

# IB / A-Level Business Studies

## Multinational Companies (MNCs)

Complete exam preparation notes: core theory, case studies, model essays, mind map, and flashcards.

### How to use this pack

- **What you will be able to do:** define MNCs, explain why firms expand abroad, analyse impacts on host countries, and evaluate government-MNC relationships.
- **Best use:** revise the notes, memorise key terms, then practise with the model essay structure and flashcards.

### Contents

- 1. Core concepts + key terms
- 2. Reasons for international expansion (with examples)
- 3. Impacts on host countries: advantages vs disadvantages + evaluation
- 4. MNCs and governments: regulation, taxation, power, and collaboration
- 5. Exam technique: how to score on 15/20-mark questions
- 6. Model answers (15-mark and 20-mark)
- 7. One-page revision mind map
- 8. Quick recall flashcards
- 9. Last-minute checklist + references

# 1. Core concepts and key terms

**Definition:** A multinational company (MNC) is a business that owns or controls operations (e.g., production, service centres, R&D, sales) in more than one country, while maintaining a headquarters (HQ) in one home nation.

**Typical structure:** HQ sets overall strategy; overseas *subsidiaries* carry out local operations; coordination is needed across finance, marketing, HR, and the supply chain.

## Key terms (learn these)

- **FDI (Foreign Direct Investment):** investment by a firm into productive assets (e.g., factories) in another country.
- **Host country:** country receiving the investment; **home country:** where HQ is located.
- **Economies of scale:** falling average costs as output rises.
- **Profit repatriation:** profits sent back from subsidiaries to HQ (not reinvested locally).
- **Tax avoidance:** legal methods to reduce tax bills (e.g., shifting profits to low-tax jurisdictions).
- **Transfer pricing:** prices set for transactions within the same corporate group (can be used to shift profits).
- **Footloose behaviour:** firms moving location when costs/incentives change.
- **Sovereign wealth fund (SWF):** state-owned investment fund holding shares in global companies.

Mini-case examples you can drop into answers: Adidas / Unilever / Intel / Coca-Cola (global production + sales networks), Starbucks (China expansion), Samsung (Vietnam investment), Airbus (multi-country assembly).

## 2. Reasons for international expansion

In essays, link **reason** → **how it helps the firm** → **example**.

Reason	Explanation	Example you can use
Market-seeking growth	New customers when home market is saturated; first-mover advantage in fast-growing markets.	Starbucks expanded rapidly in China to capture growth and build brand presence.
Cost/efficiency-seeking	Lower labour/energy/land costs; proximity to suppliers; benefit from favourable regulations.	Many electronics and apparel firms locate production in emerging economies to reduce costs.
Avoid trade barriers	Produce inside the market to avoid tariffs/quotas and reduce delivery times.	Airbus uses production/assembly sites across countries to serve regional markets efficiently.
Resource-seeking	Secure key raw materials/inputs close to source.	Mining and energy firms locate operations in resource-rich countries.
Economies of scale	Higher volumes allow lower average costs and stronger price competitiveness.	Global distribution supports large-scale production runs and standardisation.
Risk diversification	Spread risk across regions if one economy faces recession, currency swings, or instability.	A global portfolio of markets reduces dependence on one national economy.

### Exam Tip: Add one line of evaluation

- Mention conditions: e.g., cost advantages depend on labour productivity, infrastructure, and political stability.
- Mention trade-offs: e.g., standardisation reduces costs but may not fit local tastes (adaptation needed).

### 3. Impacts on host countries

A strong answer considers **stakeholders** (workers, consumers, government, local firms, environment) and gives a balanced judgement.

Potential advantages (host country)	Potential disadvantages (host country)
<p><b>Jobs + incomes:</b> new factories/service centres can reduce unemployment and raise spending in the local economy.</p> <p><b>FDI + multiplier effects:</b> construction and demand for local suppliers stimulate other businesses.</p> <p><b>Technology + skills:</b> training, better management, and international standards raise productivity.</p> <p><b>Consumer benefits:</b> more choice, improved quality, lower prices via competition.</p> <p><b>Infrastructure:</b> roads, ports, power, digital networks may improve to attract/support investment.</p>	<p><b>Limited quality jobs:</b> automation may reduce employment; senior roles may be filled by expatriates.</p> <p><b>Footloose risk:</b> firms may relocate when costs rise or incentives end, causing job losses.</p> <p><b>Environmental damage:</b> pollution or resource depletion if regulation is weak.</p> <p><b>Profit repatriation:</b> profits sent to HQ, reducing long-run local reinvestment benefits.</p> <p><b>Market power:</b> MNCs may outcompete local firms or influence policy/labour standards.</p>

#### Case study insert: Samsung in Vietnam

- Large-scale investment can create thousands of jobs and support local supplier industries.
- Evaluation: benefits are larger when local firms can link into the supply chain and when training/upskilling is provided.

#### How to evaluate impacts (high marks)

- Time horizon: short-run jobs vs long-run dependency/sustainability.
- Distribution: who gains most - skilled workers, unskilled workers, consumers, government?
- Regulation strength: labour laws, environmental enforcement, and tax rules determine outcomes.
- Type of FDI: high-skill (R&D;) usually brings more knowledge spillovers than low-skill assembly.

## 4. MNCs and governments: power, taxation, and collaboration

Governments want investment, jobs, and technology, but also need fair taxation and regulation. MNCs may have bargaining power because they can choose between locations (especially for mobile activities).

### 4.1 Taxation and profit shifting

Some MNCs reduce tax bills using legal tax planning, including profit shifting (often via transfer pricing or locating intangible assets in low-tax jurisdictions). The OECD estimates that base erosion and profit shifting (BEPS) costs governments around **USD 100-240 billion** in lost revenue each year (around 4-10% of global corporate income tax).

#### Key policy responses

- **OECD/G20 BEPS project:** coordinated actions to reduce tax avoidance and improve transparency.
- **Global minimum tax (Pillar Two):** designed to apply a top-up tax so large MNE groups face an effective rate up to 15% on low-taxed profits.
- **Digital Services Taxes (DSTs):** some countries introduced interim taxes on revenues from certain digital services (e.g., the UK introduced a 2% DST from 1 April 2020 for in-scope businesses).

Data note: OECD BEPS revenue-loss range and UK DST details come from official publications (see References).

### 4.2 Regulation, incentives, and the 'race to the bottom'

To attract FDI, governments may offer tax holidays, grants, or relaxed regulation. Evaluation: incentives can create jobs and development, but may also reduce tax revenue and encourage a 'race to the bottom' if countries compete by lowering standards.

### 4.3 Governments as investors and customers

Some governments invest in MNCs via sovereign wealth funds (SWFs), earning dividends and gaining influence. Governments are also major customers of MNCs, relying on global firms for cloud computing, cybersecurity, and infrastructure delivery.

#### Case study inserts you can use

- **Sovereign wealth funds** (e.g., in Saudi Arabia, Qatar, Singapore, Kuwait): state investment in global firms to earn returns and build strategic influence.
- **Government tech dependence:** firms like Microsoft and AWS provide cloud services used by many public-sector bodies; contracts can speed digital transformation but increase reliance on external providers.
- **Public-private programmes:** partnerships with multinational consultancies/tech firms can accelerate e-health or e-education rollouts in emerging markets.

## 5. Exam technique: how to score high marks

### Command terms (what examiners want)

- **Explain:** give a clear cause-and-effect chain (because -> therefore).
- **Analyse:** develop the chain, showing impacts and links to objectives (profit, growth, market share).
- **Evaluate:** make a judgement using criteria (short vs long run; stakeholders; context; regulation).

### 15/20-mark structure (use every time)

- **Intro (2-3 sentences):** define MNC and state your line of argument (balanced).
- **2-3 developed points for benefits** (PEEL: Point, Explain, Example, Link).
- **2-3 developed points for costs** (PEEL).
- **Evaluation throughout:** use words like 'depends on', 'to the extent that', 'in the long run'.
- **Conclusion:** weigh the factors and give a clear final judgement.

### Practice questions (self-test)

- Assess the impact of multinational companies on a developing host economy. (15)
- Evaluate whether governments should offer tax incentives to attract MNC investment. (20)
- Discuss how tax avoidance by MNCs can affect public services in host countries. (15)

## 6. Model answers

### Model 15-mark answer (balanced, developed, with judgement)

Multinational companies (MNCs) can benefit a host country through foreign direct investment (FDI), jobs, and skills development.

For example, when an MNC builds a factory or service centre, local suppliers may gain contracts and workers gain incomes, increasing spending in the economy.

MNCs may also transfer technology and management expertise through training, raising productivity over time.

However, the benefits may be limited. If production is highly automated, few jobs are created and higher-level management roles may be filled by expatriates.

In addition, profits may be repatriated to the headquarters rather than reinvested locally, reducing long-run gains. Environmental damage is also a risk when regulation is weak.

Overall, MNCs can support development, but the net impact depends on the host country's ability to enforce labour, environmental, and tax rules and to build local linkages so domestic firms and workers share in the gains.

### Model 20-mark answer (deeper evaluation + policy context)

Multinational companies (MNCs) have the potential to accelerate growth in host countries, but they can also create economic and social costs.

On the positive side, large inflows of FDI can increase employment and generate multiplier effects as local suppliers expand.

MNCs may bring technology, training, and international standards that raise human capital, and consumers may benefit from better quality and lower prices due to competition.

A well-known example of positive spillovers is when large electronics investors in Southeast Asia support the development of supplier ecosystems.

Nevertheless, the advantages are not automatic. Some MNCs are footloose and may relocate if wages rise or incentives end, creating instability.

Market power can squeeze domestic competitors, and environmental harm may occur when enforcement is weak.

A major policy concern is taxation: profit shifting and other BEPS practices can reduce government revenues needed for schools, hospitals, and infrastructure.

For this reason, governments and international organisations have pushed reforms such as the OECD/G20 BEPS agenda and minimum-tax approaches.

Whether governments should actively attract MNCs depends on the conditions of entry and the strength of institutions.

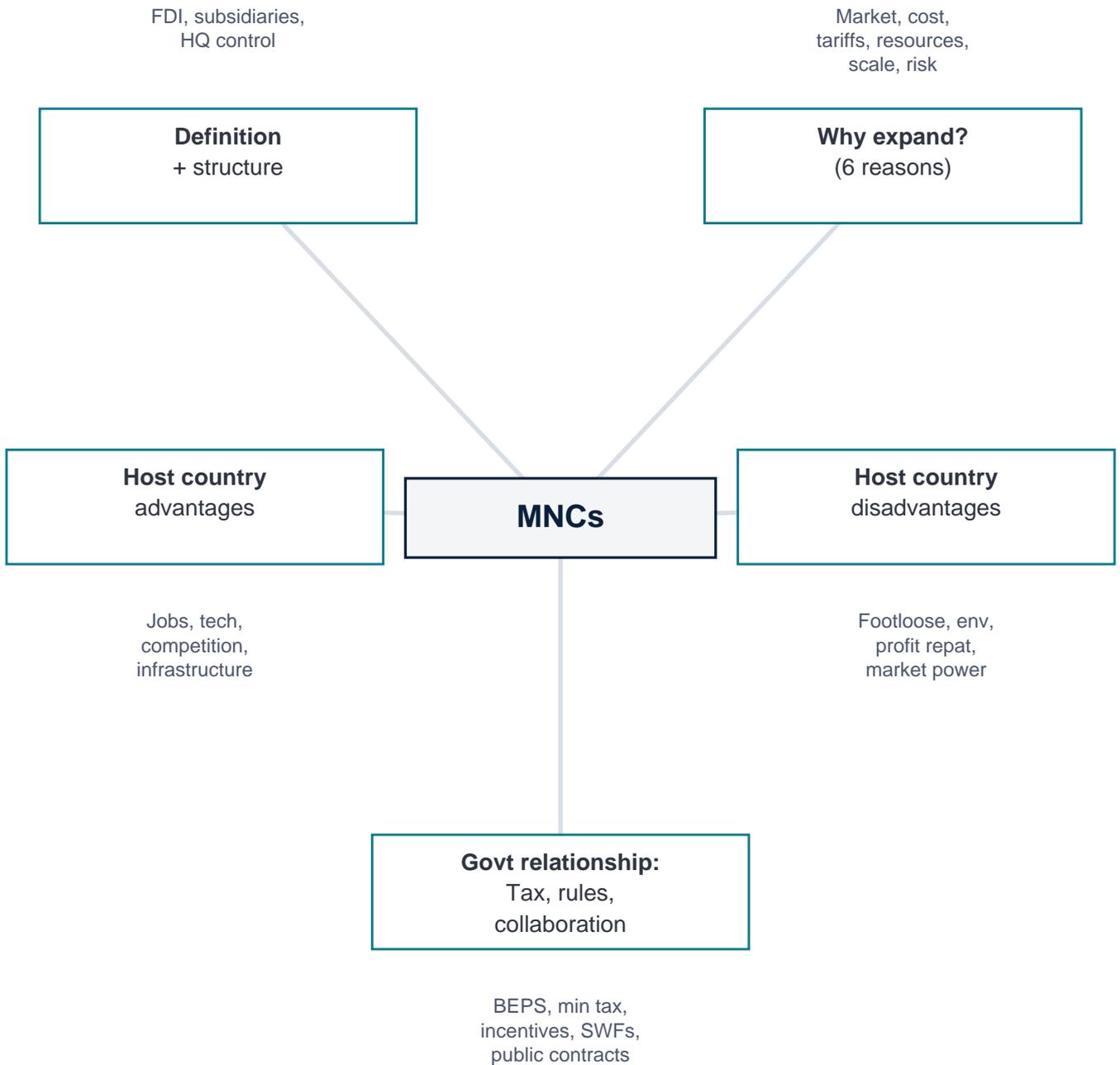
If incentives are tied to clear performance requirements (e.g., training local staff, technology transfer, local sourcing, and compliance with environmental rules), the host country is more likely to gain.

In contrast, generous tax holidays without strong oversight may produce short-run investment but weak long-run development.

In conclusion, MNCs can be an engine of development, but only when governments negotiate effectively, enforce regulation, and ensure that local stakeholders capture a fair share of the benefits. The most successful strategy is usually selective attraction of FDI combined with strong tax, labour, and environmental governance.

# 7. One-page revision mind map

Use this page to recall the whole topic in 60 seconds.



## 8. Quick recall flashcards

Cover the answers and test yourself. Aim for speed and accuracy.

Question	Answer
Define an MNC.	Operates in more than one country with HQ in a home nation.
What is FDI?	Investment into productive assets abroad (e.g., building a factory).
Give 2 reasons firms expand abroad.	Market growth; lower costs; avoid tariffs; access resources; economies of scale; risk diversification.
What are economies of scale?	Lower average costs as output increases.
Name 2 host-country benefits.	Jobs/income; technology/skills; competition; infrastructure; FDI multiplier effects.
Name 2 host-country costs.	Profit repatriation; environmental harm; footloose relocation; market power.
What is profit repatriation?	Profits transferred back to headquarters rather than reinvested locally.
What is tax avoidance?	Legal methods to reduce taxes (often via profit shifting).
What is transfer pricing?	Prices set for internal group transactions; can shift profits across countries.
What does 'footloose' mean?	Can relocate quickly if costs/incentives change.
Why might governments offer incentives?	To attract FDI, jobs, exports, technology transfer.
Risk of incentives?	Lower tax revenue and possible 'race to the bottom' on standards.
Give an example of market-seeking expansion.	Starbucks expanding into China.
Give an example of efficiency-seeking investment.	Manufacturing located in lower-cost emerging economies.
Give an example of avoiding tariffs.	Producing inside a market rather than exporting.
What is BEPS?	Base erosion and profit shifting: practices that reduce tax bases and move profits.
Policy response to BEPS?	OECD/G20 BEPS actions; global minimum-tax approaches; digital services taxes.
What is a sovereign wealth fund?	State-owned investment fund holding global assets/shares.
How to evaluate MNC impact in essays?	Depends on regulation, time horizon, stakeholder distribution, and type of FDI.

## 9. Last-minute checklist + references

### Top 10 points to memorise

- Definition: MNC operates in multiple countries with HQ in a home nation.
- Six expansion motives: market, cost, barriers, resources, scale, risk diversification.
- Host benefits: jobs, FDI multiplier effects, technology transfer, competition, infrastructure.
- Host costs: footloose relocation, environmental damage, profit repatriation, market power.
- Tax avoidance vs tax evasion: avoidance is legal planning; evasion is illegal.
- Transfer pricing can be legitimate, but can also shift profits across borders.
- Evaluation depends on regulation strength and ability to negotiate conditions of entry.
- Governments may offer incentives - but consider opportunity cost and long-run dependency.
- International responses include OECD/G20 BEPS work and minimum-tax approaches (15% design for Pillar Two).
- Use examples in every essay: Starbucks (China), Samsung (Vietnam), Airbus (global production).

### References (for key policy/statistics)

- OECD - Base erosion and profit shifting (BEPS):  
<https://www.oecd.org/en/topics/policy-issues/base-erosion-and-profit-shifting-beps.html>
- OECD - Global Minimum Tax (Pillar Two): <https://www.oecd.org/en/topics/sub-issues/global-minimum-tax.html>
- UK Government - Digital Services Tax (2% from 1 April 2020):  
<https://www.gov.uk/government/publications/introduction-of-the-digital-services-tax/digital-services-tax>
- EU Tax Observatory - Profit shifting overview:  
<https://www.taxobservatory.eu/repository/profit-shifting-of-multinational-corporations-worldwide/>