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## Multinational Corporations

EY's Bob Carroll, Kevin Bloomfield and Meaghan Maher write that corporations from emerging economies are now well represented in the Fortune Global 500—their numbers having grown from 21 in 2000 to 132 in 2014. The authors look at how the U.S. and other advanced economies are faring, China's outlook after a significant uptick in its share of the FG500 and trends in countries' corporate tax rates.

### The Changing Headquarters Landscape for Fortune Global 500 Companies

BY BOB CARROLL, KEVIN BLOOMFIELD  
AND MEAGHAN MAHER

**P**reviously dominated by multinational corporations from a few advanced economies, the Fortune Global 500 (FG500) headquarters list is now well represented by corporations from emerging economies.<sup>1</sup> The number of the world's largest companies headquartered in emerging economies has grown from 21 in 2000 to 132 in 2014.

Many factors can affect the choice of a company's headquarters location, including regional economic growth and stability, local infrastructure, a country's regulatory environment, availability and productivity of the labor force, transportation and other input costs, and a country's tax policies. Some of the recent trends are also due to the growth of state-owned enterprises (SOEs), those companies in which a government has a majority ownership, particularly in the case of China.

Table 1 summarizes the headquarters locations for FG500 companies by country—and the top statutory corporate income tax rates they face—for 2000, 2013 and 2014. While tax is but one of many factors compa-

nies evaluate in determining where to locate their headquarters, Table 1 shows how headquarter locations—and corporate tax rates—have shifted over the past decade.

Noteworthy trends shown in Table 1 include:

- The share of FG500 companies headquartered in the U.S. declined from approximately 36 percent in 2000 to 26 percent in 2014 amid a global trend toward reducing corporate income tax rates.

- Japan—still home to the third-highest number of FG500 companies despite years of slow economic growth—reduced its tax rate from 43.3 percent in 2000 to 35.6 percent in 2014. Japan's corporate income tax rate was lowered in 2011 from 40.7 percent, the highest among developed countries, to 38.0 percent in 2012 and to 35.6 percent in 2014.<sup>2</sup> The most recent reduction included an early repeal of the special reconstruction tax implemented to raise funds following the March 2011 earthquake and tsunami. Looking forward, the Japanese Cabinet has endorsed a plan to lower the corporate income tax rate over several years to below 30 percent, beginning in 2015.<sup>3</sup>

<sup>1</sup> "Global 500," Fortune, July 2014.

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*The views expressed are those of the authors and do not necessarily reflect the views of Ernst & Young LLP.*

<sup>2</sup> "Japan reduces corporate tax rate," Ernst & Young Global Limited, Dec. 3, 2013, [http://www.ey.com/Publication/vwLUAssets/Japan\\_reduces\\_corporate\\_tax\\_rate/\\$FILE/2013G\\_CM4007\\_Japan%20reduces%20corporate%20tax%20rate.pdf](http://www.ey.com/Publication/vwLUAssets/Japan_reduces_corporate_tax_rate/$FILE/2013G_CM4007_Japan%20reduces%20corporate%20tax%20rate.pdf).

<sup>3</sup> "Japanese Government announces plan to lower corporate tax rate to below 30 percent," Ernst & Young Global Limited, July 1, 2014, [http://www.ey.com/Publication/vwLUAssets/Japanese\\_Government\\_announces\\_plan\\_to\\_lower\\_corporate\\_tax\\_rate\\_to\\_below\\_30\\_percent/\\$FILE/2014G\\_CM4543\\_JP%20Gvt%20announces%20plan%20to%20lower%20corp%20tax%20rate%20to%20below%2030%20per.pdf](http://www.ey.com/Publication/vwLUAssets/Japanese_Government_announces_plan_to_lower_corporate_tax_rate_to_below_30_percent/$FILE/2014G_CM4543_JP%20Gvt%20announces%20plan%20to%20lower%20corp%20tax%20rate%20to%20below%2030%20per.pdf).

**Table 1. Headquarters location of Fortune Global 500 companies, 2000, 2013, & 2014**

Country	2000		2013		2014		Change in number of companies	
	Number of companies	Corporate tax rate	Number of companies	Corporate tax rate	Number of companies*	Corporate tax rate	2000 to 2014	2013 to 2014
United States	179	39.2%	132	39.0%	128	39.0%	-51	-4
China	10	33.0%	89	25.0%	95	25.0%	85	6
Japan	107	43.3%	62	38.0%	57	35.6%	-50	-5
France	37	37.8%	31	34.4%	31	36.1%	-6	0
Germany	37	52.0%	29	33.0%	28	33.0%	-9	-1
United Kingdom	38	30.0%	27	23.0%	28	21.0%	-10	1
South Korea	12	30.8%	14	24.2%	17	24.2%	5	3
Switzerland	11	24.9%	14	21.2%	13	21.1%	2	-1
Netherlands	10	35.0%	11	25.0%	12	25.0%	2	1
Canada	12	43.3%	9	25.9%	10	26.4%	-2	1
<b>Total Top 10</b>	<b>453</b>	<b>39.9%</b>	<b>418</b>	<b>29.3%</b>	<b>419</b>	<b>28.5%</b>	<b>-34</b>	<b>1</b>
Other	47	34.7%	82	26.9%	81	26.6%	34	-1
<b>Total Global 500</b>	<b>500</b>	<b>39.2%</b>	<b>500</b>	<b>28.7%</b>	<b>500</b>	<b>28.1%</b>	<b>-</b>	<b>-</b>

**Addendum: Distribution by level of economic development of headquarters country**

Advanced	479	39.5%	375	30.2%	368	29.5%	-111	-7
Emerging	21	33.6%	125	25.7%	132	25.5%	111	7
<b>Total Global 500</b>	<b>500</b>	<b>39.2%</b>	<b>500</b>	<b>28.7%</b>	<b>500</b>	<b>28.1%</b>	<b>-</b>	<b>-</b>

\* The top 10 countries in which Fortune Global 500 companies have headquarters are sorted by total number of companies in 2014.

**Note:** Figures may not appear to sum due to rounding. "Corporate tax rate" represents the top statutory corporate income tax rate and includes both national and subnational corporate income taxes. Tax rates for the Total Top 10, Other, Total Global 500, Advanced, and Emerging groupings are all averages weighted by the number of Global 500 companies headquartered in each country. The U.S. is excluded from each of these calculations to facilitate comparison of each grouping to the U.S.

**Source:** Fortune Global 500; EY Worldwide Corporate Tax Guide; International Monetary Fund World Economic Outlook for economic development classifications; EY analysis.

- The average corporate income tax rate imposed on non-U.S.-headquartered FG500 companies declined from 39.2 percent in 2000 to 28.1 percent in 2014. In contrast, the U.S. corporate income tax rate, including both the federal tax rate and a weighted average state tax rate, has remained essentially unchanged during the period.

- Significant reductions to top statutory corporate income tax rates occurred in a number of top economies during the period, including Canada, Germany, Japan, the Netherlands and the U.K.

- Countries outside the top 10 countries by the number of FG500 companies increased their share of FG500 membership from approximately 9 percent in 2000 to more than 16 percent in 2014. Among these countries, the aggregate number of FG500 companies headquartered in Brazil, Russia and India increased from six in 2000 to 23 in 2014. More than half of these were SOEs.

- Of the four countries with corporate income tax rates above 30 percent in 2014, none had more FG500 companies in 2014 than in 2013 or 2000.

### Industry Breakdown of Top Companies In Advanced and Emerging Markets

Approximately one-quarter of FG500 companies headquartered in advanced economies in 2014 were in the financial and professional services industry (24 percent), including banks and insurers, as shown in Table 2.

Other industry concentrations among advanced-economy FG500 companies are in the retail and consumer products (17 percent) and technology, communications and entertainment (14 percent) industries.

FG500 companies headquartered in emerging markets are more likely to be in the energy, utilities and chemicals (27 percent) and natural resources (21 percent) industries.

**Table 2. Industry distribution of Fortune Global 500 companies headquartered in advanced and emerging economies, 2014**

Industry	Advanced	Emerging
Financial and Professional Services	24%	17%
Retail and Consumer Products	17%	4%
Energy, Utilities, and Chemicals	16%	27%
Technology, Communications, and Entertainment	14%	6%
Industrial Products	12%	10%
Wholesale/Trade	8%	7%
Other	6%	8%
Natural Resources	2%	21%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Note: Figures may not appear to sum due to rounding.

Source: Fortune Global 500; EY analysis.

### Diverging FG500 Membership Trends At the Top

China-headquartered companies continued their surge into the FG500 in 2014 and now represent 19 percent (95 companies) of all FG500 members. As recently as 2011, there were 55 China-headquartered companies in the FG500 (11 percent of the total).

Chinese SOEs have led this growth; their FG500 membership has increased from 50 companies in 2011 to 76 companies in 2014.

Many China-headquartered companies have grown faster than their U.S. and Japanese counterparts in recent years. The result is starkly different trends in FG500 membership among these top three economies.

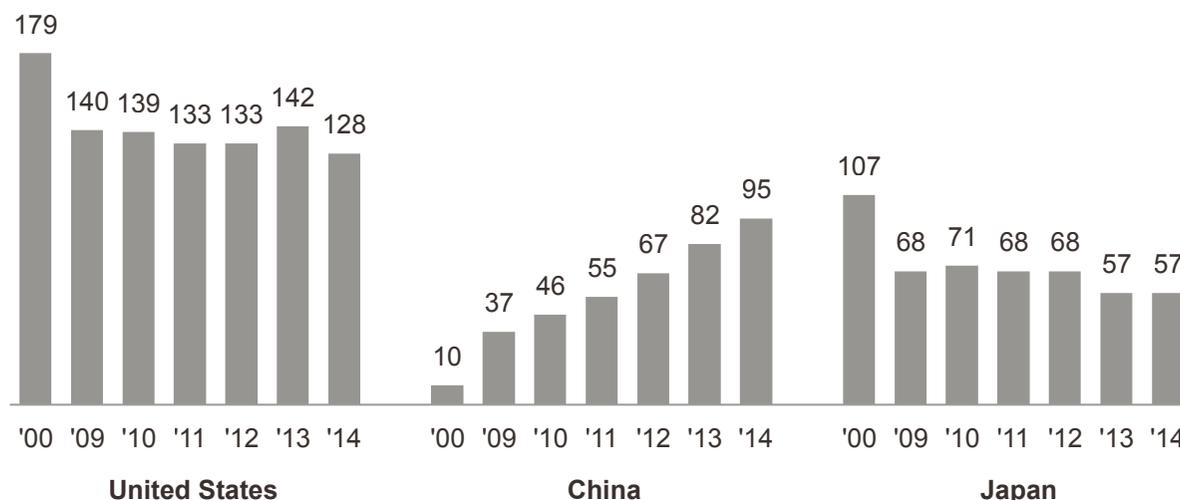
Figure 2 illustrates the change in FG500 membership for companies headquartered in the U.S., China and Japan from 2000 to 2009 and through 2014.

The number of FG500 companies headquartered in China—the leader among emerging economies—increased from 10 companies in 2000 to 95 companies in 2014. During the same period, 51 U.S.-headquartered companies and 50 Japan-headquartered companies dropped out of the FG500.

### China Leads Growth Of State-Owned Enterprises

SOEs have driven the increase in the number of China-headquartered companies in the FG500 over the past 15 years. These companies accounted for 76 of the

**Figure 2. Number of Fortune Global 500 companies headquartered in the United States, China, and Japan, 2000 & 2009-2014**



Source: Fortune Global 500; EY analysis.

**Table 3. State-owned enterprises headquartered in China, by industry, 2014 FG500**

Industry	Number of companies	2013 revenue (billions of USD)
Energy, Utilities, and Chemicals	12	\$1,580 
Natural Resources	22	\$894 
Financial and Professional Services	9	\$782 
Industrial Products	11	\$606 
Other	8	\$490 
Wholesale/Trade	8	\$346 
Technology, Communications, and Entertainment	4	\$251 
Retail and Consumer Products	2	\$99 
<b>Total state-owned enterprises</b>	<b>76</b>	<b>\$5,047</b>
Non-state-owned enterprises	19	\$792 
<b>Total China-headquartered FG500 companies</b>	<b>95</b>	<b>\$5,839</b>

Note: Figures may not appear to sum due to rounding.  
Source: Fortune Global 500; EY analysis.

95 FG500 China-headquartered companies and had combined revenue of more than \$5.0 trillion in 2013, as shown in Table 3.

The government of China exercises its control over SOEs through the State-Owned Assets Supervision and Administration Commission of the State Council (SASAC), which dictates large investment decisions and appointments of top executives. SASAC's prioritization of the mining and banking industries continues to shape the industry makeup of the FG500.

As such, Chinese SOEs in the energy, utilities and chemicals and natural resources industries accounted for nearly half of the revenue of FG500 Chinese SOEs in 2013, led by Sinopec Group, China National Petroleum and State Grid. Together, these three companies earned revenue exceeding \$1.2 trillion in 2013. Each ranks among the top seven FG500 companies by revenue.

The 37 companies headquartered in emerging economies (excluding China) included 21 SOEs and 16 non-SOEs. SOEs' share of FG500 companies headquartered in emerging economies excluding China has remained around 50 percent since 2011.

After years of rapid productivity growth, Chinese businesses face growing labor costs and the uncertainty of interest rate liberalization.<sup>4</sup> Further, a widening gap in the return on equity earned by private versus state-

owned industrial enterprises may portend a move away from SOEs' prominence among China's top companies.<sup>5</sup>

Still, as emerging markets continue to grow, policy makers should be aware of the presence of SOEs in emerging markets and understand the implications they will have for the global competitiveness of companies headquartered in the U.S. and other advanced economies.

## Insights

The U.S. continues to consider reform of its corporate income tax with an objective of improving its competitiveness in the global economy. Both tax and non-tax factors play a role in a company's location decision.

The location of companies' headquarters has been a focal point in part due to the potential benefits their location may provide to a country. The emergence and growth of SOEs, however, is also an important consideration.

Companies, industry groups and policy makers need to be aware of the trends related to companies' choice of headquarter locations and consider the implication changes in U.S. tax policy may have for such decisions.

[www.frbsf.org/banking-supervision/publications/asia-focus/2014/may/china-interest-rate-liberalization-reform/Asia-Focus-China-Interest-Rate-Liberalization.pdf](http://www.frbsf.org/banking-supervision/publications/asia-focus/2014/may/china-interest-rate-liberalization-reform/Asia-Focus-China-Interest-Rate-Liberalization.pdf) and "China Central Bank Said Committed to Rate Reform," Wall Street Journal, July 10, 2014, <http://online.wsj.com/articles/pbocs-zhou-still-committed-to-interest-rate-liberalization-in-two-years-1404970714>.

<sup>5</sup> "Growing beyond: China's productivity imperative."

<sup>4</sup> "Growing beyond: China's productivity imperative," Ernst & Young (China) Advisory Limited, 2012, [http://www.ey.com/Publication/vwLUAssets/China\\_productivity\\_imperative\\_en/\\$FILE/China-Productivity-Imperative\\_en.pdf](http://www.ey.com/Publication/vwLUAssets/China_productivity_imperative_en/$FILE/China-Productivity-Imperative_en.pdf). See also: "China's Interest Rate Liberalization Reform," Federal Reserve Bank of San Francisco, May 2014, <http://www.frbsf.org/banking-supervision/publications/asia-focus/2014/may/china-interest-rate-liberalization-reform/Asia-Focus-China-Interest-Rate-Liberalization.pdf>.