Revision Notes: SQA National 5 Economics
Multinationals

Contents

1 Definition of a Multinational

A multinational corporation (MNC) is a company that operates in multiple countries. These businesses have headquarters in one country but have production facilities, offices, or sales operations in various other nations.

Examples of multinational corporations include Apple, McDonald's, Coca-Cola, and Toyota.

2 Advantages and Disadvantages of Multinationals

2.1 Advantages of Multinational Corporations

- **Job Creation:** MNCs provide employment opportunities in the countries they operate in.
- **Investment in Infrastructure:** They contribute to the development of roads, power supplies, and communication networks.
- **Economic Growth:** The presence of MNCs boosts local economies through investment and trade.
- **Transfer of Skills and Technology:** Local workers gain skills and knowledge from international firms.
- **Access to Global Markets:** Countries hosting MNCs can export goods and services more easily.
- **Increased Tax Revenue:** MNCs pay taxes to the governments of the countries in which they operate.

2.2 Disadvantages of Multinational Corporations

- **Exploitation of Workers:** Some MNCs may pay low wages and provide poor working conditions in developing countries.
- **Profit Repatriation:** Profits earned in host countries are often sent back to the home country rather than reinvested locally.
- **Environmental Damage:** MNCs may exploit natural resources and cause pollution.
- **Dominance Over Local Businesses:** Large multinationals can outcompete and force local firms out of business.
- **Tax Avoidance:** Some MNCs use tax loopholes to minimise the amount of tax they pay.
- **Cultural Erosion:** The expansion of MNCs can lead to the spread of global brands at the expense of local traditions and businesses.

3 Choice of Locations and Reasons Behind Those Locations

Multinationals choose locations based on various economic, political, and logistical factors. These factors influence where they set up manufacturing plants, regional offices, or service hubs.

3.1 Factors Influencing Location Choice

- **Availability of Skilled Labour:** MNCs establish operations where they can access a well-educated and trained workforce (e.g., Silicon Valley for technology firms).
- **Lower Labour Costs:** Many companies set up factories in countries with lower wages to reduce production costs (e.g., clothing manufacturers in Bangladesh).
- **Access to Raw Materials:** Some industries locate near resources needed for production (e.g., oil companies in the Middle East).
- **Proximity to Markets:** Businesses want to be close to consumers to reduce transportation costs (e.g., car manufacturers setting up plants in Europe to serve European customers).
- **Infrastructure Quality:** Countries with good transport networks, energy supplies, and internet access attract more investment.
- **Government Policies and Incentives:** Some governments offer tax breaks and grants to attract multinational investment (e.g., Ireland offering low corporate tax rates to tech companies).
- **Political Stability:** Companies prefer countries with low political risks and stable economic conditions.
- **Trade Agreements:** MNCs set up in regions with free trade agreements to avoid tariffs and benefit from easier trade regulations (e.g., companies setting up in Mexico to trade with the US under USMCA).