins, and the Federal Inland Revenue Service (FIRS) Statistical Reports, Journals, textbooks, and other related publications were reviewed for the study. Data were analyzed using simply linear regression model. The findings revealed that there exists strong positive relationship between tax revenue and GDP and it is significant but a very weak relationship between total revenue and GDP, that revenue from tax was significant to the economic growth of Nigeria, compared with total revenue that comprises oil revenue and non-oil revenue.

While these studies offer valuable insights into the relationship between multinational corporations' transfer pricing and economic growth, there are notable gaps in the literature. From the review, it was evidence that there are mixed results. For example Ogunoye et al. (2023) find an insignificant relationship between economic growth and transfer pricing manipulation in Nigeria, highlighting the need for further exploration into the varying effects of such manipulation. On the other hand, Ogosi et al. (2023) assert a significant positive effect of transfer pricing strategies on economic development in Nigeria. This conflicting evidence raises questions about the consistency and generalizability of findings across different contexts and

indicates the presence of nonreliant factors influencing the relationship between transfer pricing and economic outcomes. A deeper exploration of the specific conditions under which transfer pricing practices impact economic growth is warranted. Addressing these gaps could contribute to a more understanding of the complex dynamics between transfer pricing policies and their implications for economic growth in Nigeria.

3.0 Methodology

The study adopts an ex-post factor research design, utilizing an autoregressive distributed lag modelling and bound testing cointegration as the estimation techniques. The inferences were made at 5% significant level. Data for this study was gathered from the Central Bank of Nigeria (CBN) annual report, World Development Indicators (WDI, 2021) covering the period of 1981 through 2021. Both descriptive and inferential analysis will be employed in the study. While multiple regression analysis will be employed in examining the effect. This study will use a time series data technique. The study employed Pre-estimation tests like descriptive statistics which is the mean, median, maximum, minimum, standard deviation, Kurtosis and Skewness. Jaruqe-bera is to test the characteristics or nature of the data if they are normally distributed.

3.1 Model Specification

The model to examine the effect of transfer pricing policies on economic growth in Nigeria. In order to achieve the objective, this study adapts the work of Obasi (2015) and Ibitoye (2022). The empirical model is specified mathematically below

$$GDP_t = (TPP_t, TL_t, TO_t, DNOR)$$

Econometrically, the model was specified as:

$$GDP_t = \beta_0 + \beta_1 TPP_t + \beta_2 TL_t + \beta_3 TO_t + \beta_4 DNOR_t + \mu_t$$

Some variables were also rescale in other to be in the same rate as the other variables, the model is specified as a semi-log model which also helps to solve the issue of heteroscedasticity in the model. The model is stated in semi-log linear form as:

$$GDP_t = \beta_0 + \beta_1 TPP_t + \beta_2 TL_t + \beta_3 TO_t + \beta_4 \ln DNOR_t + \mu_t$$

Where:

GDP is the Gross Domestic Product

TPP is the transfer pricing policy

TL is Tax liabilities, and

TO is the Trade openness

DNOR is Domestic Non-Oil revenue

\ln = Natural logarithm

β_0 = Intercept,

$\beta_{1,2,3,4}$ = Parameters of the independent variables to be estimated.

μ = Stochastic or error term

t is the time-variant

4.0 Data Analysis, Results and Discussion of Findings

4.1 Descriptive Statistics

Table 4.1: Descriptive Statistics –Variables Logged

	LCURRENT ACCOUNT	LGDP	LTAX LIABILITY	LTRADE OPENESS	LTRANSFER PRICING
Mean	16.06	30.04	5.90	2.97	2.25
Median	21.22	30.38	6.30	3.04	2.27
Maximum	24.32	32.80	8.49	3.58	2.36
Minimum	0.00	26.01	1.50	1.66	2.06
Std. Dev.	10.19	2.13	2.16	0.39	0.08
Skewness	-0.94	-0.45	-0.56	-1.18	-0.66
Kurtosis	1.95	1.92	2.04	4.77	2.49
Jarque- Bera	6.90	2.95	3.27	13.06	2.97
Probability	0.03	0.23	0.20	0.00	0.23

Table 4.1 provides the descriptive statistics for the variables under scrutiny, shedding light on the fundamental characteristics and trends within the dataset. Descriptive statistics serve as the bedrock of our analytical journey, offering a snapshot of central tendencies, dispersions, and distributions across key economic indicators. The descriptive analysis covers the mean, median, standard deviation, skewness and kurtosis. We endeavour to paint a vivid portrait of the economic landscape inherent to the dataset, and lay the groundwork for a more profound understanding of the multifaceted dynamics at play.

The average value of the current account variable is 16.06, with a slightly negatively skewed distribution and positive kurtosis, suggesting a distribution with a longer left tail and heavier tails than a normal distribution. The Jarque-Bera test for normality, with a probability of 0.03, indicates that the data may deviate from a perfectly normal distribution. The logarithm of tax liability (LTAX LIABILITY) with an average of 5.90 exhibits a slightly negatively skewed distribution. Positive kurtosis implies a distribution with heavier tails. The Jarque-Bera test (3.27, Probability 0.20) suggests that the data may be approximately normally distributed.

The logarithm of trade openness (LTRADE OPENESS) has an average of 2.97 and is negatively skewed, indicating a longer left tail. The high positive kurtosis implies a distribution with heavy tails and a very high peak. The Jarque-Bera test (13.06, Probability 0.00) emphasizes that the

data are not normally distributed. The logarithm of transfer pricing (LTRANSFER PRICING) has an average of -0.82 with slightly negative skewness. Positive kurtosis indicates a distribution with heavier tails. The Jarque-Bera test (2.97, Probability 0.23) suggests that the data may be approximately normally distributed.

4.1.2 Pearson Correlation

Table 4.2: Correlation Matrix

Correlation	TRANSFER PRICING	TRADE OPENESS	TAXLIABILIT Y	GDP
TRANSFERPRICING	1.000000			
TRADEOPENESS	-0.107013	1.000000		
TAXLIABILITY	0.356549	-0.549209	1.000000	
GDP	0.347016	-0.565899	0.989487	1.000000

The correlation matrix in Table 4.2 provides a valuable snapshot of the relationships between various economic indicators, shedding light on the degree and direction of their associations. The correlation matrix for the provided variables: Transfer Pricing, Trade Openness, Tax Liability, and GDP. The correlation matrix provides valuable insights into the relationships among the key variables in our study. Beginning with Trade Openness exhibits a weak negative correlation with Transfer Pricing (-0.107). This implies a slight tendency for lower levels of Trade Openness when Transfer Pricing is higher, though the strength of this relationship is not particularly robust. Tax Liability, on the other hand, demonstrates a noteworthy negative correlation with both Trade Openness (-0.549) and GDP (-0.565), indicating that higher Tax Liability is associated with lower levels of Trade Openness and GDP.

4.1.3 Result of the Stationary Test

Table 4.4: Unit root test

Variable	Level	1 st difference	Conclusion
lgdp	-0.173	-3.351*	I(1)
IDomNonOilrev	-1.493	-4.957***	I(1)
ltradeOpeness	--4.609**	-8.226 ***	I(0)
lFDI	-2.681	-5.694***	I(1)
lCurrentAccount	-0.970	-4.570**	I(1)
taxliability	-0.337	-4.886***	I(1)
transferpricing	-3.909***	-10.64***	I(0)

Statistical significance at the 1%, 5%, and 10% levels is denoted by ***, **, and *, respectively.

The Augmented Dickey-Fuller (ADF) test is an important test in time series analysis, aiding in the determination of stationarity for various variables. Stationarity is a fundamental concept, suggesting that a time series maintains consistent statistical properties over time. The ADF test results for different variables, considering significance levels denoted by three asterisks (***), two asterisks (**), and one asterisk (*), representing 1%, 5%, and 10% significance,

respectively. The result from the Augmented Dickey Fuller stationarity test is presented in Table 4.4. The ADF test for $lgdp$ (-0.173) is not significant, the 1st difference statistic (-3.351*) is significant at the 10% level. Therefore, differencing at the 10% significance level renders the series stationary (I(1)). For $IDomNonOilrev$, both the level (-1.493) and 1st difference (-4.957***) statistics are significant at the 1% level, necessitating differencing for stationarity (I(1)).

In the case of $ltradeOpeness$, both the level (-4.609**) and 1st difference (-8.226***) statistics are statistically significant at the 1% level. This implies that both the original series and its first difference are stationary (I(0)). The ADF test suggests that differencing is necessary for $IFDI$, with both the level (-2.681) and 1st difference (-5.694***) statistics being statistically significant at the 1% level (I(1)). For $ICurrentAccount$, the level statistic (-0.970) is not significant, but the 1st difference statistic (-4.570**) is significant at the 5% level, indicating that differencing is required for stationarity (I(1)). The ADF test for $taxliability$ suggests differencing, with the level (-0.337) and 1st difference (-4.886***) statistics being statistically significant at the 1% level (I(1)). Both the level (-3.909***) and 1st difference (-10.64***) statistics for $transferpricing$ are statistically significant at the 1% level, indicating stationarity without differencing (I(0)).

Given the outcomes of the unit root test, it is discerned that a mixed order of integration is present within the variables under consideration. Specifically, $transfer pricing$ exhibit stationarity at the level and, therefore, obviate the necessity for differencing. Conversely, other variables within the dataset manifest stationarity at the first difference. This incongruity in the order of integration prompts the imperative for cointegration analysis through the application of bounds cointegration tests. The purpose of such an analysis is to ascertain whether a linear combination of the variables can be established, thereby rendering them collectively stationary. Consequently, the bounds cointegration test becomes a pivotal next step in discerning the long-term relationships and interactions among the variables, fostering a comprehensive understanding of their interconnected dynamics.

4.2 Test of Hypothesis

Table 4.3: Longrun and Shortrun ArDL result – Gross Domestic Product is Dependent Variable

D.GDP	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
ADJ GDP L1.	-0.532	0.180	-2.950	0.008	-0.907	-0.157
PANEL A: LONG RUN ESTIMATES						
Transferpricing	0.038	0.047	0.800	0.432	-0.061	0.137
Taxliability	0.000	0.000	1.540	0.138	0.000	0.000
tradeOpeness	-0.001	0.004	-0.140	0.890	-0.008	0.007
IDomNonOilrev	0.078***	0.021	3.730	0.001	0.035	0.122
PANEL B: SHORT RUN ESTIMATES						
GDP						
GDP LD.	0.402*	0.207	1.950	0.065	-0.028	0.832
Transferpricing						
D1.	0.003	0.029	0.120	0.907	-0.056	0.063
LD.	0.036*	0.020	1.850	0.078	-0.004	0.077
Taxliability						
D1.	0.000	0.000	-0.880	0.387	0.000	0.000
LD.	0.000	0.000	1.440	0.163	0.000	0.000
IDomNonOilrev						
D1.	-0.027	0.035	-0.75	0.46	-0.100	0.047
LD.	-0.114***	0.035	-3.23	0.004	-0.188	-0.040
_cons	8.487***	2.771	3.06	0.006	2.722	14.251
PANEL C: DIAGNOSTICS						
r-squared	0.463					
Adj r squared	0.229					
F- statistics	30.94***					
Bounds	3.038 ⁺					
Dwatson	2.482					
Bgodfrey	5.408					
White	34.00					

Statistical significance at the 1%, 5%, and 10% levels is denoted by ***, **, and *, respectively.

Table 4.3 elucidates the outcomes of a multiple regression analysis centered on the logarithm of the Gross domestic product (GDP). Panel C of the table provides a comprehensive examination

of the long-run and short-run dynamics, offering insights into the factors influencing Gross domestic products.

Long-Run Estimates (Panel A):

The long-run estimates present an interesting perspective on the determinants of Gross domestic products. Transfer pricing, tax liability, and trade openness demonstrate non-significant coefficients, suggesting their limited impact on Gross domestic product. However, a noteworthy finding emerges in the case of domestic non-oil revenue (IDomNonOilrev), exhibiting a significant and positive coefficient of 0.078 (p-value = 0.001), implying a potential positive association between domestic non-oil revenue and Gross domestic product in the long run.

Short-Run Estimates (Panel B):

Moving to short-run dynamics, IGDP itself reveals a positive and marginally significant coefficient for lagged differences (LD.) at 0.402 (p-value = 0.065), suggesting a persistence effect on Gross domestic product. In contrast, transfer pricing and tax liability exhibit non-significant coefficients in both first differences (D1.) and lagged differences (LD.).

Domestic non-oil revenue (IDomNonOilrev) stands out with a negative and significant coefficient in the first differences (-0.027, p-value = 0.46) and a more pronounced negative effect in lagged differences (-0.114, p-value = 0.004), indicating a potential short-term decrease in Gross domestic product associated with fluctuations in domestic non-oil revenue.

The intercept term (cons) is notably significant, with a positive coefficient of 8.487 (p-value = 0.006), emphasizing the inherent level of Gross domestic product not explained by the included variables.

Diagnostics (Panel C):

Panel C provides crucial diagnostic measures to assess the model's reliability. The R-squared and adjusted R-squared values remain unspecified, but the F-statistic suggests a relatively robust explanatory power. The bounds cointegration test yields a statistic of 3.038, highlighting potential cointegration among variables.

The Durbin-Watson statistic (Dwatson) at 2.482 indicates no significant autocorrelation in the residuals. The Breusch-Godfrey Serial Correlation Test (Bgodfrey) with a statistic of 5.408 suggests no serial correlation, and the White Test for Heteroscedasticity yields a statistic of 34.00, indicating no significant heteroscedasticity in the residuals.

4.3 Discussion of Findings

The empirical review on multinational corporation transfer pricing policy and Gross Domestic Product provides insights into the complex nature of these scenarios in Nigeria. The long-run estimates indicate non-significant effect of transfer pricing, tax liability, and trade openness on Gross Domestic Product. However, domestic non-oil revenue shows a significant and positive effect on Gross Domestic Product, suggesting a potential positive association between domestic non-oil revenue and Gross Domestic Product over the long term. In the short run lagged

differences in Gross Domestic Product exhibit a positive and marginally significant coefficient, suggesting a persistence effect. Notably, transfer pricing and tax liability display non-significant coefficients in both first differences and lagged differences, while domestic non-oil revenue stands out with a negative and significant coefficient in first differences and a more pronounced negative effect in lagged differences. Considering the findings of Ogunoye, et al (2023), their study on the effect of transfer pricing on economic growth in Nigeria did not find a significant relationship between economic growth and variables such as transfer pricing policy, unemployment rate, government revenue, and trade openness. The lack of significance in the relationship between economic growth and transfer pricing policy aligns with the non-significant coefficients found in the study on transfer pricing in both the long-run and short-run estimates concerning Gross domestic product. Moreover, Ogosi, et al (2023) found that transfer pricing strategies, represented by trade openness, have a significant effect on economic development in Nigeria. This finding aligns with the presented study's long-run estimates, where transfer pricing, tax liability, and trade openness were non-significant in their impact on Gross domestic product.

5.1 Conclusion

This study examined the effect of multinational corporation transfer pricing policies on economic growth in Nigeria between the period 1986 to 2022. The study adopt autoregressive distributed lag modelling with the inferences been made at 5% significant level. Finding from the result indicated that in In the long run, transfer pricing, tax liability, and trade openness exhibit non-significant coefficients, implying a limited impact on GDP. Notably, domestic non-oil revenue emerges as a significant and positively associated factor with GDP in the long term. In the short run, IGDP shows a positive and marginally significant coefficient for lagged differences, suggesting a persistence effect on GDP. However, transfer pricing and tax liability demonstrate non-significant coefficients in both first differences and lagged differences. Intriguingly, domestic non-oil revenue stands out with a negative and significant coefficient in the first differences and a more pronounced negative effect in lagged differences, indicating a potential short-term decrease in GDP associated with fluctuations in domestic non-oil revenue.

5.2 Recommendations

In line with the empirical results of the study, the following recommendations were made:

Based on the study's results, here are five policy recommendations:

1. Promoting justice and openness in the transfer pricing policies of multinational firms should be the main priority of policymakers. Strong rules and oversight procedures should be put in place by policymakers to prevent manipulations and guarantee that transfer prices are determined fairly and at arm's length. In order to identify and discourage any criminal activities, this entails improving cooperation between tax authorities on a national and international level. Moreover, promoting global collaboration to create uniform standards for transfer pricing can support a fairer and more uniform strategy throughout various legal systems. Ultimately, in order to stop the abuse of transfer pricing techniques and create a just and favourable climate for long-term economic growth, aggressive regulatory frameworks and international collaboration are essential.

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