Advantages that multinations have over domestically focused companies

Government

In this age ofglobalization, companies are seeking to expand businesses across borders and consequently there are more and more multinational companies. A multinational corporation is one that is based in one country while maintaining manufacturing facilities or operations offices in other countries and markets its products or services on an international basis. A multinational corporation is able to take advantage of special economically advantageous opportunities that exist in the countries where it operates, such as a low labor cost or favorable rate of currency exchange.

They also enjoy access to a diversified workforce that gives them greater creative competitive edge. The reasons why companies seek to expand across borders are: to open new markets or to hold onto existing ones; to avoid tariffs or other trade restrictions; to tap new sources of raw materials and agricultural production; and to take advantage of cheap foreign labor. The most significant aspect of multinational corporations is that they enjoy major tax and investment advantages. Tax Advantages: Business taxation varies from country to country.

While there are high tax countries like the United States, Great Britain and the People's Republic of China (PRC), there are low tax countries like Belize, the Cayman Islands and the Bahamas. A multinational corporation can pick its tax jurisdiction and thus limit its tax obligations. Doing so translates instantly into greater profits. On the contrary, any domestic company will be subject to taxation on its profits in that country and there is no question of choice (Kate, 2006). Lowering Taxes:

Most multinational corporations look for tax holidays when seeking a foreign base for their manufacturing plant. However the tax holiday offer is

meaningless in the US and Singapore as companies in these places companies are taxed on their global income. Multinational companies enjoy the advantage of having the choice to get the best combination of location, labor market, and government corporate benefits. Funding opportunities: Multinational corporations have regular access to funding opportunities unavailable to domestic companies.

Themoneyprovided by the government in return for creating jobs reduces the multinational corporation's overhead, diminishes business risk and increases profits. It has been found that any company with an established export market outside of the manufacturing country's domestic market can recover most – almost 50-75% - of the expenditure in setting up a new plant. This is mainly because of the support of the government (Kate, 2006). Tariffs Can Be Circumvented: Multinational corporations can dodge tariffs by proper planning.

If a MNC wants instant free trade access to both the EU and the USA, it will start manufacturing in Israel. If there is a low-tech product that needs free trade access to the EU, it is best to make it in Senegal, since they have a free trade agreement with France. The list of bypasses around tariffs is long and grows as NAFTA and the EU expand (Kate, 2006). Accounting advantages: Multinational pooling arrangement is an agreement between the head office of a multinational company and an insurance network, which allows - at an accounting stage - the consolidation of the worldwide experience.

This network allows: better management of the worldwide risk and improved reporting; up-front local savings due to economies of scale and potential

international dividends; improved local terms & conditions due to network leverage; easier transfer of employees within the entity and reinsurance protection against individual peaks or catastrophic events (DF, 2006). Advantage of Transfer Pricing: When one part of a multinational organization in one country transfers goods, services or know-how to another part in another country, the price charged for these goods or services is called 'transfer price'.

This may be a purely arbitrary figure, meaning by this that it may be unrelated to costs incurred, may be unrelated to operations carried out or to added value. The transfer price can be set at a level which reduces or even cancels out the total tax which has to be paid by the multinational. In other words it is possible for a multinational company to minimize its liability for corporation tax by transfer pricing (Davidmann, 2006). According to the US law, multinational corporations, whether American- or foreign-owned, are supposed to pay taxes on the profits they earn in the United States.

However, in reality, foreign-owned corporations doing business in the United States, typically pay far less in U. S. income taxes than domestic companies. Even U. S. -owned multinationals utilize such tax evasion loopholes. Companies try to set their " transfer prices" to shift income away from the United States and shift deductible expenses into the United States (CTJ, 2006). Asset Protection: Multinational companies often use offshore centers to restructure their ownership of assets. Through trusts, foundations or through an existing corporation company wealth ownership can be transferred from people to other legal entities.

Many companies which are concerned about lawsuits or lenders foreclosing on outstanding debts choose to transfer a portion of their assets to an entity that holds it outside of their home country. By making these ownership transfers, these companies can escape seizure or other domestic troubles (Investopedia, 2006) . Confidentiality: Many offshore jurisdictions offer multinational companies the added advantage of secrecy legislation. These countries have enacted laws establishing strict corporate and banking confidentiality.

If this confidentiality is breached, there are serious consequences for the offending party. An example of a breach of banking confidentiality is divulging customer identities; disclosing shareholders is a breach of corporate confidentiality in some jurisdictions. To a multinational company, this secrecy of personal information can offer significant financial and legal advantage. Because nations are not required to accept the laws of a foreign government, offshore jurisdictions are, in most cases, immune to the laws that may apply where the investing company resides (Investopedia, 2006).

Diversification of Businesses: Domestic companies have to follow local government regulations that restrict its international investment opportunities. Multinational companies have unlimited access to international markets and to all major exchanges. There are also many opportunities in developing nations, especially in those that are beginning to privatize sectors that were formerly under government control. Conclusion: Thus we find that multinational companies enjoy many advantages compared to local domestic companies.