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The political economy of multinational corporations: a survey of Turkey

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THE POLITICAL ECONOMY OF MULTINATIONAL CORPORATIONS: A SURVEY OF TURKEY

A Thesis
Presented to the
Faculty of
California State College, San Bernardino

In Partial Fulfillment
of the Requirements for the Degree
Master of Arts
With a Special Major
in
International Political Economy

by
Richard L. Reifer
June 1982
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ABSTRACT

Multinational corporations (MNC) have recently been pushed to the forefront of the analyses of world economic development. This study attempts to provide a sketch of the future role of multinational corporations in the development process of host countries by synthesizing existing views of MNC activity. The various schools of thought are discussed and a step towards a systematic reconciliation of theoretical differences is attempted. Finally, the impact of multinational corporations on Turkey's development process is considered with specific attention paid to the issues of balance of payments, taxes, transfer of technology and employment.
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ACKNOWLEDGEMENTS.

Though it is impossible to express my gratitude to all those who have in one way or another contributed to this study, several persons must be singled out.

First, I would like to extend my appreciations to my family, Lynn, Rick, and Sheila for their unselfish support to my academic pursuits. I must also thank Ralph Salmi whose stimulating arguments prompted this study and whose continuous assistance helped see it through. I am also indebted to my committee, Dr. Tevfik F. Nas, Dr. Thomas Pierce and Dr. Jeffrey Burnham. I am especially indebted to Dr. Nas for his guidance in the organization of this study. Lastly, but not least, I wish to thank Christopher Niggle for providing me with a different perspective.
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INTRODUCTION

In the past few decades the multinational corporation (MNC), a major force in the economic world, has been pushed to the forefront of the analyses of world economic development. This attention to the roles of the MNC was generated from the concerns expressed by developing countries in their attempts to implement social, political and economic transformations. Broadly speaking, those critical of MNCs accuse them of hindering the development of local economies through the advancement of inappropriate production and consumption patterns, and of interference in domestic affairs. On the other hand, proponents of MNCs assert that foreign direct investment (FDI) via the multinational corporation benefits the host countries by providing the tools to develop their economies and raise the standard of living. Above all it represents the path of salvation for the development of Third World economies which are lacking in capital and/or expertise.

In support of these opposing views, several conceptual frameworks of analyses have been forwarded. In addition to the classical, the most widely held frameworks include: Neo-Marxist, Neo-Mercantilist, Sovereignty-at-Bay,
and Global Reach approaches. Briefly, while the Neo-Classical model sees the multinational corporations as a means of enhancing world welfare, the Neo-Marxists view MNCs as benefiting the parent company to the detriment of the host country. The Sovereignty-at-Bay model views MNCs as potential contributors to the home and host country, and as independent of the home state. The Neo-Mercantilists posit that MNCs have a positive impact on the home country and a beneficial impact on the host country. In addition, MNCs are viewed as responsive to US interests. Finally, the Global Reach school holds that MNCs are a detriment to global welfare as they are merely concerned with their selfish interests.

This study is the result of the dissatisfaction with the application of any one approach to a particular country. The above mentioned approaches are far too general to be accurately applied across the board. They tend to overlook a country's specific needs as well as its singular cultural and historical values. To consider the impact of multinational corporations as either beneficial or detrimental to a country, from a holistic point of view, appears to be a simplification of a complex and dynamic issue. This study is an attempt to provide a sketch of the potential role of multinational corporations in the development process by using an analysis which consists of a synthesis of the above mentioned approaches. It provides an analyt-
ical framework within which lesser developed countries (LDCs) relations with MNCs can be analyzed in relation to recent developments in international financial markets.

This study will also look at the impact that MNCs have had on the economic development of Turkey, as well as their future role in that country. Turkey was chosen for the case study as its new economic policies are encouraging foreign investments. In the past, Turkey had shown a certain coolness towards FDI. In this respect Turkey represents a valuable country for the analysis of MNC-LDC relations.

Objectives and Methodology

The purpose of this study is twofold: (1) to develop an eclectic synthesis of the various models which attempt to examine the impact of multinational corporations on host countries; and (2) to use the Turkish case to examine the past and potential role that MNCs have played in the Turkish economy. Such issues as balance of payments, government revenue, employment, and transfer of technology will be analyzed. Growth and development statistics along with a review of the current literature will be examined in this attempt.

The Plan of Future Chapters

In addition to this chapter, five subsequent
chapters will be presented. The second chapter will provide the review of literature on the various models of analyses of multinational corporations. The third chapter will present the objectives, the methodology, as well as the limitations intrinsic to this study. The fourth chapter will consist of an alternative approach to the analysis of multinational corporations, and will be followed by a survey on the impact of foreign direct investment on the development of Turkey, which comprises the fifth chapter. The sixth chapter will consist of the summary and the conclusions of this study.
Chapter 2

A REVIEW OF THE VARIOUS APPROACHES TO THE ANALYSIS OF MNCs

This chapter presents a brief review of the literature on the various approaches to the analysis of multinational corporations. Since much has already been written on the various models, the review is merely intended to familiarize the reader with the main characteristics expounded by the various schools, and does not contend to present a complete presentation of the schools.

The Neo-Classical School

Despite the apprehensions expressed by host states with regard to the multinational corporations, the neo-classical school holds that the continued attempts on the part of the host states to attract foreign direct investment through various incentive packages, such as preferential tax legislations, suggests that the benefits of FDI outweigh the negative effects that may arise. According to this school, multinational corporations are an asset to the host country's quest for economic development by providing scarce capital, technological and managerial skills, employment, and by aiding the balance of
payments. In addition, the orientation of the multinational corporation towards efficiency and cost reduction adds to its potential as an effective agent of development.¹

It is generally held that developing countries often lack the necessary capital for the development of key industries. According to Blake and Walters "One of the more important benefits of multinational corporations for host countries is the mobilization and productive use of investment capital."²

Traditional theorists generally tend to point to a direct correlation between the flow of private foreign investment and the economic progress of post World War II Western Europe. The recent successes of Third World countries such as Singapore, Taiwan and South Korea are also used as supports to this argument.³ This point is illus-


²David H. Blake and Robert S. Walters, The Politics of Global Economic Relations (New Jersey: Prentice-Hall, 1976), p. 98; Ulmer estimates that U.S. direct investment in the less developed countries at the end of 1978 neared $40 billion, and further estimated that it was growing by about 15 percent per annum.

trated by the following chart:

Table 1. Growth rate and U.S. Direct Investment in 57 Third World Countries.

<table>
<thead>
<tr>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Top one-third</td>
<td>4.57</td>
<td>$45.78</td>
</tr>
<tr>
<td>Second Third</td>
<td>2.22</td>
<td>13.97</td>
</tr>
<tr>
<td>Lowest third</td>
<td>.22</td>
<td>3.36</td>
</tr>
</tbody>
</table>


As can be seen, this table seems to uphold the Neo-Classical position. There does appear to be a correlation between the amount of foreign investment and increases in the growth rate of the Gross National Product (GNP). For instance, those countries that have received an average of $45.78 per capita in foreign investment have experienced an average growth rate in the GNP of 4.57 percent. The question that remains unanswered, however, is whether it is the influx of FDI which has generated the higher growths, or whether greater amounts of foreign investments were attracted by existing high growth rates. As such, a simple comparison of FDI/capita and per capita growth rates, remain
far from conclusive.

Another area in which the MNC is seen as an contributing factor to economic development involves the transfer of technology and managerial skills. Through the multinational corporation, the LDCs are able to enjoy the technology developed by the investing countries. In addition, the managerial skills that accompany foreign direct investment increase the efficiency and reduce excessive waste. Furthermore, the multinational corporation develops and trains the management of host countries. This is done by sending the potential managers for training to an affiliate or to the parent company.4

The Neo-Classical school further holds that the host country is attracted to the multinational corporations because of the employment that is generated by foreign investment. Not only does it directly employ part of the vast labor force, but it also creates jobs in related industries by increasing the demand for goods supplied by local enterprises. Traditional theorists hold that the MNC's impact on employment has most likely been quite substantial from the standpoint of the areas in which it is located. That is, MNCs have proven to be more responsive to host government incentives to locate in economically de-

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pressed areas than the local corporations. Another attractive aspect of foreign direct investment is the favorable effect that MNCs have on the host country's balance of payment accounts. Their contributions to the balance of payment are seen as brought about by the promotion of exports, and by the local production of previously imported goods. Studies have shown that foreign subsidiaries have proven to be more effective in exporting their products, especially manufactured goods, than their domestic counterparts.

The view that Neo-Classical theorists generally have towards MNCs is best summarized in the writings of Fairleight S. Dickinson Jr.:

The multinational corporations have definitely contributed to world welfare. They have been partly responsible for the rebuilding of war-ravaged Europe and the development of resources of many developing nations. Their ability to tap financial, physical, and human resources all over the world, their capacity to develop new technology and skills, and their managerial supremacy to translate resources into specific outputs have proven to be outstanding.

In essence then, what this school advances is that a free and open economy and the pursuit of self-interest in

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7Fatemi, et.al. (1976) p.13 in the introduction by Dickinson Jr.
a competitive economy will have long run benefits through the efficient utilization of resources.

The Neo-Marxist Approach

This approach finds its roots in the writings of Marx, Hilferding, Lenin, and Luxemburg. This school stresses two points. First, based on the Marxian theory that the falling rate of profit will prove to be the nemesis of the capitalist system, this approach sees the expansionary policies of the capitalist state as necessary for its survival. Second, and closely related to the first, is the view that the survival is accomplished at the expense of the Third World.

This school holds that the state is an agent of the multinational corporations, and that the MNCs generate and maintain patterns of inequality and dependency between countries. By this argument the U.S. national interest is seen as synonymous with that of American business groups.

In support of this argument, radical scholars often

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9For a discussion on this see Griffin "Underdevelopment in History" and Andre Gunder Frank "The Development of Underdevelopment". Both articles are in Charles Wilber, ed., The Political Economy of Development and Underdevelopment (Random House, 1979).
point to the April 27, 1898 speech by Indiana's senator J. Beveridge in which he states:

American factories are making more than the American people can use. American soil is producing more than they can consume. Fate has written our policy for us; the trade of the world must and shall be ours. And we shall get it as our mother, England, has told us how. We will establish trading posts throughout the world as distributing posts for American products. We will cover the ocean with our merchant marine. We will build a navy to the measures of our greatness. Great colonies, governing themselves, flying our flag and trading with us, will grow about our posts of trade. Our institutions will follow our trade on the wings of our commerce.10

Accepting as axiomatic the penetration of foreign markets by big firms, the analysis of MNCs focuses on their effects on local economies. Basically, advocates of this approach see the underdevelopment of the Third World as an epiphenomenon of the exploitative nature of the developed capitalist world. The Neo-Marxists reject the claim of corporate apologists and traditional theorists that foreign investment benefits the host country as it provides capital, technology, employment, and helps the balance of payments. This school argues that rather than providing capital, multinational corporations avail themselves of local capital.

For instance, O'Connor has found overwhelming evidence that "one-half of American and Foreign Power Company's $400 million post war expansion program...was financed from local savings." 11

The claim that MNCs help the local economy and the balance of payment accounts is also refuted by the Neo-Marxists who point to the repatriation of the majority of the profits which were generated by local savings. In his studies, Evans has found that during the period 1950-1965 MNCs' remittances from Latin America "Exceeded net new private investment by $7.5 billion." 12

In addition to the repatriated profits, many LDCs complain that the flight of capital is further increased by the over-pricing of intermediate goods from the parent company as well as by the over-charging for dated technology. The Neo-Marxists also negate the claim that foreign investment creates employment on the basis that MNCs tend to use capital intensive technology.

This issue is further compounded by the fact that hopeful laborers flood the industrial centers, from the


agricultural setting, hoping to find employment. This influx of laborers creates slums and increases the level of unemployment and underemployment—thereby increasing the reserve army of laborers and depressing wages.

On a greater scale, one of the main concerns of radical scholars is the domination of a less developed country's economy by the MNC: this is seen as reinforcing the dependence of the LDC on the developed countries. According to Sunkel, foreign firms in Latin America have come to dominate the main sectors of private economic activity causing a basic change in the social structure and in the political system of those countries. On the same issue Furtado points out:

The process of forming a local entrepreneur-ial class has been interrupted. The best talents that emerge from local industries are being absorbed into the new managerial class...National independent entrepreneurship is...restricted to secondary activities or to pioneering ventures which in the long run, simply open up new fields for the future expansion of the multinational corporation... The elimination of the national entrepreneur-ial class necessarily excludes the possibility of self-sustained national development, along the lines of the classical capitalist development.

While Neo-Classical scholars hold that the Third

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14Ibid., p. 222 as quoted by Sunkel.
World is underdeveloped because of lacking capital and technological expertise, radical scholars such as Griffin posit that underdevelopment is a product of the historical process of expansionism of the colonizing powers.\footnote{Griffin in Wilber (1979), p.78.}

An additional problem of foreign investment that radical scholars point to is the creation of a dual economy in the host country. That is, while the center of the host state may prosper, the country as a whole does not benefit proportionally. One of the leading scholars, Raul Prebisch, argues that the capitalist nations and the elites of the host country have formed an alliance geared towards promoting consumer capitalism in the periphery.\footnote{For discussions on uneven development see Andre Gunder Frank in Wilber (1979); Samir Amin, Accumulation on a World Scale: A Critique of the Theory of Underdevelopment (N.Y.: Monthly Review Press, 1974); Johan Galtung, "A Structural Theory of Imperialism" in G. Modelski (1979); Raul Prebisch, "A Critique of Peripheral Capitalism" CEPAL Review (First Semester, 1976).}

**Neo-Mercantilism**

Like the Neo-Marxist approach, the Neo-Mercantilists dismiss the impact of pluralist politics in analyzing the pursuit of national policies. In contrast to the Neo-Marxists, this school considers the nation-state, rather than the capitalist class, as the unitary actor in
the role of policy making. In their view, the expansionary policies of American businesses can only be understood by an analysis of the international political order. That is, multinational corporations are used by the U.S. government in the quest of bringing host countries within their sphere of influence in an era of competition with the Soviet Union. The national strength vis-a-vis other states is seen as the ultimate goal of policy makers, with economic consideration occupying secondary concerns. This view is clearly stated by Gilpin:

...every economic system rests on a particular political order, its nature cannot be understood aside from politics...The multinational corporation has prospered because it has been dependent on the power of, and been consistent with the political interests of the United States.17

Accordingly then, the MNC is a transnational actor for the mere reason that it mirrors the perceived interests of the United States. For instance, this school would argue that the United States encouraged the overseas expansion of extractive industries, for example, as a result of the existing fear, voiced by Clark Clifford and James Forrestal, that the United States was running out of raw materials. Consequently, it follows that foreign investors will prove to be more responsive to the needs and interests of the

home country. Unlike the Neo-Marxists, the Neo-Mercantilists tend to concentrate their research on data gathered from the developed states, namely Japan, West Germany, France, and Great Britain, rather than on the relationships that exist between multinational corporations and less developed countries.

This school is heavily influenced by world politics as well as by Neo-Classical economics. As stated by Petras: "The politics of international development is approached as the resolution of conflicts of interest among national public policies."18

**Sovereignty-at-Bay**

This school advances a transnational political economy. It posits that the nation-state is gradually decreasing in importance as the interdependence in the world economy increases.19 As such, the nation-state can no longer remain the sole focus of analysis and room must be made to incorporate transnational actors, such as multinational corporations in the overall analysis. By this approach, the

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multinational corporations are no longer seen as agents of the nation-state or the capitalist class of its home country, but rather as independent entities in the pursuit of their self-interests. According to the Sovereignty-at-Bay school the increased competition faced by MNCs, has compelled them to become anational and apolitical in the pursuit of their corporate interests. Vernon also forwards that the increase in new enterprises emerging to challenge the established MNCs, will increase the bargaining power of the host states.

The forsaking of home country interests and the increase in competition will lead, according to this school, towards maximizing global welfare. This approach does not, however, claim that the development of global welfare will take place without any conflict, but rather will be a dialectic between several forces. Namely, the quest of host government to increase their control over the domestic economy; the increase in competition; and the MNCs pursuit of profits. In regard to the domestic disparities advocated by the Neo-Marxist theorists to be the result of foreign investment, Vernon states:

Nonetheless, a study that focuses on the multinational enterprise proves a poor vehicle for analyzing these fundamental issues. Multinational enterprises are neither the necessary nor the sufficient condition for the existence of the problems that are proving so deeply troublesome in the industrializing process. Hegemony, corruption, inequity, pollution, and indifference to consumer interests were endemic long before the multinational enter-
prise existed.\textsuperscript{20}

**Global Reach**

This approach was developed by Richard Barnet and Ronald Muller.\textsuperscript{21} While it concurs with the Sovereignty-at-Bay approach in that multinational corporations are becoming anational entities, it disagrees with the approach that MNCs are capable of promoting global welfare. Rather, Barnet and Muller argue that MNCs operate to the detriment of both home and host countries. The authors accuse the multinational corporation of creating unemployment in both the LDCs and the home countries and of depleting host country resources without just compensation. In short, it can be seen that this approach is very critical of the functions of foreign direct investment. According to Barnet and Muller multinational corporations "act as disturbers of the peace on a global scale."\textsuperscript{22}

**Summary and Conclusions**

As can be seen by the literature review, there exists

\textsuperscript{20}Raymond Vernon, "The Multinational Enterprise as Symbol" _Worldview_ (May 1977): 42.

\textsuperscript{21}Richard Barnet and Ronald Muller, _Global Reach_ (N.Y.: Simon and Schuster, 1974).

\textsuperscript{22}Ibid., p.367.
a vast array on the conclusions on the impact of multinational corporations. While the Neo-Marxist and the Global Reach schools concur that multinational corporations are a detriment to host countries, the Neo-Classical and the Neo-Mercantilist schools view the MNCs as benefiting the host country. The Neo-Mercantilists, however, view the host state's benefits as a factor of the home country's interests. The Sovereignty-at-Bay school holds that MNCs have, overall, a beneficial effect on both the home and host countries.23

Generally speaking there are two major limitations intrinsic to the various approaches. The first stems from the selection of data, which appears to be chosen on the basis that it supports the original contentions. This in turn raises serious questions regarding the objectivity of the studies. The second limitation concerns the generalization of conclusions on the impact of the MNCs. That is, the studies tend to view all MNCs as similar and fail to analyze their impact according to their various industries, or according to the specific needs and circumstances surrounding the individual host countries.

The alternative approach, detailed in the subsequent chapter, is an attempt to overcome these limitations. It also considers the impact that recent trends, 23See Appendix A for a table summarizing the various schools.
namely inter-MNC competition, will have on LDC-MNC relations. This alternative approach relies heavily on the Sovereignty-at-Bay school while simultaneously drawing from the other schools in the attempt to provide an eclectic approach to the analysis of MNCs.
Chapter 3

THE IMPACT OF MNCs ON DEVELOPMENT:
AN ALTERNATIVE APPROACH

Objective and Methodology

The Objective

As suggested in the introduction, this study examines the impact of MNCs on development in general, and on the recent development efforts of Turkey specifically.

The Hypotheses. This study is rooted in two hypotheses. First, that multinational corporations are promoters of development, and as such are agents of development. Second, that any single approach is not applicable to all MNC-LDC relationships.

The Methodology

The impact of multinational corporations on host countries is examined with respect to such issues as the balance of payments, the transfer of technology, levels of employment, and host government revenues from MNCs. The analysis of these issues will, for the most part, be theoretical. The concern is to show whether multinational corporations can be beneficial to the development of the host countries in general, and of Turkey in particular.
This will be accomplished by examining the relevant growth and development statistics and through a review of current literature.

The development of this alternative approach requires several restrictive assumptions. They are:

1. As this study is mainly concerned with the impact of MNCs on host countries it is important to isolate their role, therefore, it has proven necessary to base this approach on the assumption that the host governments have the best interest of their constituency, and hence the country in mind. Though radical scholars would argue that the decision made by local governments are partially produced by the income distributions, which in turn, are a function of the MNCs and the capitalist economy, this level of analysis remains out of the breadth of this study. The question then, with which this study deals is whether a host country whose government is committed to development can effectively use the MNC as a means of enhancing this goal.

2. This approach is based on the premise that foreign direct investment need not be, and in fact is not a zero sum game. The mere fact that an agreement is reached between the host country and the MNC, suggests that all parties involved perceived their projected benefits as outweighing their estimated costs.

3. This approach also concurs with the Sovereignty-at-Bay and Global Reach approaches, in that multinational
corporations are becoming national entities in their quests to increase profits and/or power. The recent competition between MNCs has brought about the necessity for corporate loyalty to overcome national loyalty.

4. This approach is rooted in the premise that economic growth is a necessary, but not a sufficient prerequisite for economic development.¹

5. In this study the multinational enterprises are viewed merely as a tool to aiding host governments in their quests for economic development. As such, they are not the solution, but simply a potentially important piece to the puzzle of development. Their basic role in this approach is to promote economic growth of the host country through the use of appropriate technology and more efficient use of time and input materials. In light of this premise the MNC cannot be held solely responsible for the failure of economic development, nor can they, by the same token, receive all the credit if and when the goal is met. Rather, it is the responsibility of the host government to assure the transformation of growth into development.

¹The difference being that economic growth represents a quantitative improvement (GNP/capita), whereas economic development implies a qualitative improvement in the standard of living (education, health, income distribution, etc.). Also see, Adelman and Morris, Economic Growth and Social Equity in Developing Countries (Stanford Press, 1973); F. Steward and P. Streeten, "New Strategies for Development: Poverty, Income Distribution and Growth" in Wilber (1979).
Some Limitations of The Study

The analysis of the impact of multinational corporations requires in-depth examinations on a wide range of issues; namely economic, social, and political. Due to time and space limitations, each of these factors can only be incorporated in the overall analysis, rather than be independently developed.

Ideally, a comprehensive study of MNCs should be directed towards providing policy implications with regards to promoting or discouraging MNC involvement in Third World development plans. Since the study in question is mainly concerned with an analysis of the MNC's role in development, it is limited to general policy implications.

Furthermore, it must be noted that one of the problems in the analysis on the impact of multinational corporations on a host country is the amount of speculation required when comparing the costs and benefits of MNCs to some other alternative—namely, that which would have taken place in the absence of foreign direct investment. In this respect, analyses are, at best, very difficult to quantify and remain in most cases merely theoretical.

Despite the above mentioned limitations, the proposed approach is justified in that is is a step towards a systematic reconciliation of the theoretical issues expounded by the various schools.
In what follows, the methodology suggested in this chapter will be developed and applied to an analysis of the impact of MNCs on development.
Chapter 4

QUEST FOR DEVELOPMENT
AND THE ROLE OF MNCs

The purpose of this chapter is to develop an eclectic synthesis of the above mentioned approaches, while taking into account the recent trends in international economic relations.

MNCs as a Source of Development Finance

It appears that the general consensus among the less developed countries, though less prevalent today, is that the process of industrialization would lead to the development of the economy.\footnote{It could be argued that the five stages leading to economic growth, as forwarded by Walt W. Rostow, became the guideline for many LDC. Rostow's schema was a historical description of the stages that the West, specifically England, had experienced on their way to development. For an in-depth description of Rostow's five stages see W.W. Rostow, ed., The Economics of Take-off into Sustained Growth, (London: Macmillan, 1964). Rostow first developed his schema in 1956 in the Economic Journal, 66 (March 1956).} Eager to develop, many LDCs implemented the process of industrialization in total disregard of traditional economic, social, and cultural values.\footnote{See Alberto Martinelli, "The Political and Social Impact of Transnational Corporations" in Harry Makler ed., The New International Economy (Beverly Hills: Sage Publications, 1982).}
efforts were geared towards the achievement of economic growth. Though many countries experienced an increase in growth (GNP/capita), economic development remained questionable.

The causes for the failure of development are many and complex. Though there are certain barriers that can be singled out as prevalent, a generalization is nearly impossible as the extent of their impact varies according to the countries' particular characteristics. Nevertheless, some of these barriers need to be mentioned. One of the more common problems associated with the development of Third World countries is the attempt to impatiently transform an agricultural society into an industrial one.

Another aspect that needs to be considered is the source of development finance. The three main sources of capital are domestic savings, foreign aid, and foreign direct investment via multinational corporations.

The importance of domestic savings as a source of finance is a contested issue. That is, while the Neo-Classical school argues that the underdevelopment of the capital market, along with the high marginal propensity to consume (MPC) endemic to Third World countries, fail to generate enough capital for domestic savings to be considered a viable source of development finance. On the other hand, the Neo-Marxists point to their studies
indicating that MNCs finance a majority of their operations from local savings.

It must be pointed out, however, that while local savings are able to finance some ventures, their ability to finance the overall development of the country is unlikely. Furthermore, the primitiveness of the capital market of most LDCs limits the transfer of capital. As such, it must be concluded that local savings is incapable of financing development.

Following World War II, foreign aid was seen as a means of providing the much needed capital to LDCs. According to the Pearson Commission, however, it appears that the flow of aid to the less developed countries is likely to decline in the future. In light of this, one could then suggest that foreign investment via the multinational corporation is bound to become more important to the LDCs' overall economic plan. As such, a clearer understanding, and hopefully an objective interpretation of the MNC is of the essence.

The Role of MNCs

Speaking in the broadest of terms, there appears to be three major sources of conflict stemming from the exis-

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tence and actions of MNCs in less developed countries. First, the multinational corporation is a foreign entity that behaves in an unusual or wrong fashion. Second, the international mobility of the MNC enables them to take advantage of the host country's juridical boundaries. Third, the MNC is often viewed as a vehicle for the exertion of the parent state's interests. 4

Recent attempts by international agencies, such as the United Nations (U.N.) and the Organization for Economic Cooperation and Development (OECD), to work out codes of conduct for multinational corporations on a wide range of issues, underlines the relevance of the economic, social, and political impacts of MNCs. 5

Thus, to categorically suggest that MNCs are either beneficial or detrimental to a host state is a simplification of a complex issue. In addition to looking at countries independently, it is necessary to look at multinational corporations individually. That is, the multinational corporation's effect on the LDC will vary given its orientation (extractive, manufacturing, service or


5One must, however, question the ability of such supranational bodies to enforce any measures. It appears, based on the historical record, that the abidance to such guidelines as might be forwarded would merely be on a cooperative and voluntary basis, thereby reducing the efficacy of such international regulatory commissions.
This is one of the major weaknesses in the analyses of multinational corporations. As stated previously, the various schools tend to view all MNCs in the same light, and there is no attempt to differentiate among MNCs. 

Viewing the matter from this perspective, it seems evident that the impact of multinational corporations on host countries will vary in accordance to its orientation. For example, it is generally held that the impact of manufacturing, service, and banking MNCs tends to be viewed as more beneficial to the local economy, than the extractive industries, as they have a direct stake in the growth of the economy. While many scholars are opposed to manufacturing enterprises on the basis that the goods produced are geared towards the consumption patterns of the rich and, as such, are not conducive towards the development of the local economy as a whole, it can be argued that this is an internal weakness on the part of the host country and the MNC should, therefore, not take the brunt of the accusation. To clarify this point, the term 'internal weakness' needs to be elaborated. Given the fact that the local governments must approve the entry of any type of foreign direct investment, the burden of selecting that enterprise which will most benefit the economy rests on its shoulders. The ques-

6In contrast, extractive industries are viewed as less concerned with the growth of the host country's economy as the product is merely extracted and sold outside the local economy. For further interest, see Evans (1971).
tion of selectivity, then, is clearly the role of the ruling bureaucracy. Clearly, the process of selection cannot be left to the multinational corporation which operates on sound business terms and would not turn its entry right down on the basis that its product might not be commensurate with the host country's development plan. In this study, the multinational corporations are viewed merely as a tool to aiding host governments in their quests for economic development. Therefore, they are not the solution, but simply a potentially important piece to the puzzle of development.

The process of selection must also take into account the prospective benefits offered by rival MNCs. In the past a country's ability to be selective was minimal. The majority of the MNCs were U.S. based and competition between MNCs was relatively low. In the present era, however, the scenario has changed. There has been an increase in European, Japanese, and Third World multinational corporations emerging to challenge the established MNCs. This increase in MNCs clearly adds to the bargaining power and selectivity of the host country. Gilpin writes:

...the emergence of new centers of economic

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power in the so-called underdeveloped world (The Arabs, Iran, Brazil, etc.) challenge the political and economic framework which has benefited the American multinationals. The diminution of what has been a Pax Americana and the rise of powers hostile to the global activities of American multinational corporations threaten these MNCs' reign over international economic relations.8

In the earlier phase, LDC's quest for industrialization resulted in a competition among each other to attract foreign investment through investment incentives such as tax breaks. Today, as the competition between MNCs over market shares increases, it should translate into added benefits for the host country. According to John Hein, Director of International Economics at the Conference Board, during the period 1971-1979 the U.S. share of the 500 largest industrial firms declined from 280 to 219.9 David Heenan and Warren Keegan also predict continued "Third World corporate intrusions into the domestic markets of even the most established multinationals."10

From the above arguments, one could conclude that a host government which is responsive to its political constituency could use the multinational corporations as a viable means toward the development of that country. The


9Los Angeles Times, 8 April 1981.

10Heenan and Keegan (1979) p.120.
new found power of selectivity of the government will better allow a host government to set the conditions of foreign investment which are commensurate to its economic development.

The Impact of MNCs

Some of the impact in MNC-LDC relationships which has been criticized by various schools consists of such issues as the balance of payments, the transfer of technology, levels of employment, and taxes. This section will examine the role of MNCs on the basis of these issues and will review some of the steps that countries have taken to offset the undesirable impacts of foreign direct investment.

Balance of Payments

MNC critics hold that multinationals generally tend to contribute to a deficit in the balance of payments accounts by taking more international currency out of the country than they bring in. As evidenced by Evans, the repatriated profits to U.S. parent companies during the period 1950-1965 exceeded net new private investment by $7.5 billion. According to Blake and Walters, income from U.S. direct investment was $10.4 billion, while the outflow of capital from the United States amounted to $3.4 billion.11

11Blake and Walters (1976) p.95.
Though at first glance such figures seem to indicate the negative impact of MNCs on the balance of payments, they may be somewhat misleading when the balance of payments account is looked at as a whole. On this issue Frank argues that these flows are "logically unrelated" as the investment of a given year cannot be compared to the outflow of the same year since profits are related to prior investments. However, when one looks at these flows over a span of fifteen years, as has Evans, they become to a certain extent related as they represent the investments of prior years and the outflow of capital during the same period. As such, these flows must have an impact on the host country's balance of payments account—the degree of which, however, remains speculative.

Frank's contention that these flows cannot be the only criterion used in the comparison is justifiable. In addition to capital flight, such factor as the levels of imports and exports need also be taken into account. In looking at the levels of exports, it is argued that the subsidiaries of MNCs are more effective in exporting their products than the domestic firms. This is usually accomplished by the MNC by increasing the levels of productivity and efficiency whether through capital accumulation, the

upgrading of the labor force or through scale and agglomeration effects. The reduced costs allow the product to be more competitive on a global scale and therefore better suited for export. Furthermore, the MNCs' access to the world market through MNC links allows a greater volume of exports than would otherwise have been possible. In addition, when one considers the fact that in some cases MNCs expand overseas in order to circumvent regional trade barriers, they clearly contribute to the host country's foreign exchange through exports.

Another way MNCs can add to a host country's balance of payments is by locally producing goods that were previously imported, thereby lessening the strain on the country's foreign exchange reserves. It could, of course, be argued that local entrepreneurs could undertake the task of producing import substitutes rather than the foreign subsidiaries. In many cases this does occur. In other cases, the economies of scale and the lack of technological expertise prove to be massive barriers to such undertakings. In such events it might be advantageous to locally produce the product, via the MNC, rather than importing it.

One of the problems with the strategy of import substitution, however, as pointed out by Vernon, is that

\[13\text{Vernon (1971) p.176.}\]
generally the decision to produce locally is based on the availability of local inputs and the existence of a domestic market alone, rather than taking the costs of production into account. The upshot of Vernon's argument is that the decision to implement the strategy of import substitution is not a simple one and should not be rooted in the urge to industrialize. Such factors as the market, costs, employment, availability of resources, and comparative advantage should be carefully scrutinized before any decision is rendered.

MNC critics charge that the balance of payments account is also ill-effected by the over-pricing of intermediary goods and technology during parent-subsidiary transactions. According to Evans, this could prove "to be an even more important source of extra returns from manufacturing investment in less developed countries." It must be pointed out, in all fairness, that the charges that the parent companies overcharge in the transfer of intermediate goods and technology does not universally hold true. The reasons for the various practices will be left to a later


15 See Behrman (1970) p.21. A survey of sixty four MNCs in Australia points to various practices ranging from considerable overpricing to pronounced underpricing. Though Australia is not an LDC it constitutes one of the few studies which deal specifically with transfer of technology and intermediate goods.
point in the chapter, when the issue of taxes is discussed.

Resentment generated by MNC profit repatriation on the amounts of repatriated profits by MNCs is accentuated by the fact that they generally tend to avail themselves of local savings rather than importing the much needed capital. The LDCs point to the fact that not only do MNCs repatriate a great share of the profits to the parent company, but that the profits were generated by local savings, thereby presenting a double blow to the country's quest for development. Muller estimates that during the period 1965-1970, 78 percent of the capital used by MNCs was locally financed.16

The impact of the balance of payments on the overall development is far from conclusive. For instance, radical scholars have found it difficult to support the contention that the appropriated portion of the surplus is significant enough to prevent the development process in LDCs. This does not in any way imply, however, that the issue has not warranted the attention it has received. Though it may not be a sufficient factor in preventing the development of the LDCs, it is an important contributing aspect in the process of economic development.

The diametrically opposed conclusions of the various schools on the issue of balance of payments suggests that

a generalization is nearly impossible, and it is therefore necessary to analyze each case independently.

Transfer of Technology

One of the attractive aspects of foreign direct investment to host countries are the benefits received from the transfer of technology. This is apparent in the recent decision of the government of Turkey (GOT) to begin actively seeking new investments by foreign firms, after having a history of hostility towards foreign investors. Similarly, India and China are also presently seeking foreign investment, though exclusively in the domain of high technology.

The main alternatives to the MNCs, as a mean of technology transfers, is its purchase through licensing, or its production. The latter option is usually waived due to the high costs involved in the research and development of the technology, as well as the shortage of scientists in many LDCs. Though licensing is an alternative that is used, it is not always possible. The licensors tend to be selective in the licensing of technology for fear of losing control over the innovation, and decline many applications. In this light, it appears that the main route for the transfer of technology rests with foreign direct investment.

As in most of the literature on the impact of multi-national corporations, conflicting views emerge on this
issue as well. While orthodox scholars see MNCs as agents for the diffusion of technology to LDCs, radical scholars view the MNCs as the cause of, rather than the solution, to the existing technology gap. They argue that MNCs hinder the development of the host state's technological capabilities by attracting local scientists and researchers through higher wages and better facilities. Consequently this results in the perpetuation of the dependency of host states on the advanced countries for the transfer of technology. Multinational corporations are also accused of overcharging for technology which, LDCs claim, is often dated.

In addition to the economic aspect, the transfer of technology has far reaching social and political dimensions. While many countries have raised tariffs and barriers to foster the development of industries, there are only a few cases where such restrictions apply to the transfer of technology. Rather, there is an implicit assumption that technology is merely a good that can be bought, sold and utilized as any other product, regardless of the contexts to which it is applied. That is, technology which is developed according to the needs of a specific society is often ill-suited and inappropriate to the conditions prevalent in the importing country.\footnote{Martinelli in Makler (1982) p.108.}

Though there are explicit similarities between the
goals of the multinational corporations and the LDCs--such as effective use of resources and increased productivity--it is important that a distinction between the importation of a specific technology and its implementation be made. According to Fatemi, failure to do so will result in a "sociological backlash against technology and modernization in general."18

The main issue revolves around the introduction of appropriate technology to the LDCs. A prototype of appropriate technology was the movement in the 1950s, which urged the transfer to LDCs of machinery that had become obsolete by Western standards, and less capital intensive than the new machinery. The problem with this approach, however, is the general assumption that the LDCs are simply behind the developed world, and what was once beneficial to the developed countries is presently suitable to the LDCs. This view completely ignores the cultural and historical values particular to the LDCs. According to Cardoso, the technology implemented by underdeveloped countries must constitute a blend rather than a purely imitative model of the industrialized countries.19


As introduction of the latest technology may not benefit the LDC as a whole, it appears that a blend between modern and traditional technology would be more appropriate. It seems evident that the decision to introduce technology cannot solely be based on economic and technical issues, but rather must consider the cultural, historical, social and political dimensions of human existence.

The issue is indeed a difficult one to resolve. Without the transfer of technology via the MNC, can the LDCs afford the luxury of waiting for the development of indigenous technological innovations? The recent decisions of Turkey, India, and China to open their borders to foreign direct investment seem to suggest that the task of developing technology is a formidable one requiring more time than permissible.

Hence, the solution appears to be based on the transfer of technology within a controlled environment. Though such international bodies as UNCTAD and OECD are advancing codes of conduct for the transfer of technology, the ultimate responsibility of assuring the transfer of adequate technology rests in the hands of the host government.

Closely related to the issue of technology is the question of employment. It is on this aspect of MNC-LDC relations that this study will now focus.
Employment

Radical scholars argue that the implementation of capital intensive means of production results in a higher level of unemployment. The question then is how to reconcile the need for technology with the levels of unemployment that it generates: Since unemployment cannot be eliminated lest there is a drastic change in the modes of production, and since this does not appear to be the case, at least within the foreseeable future, it is essential to find a compromise that will result in minimizing the social costs of technology.

Once again the multinational corporation has emerged as a focal point in this analysis. Barnet and Muller hold that MNCs create unemployment on a global scale. Other charges stem from the accusations that MNCs attract a vast pool of laborers from the traditional setting and are thereby able to keep the wages and the organization of labor unions in check. 20

At this point it is needed to speculate on what would have occurred in the absence of MNCs. In the event that multinational corporations were not permitted entry, and the local entrepreneurs undertook the task of industrialization, would the current situation be drastically altered? In all likelihood it would not. Though the local entrepreneurs

would not have access to the latest technology, they would still utilize the most modern technology which they could get licensed for. As such, their impact on the level of unemployment would, arguably, not be that marked. Though MNCs hire what appears to be a sizeable number of laborers, the figure is not that impressive when taken as a percent of the total labor force. By the same token, it appears unlikely that the local industrialists would increase the figure by any meaningful manner. Furthermore, studies have shown that MNCs prove to be more responsive to local government incentives to locate in economically depressed regions.21

In order to increase their benefits from foreign direct investment, many countries are, among other measures, establishing requirements about the number and nature of positions that the multinational corporation must reserve for local employees and managers. In addition, as a means of controlling the level of unemployment some countries are requiring that MNCs pay sizeable indemnity payments to those laid off—regardless of the reasons. This latter measure usually takes place in more developed countries, however. The lack of a strong labor movement in most LDCs makes this approach less likely and less probable.

Taxes

Host governments are often attracted to foreign direct investment by the taxes that will be remitted. This holds especially true in areas in which the economies of scale and technological expertise prevent local entrepreneurs from developing such industries. For instance, Blake and Walters write that in 1970 the major oil companies remitted $8.420 billion to members of the Organization of Petroleum Exporting Countries (OPEC) in the form of taxes.\(^{22}\) Though the sums of taxes appear substantial, it is argued that they are far less than what they should be. Radical scholars have pointed out that MNCs have adopted extra-legal means of reducing such payments. One of the more common methods involves the over-pricing of intermediate goods to the subsidiary in order to reduce the profits, and hence the taxes. Depending on the tax legislations, MNCs also underprice goods being transferred to subsidiaries. If taxes in the manufacturing country, for instance, are higher than those of the importing country, it is advantageous to under value the goods.\(^{23}\) The result of this type of transaction reduces the foreign exchange revenues of the host country along with the tax revenues

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\(^{22}\) Blake and Walters (1976) p.100

\(^{23}\) Barnet and Muller (1974) p. 157
Another technique implemented by MNCs is what Barnet and Muller termed "(the) modern version of the 18th century 'triangular trade'."\textsuperscript{24} By this method, the MNCs make use of tax havens (such as the Bahamas) by shipping underpriced exports and overpriced imports to tax free ports, from where the goods are later reexported at regular market price, or higher, to subsidiaries in other countries. The attempts of host governments to collect the due taxes are frustrated by the limited ability of its internal revenue services to deal with the highly sophisticated accountants and the complicated corporate structures of multinational corporations.

On the issue of multinational corporations the late President of the AFL-CIO, George Meany, while testifying before the Subcommittee on International Trade of the Committee on Finance, United States Senate, stated:

The multinational firms can juggle their bookkeeping and their prices and their taxes. Their export and import transactions are within the corporation, determined by the executives of the corporation. This is not foreign trade. Surely it is not foreign competition.\textsuperscript{25}

It must be kept in mind, however, that the quest to reduce taxable income is not limited to foreign investors

\textsuperscript{24}\textit{Ibid.} p.158.

\textsuperscript{25}\textit{Hearing before the Subcommittee on International Trade of the Committee on Finance, U.S. Senate. 93d Cong., 1st sess., 27, 28, 29 February; 1, 6 March 1973, p.397.}
alone. Local enterprises also seek to avoid taxes. Though they do not have the abilities of MNCs as far as intra-
subsidiary transactions are concerned, they behave in a rather similar fashion by sending undeclared profits to foreign banks. As all governments are aware, the quest to avoid taxes is universal indeed.

Conclusion

From the foregoing it appears that the impact of multinational corporations is complicated and controversial. A generalization of their impact detracts from an objective interpretation of the role of an MNC. This is not to say, however, that all MNCs are beneficial to a host country's economic development plan. The increase in MNC competition should, however, allow the host governments to be more selective in their choice of MNCs. Furthermore, the LDCs have gathered years of experience in their dealings with the MNCs and have adopted policies in order to increase their overall benefits from foreign direct investment, without substantially detracting from the profit potential of the MNC. Some of these policies have been implemented on a single country basis, while others have been complimented by regional efforts to control the impact of the multinational corporations. A case in point would be the Andean Common Market in which the members have agreed on a set of stringent rules. Blake and Walters have provided a brief look at
some of these measures which appear instructive:

First, foreign investment is prohibited in a number of industries, including banking, insurance, broadcasting, publishing, and internal transportation. Second, new investments and most existing investments must divest itself of majority ownership (the fade-out formula) within 15 years in Chile, Colombia, Peru, and Venezuela and within 20 years in Bolivia and Ecuador, so that national investors participation will be at least 51 percent. Third, annual earnings repatriated by foreign subsidiary firms cannot exceed 14 percent of the investment. Fourth, a foreign subsidiary may not pay its parent company or other affiliate for the use of intangible technology know-how; in addition, clauses or practices that tend to restrict competition or production or otherwise increase the cost of the technology to the host state are prohibited.26

The example of the Andean Common Market could very well be the stepping stone for other countries that desire foreign direct investment, but on their own terms and commensurate with their specific needs. The inter-MNC competition will most likely be the factor which controls the enforceability of such measures. The threat of being replaced by a competitor will force the MNCs to adapt to the provisions--as decreed.

A crucial element in the development of an economy is the strategy implemented by the local government. As we have seen the process of industrialization has not been tantamount to development, and has left many leaders disap-

pointed and forced to reevaluate their strategy, and at times alter it for one that is more inline with that country's particular needs and characteristics. It must be remembered that multinational corporations are merely a tool for the host governments' economic development plans.

The next chapter will focus on the impact of multinational corporations on Turkey's economic development plans. It will attempt to identify the potential role of MNCs in that country, as well as look into the steps implemented by the GOT to assure maximum benefits from foreign direct investment.
Chapter 5

THE EFFECTS OF FOREIGN INVESTMENT ON TURKEY'S DEVELOPMENT PROCESS

This chapter analyzes the effects that multinational corporations have had on Turkey's development efforts by utilizing the procedure explained in Chapter 3. First, a historical background examining the role of MNCs as a source of development finance will be provided. This will be followed by a critical analysis of the impact of MNCs on Turkey's development. Third, recent policies will be reviewed in view of their relevance to foreign capital, and finally future prospects will be briefly outlined.

Turkey's Experience With Foreign Capital

In 1980, Turkey reevaluated its economic policies and determined that fundamental changes were necessary if it were to integrate in the world market, and improve the domestic situation. As Ebiri observed, the new outward-oriented policies presented by the Demirel Administration on January 24, 1980 were attempted not because of their preference to the traditional strategy of etatism, but rather because the latter was no longer feasible.¹ For example, the strikes that plagued Turkey's industries and the rise

in the price of oil made it very difficult and costly for the country to continue its inward policy of import substitution.²

The January 1980 economic reforms consisted of a fundamental policy change. The reforms called for the development of an outward oriented economy, as well as for an increased role to market forces. Briefly, the reforms consisted of four points: (1) a more accurate rate of exchange—the Turkish Lira (T.L.) was devalued by 33 percent vis-a-vis the dollar; (2) a tighter monetary policy and the freeing of interest rates; (3) added incentives to promote exports; and (4) a drift from the policy of etatism.³ In addition, administrative regulations concerning imports and exports were simplified, and a basic attitude change toward foreign investment was called for.

In the past, applications for foreign investment were shuffled between the state planning office, the ministries of commerce, industry, and finance, resulting in nearly a two year span before any decisions were reached, which usually tended to be negative. Partly as a result of this bureaucracy foreign investors shied away from Turkey.

²The Economist estimates that 7.7 million man-days had been lost in the first 9 months of 1980 as a result of strikes. 9/12-18/81, p.9.

³Ebiri (1980) p.210. Also the interest rates were freed on July 1, 1980.
(domestic and economic instabilities also caused foreign investors to turn away from Turkey). Under the new economic policy's attempts to attract foreign businesses, the decision making for FDI has been centralized within the State Planning Organization (SPO) presently headed by a close associate of Mr. Ozal, Mr. Yildirim Akturk, who is also a strong advocate of foreign investment.

Turkey's recent economic policy is arguably the result of the dialectical process of Turkey's past economic policies. Briefly, in the first twenty five years of the Turkish Republic, the main goal of the government was self-sufficiency. This led to a certain coolness toward foreign capital, placing emphasis both on state run enterprises (SEEs) and on the building of an infrastructure. Though Turkey preferred a capitalist oriented economy, the lack of a strong private sector and the shortage of capital prevented its implementation. Consequently, Turkey developed a new model which consisted of an amalgamation of the perceived respective advantages of capitalism and socialism—a mixed economy. The basic idea of the mixed economy was for the private and state sectors to work together in advancing Turkey's economy.

The shortage of capital proved, however, a massive barrier. The acceptance of foreign aid, as a means to overcome this barrier following World War II constituted a
basic theoretical shift in the approach to etatism. Spurred by huge amounts of foreign assistance Turkey experienced growth, and a strong private sector began to emerge. During the 1950's, the uncoordinated policies of the Menderes regime along with the high debts incurred by accepting foreign aid, the inefficiency of the SEEs, the politically controlled prices, and the increased public demands for goods and services led to shortages and severe inflation. The faulting economic situation prompted acute deflationary and stabilization measures, which in turn germinated political dissention and led to the overthrow of the Menderes regime and his Democratic Party in 1960.

In 1960, the creation of the State Planning Organization (SPG) marked the implementation of economic planning. The five year plans (they are now in the fourth) were an attempt to better organize Turkey's quest for development.

The record reflects that during the period 1950-1980, Turkey experienced an average annual growth rate of around 6.5 percent. Real growth, however, was reduced by

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*See Feroz Ahmad, *The Turkish Experiment in Democracy 1959-1975* (Boulder: Westview Press, 1977) for an account of the political factors which contributed to the overthrow.*

*See Appendix C for a table on the Macroeconomic goals of the five year plans.*
an annual population growth rate of 2.5 percent. During the same period Turkey has experienced two major interruptions in its growth; the first occurred between 1958-1961 as a result of the Menderes Administration's inflationary policies, and the second began in 1977, of which Turkey is presently attempting a recovery. In 1977, Turkey had a trade deficit of $3.4 billion, inflation was at a record high and unemployment at an unprecedented 25 percent.

The economic reform introduced by the Demirel Administration, and later implemented by the military government was geared to overcoming the barriers to Turkey's economic development.

**The Impact of Foreign Investment on The Turkish Economy**

As a result of the strong sense of nationalism and the distrust of foreigners, coupled with the general scarcity of capital during the world depression, foreign direct investment via multinational corporations did not play a significant role in the early Turkish economy. Though the GOT liberalized its policies towards foreign direct investment in 1954, FDI remained limited by the general sense of distrust and the requirement that 51 percent of

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7From 1950 to 1980, the population increased from 19 m. to 45 m.
the capital be held by Turkish nationals. The bureaucracy involved in approving the entry of foreign firms resulted in sizeable delays as the applications were shuffled between the various ministries involved. Tansky estimates that foreign investment in 1956 amounted to about 3 percent of total investment.

It was not until 1963 that foreign capital began to increase. Ahmad calculated that during the period 1951-1961, foreign capital invested in Turkey averaged T.L. 12.2 million a year, and that during 1962-1963 it had increased by 229 percent to T.L. 40.3 million. Foreign firms were attracted to Turkey by the government's desire to industrialize the Turkish economy and by the implementation of import substitution policies. The large market and the increased desire for consumer goods attracted foreign firms into the production of manufacturing goods such as electrical home appliances, chemicals, pharmaceuticals, and automobiles. It has been estimated that during the period 1951-1965, 95.28 percent of foreign capital invested in Turkey was devoted to manufacturing, while 0.21 percent went

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8Though the requirement that 51 percent be held by Turkish nationals is not wrong, it has caused some problems for MNCs as the capital shortage in Turkey made it difficult to find local partners.


10Ahmad (1977) p.279.
into agriculture, 2.34 percent into service industries, 1.25 percent into mining, and 0.92 percent into construction.¹¹

Foreign investment in the manufacturing sector has benefited from an ideal environment. That is, local investors have provided the bulk of the capital; an abundant supply of relatively cheap labor has been available; and government protectionist measures have created monopoly status for MNCs.¹²

By investing in the manufacturing of final goods, MNCs did little to contribute to the building of the infrastructure necessary for the industrialization of the Turkish economy. One point that needs to be elaborated on is the claim that the local investors provided the bulk of the capital. Though at first sight this upholds the radical school's position that the investment capital is generated by local savings and that MNCs do not provide the scarce financial resources, it cannot be viewed in these terms when applied to the Turkish case. Though Turkey does have a capital shortage, the legislation in Turkey forbids MNCs from owning more than 49 percent of the industry. So while

¹¹Ibid. Ahmad gives a further breakdown in the manufacturing investments: 26% into plastics and rubber industries, 25% into chemical industries, 13% into the electrical industry, and 11% into processed foods, alcoholic beverages and tobacco.

the claim that the local investors provide the bulk of the capital is true (51 percent), the terms of foreign investment prevents this example as being used to compliment the radical critic.

Critics of foreign investment also point to the fact that because of its heavy orientation in the manufacturing sector, large scale imports are required merely to keep the industries operating, and because of their involvement in the manufacturing of import substitutes the goods are not geared for export. In addition, capital flight has also come to be an issue. Hie has estimated that 74.8 percent of the foreign investment which entered Turkey has been repatriated in the form of profits. Atilla Karaosmanoglu, an ex-World Bank bureaucrat, has found the figure to be even higher. According to his calculations, investments by foreign companies totalled $112 million while the sum repatriated amounted to $121 million. In this regard, foreign investment has not contributed a major capital stock to the Turkish economy.

Foreign investment has also not contributed to

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14Ahmad (1977) p.298. His figures were estimated up to 1970. Though these figures show that a greater amount than the investments were repatriated, they are not conclusive with regard to their overall impact on the balance of payments as they do not take into account that portion of the profits reinvested in the country,
Turkey's balance of payments account. The lack of foreign exchange, which has been singled out as one of the inhibitive factors to achieving development in the LDCs, cannot, however, solely be attributed to the operations of the MNCs. In 1980, on the whole, Turkish industries' raw material imports accounted for 77.2 percent of total imports, reducing the foreign exchange reserves of the country.15 Furthermore, the lack of foreign exchange is also a direct result of Turkey's attempt to industrialize in the shortest possible time and trying to meet the optimistic industrial growth rates projected by the SPO—which as Weiker points out were politically rather than economically motivated.16 This problem was further compounded by the high levels of inefficiency on the part of the SEEs that failed to make full use of the imported raw materials.

Turkish MNC critics also point to the fact that foreign industries, because of the 'package investments' in

15This figure was derived from those provided by the Yapi ve Kredi Bankasi's December 1981 Monthly Economic Letter. Because this figure includes that of the imports of the foreign firms as well, and since separate figures are not available for those firms with foreign shares (technically all industries are considered Turkish as Turks hold 51% of the shares) it is impossible to derive the net effect that MNCs have had on Turkey's balance of payments account. One can conclude, however, that since MNCs account for 12% of gross sales in the manufacturing division, and due to their limited involvement in other sectors, Turkish industries (especially the SEEs) are responsible for the great majority of the bill.

which they provide most everything from parts to marketing techniques fail to make use of Turkey's subcontractors and raw materials. Furthermore, they point to studies that have shown that foreign industries tend to be more capital intensive than their local counterparts, and that the technology used in Turkey is the outmoded equipment of the developed world, thereby preventing Turkey from competing with the overseas industries. It must also be pointed out that industries with large shares of foreign capital, despite being more capital intensive, employ an average of 458 workers, while the average number of workers employed by Turkish private industries is 76 workers. Weiker also points out that He has found the productivity of foreign firms much higher than the Turkish industries; while providing work for 6.5 percent of the labor force, foreign firms have accounted for 11.7 percent of the gross sales in the manufacturing sector.

Foreign enterprises have also been accused of not complementing the country's development as a whole. As Soysal states, MNCs tend to concentrate in Western Turkey, mainly Istanbul and Izmir rather than dispersing across the country. While this critic is accurate, it cannot be limit-

17 Ibid. pp.211-213.

18 Ibid. In the late 1970s, it has been estimated that foreign firms have provided 75,000 jobs.
ited to MNCs, local industries have also shown a strong preference for Western Turkey. According to a census conducted in 1964 by the State Institute of Statistics, in the 18 principal counties of Turkey, the number of plants has increased from 632 to 2,444 during the period 1950-1963, while in the remaining 49 counties the number of plants increased from 80 to 331. The reason for the preference of Western Turkey is due to the fact that it is more developed, has better communication systems, large ports, and vertical and horizontal linkages between various industries. Much of the Eastern region remains rural and has limited accessibility.

According to Weiker, the radical right claims that foreign investment has undermined Turkish nationalism and that it has squeezed out many smaller industries, especially those in the Anatolian region. These accusations are, however, debatable when one considers the fact that foreign investment in Turkey has been rather small in absolute terms, and as such, its ability to hinder the development of any region remains highly questionable. By the same token the amount of FDI also tends to negate the claim by the Turkish left, that it is a tool of Neo-Colonialism. As previously stated, to simply accuse the MNCs of hindering the develop-

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19Soysal (1969-70) p.26. Industries have clearly shown a preference for the Thracian-Marmara-Aegean area. Soysal has found that 45% of all manufacturing industries are located in Istanbul and account for 48% of the total net value added.

opment of the country as a whole is an over simplification of a complex issue. Other factors need to be taken into consideration in the analysis.

In order to assure an even regional development in the industrialization of Turkey, SEE were geographically dispersed. The high rates of inefficiency and the astronomical costs involved in their operations, due to their seeming isolation from any linkage between other industries, are some of the factors that have prevented the regional development of the country. In addition, Turkey's inability to industrialize has also been attributed to its high dependence on foreign countries for its intermediate materials. This not only prevented Turkey from establishing an infrastructure, but it also detracted from any impetus to create one. Furthermore, it hindered its ability to control prices as they were a function of the costs of imports.

Hence, despite the claims by the Turkish MNC critics, the impact of MNCs on the Turkish economy is far from conclusive. As we have seen foreign investment has not had a dominant role in the Turkish economy, and has mostly been limited to the manufacturing sector. In comparison to its Turkish counterparts, foreign industries have proven to be more efficient and productive. As a result of the role of local industries, it is difficult to determine the extent of the impact, negative or positive, that MNCs have had on
Turkey's economy. The claim that MNCs hinder the development of rural Turkey, is far too simplistic.

Like so many LDCs, Turkey's quest for rapid industrialization, was not only economically desirable, but politically imperative. The agricultural sector's ability to absorb the labor surplus of a rapidly expanding population is clearly limited. This problem is further magnified since over 60 percent of Turkey's population is rural. As such, an outlet for the growing labor force had to be created.21 The industrialization of the country appeared to be the solution; not only would it absorb the increased labor force, but it was also concomitant with Turkey's desire to move away from an agriculture economy. The problem with this process was the urge to accomplish it overnight. If one were to speculate, one could conclude that it was the hopes of the GOT that establishing heavy industries in the rural regions would generate further industrial development. The meager transportation networks in much of the rural area, along with the lack of satisfactory communication, electrical, and water facilities proved to be strong deterrents to the founding of new industries.

21With a rate of population growth of 2.5% per annum, it has been estimated that by the year 2000 Turkey will have a population of 60 million. The GOT will have to play a significant role in reducing the growth rate.
Under the notion of the mixed economy, the government was to invest in ventures that were necessary to create a solid infrastructure. As a means of developing the country the theoretical model of a mixed economy merits attention, and could be implemented by Third World countries with similar barriers to development. One of the problems with the mixed economy, however, is when the government begins to view the model as a tool to advance its own interest, the initial objectives become blurred and eventually lost. It must be recalled that Ataturk had viewed the mixed economy as a means of promoting development while simultaneously strengthening the private sector. The monopolizing of various industries such as steel and oil, clearly deviates from the goals of the mixed economy. Because the SEEs enjoyed a monopoly and government subsidies, the goals of productivity and efficiency, associated with most competi-

22 The emergence of the armed forces as entrepreneurs further violates the principles of the mixed economy. In January 1961, the passing of the Law of the Army Mutual Assistance Association set up what soon became one of the largest conglomerates in Turkey—the Ordu Yardımlasma Kurumu (OYAK). OYAK generates its capital by requiring that all officers invest 10% of their salary into the conglomerate. This allowed the army to invest in the most profitable branches of the economy. According to Ahmad, OYAK has gained controlling interests in Turkish Automotive Industry; MAT (a truck and tractor sales firm); the OYAK insurance company; has 42% of the shares of OYAK-Renault, to name a few. While OYAK began with a capital of about $3.5 million, its 1972 assets were estimated at $300 million. This clearly adds a new dimension to the political economy of the military coups.
tive industries, were nonexistent. This prevented the accumulation of capital, an absolute prerequisite for growth. The loose management of the SEEIs is not the sole reason for poor performance. A great portion of the costs stem from the SEEIs location in rural areas devoted to agriculture, and lacking in regional comparative advantage for the development of industries. It could be argued that if Turkey is to achieve equitable development it must concentrate on the particular regions' natural comparative advantage. Development, it must be realized, is not limited to industrialization, but encompasses other sectors such as agriculture, rearing of livestock, and forestry as well. This does not imply that Turkey should ignore its industrial capabilities, but that it should be more selective in its locations; and in areas not conducive to industries, the development of alternative sectors should be explored.

The Role of MNCs Under The New Economic Policies

The Turkish government is presently seeking foreign

23 The term 'regional comparative advantage' follows the same principal as the Ricardian model, but is used in reference to the domestic rather than the international level.
investments in the agroindustrial sector. The GOT aims at combining the processing facilities with contract farming with the rural population. The export of poultry, fruits, vegetables, beef and mutton to the Arabian Peninsula is being heavily encouraged. This, however, requires more elaborate processing and packaging operations than presently available, and the foreign firms are expected to play a vital role in providing capital and expertise. The combining of contract farming with foreign industries involved in the processing and packaging of the goods, while benefiting the economy also avoids the displacing of the rural population common with large scale agroindustrial projects. Foreign investment is also allowed in cattle raising and integrated animal husbandry. This is an attempt by the GOT to improve on the breeds and to take advantage of an unexploited market.

While having increased the emphasis in the agricultural sector, the GOT is continuing its attention to the manufacturing, oil, and mining sectors. In these areas, MNCs are encouraged to participate in joint ventures with Turkish industries. Foreign private investment in these fields is attractive to the Turkish government as, in

24The term 'agroindustry' follows Austin's definition in which he describes it as: "an enterprise that processes agricultural raw materials, including ground and tree crops as well as livestock". This involves the entire process from seed or pasture to the consumer.
addition to providing expertise and capital, it shares the risks and costs. With the MNCs providing a share of the capital, the burden on the national debt is eased as the government would otherwise be compelled to borrow the necessary funds. As an incentive for oil exploration, the GOT has lifted the artificially set price of $5.21 a barrel and has brought it closer to that of the world level. In addition, 35 percent of any find may be exported. Further incentives in the like of tax rebates, tax holidays, custom exemption for material required for investment, are used as a means of enticing foreign investment.

The only sector in which Turkey allows foreign investors to hold 100 percent of the investment is in tourism, provided that they construct hotels with a minimum capacity of 400 beds; or in the case of yacht tourism, a minimum of 60 beds. Despite having 8,370 kilometers of Mediterranean coastline scattered with the relics of ancient civilization, Turkey's tourist industry has left much to be desired. Part of this is attributed to the lack of accomodations. At the end of 1979, the number of hotel beds was 47,000.25 While the Turkish government is investing in new roads and an international airport at Dalaman, in south-west Turkey, they are counting on foreign investors

25The Economist 12, 18 September, 1981. For a basis of comparison: Greece's total was 266,000, and Spain's 977,000.
to build facilities that would meet the rich European standards and tastes. The potential of the tourist industry is highlighted by the fact that foreign investors are allowed to own the entire operation.

As can be seen, Turkey is a prime example of a country able to attract foreign investment on its own terms.26 In the past, Turkey has attempted to develop a strong private economy, but was hampered by the scarcity of capital and the lack of technological resources. The present policies are an attempt to overcome these barriers without compromising the country's quest for development or its sovereignty over the national economy. The increased MNC competition should prove advantageous for Turkey's foreign investment. While the Turkish radical left claims that if the economic benefits are weighed in favor of Turkey, foreign firms would, under these conditions never agree to enter; the investment of $100 million on the part of foreign firms in the eighteen months following the reforms along with the increase in applications for entry tend to negate this claim.

26 In the eighteen months following the reforms Turkey has had a net new foreign investment of $100 million. Though at first sight this does not appear to be a substantial amount, when compared to previous investments it is rather sizeable. Furthermore, in light of the economic and political condition that Turkey was in, this sum takes on greater significance and coupled with the increase in applications for entry, marks, in my opinion, the future trend of foreign investment.
and supports the contention that MNCs will opt to forsake a portion of their profits rather than the entire market. Also, the higher rates of productivity and efficiency associated with foreign firms, along with their capital and their expertise makes them attractive to Turkey's attempt to strengthen its economy. This in turn, dictates that the MNCs be assured economic benefits so as to continue investments in the country. For the most part the incentives that are offered foreign firms are indicative of their potential contribution to the country, and the extent of the MNC competition in that particular field. This is well illustrated in the Turkish case. This quid pro quo relationship between MNCs and Turkey could prove to be the foundation of the growth and, provided its correct application, the eventual development of the country.

Summary and Conclusion

Foreign direct investment has not had a substantial role in the development of the Turkish economy. This is, in part, due to the fact that Turkey sought to be self-sufficient and independent of foreign investors. The lack of capital, managerial and technological skills prompted Turkey to liberalize its policies towards MNCs in 1954. However, up to 1980, the distrust of foreigners prevailed, and entry by MNCs remained limited. It was not until the new economic policies of January 1980 that the GOT began to
actively court foreign enterprises. Given the recentness of these policies, the impact of MNCs cannot be determined as of yet.

The specific entry requirements as forwarded by the GOT along with the increase in applications for entry rights suggest that Turkey will be able to take advantage of the benefits associated with FDI while maintaining strict control over its economic development plans.
Chapter 6

SUMMARY AND CONCLUSIONS

As the review of literature has shown, the conclusions on the impact of multinational corporations on the developing world are far from congenial. Though the theoretical approach of the Neo-Classical school is conducive to growth, its application has failed to meet the theoretical objectives. It is therefore important to look at the alternative schools in an attempt to evaluate the performance of the orthodox model, and to objectively analyze the reasons for which the full implementation of the Neo-Classical model has not met with expectations. This task is simplified when the alternative schools are viewed as resulting from the dissatisfaction with the application of the orthodox model, and as forwarding their respective analyses and conclusions. The major limitation to these approaches is the aggregate analysis of the impact of MNCs which tends to ignore the specific circumstances surrounding the host country, as well as its particular relationships with the MNCs within its borders. As such, any single approach cannot be used as a blanket analysis of the impact of MNCs in a particular country. The impact of each MNC on a host country must be analyzed on an individual basis.
It appears as axiomatic that the development of a country must be based on a solid infrastructure conducive to the continued growth of the Gross Domestic Product (GDP). Without a solid foundation and increases in the GDP concomitant with the increase in population, development will remain a distant goal. Though economic growth is not a sufficient factor to ensure development, it is an absolute prerequisite. Prior to the 1980 reforms, Turkey applied cosmetic remedies in its quest for development. That is, it encouraged the process of industrialization through import substitution, thereby giving the appearance of modernization, but without achieving development. During this process the development of a solid foundation was largely neglected. The new policies are an attempt to overcome some of the past problems. The principal job of the public sector will be to concentrate on its original role of developing an infrastructure. Specifically, the focus will be on energy, transport, irrigation, and agricultural investments.

A notion which Turkey has also come to reevaluate is that of self-sufficiency as a means of eliminating any reliance on foreign countries. This orientation has been, it can be argued, based on false premises. That is, the assumption that self-sufficiency implies a total independence from outside forces, and the ability to locally produce all of the country's needs. The integration of the
world market has been generated by the impossibility of such a task which presupposes the availability and abundance of all resources. Rather, it must be argued, that self-sufficiency should signify a country's ability to pursue its quest for development by relying on its own forces of production for integration in the world market.

With regard to MNCs being agents of development, the following argument should be considered. The term development has been too loosely used and often interchangeably with growth. This has resulted with many LDCs being satisfied with an increase in the growth rates, while neglecting the more involved and complicated process of development. Along the same line, there have been debates over whether multinational corporations are agents of development. It seems evident that they are not, nor can they be agents of development. Development is neither within the objectives or the abilities of MNCs. Their role in the economic development of the Third World can only be limited to agents of growth.

MNCs can contribute to the host country's development plans by providing capital and expertise--managerial and technological--as well as through the inter-corporate links. Their accessibility to the world market is a great asset in promoting exports and adding to the host country's foreign exchange reserves. Of course, this is not always the case, but it is the responsibility of the host government to assure MNC compliance. The current inter-MNC
competition along with the LDCs' better understanding of the operation of MNCs will lead to this end.

It must be recalled that this study assumed that the host government has the best interest of the country in mind. As such, this study did not focus on possible collusion between the governing elite and the MNCs. This thesis merely sought to see whether a host country, whose government is responsive to its constituents, can effectively use MNCs as a means to enhance development efforts.

In their attempts to harness the MNCs, many host countries have implemented various means of control. One of the most common has been the requirement of joint ventures. To assume, however, that varying proportions of ownership assures control over the MNCs, tends to overlook the modus operandi of MNCs, and further assumes that they will be drastically altered according to ownership and nationality. Given the recent trend that MNCs are unlikely to impose self-restraint on the basis of national loyalty, joint ownership as a means of control may be ineffective. Studies have found that in joint ventures local investors frequently place more emphasis on declaring dividends and less on the reinvestment of earnings. As a result, though foreign investors are less successful in deferring tax payments, it does not appear that the amount of repatriated profits are drastically affected by joint ventures. As this study has argued, it will be the new found power of selectivity
which will allow the host countries to assure that the operation of MNCs is complementary to their overall development plans. The recent rise in European and Third World multinational corporations marks the beginning of a new era in international trade, and is part of the dialectical process leading to a better and more equitable world.

With regards to the question of whether MNCs are a mean of enhancing Turkey's development, a conclusive answer cannot be made at this time. This is mainly the result of the limited involvement of MNCs in Turkey. While MNCs have negatively affected certain aspects of the Turkish economy, they have benefited others.

In the long run, the increase in MNC competition along with the LDCs' better understanding of the operation of MNCs should allow host governments to capture a larger share of the benefits in their dealings with MNCs, the proper use of which would greatly facilitate the task of economic development. Rather than being viewed as a threat, MNCs will hopefully serve as a bridge between the developed and the less developed worlds.


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<td>Positive impact on home and negative impact on host country</td>
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Appendix B

Macroeconomic Targets and Achievements of the Development Plans.

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## Appendix B

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### National Savings

**Annual Growth (%)**

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(average in Plan period)

Appendix C

CHRONOLOGY OF EVENTS

1923
Izmir Economic Conference establishes that the principal economic goal of the country would be the industrialization of the economy.

1929
World depression brings an end to the restrictive provisions in the 1923 Treaty of Lausanne. Signed between the Turkish government and the Allied Powers, the treaty, among other stipulations required that the GOT not impose higher tariffs than those effective in 1916. This clause had hampered Turkey to protect its infant industries from foreign competition.

1930
Turkey reappraises its economic policies, and emerges with a new economic model--a mixed economy.

1946
The founding of the Democratic Party (DP) marks the end of the monoparty system established by Ataturk.

1947
Turkey accepts US foreign aid under the Truman Doctrine and the Marshall Plan. As it marks the beginning of Turko-US alliance it also constitutes a basic theoretical shift in Turkey's approach to etatism--the policy of state enterprise and control.

1954
January 18, the Law for the Encouragement of Foreign Capital is enacted. Though the law was geared towards attracting FDI, the distrust of foreigners by government officials prevented the full implementation of the laws liberal policies.

1960
The military overthrows the DP headed by Adnan Menderes on May 27, due to the administrations failure to preserve Kemalist principles. The State Planning Organization (SPO) is created, marking the implementation of economic planning. The economic targets were made on a five year plan basis. They are now in the fourth.
1961  In January, the passing of the Law of the Army Mutual Assistance Association set up what was to become one of Turkey's largest conglomerates--the Ordu Yardimlasma Kurumu (OYAK)

1961-62  A new constitution is approved by referendum, providing a strong executive.

1971  Following prolonged political and economic unrest, the armed forces demand the resignation of Demirel.

1950-77  Turkey experiences an average annual growth rate of 6.5%, the highest among the OECD countries. Real growth, however, is diminished by an annual population growth rate of 2.5%.

1977  Following a defeat in a vote of confidence, Ecevit is replaced by Demirel. A total of 262 people die in continuous political violence. Serious economic problems are manifested.

1978  The death toll from the recurrent political violence reaches nearly 290 by early August, surpassing the total of 1977.

1980  The Justice Party headed by Demirel returns to power following Ecevit's resignation in November. The Justice Party inherits a nearly bankrupt economy. Turkey is unable to service its foreign debts, inflation nears 120%, the money supply increased by 150% in less than two years, and unemployment reaches 25%.

January 24, Turkey adopts a new outward-oriented economic policy.

January 25, Decree No. 8/168 amends the Law for the Encouragement of Foreign Capital and further liberalizes it.

September 12, as a result of social unrest and political violence the military takes over the reigns of government. Turgut Ozal, the author of the new economic program is promoted to the post of deputy prime minister for economic affairs.
1981
Eighteen months after the implementation of the economic reforms inflation is reduced from a high of 133% to under 35%. After 3 years of zero or negative growth, Turkey records a growth rate of 4.4% for the year.

1982
Turkey continues its economic recovery. Its successes over the past 2 years, surprises even the IMF.