ECONOMIC AND POLITICAL INSTABILITY AND MNC PRODUCTION: THE TURKISH AUTOMOTIVE CASE, 1971-1992

A THESIS PRESENTED BY

M. AKIF KAYA

TO

THE INSTITUTE OF ECONOMICS AND SOCIAL SCIENCES

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS

FOR THE DEGREE OF MASTER OF INTERNATIONAL RELATIONS

BILKENT UNIVERSITY

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I certify that I have read this thesis and in my opinion it is fully adequate, in scope and in quality, as a thesis for the degree of Master of International Relations.

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ABSTRACT

In the beginning, people lived in closed societies and survived through the exchange of goods. After the first money was coined, it took on an important role in one's life and with the peculiarities of liquidity, confidence and adjustment, it became an indispansible factor. After World War II, the globalization process began: within this process multinational corporations have been the main actors in transboundary interactions. Multinational corporations are the engines of national economies and, with their complicated structures, they continue to exist and exert influence on national economies. There are many arguments related with the pros and cons of multinational corporations, their existence, supply, money, labor, management styles and the like. At the same time, there are several theories which look at multinational corporations from different points of view. Global homogenization is a rather peaceful process when it is compared to the confrontations and wars taking place in today's world. Mutual tolerance by the multinational corporations and host country governments leads to a better understanding of the function of multinational corporations and eventually accomplishes a wealthy and healthy national economy.

ÖZET

Başlangıçta insanlar kapalı topluluklar halinde yaşıyor ve yaşamlarını mal takas ederek sürdürüyorlardı. İlk kez madeni paranın basılmasından sonra, para insan hayatında çok önemli bir yere ve günümüzde likidite, güvenirlilik ve ayarlanabilirlik özellikleri olan vazgeçilmez bir unsur haline gelmiştir. İkinci Dünya Savaşı'ndan sonra küreselleşme süreci başlamış ve bu süreç içerisinde çok uluslu yabancı şirketler sınır ötesi ilişkilerde ana aktörler olmuşlardır. Çok uluslu yabancı şirketler milli ekonomilerin lokomotifleridir ve karmaşık yapılarıyla yaşamlarını hala sürdürmektedirler. Cok uluslu yabancı şirketlerin var oluşları, para arzı, iş gücü, yönetim tarzları ve daha bir cok yönden iyi yada kötü olduklarına dair tanımlar vardır. Aynı zamanda çok uluslu yabancı şirketlere farklı açılardan bakan teoriler de bunlar üzerine farklı yorumlar yapmaktadırlar. Bugünün dünyasında varolan uzlaşmazlık ve savaşlar, küreselleşme ile karşılaştırıldığında, küreselleşmenin barıştan yana bir süreç olduğu görülmektedir. Çok uluslu yabancı şirketlerin ve ev sahibi ülke hükümetlerinin birbirlerine karşı uyumlu yaklaşımları, çok uluslu yabancı şirketlerin işleyişlerinin daha iyi anlaşılmasına, varlıklı ve sağlıklı milli ekonomilere sahip olunmasına olanak sağlayacaktır.

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CHAPTER I:
INTRODUCTION

Multinational corporations (MNCs) are primary actors on the world's economic stage. There are about 40,000 MNCs existing all over the world. Each year, billions of dollars worth of capital, manufactured goods and services flow among the nation states. MNCs play a very important role in the international monetary system. It is interesting to see that an MNC's annual sales usually exceed in value the gross national product (GNP) of a developing country in which it operates.

Since the early centuries, merchants engaged with trade which resulted in the East and West becoming closer through the exchange of goods. Today, international trade still preserves its vital importance among nation-states and the MNCs play a major role in shaping the world's financial transaction system which is increasing in immense volume of capital value.

Technological developments helped the world transform itself by having a changed outlook. Previously, there had been many different economic systems which had dominated the world. For instance, the era of specie money, the classical gold standard (1870-1914), the British Dominance (1914-1944), the Bretton Woods System (1944-1976), and the system of flexible rates (1976 to the present).

Especially after World War II, many commodities of the modern world went through a process of global homogenization. This new trend has gained much importance after the technological innovations in telecommunications, mass media and manufactured products. The easy and cheap methods of communication, transportation and mass media helped the huge world to shrink. Electricity replaced candles and gas lamps. Horses lost their importance as the automobile inevitably became the transportation of choice. Jet engines made continental flights faster and easier. A high-tech product which was produced in Europe would easily be consumed in Africa, Asia or America. Easy and inexpensive transportation and communication provides the opportunity for people to travel around the world to see lots of different types of lifestyles and cultures. People from different continents would use the telex, telephone and, later, telefax to communicate instantly. Television has also helped people to realize that their way of life was either totally different or somewhat similar to other people who belonged to different cultures. All of these innovations changed the worldview of people. Eventually, the consumption patterns of people became more similar or global. A common consumption pattern began to be used by many people. For example, wearing blue jeans, eating at McDonald's, using Sony electronic goods, etc..

After World War II, standardization and universal norms were formed. These developed out of necessity, in order for different existing systems to become harmonious with each other. Thus, standardization and universal norms were established in technical equipment, chemicals, the automotive industry, electronics, pharmaceutical areas, etc..

Life's universal products are important for humans of the twentieth century. However, what are these universal products without which we can do nothing? Life's universal products were established for the common good of people. In every part of the world, people are familiar with brand names such as Coca Cola, Pepsi, McDonald's, Levi's, Sony and Mercedes. People recognize and patronize these and other global commodities in a rather frequent manner.

McDonald's, for example, famous hamburgers are eaten in practically every major city in the world. Each day 6-7 new McDonald's restaurants open around the world. A beverage which originated from the United States, Coca Cola, is consumed by people even in the heart of Africa. 112 million bottles of Coca Cola are drunk, on average, every single day. Indeed, many people cannot imagine a world without such universal products.

It is obvious that global commodities are viewed as one of the main cornerstones of our culture and life style along with the majority of other societies. In the process of global homogenization, products and brand names play an important role. In many societies, the use of global products may give people an extra identity which identifies them as belonging to a higher, or more modern, social class.

The purpose of this research is to examine the relationship between host country governments and MNCs in times of economic and political fluctuations and to see what type of attitudes they have towards each other. The three traditional hypotheses, as related to this study, are:

The Hypothesis: As occurrence of economic and political fluctuations increases, fluctuations in production also increase.

The Inverse Hypothesis: As occurrence of economic and political fluctuations decreases, fluctuations in production also decrease.

The Null Hypothesis: Economic and political fluctuations have no effect on production.

The main argument in the study is that once an MNC establishes itself firmly in a host country, and integrates within their economy, then the host country and the city of operation in particular will become, at least partly, economically dependent on the MNC. The degree of dependence is negatively correlated with a nation's degree of development (as development decreases dependence increases). There are even cases where the MNC's influence can affect the political sphere, as well.

The attitudes that MNCs and host governments adhere to in times of economic and political instabilities will be examined in this study. In Chapter II, the historical background of MNCs, their economic power, positive and negative impacts upon the host country's economy, and their involvement in political life will be studied. Chapter III will review the liberal and Marxist theories, as two contrasting views, and the product life cycle theory (which belongs to the old multinationalism) and the vertical integration theory (which belongs to the new multinationalism). In the fourth chapter, the automotive industry in Turkey will be analyzed as a case study. Special emphasis will be placed on examining the reactions during crisis periods between 1971 and 1992. The automotive sector was chosen because it receives the largest amount of foreign direct investment among all MNC related industries. The automotive sector is quite unique and also highly connected with both private and public sectors. The statistical analysis begins in 1971 which is the first year that all six major automotive sectors (truck, pick-up, minibus, automobile, bus, tractor,motorcycle and motorbike) were in production. Economic and political instability can be defined as a sudden and usually unexpected change from the political and economic status quo on a national or international level. In this research, instability is equated with the term crisis. For instance, the 1970 and 1980 military takeovers; the Cyprus military intervention; 1979 oil crisis; 1989 economic stagnation. The latter part of this chapter will analyze the hypotheses using statistics from the State Statistics Institute.

CHAPTER II:

THE GENERAL OUTLOOK OF MULTINATIONAL CORPORATIONS

2.1 Definition

Multinational corporations (MNCs) are giant enterprises which have accumulated a great amount of wealth. Corporations headquartered in one country often establish subsidiaries in a foreign country and, with their huge budgets, can directly invest into that country. MNCs have simultaneous possession of operation capacity in at least two national economies, often employing thousands of employees. According to Gilpin, "a multinational corporation is a firm that owns and manages economic units in two or more countries."[1]

Acquisition of foreign operating facilities, generally called affiliates or subsidiaries, causes a company to transfer not only investment, capital and new training skills, but also technology, material inputs and management expertise to make the affiliate as efficient and profitable as possible. The affiliates, in turn, generate outputs and income that may never leave the host country's economy, or it may flow back to the headquarter's company or even move from one affiliate's country into another affiliate's host country. It is interesting to see that MNCs have much larger financial capabilities than many developing countries. Also, MNCs have their own management styles which apply those to all of their subsidiaries. "An MNC is a group of business units located in different countries, whose operations are coordinated by a management 'control center' that makes decisions on the basis of global profit opportunities and objectives."[2]

In the world economy, MNCs play the role of producers, traders and innovators on a global scale. They are important actors in shaping the trade, capital investments and technology flows among nation-states. The MNCs engage in foreign production through their affiliates which have been established in many countries. Manufacturing and trade by the MNCs help the host countries to internationalize in the global economic system. Franklin Root defines them as, "the large industrial or service corperation that possesses plants or other operations in many countries that produce for markets throughout the world."[3]

MNCs are not alike in their structural organization and behavior, their sub-structures are different from each other. They have their own pattern of management, business strategy, finance and technical assistance which they bring into a host country. Some MNCs serve individual customers, others government procurement, the industrial sector, or the military. MNCs range from companies that extract raw materials to those that manufacture consumer goods such as soft drinks to high-technology products like computers to those that offer services such as insurance or banking. MNCs not only serve the local market of the host countries but also the world economy. Regarding the production type and market segment of MNCs, an agreement is usually signed between an MNC and the host country's government. Joan Spero claims that, "multinational corporations are not simply large corporations that market their products abroad, they are firms that have sent abroad a package of capital, technology, managerial talent and marketing skills to carry out production in foreign countries."[4]

Root uses a fairly complicated diagram to explain the possible relationships existing in an MNC (see Appendix A).

> A1 may tranfer parts or components that it manufactures to A_6, which uses them to manufacture other products. A_4 may transfer certain finished products to A_5, which then resells them in the local market. Idle funds accumulating in A_2 may be transfered to A_3 to finance a capital expansion. A_5 may develop new technology that is transfered to A_3. A manager in A_6 may be transfered to a new position in A_2. Some products and factor services may also be transfered from an affiliate to the parent company, such as from A_5 to P.[5]

The MNC's effects on the host country are immense: they play a very important role in representing that country in the global economic scene. The foreign investor's advantage arises from marketing skills including advertising, promotion, product-development and design. Gilpin says that, "an MNC tends to be an oligopolistic corporation in which ownership, management, production and sales activities extend over several national jurisdictions."[6]

One of the biggest tools of the MNCs is foreign direct investment (FDI). Here, the investor company not only owns the enterprise but maintains control over production. MNCs use FDI by either establishing a new affiliate or purchasing a foreign owned firm which is located in a different country. John Dunning states that, "a multinational or transnational enterprise is an enterprise that engages in foreign direct investment (FDI) and owns or controls value-adding activities in more than one country."[7] It can be asked why corporations feel a need to leave their home country in order to invest in another. The simple explanation is because it can maximize profit while opening doors into new markets. It also can result in paying lower taxes, having access to cheap labor and using an extensive amount of raw material.

Since MNCs are usually giant corporations which function in more than one country, they typically employ thousands of workers and train them to appropriately operate any necessary machinery. MNCs bring competition to local industries while acting as a model in production and technology, among others. Vernon and Wells add that MNCs "draw on a common pool of resources such as money and credit, information and systems, and trade names and patents. They respond to the same common strategy."[8]

There are many definitions of an MNC by different circles. Three such definitions that can be categorized as academic state that:

1. AN MNC is "a cluster of corporations of diverse nationality joined together by times of common ownership and to a responsive common management strategy."[9]
2. AN MNC "owns and manages businesses in two or more countries. It is an agency of direct, as opposed to portfolio, investment in foreign countries,

holding and managing the underlying physical assets rather than securities based upon these assets."[10]

3. AN MNC is "a business organization that has its roots in one country and operations of various sorts in another."[11]

Sir David Barran of the Shell Centre in London offers an example of a definition from a business perspective. He defines an MNC as, "incorporating everything from the very large-scale type of integrated enterprises to the single-product manufacturer based in one country who finds himself increasingly driven by the exigencies of the business into successive stages of involvement overseas."[12] The former president of IBM World Trade Corporation, Jaques G. Maisonrouge builds on this business definition by giving five criteria necessary to be considered an MNC.

> 1. It must do business in many countries.
> 2. It must have foreign subsidiaries with the same research and development, manufacturing, sales, and so on, that a true industrial entity has.
> 3. There should be nationals running these local companies. They understand the local scene better than anybody else, and this helps promote good citizenship.
> 4. There must be a multinational headquarters, staffed with people coming from different countries, so one nationality does not dominate the organization that much.
> 5. There should be multinational stock ownership- the stock must be owned by people in different countries.[13]

There are also institutional definitions of MNCs. The US Department of Commerce and the United Nations Economic and Social Council define an MNC as "firms with direct investment outside the countries in which the headquarters are located."[14] MNCs "are enterprises which own and control production or service facilities outside the country in which they are based. Such enterprises are not always incorporated or private; they can also be co-operatives or state-owned enterprises."[15]

Although an MNC can be publicly or privately owned; large or relatively small; possessing varying production facilities; differing in technical and managerial structures, the basic requirement is for it to have at least two subsidiaries in different countries. This position appears to be found in every scholarly work that is concerned with the subject of MNCs.

2.2 History

Since the emergence of trade, people have exchanged goods and capital among themselves. Through the centuries merchants have learned how to earn and use money to expand their business. The period between the thirteenth and eighteenth centuries was the time when states were actively involved in overseas ventures. Commerce took place in port cities since the seas provided an easy and relatively quick way of transportation. During the Middle Ages many trading firms had representatives in important cities where trade was taking place. Banking and mining activities were accomplished in many foreign countries by private entrepreneurs. Italian bankers such as Bardi and Peruzzi operated in England representing the Papacy.[16]

Trade eventually improved as more and more goods were exchanged among nations. Meanwhile, the state preserved its importance in conducting trans-border business. The companies of the sixteenth and seventeenth centuries were under the state's protection and, therefore, were primarily dependent on their home country's policies. Colonialization became an active policy of many of the world's leading powers. Expatriate capital, migrant workers, absentee investors, and some direct investment, played a major role in these investments. Many of these pre-revolutionary industries were started by European money and technology, machinery and skills.[17]

The famous companies of that era were the British East India Company, the Hudson's Bay Company, the Dutch East India Company, and the Levant Company. These companies, established during the colonialization period, were destined to serve as the model for the MNCs of the future. The 'old colonialism' of the seventeenth and eighteenth centuries, the Spanish, Dutch and English companies, established mines and plantations in the new world and in parts of Asia; these activities in most cases plundered and exploited the native peoples for their minerals and other riches. Many of these pre-revolutionary industries were started by European money and technology, machinery and skills.[18]

The industrial revolution changed these trading patterns as minerals and raw materials became very important resources. It also changed the old manufacturing patterns and machinery as mass production took root. Populations increased which resulted in supply being outstripped by demand. Technological capacity and human power became necessary components in this era. With "the 'new imperialism' in the late nineteenth century, Africa, Southeast Asia and other lands were brought within several imperial systems. Although exploitation did not cease, European investments in port facilities, railroads and urban centers at that time did create an infrastructure that is still important to many less developed countries. The industrial revolution introduced the factory system and helped to fashion the business enterprises as we know them today. It also dramatically influenced the way corporartions were managed, the techniques of production and the range of value-added activities that could be efficiently undertaken by a single firm.[19]

With the industrial revolution, the old system of merchant capitalism gave way to industrial capitalism. Family business groups invested in foreign countries. "The growing owner-specific advantages of enterprises, especially in processing industries, insurance, banking and shipping, and the need to gain access to both foreign input and output markets, led many firms both to look beyond their national borders for intermediate or final products and to control the production and marketing of these products."[20]

In the second half of the nineteenth century, technological advancements changed production type and marketing styles. New and faster transportation techniques were discovered, such as the railroad and steam boats. As the cost of transportation became relatively cheaper the exchange of goods and capital increased rapidly.

Modern MNCs are the product of the primarily post World War II twentieth century with its clearer national boundaries. One must acknowledge that there is a great distinction between the colonial companies and MNCs. The main difference is that an MNC asks for permission to establish itself in a host country and obeys the laws of the respective country, whereas a colonial company did not ask for permission, rather, it exploited the people as it forced its will and desire upon the host country.

Colonial companies gave way to MNCs after the de-colonialization period. The second World War left the nations in ruins, both economically and politically. The United States, as a leading power of the world, was not about to let the wave of communism completely cover Europe. Several financial aid plans, like the Marshall Plan, were designed to help the Europeans recover. Private enterprises in the United States made FDIs in European countries. American corporations, wanting to maintain access to a relatively closed yet growing market, began to make massive investments in Western Europe largely as a response to the formation of the European common market.[21]

After the war, there was a great demand for raw material to supply the increasing desire for goods. Large firms began looking for new sources of raw materials. Many host countries were encouraging FDI to come to their nations. Since the size of the domestic market in the United States was much larger than the ones in Europe, the American firms had an advantage over their European counterparts. This factor played an important role in encouraging the spread of American corporations around the world.

The United States was populated by a large percentage of immigrants who came from different ethnic and social backgrounds. American society was quite heterogeneous and, more importantly, was made up of 50 states, each with its own different legislative rules. Doing business in the United States, then, was difficult but these challenges taught entrepreneurs to conduct business in a flexible manner. Therefore, American corporations were helped by their experience in the very diversified domestic market that was characterized by mass production and mass consumption. American managers learned at home how to manage multi-regional operations.[22]

In the 1960s, the trend of regional integration began in Europe, Asia and Latin America. Intra-firm trade increased in great volume.

> MNCs are seen as the engine of economic growth. From the 1910s until 1960, MNCs were resource-based. After the 1960s until today they have tended to be technology-intensive based. In the 1960s...less developed societies launched import substitution strategies as the most rapid route to industrialization. Through the erection of high trade barriers, various tax inducements, and other policies, they encouraged the multinationals of the United States and other economies to establish manufacturing subsidiaries within their borders.[23]

A decline in the expansion of world trade took place in the 1980s. Technology was advanced and high-tech products and advanced computers became a part of people's lives. Increasing economic and political fluctuations pushed FDI by developed countries towards developed economies. In this period the dominance of the United States declined while Japan appeared as a new economic power, having the advantage of a strong economy and advanced development. The financially strong corporations of Japan, thus, began transnational activities. Today, the large Japanese MNCs are dominating the world economy (see Appendix B). Fortune's "Global 500 Companies" list shows that the largest corporations in the world are Japanese. Ten years ago, American corporations were dominant.

2.3 Global Reach and Economic Power

The whole globe is a huge market where national and multinational corporations interact with each other. After World War II, there had been many controversies regarding the global expansion of MNCs. Some believe that they are the engines of the world economy and help national economies to prosper. On the other hand, others insist that MNCs are considered a new form of imperialism and create underdevelopment among their host nations. Whatever the position, MNCs have proven that they are inevitable actors in the world economy. Foreign production has become a vital component in the integrated global strategies of MNCs that now dominate the international economy.[24]

Developing countries have many problems such as unemployment, low rate of income per capita, balance of payments deficits, low technology, inflation, sub-structure problems and so on. FDI can find solutions to these problems. Fresh money enters a host country economy through MNCs. Ideally speaking, as a result: the economy prospers, the volume of trade increases, the employment problem is eased, the host country government is able to pay its debts and the people's income per capita also increases. The production capacity can also diversify, the price of many products can decrease resulting in a comparative advantage over domestic industries. Therefore, MNCs create and spread new products, new methods of management and organization, and new ideas and innovations on a global scale.[25]

If a country's economy is strong, its political position in the world is also strong. MNCs contribute not only to economic activities and international production but also to transboundary relationships. They can create a friendly environment which very seriously inhibits states from making war by establishing bonds of trade and friendship. MNCs are involved in many financial activities within a host country and among their subsidiaries, which are located in other countries. To carry on their production in full scale, they usually raise funds from their shareholders and affiliates, whereas domestic firms usually lack such a structure. Their global scale of operations provides access to financial markets even among the individual countries in which the firms have affiliates.[26]

MNCs can help a host country achieve its national goals, since countries seek to manage their economies on a level where they improve economic efficiency, growth and welfare. However, fears regarding MNCs getting out of control, once they invest in a host country, are also expressed. Spero claims that:

> Aside from imposing entry requirements, countries may also attempt to manage the behavior of multinational corporations once established in their state. The ability to control the MNC's behavior is crucial to management, because it involves activities that affect national economic performance and national control, such as taxation, labor policy, capital movements, and competition policy.[27]

A host country's global reach and economic power increases if it transfers the appropriate technology. Technology changes and develops so rapidly that a host country may not be able to import the appropriate technology or follow it with limited financial capabilities. But MNCs, with their research and development programs, may try to bring in appropriate technology which would lead towards further modifications. "MNEs may transfer most of their technology within industries classified as high or medium technology intensive. In some cases, particularly developing countries, the technology will be used to improve the efficiency of labor-intensive process of production rather than the promotion of high-value production or innovating activities."[28]

MNCs' economic capabilities are immense. From different aspects, their existence gives many opportunities for a host country to improve its economic activities. Their decision to choose the right MNC, regarding the type of investment, opens many doors in international economic matters to the host country government.

2.4 Impact on Host and Home Countries

MNCs affect the host and home countries in many different ways (see Appendix C). Each party has different expectations of what the other can supply them. The impact of an MNC can be positive or negative, depending on the point that one looks at it from. The various impacts can be grouped as either political, economic, cultural or technological by nature.

Political Impact: MNCs are regarded as a tool of diplomacy and instruments of national policy. The home country government may ask a multinational corporation to induce the host country government to do its bidding. The interests of multinational corporations may well go in harmony with their home countries' interests. FDI can be considered a very important instrument to maintain a relative position in world markets and overseas expansion of multinational corporations. "MNCs may interfere in the politics of the home and host states. As with any corporation in the home or host country, they...seek to influence law and public policy and that does have an impact on the political environment."[29] Another political impact of an MNC is that, since they desire stable governments that will provide a more liberal economy, they tend to support conservative governments.

Economic Impact: MNCs are observed as tools which serve their home countries' balance of payments because they are major earners of foreign exchange (see Appendices D and E). Many home countries of MNCs are able to rely on them in times of economic instability and balance of payments deficits. Additionally, economic growth changes the social structure of host countries, thus, FDI has been accused as the creator of maldistribution of wealth in the host country's economy. However, economic growth plays an important role in attracting FDI. "Beginning with the Marshall Plan, many have seen the MNC as a way to strengthen foreign economies and thereby to contain Communism by demonstrating through the export of American technology, capital, and management know-how, an alternative to the Communist or socialist models of economic development."[30]

Cultural Impact: MNCs are considered by some to undermine the traditional values of a society by introducing their home countries' practices, values and tastes. No nation in the world is living in a vacuum. Easy telecommunication and transportation systems make cultures closer to each other. A product which is produced in Japan could be used and found in Turkey, Italy, Germany or France. It is difficult to welcome the innovations and advancements in a product but not accept the culture which is coming simultaneously with that product. Some countries try to resist cultural changes but they are not able to achieve this. "Groups in several countries (France and Japan being notable countries) have, in fact, displayed strong resentment toward what they consider to be a debasing of their cultures through the materialistic values implanted by international business firms...dealing with such problems requires a high level of both cultural awareness and cultural empathy."[31]

Technological Impact: The less developed host countries, in order to employ more people, want not only an advanced technology but also labor-intensive technology. For instance, an automobile factory in Japan can be highly structured on robotics, but a developing country would not be able to absorb that technology due to the lack of sub-structure, skilled personnel and so on. On the other hand, the home country is in the position of exporting technology. Research and development are a continuous activity, but the less developed countries would not devote their financial resources to research and development. When a multinational corporation takes a decision to invest in a foreign country, it takes these factors into consideration. MNCs have little incentive to develop more appropriate technology, which would be competitive in world markets, because their investment is in a protected market and cushioned against international competition.[32]

2.5 Involvement in Politics

MNCs and international businesses are influenced by politics and political ideologies. Political risk is an important factor for an MNC to determine their place of investment. Political instability is a legitimate concern for MNCs. Many have shown that they can do business in countries where political systems range from right wing dictatorships or socialistic and capitalistic democracies to authoritarian Communist regimes. However, drastic and sudden changes regarding political systems may serve as reservations for the MNCs.

The political risks for MNCs include losing assets, nationalization of the whole establishment due to government takeovers and change of political regimes. Some of the controversies regarding the MNCs and FDI are that they are considered the main factors which cause underdevelopment and the losing of the host country's economic sovereignty. It is frequently asserted that inward and outward direct investment reduces economic dependence on the rest of the world.[33] However, it is apparent that this is not the case in many countries. First of all, FDI provides the necessary resource for technology and management expertise that can be controlled by the host country government at any time. Secondly, the MNC may use resource allocation of their subsidiaries in ways different from what the host country government expects it to be used, in accordance with their own best interest. FDI is bounded, or held hostage, in a host country because control and regulation of MNCs are in their hands. Which strategy a country adopts depends on the resources and capabilities it possesses, how these are, or might be, galvanized to promote indigenous economic growth and the balance between inward and outward investment.[34]

In the case of threats, the host country has options to diversify its economic ties with other countries and MNCs. For instance, former British, Belgian, French and Dutch colonies' sovereignties once did not exist, but after they became independent they were able to diversify their industrial partners. Latin American countries have done the same thing, against the heavy pressures of American multinationals, they welcomed European and Japanese FDI. At the same time, some Middle Eastern countries such as Iran, Sudan and Iraq refuse FDI from countries they think would undermine or poison their cultural and religious systems. Notably in Iran and Iraq, the contemporary resurgence of Islamic fundamentalism is dominating all trading relationships with the outside world.[35] In comparison to the Middle Eastern countries, the Newly Industrial Countries (NICs) can be given as an example. Even though they have authoritarian regimes, where there is more economic stability, the FDI which they receive is used in such a way that their development level grows.

The MNCs may lobby for the home country where they establish themselves and act as an ambassador of that country to improve and get closer relationships with other countries. In a way, MNCs help the host countries to internationalize both economically and culturally. "The MNC may use the threat of economic reprisals or its influence in international organizations or diplomatic circles as means of pressuring a foreign government to settle disputes."[36] MNCs can also play the role of intergovernmental mediators, the long standing Arab and Israeli conflict is a very good example. As a large number of international companies have been found doing business with Arab nations because of the ties that they, or their home governments, have had with Israel.[37]

MNCs may influence law and public policy that have an impact on the political environment of the host country. They may intervene in elections and support a particular political party. Spero comments that, according to the Gray report which has been conducted in Canada, "MNCs have little impact on Canadian public policy...The U.S. Senate Subcommittee on MNCs found that they have engaged in legal and illegal payments in developed countries, but the sub-committee did not suggest how such payments influenced public policy."[38] As long as MNCs exist, their role in world politics will continue to affect both the host and home countries.

CHAPTER III:

SOME THEORETICAL PERSPECTIVES ON MULTINATIONAL CORPORATIONS

3.1 The Liberal Theory

There are several theoretical schools of thought which hold varying positions on MNCs. The broadest of these is the liberal theory. Between the sixteenth and nineteenth centuries, domestic and international economies were controlled strictly by governments to strengthen and expand their national wealth and power. The mercantilists defended the idea that a government's intervention in the economic facilities would maximize their national wealth.

Adam Smith and David Ricardo, in their philosophical thought, claimed that national wealth and power would increase by applying free and unrestricted exchange among individuals. The liberal theory emphasizes individual liberty to be achieved through a minimal state and applying free market principles without any government intervention. Liberalism is an economic system based on the production, distribution and consumption of goods and services.[1]

The free market system, which is called liberal economics, denotes the free flow of capital, goods, services and labor. In this economic system, the price mechanism regulates and organizes domestic and international relations. In the free market system, the economic efficiency and the flow of capital increase. The liberals consider economic activity to be the preserve of private enterprises, not of government. The liberals' only hope for peace and harmony is to be isolated from economics and for the naturally harmonious process of free trade to operate among nations, bringing not only prosperity but peace to all.[2]

There are three main assumptions in the liberal perspective. The first one is that of individual rationality. Each actor will minimize his/her cost and maximize his/her benefit. This economic system allows everybody to have an equal chance to partake within the system and each individual to be given according to his/her contribution. Liberals consider free trade to be the best policy because specialization and international division of labor increase individual productivity and, hence, the accumulation of both national and global wealth.[3]

The second assumption is that the nature of liberalism is international and, in an open world economy, there is no stagnation to take place, thus, economic growth can be easily achieved. The expansion of international trade allows countries to pursue more productive technologies and better allocation of resources. A free market system increases economic efficiency, creating more and better products for consumers to choose from. Through a free market system, human welfare is claimed to rise and, interdependence, which means countries will be dependent on each other, is said to occur bringing peaceful relations and prosperous nation-states.

The third assumption regarding the liberal perspective argues that an individual seeks to acquire an object until a market equilibrium is reached, that is, until the costs associated with achieving the objective are equal to the benefits.[4] In a competitive market, the price of the goods is determined by supply and demand. If the price of a commodity increases, then there will be less people willing to buy it, but if the price decreases, then more people will be able to purchase the product. Every decision involves an opportunity cost, a trade-off among alternative uses of available resources.[5]

What is the liberal theory's position towards MNCs? The liberal theory gives great importance to MNCs operating in host country economies. Gilpin gives the following comments concerning MNCs:

> Their global dominance is due to increased importance of economies of scale, monopoly advantage and barriers to entry in a particular economic sector. Multinationals have been able through their trade and foreign production strategies, to take advantage of the relatively more open world economy by the several rounds of trade negotiations.[6]

MNCs are large entities in comparison to local firms of the host countries. These MNCs can more easily mobilize the capital which they hold than can the local firms. MNCs are of great assistance to the host country's economics because they contribute to that nation's deficits payment. For liberals, the increased integration of national markets is a major spur to global economic efficiency and governments should refrain from interfering in this process.[7] MNCs have access into many countries since they have subsidiaries in them, this gives that country a competitive advantage.

3.2 Old Multinationalism - The Product Life Cycle Theory

The product life cycle theory was developed by Raymond Vernon in 1966. Vernon looked at FDI as a stage in the penetration of foreign markets. The theory looks at an MNC as an actor which is involved in international trade and FDI. Its main focus is on market expansion and technological innovations. MNCs were primarily resource-based until the 1960s but after this period became dominantly technology-based.

The product life cycle theory has two fundamental peculiarities. The first one is advanced technology, this is an important factor in product creation and development. The second is the market size, which is an inevitable determinant in trade patterns. The theory assumes that "initial production will be located in the country of innovation, both because the production process uses large quantities of skilled personnel and because the new production can only be successfully developed if close contact with the customer is maintained."[8]

According to the theory, a new product goes through four stages:

1. **Introduction Phase:** Product is initially developed and marketed. Its price is inelastic.
2. **Growth Phase:** The demand of the product is high, generally no competition.

3. **Maturity Phase:** After the local markets, the product is exported to foreign markets.
4. **Decline Phase:** Demand of the product decreases.

Spero, commenting on the product life cycle theory, notes that:

> Firms develop new products and processes that they introduce abroad through exports. When their position is threatened, they establish foreign subsidiaries with lower costs or better access in an attempt to retain their advantage. When the firm finally loses its advantage, it may move on to new products or attempt to create new advantages by altering the product.[9]

It is apparent that when a new product enters a local market sales are usually brisk. After other companies begin to produce that same product, however, supply of that product will outstrip demand and the companies will begin to look for ways to sell that product in foreign markets. How a corporation seeks to sustain continuous growth for a product is a topic that Weekly and Aggerwal discuss:

> The development of new products or substantial improvements of existing products will most likely occur in economically advanced countries such as the United States. Those countries are more apt to possess the potential demand, risk capital, technological expertise, and research capabilities needed to support product innovation and the introduction of new products to the market.[10]

Knowing the stages of the above-mentioned four cycles can be beneficial to a company. If the necessary precautions are taken on time, such as the product's development, pricing, advertisement and market segment, the particular products can stay in the market permanently. New products and processes are developed and introduced in response to cost and demand conditions in the local market. Initially, demand is limited and insensitive to price. As demand expands at home and later abroad, the innovating firm exports abroad.[11] FDI is the only way that innovations can be exported to foreign markets. Root explains product tranfers through the use of a diagram (see Appendix F):

> The parent company (P) transfers intermediate products to affiliates A_2, A_3 and A_4 for use in their production. At the same time, A_1 manufactures a component that is transfered to A_4, while A_2 and A_3 also manufacture inputs for A_4. Subsequently, A_4 uses all these inputs to produce the final product, which is then sold to worldwide markets.[12]

The product life cycle theory does not have all the answers to economically-related questions like why MNCs prefer to invest in foreign countries rather than produce the goods in their home countries. FDI takes place because the firms involved have access to unique technologies, managerial skills or marketing expertise that is more profitable for them to maintain within the corporate network rather than sell on the open market.[13]

All in all, it can be said that the product life cycle theory asserts an attractive concept combining both demand and supply within a trade and FDI framework to explain the internationalization of production. One of the shortcomings of the theory is that it gives too much importance to the particular type of FDI at the expense of explaining vertical investments, such as raw material ventures.

3.3 New Multinationalism - The Vertical Integration Theory

FDI can be done in different ways. A corporation's expansion into a foreign country market may take place in the form of vertical integration, which is the addition to the production process of a new stage coming before or after the corporation's main activity. MNCs choose to integrate vertically across national boundaries to reduce risk and eventually increase efficiency. In the international economic arena, multinationals interact with each other. It is a form of corporate institution in which various subsidiaries of the MNC are either suppliers or customers of each other. Consequently, this structure allows the MNC to maintain control over different stages of production as the product moves towards final distribution.[14]

Vertical integration has both a backward and a forward type. In backward vertical integration, production is done using raw materials, such as oil, copper, iron, aluminum and minerals. In forward vertical integration, however, production is concentrated on distribution and sales of products. Gilpin describes vertically integrated investment as "the production of outputs in some plants that serve as inputs for other plants of the firm."[15] Vertically integrated corporations may make physical transfers of intermediate products from one of its plants to another that was established in a different location. Rugman, Lecraw and Booth add that:

> Natural resource processing industries are highly capital intensive and must be operated at high volumes in order to obtain economies of scale. These...motivated firms in Europe and the United States in natural processing industries become MNEs integrating backward to reduce the risk of variations in volume, composition, and price of inputs and by integrating forward to reduce the risk of variations in sales volume, composition and price.[16]

Vertical integration assists in the continuity of the supply of products. It gives easy access to management information and cooperation among subsidiaries. The efficiency of continuity of production operations can be enhanced by the acquisition of the suppliers of material inputs such as raw materials and semi-manufacturers or by the development of a system for direct marketing of the output.[17]

Vertically integrated MNCs may pose a threat to other companies since they supply raw materials to their captive users rather than to their independent customers. Vernon and Wells note that, "the process of vertical integration has often led to the multinationalization of operations. As enterprises move upstream or downstream to complete their vertical structure, they commonly reach beyond the national economies in which the integrating process began."[18]

Vertically integrated MNCs are generally criticized by host country governments for backward vertical integration, since, especially in the mining industry, extraction of raw materials and minerals do not contribute much to the employment and development of the host country. Concerning forward vertical integration, it is believed that MNCs damage the host country by controlling the existing markets through their distribution and sale of products. Gilpin states that:

> Vertical integration occurs when a firm invests abroad in activities that (1) provide inputs for the home production process or (2) use the input of home plants. Vertical foreign direct investment entails the fragmentation of the production process and location throughout the world of various stages of component production and final assembly of components. This fragmentation is intended to achieve economies of scale, to take advantage of cost differences of different locales and to exploit favorable government policies such as tariff codes that provide for duty-free entry of semifinished products or of goods assembled abroad from components produced domestically.[19]

3.4 The Marxist Theory

After the Bolshevik Revolution in 1917, the first communist state was established. The tsarist system was abolished and a new regime was established on the theoretical principles of Karl Marx. According to Marx, the upper classes, the aristocracy and the bourgeoisie, lived against the suppressed masses. The upper classes exploited the lower class, because the land, natural resources and capital assets belongs to them. On the other hand, Marxism calls for government control over the entire economy and for participation by foreign firms only as suppliers of products or services that the country cannot obtain elsewhere.[20]

The main aim of the leaders of the Bolshevik Revolution was to erase the trace of the tsars and to make sure that absolute power would be in the hands of the Bolsheviks in the Communist Party. The tsarist regime was corrupt and, according to Marx, capitalism would eventually give way to communism. This movement would have been completed in two steps. The first step was the overthrow of capitalism and the establishment of socialism under the dictatorship of the proletariat. The famous motto was "From each according to his ability, to each according to his need." This motto defined the characteristics the economy would possess.

The aim of the revolution was to completely wipe out the marks of capitalism. However, Marx did not know how long each step would take. Gilpin explains that, "in a communist economy, investment and consumption are primarily determined by the national plan and, moreover, the state has a monopoly of all foreign exchange. A communist economy may, of course, have a political or strategic motive for exporting capital, or it may need to invest abroad in order to obtain vital sources of raw materials."[21]

One of the major characteristics of Marxism is the envisionment of the future collapse of capitalism. There are three inevitable economic laws which supposedly lead to the fall of capitalism.

1. The law of disproportionality between production and consumption. Overproduction versus underconsumption.
2. The accumulation of capital in the hands of a few. This will lead to polarization of classes and an unrest within the society.

3. Overtime. The falling rate of profit will decrease the incentive to invest and the whole economy will stagnate.

However, such predictions were not fulfilled in Europe because welfare states were established and prevented impoverishment among the people. After the Bolshevik Revolution, everything was controlled by the state, including land, natural resources and businesses. The price for goods and salaries were also set by the state. It is concerned with the equal distribution of wealth and economics dictating political policy.

Some Marxists view MNCs as surpassing the power of individual nation-states. The concentrated economic power of the MNCs and their ability to move rapidly from nation to nation leaves states nearly powerless to control them.[22] Therefore, they view the MNCs as real threats that should be avoided. Russett and Starr explain that in Marxist theory:

> Classes (capitalists, workers, peasants) clash for control of state policy within countries, and the government basically pursues not abstract national interest, but the interest of the dominant classes. States are not united actors. Classes form across national boundaries, as capitalists, for example, may cooperate internationally to maintain a political and economic environment hopitable to investment by MNCs.[23]

Marxists view MNCs as distorting the global status quo and making countries non-equitable with each other by preparing the foundation for the domination of the wealthy countries over the less developed. As MNCs grow, states will struggle for more wealth and power which will lead to occurances of international conflicts.

On the other hand, technological development is a continuous, inevitable process. John Dunning states that, "Marx was perhaps the first to predict a trend towards the creation of large firms, enjoying ownership advantages based on the application of science in technology, especially machine technology. The motive for innovation he put forward was the social pressure of competition, in a world of rapid technical change."[24]

However, MNCs are allegedly a form of economic exploitation as they are part of the capitalist system. For Marxists, MNCs are the main actors in establishing dependency among the nations. To globalists of a Marxist persuasion, MNCs and banks are agents par excellence of the international bourgeoisie.[25] Thus, MNCs present a real danger to the economies of less developed countries.

All in all, it can be said that the Marxist theory does not hold a positive view of MNCs, as they supposedly distort equality and fairness among nations. MNCs, a tool of the capitalists, are said to bring unrest to the masses because capital is accumulated in the hands of a few. Since MNCs have strong financial capabilities, Marxists contend that they will inevitably put the host country's integrity in danger.

The position of MNCs in the liberal, product life cycle, vertical integration, and Marxist theories have been discussed above. Of these, the liberal theory appears to be the most applicable perspective for the Republic of Turkey. This is due to Turkey's experience with liberal economics, in general, and its historical relationship with MNCs, to be more specific. The following chapter will analyze the liberal position of the Turkish automotive sector during occurences of economic and political fluctuations.

CHAPTER IV:

THE TURKISH AUTOMOTIVE INDUSTRY

4.1 Political and Economic Instabilities

The Republic of Turkey was established on October 29, 1923 by Kemal Atatürk. Turkey was transformed from an authoritarian regime to a democratic one as it was to follow the European model of development. As a national goal, Turkey planned on adopting the Western world's system of capitalist enterprise.

Turkey's economic development was dependent on its own political life as well as outer effects of global economic and political fluctuations. For instance, in 1929 the Great Depression brought the whole world into a state of stagnation, falling prices, unemployment and ruined economies. Turkey's position was very vulnerable and as a result also faced a grave economic crisis. Turkey was able to overcome this period by reducing its volume of trade and cutting down on government expenditures. Increasing bankruptcies and unemployment caused the state to take a larger role. A series of state manufacturing institutions were set up. The main aim was to develop the basic industries which the Turkish private sector could not develop by itself. Consequently, Turkey shifted its economic objective from the free enterprise system to a more protectionist position through state intervention in economic matters.

During the years of World War II, Turkey's economic activities were limited. Stalin's post-war demands for territory in Eastern Turkey and a base on the Straits drove Turkey firmly to have better relationships with the West and the United States. The American political and economic leadership led to the introduction of the multi-party system in 1950 and a greater role being given to the private sector. However, after the war the Marshall Plan helped Turkey to eventually make large investments. In 1950s, Turkey welcomed foreign direct investment in the manufacturing sector. The Democrat Party of prime minister Adnan Menderes gave more emphasis on building up the market economy. The Korean War led to a boom in Turkey's exports, but growth stagnated and there were mounting complaints from industrialists and those living on fixed income in the cities. By the end of the decade inflation was high and Turkey was being forced to reschedule its debt and there was a rampant black market in currency and industrial inputs.

From 1960 to the present there have been several economic and political instabilities which have taken place in Turkey. The military takeover of 1960 delayed the country's walk with democracy. The military regime set up the State Planning Organization (SPO) and introduced indicative planning. The first plan covered the period between 1963-1967 and since then there have been successive five-year plans and annual programs. The thrust of the 1960-1980 period remained on import substitution and autarky, with development taking place behind high tariff barriers. However, an unrealistic exchange rate in the late 1960s was one of the factors behind a foreign exchange crisis and Turkey's having to reschedule its debts.

On March 12, 1971 a military intervention took place. In the 1970s, a massive increase in Turkish workers' remittances helped Turkey build up its reserves of foreign exchange and start on a major industrialization program. The foundations of a series of major state factories were laid throughout the country. The 1974 military intervention in Cyprus resulted in the United States imposing an embargo on Turkey. The combination of economic problems following the invasion of Cyprus, the first oil shock and a slowdown in workers' remittances meant economic disaster for Turkey. By early 1978, the Central Bank was unable to make transfers and IMF was called in for financial aid. In 1979, an oil crisis shook the world and Turkey's economy was also affected. In the late 1970s, Turkey was struggling with a political and economic instability which resulted in the September 12, 1980 military takeover.

Turkey again went back to a multi-party system in 1983 as Turgut Özal was elected prime minister. Özal gave a new direction to Turkey's economic life as it began to pursue a more liberal economy and a free market system. The 1980s were the years in which Turkey made great advances in its development. In 1989, however, economic stagnation occurred. Turkey's growing economy was hit once again by a severe economic crisis in 1994 that left disastrous effects on the economy. Turkey's agreement with the

European Union regarding a Customs Union was to take place in 1995 but, as a result of this crisis, the unification date has been delayed.

As a developing country, Turkey has had more than its share of political and economic fluctuations. The political interventions and economic crises affected both the stability and growth of this nation. This lack of stability hinders the prospects of MNCs and FDI choosing Turkey. However, the potential profit of locating in such a large and strategically-located market balances out some of this instability to make Turkey a fairly appealing place to invest.

The sector which is affected most by political and economic instability is the manufacturing industry. Here, not only manufacturing capacity is affected by a crisis but also the people dependent on these products, in addition to both private and state sectors. In other words, a decrease in this industry subsequently affects total production and revenue on a macro level. Compared with other manufacturers, the automotive industry has done relatively well in overcoming instabilities, as the rest of the chapter will describe and explain.

4.2 History of the Automotive Industry

The manufacturing history of the Turkish automotive industry is rather brief, since the first Turkish made car was manufactured in 1966 by Anadol. In 1971, Oyak-Renault and Tofas-Fiat began production. The following is a more complete chronological history of Turkey's introduction with automobiles.

1923-27:	Ford and Chrysler distribute cars to local distributors in Turkey.
1927:	Ford and Vehbi Koç reach a distributorship agreement for Ankara. A car costs 2,000 TL.
1944:	Koç Trade Automotive branch is established.
1953:	American cars become the fashion. The majority of cars are Chevrolet, Plymouth, Buick and Dodge.
1955:	Willys Jeep factory begins production.
1956:	Henry Ford and Vehbi Koç meet.
1960:	Otosan opens.
1961:	Turkey's first car, "Devrim" is produced by Cemal Gürsel's command. But since nobody put petrol in it, it did not work.
1966:	Anadol is on the road. Its price is 26,300 TL, the equivalent of 263 gold coins.
1968:	Tofas is established.
1969:	Oyak-Renault is established.
1971:	On February 12, "Murat" enters the market. On May 14, "Renault 12" is produced.

1972:	The number of motorcars in Turkey surpasses 500,000.
1977:	The automobile parking capacity reaches 500,000.
1979:	The oil crisis affects the automotive industry and production decreases.
1985:	Turkey becomes an automotive millionaire. The number of autos reaches one million, the number of motorcars is over two million.
1987:	Annual automobile production surpasses the 100,000 barrier.
1989:	Stagnation breaks the automotive industry.
1990:	The rally of the automotive industry begins. Both imports and local production models sell well.
1991:	General Motors begins production.
1992:	Toyota makes investment in Turkey with Sabanci.
1993:	Honda makes an agreement with AEH. Hyundai makes an agreement with Assan. Kia makes an agreement with Ihlas Holding. Annual auto sales reach 450,000.

Source: Ekonomist - Türkiye 1994, p. 60.

4.3 Automotive Production and Fluctuations

As mentioned earlier, the three traditional hypotheses, as related to this study, are:

The Hypothesis: As occurrence of economic and political fluctuations increases, fluctuations in production also increase.

The Inverse Hypothesis: As occurrence of economic and political fluctuations decreases, fluctuations in production also decrease.

The Null Hypothesis: Economic and political fluctuations have no effect on production.

These hypotheses will be examined using statistics from the State Institute of Statistics, through the year 1992 (see Appendices G and H). Special attention will be paid on those years in which either a political or economic crisis occured, and whether or not there is any support for the hypotheses. It is recognized that this study does not take into consideration any intervening variables, outside factors besides fluctuations that could have influenced the industry. The task at hand is to simply examine the rates of automotive production and their rate of change and examine them according to periods of external instability.

The first years that will be examined are 1971 and 1972. It appears that the military warning of March 12, 1971 had a mixed effect on the rate of production. The truck (105.1%) minibus (109.1%) and automobile (138.8%) production rates increased dramatically over the previous year. Part of the reason for the high increase in minibuses and automobiles is likely due to the fact that their production in 1971 had just started, although minibuses were first produced in 1969. Looking more carefully at trucks, in both 1970 (-43.7%) and 1971 (-33.8%) they had experienced negative growth. Buses also had negative rates in those years, while tractors had negative percentages in 1969 (-11.7%) and 1970 (-42.4) but jumped to 103.6% in 1971, before dipping to 46.5% in 1972. Pickups had a modest growth rate in 1972 (27.4%) after a -1.% rate in 1971. Motorcycles and motor-bikes had a negative production rate in 1972 (-23.9%) after a modest 6.6% rate in 1971.

The second crisis period that will be examined is the 1974 Cyprus intervention and the 1975 embargo year. When compared with the 1973 production percentages, all seven of the automotive industry's vehicle types experienced a decrease in production. This lends strong support for the hypothesis, "as occurrence of economic and political fluctuations increases, fluctuations in production also increase." The most dramatic decrease occurred with tractors, where the rate went from 42.6% in 1973 to -28.0% in 1974. The motorcycle and motor-bike production also had a significant decline (from 85.6% to 13.2%) as did trucks (from 35.2% to -10.9%). The strongest vehicle during this period was the pick-up, which in spite of the political and economic difficulties still put up some impressive numbers (49.0% in 1973; 33.3% in 1974).

In 1975, all of the automotive divisions fared better than in 1974, except for automobiles, which went from 27.8% to 12.3%, and motorcycle and motorbikes, which fell from 13.2% to -9.2%. The highest recovery rate belonged to buses (-10.7% in 1974; 35.6% in 1975), although tractors (-28.0% to 16.4%) and trucks (-10.9% to 29.2%) also recovered nicely.

Generally speaking, the immediate results of the Cyprus intervention appear to have had more of an impact on automotive production then did the longer lasting embargo by the United States.

Examining the oil crisis period which peaked in 1979, it appears that the automotive industry was more affected during the previous year than it was at the peak. In 1978 all of the automotive production vehicles had extremely low rates. In fact, the -74.1% rate for tractors is the greatest decrease in production for all of the vehicles during the entire 1968-1992 period. Pick-ups (-44.9%), trucks (-41.4%), and minibuses (-40.7%) were also greatly affected. Buses actually did even worse, as their production is not even recorded on the state statistics, the only time that takes place from 1971 to 1992.

The year that the oil crisis peaked was also a time of political instability in the country. In spite of this, 1979's rates of production were an improvement, except for automobiles which declined from -7.3% to -19.0%). A turn around occurred among tractors, from -74.1% to 57.1%, but the 12,860 tractors built in 1979 were considerably less than the 39,357 that were manufactured in 1976. Minibuses (29.3%) and pick-ups (26.1%) had modest gains. The surprising statistic comes from the motorcycle and motorbike section, whose -17.4% rate in 1978 was -11.4% in 1979. Apparently the fact that motorcycles use the least amount of petrol among all the vehicles listed did not produce a greater demand among the public.

The 1980 statistics also lend support to the hypothesis, as this time of social and political upheaval had a negative effect on the automotive industry. The production of buses increased from the previous year (57.8%) but this probably was more influenced by the apparent manufacturer inactivity than it did on actual recovery. The other vehicles all had negative rates, the largest being minibuses (-52.6%), trucks (-37.0%) and automobiles (-33.4%). The first year after the coup showed a general improvement in the industry, albeit modest. Minibuses had the greatest improvement (-52.6% in 1980; 22.6% in 1981) although tractors had the largest overall growth rate (76.9%). The production of buses increased even though the rate (16.4%) was much lower than in 1980 (57.8%).

The last crisis year that will be examined will be the 1989 economic stagnation. All of the percentages in 1988 and 1989 are either negative or very minimal. Tractors were the hardest hit, with a -37.4% growth rate in 1989. What is interesting is the recovery which took place in 1990, supporting the inverse hypothesis, "as occurrence of economic and political fluctuations decreases, fluctuations in production also decrease." In 1990, the production rates of buses (78.6%), minibuses (60.1%), tractors (56.8%), trucks (44.0%), automobiles (40.8%), and pick-ups (38.7%) were significant, with only motorcycles and motor-bikes (-8.0%) not following this trend.

In summary, it can be said that examining periods of economic and political fluctuations among the automotive industry has supported both the normal hypothesis and its inverse, while not supporting the null hypothesis, which states that there is no relationship between these factors.

There are several reasons which explain why an economic and/or political crisis on the macro, or national, level would influence the rate of production in the automotive industry. The most basic explanation is that an economic crisis is, by definition, accompanied by a shortage of available spending capital. Even the rich tend to be frugal when the length or exact nature of a period of economic downswing is unknown. The less people are unable or unwilling to spend, the lower the demand for large purchase items, like in the automotive sector, will become. A lower demand will naturally result in a lower production rate.

A political crisis breeds an atmosphere of uncertainty. This, in turn, encourages the consumer to take a more conservative attitude in his/her spending habits. Another outcome of political fluctuations is that they can easily affect the amount of subsidies which the state provides to the automotive industry. This can limit some of the incentives which the government would usually provide the MNCs under normal circumstances. Farmers can, on a more micro level, also be directly affected by the government's lack of assistance, which would lead to a decrease in tractor sales. Similarly, municipalities would be less inclined to purchase new trucks or buses, for public use, if there is a lack of available capital or uncertainty in the political arena.

These are some of the reasons why economic and political fluctuations have tended to affect the automotive industry in Turkey, which is organized mainly by MNCs. The periods of economic and political downswing have been shown to negatively affect the rate of production in the automotive sector. However, an increase in automotive production has, likewise, been achieved in the periods of stability which have followed these crises.

CHAPTER V: CONCLUSION

Multinational corporations are present all around the world. It is easy to predict that their dominance on the global economic stage will continue in the future. For many decades, earning money through extending trade has been one of the factors determining the growth of MNCs. There have been many ways of doing business through the centuries. The seeds of trade were sown in port cities of the Mediterrenean Sea. Merchants exchanged goods in these cities, as their culture and life-styles were also shared in the process. Finding more efficient transportation and technological innovations opened new opportunities to early mechants, while giving them greater capabilities to expand their businesses.

The Industrial Revolution changed production methods as mass production began. As the population increased, a demand for manufactured goods also increased. The mobilization of goods and capital created new ways to make investments. With the Industrial Revolution, the old system of merchant capitalism gave way to industrial capitalism.

After World War II, the trend towards global homogenization of general commodities began. Additionally, advanced forms of communication and transportation helped produce universal-type norms. American corporations took the lead in making the first transboundary investments in other countries. Of course, World War II had much to do with this endeavor, as the ruined economies and industries of the mainly European countries were not able to recover by themselves. The very first examples of American MNCs set a precedence for their European and Japanese counterparts.

To be considered an MNC, a firm must have subsidiaries operating in at least two countries, regardless of whether they are privately or publicly owned, large or small. They possess varying degrees of production facilities, differing in technical and managerial structures. In the modern world economy, MNCs play the role of producers, traders and innovators on a global scale in each area of the production and service industries. MNCs are many in kind: individual free entrepreneur, government procurement, industrial sector, and military. However, they all function for the purpose of extending national economies and increasing their growth. At the same time, their effects on the host country are immense, as they usually employ hundreds of employees, while bringing technology to produce the same products that they manufacture at home. In return, manufacturing in other nations provides MNCs with many advantages: paying lower taxes, finding cheap labor, and the use of extensive and cheap raw materials.

The history of modern MNCs goes back to the former colonial companies, which set the model for future MNCs. This history can be studied in two periods: old multinationalism, beginning from the late nineteenth century until 1960, and new multinationalism, from the 1960s to the present time. Old multinationals were mainly resource based, while new multinationals have been based on technology. The global reach of MNCs has expanded at great speed. Even the former communist East European countries and the nations resulting from the former Soviet Union have welcomed investment by MNCs, while applying open economic policies to strengthen their economies on a global level. Naturally, accepting foreign direct investment impacts the politics, economics and technological developments of host countries.

Many theoretical frameworks exist regarding MNCs. The liberal theory mainly supports MNCs and believes that further economic growth and peace can be achieved through MNCs. The product life cycle theory and the vertical integration theory apply to the periods of old and new multinationalism, respectively. On the other hand, the Marxist theory claims that MNCs are a real threat to the integrity and independence of the nation-state and so oppose their presence in, especially, developing countries. The liberal theory's principles come the closest to describing the basic theoretical position of the Republic of Turkey.

Similar to other nations around the world, Turkey has experienced its share of economic and political fluctuations. The Great Depression resulted in a movement away from the free enterprise system to a more protectionist position through state intervention in economic matters. After the limited economic activities of World War II, Turkey took advantage of the Marshall Plan and the foreign direct investment that it offered. A military takeover in 1960 created a more centrally-organized government, as the State Planning Organization, with its successive five year plans, was established. The 1970s were a period of great political and economic instability: a military intervention occured in 1971, the Cyprus intervention in 1974- which resulted in an American embargo, economic woes were subsequently worsened by the 1979 oil crisis, and political unrest eventually led to the 1980 military takeover.

With the election of Turgut Özal as prime minister in 1983, Turkey's economy came to life and began to pursue a more liberal economy and free market system. Turkey made great advances in its development during the 1980s, although stagnation occured in 1989. The period of the nineties has continued to be a battle between economic growth and stagnation, or even stagflation. There is hope, at the current time, that the proposed agreement with the European Union for a Customs Union will positively affect Turkey's economic, and even political, position.

The history of the Turkish automotive industry began in 1966 with the manufacturing of a car by Anadol. In 1971, two major partnerships between Turkish companies and representatives of large MNCs produced their first cars: Tofas-Fiat (Italy) and Oyak-Renault (France). General Motors began production in 1991, while Toyota, Honda, Hyundai and Kia are all in various stages of entering Turkey as automotive MNCs.

The study of the automotive industry in Turkey supported the following hypothesis: as occurrence of economic and political fluctuations increases, fluctuations in production also increase. Statistics from the State Institute of Statistics on automotive production and rate of change in seven automotive sectors (truck, pick-up, minibus, automobile, bus, tractor, motorcycle and motor-bike) from 1971 to 1992 were examined. It was shown that there is a tendency for the rate of change in production to be negatively affected during those years of economic and/or political instability. Many of the sectors' rate of production was less during the year of crisis than it had been during the year prior to the fluctuation.

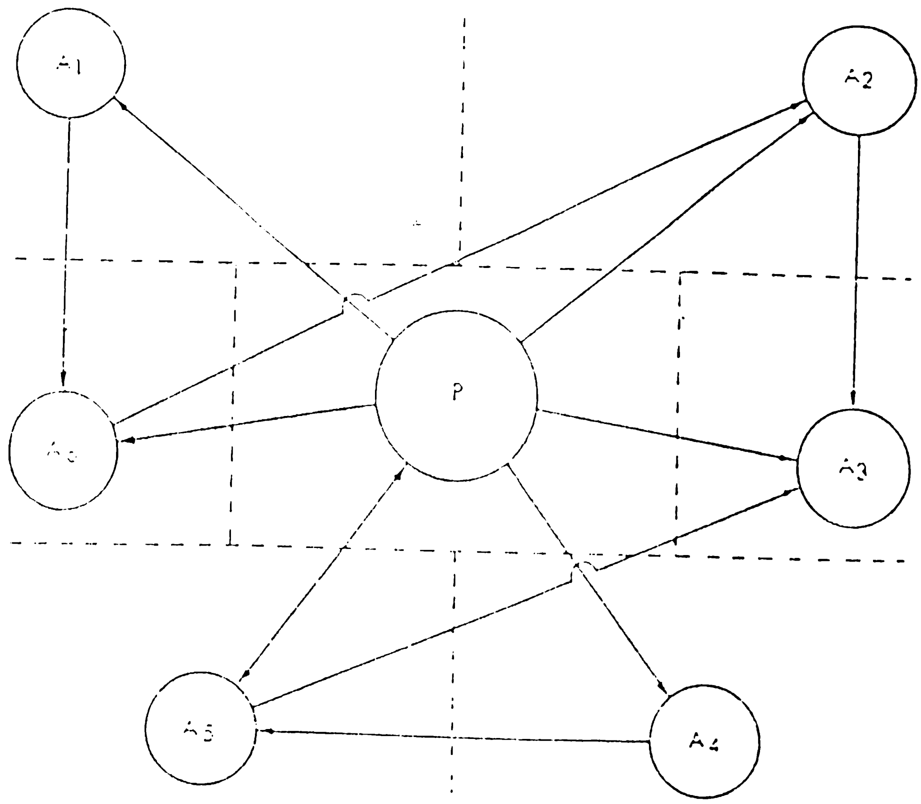
The inverse hypothesis: as occurrence of economic and political fluctuations decreases, fluctuations in production also decrease, was also supported by the study. There was a very significant statistical increase in the rate of production in the years directly following any specific crisis. On the other hand, the null hypothesis: economic and political fluctuations have no effect on production, found limited support, which could be explained through the intervention of intervening variables. It was also noted that other factors, besides fluctuations, can also help explain the correlation between these variables. However, there is little question that the basic connection between stability and production rate is present in the Turkish automobile industry.

It is not incorrect to consider Turkey a developing country. One of the general qualities of this group of nations is their propensity to undergo periods of economic and political instability. There is, then, reason to contend that the basic findings of this study can also be applied to other developing countries' relationship with MNCs present in their own economies. Since developed nations are usually able to cope more successfully with economic and political fluctuations, it is difficult to presume that the findings of this study can automatically be applied to more developed countries. Similar research in a developed nation is needed before any such conclusion would be warranted.

The Turkish automotive industry has had more than its share of economic and political disturbances during the first quarter of a century of its existence. In many ways, it would not be an exaggeration to say that it has successfully weathered the storm during difficult periods, while taking advantage of the subsequent times of recovery. The future of the industry looks bright, as more and more large MNCs are seeking to enter this sizeable market. Still, it remains to be seen what effects a Customs Union will have on the industry in the years that lie ahead. If history is any indication of the future, there is reason to believe that it will be able to overcome that challenge, as well.

APPENDICES

Appendix A: The Multinational Enterprise System



Source: Franklin Root, International Trade and Investment, p.584

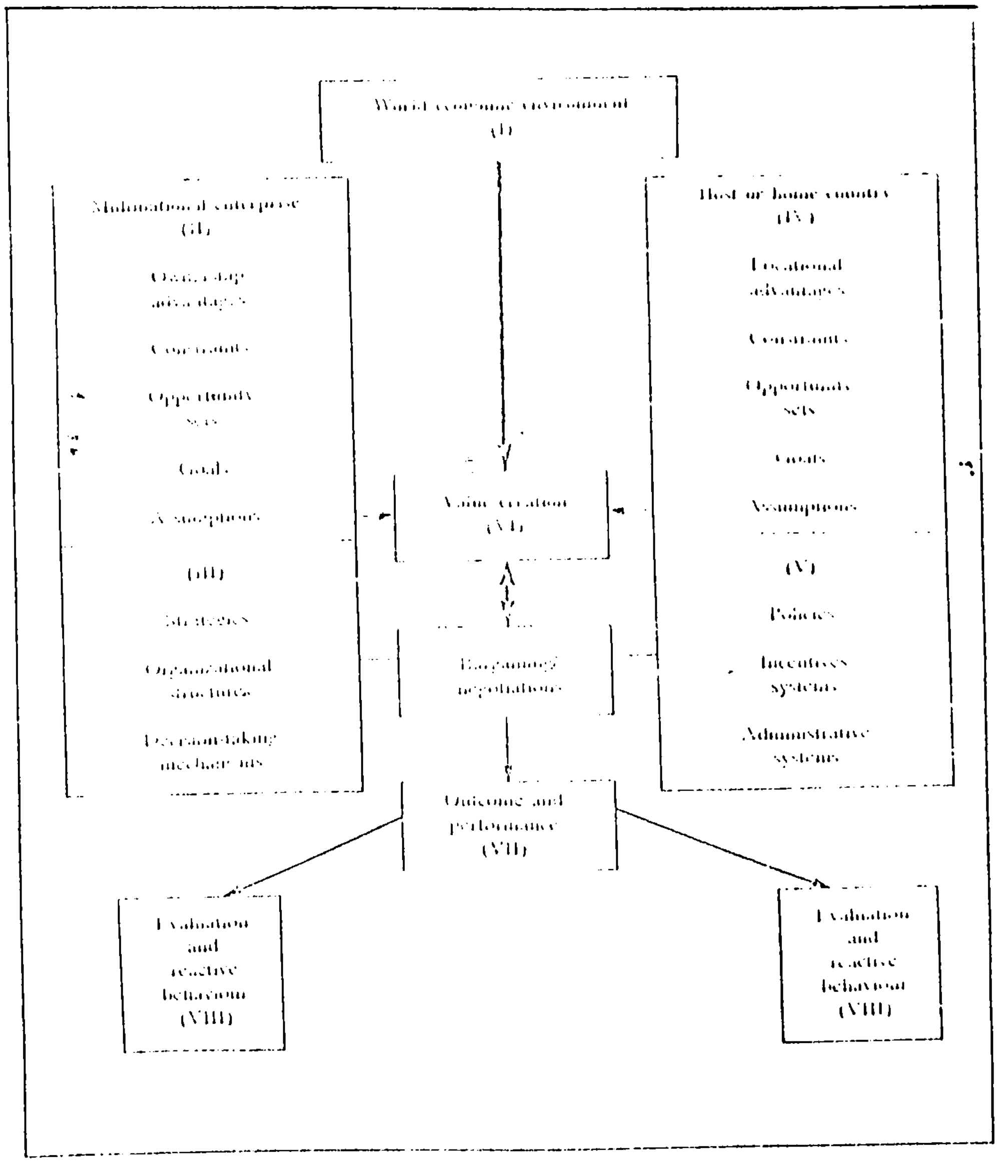
Appendix B: **The World's Largest Corporations**

THE WORLD'S LARGEST CORPORATIONS

Mitsubishi	Japan	175,835.6	218.7	109,256.0	11,764.8	36,000
Mitsui	Japan	171,490.5	263.8	82,461.8	6,532.4	80,000
Itochu	Japan	167,824.7	81.6	74,062.9	5,138.5	7,345
Sumitomo	Japan	162,475.9	71.2	58,973.6	8,074.8	22,000
General Motors	U.S.	154,951.2	4,900.6	198,598.7	12,823.8	692,800
Marubeni	Japan	150,187.4	104.4	78,602.8	5,512.0	9,911
Ford Motor	U.S.	128,439.0	5,308.0	219,354.0	21,659.0	337,778
Exxon	U.S.	101,459.0	5,100.0	87,862.0	37,415.0	86,000
Nissho Iwai	Japan	100,875.5	52.7	56,412.6	2,804.2	17,008
Royal Dutch/Shell Group	Brit./Neth.	94,881.3	6,235.6	108,300.0	56,375.2	106,000
Toyota Motor	Japan	88,158.6	1,184.6	98,037.1	49,028.1	110,534
Wal-Mart Stores	U.S.	83,412.4	2,681.0	32,819.0	12,726.0	600,000
Hitachi	Japan	76,430.7	1,146.7	105,257.5	34,526.6	331,673
Nippon Life Insurance	Japan	75,350.4	2,682.1	422,350.8	3,125.5	90,132
AT&T	U.S.	75,094.0	4,676.0	79,262.0	17,921.0	304,500
Nippon Telegraph & Telephone	Japan	70,843.6	767.9	146,776.9	49,759.5	194,700
Matsushita Electric Industrial	Japan	69,946.7	911.0	94,440.7	37,481.0	265,397
Tomen	Japan	69,901.5	10.2	27,014.1	1,317.0	3,192*
General Electric	U.S.	64,687.0	4,726.0	194,484.0	26,387.0	221,000
Daimler-Benz	Germany	64,168.6	649.9	66,365.3	12,971.9	330,551
International Business Machines	U.S.	64,052.0	3,021.0	81,091.0	23,413.0	243,039
Mobil	U.S.	59,621.0	1,079.0	41,542.0	17,146.0	58,500
Nissan Motor	Japan	58,731.8	(1,671.7)	82,820.0	16,454.4	145,582
Nichimen	Japan	56,202.6	35.7	24,035.4	1,695.1	2,531*
Kanematsu	Japan	55,856.1	(153.0)	19,430.5	943.1	8,411
Dai-Ichi Mutual Life Insurance	Japan	54,900.1	1,823.1	293,470.4	2,101.5	71,797
Sears Roebuck	U.S.	54,825.0	1,454.0	91,896.0	10,801.0	360,000
Philip Morris	U.S.	53,776.0	4,725.0	52,649.0	12,786.0	165,000
Chrysler	U.S.	52,224.0	3,713.0	49,539.0	10,694.0	121,000
Siemens	Germany	51,054.9	1,067.6	50,575.1	13,123.5	382,000
British Petroleum	Britain	50,736.9	2,416.1	48,659.4	17,320.8	60,000
Tokyo Electric Power	Japan	50,359.4	870.8	157,057.4	17,232.3	43,115
U.S. Postal Service	U.S.	49,383.4	(913.6)	46,415.6	(5,961.5)	728,944
Volkswagen	Germany	49,350.1	91.9	52,122.1	7,050.7	242,318
Sumitomo Life Insurance	Japan	49,063.3	2,041.2	259,372.3	2,416.2	70,911
Toshiba	Japan	48,228.4	413.3	62,904.5	12,882.1	190,000
Unilever	Brit./Neth.	45,451.2	2,380.5	28,438.2	8,354.1	304,000
IRI	Italy	45,380.5	(1,065.9)	116,625.5	4,572.8	392,695
Nestlé	Switzerland	41,625.7	2,377.8	34,562.6	12,934.4	212,687
Deutsche Telekom	Germany	41,071.2	751.2	107,465.8	23,143.3	223,000
Fiat	Italy	40,851.4	627.3	59,127.6	12,218.2	248,810
Allianz Holding	Germany	40,415.2	593.8	152,724.5	7,720.3	69,859
Sony	Japan	40,101.1	(2,953.2)	48,631.7	11,604.0	138,000
Veba Group	Germany	40,071.5	621.9	38,628.5	10,052.7	126,875
Honda Motor	Japan	39,927.2	619.4	34,700.2	11,715.2	92,800
Elf Aquitaine	France	39,459.1	(980.6)	48,915.7	14,308.5	89,500
State Farm Group	U.S.	38,850.1	(214.3)	76,670.0	21,164.9	68,353
NEC	Japan	37,945.9	355.5	47,798.7	9,104.8	151,069
Prudential Ins. Co. of America	U.S.	36,945.7	(1,175.0)	211,902.0	9,484.0	99,000
Österreichische Post	Austria	[illegible]	[illegible]	126,322.0	26,399.9	56,981

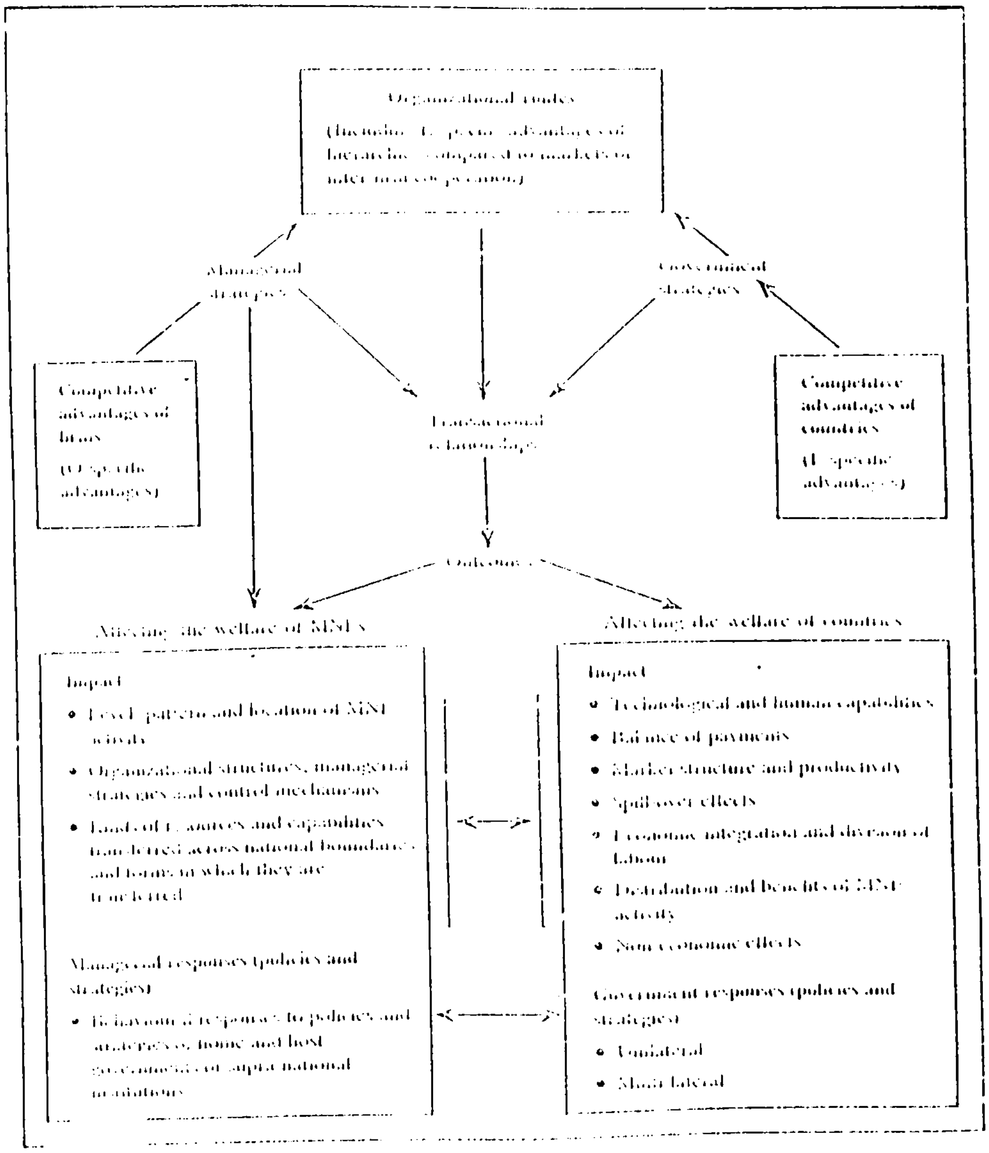
Source: Fortune, August 1995.

Appendix C: **Schema for Analyzing the Role of MNEs in the Global Economy**



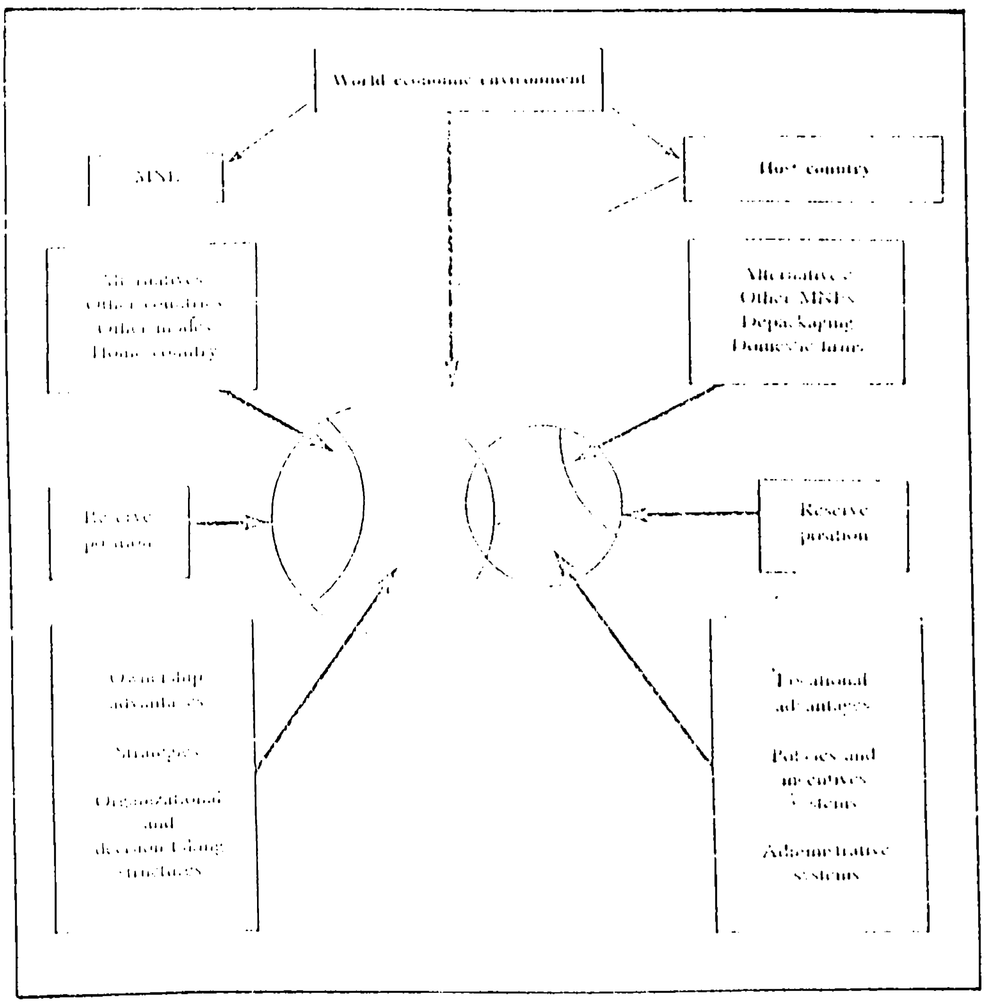
Source: Robert Grosse-Duane Kujawa, International Business, 1988.

Appendix D: The MNE-Home/Host Country Relationship



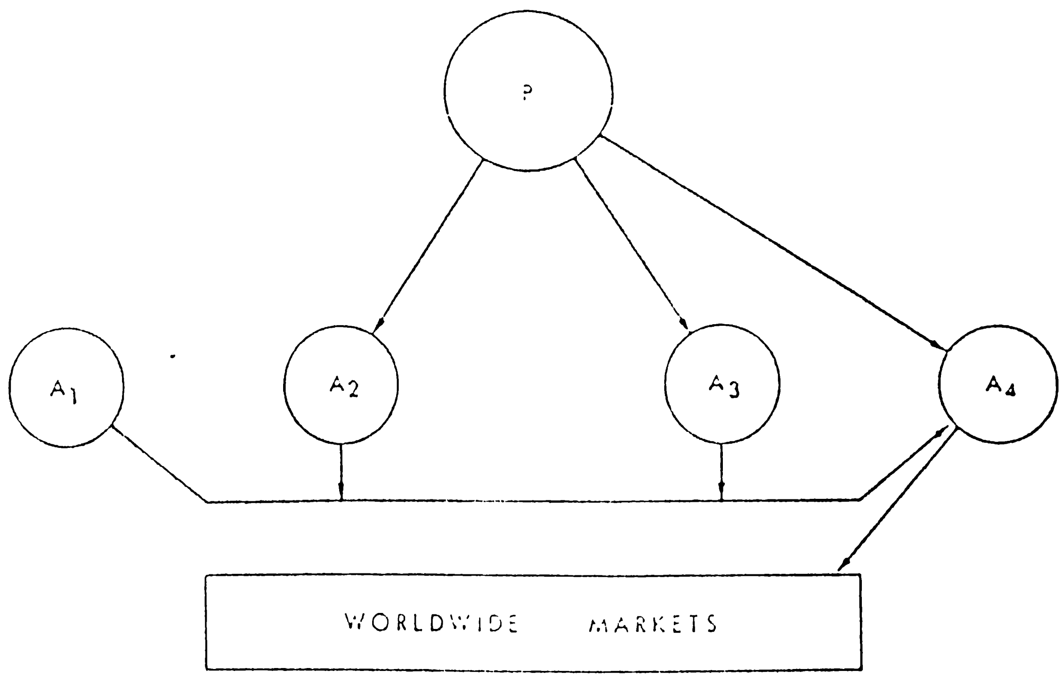
Source: Robert Grosse-Duane Kujawa, International Business,1988.

Appendix E: MNEs and Host Countries-A Bargaining Framework



Source: Robert Grosse-Duane Kujawa, International Business,1988.

Appendix F: Product Transfers within the Multinational Enterprise System: Vertical Integration



Source: Franklin Root, International Trade and Investment, p.589.

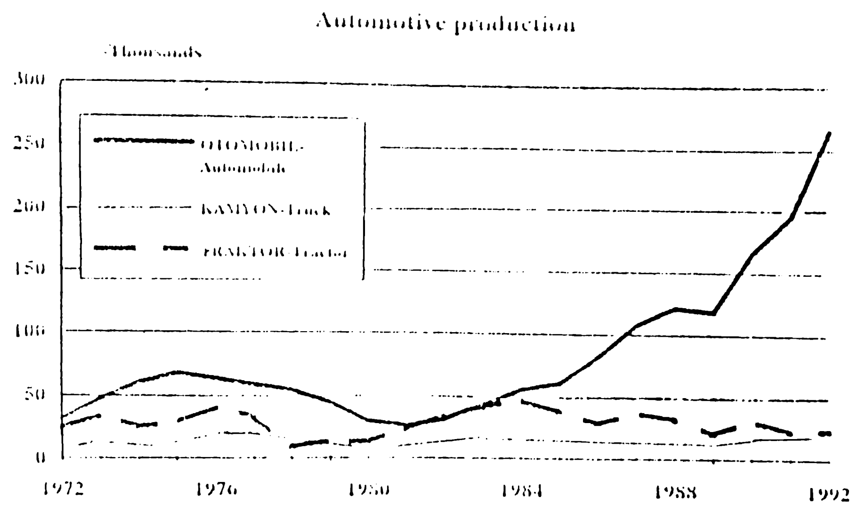
Appendix G: Automotive Production

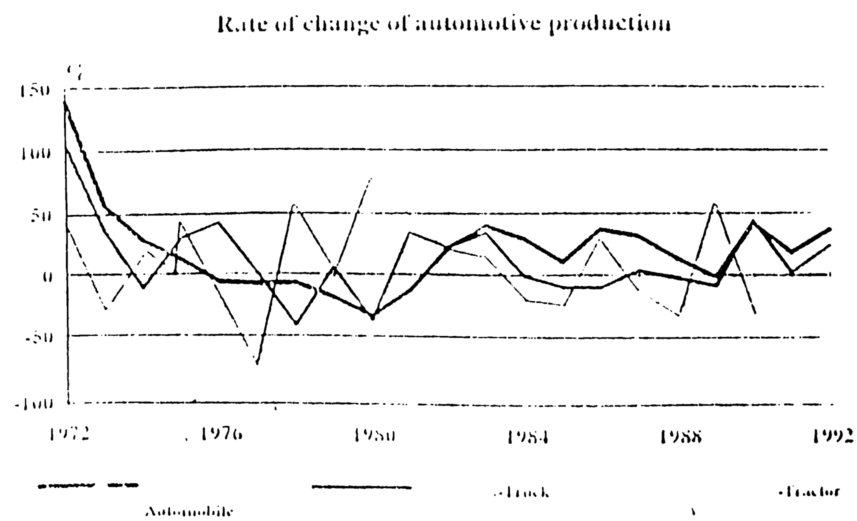
A. Unit B. Rate of change

Year	Truck A	Truck B	Pick-up A	Pick-up B	Minibus A	Minibus B	Automobile A	Automobile B	Bus A	Bus B	Tractor A	Tractor B	Motorcycle and motor-bike A	Motorcycle and motor-bike B
1968	9 543	-	3 028		-	-	-	-	525	-	15 166	-	-	-
1969	11 436	19.8	4 322	42.7	1 550				850	61.9	13 395	-11.7	11 925	-
1970	6 434	-43.7	4 577	5.9					805	-5.3	7 709	-42.4	13 994	17.4
1971	4 256	-33.8	4 530	-1.0	1 656		12 553		802	-0.4	15 693	103.6	14 913	6.6
1972	8 733	105.1	5 770	27.4	3 944	109.1	29 982	138.8	1 052	31.2	22 993	46.5	11 352	-23.9
1973	11 810	35.2	8 596	49.0	4 432	12.4	46 855	56.3	1 247	18.5	32 797	42.6	21 067	85.6
1974	10 521	-10.9	11 461	33.3	4 574	3.2	59 889	27.8	1 114	-10.7	23 624	-28.0	23 841	13.2
1975	13 590	29.2	16 863	47.1	5 861	28.1	67 278	12.3	1 521	35.6	27 497	16.4	21 641	-9.2
1976	19 209	41.3	20 180	19.7	5 479	-6.5	63 204	-6.1	2 147	42.1	39 357	43.1	28 654	32.4
1977	19 487	1.4	12 972	-35.7	6 515	18.9	58 252	-7.8	1 081	-49.7	31 658	-19.6	35 992	25.6
1978	11 413	-41.4	7 151	-44.9	3 863	-40.7	53 983	-7.3		-	8 164	-74.1	29 732	-17.4
1979	12 031	5.4	9 019	26.1	4 994	29.3	43 745	-19.0	935	-	12 660	57.1	26 350	-11.4
1980	7 584	-37.0	7 819	-13.3	2 365	-52.6	29 114	-33.4	1 475	57.8	12 426	-3.4	20 354	-22.8
1981	10 095	33.1	5 568	-28.8	2 900	22.6	25 302	-13.1	1 717	16.4	21 982	76.9	17 962	-11.8
1982	12 240	21.2	4 206	-24.5	7 527	159.6	30 651	21.1	1 813	5.6	34 136	55.3	32 292	79.8
1983	16 285	33.0	7 050	67.6	6 800	-9.7	42 607	39.0	3 073	69.5	40 300	18.1	18 169	-43.7
1984	15 987	-1.8	7 230	2.6	9 064	33.3	54 779	28.6	3 061	-0.4	45 946	14.0	45 275	148.9
1985	14 351	-10.2	10 674	47.6	9 752	7.6	60 360	10.2	1 703	-44.4	36 956	-19.6	63 256	39.7
1986	12 821	-10.7	6 713	-37.1	7 769	-20.3	82 032	35.9	3 104	82.3	27 867	-24.6	68 375	8.1
1987	13 182	2.8	7 580	12.9	9 406	21.8	107 165	30.7	1 137	-63.4	35 995	29.2	42 247	-38.2
1988	12 766	-3.2	7 282	-3.9	7 868	-16.5	120 796	12.7	1 042	-8.4	31 327	-13.0	47 054	11.4
1989	11 581	-9.3	7 464	2.5	7 915	0.6	118 095	-2.2	951	-10.7	19 602	-37.4	37 493	-20.3
1990	16 679	44.0	10 355	38.7	12 668	60.1	166 222	40.8	1 663	76.6	30 739	56.8	34 500	-8.0
1991	16 906	1.4	13 061	26.1	14 567	15.0	195 599	17.7	1 017	-38.8	21 964	-28.5	57 700	67.2
1992	20 743	22.7	16 452	26.0	17 883	22.8	265 0[illegible]	35.5	1 419	39.5	23 012	4.8	65 067	12.8

Source: State Statistics Institute.

Appendix II: Automotive Production-Rate of Change for Automobiles, Trucks and Tractors





Source: State Statistics Institute.

NOTES

CHAPTER II: THE GENERAL OUTLOOK OF MULTINATIONAL CORPORATIONS

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