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Strategic Effect of Transfer Pricing On Economic Development – Case Study Of Nigeria

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Abstract: This research study is on the strategic effect of transfer pricing on economic development. The objective of the study was to 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 is 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.

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Keywords: Transfer Pricing; Economic Development; Trade Openness; Human Development Index; Trade Misinvoicing

Résumé : Cette étude de recherche porte sur l'effet stratégique des prix de transfert sur le développement économique. L'objectif de l'étude était d'examiner certaines variables des prix de transfert et leurs effets stratégiques sur le développement économique au Nigéria. Des données secondaires provenant des bases de données des Nations Unies et de la Banque mondiale ont été utilisées dans l'étude en utilisant le modèle de recherche ex post facto. Les prix de transfert ont été représentés par la fausse facturation commerciale et l'ouverture commerciale, le développement économique a été représenté par l'indice de développement humain tandis que l'analyse de régression a été utilisée dans l'étude.

Les résultats ont montré que les stratégies de prix de transfert ont un effet significatif sur le développement économique au Nigeria. Cela indique que la fausse facturation commerciale et l'ouverture commerciale peuvent contribuer conjointement au développement économique si les pratiques illégales d'évasion fiscale peuvent être étouffées dans l'œuf par le gouvernement, mais elles ne peuvent pas éliminer les contraintes structurelles et les faiblesses de l'économie. Il est recommandé que le gouvernement nigérian élabore une politique de libéralisation commerciale significative, encourage un système de signalement automatisé qui teste les écarts dans la tarification des transactions liées et non liées par les entreprises et prenne des mesures punitives contre les multinationales et les entreprises défaillantes.

Mots-clés: prix de transfert; Développement économique; ouverture commerciale; Indice de développement humain; Facturation commerciale erronée.

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JEL Classification Codes: F1; F4; L1; O1; O15; R32

1.0 Introduction

1.1 Background to the Study

Transfer pricing strategy is on the radar in both developed and developing countries and could be defined as the structuring and pricing of transactions between members of the same controlled group (OECD, 2014). Specifically, the concern is with a cross-border transaction between parent companies and the subsidiaries or among different companies where income and expenses are allotted between or among taxpayers in different countries (Beer, Mooij and Liu, 2018). Mehrotra and Carbonnier (2021) affirm that trade data can be used to study corruption, capital flight, and trade misinvoicing which includes mispricing of transactions. However, many countries including Nigeria also consider domestic transactions between affiliates. Transactions between parent companies and their subsidiaries cover the sale of tangible goods and the leasing or sale of intellectual property to the provision of services. The abuse of transfer pricing strateges by foreign investors has become a concern in Nigeria because of the significant amount of money in play especially as this constitutes revenue losses necessary for the growth and development of the Nigerian economy. Put simply, Nigeria's law on transfer pricing strategies aims at retaining much of the profit derived from the exploitation of her resources and other business activity carried out in the

country as stated by Obasi (2015) to ensure its use in the continued improvement of the human development of Nigerians.

According to Ibitoye (2020), transfer pricing strategy is fast becoming a stay-awake issue for multinational enterprises (MNEs) in Nigeria with the recent changes in the transfer pricing landscape and the increased transfer pricing audits being conducted by the tax authorities. To ensure better compliance among taxpayers and provide clarity on certain transfer pricing issues, the Nigerian Federal Inland Revenue Service (FIRS) released the new transfer pricing regulations which impose stiff penalties for non-compliance with transfer pricing rules.

Excerpts culled from Ibitoye (2020), indicate that on a global scale, there have been various developments in the Transfer pricing space with more countries signed up to implement various initiatives of the Organization for Economic Co-operation and Development's (OECD) Base Erosion and Profit Shifting (BEPS) project. A number of these countries have enacted laws to tackle harmful tax practices related to the manipulative pricing of goods and services for the purpose of BEPS. As posited by Cooper et al. (2017), governments need to understand the transfer pricing abuse strategies so that they can be fully equipped to curb them or mitigate their negative impact on the economy via the loss of revenues necessary for the human development of their citizens or economy. The harnessing of domestic revenues is an important task for the functionality and survival of any government and tax collection is fundamental to such revenue mobilization attempts. Tax base attrition poses a formidable challenge to most nations irrespective of whether they are developing or developed nations. The consensus among development scholars is that developing countries suffer most from the losses and effects of base erosion and profit shifting (Mashiri, 2018; Oguttu, 2016, 2017; McNair et al., 2010). As posited by the UNCTAD (2020), losses attributable to illicit flows due to transfer pricing abuses, misinvoicing and mispricing of trade transactions, corruption, and other activities towards tax avoidance and evasion are projected at nearly 3.7% of Africa's Gross Domestic Product (GDP) and at around US$89 billion annually (US$30 billion to US$52 billion are attributed to trade misinvoicing), a figure that constitutes almost the total of the development aid and foreign direct investment that the African continent receives to cover its human development needs. Reiterating the gravity of the problem, Kabala and Ndulo (2018) posit that nearly 60% of trade transactions departing from the African continent are mispriced by approximately 11% on average, resulting in a forecasted capital flight of about 7% of African trade. This is further supported by Ngwakwe (2015) where trade misinvoicing was calculated based on a 68% ratio of illicit financial flows in line with the assertions of the Global Financial Integrity publication of 2014.

1.2 Statement of the Problem

Significant transfer mispricing strategies takes place in Nigeria via over-invoicing of imports and under-invoicing of exports (Ibitoye, 2020). Over-invoicing of imports is used by multinational companies as a strategy to repatriate profits from Nigeria which creates room for low company tax, while under-invoicing of an export transaction as a strategy is used by foreign investors to avoid or reduce export surcharges or to evade income tax to facilitate capital flight. This resulted in abusive transfer pricing or transfer pricing manipulation and the consequent tax revenue losses which ought to have been applied for the growth and advancement of human development and this is proving to be a big problem in many countries in Africa. This issue if not nipped in the bud will further result in a drop in the economic development of developing countries like Nigeria as lost tax revenues arising from transfer mispricing practices if captured can positively contribute to its human development advancement. Potential transfer pricing abuse is a particular concern of developing nations, like Nigeria, because of the sophistication of the foreign taxpayers and the significant amount

of money in play. Put simply, developing nations want to retain as much of the profit derived from the exploitation of their resources and other business carried out within their jurisdictions as possible, and transfer pricing strategies directly impacts the taxable income in the local jurisdiction. Studies on transfer pricing strategies and economic development in Nigeria remain understudied hence the need for this research given the variables being utilized alongside the dataset and methodology which has thus exposed a research gap. As such, this study is carried out to evaluate the strategic effect of transfer pricing on the Nigerian economy using the human development index as a proxy for economic development while adopting trade misinvoicing and trade openness as proxies for transfer pricing for the period range of the year 2000 to the year 2020 using simple and multiple regression analysis.

1.3 Objective of the study

The main goal of this research is to look into the strategic effect of transfer pricing on the Nigerian economy. The precise goals are:

i. To assess independently the influence of each transfer pricing indicator on the Nigerian economy.
ii. To ascertain the joint influence of both transfer pricing indicators (trade misinvoicing and trade openness) on the Nigerian economy.

1.4 Research Questions

i. What is the independent influence of each transfer pricing indicator on the Nigerian economy?
ii. What is the joint influence of both transfer pricing indicators (trade misinvoicing and trade openness) on the Nigerian economy?

1.5 Hypotheses of the study

Ho_1: Each transfer pricing indicator has no substantial independent influence on the Nigerian economy.

Ho_2: Both transfer pricing indicators (trade misinvoicing and trade openness) have no substantial joint influence on the Nigerian economy.

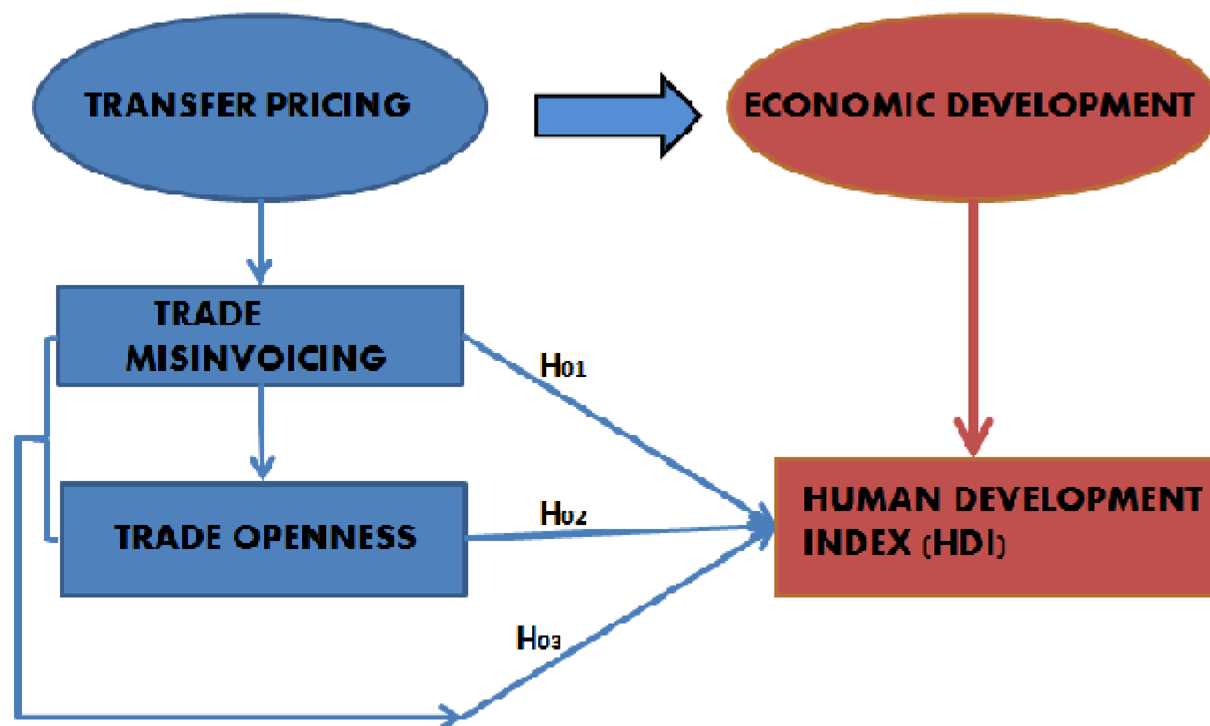
1.6 Scope and Limitations of the Study

The study scope is confined to two selected transfer pricing proxies with regards to Nigeria which are trade misinvoicing and trade openness while that for the Nigerian economy was the human development index. Time series data of over 20 years was obtained from the 2021 databases of the United Nations and the World Bank.

2.0 Literature Review

2.1 **Conceptual Framework**

FIG 1: Conceptual View of Transfer Pricing and Economic Development



Source: Researcher's Conceptualization

Figure 1 above depicts a pictorial conceptual view of the research as well as the variables under study.

The economic development of any country as a policy intervention effort is concerned with the improvement in the quality of life of people and it further depends to a large extent on the levels of revenue generated for the infrastructural advancement in any country (Ofoegbu, Akwu and Oliver, 2016; Feldman et al, 2014). A major means of generating revenue for providing the needed infrastructure is through a well-structured tax-system (Adudu and Ojonye, 2015; Ogbonna and Appah, 2012). Ibanichuka, Akani and Ikebujo (2016) assert that the tax system is an opportunity for the government to collect additional revenue needed in discharging its pressuring obligation. A tax system offers itself as one of the most effective means of mobilizing a nation's internal resources and it lends itself to creating an environment conducive to the promotion of economic growth and human development. As expressed by Sundaram (2012), transfer pricing refers to the pricing arrangements for transactions between companies that are members of a corporate multinational enterprise. If the method used to determine the fair tax owed to a country by a multinational doesn't reflect the true profits earned in that country, the country is unfairly deprived of revenue necessary for its economic and human development. Transfer pricing is regarded as financing for development issues because without its due tax revenues a country's ability (like Nigeria) to mobilize domestic resources for human development is hampered as such necessary strategies are required by the government to tackle the menace of transfer mispricing. Tanya (2019) further affirms this position in the Global Financial Integrity 2015 publication where the study revealed that in 2013 an astounding US$1.1 trillion was stolen annually (nearly $3 billion a day) from developing countries due to trade mispricing strategies. This is further corroborated by African Business (2022) and Aliogo (2023) where it was estimated that as at 2022, about US$90billion is lost annually to illicit financial flows in Africa facilitated by

trade misinvoicing, tax evasion etc. Out of this figure, Nigeria alone accounts for 20%. African countries during a project closing conference in Ethiopia in June 2022 revealed that some multinationals make transfers to affiliates in tax havens. These transferred amounts were as high as 3% of the GDP of the tax havens (UNCTAD, 2022). If you wonder why developing countries seem rather slow to develop, here's a big part of the answer.

2.1.2 Human Development Index

According to Ofoegbu, Akwu and Oliver (2016), the human development index (HDI) measures long-term progress in three basic areas of human development namely: access to a safe and healthy life, access to education, and a decent living standard. The United Nations first released the human development index (HDI) as part of her 1990 report and Roser (2019) further asserts that the human development index is a move towards a more holistic view of development which had previously focused more on per capita income. As maintained by UNDP (2020), the HDI was introduced to accentuate that people and their proficiencies should be the best basis for evaluating the development of countries and not only economic growth. The HDI ranks countries' levels of social and economic development based on three criteria: Health Index, Education Index, and Standard of Living Index. The health index represents the life expectancy (i.e. the number of years) of a particular region or country under study. The education index represents the literacy rate and enrollment rate of people, in a particular region or country under study. The standard of living index as affirmed by UNDP (2014), represents the per capita income of a region or country expressed in US$ at purchasing power parity (PPP) rate. They consist of the income of a country, the exchange rate between the country's currency and US$, and the price level index of the country in comparison to the US price level.

2.1.2 Trade Misinvoicing

Tanya (2019) affirms that there is a wide range of tax avoidance strategies played by multinationals: trade misinvoicing, abusive transfer pricing, base erosion and profit shifting (BEPS), and re-invoicing. All of these fall under the umbrella of trade mispricing or the intentional falsification of transactions on an international level. Arguably, the polynymity of this deceptive practice is evidence of its ubiquity. But 'thievery' could just as well replace any of these titles. Trade misinvoicing as a strategy is a form of customs and/or tax evasion involving exporters and importers deliberate falsification of the value, volume, and/or type of commodity in an international commercial transaction of goods or services by at least one party to the transaction. Information garnered from Tanya (2019) indicates that the short-term goals of misinvoicing vary. In some cases, the desired outcome is to dodge capital controls (a strategy commonly used in emerging markets to reduce rapid cash outflows). In other cases, the incentive for misinvoicing strategy is to claim tax incentives or avoid paying duty. Generally, the strategy is this: shift profits out of high tax countries and into low tax countries, or tax havens, while ensuring that the majority of expenses are assigned to high tax countries.

Table 1.0 Trade Mispricing Areas and Antics of Firms

Areas for Undermining Economic Development	Trade Mispricing Strategies by Firms
1. Custom Duties	1. Underpricing
2. Repatriation of Capital and Profits	2. Overpricing
3. High Exchange Rates	3. Overpricing
4. Machinery Capitalization	4. Overpricing
5. Antimonopoly antics	5. Underpricing
6. Fighting Wage Increases	6. Overpricing/reporting of low profits
7. Government interference in price-fixing	7. Overpricing

Source: Authors Compilation

As described in table 1.0 above, multinational corporations and business firms do engage in trade mispricing strategies involving the deliberate misreporting of the value, volume, or type of commodity in customs transactions, and is thus regarded as illegal tax evasion, not legal tax avoidance. Today, tax authorities all over the world as stated by Smith (2015) are paying greater attention to transfer pricing strategies as a result of the globalization of businesses and the increase in foreign income. Multinational companies and tax authorities are entering into advanced pricing agreements (APAs) as a way of responding to the increasing scrutiny and worldwide information sharing. APAs represent an agreed-upon transfer pricing methodology that is based on a predetermined financial metric such as the operating margin.

It should be noted however, that transfer pricing strategy in itself does not necessarily involve tax avoidance. Rather, it is a situation where the pricing does not conform to the applicable international norms and/or domestic laws that we can describe as “mispricing”, “incorrect pricing”, or “unjustified pricing” and as such, the issue of tax avoidance or even evasion may arise. In 1988 the United Nations contributed to the course of transfer pricing by publishing its report on “International Income Taxation and Developing Countries” (Smith, 2015). Obasi (2015) in his research study stated that Nigeria is vulnerable to this strategy of tax avoidance and related capital flight because it lacks sufficient information from the parent company to be able to challenge transfer pricing and other forms of tax avoidance. Because a considerable share of Nigeria's production in oil is under the control of multinational companies which made it more vulnerable to tax avoidance practices through transfer pricing by under-invoicing exports or over-invoicing imports. The justification for researching transfer pricing is that it facilitates tax avoidance and the flight of capital which if not checked will affect the economic development of the country.

To further strengthen the arguments of Obasi (2015), Smith (2015) and Ibitoye (2020) above, Jose (2015) explained how over the years, multinationals and businesses have cheated governments of developing nations of necessary tax revenues via transfer pricing strategies or trade misinvoicing antics which would have assisted in fostering human development in these countries such as Nigeria.

2.1.3 Trade Openness

Trade openness as affirmed by Tyopev (2019) and Williams et al (2022), refers to the degree to which an economy is reliant on foreign trade and financial flows. It assesses a country’s international competitiveness in the global market. For many developing countries, trade openness is a significant driver of development, and the above is based on the belief that trade openness helps to boost demand, promote productivity, and lower production costs, and thus increases international confidence in an economy’s market mechanism (Akintunde et al. 2021). Trade openness can also exert an indirect effect on governance. It may encourage nations to adjust their portfolio of services (and the taxes used to fund them) or risk capital flight or loss of competitiveness to their domestic suppliers, and ultimately, shrinkage in their tax base (Tyopev, 2019).

According to Jose (2015), globalization via trade openness shows how multinational corporations can operate in different countries by setting up affiliates, subsidiaries, etc. The operation of multinationals indicates that there are greater volumes of transactions within a firm. Firms may be purchasing components and other semi-finished products from their affiliates. Some estimates say that nearly 60 percent of international transactions are intra-firm transactions. When a firm is buying or selling from its relative entity, there are chances that prices may not be fixed not according to the market principles. Rather price may be strategically decided artificially (via misinvoicing of traded goods) by the parent company to get maximum benefits, as well as to avoid high tax payments in the respective countries

where their affiliates are domiciled. This strategic artificial price setting in intra-firm transactions to avoid taxes and to get other benefits is called transfer mispricing. Sharife (2011) asserts that about 60% of capital flight from Africa is from improper transfer pricing strategies and such capital flight as a result of trade openness from the developing world is estimated at ten times the size of aid it receives and twice the debt service it pays. The African Union reports estimates that about 30% of Sub-Saharan Africa's GDP via trade openness has been moved to tax havens while some tax analysts believed that if these monies were paid to the coffers of the governments, most of the continent would have been developed by now (Greste, 2012).

Trade openness has shown how developing countries are more vulnerable to the impact of transfer mispricing. Suppose a company extracts 10 megatons (MT) of manganese from Nigeria and then exports the 10 megatons (or 5 million kilograms) at the price of 5 USD per kilogram, but imports into France – by way of the Netherlands or Mauritius – the same 10 MT of manganese at the price of 10 USD. The result for Nigeria is the loss of tax revenue of 25 million dollars. Even at a mere 5% tax rate with these modest and imaginative figures, a loss of $1,250,000 for Nigeria is significant. The impact of trade openness and transfer mispricing strategies on developing countries is not just monetary but has a series of moral effects especially as it relates to human development. In the hypothetical Nigerian scenario, for instance, one glaring concern that arises from this manipulative business practice is the implication that the people of Nigeria are somehow unaware of the value of their resources. A red flag must be raised to the psychological impact of pricing discrepancies that suggest manganese, somehow, has a lesser value within the borders of Nigeria than within, say, France or Italy.

2.2 Theoretical framework

Various theories involving transfer pricing activities and how it relates to the host country's economy are the economic deterrence theory, economic transfer pricing theory, optimal taxation theory, expediency theory, socio-political theory, game theory, causality theory etc. However, the game and causality theories were applied to the study.

2.2.1 Game Theory

Game theory applies to a wide range of behavioural relations and is now a general term for the science of logical decision-making. In reference to Hayes (2022), Game theory is a theoretical framework for conceiving social situations among competing players. In some respects, game theory is the science of strategy, or at least the optimal decision-making of independent and competing actors in a strategic setting. In game theory, the actions and choices of all the participants affect the outcome of each. And it's assumed players within the game are rational and will strive to maximize their payoffs in the game. Game theory brought about a revolution in economics by addressing crucial problems in prior mathematical economic models. For instance, neoclassical economics struggled to understand entrepreneurial anticipation and could not handle the imperfect competition. Game theory turned attention away from steady-state equilibrium toward the market process. In business, game theory is beneficial for modelling competing behaviours between economic agents. Businesses often have several strategic choices that affect their ability to realize economic gain. For example, businesses may face dilemmas such as whether to retire existing products or develop new ones, lower prices relative to the competition, or employ new marketing strategies. Economists often use game theory to understand oligopoly firm behaviour. It helps to predict likely outcomes when firms engage in certain behaviours, such as price-fixing (transfer mispricing) and collusion. Hayes (2022) posited that game theory can be used to help determine the most likely outcomes if there is a situation (game) with two or more interacting players that involves known pay-outs or quantifiable consequences. In the context of this research, the game is interactions between two players - the management of

multinational corporations and tax authorities of host countries. The pay-outs for the multinational corporations are maximum profit and wealth retention while for the host country it is maximum income from tax revenue and ultimately economic growth and development. Studies have shown that tax authorities wish to prevent double taxation but cannot neglect transfer pricing as a tool for tax evasion and manipulation. Multinational corporations, on the other hand, seek to comply with regulations but the consequences for internal decision-making, performance evaluation, and managerial motivation are mostly unknown, hence, the need to develop an effective management control system to maximize its objectives - wealth retention. The transfer pricing strategies used by multinational corporations to shift income include intangibles-based transactions; related-party transactions in services; imports and exports of goods and services via mispricing strategies etc. while the strategy used by the tax authority to prevent transfer pricing as a tool for tax evasion in the host country include proper documentation requirements, advance pricing agreement (APA), stricter penalty among others. The information set available in this context includes the constitution (law), transfer pricing regulation, tax rates, etc. The equilibrium point of this game is where both players have made their decisions leading to either income being appropriately taxed by the host country or shifted to increase the retained earnings of the multinational corporations.

2.2.2 Causality (Cause and Effect) Theory

Causality is a theoretical framework that indicates how the world progresses, it is a basic concept that is suitable as an explanation of other concepts of progression. Excerpts from Etim (2013) defined causality as the relationship between cause and effect. The cause is the reason something happened, the effect is what happened. Causality is the efficacy, by which one process or state, a cause, contributes to the production of another process or state, an effect. In this relationship, the cause is partly responsible for the effect, and the effect is partly dependent on the cause. In most cases, some process has many causes which are also said to be causal factors for it (all lying in its past). An effect can in turn be a cause of many other effects (all lying in the future). Causality is characterized by the continuity of the cause-effect connection, the chain of connections that has neither beginning nor end. It is never broken; it extends eternally from one link to another. Aristotle identified four types of causes namely material cause (the make-up), formal cause (shape or form), efficient cause (responsible agents), and final cause (purposes) (Shaikh, 2019). Of the four causes, the efficient cause is what is referred to by most definitions, the other types of causes listed indicate the material composition (material cause), structures and dynamics (formal cause), and, criteria for selection (final cause).

In the context of this research, the cause is transfer pricing as used by multinational corporations for tax evasion and avoidance while the effect is the impact on the economic development of Nigeria being the host country. The four types of causes as they relate to the research are (a) pricing of goods, services, and other intangibles is the material cause, (b) transfer pricing processes being the formal cause, (c) multinational corporations being the effective cause, and (d) Tax evasion and avoidance being the final cause. Thus, it can be said that multinational corporations for the purpose of tax evasion and avoidance make use of transfer pricing mechanisms such as the pricing of goods, services and other intangibles to shift income to favourable locations. Through transfer pricing, the foreign firms avoid taxes, denying the host country the much-needed revenues for human development (Akinleye, Olaoye and Fajuyagbe, 2018).

2.3 Empirical Review

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.

Wier (2020) researched and investigated Tax-motivated transfer mispricing in South Africa using transactional-level customs data from 2011 to 2015. The study applied a descriptive form of analysis alongside regression analysis of which the findings indicated transfer price deviations from arm's-length pricing. The study concludes that multinational firms in South Africa manipulate transfer prices in order to shift taxable profits to low-tax countries which in turn impact the revenues accruing to South Africa which ought to have been channeled to its economic development. The study recommends that tax authorities set up an automated flagging system (digital tax enforcement) that test for deviations in the pricing of related and unrelated transactions.

Ibitoye (2020) investigated the effect of transfer pricing manipulation on the Nigerian economy. The Phillip-Perron unit root test and the Auto-Regressive Distributed Lag model were applied in the study using time series data from 1970 to 2016 obtained from the World Bank database. The results of the regression showed that real GDP reacted negatively and significantly to a rise in transfer pricing in Nigeria. The resulting outcome affirms that transfer pricing manipulation depletes tax revenues in developing countries.

Musya, Okech and Nasieku (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.

Johannesen et al. (2019) utilized micro-data to study profit shifting and to investigate whether the intensity of profit shifting differs systematically between countries with different levels of economic and institutional development. A global dataset (2003 to 2012) with information about 210,000 corporations in 142 countries was analyzed via the regression model. The research findings indicate that developing countries are more exposed to profit shifting than developed countries. The study concludes empirically that there is a strong link between the tax aggressiveness of multinational firms and the economic development of their host countries.

Adelusi (2019) examined the contribution of Tax revenues to the economic growth of Nigeria from 2007 to 2018. Data were collected through secondary sources from the Nigeria Bureau of Statistics and the database of the Central Bank of Nigeria. Data were analyzed using the simple linear regression model. Findings revealed that there exists a strong positive relationship between tax revenues and GDP indicating that tax revenues were significant to

the economic growth of Nigeria compared to non-tax revenues. This study recommends that the government to entrench more efforts at generating more income from taxation and this can be achieved by ensuring transfer pricing manipulations are nipped in the bud via transfer pricing regulations. Transfer pricing regulations are to nip tax avoidance and evasion in the bud by capturing within the tax net, taxable income which would otherwise have been lost through ingenious tax planning schemes carried out by MNEs.

Ofei et al (2018) investigated the extent of macroeconomic volatility caused by the transfer pricing behaviour of multinational corporations. The variables examined are transfer pricing, trade openness, and tax revenue among others. Using the EGARCH model with annual data on the selected variables from 1980 to 2017 obtained from the US Internal revenue service, the study found evidence of macroeconomic volatility caused by transfer pricing. The size of the shock from transfer pricing is high and statistically significant in the terms of trade openness and budget policy channels. The negative shock from multinational corporations shifting taxable income between high and low tax regimes had a larger effect than a positive shock on the country's budget policy. The findings of the study offer a formidable framework through which policymakers could ascertain the degree of volatility caused to the structural economy by the transfer pricing behaviour of multinational corporations.

Ibanichuka, Akani, and Ikebujo (2016) investigated the effect of tax revenues on the economic development of Nigeria for the period 1995-2014; to find out if tax revenues represented by Customs and Excise Duties (CED), CIT, and VAT could affect economic development proxied by Human Development Index for the period of the study. Data collected were analysed using the multiple regression analysis and findings revealed that customs and excise duties (a major tax revenue item affected by transfer pricing manipulations), CIT, and VAT have a positive relationship with the human development index. The study concludes that CED revenues collected by the federal government alongside CIT and VAT help to improve the human development index of Nigeria. The study recommended that the government sensitize taxpayers on proper and honest tax payments (especially MNCs on the need to desist from tax avoidance schemes such as transfer pricing manipulations) as punishment for non-compliance will be severe. Furthermore, incentives should be provided to taxpayers to encourage them (MNCs) to pay their taxes when due. Tax authorities should encourage tax education for their workforce to achieve the desired revenue drive

Obasi (2015) examined the impact of transfer pricing on the economic growth of Nigeria. The study involved trade misinvoicing and unemployment as proxies for transfer pricing while GDP was utilized as a proxy for economic growth. Time series data from 1970 to 2004 were analyzed using the Johansen co-integration and Granger causality method however before then, the Augmented Dickey-Fuller and Phillips-Perron tests were applied to test the stationary levels of the variables. Study findings indicate that transfer pricing exerts a significant negative effect on economic growth in Nigeria. The study recommends that government should try to go beyond the arm's length method of checking transfer pricing and adopt other methods such as reduction in ad valorem tariff, capital gain tax, petroleum profit tax, and company tax to curtail foreign direct investment engagement in transfer pricing. This in effect will act as an incentive for investment and increase economic growth in Nigeria.

3.0 Methodology

3.1 Research Design

A quantitative research method (Ex Post Facto research design) was adopted to determine the effect of transfer pricing (proxied by trade misinvoicing and trade openness) on the economic development of Nigeria specifically using the HDI as a proxy.

3.2 Data Source

Secondary data was used and obtained from the 2021 databases of the United Nations and the World Bank in addition to the use of existing literature relating to the research topic such as Journal articles and internet publications. This study followed the works of Obasi (2015) and Ibitoye (2020) in which TP = FDI – CA where TP implies the uncaptured (unrecorded) capital outflows

3.3 Data Analysis

The study employed the use of simple and multiple linear regression methods of analysis to examine the data collected. The human development index was used as the measurement indicator for economic development while trade misinvoicing and trade openness were considered as the explanatory variables for transfer pricing. The Natural log of the variables was determined to normalise the dataset.

3.4 Model Specification

The theories utilized in this study are the game theory and the causality theory. The theories suggest that the transfer pricing variables under the research study can influence the economic development in Nigeria. In this study, the Nigerian economy was selected via random sampling technique from the developing economies of Africa of which the human development index was the measurement indicator for the Nigerian economy development while trade misinvoicing and trade openness represented transfer pricing. Hence, in specifying the model [(Economic Dev = f (TP)], importance is placed on affirming if transfer pricing represented by trade misinvoicing (TMI) and trade openness (TOP) have any remarkable influence on the economic development of Nigeria (represented by human development index (HDI). The study applied simple and multiple linear regression models. The multiple regression model as expressed below was used to test the null hypothesis (Ho2) by ascertaining the joint effect of the measurement indicators representing transfer pricing on the dependent variable:

HDI = f (Trade Misinvoicing, Trade Openness) …………. (1)

HDI = W0 + W1TMI + W2TOP + et ………… (2)

The logarithmic transformation will give:

LHDI = W0 + W1TMI + W2LTOP + et ………… (3)

The simple linear regression model was used to test the null hypothesis (Ho1) as represented below via logarithmic transformation:

LHDI = W0 + W1LTOP + et ………… (4)

LHDI = W0 + W1LTMI + et ………… (5)

Where HDI = human development index, W0 = intercept, W1 to W3 = coefficient of the variables, TMI = trade misinvoicing, TOP = trade openness and et = stochastic term (error term).

The a priori expectations are W1, W2, > 0

4.0 Data Presentation, Analysis and Discussion of Findings

4.1 Data Presentation

Presented below is the data used for the analysis which was sourced from the databases of the United Nations and the World Bank. The logarithmic form of the data set as seen in Table 4.11 was used for hypothesis testing.

Table 4.11

PERIOD	L-Trade Misinvoicing	L-Trade Openness	L-Human Dev Index
2020	1.544192111	-0.595172849	-0.270025714
2019	1.436480695	-0.468209927	-0.268411235
2018	0.943494516	-0.481395614	-0.272458743
2017	0.385606274	-0.579263795	-0.274905479
2016	1.103803721	-0.683576478	-0.279014256
2015	0.485721426	-0.67098589	-0.279014256
2014	-1.447623	-0.510257842	-0.281498311
2013	-1.303843775	-0.507961067	-0.284832642
2012	-1.889133556	-0.351313369	-0.301029996
2011	-1.498034724	-0.273433111	-0.308034897
2010	-1.359645793	-0.363323956	-0.316952962
2009	0.703291378	-0.442982233	-0.30980392
2008	-1.43679851	-0.389378748	-0.315154638
2007	-0.414973348	-0.405217082	-0.320572103
2006	-1.531861949	-0.370929925	-0.325138859
2005	-1.03702788	-0.480686545	-0.332547047
2004	-0.994756945	-0.496293272	-0.337242168
2003	-0.372912003	-0.306822619	-0.346787486
2002	-0.631443769	-0.39755319	-0.341988603
2001	-0.586587305	-0.30391412	-0.343901798
2000	-1.172310969	-0.309810301	-0.342944147

Source: World Bank and UNDP 2021 Database

4.2 Findings and Discussions

In response to research question one, an assessment of the independent effect of trade misinvoicing and trade openness was carried out on the dependent variable (HDI) using the simple linear regression analysis and the results were collated into Table 4.12

Table 4.12 Simple Linear Regression Results of Indicators

VARIABLES	R^2	F-Statistic	t-Statistic	Significance (P-value)
Trade Misinvoicing	0.308	8.465	2.909	0.009
Trade Openness	0.483	17.785	-4.217	0.000

Dependent: LHDI Source: SPSS Result, 2022.

Trade misinvoicing returned an R square value of 0.308 which implies that 30.8 percent of the changes in the human density index are affected by 30.8 percent of the changes in trade misinvoicing. The percentage figure shows that there are other factors concerning trade misinvoicing that affect the changes in the human development index. The F-statistic of 8.465 and P-value showed that the model was insignificant and that there was no linear relationship between trade misinvoicing and the human development index. The t-statistic value of 2.909 alongside a p-value of 0.009 indicated that there is a positive but insignificant

effect of trade misinvoicing on the human development index in Nigeria. This result outcome is in contrast with the findings of Mehrotra and Carbonnier (2021), Ibitoye (2020), Musya, Okech and Nasieku (2020), Obasi (2015) where they found trade misinvoicing to have a negative effect on the economic growth and development of varying countries.

Trade openness returned an R square value of 0.483 implying that 48.3 percent of the changes in the human development index are affected by 37 percent of the changes in trade openness. The F-statistic (17.785) and P-value showed that the model was significant and that there was a linear relationship between trade openness and the human development index. The t-statistical outcome of -4.217 alongside the p-value of 0.000 showed that there was a significant negative relationship between trade openness and the human development index for Nigeria. This negative effect on economic development by trade openness is affirmed in the works of Mehrotra and Carbonnier (2021), Akintunde et al. (2021), Wier (2020), Ibitoye (2020), Johannesen et al. (2019), Ofei et al (2018) where they found how with the aid of trade openness, MNCs carry out their trade mispricing antics to the detriment of their host countries.

In response to research question two and Ho_2, the joint effect of transfer pricing indicators (trade misinvoicing and trade openness) on the economic development of Nigeria were ascertained by regressing against the human development index and the results are presented in Table 4.13

Table 4.13 Multiple Linear Regression Results of Indicators

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.716[a]	.512	.458	0.0205216	0.535

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	0.008	2	0.004	9.447	.002[b]
	Residual	0.008	18	0.000		
	Total	0.016	20			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			
		B	Std. Error	Beta	VIF	T	Sig.
1	(Constant)	-0.365	0.024			-15.361	.000
	Trade Openness	-0.134	0.049	-0.567	1.576	-2.743	.013
	Trade Misinvoicing	0.005	0.005	0.212	1.576	1.028	.318

Source: SPSS Results, 2022.

The model returned an R square value of 0.512 which implies that 51.2 percent of the changes in the independent variables: trade misinvoicing and trade openness can jointly influence 51.2 percent of the changes in the dependent variable HDI which was used as a measure of the economic development of Nigeria. The variance inflation factor (VIF) outcomes of 1.576 for the indicators showed non-collinearity among the indicator variables.

The F-statistics (9.447) and the P-value (0.002) showed a goodness of fit of the model which implies that there is a linear relationship between the human development index and transfer pricing proxied jointly by trade misinvoicing and trade openness. Thus, the indicators of transfer pricing jointly have a statistically positive significant influence on the economic development of Nigeria as represented by the human development index. This is at variance with various literature affirmations such as Mehrotra and Carbonnier (2021); Wier (2020); Ibitoye (2020); Johannesen et al. (2019); Ofei et al (2018); Ibanichuka, Akani, and Ikebujo (2016); Obasi (2015) where transfer pricing had a negatively significant effect on economic growth and development.

4.3 Policy Implication of Findings

When MNCs report losses as a result of transfer mispricing strategies and do not pay tax, the government is compelled to shift tax payments to households whose incomes may not be high enough to enable the government to secure reasonable tax revenue for public expenditure. This action can further diminish the human development strides of the nation. Furthermore, as MNCs continue to report false losses, it sends wrong signals about the business potential in the economy. If false information is the only information available, potential investors may rely on this information and judge the business environment as hostile. Such investors will relocate to a supposedly friendly environment for their enterprise, resulting in a loss in employment and national income. The effects on challenges with the implementation of tax-related government policies, and their multiplier effect on economic development etc. have not received equivalent public attention. This implies that transfer pricing strategies and their negative impact on tax revenue generation is an issue that needs to be seriously looked into by relevant tax authorities in developing economies. Necessary policies by the government are required to ensure this menace is tackled and brought to a minimum given that tax dodging perpetuates extreme poverty and creates serious economic distortions that hinder sound investment decisions in economies where the practice is predominant as in Nigeria.

5.0 Conclusion and Recommendation

The study examined the influence of transfer pricing strategies on the economic development in Nigeria. The transfer pricing proxies were tested independently and jointly for their statistical significance on economic development via regression analysis. The study showed that transfer pricing strategies had an overall significant influence on economic development. The negotiating position of organized labour is weakened when the value-addition of workers to the industrial process is diminished by mispriced and exaggerated costs, such as material costs. As a result, workers are unable to bargain for fair pay and are at the management's mercy when deciding on working conditions, which has a detrimental effect on the economy's human development index. Workers are oppressed by unrealistic performance objectives in organizations where profit shifting strategy is a key component of the operating model; yet low capacity support is supplied under the pretext of high overheads. Employees are under tremendous pressure to accomplish goals while still making less money, which they use to pay for rising medical expenses connected to stress and other disorders. All of these elements lower workers' ability to save money, as well as their welfare and the welfare of their dependents. Given that transfer mispricing strategies are at the core of MNE operations, the government must move boldly to eliminate these unlawful methods as they are now being used. The introduction of rigorous restrictions that are enforced would be the first important step in steering emerging nations like Nigeria away from such destructive production relationships as supported by the research findings of Bakke, Hopland, and Moen, (2019) and Cooper et al. (2016). The Nigerian government should handle tax revenue resources wisely

and substantially cut back on municipal squandering of revenues. More tax money will be generated if tax revenue is used effectively to address issues relating to citizen welfare.
The study concludes that necessary tax reforms are required to enhance the capacity of the government's revenue-generating apparatus to carry out socially desirable expenditures that will contribute to human development. However, it must be noted that tax reform processes concerning transfer pricing antics cannot result in sustainable economic development unless out-of-date tax laws and rates are reviewed in light of macroeconomic goals, there must be an effective tax administration system with staff that is free from corruption, and government officials are held accountable and transparent when managing tax revenue.
From the result of the findings, the following recommendations are made:

1. High tariffs and nontariff barriers encourage misreporting. Therefore, a policy of meaningful trade liberalization needs to be pursued by the government.
2. When a firm prices a product differently in related and unrelated transactions this must lead to an automatic audit or as a minimum, a flag gets raised and an email sent to the firm cautioning them to stop this behaviour. Developing economies should imbibe and encourage an automated flagging system that tests for deviations in the pricing of related and unrelated transactions by businesses.
3. The arm's length principle should be applied in practice and put into law, and there should be a transfer pricing audit program that works.
4. There should be an increased enforcement efforts by the relevant tax authorities and stiff penalties melted out to erring firms.

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