Chapter 10

The importance and growth of multinational companies

1. The importance and growth of multinationals

: contribute about 10 percent to the world GDP and about 66 percent to global exports.

2. How have multinationals developed

2.1 Economies of scale

: Many companies have developed into multinationals because larger companies enjoy lower costs. This is because they can exploit economies of scale

2.2 Marketing

: Some firms have become multinationals by relying on effective marketing. Eg. Starbucks and McDonald's.

: They have protected their brand with patents and use heavy advertising and innovation marketing to attract customers globally.

2.3 Technical and Financial superiority

: They have developed advanced technologies and build a huge bank of knowledge. They can also afford to invest heavily in research and development.

: They are experienced and can afford to employ the most talented people available.

3. Benefits to a business of becoming a multinational

Topic	Explanation
1. Larger customer base	: Multinationals will have access to a much wider market than companies that focus entirely on domestic market.
2. Lower costs	: Multinationals are large companies they can exploit economies of scales and enjoy lower cost.
3. Higher profile	:It will enjoy a higher profile in the market. Large companies with strong brand names can gain a lot of customers.
4. Avoiding trade barriers	: Since multinationals are prepared to set up operations in other countries, they can bypass trade barriers by establishing operations in those countries.
5. Lower taxes	: Multinationals can reduce the amount of tax they pay on their profits by basing their head offices in countries where taxes are lower.

4. Benefits of multinationals to a country/economy

Topic	Explanation
1. Increase in income and employment	: Multinationals create new jobs in developing countries.
2. Increase in tax revenue	: The profits made by multinationals are taxed by the host nation.
3. Increase in exports	Therefore, if this output is sold out of the host country, it is counted as an export. This helps countries to increase their foreign currency reserves.
4.Transfer of technology	: Multinationals often provide foreign suppliers with technical help, training and other information.
5.Improvement in the quality of humans capital	: Multinationals provide training and work experience for their workers. In less developed countries such training may otherwise be unavailable.
6. Enterprise development	: Multinationals may have provided the skills and motivation needed for enterprise.

5. Possible drawbacks of multinationals to a country/economy

Topic	Explanation
1. Environmental Damage	: Multinationals are heavily involved in the extraction industries, such as coal, oil and gold mining
2. Exploitation of less developed countries	- Multinationals often pay low wages. They may also employ child labour and the working conditions are often very poor. - Tax paid to the host nation are often minimal
3.Repatriation of profits	: The profits made by multinationals are returned to the country. As a result, the host country loses out.
4. Lack of accountability	: Some argue that because multinationals are so large and powerful they lack accountability. They may be able to evade the law, especially in countries where government is weak or corrupt.