The Impact of MNCs on the Local Economy

1	Local labour and job creation	MNCs have the funds to invest heavily in to a new area, and are likely to create many jobs by the building of one factory/office/outlet. MNCs offer people the opportunity to have full time jobs, with training and the possibility of building a career. They also offer a regular income, and job security.
2	Wages & Working Conditions	When a large new business opens in an area, wages locally may rise. Demand for workers will drive up rates of pay. Many MNCs have a modern approach to business development, so will also have favourable working conditions. Facilities are likely to be up to date, using the latest technologies, and working practices are likely to be efficient.
3	Local Businesses	Local businesses may be involved in the construction of the new plant, (builders, plumbers, brick layers etc.) Once the plant is running, local businesses may be required to supply raw materials/components, commercial services and utilities. The above businesses will therefore obtain more business, leading to increased revenues and profit. They may also need to employ more staff to meet the increased demand. However, MNCs may lure workers away from local businesses by offering better pay and/or working conditions.
4	The Local Community & Environment	**Improvements in infrastructure:** MNCs may invest some of their own funds in to improving roads, electricity/gas/water supplies, schools, hospitals and local amenities. **Contributions to local government taxes:** In the UK business have to pay rates to the local authorities. This money can be used by local governments to help fund spending in the area. Similar payments are required in other countries. **Help in local communities:** Some MNCs make efforts to build strong links with the local communities. They may give money to local charities, organise fundraising events or give locals access to the company's facilities.

The Impact of MNCs on the National Economy

1	**FDI Flows**	This is when a firm invests money in another country, then this is classified as FDI. FDI is encouraged by governments as it leads to an increase in income ; the output produced by the business will contribute to GDP. There will also be an increase in tax revenue for the host nation.
2	The Balance of Payments	Investment by MNCs will improve the balance of payments for a country. More money will flow into the host country as the MNC builds the new facility. They then sell the output manufactured in a host country, further money will flow in from abroad.
3	Technology and skills transfer	MNCs introduce in new technologies and modern working practices to the host nation. This can result in the transfer of technologies/knowledge to local businesses.
4	Consumers	Consumers benefit from more choice, lower prices and improved quality as the MNCs will encourage local competition to compete based on these factors. MNCs also result in more employment opportunities and higher incomes, resulting in better living standards.
5	Business Culture	MNCs can have an impact on the business culture in the countries in which they set up operations. Some people who are employed by MNCs may eventually leave their jobs and set up their own businesses. Business cultures in the host country will be influenced by the cultures of the MNC.
6	Tax Revenues & Transfer Pricing	MNCs are profit seeking companies that therefore seek to minimise their tax liabilities. Because of this, many MNCs avoid tax on profits through a technique known as **transfer pricing.** This is where a company can sell its products to a foreign subsidiary of the same company for an artificially low price; this subsidiary will be in a country with much lower rates of corporation tax. The product will then be sold for the market price in the second country, allowing it to make a high profit, but pay low rates of tax.

Key Definitions

1	Ethics	The principles that guides members of an organisation to make them deal honestly and fairly with each other, and their stakeholders.
2	Institutional framework	the system of formal laws, regulations and procedures, and informal conventions, customs and norms that shape activity and behaviour.
3	Corruption	using public power for personal benefit. Bribery is a common example of a corrupt practice.
4	Less Economically Developed Countries (LEDCs)	Countries with a low GDP and a low standard of living, such as those in South America, Africa and Southern Asia.
5	Code of Conduct	A set of rules outlining the proper practices of an organisation that contributes to the welfare of key stakeholders and respects the rights of all affected by its operations.
6	Stakeholders	Groups or individuals who can affect or be affected by the actions of a business.

Common Ethical Considerations for MNCs

1	Pay & working Conditions	Products are often manufactured in foreign countries to reduce costs and maximise profits. However, these countries that are governed by less strict legislation for pay and health & safety, meaning that staff are treated less favourably.
2	Environmental Considerations: Emissions	In the UK, the law requires all UK quoted companies to report on their greenhouse gas emissions annually. This legislation does not exist in LEDCs where many MNCs base their manufacturing.
3	Environmental Considerations: Waste Disposal	Waste Disposal – There are laws in the UK regarding the disposal of waste, that is either missing or not enforced in LEDCs. LEDCs also lack the infrastructure, such as quality road networks, to allow for efficient waste removal by lorry.
4	Supply Chain Considerations: Exploitation of labour	**Bonded labour**' is a form of modern slavery. The person seeking work contacts a recruiter. The recruiter then finds them work, in return for a fee. The business pays any wages to the recruiter, who insists that the worker repays their fee plus interest (a hefty debt.) This bonds the worker to the recruiter until the debt has been repaid.
5	Supply Chain Considerations: Child labour	Although child labour is unacceptable in the UK, it is commonplace in other countries around the world. In fact, for some families, the child's earnings are a key source of income.
6	Marketing Considerations: Misleading labelling	Businesses should ensure that the labels on their products are not misleading, so that consumers can make a fully informed choice as to whether to purchase a product or not. In the UK this is governed by the Trade Descriptions Act and enforced by the Trading Standards Authority. However, this law does not apply outside the UK.
7	Marketing Considerations: Inappropriate promotional activities	Promotional activities in China can follow the cultural tradition of guanxi, the use of personal connections in business activity that can include gift giving, doing favours and socialising. This could be deemed as inappropriate in the UK.

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Political Influence

1	State ownership	A very effective method of control, as political power can be exercised to create, manage and end a business.
2	Tariffs, Quotas & Regulations	These can be enforced by governments on MNCs to protect domestic businesses from international competition.
3	Subsidies & tax breaks	Subsidies can be used to protect domestic industries, they can be used to: Help create factories to produce and distribute goods Help consumers to buy products Assist domestic firms in exporting their goods and services.
4	Lobbying	Politicians can lobby in parliament to raise awareness and influence decisions of businesses.

Pressure Groups

1	**Pressure groups**	Voluntary organisations that aim to change either political or commercial decision making.
2	How pressure groups control MNCs: Naming & shaming	publicising behaviour that is considered to be unethical as widely as possible to damage a business's reputation
3	How pressure groups control MNCs: Direct Action	the use of demonstrations, protests, strikes or even sabotage to achieve a political or social goal.
4	How pressure groups control MNCs: Lobbying	the taking of issues directly to government to influence change.

Social Media

1	Social Media	an interaction between electronic and mobile devices, applications and people that allows users to create content.
2	How social media can control MNCs	Making the collection of information from a variety of sources easier Increasing social awareness through communication Ensuring greater transparency Bringing together people in order to create a kind of social authority to challenge the power of large companies

Legal Control

1	Competition policy	In the UK, the Competition and Markets Authority, and the Office of Fair Trading protect consumers from anti-competitive practices. The EU Competition Commission takes on the same role across Europe. These bodies ensure businesses do not collude to fix prices or to drive other businesses out of the market.

Taxation

1	Key point	Governments use tax revenues to run their countries, but they can also be used to control the activities of MNCs.
2	Key Point	Some countries set very low rates of corporation tax to attract FDI, but this then causes tension with other countries, who feel that it allows businesses to get away with paying less than their fair share of tax.
3	Tax avoidance	Using legal methods to reduce the amount of tax that a company pays. Tax avoidance is an ethical issue that can tarnish the reputation of MNCs.
4	Tax Evasion	The illegal avoidance of tax.