MULTINATIONAL ENTERPRISES IN TOURISM: A CASE STUDY OF TURKEY

by

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DEDICATION

Dedicated to my girlfriend, Ewa BOROWSKA, whose support and encouragement throughout the thesis have been unique.

ABSTRACT

The purpose of this study is to examine the significance of tourism multinationals - hotels, tour operators and airlines - as an external force on the development and sustainability of an international tourism industry in developing countries, and as applied to the case of Turkey.

Two preconceived hypotheses are put forward for the investigation. First, significant international tourism development in developing countries is accompanied, *sine qua non*, by tourism multinationals' involvement, co-operation and willingness. Second, in order to take advantage of the role of tourism multinationals and the benefits they provide, and to balance the conflicting interests of host nations with those of tourism multinationals, developing countries, being a more dependent party, need to:

(a) provide a stable and hospitable investment environment for foreign investors in tourism;

(b) design and implement policies regarding tourism multinationals in line with general and tourism development objectives;

(c) co-operate, be flexible and be reconciled with tourism multinationals;

(d) persuade tourism multinationals through negotiations and concessions to share the benefits of tourism development.

To test the hypotheses, both theoretical discussions and empirical field research are used. The theoretical part concentrates on previous literature concerning the relations between international tourism and development; multinational enterprises and development; and tourism multinationals and international tourism development in developing countries. Empirical field research looks at the experience of Turkey with tourism multinationals in terms of their role, impacts and significance on tourism development.

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PART ONE: INTRODUCTION TO THE STUDY

CHAPTER 1
INTRODUCTION

Research Problem

As many developing countries adopt tourism as a development strategy, it is important to know what forces and factors are at play in the development and sustenance of an international tourism industry in Third World Countries. Understanding the role and impacts of such forces and factors help establish a successful and stable tourism industry. In general, tourist flows to developing countries from developed countries can be said to be a function of three main interacting factors:

(1) conditions for, and nature of, tourism demand itself in tourist generating countries;

(2) intermediaries or the travel trade which tend to be multinational enterprises (tour operators, airlines and hotel chains) from tourist generating (developed) countries;

(3) the strengths and weaknesses of host country (competitiveness and suitability) as a tourist destination in relation to tourism demand both in the international and regional context.

These three factors operate in, and are affected by, their respective macro and micro environments, that is, economic, socio-cultural, demographic, technological, political, etc.

This research puts tourism multinationals at the centre stage of the three forces and examines their role, impacts and significance both on tourism demand for, and tourism development in, Third World Countries. In other words, it looks at the external, international aspect of tourist development in developing countries. The importance of tourism multinationals lies in the fact that they play the intermediary role between tourists (consumer market) and destinations (suppliers' market) because of the structure of international tourism. They provide expertise, finance and market connections for Third World tourism development while informing potential tourists on destinations, assure them of security and service quality, co-ordinate travel services and influence tourists' choice of destination. In brief, tourism multinationals in main tourist generating countries match acceptable destinations (acceptable to both potential tourists and their own interests) with tourism demand. Moreover, they have a very important role in making a destination acceptable (by providing finance, expertise and market connections) and manipulating and directing tourist demand in line with their own interest.

Although the role and impacts of tourism multinationals have been recognised as an important external force in tourism development in developing countries (Ascher, 1985; Dieke, 1988, 1989; I.U.O.T.O (International Union Of Official Travel Organisations), 1975; U.N.C.T.N.C (United Nations' Centre On Transnational Corporations), 1982; W.T.O (World Tourism Organisation, 1985), these studies suffer from a number of defects. These shortcomings are:

(1) these studies have been theoretical, descriptive or speculative rather than empirical;

(2) these researches are too general; country specific case studies are absent, with the exception of Britton (1982a, 1982b);

(3) being too general, most recommended policies with respect to the issue of tourism multinationals are not relevant to many developing countries.

Statement of Purpose

In the light of the research needs noted above, the study has the following objectives:

(1) to examine the significance of tourism multinationals, as an external force, on the development and sustenance of an international tourism industry in developing countries. Answers are sought to three questions regarding tourism multinationals and tourism development in L.D.Cs (Less Developed Countries): (a) what role do tourism multinationals play in the development and continuation of a tourism industry in L.D.Cs? (b) what impacts do they have on host developing countries? (c) how important are they for a successful tourism industry?

(2) to relate the broader issue above to the experience of Turkey;

(3) to assess policy implications arising from tourism multinationals' involvement in Turkish tourism.

Turkey is chosen for the case study because of three reasons. First, Turkey has experienced a rapid growth in international tourism since 1980. The author preconceived that the role of tourism multinationals must have been very significant in such rapid tourism development and their impacts and significance on Turkish tourism must be worthy of investigation. Second, it was thought that the familiarity of the author with the country would be helpful during the field research. Third, it was assumed that the investigation would help policy makers in Turkey to improve decision making with respect to tourism multinationals.

Significance of the Research

Analysing the involvement, role and impacts of tourism multinationals in a developing country like Turkey, should be useful in a number of ways. First, a situational analysis of the involvement of tourism multinationals and their effects on Turkish tourism could help Turkish tourism planners and policy makers to see the important issues clearly and improve decision making on the matter. Second, the background of Turkey and its experience with tourism multinationals would assist planners and policy makers in other developing countries in dealing with the same issue. Finally, the assessment of advantages and disadvantages of tourism multinationals in tourism development may lead the present author to suggest alternative policies and course of action in the case of Turkey, which may be applicable in other countries.

Hypotheses

(1) It is unrealistic to develop and maintain a viable and substantial international tourist industry in Third World countries without tourism multinationals' involvement, co-operation and willingness. This is because of the structure and organisation of international tourism, economic interests of generating countries combined with economic, technological and managerial resources of tourism multinationals *vis-à-vis* developing countries. So, *significant* international tourist development in developing countries is accompanied, *sine qua non*, with tourism multinationals' involvement, co-operation and willingness.

(2) In order to take advantage of the inescapable role of tourism multinationals and the

benefits they provide, and to balance the conflicting interests of host nations with those of tourism multinationals, developing countries, being a more dependent party, need to:

(a) provide a stable and hospitable investment environment for foreign investors in tourism;

(b) design and implement policies regarding tourism multinationals in line with general and tourism development objectives;

(c) co-operate, be flexible and reconcile interests with tourism multinationals;

(d) persuade tourism multinationals through negotiations, concessions and sharing of the benefits to support development policies.

Research Methods

To test the hypotheses, both theoretical discussions and empirical field study were employed during the research.

Theoretical Discussions

The theoretical part consisted of desk research to acquire general knowledge on (a) tourism and development issues in developing countries, (b) multinationals and development issues in developing countries and (c) tourism multinationals and their role and impacts on tourism development in developing countries. Previous literature on the above subjects, relevant textbooks, journals, unpublished theses have been consulted for this part. Although the first part is called theoretical, it is based on theories or hypotheses as well as previous observations and literature, empirical investigations, and constructs logical arguments.

Empirical Investigation

Empirical field research was an attempt to find out the part played by tourism multinationals in the development of international tourism, their effects and importance in the context of Turkish tourism. Documented government sources, questionnaires and personal interviews were used as techniques of data collection for the emprical part.

Documented Sources

The State Planning Organisation, Ministry of Tourism, and Ministry of Transport were contacted for information regarding:

(a) various information on the tourism development process in Turkey;

(b) public policies and institutions involved in the management of tourism;

(d) problems of the Turkish tourism development;

(e) investment incentives for foreign investors in tourism;

(f) the level and form of foreign investment in the accommodation sub-sector;

(g) present state of the Turkish airline industry;

(h) the share of foreign and Turkish carriers in incoming and outgoing travellers.

Questionnaires

Two mail questionnaires were designed for the study; one for the UK tour operators involved in the promotion of tourism to Turkey, another for that part of the accommodation sub-sector in Turkey with some foreign equity involvement. In the case of the first questionnaire, the aim was to learn:

(a) the types of tours, the promotion period and the portrayed tourism image of Turkey by the UK tour operators;

(b) the evaluation of Turkey as a tourist destination by the UK tour operators;

(c) the UK tour operators' importance for Turkish tourism in terms of tourist volume they handle;

(d) the degree of integration of the UK tour operators into airlines and hotels in Britain or Turkey.

Fifty-eight tour operators which "sold" Turkey as a tourist destination for the 1991/1992 season were identified from the 1991 Travel Trade Directory (Appendix A). First, a letter (Appendix B) requesting tour catalogues and brochures featuring Turkey as a tourist destination was sent to all of them. Thirty six (62%) tour operators responded positively. A content analysis of the brochures regarding types of tours to, and the tourism image of, Turkey is presented in chapter six. Second, a structured questionnaire (Appendix C) was sent to the same 36 tour operators which sent their brochures, along with a letter requesting co-operation (Appendix D). Due to low response rate, the questionnaire was sent for the second time to those who did not returned it. Overall 21 tour operators responded positively with a response rate of 58%. Discussions of the findings are provided in chapter six.

The second questionnaire, which is designed for the accommodation sub-sector with some foreign equity involvement in Turkey, was intended to find out:

(a) the reasons why foreign investors choose Turkey;

(b) the scale of accommodation, types of involvement and its explanation;

(c) the share of foreign accommodation in the Turkish tourist accommodation industry;

(d) if foreign owned accommodations are involved in training local employees;

(e) if foreign owned accommodations are integrated into airlines or tour operation in Turkey or abroad.

The addresses of 54 firms (Appendix E) which had wholly, majority or minority foreign equity involvement in the tourist accommodation industry of Turkey were obtained from the Ministry of Tourism. After that a structured questionnaire along with a letter (Appendix F) was sent to all of them. Despite another reminder letter (Appendix G), only 8 firms (15%) responded positively. Out of these 8 firms 7 answered that they could not help. In brief, this questionnaire in Turkey was a failure. Some information concerning the situation of foreign investment in the accommodation sub-sector is provided by the Ministry of Tourism and State Planning Organisation, which is presented in chapter six.

Interviews

Another data collection method was the personal interviews, based on a guided questionnaire (Appendix H). Interviewees included persons in State Panning Organisation and Ministry of Tourism in Turkey, who were responsible for foreign investment department in tourism in their respective organisations. The interviews were carried out to explore problem areas in relation to tourism multinationals and provide views and policies as to what could be done to offset and reduce the negative impacts and power of multinational airlines, hotels and tour operators while maximising their contribution to tourism and economic development in Turkey. Some of the opinions (qualitative data) of interviewees are incorporated into the study in policy suggestions section in chapter 7.

Limitations of the Study

There were mainly three limitations to the research. In the first place, the multinational associated accommodations in Turkey were not co-operative and did not respond to the questionnaire. It caused waste of time and effort. Limitation of time, finance and the fact that multinational associated hotels are scattered across the country prevented the researcher from visiting these establishments and conduct the questionnaire in person. Therefore it was not possible to acquire data regarding (a) the level of expatriates in multinational associated accommodation; (b) the contribution of multinational accommodations to training of locals; (c) tourism multinationals' integration with airlines or tour operators in Turkey or abroad. In the second place, it proved very difficult to obtain information on foreign investment in tourism both from the State Planning Organisation and Ministry of Tourism in Turkey despite five visits to each. The researcher was told that either the information was scattered in the archive and not ready or it could not be disclosed because of confidentiality. For example the contents of contractual agreements were not disclosed. Finally, the research has suffered from being too general. It was difficult to examine every aspect of international hotel chains, airlines and tour operators in detail as they affected international tourism in Turkey, e.g. manpower, balance of payments, integration with other sectors. However, the aim was to see tourism multinationals as a whole external force and in which ways it affected tourism, in broad terms, in Turkey.

Thesis Outline

The thesis is divided into three parts. Part 1, which consists of chapter 1, is a general introduction to the study dealing with the research problem, purpose of the study, significance of the research, hypotheses, research methods, and limitations of the study. This chapter ends with a broad outline of the entire thesis.

Part 2 of the thesis comprises chapters 2, 3 and 4. These chapters are based on previous theoretical discussions and empirical field researches.

Chapter 2 discusses issues involving the role of international tourism in the development process of developing countries. In this context, it looks at the main developmental problems of developing countries and the opportunities and problems international tourism presents, as a strategy in the development process. More specifically it discusses positive and negative economic, socio-cultural and environmental impacts of international tourism along with a number of features of tourism development in developing countries.

Chapter 3 introduces multinational enterprises (M.N.Es) and their effects on development, particularly in less developed countries in order to give a broad understanding of their involvement and impacts in the particular example of international tourism.

Chapter 4 examines the role and impacts of tourism multinationals: hotels (the accommodation industry), tour operators and airlines, on international tourism development in L.D.Cs. It provides a literature review of the subject and a synthesis regarding (a) the origin and development of each multinational tourism sector, (b) the role of each tourism multinational sector in the organisation of international tourism in developing countries; (c) various forms of involvement of tourism multinationals in developing countries; (d) benefits and disadvantages of tourism multinational's involvement in Third World tourism.

Part 3 contains chapter 5, 6 and 7 which deal with an empirical case study of international tourism development in Turkey, the role and importance of tourism multinationals in Turkish tourism and offers the main conclusions and suggestions of the research.

Chapter 5 has two main parts. The first part gives a general profile of Turkey: geography, climate, population and culture, political system and administration, and economic background. The second part looks at the various aspects of international tourism development in Turkey since the 1970s. It also investigates the public policies and institutions that have been coping with international tourism as well as urgent problems of tourism development in Turkey at present.

Chapter 6 is devoted to an analysis of the experience of Turkey with tourism multinationals, which is based on data generated during the field research in Turkey and the UK. This chapter seeks to explain the part played by tourism multinationals in the development of international tourism in Turkey, their effects and how important tourism multinationals are for Turkish tourism at present.

Finally, chapter 7 presents the main findings of the study. It also makes policy suggestions in order to take the advantages provided by tourism multinationals and reduce adverse effects as much as possible for a mutually satisfying relationship between Turkey and tourism multinationals. Active involvement and guidance of the Turkish government are advocated to promote and secure predominance of national ownership and control in sub-sectors of the tourism industry. This chapter ends with recommendations for further research on the same topic.

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PART 2: THEORETICAL FRAMEWORK

CHAPTER 2

TOURISM, DEVELOPMENT AND DEVELOPING COUNTRIES

Introduction

This chapter serves as an introduction to the issues involving the role of international tourism in the development process of developing countries. It starts off with elucidating such concepts as tourism, development and developing countries. After that, the basic developmental problems that Third World countries encounter are presented. Then, the chapter proceeds with an analysis of tourism as a development strategy in the context of developing countries. Finally, a number of features of Third World tourism are explored.

Defining Tourism

"Modern" tourism is a multi-faceted phenomenon of the second half of the twentieth century. There are heterogeneous but interrelated elements constituting it, and there are complex relationships between these elements. Broadly speaking, modern mass tourism is the result of developments and improvements that have taken place since the second World War in economic, technological, socio-cultural, psychological and political spheres of industrial societies. These changes, which turned out to be favourable for international social mobility, hence tourism, are combined with the innovative entrepreneurial undertakings and provision of tourist services and facilities both at national and international level.

In the simplest and abstract sense, tourism implies, whether by individual or large groups, a round trip for reasons other than earning remuneration directly and phenomena arising out of this journey and temporary stay of people out of their normal stay of residence and workplace. But, most of the time things are more complicated than they look. So is the case with tourism. The purposes of the trip, the distance to be travelled, the variety of activities undertaken during the trip, and the time-span between the beginning and end of the journey are some of the complexities that obscure the concrete meaning of tourism and need qualification.

Besides, what conditions make people take a circuitous journey, and how it impacts on the visitor, the visited and their broader economic, socio-cultural and physical environment are the themes in tourism but difficult to incorporate fully into a definition. For these reasons, definitions of tourism vary and are many and incomplete. Our task is to touch upon the various features of tourism. Reviewing the literature, Leiper (1979) identified three broad approaches to the definition of tourism: economic, technical and holistic. Economic definitions reveal the dualistic role of tourism in an economy, i.e. domestic and international dimensions. As an industry, composed of different sectors like transportation, accommodation, recreation facilities and related services, "tourism generates employment, national income, wealth and indirectly taxes". As an international trade, tourism

> "provides a means of gaining hard currency, of improving their government's national balance of trade, and of promoting the commercial standing and prestige of a country" (Travis, 1984:22).

In this respect, supply and demand sides of the industry, both at the national and international level, provide the framework for the analysis and their wider implications for political, economic and social structure. More specifically, on the demand side, economic, socio-cultural, and political elements of society and individual such as discretionary income, leisure time, travel motivations and socio-psychological and cultural structure are the tools of analysis. On the contrary, supply side consists of those firms, organisations, and facilities which are intended to serve the specific needs and wants of tourists in the light of demand side elements.

Technical definitions are the result of desire of such organisation as governments, international agencies and business enterprises to measure the magnitude of the industry and its place in a national economy and international trade. Technical definitions differentiate between domestic and international tourism. For the purpose of determining who the visitor, tourist or excursionist are, three components of travel, which is the prerequisite of tourism, are paramount: "purpose of trip", "trip distance" and "trip duration" (Smith, 1989). An analysis of technical definitions as to which trips count as tourism can be found in the study of W.T.O (1981) and Smith (1989).

Holistic definitions try to cover all elements and their interrelationships involved in tourism. One of the earliest definitions of this sort is this:

> "tourism is the sum of the phenomena and relationships arising from the travel and stay of non-residents in so far as they do not lead to permanent residence and are not connected with earning activity" (Burkart and Medlik, 1974:40 quoting Hunziker, 1942).

Many scholars are in support of this approach which adopts an interdisciplinary social science perspective to the study of tourism. For instance, Jafari (1977) argues that theories and concepts from affiliated fields such as anthropology, sociology, economics, geography, political science, ecology and urban studies should be adapted to tourism. To the list Leiper (1979) adds marketing, law, management and psychology. In line with a holistic approach, Jafari (1977:8) defines tourism as

> "a study of man away from his usual habitat, of the industry which responds to his needs, and of the impacts that both he and the industry have on the host socio-cultural, economic and physical environment".

To emphasise the multi-faceted nature of tourism, Jafari (1990:33) recently suggested that tourism means different things to different people.

> "To governments, tourism may mean sources of employment, economic activities, per capita expenditure, multiplier effects; to the industry sectors, it may suggest promotion, arrivals, length of stay, receipts; while to religious groups, it brings to mind pilgrimage, spiritual search, universal brotherhood, unacceptable forms of tourist practices. To anthropologists, tourism represents a domain of study which includes contacts between the host and the guest, culture change, commoditization of heritage, prudence. Finally to the host destinations, tourism means American tourists, Japanese tourists, inflation, intrusion; and to the tourists themselves, tourism offers escape from the daily routines, indulgence in leisure pursuits, rest and relaxation, education".

Another definition touches upon the broad issues: tourism is "commercialised hospitality", "democratised travel", "modern leisure activity", "an expression of basic cultural themes", "an acculturative process", "a type of ethnic relations", and finally "a form of neo-colonialism" (Cohen, 1984:374-376).

No definition is superior to one another. Each tries to pin-point complex issues involved. Throughout the study, tourism is considered, similar to the holistic approach, as a system defined by Leiper:

> "It is the system involving the discretionary travel and temporary stay of persons away from their usual place of residence for one or more nights, excepting tours made for the primary purpose of earning remuneration from points en route. The elements of the system are tourists, generating regions, transit routes, destination regions, and a tourist industry. These five elements are arranged in spatial and functional connections. Having the characteristics of an open system, the organisation of five elements operates within broader environments: physical, cultural, social, economic, political, technological with which it interacts" (1979:404).

One ambiguity, namely the content of the tourist industry, remains in the system. Here it is used in a broad sense as the "organisations, both public and private, that are involved in the development, production and marketing of products and services to serve the needs of tourists" (Gee et al, 1984: 12). Throughout the study in general, and in this section particularly, the emphasis is placed on international tourism; specifically one-way tourist flows from developed countries to developing countries and the entirety of relationships and ramifications stemming from it. Clearly, the nature of tourism demand from developed countries to developing countries, the way the travel industry is organised and impact assessments on host developing countries are central to the study. As this chapter seeks to link tourism to development issues, it is necessary to give a view of what development is about.

Meaning of Development

The concept of development has been used in different senses and there has been controversies about how it should be used, what its goals should be, what criteria and methods should be used to measure it and how it is best achieved. Despite this, there has been converging opinion on the subject recently.

When the interest in development economics was mounting world-wide in the 1950's and 1960's, apart from political clashes of the cold war, development was exclusively treated on economic terms. Development meant economic growth which is equated with a sustained growth rate in gross national product (G.N.P) and G.N.P per capita (Todaro, 1989); a trend which still persists today and is widely used in media and political platforms. However, both growth rate in G.N.P and G.N.P per capita have been subject to criticism as measures of welfare.

Growth rate in national income is criticised on the grounds that it failed to consider non-marketed (non-priced) production, so called underground economy (unrecorded production), and income distribution. It is also subject to national accounting deficiencies and manipulation (Hicks and Streeten, 1979). The composition of national income and how it is distributed is also underestimated. Similarly, the second yardstick of economic development, net national income per capita, gives no indication of income distribution, purchasing power (though purchasing power parities can be estimated), unemployment, quality of life and economic dualism (coexistence of rich and poor and persistence of the situation) in an economy.

These flaws and failures of developing nations to raise levels of living and remove absolute poverty, despite high rates of G.N.P growth in the 1950's and 1960's, led economists to look for alternative definitions of development in the 1970's and 1980's. It became apparent that during the passage from underdevelopment to development several interrelated processes go on simultaneously. Two more paradigms are added to the thinking on development: modernisation and basic needs approach.

Most analysts treat modernisation as a unique and thoroughgoing transformation of society involving changes in all subsystems: political, cultural, economic, religious and physiological. For instance, Myrdal (1968:57-59) identified modernisation ideals as "rationality", "development planning and economic growth", "social and economic equalisation", "improved institutions and attitudes", "rise of productivity", "rise of levels of living", "national consolidation", "national independence", "democracy at the grassroots" and "social discipline". Similarly, Goulet (1971:97) regards modernisation in a variety of ways:

> "as an economic phenomenon linked to industrialisation and achievement by an economy of the capacity to sustain growth in productivity and levels of per capita product; as a psychological reality modifying attitudes, behaviour and symbols; as a network of political changes by which allegiances are transferred from lesser units to a nation-state and political participatory acquiesce new scope and new forms. The basis for describing social change processes in this manner is the cumulative knowledge gained from empirical study of facts in the light of disciplined theoretical formulations".

In line with his modernisation ideals, Goulet proposed three core goals of development; "life sustenance", "esteem" and "freedom from servitude". Life sustenance refers to "all objects that satisfy man's basic requirements for food, shelter, healing, or survival which can be called life-sustaining goods" (1971:87). When basic needs are denied whether in developed or developing countries, it can be said that a condition of absolute underdevelopment exists. In this context, Todaro (1989) stresses the imperatives of economic development with rising per capita incomes, the elimination of absolute poverty, greater employment opportunities, and lessening income inequalities. The second core value for development is esteem. As Goulet put it

> "a second universal component of good life is esteem ..., every man's sense that he is a being of worth, that he is respected, that others are not using him as a tool to attain their purposes without regard for his own purposes. All men and all societies seek esteem, although they may call it identity, dignity, respect, honour, or recognition. Under present world conditions, poor societies with a profound sense of internal self esteem suffer in their contact with economically and technologically advanced societies because of the importance attached to material values in developed countries, esteem is nowadays increasingly conferred only on those who posses material wealth and technological power" (1971:89).

Goulet goes on to explain that development is desired not only because it meets basic needs and material wealth but also esteem. The third and final component of development according to Goulet is freedom. It is so broad a concept that some specification made by Goulet is needed:

> "Freedom is not to be understood in the political or ideological sense, but in the more fundamental sense of freedom or emancipation from alienating material conditions of life and from social servitude to nature, ignorance, other people, misery, institutions, and dogmatic beliefs. Freedom involves the expanded range of choices for societies and their members" (1971:90).

As to the basic needs approach, it seems to have originated from the need to alleviate the poverty and inequality in L.D.Cs, which have persisted despite the increases in G.N.P or G.N.P per capita. The advocates argue that the purpose of development is to provide everyone with the opportunity for a full life, and that meeting basic needs is an essential prerequisite for this and further economic growth (Seers, 1979; International Labour Office 1978). Among the basic needs that are considered common to all people are adequate nutrition, shelter, clothing, clean water, sanitation, health care, basic education and productive employment (Hunt, 1989). Others (Morris, 1979) suggested a physical quality of life indicator based on the three outputs: "life expectancy at age one", "infant mortality" and "literacy". Other variables such as daily nutrition intake per person, the rate of urbanisation, the share of industrial output in G.N.P, newspaper circulation, the number of television ownership, school enrolments etc. are considered to be important indicators of development. Thus, total development of a society came to be understood by the simultaneous interactions of economic, social, cultural, psychological, political and administrative variables with a focus on *poverty, distributional justice, quality of life and human development.*

It is clear from the discussion above that there are several dimensions of development. Although the core concern of development is clear enough its outer boundaries are difficult to establish. For this reason, we consider development as the improvements in several simultaneous and interrelated conditions and variables as they relate to material conditions, standards of living and quality of life in a society. Since the criteria for being a developed country are some conditions regarding social, economic, political variables prevailing in the present developed countries, development can be defined as *the process of attaining those conditions in developed countries*. However it is a contingent issue what variables, hence conditions to include for the measurement of development. For example, variables like G.D.P per capita, adult literacy rate, mean years of schooling, life expectancy at birth, daily calorie intake, population with access to health services, sanitation and safe water, daily newspaper circulation, etc. can be good indicators of development or underdevelopment. But non-conventional variables like drug addiction rate, crime rate, unemployment rate, divorce and single parent rates, suicide rate, mental disorders, rape and child abuse rates can tell much about the standard and quality of life.

Meaning and Classification of Developing Countries

Economic, socio-cultural and political factors divide the nation states of the World into different groups. One classification divides nation states of the World into two groups; developed countries (industrial, market economies, advanced capitalist countries, centre are used synonymously) and developing countries (also known as south, periphery, less developed countries, backward countries, which imply inferiority and backwardness economically, socially, culturally and politically). Another classification, which is becoming obsolete, is made up of the three worlds: the First World, the Second World and the Third World. The First World are developed countries including the countries of Western Europe, North America, Israel, Australia, New Zealand, Japan and the Republic of South Africa. The Second World used to be represented by the old Soviet Union and eastern Europe. The Third World forms the remaining countries of the World in Africa, Latin America, Caribbean, the Pacific and the Middle East. An alternative view of the three Worlds is proposed by Mao Tse Tung. According to him the First World consisted of the superpowers; the old Soviet Union and the USA, the second World included the allies of the superpowers - the remaining industrialised countries - the Third World was the remaining underdeveloped countries (Vogeler and Sousa, 1980).

Due to heterogeneity among 144 underdeveloped countries (Todaro, 1991) in terms of income per capita and levels of living, developing countries are subject to different classifications among themselves. According to U.N (United Nations) classification, developing countries fall into three groups; least developed countries (43 out of 144), non-oil exporting developing nations (88 out of 144), and petroleum rich countries (13 out of 144) (Todaro, 1991). O.E.C.D (Organisation of Economic Co-operation and Development) divides the Third World into four; low-income countries, middle income countries, newly industrialising countries and petroleum exporting countries. With a better use of politics of language, the World Bank makes a category of six (whether developed or developing): low income, lower middle income, upper middle income, high income oil exporters, industrial market economies and east European non-market economies. Another classification is the human development index of United Nations Development Programme (1990) which puts all countries into three groups: those with low, medium and high human development.

In this study, developing countries refer to the conventional use of the term excluding western Europe plus Canada, Japan, Australia, U.S.A, New Zealand, Israel, South Africa, and so called the Second World who used to be represented by eastern Europe and Commonwealth of Independent States. Also, developing countries, underdeveloped countries, Third World, less developed countries (L.D.Cs) are used interchangeably. What brings together these countries is the similarity of problems they need to overcome. Below is an overview of such problems almost all developing countries have to cope with.

Developmental Problems of Developing Countries

Despite the great diversity and unique position of developing countries in terms of size, resource endowment, colonial experience, industrialisation, the role of the private and public sectors, there are similar problems which are encountered in the development quest. Without going into detail, major obstacles to development will be reviewed below.

Narrow Resource Base

One of the most common explanations of underdevelopment is attributed to poor natural resources of the Third World. Obviously, an economy's output will depend significantly on the quantity and location of its soil, forests, fisheries, coal, iron, oil, water and all the other materials which can be processed by the technology for human needs. Rational allocation and efficient use of these resources are as important as the availability of the resources. However, the cases of Japan, Switzerland and newly industrialising countries, namely Taiwan, Hong Kong, Singapore, South Korea, run against this proposition. But, the fact remains that countries with large resource endowments should find development easier, with right policies and conditions, than those of poorly endowed (Lipsey, 1990).

Inadequate Human Resources

Educated human resource is another input of development that Third World countries often lack. Well developed, healthy, literate, motivated, skilled and specialised population can play a vital role as entrepreneurs, innovators, and production rationalisers in the development process. Many scholars believe that the quality of labour inputs and decision making is the single most important barrier to economic development since other factors of production - capital goods, technology and raw material - can be bought or borrowed (Samuelson and Nordhaus, 1989).

Capital Accumulation

Another important element of development is the capital accumulation. A country's capital is

> "its stock of produced or manmade means of production consisting of such items as buildings, factories, machinery, tools, equipment of and inventories of goods in stock" (Gill, 1973:14).

The problem of capital accumulation in L.D.Cs is related to the availability of natural resources and the knowledge and skills to process them. In a broad sense, capital also refers to financial capital and skilled, knowledgeable, innovative human resources. With respect to financial capital accumulation, the Third World countries face a "vicious circle"; a self-repeating and perpetuating process whereby low per capita incomes lead to circularly low levels of living, low savings, low investments and low productivity, what Myrdal (1957:11) called "circular and cumulative causation".

Financial transfers of multinational corporations operating in Third World countries are another source that inhibits financial capital accumulation. The existence of large multinational corporations in developing countries can also depress the capital accumulation process of local firms. As regards the loans and credits from advanced countries, there is not much optimism either. They are one way or another tied to imports (especially military equipment) from the donor country (Myrdal, 1973). So the money simply goes back. The next time borrowing is made to pay the previous debt servicing.

Sometimes the money is invested on imports for socially important projects like schools, hospitals, roads etc. Even if loans or credits are used on commercial projects, the receiving country needs developed country markets, which is protected, for "hard" currency in order to pay the interest. Human capital accumulation is not without its problems either. Low levels of living and increasing population lower the quality of education. Educational opportunities abroad prove to be expensive and require "hard" currency and language capabilities. After all, equal educational opportunity at the national level may be perceived by the ruling classes as adversary to their interests, which may inhibit human resource accumulation. The reasons behind such perceptions may be the extreme unequal distribution of resources, power, and unaccountability which the national elite enjoy and would want to keep.

Technological Progress

Although technological progress is within the scope of capital accumulation, its role in the development process is a crucial one. It is the single distinguishing characteristic of the modern age which is sometimes called information technology age. Although technology is equated with machines, it stems from the application of systematic knowledge (science) on nature and society. Technological progress introduces new methods of production, which was not possible previously, creates alternative energy sources, economises on labour, scarce resources and increases international comparative competitiveness. It also extends to administration, education, banking, law, etc. (Meier, 1989).

Obviously, accumulation of knowledge and technological creativity are linked to well-being and education of people. In this respect, faced with a huge technological gap, poor levels of living, and education, expensive process of research and development, developing countries are not in a position to invent and apply systematic knowledge. The transfer of knowledge from advanced countries seems to be one alternative way. Again, high costs of the process because of monopolistic market structure and strategic decision of developed countries, problems of adaptation to local conditions, foreign exchange constraints, the manpower for the application, obsolescing technologies, technological dependence and advantages of learning by doing are the factors to be considered and worked out.

Rapid Population Growth

The rapid population growth is another factor which intensifies problems of underdevelopment. Lipsey (1989) suggests that in many developing countries population growth rate is equal to or higher than the per capita income growth rate. The result is that there is no improvement in the levels of living at all. Because a higher density of settlement means a lower average availability per family, of natural resources, including cultivable land. Furthermore, a growth in numbers, starting from any initial level, requires the provision of additional resources which for a stationary population, could be devoted to improving equipment, education and amenities for the available population. Meier makes clear how population pressure can inhibit development:

> "A high rate of population growth not only has an adverse effect on improvement in food supplies, but also intensifies the constrains on development of savings per capita, foreign exchange and human resources. Rapid population growth, which stems from high birth rates, tends to depress savings per capita and retards growth of physical capital per worker. The need for social infrastructure is also broadened, and public expenditures must be absorbed in providing these facilities for a larger population rather than providing directly productive assets. Population pressure is also likely to intensify the foreign exchange constraint. Because, the need to import food stuff will require the development of new industries, export expansion or import substitution. Possible the most serious disadvantage to a high rate of population growth in a poor country is that it makes the human resources constraint more difficult to remove. Large numbers militate against an improvement in the quality of population as productive agents. The rapid increase in school age population and the expanding labour free entrants put ever greater pressure on educational and training facilities and retard improvement in the quality of education. Similarly, too dense a population aggravates the problem of improving the health of the population" (1989:434).

Although there may be those who reject population control on religious grounds, capitalists who want to see a reserved army of unemployed and low wages or politicians who believe in the magic of numbers in relation to their neighbours and/or enemies, it is clear from the discussion above that rapid population growth does intensify problems of underdevelopment.

Dependence On Primary Products and Declining Terms of Trade

Some of the problems the Third World encounter are directly related to international institutional and economic structure. Most developing countries rely on one or two kinds of primary products or raw materials and minerals for earning foreign exchange through international trade. In some countries the manufacturing industry does not exist. In others, it is incapable of competing in international markets in terms of quality and marketing practices or that developed country markets are protected by tariffs and quotas. Small market size is often a disadvantage to financing and achieving economies of scale in the manufacturing industry. Moreover, deterioration of terms of trade is a big obstacle to increasing foreign exchange earnings. According to Singer, deterioration of terms of trade reveals itself in various ways:

> "(1) the rate of deterioration (decline) in prices of developing countries' primary commodities compared with those of primary commodities exported by industrial countries, (2) a fall in prices of the manufactures exported by developing countries relative to the manufactures exported by industrial countries (3) the higher proportion of primary commodities in the exports of developing countries which means that a decline in the price of primary commodities in relation to manufactures affected them more than the industrial countries" (1987:327).

The notion of unequal exchange has arisen out of this context and has been attributed to cheaper factor prices which are most notably reflected in labour wages in L.D.Cs. Thus, it was Emmanuel's (1972) thesis that the developed countries sell commodities to the underdeveloped countries at prices that exceed their values and buy from them commodities at prices below their values. Thus every transaction between the two sets of countries involves a drain of value out of the underdeveloped countries and this reduces the pace of accumulation. Basically, the values Emmanuel talks of are wages and commodity prices of developing countries, which are kept down by surplus labour and governments in L.D.Cs and multinational enterprises from developed countries.

Another reason for low prices is that in primary production an increase in productivity leads to a fall in selling prices, because the demand for primary products are inelastic. Conversely, factor prices in rich industrial countries are sustained by the pressure from trade unions, and oligopolistic market structure of the industrial system (Galbraith, 1979). Obviously, managed exchange rate regimes play a crucial role in the determination of unequal relations between groups of countries. Likewise oligopolist multinational firms operating in low wage L.D.Cs and repatriating surplus values (profits), make capital accumulation more difficult. In both cases, "vicious circle", that is, low wages and prices-low savings-low accumulation and low investment follows.

Other Barriers to Development

A host of other barriers to development are offered. Firstly, it is said that underdevelopment is the result of ineffective, corrupt, erratic, antidemocratic or otherwise inadequate government (Galbraith, 1979; Myrdal, 1968). In this context Myrdal introduced the concept of "soft state" for such governments. The presence of elite class and income disparities are accused in this sense. Government intervention is found to be too much or too little. Secondly, the development failure is attributed to conditions of tropical climate which prevented mental and physical activity and initiative of people in the south (Galbraith, 1979 quoting Huntington, 1924).

Thirdly, Socio-cultural ingredients of a society (i.e. lack of materialistic and achievement orientation) in underdeveloped World is also believed to have a negative effect on developmental efforts (Meier, 1989; Herrick and Kindleberger, 1983). This line of reasoning is also extended to ethnic tendency. Bringing together the economic, socio-cultural and climatic conditions, Galbraith (1979:26) argued that "the equilibrium of poverty can be established at a lower level income in the tropics". He further argued that the major reason for the underdevelopment is the "accommodation to poverty or culture of poverty, ..., the equilibrium of poverty is sustained by the people it generates" (1979:26).

Fourthly, it is proposed, mostly from the underdeveloped World, that colonial rule or semi-colonial trade relations deliberately enforced industrial backwardness for reasons of commercial interest, destroyed self confidence, created the habit of dependence and transferred raw materials cheaply, which explains the present state of underdevelopment through exploitation by the industrial powers (Bagchi, 1982, Galbraith, 1979). This stream of thought continues to exist today with such catch-phrases as "neo-colonialism", "centre-periphery theory", "dependency theory", "neo-marxist dependency analysis" and "unequal exchange". All refers to a range of unequal and dependent relations between periphery and centre which put the former at a disadvantageous and vulnerable position.

The dialectics of barriers to development require a holistic approach. In other words, there are internal and external interacting factors which maintain the status quo in the Third World. It has been argued that international tourism is a viable option to overcome some of the developmental problems discussed above. The next section looks at the potentials and problems of the use of international tourism as a development strategy by developing countries.

International Tourism as a Development Strategy for Developing Countries

Faced with the above problems, foreign exchange constraints and the need to diversify their economies, many Third World nations have turned to international tourism as an aid and one of the alternatives in their development efforts. Many embarked upon tourism development and invested heavily, without proper feasibility studies, without any sense of opportunity costs, with little planning to integrate tourism into national development more generally, and without carefully investigating its strengths and limitations in the development process in each particular case of L.D.C. (Crick, 1989; Jenkins, 1990). In this section the author discusses why is it that many developing countries consider tourism as a development strategy? What are its potentials and drawbacks from L.D.Cs' point of view? What are the costs and benefits?

Economic Arguments, For and Against, Tourism

Clearly, economic considerations come in the forefront of establishing a tourism industry in L.D.Cs. Below is the opinions of proponents and critics of tourism in this context.

Tourism as an Advantageous International Export Industry

In many respects tourism is regarded as an advantageous export industry for L.D.Cs. There are several reasons for this. First, historically international tourism has been a rapid and continuous growth industry in terms of tourist numbers and tourist revenues.

Although Europe and North America dominate international tourist arrivals and receipts, there has been an increase, somewhat marginal, in the share of developing countries since the 1960's (see W.T.O, 1991). Second, international tourism does not suffer from tariff barriers and quotas, which characterise the manufacturing industry, and declining terms of trade. There are fewer restriction on international travel than international commodity trade and developing countries are more able to determine the prices charged for tourism services compared with primary products (Mill and Morrison, 1985; Mathieson and Wall, 1982). Thirdly, it is argued that tourism uses natural resources such as climate, scenery, friendly people which are already in place, so tourism development costs are arguably considered to be marginally low relative to the development of other economic sectors (Dieke, 1988). In fact for each point, it is possible to run a counter argument.

Although tourism is a growth industry and unrestrained by tariffs and quotas,

> "with individual country exceptions the Third World has been unable to substantially increase its share of international tourism arrivals and expenditure" (Jenkins, 1990:188).

Besides, tourism is not a secure growth industry. As Crick (1989:315) puts it:

> "not only are there obvious seasonal fluctuations in arrivals, but the developed economies themselves also go through economic cycles, and during recessions, demand for overseas travel declines. Holiday making is price and income elastic and costs are unstable, given the politics of oil marketing. Tourists are also faddish in their tastes, so the general growth of international tourism does not mean that any particular destination has a secure future. Most Third World destinations are mutually substitutable; travel organisers can easily re-route their clients, leaving many people out of work and much accommodation under-occupied".

Tourism is also sensitive to generating countries' socio-economic policies, political and economic instability, health hazards and image of receiving countries. These points are elaborated in the dependency argument. As regards the comparative advantage in terms of available resources for tourism (if it can be called comparative advantage), it is surpassed by competition between developing countries themselves. Not only does the competition for tourists result in concessions to tourism multinationals from developed countries but it also puts pressure on currency devaluations and price reductions. In a way competitiveness in tourism is, among other things, dependent on low prices. In this sense it would be wrong to suggest that the prices of tourist services is under the control of developing countries.

Furthermore, tourism development costs are not low as supposed; it has been a capital intensive industry (Diamond, 1977; Turner and Ash, 1975). It requires, especially mass tourism, substantial investment in infrastructure (i.e. transportation, roads, water supply systems, electricity, sewage systems, telecommunications etc.) and the superstructure (hotels etc.). What is more, tourist services as a whole are perishable. If services or products are not sold on a particular day, the potential revenue they represent is lost and can not be recovered.

Foreign Exchange and Balance of Payment Effects

A strong case for the promotion of tourism by the Third World is the potential foreign exchange earnings and its positive effects on the balance of payments. The significance of foreign exchange receipts as a proportion of total export earnings varies from country to country. However, there are serious obstacles in determining the net foreign exchange receipts. It is estimated in various ways from bank transfers, travel agency records and tourist expenditure surveys (Pearce, 1989). Sometimes, foreign exchange receipts from tourism on the balance of payments are expressed superficially as the difference between receipts from inbound tourists and expenditures by tourists (nationals) travelling abroad, which is called the tourism balance. As Gray (1970) and Pearce (1989) observe these two sums are fairly independent of each other and it does not say much about the net foreign exchange contribution of international tourism. Furthermore, the net foreign exchange receipts should not be mixed with gross foreign exchange receipts. Pearce rightly argues that the net foreign exchange contribution should be calculated by subtracting leakages and other costs from incoming tourist receipts. These costs and leakages may be related to the following factors (I.U.O.T.O, 1975; Pearce, 1989):

(1) the costs of imported goods, and services used by tourists,

(2) the foreign exchange costs of capital investment in tourist facilities,

(3) Payments abroad in the form of: (a) profits and capital remittances, b) wage

remittances by expatriate workers, (c) interest payments on foreign loans, (d) management or franchising fees,

(4) Promotion and publicity expenditures abroad,

(5) Overseas training of personnel,

(6) extra expenditure on tourism induced imports resulting from consumption by residents.

There is another way that the leakage of foreign exchange can be seen:

> "Most tourists arrive as part of an inclusive tour, using foreign owned air carriers, perhaps staying in foreign owned or managed hotels (the use of the services having been pre-paid abroad). The result is that much of the total holiday price paid by tourists may not accrue to the destination country. Estimates of inclusive tour prices accruing to the host country are imprecise but range from 15% to 45%" (Dieke, 1992: 559).

Obviously, these costs and leakages are difficult to measure. But Baretje (1982) offers a broad accounting system whereby these foreign exchange costs and leakages can be recorded as expenditure against incoming tourist receipts in order to estimate the net foreign exchange in the tourism external account. The tourist receipts less expenditures dichotomy is challenged by Migot-Adholla (1981), who argued that

> "the leakage and transfers of foreign exchange may be considered justifiable costs only if on balance it can be shown that the host country has made significant economic gains from tourism. Such gains may comprise tax revenues, earnings by local operators, employment generation and other indirect effects" (Dieke 1988:69 quoting Migot-Adholla 1982:52).

As Dieke pointed out Migot-Adholla does not provide a methodology to measure such significant economic gains. Nevertheless, Migot-Adholla's argument teaches us that in addition to direct foreign exchange criterion other economic benefits of tourism should be considered.

On the basis of proportion of net foreign exchange earnings (after subtracting the import content and other leakages) to gross receipts from tourism, Cleverdon (1979) divides developing countries into four categories:

(1) less than 10%; totally import reliant such as Mauritius,

(2) 10-50%; heavily import reliant such as the less developed Caribbean and South Pacific islands,

(3) 50-70%; import luxuries and a few necessities such as the better developed Caribbean islands,

(4) 70-90%; import principally luxuries; have advanced manufacturing sectors with good resources such as Kenya, Tunisia, Greece and Yugoslavia.

Quite clearly the amount of leakages and foreign exchange costs vary depending on a number of factors. Among them are (a) the structure and diversity of the national economy, (b) the nation's import policy, (c) the type of tourism development and tourists, (d) the management resources, (e) the degree of foreign involvement and (f) the degree to which tourism is integrated into the local economy. Given the difficulties faced by developing countries, as noted above, many Third World countries are economically vulnerable, import content and leakages are high and consequently net foreign exchange contribution is not always as high as it is claimed to be. For example, leakages were estimated to be 56% of gross tourism receipts in Fiji, 50% in the Cook Islands, 26.6% in Sri Lanka in 1979; 44.8% in St. Lucia in 1978; 35.9% in US Virgin Islands; 41% in Hong Kong in 1973 (Pearce, 1989). Although further analysis and improvement in measurement is needed it is fair to conclude that virtually all developing countries have a high percentage of leakages and foreign exchange costs which result in decreased net foreign exchange contribution of international tourism.

Employment Generation

Another benefit of international tourism is its employment creation potential for the Third World. As a service industry, tourism is claimed to be more labour intensive than other sectors of an economy. The degree of labour intensity being the cost per job created or the employment/output ratio in tourism compared to other sectors. The employment output ratio is the number of workers employed divided by the contribution of tourism to the national income (Mill and Morrison, 1985). It is also argued that tourism requires little training and uses low skilled manpower which are in abundance in the developing world. It creates direct employment in tourist plants, indirect employment in tourist-related industries, and induced employment in input supplying industries (Mathieson and Wall, 1982).

It is difficult, if not impossible, to measure how many jobs are created solely for the sake of international tourism. One reason is, as ever, the problem of determining what constitutes the tourism industry and which jobs should be counted as tourism-created related to non-tourism-induced jobs. Naturally, total employment effect of tourism differs from country to country. It accounts for 75% of the labour force in Bermuda, 5% in Fiji, 1% in Bali, and between 5-10% in Cyprus (Peppelenbosch and Tempelman, 1989). Dieke (1988) reports that a firmly established tourist industry provides 5-8% of direct employment. Certainly, apart from tourism development level, there are other factors that determine the total employment effect. They are, among others, the general development level of a country, diversity of economy, integration of tourism into an economy, the form and scale of tourist development, availability of technology and managerial resources.

A number of criticisms against tourism as an employment generator in the Third World can be made. Concerning the labour intensity of tourism, the findings are not unanimous. But it is generally agreed that the cost per job created in tourism is no less than in other sectors of the economy (Erbes, 1973; Mill and Morrison, 1985). This is perhaps because of the capital intensity of mass tourism investments in infrastructure, buildings etc. at the initial stage of tourism development. It can be stated that the cost of jobs created is directly connected to the type of tourist development, type and scale of tourist facilities, and availability of infrastructure and superstructure.

There are also doubts expressed as to the nature of jobs created by tourism. First, the jobs are seasonal. This causes high turnover from month to month in the industry. It leads to dissatisfaction and frustration of personnel. Many trained people desert tourism related jobs for this reason. Thus there emerges a need to train new people, which is often a burden on government expenditures, if service quality is to be assured. Second, it is argued that in developing countries key management positions are taken up by expatriates and local employees are given low-paid, low-skilled and manual jobs (Dieke, 1988). The consequences of this are the increased leakages, dependence on foreign management expertise and there may be a sense of inferiority. Finally, there is the consideration that tourism creates a nation of waiters and bartenders, reminds of master-slave relations and destroys the self-worth of the person (Dieke, 1988). Quite clearly, these feelings can injure national consolidation, national confidence and esteem which are important in the general development of a nation. Nevertheless, one can not see the merit of this line of thinking where tourism is used as an alternative development strategy and only one of the several economic activities as an employment source. Tourism employment becomes more acceptable when alternative employment opportunities are exhausted in other sectors and still mass unemployment prevails. On the contrary, if a substantial percentage of working population is devoted to serving foreigners, it adversely affects national self esteem and identity. Otherwise, tourism employment is not inferior to any other division of labour. On the contrary employment in the tourism industry can be looked upon favourably compared to other sectors, e.g. agriculture, in some developing countries. This is basically because of the pleasant and luxuries working environment in tourism and skills, especially knowledge of European languages and manners, involved in working such environment. However, relative low status (relative to other professions) given to division of labour in tourism may make individuals feel some sort of inferiority. But the most important point is the aggregate self esteem, identity and consolidation at the national level which may uplift the morale of above mentioned divisions of labour and make them accept their lot in a specialised society.

Income Generation

One of the most discussed and abused aspects of international tourism in relation to a country's economy is that of the circular income effects of extra tourist expenditure introduced into an economy which is known as multiplier effects. The multiplier effect investigates how the initial tourist expenditure flows through the economy and stimulates other sectors. In other words, it is the relationship between an additional unit of spending and the changes in the level of income, output, employment. There are a number of different multipliers (i.e. income, output, employment), as well as different methods to measure them.

The income multiplier measures the income generated by extra unit of tourist expenditure (W.T.O and Horwath, 1981; Pearce, 1989). Many researchers define generated income as disposable income accruing to households or governments. As the initial tourist expenditure trickles down, spending on imports leaks out of local or national economy at each round. This process continues until the additional income generated by a new round of spending essentially becomes zero. In practice it is very difficult to determine the multiplier effect. There are several reasons for this.

In the first place, tourism is made up of so many diverse industries that it is impossible to follow and record each stream of expenditure spent. In the second place, the import content at every round may be different. So, it may be wrong to assume a constant pattern at each stage. In the third place there exist different methodologies for measuring it. For instance, many models fail to take into account the generated additional income which is saved that may lead to investments in the destination country (Morrison and Mill, 1985). There are many income multipliers (including misleading ones) carried out for developing countries.

A leading authority on the matter, Archer (1982) reports that one dollar of extra tourist expenditure creates between 0.6 and 1.2 extra dollar income in developing island countries whereas the corresponding figure is between 1.7 and 2.0 in more developed Third World countries. It is necessary to note that the size of the income multiplier depends on the nature and diversity of economies concerned, the degree of sectoral linkages, and propensity to import tourism related goods. The more diversified, integrated and advanced an economy, the higher the income multiplier and the better for the economy. The less developed a national or regional economy the greater the leakage and lower the multiplier effect. Needless to repeat the weak economic structure and high import requirement for mass tourism in developing countries.

Despite many difficulties in measurement and methodology, the income multiplier shows the tendency of how much a tourist dollar goes around local or national system and creates income for others before disappearing through the various leakage channels (Murphy 1985). This is especially true for small island countries which do not have diverse economies.

Intersectoral linkages

In an economy, an industry or product line can help the development efforts by providing backward (input-supplying) or forward (output-using) linkages through input-output relation. Backward linkages lead to new investments and output in input supplying facilities and forward linkages give rise to new investments in output using facilities (Hirshman, 1977). So the argument goes that tourism has a lot of potential for providing intersectoral linkages and acting as a catalyst since it consists of various sectors of the economy. Although the potential is there, ranging from all kinds of agricultural products to crafts, fishing, manufacturing, the linkage effects of tourism depend on, among other things, the ability of the economy to provide sufficient and desirable inputs and outputs associated with the industry. In the case of developing countries, the expected linkages often fail to materialise, especially in the small and narrow resource based economies (Bryden, 1973).

Empirical studies as to why the linkage effect fails concentrate on the missing link between domestic food supplies and hotels. For instance, it was found that only one third of the food supplies to tourist establishment was produced locally in Barbados (Belisle, 1985). Similarly, Belisle examined the 60 Jamaican hotels and discovered that 54.2% of the food by value is imported. Among the causes of high import content and lack of linkage, Belisle identified, are high prices, quality of supplies combined with varying tourist tastes the tourists are use to, uncertainty of supply, technological limitations and marketing inadequacies.

Other reasons for the failure of linkages may be the deliberate policies of multinational associated hotels to insist on certain materials marked with company logos and products to be bought from abroad in order to benefit the affiliated company or to maintain the customer loyalty. This lack of linkage syndrome probably applies to many Third World countries and other product lines. One would not be surprised to see the same high import content in furniture, various inventories (cutlery, dishes, electrical appliances etc.) used in hotels and other tourist establishments. Related to the linkage effects is the derivation that tourism encourages entrepreneurial activity as it stimulates other sectors.

Infrastructural Change

Another benefit of tourism development for a Third World country is considered to be the establishment and upgrading of basic infrastructure without which tourism can not flourish. The infrastructure encompasses water systems, communication networks, health care facilities, transportation facilities, power sources, drainage systems, security systems etc. Any improvement of these facilities for the purpose of attracting international tourists also benefits the host population and other sectors of the economy. Even this aspect of tourism has been subject to criticism on some occasions. It is said that tourism requires a fully developed infrastructure, at the same standard as in developed countries, which developing countries often lack. This puts a financial burden on government expenditure and increases the costs of tourist development against revenues derived from it.

Another and perhaps more important criticism relates to one of the features of Third World tourism; enclave (disintegrated) tourist development. Pearce explains enclave tourism in a concise way:

> "the development of isolated, usually large scale projects undertaken often with a considerable degree of external participation, whether by means of investment assistance from international agencies or active promotion by multinational developers, primarily for foreign visitors" (1989:283).

Referring to this type of development in Sri Lanka, Pearce (1989:94) described it as "islands of affluence within the country, walled in and separate from the rest of the population". Examples of this sort of tourist development are also reported from Morocco, Mexico (Pearce, 1989) and Bali (Rodenburg, 1980). As can be deduced, the spill-over effects and intersectoral linkages are likely to be minimal in this sort of tourist development. Enclave tourism becomes more unacceptable when infrastructure expenses are borne by government (ultimately people) and benefits accrue to multinational developers or other national elite. However, it should be added that enclave tourism may be promoted deliberately by host governments for reasons of avoiding socio-cultural impacts of tourism or attracting foreign investors who prefer large scale tourism for its commercial advantages.

Price Level

Next among the effects of tourism on developing economies is the inflationary pressure which is regarded as negative. Tourism can contribute to inflation in different ways. If the local supply of goods and services can not respond to increased demand created by tourists, then tourism creates inflationary pressure (Erbes, 1973; Pearce, 1989). In other words, if the supply of goods and services are static (inelastic) an increase in demand leads to higher prices. Inflation due to tourism can also be caused as a result of an increase in property and land values.

Growth in the tourist trade creates additional demand for land which forces the prices to rise (especially in land scarce countries). The increased importation of goods which are not available domestically and its demonstration effect can also create inflationary pressure. It is possible to observe prices to increase without any of the above mentioned circumstances. This may be due to market structure and the desire to seek extra profits during the peak season. As it has always been the case the main beneficiaries of any price increase are suppliers of goods and services, speculators, land and property owners.

It is again very difficult to separate international tourism induced inflation from more general inflation. But, the record of a price index of tourism related goods and services overtime should give an indication of the inflationary pressure of tourism on the whole economy. As Erbes (1973) argues inflationary effects of tourism will depend on its relative importance in the national economy measured as the share of the national income accounted for tourist consumption. Seasonality, the supply capacity of the economy, import content of tourist consumption, morality, competition among destinations are no less important factors.

Regional Development

As one of the goals of development is set to be fairer income distribution and development of deprived areas, at least in theory, tourism has been given a priority to help attain this goal. Pearce (1989:202 quoting Mabogunje 1980) expressed the objectives of regional development as follows:

> "to even out, or at least narrow the gap in the life chances, employment opportunities and real income of citizens irrespective of the region of the country in which they live".

The use of international tourism for underdeveloped regions in L.D.Cs is somewhat superficial and lacks logical cohesion. Although backward regions may have some natural resources such as sun, sea, scenery, mountains, poor and low skilled people, that are not exploitable for other purposes, it does not mean that development can be or should be achieved through tourism. As Jenkins (1991:3) observes "if a country or region has assets of touristic merit, it does not necessarily mean that they should certainly be developed." There are ample constrains for achieving this end. The obstacles may be economic or non-economic.

The less developed regions often lack basic infrastructure as well as superstructure. This means that a potential resort may be curbed because of high engineering and infrastructural costs. In addition to this, a poor region implies a poor economy base which in turn prevents sectoral linkages and increase leakages. Another reason for leaving a potential destination undeveloped may be that it may not hold international competitiveness and appeal to international tourist market. What is more, external inputs of capital, labour, technical and commercial resources are not easily attracted to such regions. Finally, tourism development might be abandoned because of the locals' rejection of tourism on the socio-cultural grounds.

Tourism and Economic Dependency

The concept of dependency occupies a significant place in the evaluation of the role of international tourism in the development process of developing countries. As noted before dependency analysis investigates exploitative economic, political and socio-cultural relationships between periphery and centre which put the former in a dependent, vulnerable and disadvantageous position. Several authors (Britton, 1982; Matthews, 1978) argued that one way flow of tourists from developed countries fits into the historical patterns of colonialism and dependency theory. In this context, tourism has been termed as neo-colonialism and a form of imperialism (Nash, 1990).

Leaving aside the socio-cultural themes to be studied later, we can consider the ways in which international tourism can create economic and political dependency for receiving L.D.Cs. Firstly, dependency stems from the fact that developing countries cater primarily for tourism demand generated in a few industrialised countries. Many developing countries receive the bulk of incoming tourists from one or two developed country markets. Secondly, tourism demand is determined externally, beyond the control of L.D.Cs. Here the externality has two connotations.

One refers to the various features of demand itself, and the other is concerned with the manipulation of demand by primarily tourism multinationals from advanced countries, government policies and media. Although the two are interrelated the latter is imposed on tourist demand consciously for certain objectives. Regarding tourism demand, it is seasonal, price and income elastic, subject to economic political and social conditions in developed countries as well as in developing countries. Tourism demand also fluctuates according to consumer tastes and substitutability of the demand and destination is high. In a way, the development of L.D.Cs through international tourism is directly linked to availability of cheap goods and services, hence labour, in developing countries and affluence in developed countries. As to the second externality, tourism demand can be affected and directed by government policies, or tourism multinationals - tour operators, airlines, hotel chains. Government policies may be in the form of taxes imposed on tourists going abroad (may be to certain destinations), propaganda and the collaboration of government and multinationals. The ways in which tourism multinationals affect and create dependency will be elaborated in the fourth chapter. The third form of dependence tourism creates is the use of imported goods, materials and foreign expertise and finance (I.U.O.T.O, 1975) as the standards and tastes should be met according to those of developed countries.

Non-Economic Arguments

Apart from economic impacts, the spatial and physical transfer of tourists to Third World destinations, tourists' demonstration effects on society as well as contacts between hosts and guests give rise to complex consequences in the total development process of a society. Non-economic effects, whether perceived as positive or negative, are generally examined under two broad categories: socio-cultural and ecological effects.

Socio-cultural Effects

We have noted earlier that economic development is accompanied by socio-cultural changes in the society. In connection to tourism a number of questions can be posed. What are socio-cultural variables of a society? How does international tourism change them? What changes are desirable or not? We define socio-cultural impacts of tourism as

> "the way in which tourism is contributing to changes in value systems, individual behaviour, family relationships, collective life styles, safety levels, moral conduct, creative expressions, traditional ceremonies and community organisations" (Mathieson and Wall, 1982:133).

Generally, the flow of affluent members of developed countries to the lands of the poor is believed to have adverse socio-cultural effects on the host and considered as social costs, (Nunez and Lett, 1989; Pearce, 1989). Though there are also studies (Travis, 1984) that point out to positive consequences that may arise as a result of tourist-host interactions. Before giving a balanced view, it is necessary to single out some important notes while considering the socio-cultural impacts:

(1) socio-cultural impact assessments are not immune from political objectives, personal subjectivity and value judgements;

(2) socio-cultural impacts of tourism are affected by the specific tourist culture and staged authenticity of host (MacCannel, 1972). In a sense, neither hosts nor guests are playing themselves;

(3) socio-cultural changes caused by tourism can not be definitely differentiated from other change agents such as media, education, rise in income, urbanisation etc.;

(4) socio-cultural changes vary depending on: (a) the distance of socio-cultural structure between visitor and visited, (b) the size of visitor flows compared to local population, (c) the type of tourist and tourism development, (d) the nature and frequency of contacts between tourists and local inhabitants, (e) the location of the tourist area (Doorn, 1989);

(5) the socio-cultural reactions of different segments of society are likely to be different depending on education, social status, economic interest etc. (Dogan, 1989).

Positive Socio-cultural Effects

It is already noted that various services such as public health, sanitation, better infrastructure and recreational facilities can be promoted by tourism which is socially desirable.

Next among the positive socio-cultural effects is the belief that tourism is an instrument for achieving international understanding and peace. It enables contacts among people from the most distant parts of the globe, people of various languages, race, political beliefs. It leads to personal contact in which people can understand attitudes and beliefs which were incomprehensible to them. Thus, tourism promotes friendliness, sincerity, honesty and confidence. This assumption is endorsed by the World Tourism Organisation (W.T.O) in the Manila Declaration which says

> "with respect to international relations and the search for peace, based on justice and respect of individual and national aspirations, tourism stands out as a positive and ever present factor in promoting mutual knowledge and understanding and as a basis for reaching a greater level of respect and confidence among all the peoples of the World" (1980:4).

However, this seems to be a shallow, propaganda-like and very optimistic view. It fails to consider: (a) political and economic self interest seeking between individuals and nations, (b) the fact that while tourists are on holiday, the host is at work, (c) it is the tourist whose needs should be met, (d) language barriers and the imperative to learn tourists' language, (e) the difference in well being of host and guest, (f) the difference in beliefs, values, and ways of life. Obviously, these factors prevent an unbiased mutual understanding. Similarly, tourism is also believed to improve the international image of developing countries with its modern industries like airlines, luxury hotels and entertainment facilities.

Another positive socio-cultural outcome of host-guest interaction is said to be the revival of traditional goods and customs of host community, since tourists are potential buyers. Examples are the re-emergence of handicrafts, traditional dances and ceremonies.

Tourism is also claimed to help break, what Galbraith (1979:54) called, "the accommodation to the culture of poverty". It does so, it is argued, by way of demonstration effect when it motivates local people to attain the things they lack; the living standards of tourist.

Finally, the present author believes that through demonstration effect tourism can contribute to democratisation and improvement in man-woman relations in societies where women are still repressed and patriarchal domination still persists. It can even help individuals to get out of religious dogmas which may keep them in a meek and contented position despite substantial income disparities and other social injustices.

Negative Socio-cultural Effects

On the other side of the debate there are critics who see tourism as a cost and threat to socio-cultural values, beliefs, ways of life in the Third World, even leading to economic costs. Among the perceived negative aspects a number of issues are worth mentioning.

One such intangible negative aspect is the transformation of consumption patterns of tourists to residents through demonstration effect. The tourist spending is based on conspicuous consumption (though it is arguable whether it is conspicuous consumption or it has become a necessity, at least for majority of people, in the socio-cultural and economic context of industrial nations) and it may not be representative of actual consumption patterns at home. If it impacts on those who want to feel like tourists or associate themselves with tourists, the imitation of tourist tastes and life style during the holiday may lead to converted consumption patterns of locals which may not reflect priorities. If the new consumption goods are imported that gives rise to the need for additional provision of foreign currency and balance of payments concern.

Alternatively, if locals find themselves unable to emulate the life styles and products they are witnessing due to financial inability, it may cause resentment towards tourists (Murphy, 1985). The resentment may also arise as a result of congestion and diminished local services for residents, exclusion of locals from certain local resources, recreational facilities, and economic benefits of tourism. Disturbance of local way of life and the display of wealth amidst poverty can also cause hostility towards tourists. The notion of demonstration effect equally applies to values, beliefs, sexual role, morals which may lead to overall disruption and transformation of socio-cultural structure (Cohen, 1984; Pizam and Milman, 1984).

Naturally, tourists bring with them their traditions, values and expectations which may upset and transform local social habits, the basic and long established values and patterns of behaviour (Jenkins, 1991). In this context, there comes the unmentionables such as, gambling, prostitution, promiscuity, crime, alcoholism, begging which are thought to be promoted by tourism. Less offensive changes may be the decline of traditional dressing, music. Thus, critics argue that mass tourism in the Third World gives way to acculturation, commodisation of culture or distortion of culture. Degradation and commodisation of local works of art, religious ceremonies, customs and language are often mentioned in this sense.

Another opinion is that for economic development an atmosphere of sobriety and hard work is indispensable and tourism is unsuited to contribute to such an atmosphere because it is exactly the opposite (Pepelenbosch and Tempelman, 1989).

Although tourism is a major social and cultural change agent before our eyes, it is very difficult to determine and qualify, as costs or benefits, the changes caused by tourism as opposed to mass media, urbanisation, education, increase in income, political socialisation and liberalisation. Following from this is the derivation that whether developing countries incur cost or benefit through tourism can be discussed only in speculative and qualitative terms. And the interpretation would depend on one's moral, religious, intellectual status and commitments.

It is not for the present author to decide for developing countries whether or not tourism is beneficial in the socio-cultural context. But the author thinks that cultures are, in the long term, neither static nor uniform entities. Nor should they be. As Toynbee (1948) argued they come and go in rhythm, if not imposed or forced, it is natural arising spontaneously from within. In modern times, it is possible to talk about individual culture (at different periods of his life time and social status) rather than uniform culture of society as one of the conditions of modernisation. The notion of a perfect society with monoculture, e.g. unity of values and attitudes is an illusion and hypocrisy.

Cultural pluralism, that is a variety of cultures, the pursuit of different, and sometimes incompatible ways of life, ideals, standards of value within the same society is a fact of life in modern societies. As tourism is one of the change agents introducing social and cultural diversity, the challenge to developing countries is this; in order to sustain and reap the economic benefits of tourism how is it possible to manage and maintain diversity of values, attitudes, beliefs side by side without recourse to violence and oppression? How can the change introduced by tourism be absorbed and frictions between hosts and guests or hosts and hosts be minimised? Needless to say, collision of values is inevitable in this uneasy equilibrium. Nevertheless, education, rising levels of living, host participation, form of tourism promoted, judicial power are some of the management tools governments may make use of. But it must be understood that these tools can only help manage the conflicts arising from international tourism and can not prevent tourism's overall impacts on societal evolution. Once, John Stuart Mill wrote

> "placing human beings in contact with persons dissimilar to themselves, and with modes of thought and action unlike those with which they are familiar has always been and is, peculiarly in the present age, one of the primary sources of progress" (1981:594).

Even if it may not always lead to progress, the plurality of morality, conduct and values is historical and daily experience and essential for the tolerance for others.

Tourism and Ecology

As in the economic and socio-cultural sphere, there is both compatibility and conflict between tourism and ecology. Here ecology denotes all "the relationships between plants, animals and people and their physical environment in which they live" (Farrel and Runyan, 1991:27). Although ecology encompasses socio-cultural relations, it has been already examined. The emphasis is on the relations between tourism and its effects on flora (plants), fauna (wildlife) and physical environment (physical environment should not be regarded as referring to strictly non-living entities) in destinations.

The discussion is centred around two propositions: tourism deteriorates the ecology and tourism improves the ecology. First, the negative aspects.

Water- Air-Noise-Visual and Litter Pollution

Tourism may contribute to each of the above pollution types. Intense use of beaches by tourists, and drainage of sewage from tourist establishments into rivers or seas can cause serious water and litter pollution. Air pollution can be exacerbated because of emissions of increased tourist transportation means such as planes, automobiles, etc. Luckily, there are now methods to measure the thresholds of water and air pollution after which human health and other biological entities are threatened.

Less measurable but equally important are the noise and visual pollution. Both may affect the quality of visitor experience and quality of life of local residents. The former prevails in urban areas as well as in many well-known resorts. The latter refers to the aesthetic harmony of tourist establishments with their environment and traditional local architecture. For instance, not only high rise, adjoining luxury tourist establishments may pollute environment visually but they may also cause income leakages to the host nations since it is unlikely to provide technical, operational and marketing expertise and construction materials locally. On the other hand such buildings can economise on land, achieve economies of scale and provide strong marketing links.

Problems of Congestion

The concentration of tourism in time and place is another source of pressure on eco-systems. Tourism is a seasonal activity partly because of holiday-taking patterns in industrial countries and partly because of climatic variations in receiving countries. Obviously, the higher the congestion intensity the higher the air-water-noise-litter pollution and adverse effects on flora, fauna and soil. Traffic overload, lack of parking space, congestion at key points, in resorts, streets, historical sites can irritate visitor as well as the residents. Congestion also increases the demand for land, water, energy which may not be in abundance in destination L.D.Cs.

Land Use

Development of tourism in a particular location also gives rise to competition for land between alternative industries. The most appropriate and economic use of land has to be decided. Tourism may exist simultaneously and often in conflict with other industries, it may be the dominant economic activity, eliminating or suppressing other activities dependent on the same resource (Wall and Mathieson, 1985). If the land is communal, governments may have to assume responsibility for its use in order to prevent frictions. It must be noted that the separation of locals from a previously accessible land, sea or any other resource may be as devastating as actual physical degradation.

Flora, Fauna and Historical Sites

When tourism development is uncontrolled and unplanned and carrying capacity is overreached in ecologically sensitive areas, it destroys the wildlife habitats, vegetation, natural and historical sites etc. Designation of national parks, zoning of tourist sites, specifically guided trips, limitation of tourist numbers to sensitive areas, high pricing, the watch of tourist yacht or ships, continuous monitoring of impacts on the ecosystem are some of the management tools to protect ecosystem from the destruction of tourism.

Deforestation and Erosion

The cutting of forests for golf or ski areas and tourist activities such as skiing, walking, riding etc. can be detrimental to the ecology. Deforestation and following soil erosions may lead to the change in weather conditions, biological species and plants in the resort.

Restructuring of Local Environment

Inevitably, the development of tourism in a location requires major structural changes in the environment. These may be construction of transport networks,(roads, airlines) marinas, manmade tourist attractions, tourist accommodations. The changes may contribute to any of the previously mentioned ecological hazards both on the health of all living and physical environment. As might be apparent from the discussion the negative ecological aspects of tourism are interrelated.

Despite the danger that if unplanned, tourism may destroy the things which attract tourists, there are also positive ecological elements that tourism development may bring, to which we now turn.

Conservation of Natural Amenities and Historical Sites

In fact, among the people and government of the Third World, tourism creates an awareness with respect to protection of wild life, plants, historical buildings. For this reason, the setting up of national parks, marina conservation and restoration of historical buildings, often with the financial and technical help of U.N.E.S.C.O, for maintaining the subjects of tourist attraction must be considered a positive aspect.

Improvement in Environmental Quality

Having noted that tourists are attracted to regions where the environmental quality is good, maintenance and upgrading of environmental quality seems to be an inseparable part of tourist development. Thus, the improvements for the sake of tourism also benefits residents, flora, fauna, historical sites and physical environment. Considering the green consumerism and newly acquired consciousness in developed countries that resources are not infinite and environmental quality is essential for human existence, environmentally sound tourism appears to be one of the factors that will determine the direction of tourist flows in the future.

Characteristics of Tourism in L.D.Cs

Historical evolution of tourism development in the Third World varies from region to region, from country to country and from location to location within the same country.

For instance Dieke, (1988) reports that the Caribbean islands had a long established tradition of tourism well before the 1920's, which revived since the 1960's. Within the last three decades, tourism has spread to Africa, Latin America, South Pacific region and Middle East with varying degrees of sophistication and sequence. In the historical context, a curious issue is whether or not it was imposed on L.D.Cs by advanced countries and international agencies deliberately or it was promoted consciously.

Standing back from such discussions, this section aims to seek a number of features of Third World tourism, which are important determinants of its overall role and impacts of tourism in the process of development. These features relate to tourism volume, typologies of tourist development, trigger market and seasonality (Dieke, 1988).

Tourism Volume

Tourism volume relates to tourist receipts and tourist arrivals a destination country receives. In order to measure the importance of tourism to a country's economy, and its dependence on tourism, these two variables are widely used. For example, Bryden (1973) distinguished between a tourism country and non-tourism country on the basis of gross tourist receipts as a proportion of either national income or visible exports. A country is designated a tourism country where gross tourist receipts exceeded 10% of visible exports or 5% of national income. The superficiality of this separation might be apparent to the reader.

It fails to take net tourism receipts into consideration. When it uses the proportion of tourist receipts in relation to national income, it incorrectly includes the receipts from domestic tourism. It also underestimates the shares of advanced countries in terms of tourist receipts. Because of the structure of their economies, many developed countries do not qualify as tourism countries, but they account for a big share of World tourism receipts. Similarly, the importance of tourism to a developing country where it accounts for 15% of visible exports is different from a country where it accounts for 70-80% percent of exports. The conclusion from the argument is that while tourism receipts is a good indication of tourism volume to a developing country, artificial boundaries of being a tourism country or non-tourism country are irrelevant. Instead, it might be suggested that tourism be evaluated as being a primary, secondary, or peripheral economic activity in a particular location or in the international trade earnings of developing nations.

Another variable to determine the volume and magnitude of tourism is tourist arrivals.

Inevitably, tourism volumes vary among developing countries. However, at the aggregate level North America and Western Europe account for the bulk of world tourist receipts and arrivals. Although the share of the Third World increased since the 1960's onward and there are optimistic forecasts for the future of tourism, the continuing recession, unemployment and balance of payment constraints in industrial nations, among others, pose serious doubts about a dramatic change of tourism volume to the Third World.

In relation to tourism volume, the author thinks that two other variables, namely mode of travel and how travel is organised (inclusive tours or independent travel) are critical factors in the examination of Third World tourism.

Typologies of Tourist Development

The typology of tourist development has reference to, at least, three things: (a) forms of tourism promoted in destinations, (b) physical tourist development in destinations, and (c) types of tourists visiting the destination. Mainly, these factors determine the nature and scale of tourist facilities, and services and there are close relations between them.

Although the tourism product is heterogeneous and interrelated several broad groups of tourism forms in relation to tourist experience can be identified. They are: (1) winter tourism (skiing), (2) Beach tourism (sun, sea, sand) (3) special interest tourism (including farm tourism, mountaineering, trekking, hunting, bird-watching, spas, pilgrimages etc.), (4) business tourism (5) ethnic tourism (visiting friends and relatives) (Pearce, 1989; Williams and Shaw, 1991).

Concerning physical tourism development, two types are outstanding: enclave and integrated (which is often associated with alternative tourism) tourist development (Jenkins 1982). In the case of former, the site location is physically separated from an existing community, the infrastructure is not intended to benefit local residents and facilities are most used by tourists. This type of development requires large scale development, heavy investment and probably foreign involvement in developing countries. As for the integrated development, it makes use of the existing infrastructure, new infrastructure, if needed, benefits local residents. The unit scale of projects are small and indigenous management and capital are attracted to the sector while the tourists are absorbed within the community. Recently, this type of tourism development is being discussed under the heading of alternative tourism and other names; on which a word later.

Related to the form of tourism and physical tourist development is the type of tourists. Different classifications exist. Gray (1970) proposed two basic tourist types: sunlust and wanderlust. Cohen (1972) identified four groups: the organised mass tourist, the individual mass tourist, the explorer, and the drifter. A similar classification is made by Smith (1990). His types are seven: the explorer, elite, off-beat, unusual, incipient mass, mass, charter. Whatever the merits of these classifications, they mainly convey three ideas which may be important for developing countries: (1) the expectations of different groups of tourists with regard to travel experiences, tourist establishments and services are different, (2) the travel organisation of the different groups are different and (3) based on 1 and 2 marketing channels and messages should be different.

Another aspect of tourist development typology is concerned with the pace and product (destination) life cycle. Again there is a difference of terminology but not the content. It was Plog's (1973) hypothesis which said that destination areas tend to rise and fall in popularity according to different psychographic visitor groups. In this sense, he identified five groups: psychocentric (innovators) near psychocentric (early adopters), midcentric (early majority and late majority), near allocentric and allocentric (laggards). This approach is too simplistic in that it concentrates exclusively on psychology of different tourist types leaving out some other factors both on the demand and supply side which may be crucial for the development of a destination.

More generally the destination cycle is said to be in the following order: exploration stage, involvement stage, development stage and decline or rejuvenation. In fact these stages can be reduced to four conveniently: initial tourist development (destination is relatively unknown), development stage (destination is established), maturity and decline or rejuvenation. Nevertheless, not every destination passes through these stages. It will depend on, among other things, uniqueness of the attractions, marketing efforts, competition, changes in political and economic conditions in destinations, structure of demand, quality of tourist experience.

There are few studies that attempt to bring together the above typologies and examine the processes and patterns of tourist development in the Third World. Reviewing the literature, Pearce (1989) found that coastal tourism, mostly enclave and large scale along with foreign involvement, have been the major form of tourism development in L.D.Cs, mainly in the Caribbean, South Pacific Asia, Kenya, Morocco. He also cites examples of cultural tourism from Central America (the Mayan Culture) and India. He points to the urban based casino/prostitution tourism in Lesotho, Swaziland, Botswana in Africa. Of course, Thailand and Philippines are other examples where prostitution tourism developed in a different context. Also, Pearce draws attention to the developments of alternative tourism whose characteristics are similar to Jenkins' (1982) integrated tourism and those expressed by Butler (1990).

Main characteristics of alternative tourism (variously called as responsible, soft, appropriate, controlled, small scale, green tourism) are: indigenously owned small scale tourist establishments; planned, controlled and slow tourist development; more sensitive for environment and host communities; more rewarding for locals and labour in operational structure of tourism; more cognisant of tourists and the quality of their experience; exclusive use of local labour, materials, food and beverage etc. Examples of this sort of tourist development are found in Papua New Guinea, French Polynesia, Senegal and lately in the Caribbean (Pearce, 1989). This sort of development has positive remarks such as low investment costs, modest prices, significant returns to the local community, less dependence on multinational tourism enterprises, less disruption of society. But, it has the problems of achieving scale economies, marketing problems, low occupancy, lack of competitiveness which determine the commercial viability of the undertaking.

At this point, one can connect the forms of tourism, physical tourism development and types of tourists. It appears that whenever back to back mass tourism and mass organised tourists are attracted to a destination, we are likely to see there large scale, often enclave coastal tourism along with foreign involvement. The same tendency should apply to business/conference or casino type of tourist development in urban centres in L.D.Cs.

Empirical evidence for destination life cycle in L.D.Cs has also been studied. Bastin's (1984) analysis of Jamaican tourism suggested that mass tourism started with generous tax concessions for large scale hotels and government expenditure on infrastructural improvements and training in the late 1960s. Tourist arrivals continued to expand until 1975 but started to decline after that. Bastin found that the main reasons for the decline were increased competition, adverse publicity overseas during the period of democratic socialism and hostile attitudes to tourists resulting from local perception of servitude and unequal distribution of the economic benefits of tourism. We note that terrorist activities, the news of health hazards, exchange rate changes, frictions between governments or businesses would do the same.

In an interesting paper, examining the case of the Bahamas, Debbage (1990) reasoned that at the mature stage of destination life cycle, key firms in three tourism businesses - tour operators, airlines, hotel chains - oligopolise markets by vertical and horizontal integration and then the market is dominated by a few large firm. The destination hosting an oligopolistic tourist industry may yield an undiversified monoculture that is particularly vulnerable to the rapid restructuring associated with oligopolies experiencing a declining market share and obsolescence along with destination itself. The decline of destination in this situation may also be due to frictions between destination countries and firms which hold oligopolistic power. For instance, the German tour operator, Neckerman, demanded barely acceptable terms from the local authorities in Tunisia; when they were refused the tour operator cut down its reservations from 60,000 beds in 1972 to 12,000 in beds in 1973 (Ascher, 1985).

"Trigger" Market

"Trigger" market implies that "certain Third World destinations attract certain nationalities" as tourist generating sources (Dieke, 1988:119). A country to country matrix study for tourism from continental and Northern Europe to the Mediterranean area and

Africa showed this tendency quite clearly (Hoivik and Heiberg, 1980). They pointed out that tourism from the former colonial powers, the United Kingdom and France, tended to concentrate on the former dependencies. Surely, colonial history is not the only factor determining trigger market relationship between receiving and generating countries. Historical good relations, spatial proximity, exchange rate differences, tourism endowments, tourist infrastructure and superstructure of destination, the degree to which basic tourism multinationals are involved in host countries may be important determinants of this trend. The implications of trigger market relations for the Third World are not difficult to infer; the limitation of market share to few advanced countries enhance the dependency and vulnerability paradigm.

Seasonality

Seasonality means the concentration of tourism demand in a certain period of time in a destination country. It is a major drawback of tourism as a development option. Both demand and supply side factors contribute to seasonality. On the demand side, tourists' holiday taking patterns are concentrated at traditional vacation times - summer, Christmas, Easter (Dieke, 1991). On the supply side, climatic conditions play a significant role. It is true that seasonality confronts many industries, but the problem with tourism is that if the product is not sold it is a loss. It is not possible to stop or adapt production for a while or to store the product as is the case for many industries. An unsold bed or plane seat is a loss. On the other hand the demand for peak season has to be met while there is the inelasticity of supply. This seasonal fluctuation in tourism demand causes under-utilised capacity during the low and off season. This, in turn leads to seasonal unemployment and frustration of employees.

In order to cope with seasonality, various management proposals are offered. Scattering tourism over the whole year through pricing schemes, utilisation of tourist facilities for conference and convention tourism, attracting senior travel market, part time employment of students or senior citizens instead of full employees are some of them. However considering the dependent structure of tourism, the success of these proposals are really suspect. If otherwise, rational management tools would solve the problem and there would be no problem of seasonality. Not everything can be solved by rationality and one's rationality is limited to others' rationality.

Conclusion

The review of the issues involving tourism as a development tool for the Third World suggests that tourism is neither "manna from heaven" nor a curse. Any evaluation of the role of tourism must depend on the national and local circumstances, weaknesses and strengths of a country as a destination. Tourism can bring in "hard" currency, provide employment and income and revive other sectors of the economy. But these benefits depend on general economic and technological development levels, management resources, diversity of the economy and provision of acceptable tourist establishment and services. Besides, socio-cultural and ecological effects of tourism should also be taken into consideration. In addition, local priorities and opportunity cost of tourism should be identified.

Alternative development strategies must be exhausted. It must be noted that given the instability of tourism demand, heavy reliance on tourism is a major source of vulnerability and dependency over which a host country has minimum control. There is the danger that tourism can lead to fragile mono-structural economy with decisions being taken abroad. Apart from the instability of tourism demand itself, tourism multinationals - tour operators, airlines, hotel chains - of generating countries are another source of vulnerability and dependence. Before analysing tourism multinationals, the next chapter introduces the multinational enterprises and their impacts on developing countries in general.

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CHAPTER 3
MULTINATIONAL ENTERPRISES: THEORETICAL ANALYSIS

Introduction

The purpose of this chapter is to provide an introduction to multinational enterprises and their impacts on dvelopment in LDCs. Section two gives a definition of M.N.Es along with their relationships to foreign direct investment (F.D.I) and new forms of international investment. Section three introduces different types of M.N.Es. Section four deals with various theories of M.N.Es which try to justify their existence and international operations. Finally, section five looks at the pros and cons of M.N.Es regarding economic impact and other effects in relation to less developed countries (L.D.Cs).

Definition of Multinational Enterprise

There have been different definitions of multinational enterprise which is variously termed as "transnational enterprise" (corporation), "international corporations" (firms), "global corporation", "denationalized corporation", "supranational" or "cosmocorparation". It was long described as an "enterprise which owns and controls income generating assets in more than one country" (Dunning, 1973:13; see also Buckley and Casson, 1976:1; Hood and Young, 1979:1). The ownership usually meant majority ownership (more than 50%), hence the control, of enterprises in more than one country. In this sense it is equated with foreign direct investment. United Nations' definition placed less emphasis on ownership. It said "all enterprises which control assets - factories, mines, sales offices and the like - in two or more countries" are multinational enterprises (United Nations, 1973:5).

In an attempt to quantify control, U.N (1973) argued that firms which either have 10 per cent control of voting stock or 25 per cent of sales or assets in a foreign subsidy or associate could be regarded as M.N.Es. Nevertheless, it did not obviate the problem as to the quantity of ownership needed to exert control over subsidiaries and to be qualified as

M.N.Es. The United States, Germany and Sweden required 10% of foreign ownership to be classified as M.N.Es; France, 20%; Australia, 25%; (Frank, 1980). Another scholar (Vernon, 1971) emphasised the "size" of M.N.Es and required at least six countries of operation and US$100 million sales revenues.

Another problem in the definition of M.N.Es emerged with the rise in the non-equity involvement or so called "new forms of international investment" (Oman, 1984) or "unbundled F.D.I" (Hennart, 1989) of firms across national boundaries like franchising, management contracts, and leasing. As a result, the definition of multinational enterprise had to be broadened. In line with the new developments, multinational enterprise is defined as

> "one which owns outputs of goods and services in more than one country. such a firm adds value by producing in more than one national economy. The addition of value may involve increasing the quantity of goods, enhancing their quality or improving their distribution, both spatial and temporal" (Littlejohn, 1985:157).

Clearly, this definition includes firms with both equity or contractual involvement in more than one country to be qualified as a M.N E. The reason is that the only criterion is the *value addition* to *the production, quality and distribution* of the goods and services, for which multinational enterprises receive income, in more than one country. In the light of what has been said, we define multinational enterprise as a *firm which has more than 10% equity or contractual involvement like management contracts, franchising, and leasing agreements in more than one country.*

Types of Multinational Enterprise

For analytical examination and convenience multinational firms can be divided into three kinds: horizontal, vertical and conglomerate (diversified) multinational enterprises.

Horizontal multinational Enterprises

Horizontal M.N.Es are firms which are involved in the production of the same line of goods and services in more than one country. The motives for firms to expand horizontally across national boundaries are various. Here, the eclectic paradigm developed by Dunning (1979, 1980, 1988) to explain international production of firms will be adopted and adapted to horizontal M.N.Es as it provides an analytical framework under which different explanations can be brought. Dunning identified three sets of advantages for firms to be able and willing to involve in foreign production; "ownership specific advantages", also known as "firm specific advantages" (FSA) "internalisation advantages" and "locational advantages".

Dunning (1983) categorised ownership advantages into two; those stemming from "the asset power" (otherwise known as market power, monopolistic or oligopolistic power, structural market imperfections, competitive power) which was originally proposed by Hymer (1960, 1976) and those stemming from "transactional advantages" (or transaction costs, natural market imperfections) (Hennart 1982; Teece, 1981). Asset power advantages include "scale economies, knowledge advantages, distribution network, product diversification and credit advantages" (Dunning and Rugman, 1985: 229) whereas transactional advantages stems from the lessening of the transaction costs and enhancing transactional gains. Transaction costs are "all the costs associated with organising the economic system" (Teece, 1981:3).

Among transaction costs are "pricing of knowledge, buyer or seller uncertainty, quality control, difficulty in making contract" (Rugman at al 1985:104) and pricing of "goodwill" (reputation) (Hennart 1982). Transaction costs "arise naturally at least are assumed to be exogenous to M.N Es" (Dunning and Rugman 1985: 229). However, a few scholars argued that these two advantages are interrelated, difficult to distinguish and they cause one another to emerge (Buckley, 1990; Yamin, 1991). It is assumed here that these advantages can be exogenous or endogenous to the firm.

In the case of horizontal expansion of firms across national boundaries, "knowledge" and "goodwill" as intermediate products in the form of "intangible assets" (Yamin, 1991) are found to be the most crucial factor and rent yielding ownership advantages. The knowledge advantage is a broad one. It includes:

> "(1) technical know-how i.e. technological expertise in producing goods and services; (2) marketing know-how, i.e. expertise in selling things, and in purchasing them too; and (3) managerial know-how, i.e. expertise in administration, delegation, and all aspects of decision making not included in (1) and (2)" (Casson 1987:145).

As for goodwill (reputation), it implies property rights such as trademarks which also yield rents to the firms. These advantages are not sold or contracted to another party in the external market but rather kept within the firm (internalised) due to the existence of transaction costs and gains and this leads national firms to produce in a foreign country and become a M.N.E. In other words, the intangible assets or trademark are not sold through international trade (markets) once and for all to another country but the firm internalises these advantages by directly investing, hence becoming a M.N.E in another country. Thus internalising markets yield more rents or profits and reduces transaction costs.

These transaction costs could be undervaluation or dissipation of knowledge, high cost of monitoring quality or contracts brand disloyalty, etc. Put differently, the revenues would not be as much as if it was not undertaken by the firm per se. In fact these advantages can be used elsewhere without any cost or at a little cost. The advantages are internalised till "the further internalisation outweighed by the costs" (Buckley, 1988:182).

The second group of advantage namely internalisation is clear enough that firms will prefer to internalise ownership specific advantages as long as they yield more revenues or less costs. There is the diversity of opinions whether firms internalise ownership specific advantages or transactional advantages (costs). Dunning (1991) believes that even if a firm internalise transactional market imperfections, its ability to do so must be related to assets it possess prior to the act of internalisation.

A final group of advantages, Dunning thought, is necessary to justify production of firms in foreign lands, that is locational advantages. Apparently they cover economic elements like low wages, presence of natural resources, large markets or proximity to markets to reduce transportation costs, favourable tax concessions and non-economic elements like favourable political conditions and stability. These advantages are also internalised within the firm along with its firm specific advantages which end in horizontal integration.

In addition, another motive for horizontal expansion which is not incorporated into the above framework is the "collusive agreements" (Casson, 1987; Cowling and Sugden, 1987; Hymer, 1979). This view suggests that firms will consolidate with their counterparts (at home or abroad) to appropriate rents by sharing markets and controlling prices, making markets less competitive and market entry more difficult, driving some firms out of business. Casson (1985:60) notes that "the collective behaviour of the members of a cartel often resembles that of a horizontally integrated M.N.Es. Yet different M.N.Es may belong to several cartels". However this argument can be absorbed by the internalisation advantages of firms.

Vertical Multinational Enterprises

Vertically integrated M.N.Es are firms which are involved at the different successive stages of production of goods and services in more than one country. In the vertical M.N.Es the intermediate products between the stages flow within the same firm instead of different firms (i.e. market). They can be integrated "backward" (into the resource) or "forward" (into the market- distribution) (Hennart, 1982). The vertical integration of firms is a bit more complex than horizontal integration in the sense that each firm before integration produces different but sequential goods and services. Paradoxically the above mentioned advantages seem to be irrelevant since the value added created at different stage is different. A careful examination would reveal that vertical integration occurs as a result of the interaction of these advantages creating new advantages for the integrated firm. it is not intended here to spell out these advantages from the viewpoint of one of the parties or both involved in the transaction due to the fact that they are industry specific and rather fragmentary. The question to be addressed here is why those firms which own different advantages prefer to integrate. What are differing forces and motives behind the vertical integration?

At the extreme end lies the incentive of profit maximisation. Casson (1984:2) applies this to the formation of vertical M.N.Es as follows; one of the parties or both "believe that the value of two adjacent activities when jointly owned exceeds the sum of the values they would command when independently owned". However means of attaining this ultimate end may be various.

So there are many theories about why firms integrate vertically. The specific causes for vertical integration can be classified into two broad categories; *transactional market imperfections* (transaction cost savings, natural market imperfections) and *structural market imperfections* (market power). Although they overlap in many cases, transactional market imperfections focus on: (1) technical dependency, (2) information asymmetry and quality control, (3) small number condition, (4) incompleteness of contracts, (5) transfer pricing, and (6) marketing costs. As for structural market imperfections, it stress successive monopoly, upstream monopoly, price discrimination, bilateral monopolistic and oligopolistic co-operation. Further theoretical light on these specific motivators of vertical integration is necessary for further clarification.

Transactional Market Imperfections

Technical Interdependency and Co-ordination

Integration of technically interdependent stages of production is said to result in production cost savings and hence vertical integration (Berg, 1988). The most plausible version of this argument seems to be the co-ordination regarding compatibility standards. Berg (1988:465) reports that

> "technological interdependencies often arise in the context of the need for compatibility standards, where components of a product require particular engineering features for the final product to operate properly. Integration may be required to handle these interdependencies".

Kindlerberger (1989:232). makes a similar point:

> "technological change at one level in the production chain may require co-ordinated changes at another, that separately-owned levels may find it impossible to achieve".

A different example of technical interdependencies may be the willingness of research and development intensive industries to produce complementary products to their innovations (Berg, 1988)

Instant and correct information and co-ordinated production of goods and services may also be important factors for firms to integrate vertically, especially in the distribution of perishable, non-storable products and interrelated services (Kindleberger, 1989). Even if buyers and sellers may be many, there are always costs in switching from one party to another and searching for relative information. The effective way of overcoming these disadvantages and costs is to integrate vertically.

Quality Control

The need for quality control may also give rise to vertical integration. As noted earlier, reputation, which is related to the quality of product and services, is an important asset for firms. If a firm at one stage of production of commodities and services believe that their reputation will be damaged and quality will not be sustained at another sequence of production or distribution (or in another country), then they may undertake the next stage by which vertical integration occurs. Tour operators that own hotels in developing countries to ensure certain service standard and quality, among other things, provides an example of vertical integration partly due to quality control.

Small Number Condition

It is argued that if the common inventories used at the different stages of production is owned by one firm, then it permits capital cost saving and equipment to be installed both upstream and downstream (Dunning and Rugman, 1985). Hennart (1991:90) puts the argument this way:

> "small number condition results from economies of scale, from high transportation costs and from the presence of physical asset specificity. Asset specificity arises when one or both parties to the transaction invest in equipment specially designed to carry out the transaction and which has lower value in other uses. When these conditions are present, spot markets are likely to fail, because a party making transaction specific investments, and for whom the costs of switching partners are consequently high, will fear that the more flexible part will opportunistically renegotiate the terms of trade".

Williamson (1986) interprets asset specificity in a broader context. He distinguishes four types of asset specificity: (a) "site specificity" (when successive stages are located in close proximity) (b) "physical asset specificity" c) "human asset specificity" (d) "dedicated assets" (expansion of existing plant on behalf of a particular buyer). He argues that common ownership under these circumstances is unlikely to prevail. Further he notes that the higher the asset specificity the more likely the internal organisation and vertical integration. One possible solution to the problem could be the contracts, as will be shown below they are incomplete and vertical integration is preferable in many respects.

A different argument relating to asset specificity and small number condition is of Klein at al (1986). They argue that if the quasi rents of specialised assets increase, the owner of the assets is likely to integrate vertically. The quasi rent value of the asset is "the excess of its value over its salvage value, that is, its value in its next best use to another renter" (Klein at al, 1986:231).

Incompleteness of Contracts

As discussed earlier one way of exchanging intermediate products between firms is to make a contract. However, contracts fail in many cases. First of all, because of bounded rationality, not every detail will be reflected in the contract and when the conflict emerged "the less interdependent parties will interpret contractual ambiguities to their own advantage" (Williamson, 1971:115). Secondly, if the whole production requires adaptive sequential decision making, conflicts again arise owing to the different interpretation and uncertainty. Finally, as Klein at all (1986:231) observes, "even when all of the contingencies can be specified in a contract, contracts are still open to serious risks since they are not always honoured".

Transfer Pricing

Transfer pricing is also considered as one of the transactional imperfections causing vertical integration Casson, 1984). Because internal markets of firms can be used to minimise fiscal interventions or to take advantage of different financial regulations in different countries. Casson (1984:7) explains how firms can benefit from transfer pricing:

> "..., tariff payments can be reduced by underpricing imports of an intermediate product. Total liability for profit taxes on international operations can be reduced by overpricing intermediate products exported from low-tax countries and imported into high tax countries. It may also be possible to avoid exchange rate controls on capital movements by disguising capital exports as overpayment for imported products.

Although some of these tactics could be pursued by agreement between independent firms, the administrative arrangements are easier to make, and much easier to disguise under vertical integration".

Marketing Costs

Marketing costs has already been touched upon implicitly as a factor leading to vertical integration in the asset specificity and information asymmetry, and quality control. The costs may stem from the search for intermediate products (i.e. information associated with the design and development of the product specific to the market) or from the transportation and promotion of the final product (Casson, 1987). For example if the product is very sophisticated or complex and requires guarantee, sound promotion or after sale services, what Kindleberger (1989) calls "software", then the producer has to find a subcontractor who has considerable expertise in handling these activities. If the producer finds subcontracting ineffective, then there emerge an incentive for him to integrate vertically in order not to bear transactional marketing costs.

Structural Market Imperfections

Successive Monopoly

It is argued that monopolistic power at successive stages of production can provide an incentive for vertical integration (Spengler, 1959). The argument is that if independent monopolistic firms integrate vertically, that integrated firm can earn a larger profit than can be obtained by monopoly pricing at different stages independently. That means that the integrated firms' monopolistic profits exceeds the sum of the profits earned by non-integrated independent monopolists at each stage of production Kaserman, (1978:496) explains why this is the case:

> "monopoly rents imposed upstream become costs to the downstream producers. These costs are added to the marginal costs of production at the downstream stages, and the equating of marginal revenue to the sum of those costs result in a below-monopoly output of the final product. Since maximum profits for the industry as a whole can only be attained equating marginal revenue to the minimum obtainable marginal cost at the

final stage of production, integration, by rationalising the production the production process, must result in an increase in overall profits" (1978:496).

Upstream Monopoly

A firm possessing monopoly power and selling to a relatively competitive downstream industry may find it advantageous to integrate vertically. First, if the intermediate product it sells is not substitutable, then the firm may want to grasp the profits of other intermediaries by producing at every stage and selling directly in the market. Second, if there is the possibility of substitution,

> "downstream firms will combine inputs in inefficient proportions as the relative price of the monopolised intermediate good is raised above its marginal cost. Then the monopolist may integrate downstream and produce the final product at reduced cost, pricing the monopolised input internally at marginal cost" (Kaserman, 1978:498).

Price Discrimination

If firms have monopoly (or oligopoly) power in the input market at one stage, there emerge an incentive to discriminate price and increase profits which may lead to vertical integration. Assuming that there is a high demand elasticity in the final product and that product is sold in more than one output market, then the firms which possesses monopolised or oligopolised input lower the price of intermediate input to one of the downstream firms. This gives rise to lower cost of final product, hence lower sales price which in turn leads to an increase in demand (because there was the high elasticity of demand) (Kaserman, 1978). In this case the upstream firm integrates with high-elasticity downstream firms in order to eliminate incentives for arbitrage and avoid contractual deficiencies. The increased profits available from effectuating the price discrimination scheme may be shared by the parties of the merger so that both the input monopolist and the high elasticity downstream firms can realise gains from integration (Kaserman, 1978).

Entry Barriers

Vertical integration can also be used to create entry barriers for future competitors (Williamson, 1971). The logic of the argument is that new entrant firms will feel compelled to enter at more than one stage simultaneously which increase the financial and managerial resource requirements. Because first all the firms in the industry might be integrated, which means that there will be no market for the input at single stage entry. Second, the costs of integrated firms may be lower, which again requires market entry at different stages simultaneously.

Bilateral Monopoly

Bilateral monopoly is a "bargaining situation which the only buyer of a good faces its only seller" (Herrick and Kindleberger, 1983:507). This approach asserts that each party producing at one stage will want to assure that they will not be cut off from the supply of inputs or from markets for inputs (Kindleberger, 1984; 1989). So with a view to ensuring intermediate products or market access, they will be motivated to integrate vertically. Also, it is possible that one party or the other (the one which takes over) will obtain the intermediate product on better terms through vertical integration.

Oligopolistic Co-ordination

It has been suggested that if oligopolistic firms at different stages of production integrate vertically this will help stabilise input and final product prices, and improve co-ordination capabilities (Adams and Dirlam, 1964). This would also prevent monopolistic competition at the intermediate input level and resolve the pricing of final product and market sharing problem.

Diversified (Conglomerate) Multinational Enterprises

Diversified multinationals are firms which extend both horizontally and vertically across national borders and produce different line of products which may not be complimentary to each other. Diversification of M.N.Es occur in two ways: "product-market" and "financial" (returns in different currencies) (Buckley, 1985). In addition to motives for horizontal and vertical expansion of firms internationally, which are explained above, there are a few theories that specifically attempt to answer the question; why do conglomerates exist?

First, it has been suggested (Rugman, 1979) that international diversification of firms helps risk reduction and provide more stable streams of income than portfolio diversification by individuals. The reason for this, Rugman argues, is the institutional or other barriers (costs) which prevents portfolio investor to optimise the returns. So the rationale for portfolio investor is to buy the shares of M.N.Es and this gives rise to diversified M.N.Es. In this case, M.N.Es are regarded as institutions which internalise external financial capital along with its firm specific advantages (Kay, 1991).

Second, Caves (1982) sees international diversification of firms as a way for more stable income against recession, major policy changes in government, policy changes in exchange rates, and changes in terms of trade; all of which suggest the high risk of operating in only one country. Finally, Teece (1986) agrees with the idea that internalisation of financial markets leads to diversification. But he adds "physical and managerial excess capacity" that is, accumulation of capital in few hands, as a contributing factor to multinational conglomerates.

Theories of M.N.Es

There is a host of theories which attempt to explain the *raison d'être* of M.N.Es. These theories try to answer two fundamental questions: (a) what motivates national firms to go and produce abroad? and (b) what enables them to do so? Some of the theories are overlapping whereas some emphasise particular characteristics of M.N.Es. In this section it is intended to step back from detailed discussion of each theory, but to survey them briefly. It is the present author's view that such a survey will provide helpful insights when examining the case of tourism multinationals in developing countries. It is also important to note that in retrospect, non-equity forms were perceived to stem from government restrictions or their inferiority to equity involvement. Given this fact, the theories of M.N.Es centre around equity involvement (foreign direct investment) by M.N.Es.

Broadly, the theories will be grouped into two; "macro economic approaches" which try to explain M.N.Es from international economics and trade point of view and "micro economic approaches" which are based on the theories of firm and industrial organisation (Kojima, 1984).

Macro Economic Approaches

Foreign Direct Investment as International Capital Flows

Until 1960, F.D.I was regarded as a form of international capital flows. Capital flow theory suggests that capital (financial) moves between countries in relation to differing interest rates in different countries (Hymer, 1979). It is also pointed out that interest rates would vary depending on the "factor endowment ratios of labour and capital and risk premium" (1979:2). By the same logic, it is believed that M.N.Es occur in countries where the return on investment is higher (Parry, 1980). Apparently, no distinction was made between portfolio investment and equity involvement by M.N.Es. This explanation failed on the following grounds: (a) M.N.Es were not only the transfer of capital but also, technology, management and organisational skills and they were transferred within the firm retaining control over their use (Dunning, 1979), (b) majority of M.N.Es were not going to the countries poorly endowed with capital (Hennart, 1982) and financial institutions were not prevailing among M.N.Es (Caves, 1982), (c) the US was attracting portfolio investment but exporting F.D.I (Caves, 1982), (d) some countries were both home and host for M.N.Es. Owing to the fact that the above contradictions could not be explained, this hypothesis was abandoned.

Location Theory of International Investment

Some authors argued that location theory, if extended across national boundaries, could explain why M.N.Es emerge (Parry, 1980). Location theory is of two kind; "supply oriented location theory" explains that production takes place where the factor costs for production (including distribution) are the lowest (Dunning, 1973). Conversely, "demand oriented location theory" asserts that the location of a firm is governed by the location of its market and competitors (Dunning, 1973). Bringing the two theory together four main locational factors; raw materials, cheap labour, protected and untapped markets and transportation costs are believed to give rise to emergence of M.N.Es (Buckley, 1985). Although this approach provided valuable insights as to geographical distributions of M.N.Es, it fell short to explain "how it was that foreign owned firms could outcompete domestic firms in supplying their own market" (Dunning, 1979:273) neither did it give any hint about the origin countries of M.N.Es.

Government Imposed Distortions

It is often articulated that tariffs, trade barriers (i.e. quotas) and non-tariff barriers (i.e. regulations for imported goods) are a major cause for the presence of M.N.Es (Calvet, 1981; Ragazzi, 1973). Most of the time M.N.Es is thought to be a reaction to protected markets. Empirical studies found a correlation between high tariffs protecting an industry and the share of M.N.Es sales in that industry (Caves, 1982). "Levy of taxes" and "price and profit regulations" are also considered as government disruption affecting the decision of firms to operate abroad (Calvet, 1981). This assumption is clearly far from explaining the existence of M.N.Es. Because, it only sheds light on how firms overcome trade barriers and rationalise their operations in other countries, it says nothing as to the origin of their desire and ability to do so. Moreover, it is not clear why these trade barriers are not overcome by other means (i.e. licensing). (Calvet, 1981).

The Aliber Theory

Aliber (1970) sought to explain M.N.Es through financial market relations, namely "exchange risk" and "the market's preferences for holding assets denominated in selected currencies". More specifically he hypothesised that it is the financial market which enable firms to have advantages over host country firms and applicable to all firms whose assets and borrowing are based in selected currencies. In one of his later writings, he summarised his rather complex argument as follows:

> "this advantage derived from the preference that investors in the US and abroad had for dollar-denominated debt. The evidence was that interest rates on dollar denominated debt were lower relative to interest rates on debt denominated in various foreign currencies after adjustment for any anticipated changes in exchange rates. The derived argument was that investors would pay a higher price for a $1 of equity income of US headquartered firms than for the equivalent equity income of the prevailing exchange rates of firms headquartered in most of the countries. In effect US firms bid away foreign income stream from foreign firms" (Aliber, 1983:155-56).

In simplified language Aliber reasoned that M.N.Es tend to flow from strong currency areas to weak currency areas. Critics of Aliber argued that while the view is compatible with the early post-war American domination, it gave no account of the rise of European and Japanese M.N.Es (Buckley and Casson, 1976; Ragazzi, 1973). Specifically, Ragazzi drew the attention that "net F.D.I of the UK increased rapidly at a time when sterling was weak". In defence, Aliber (1983) attributed the upsurge of F.D.I from Japan and Europe to the decline of 'market values' of US firms relative to the market value of firms headquartered abroad.

Another criticism pin-pointed an important issue that many M.N.Es raise much of their funds for investment in host countries and currencies where the investments take place and financial capital is not the most important component of M.N.Es (Hennart, 1982).

On the other hand, Cantwell (1991) sees the theory as giving useful insights about the "timing" of F.D.I and "take-overs" of M.N.Es which move into an unrelated business sector.

M.N.Es as Supplement to International Trade

Apart from mercantilistic and absolute trade theories, all trade theories (comparative advantage, neo-classical and neo-factor trade theories) suggest that

> "each country will specialise in the production and export of those goods that it can produce at relatively lower cost (in which it is relatively more

efficient than other countries), conversely, each country will import goods which it produces at relatively high cost (in which it is relatively less efficient than other countries)" (Samuelson and Nordhaus, 1989:901).

This is so owing to the fact that each country has certain endowments of factors of production and that demand differs internationally. Nevertheless, although some countries are well endowed with natural resources or labour, they are not able to produce efficiently because of lack of intermediate products, namely capital, technological knowledge and managerial capacity.

Considering this fact, Kojima (1978) tried to integrate trade theory with M.N.Es. He suggested that

"F.D.I is required in order to make factor markets more competitive and efficient internationally and to improve production processes in the country which is well endowed with the given resource" (1978:22).

He believed that M.N.Es would lead to the improvement of production and exports if it is transferred a package of capital, managerial skills and technology from an industry which has a comparative disadvantage in the investing country compared to the recipient country, thus contributing to the productivity and comparative advantage of host country. This he called "trade oriented" M.N.Es which he associated with Japanese type of M.N.Es. On the other hand, if M.N.Es move out from an industry which has comparative advantage in the investing country to another which is in a disadvantages position that would result in a "loss of efficiency by blocking the reorganisation of international trade" (1978:22). This he called "anti-trade oriented" M.N.Es which he associated with the US M.N.Es.

More specifically, Kojima distinguished three different motives for M.N.Es: (a) "resource oriented" (b) "labour oriented" (c) "market oriented". According to him, first, resource oriented M.N.Es take place because the investing firm wants to increase and secure the imports of commodities which home country lacks or produces at a higher cost. This was labelled as trade oriented. Second, labour oriented M.N.Es occur in locations where the cheaper labour prevail. This is also labour oriented for it employs idle or inefficient factor of production.

Finally, market oriented M.N.Es are of two kind. The one which is induced by trade barriers is trade oriented providing that it serves the import substitution policy of recipient country while providing more efficient use of resources. If the import substitution industry grows towards export orientation, this kind of F.D.I turns out to labour oriented. The other type of market oriented F.D.I is 'market-seeking oligopolistic' M.N.Es. In Kojima's view, this type of M.N.Es substitute for international trade and not beneficial for the host country.

Of course, Kojima's approach was not an exception to scholars' dialectics. Either (1986) criticised the theory by stating that the larger part of actual M.N.Es are between the countries with relatively similar factor endowments. Dunning (1988:10) argued that Kojima theory falls short in two areas:

> "First, it can neither explain nor evaluate the welfare implications of those types of F.D.I prompted by the desire to rationalise international production and to benefit from the common governance of cross-border activities, second, it ignores the internalisation of intermediate product markets and market failures".

(transactional or structural). Dunning also found the dichotomy between Japanese and American M.N.Es artificial and reasoned that

> "the initial act of F.D.I would take place in sectors where investing country has a comparative advantage in intermediate products over recipient country"(1988:9).

And this would change from "country specific advantages" to "the transaction cost-minimising advantages" which are rather firm specific.

Micro Economic Approaches

Business Administration Approach

There are two versions of the business administration approach; first one regards M.N.Es as a result of the growth of the firm (Kindleberger, 1969), and the second sees M.N.Es as a process of internalisation in the decision making "as a result of reduction of psychic distance through manager's gradual accumulation of experiential knowledge for foreign markets" (Sullivan and Bauerschmidt, 1990:19). According to the first assumption firms grow in two ways: (1) by reinvesting the internally generated finance which is a cheaper source, (2) firms grow as their markets grow (Kindleberger, 1969). The former is not a plausible argument for it takes no account of M.N.Es which is financed in the host country. Concerning the latter if markets grow it does not follow that M.N.Es should take place in that foreign market, it could be served by exports or licensing. There is no answer why local firms are inferior to home country firms in growing by reinvesting internally generated funds and in serving the local market. The second version, internationalisation in the decision making, fails to explain the factors leading to that decision.

Hymer-Kindleberger Theory

This theory is also known as "monopolistic or oligopolistic power", "structural market imperfection", "market power" and "industrial organisation" theory. In order to explain the wide spread of the US multinationals Hymer (1960) took a distinguished avenue which many scholars confirm that it formed the present theory of M.N.Es (Horaguchi and Toyne, 1990; Kindleberger, 1984; McClain, 1983). He tried to answer three fundamental questions: (a) why do firms go abroad? (b) how are they able to survive in foreign markets in which they bear initial costs (i.e. communication, misunderstanding) *vis-à-vis* native firms? (c) why do they want to retain control and ownership? (the case of F.D.I) (Hymer, 1979). Basically, he found two kind of incentives; "monopolistic or oligopolistic advantages" the home country firms enjoyed over host country firms and "removal of competition" between the firms in different countries. He noted that "international firms do not operate under conditions of perfect competition" (1979:3).

With respect to the first motive he did not put any particular emphasis on a single advantage, but he stressed that "there are as many kinds of advantages as there are functions in making and selling a product" (Yamin, 1991:41). According to Hymer, the second motive could be achieved by way of "collusive agreements". In Hymer's view, the tendency toward the choice between licensing or contractual agreements and F.D.I would depend on "the degree of imperfection, danger of loosing advantage and comparative rate of return" (Yamin, 1991:75)

In one of his later writings, Hymer introduced another major incentive for firms to go abroad, namely the economies of scale and efficient functioning of firms' organisation in co-ordinating activities at the firm level compared to the industry level (Horaguchi and Toyne 1990). In the light of his thesis, especially relating to the first motivation (market imperfection based on monopolistic or oligopolistic advantages), a number of studies seem to have tried to pin-point advantages and single out the most important one. First, Kindleberger, the supervisor for Hymer's theses, argued that "in a world of perfect competition in goods and markets, F.D.I can not exist" (1969:14). He categorised market imperfections as follows:

> "(a) imperfections in goods market: ownership of a brand name, product differentiation, marketing skills and administered pricing (b) imperfections in factor markets: unavailability of technology, discrimination in access to capital market, and differences in skills of managers, (c) economies of scale both external and internal to market, (d) government limitations on output or entry" (1969:14-16).

Second, Johnson (1970) considered the special knowledge and skills as the most important "public good" to the firm and pointed out that it can be exploited at little cost or no extra cost which well may be a prime motive for M.N.Es. Third, Hirsh (1977) drew attention to the knowledge gained from innovations through research and development. Finally, another refinement of market imperfections and monopolistic or oligopolistic advantages was carried out by Magee (1977). He stated that M.N.Es are a device to appropriate rents, which is unobtainable through the market, by specialising in "the production of information", "sophistication of technology" and "transmitting them intra-firm" across national boundaries (McClain, 1980:294).

The second motive proposed by Hymer, removal of competition through collusive agreements, did not seem to receive as much attention as the first one. Informal or formal collusive agreements are recently beginning to appear as a factor inducing firms to go abroad and appropriate rents (Casson, 1987; Cowling and Roger, 1987).

Due to the fact that the latest approach of Hymer has not drawn attention until recently, the theory of M.N.Es was redeveloped under different names and Hymer' s contribution remained somewhat controversial and incomplete.

Product Cycle Theory

In line with Hymer's market imperfections and monopolistic advantages theory, Vernon (1966;1979) argued that technological innovations (development and production of new products) in consumer and industrial goods could explain international investments of firms. Assuming that

> "(a) products undergo predictable changes in production and marketing, b)restricted information is available on technology, (c) production process changes overtime and economies of scale prevalent, (d) tastes differ according to income and products can be standardised at various income level" (Buckley, 1985:7).

Vernon distinguished three different stages in the life of a product; "the new product", "the maturing product" and "the standardised product". The argument goes as follows.

The first stage takes place in large markets (because of demand and effective communication with the market) with high income per capita and in industries with high labour cost (U.S.A). After the feedback is received from the market and product is modified accordingly, the new product emerges. Even if the new product is outside the US, the producer is induced to the US owing to the convenient market conditions. At the second stage "a certain degree of standardisation" comes into existence because of the increase in demand and "the commitment to achieve economies of scale" (1966:196).

Product differentiation does not come to an end, specialisation in product for different market segments prevail and the cost of production gains more attention and importance. Competition begins to appear at this stage. The location of production is unlikely to move somewhere out of the country. Vernon notes that this stage is crucial for the firms whether to invest in other advanced countries or to continue to export. He mentions a host of considerations for this decision (cost of production, protected patent position, threats of new competition in the country of import, the level of tariff protection and the political situation). After careful evaluation, he believes that more advanced countries would be the first to receive F.D.I because of threat either from home country or host country competitors. At the last stage of product cycle (the standardised product), the less developed countries are considered to provide competitive advantages especially in terms of labour cost.

In subsequent versions of product cycle theory, Vernon (1971, 1979) attributed M.N.Es to the oligopolistic behaviour of firms. The cycles have been changed into "innovation based oligopoly" "mature oligopoly" and "senescent oligopoly". As regards the first stage innovation could be in labour saving as well as land saving (European M.N.Es) and material saving (Japanese M.N.Es). The mature oligopoly stage holds that there are few firms dominant in the market in which they are on alert to each others' locational and product differentiation strategies and entry is very difficult. It is at this stage that F.D.I occurs to capture new markets and locational advantages. As for the last stage advantages held by few firms come to an end. The firms may "slough off" the product or create new oligopolistic advantages. They may also look for cheap production location in less developed countries.

A few shortcomings of product cycle theory are expressed. Rugman at al argued (1985) that it did not take into account various comparative advantages of different countries at the initial stage of production. As a point in case, it is shown that resource oriented M.N.Es do not fit in this theory (Hood and Young, 1979). It is added that products are developed not only for a particular market for different markets continuously (Buckley and Casson, 1976). Recently, Vernon (1985) acknowledged that although the theory had some explanatory power of the US M.N.Es, it had declined.

M.N.Es as Oligopolistic Reactions of Firms

This view suggests that oligopolistic firms will respond to initial F.D.I of rival firms in order to seize a market share (Knickerbocker, 1973). In the test of the hypotheses on 187 American M.N.Es. Knickerbocker discovered that foreign subsidiaries are bunched together within very close time periods. Clearly, this does not form a separate theory of M.N.Es. What is needed to be explained is the initial act of M.N.Es.

Internalisation (Transaction Cost) Theory of M.N.Es

Based on the profit maximisation and growth principles of firms, Buckley and Casson (1976) argued that because of market imperfections in intermediate products, notable knowledge, firms will create an internal market (internalise external market) in order to increase profits and avoid certain costs. This theory differed from that of Hymer in that firms do not need monopolistic or oligopolistic power at the beginning, though it is acknowledged later that monopolistic or oligopolistic advantages could also be internalised (Casson, 1986) (Teece, 1981) or internalisation of intermediate products could lead to monopolistic or oligopolistic advantages (Casson, 1987). An internal market could be created in two ways:

> "First, internalisation of a market refers to the replacement of an arm's length contractual relationship (i.e. external market), second, internalisation of an externality refers to the creation of a market of any kind where non-existent before" (Casson, 1986:46).

In this context, internalising markets across national boundaries leads to M.N.Es. In the original version of the theory, (Buckley and Casson, 1976:74) found four group of factors critical to the internalisation decision:

> "(1) industry specific factors relating to the nature of the product and the structure of the external market, (2) region specific factors relating to the geographical and social characteristics of the region linked by the market, (3) nation specific factors relating to the political and fiscal relations between the nations concerned, (d) firm specific factors which reflect the ability of the management to organise an internal market".

Later on those writers who took this avenue brought the so called "transaction costs" or "natural market imperfections" prominence for the decision to internalise markets (Teece, 1981, 1985; Rugman, 1982; 1986; Hennart, 1982; Casson, 1982). As noted earlier, transaction costs cover all the cost in organising an economic activity. The logic of transaction cost is that if firms incur lower costs or higher revenues, then they will internalise markets across national boundaries. Transaction cost approach seem to have diverted attentions from market power to the efficient functioning of the internal markets of the firms. For instance, Dunning and Rugman (1985:229) argue that

> "if an exogenous market imperfection leads M.N.Es to organise an internal market or to replace more expensive modes of transactions, then the process of internalisation improves efficiency. No rents would be expected for the M.N.Es".

Teece also acknowledged the superior working of internal markets especially in the case of vertical integration. But he added that "circumventing or minimising taxes and controls" and monopoly power could well be incentives to internalise markets (1981:4). Many years ago, Hymer (1960) had already spelled out these motives adding collusive agreements. It is interesting to note here that in both cases (i.e. structural and transactional market imperfections), it is the market being accused. One feels to mention Galbraith's (1987) brilliant insights into this. He notes that this kind of reasoning and intellectual word game subordinates the economic and political power of enterprise to the market.

To sum up, internalisation (transaction) theory holds that

> "(1) firms choose the least cost location for each activity they perform, and (2) firms grow by internalising markets up to the point where the benefits of further internalisation are outweighed by the costs" (Buckley, 1988:182-82).

Whether be it monopolistic or oligopolistic advantages, transaction cost advantages or collusive agreements to internalise markets, internalisation theory based on the growth and profit maximisation of firms accommodates all. In all the above cases, knowledge (in a broad sense described in the horizontal M.N.Es) is seen as the single most important intermediate product to internalise external markets.

Eclectic Paradigm as a General Theory of Multinational Enterprises

Because of the implicity of internalisation theory in emphasising locational and firm specific factors as incentives to internalise markets, Dunning (1979, 1980, 1988) brought the strands of different theories and developed an eclectic paradigm. He put forward three sets of advantages to determine the "extent", "form" and "pattern" of international production of firms. These advantages are ownership (firm specific), and internalisation and location advantages.

Dunning defined ownership advantages as "any kind of income generating assets which make it possible for firms to engage in foreign production" (1991:123). he distinguished between tne "asset power" and "transactional advantages". According to Dunning, the former stems from the proprietary ownership of specific assets *vis-à-vis* other enterprises, whereas the latter is the result of the capturing the transactional benefits or reducing transactional costs compared to external market. He also noted that the ownership advantages of firms would be different depending on the "characteristics of the firms, the products they produce and the markets in which they operate" (1988:2).

The second advantage, internalisation, as discussed earlier, depends on whether or not transferring ownership specific advantages is in the best interests of enterprises within the firm. If internal market is perceived to provide more gains *vis-à-vis* external market, then internalisation will take place. Regarding the locational advantages, Dunning pointed out that firms will be

> "involved in foreign production whenever they perceive it is in their best interests to combine spatially transferable intermediate products produced in the home country, with at least some immobile factor endowments or other intermediate products in another country" (1988:4).

Once again, Dunning made a distinction between structural market imperfections (i.e. government distortions) and transactional imperfections resulting in transaction gains such as transfer price manipulation, reduction in costs, gains from leads and lags in payments in different locations.

Although it is acknowledged that eclectic paradigm has wide applications to explain F.D.I and new forms of international investment (Either, 1986), Casson (1986) argued that internalisation theory encompass ownership and locational advantages. However, because of its explanatory power and analytical convenience we will adopt ownership-location-internalisation (O.L.I) paradigm as the general theory of M.N.Es and apply it to tourism multinational enterprises in the next chapter.

M.N.Es and Host Developing Countries: A Discussion of Impacts

Whether developed or developing, M.N.Es pose significant economic, socio-cultural, political and environmental ramifications for both home and host countries. Here these consequences is dealt with from developing host countries' point of view.

Economic Effects

To what extent M.N.Es contribute to the economic development of less developed countries is one of the most disputed and ambiguous issues. This is partly because of methodological difficulties to assess direct and indirect impacts on the economy. On the methodological deficiencies U.N.C.T.N.C (1988:97) notes that

> "first, there is the problem of accounting not only for direct but also for indirect effects, second, there is the difficult question of what would have been the alternative to the activity of these corporations, third, there is the problem of attribution; certain virtues and certain defects may be the result of their activity, or they may be the result of government policy".

According to orthodox economic theory assumptions, M.N.Es bring in host countries capital, technology, management skills, market access, increase competition, efficiency, and create jobs and income, thus contributing to "efficient functioning of markets". However empirical studies seem to be controversial as to these contributions. With respect to economic effects, the following areas were found to be crucial and the most reflected in the literature:

(a) transfer of capital;

(b) transfer of technology and management skills;

(c) marketing;

(d) balance of payments effects;

(e) effects on employment and wage structure (income distribution);

(f) effects on industry structure and competition;

(g) linkages between industries;

(h) economic autonomy and dependency.

It should be noted that the above effects of M.N.Es would vary depending on: (a) whether they are export oriented or serving the domestic market (Reuber at al, 1973), the former can be divided as exports of natural resources or resource based products and exporters of manufactured goods (Caves, 1982), (b) development level and market conditions in host countries, (c) host government policies and regulations.

Transfer of Financial Capital

It is argued that M.N.Es make a positive contribution to the development of L.D.Cs through the supply of capital (foreign exchange), which is often in shortage.

Naturally because of their large size, easy and privileged access to financial resources and high internal revenues, M.N.Es may bring in financial capital and increase the capital stock of the host developing country when the initial investment takes place. Apart from direct provision of capital, they can stimulate capital inflow indirectly by encouraging other multinational companies to come in or by unleashing the flow of official aid from the home country and international agencies. They may also mobilise domestic savings which might have remained idle or used in less productive activities. Against capital contribution of M.N.Es to developing countries critics raise several objections.

First, to acquire foreign capital through M.N.Es tends to be more expensive. Because "the rate of profit of M.N.Es is higher than the long-term rate of interest in international capital markets" (Lall and Streeten, 1977:54). Lall and Streeten (1977:54) argue that "our own studies confirm that host economies do not gain much *financial benefit* from foreign direct investment". Second, it is argued that the actual inflow of capital by M.N.Es is often fairly small and much of the financial capital is coming from local savings or reinvested profits (Hood and Young, 1979). This kind of funding reduces the domestic investors' rate of saving and nations' foreign exchange earnings available for imports, which in turn leads to the slow down of growth rate (Caves, 1982). Domestic savings can also be diverted to less productive and unnecessary productions in this way and local firms may be starved of investment funds. In this context U.N.C.T.N.C notes that

> "the impact of M.N.Es on capital formation will depend on whether there is a domestic alternative to the M.N.Es. If an affiliate of a transnational corporation replace domestic investment that would have taken place within reasonable period of time, then its contribution to capital formation will be small and could be even negative. ..., if the foreign investor possesses some intangible asset unavailable to the domestic economy in any other form than through the establishment of an affiliate, the foreign investment could make an important contribution to capital formation" (1988:140).

Finally critics (Vernon, 1971; Hood and Young, 1979) argue that initial capital inflow of M.N.Es is nothing compared to subsequent capital outflows and such outflows impact negatively on capital accumulation and balance of payments in L.D.Cs. Although the potential financial contribution of multinational enterprises can be minimal or nil, the supporters would defend that "the main advantages offered by M.N.Es are supposed to be not finance, but technology, management skills and marketing" (Lall and Streeten, 1977:54).

Transfer of Technology and Management Skills

Similarly, it is pointed out that technology and management skills, which are indispensable in economic growth, which M.N.Es provide is another major benefit to host developing countries. The benefits of technology and management skills to host country arise from the fact that M.N.Es are the main producers of technology, and they can transfer and diffuse these technologies and skills which would lead to greater efficiency, output, and managerial organisation. However transfer of technology and management skills by M.N.Es is not without costs.

In the first place, because of their monopolistic power over technology, rents realised by M.N.Es can be excessive in relation to technological benefits (Hood and Young, 1979). These excessive rents can be reflected in the repatriated profits, tie-in clauses in technology contracts to purchase capital equipment and intermediate parts from parent company when such items could be provided cheaply from somewhere else, limitation of the sale of goods produced using this imported technology to the receiving country. Also, in the case of non-equity investments, like licensing of brand name, patent rights and management contracts, the valuation of such contribution is difficult and arbitrary and may be overpriced for host countries (Lall and Streeten, 1977).

In the second place, there is the problem of *appropriateness* of transferred technology. For example imported technology to L.D.Cs may be capital intensive leading to

> "(a) an aggravation of employment problems, (b) a worsening of income inequalities, (c) distorting influences on technology used by other industrial firms, (d) a bias in production towards the sort of high income, sophisticated and differentiated products for which the technology has been developed" (Lall and Streeten, 1977:71).

But this may be inevitable for an export oriented industry serving developed country markets. In other cases transferred technology may be unnecessary in the sense that the appropriateness of the end product in L.D.Cs can be questionable. It means that products originally developed for wealthy developed country markets may be too sophisticated for L.D.Cs (except for the elite), distort the uses of scarce resources and may not reflect basic needs and preferences.

In the third place, there is the criticism that M.N.Es hardly undertake R&D and diffuse it in L.D.Cs, the end result of which is technological dependence (Lall, 1979). the costs of technological dependence for host countries is nicely summarised by Lall and Streeten, (1977:73):

> "The attitudes of subservient dependence it creates may inhibit the capacity to do even relatively minor adaptive research, or to put into industrial application processes which have been developed *locally*. At a more basic level, it may bias the whole science and education policy towards over-theoretical or irrelevant curricula, and so prevent even preliminary moves towards technological independence. Furthermore, the small R&D establishments which some M.N.Es maintain in industrially advanced L.D.Cs may serve among other purposes as antennae to pick up and transmit abroad research done locally".

A related argument is that M.N.Es often establish assembly plants and warehouses, both using unskilled labour, in L.D.Cs. Thus, the high value added section of production, high skilled and research intensive jobs are preserved in developed countries. Also, important managerial and skilled jobs are filled with expatriates. Obviously such practices prevent the overall transfer of technology and management skills.

Marketing

Another source of benefits of M.N.Es to L.D.Cs is derived from the marketing skills of M.N.Es. These benefits may be "internal marketing benefits" and "external marketing benefits" (Lall and Streeten, 1977). Internal marketing benefits include improvements in storage and transport arrangements; delivery and lower prices of products; better information about products to consumers in general; provision of a wider range of products and large scale distribution networks. In fact through "imitation" and "demonstration effect" these skills can be picked up by local businesses which is a positive spin off effect. As for external marketing benefits, export oriented industries of L.D.Cs can benefit greatly from world-wide marketing outlets, skills and reputation of M.N.Es (Lall and Streeten, 1977). In fact without M.N.Es' involvement developed county markets may be closed to developing countries.

Against these benefits, some costs can be noted. In the case of internal marketing, marketing practices of M.N.Es may strengthen their monopolistic market power, increase marketing costs, hence prices and create tastes which may be incompatible with prior consumption needs of poor societies. As long as external marketing benefits are concerned, it is posited that comparative analysis of the actual export performance of M.N.Es and domestic firms do not support the thesis that the former is better than the latter at exporting (Cohen, 1973).

Balance of Payments Effects

When a multinational company establishes a subsidiary in a developing country, the capital account of the balance of payments obviously benefits from any initial capital inflow. However constant outflows of profits, dividends, royalties or management fees of M.N.Es after the initial investment changes the balance of payments negatively for L.D.Cs. So if the capital inflow is less than capital outflow in a given period of time, then it may be said that M.N.Es have negative impact on the balance of payments. The test of this proposition was found mostly negative. For example, Vernon (1971) found that from 1960 to 1968 an average of $US1 billion of capital was being transferred to US subsidiaries in developing countries annually but an average of $US2.5 billion were being repatriated back to the US.

In a study of six developing countries Lall and Streeten (1977) discovered that the impact on balance of payment was negative in five countries. Empirical evidence shows that foreign investors in L.D.Cs are very quick to repatriate income from their investments. This leads critics to argue that "the operations of M.N.Es decapitilase L.D.Cs that is, leave them with less capital than they would have had in the absence of M.N.Es" (Casson and Pearce, 1987:120).

The inflow-outflow balance criterion to evaluate balance of payment effect of M.N.Es is found to be misleading and described as one of the "historical wrongs"

(Kindleberger, 1984). It has been suggested that the outflow of capital could be higher as a result of inflation and that it is natural for an investor to expect that profits will exceed original investment (Herrick and Kindleberger, 1983). Alternatively, Herrick and Kindleberger argued that in order to measure the contribution of M.N.Es to balance of payments in the case of export oriented investment it is important to consider "how much of its receipts from export sales it is forced to spend domestically" (1983:466). If the M.N.Es are serving domestic markets, they pointed out that

> "the economy as a whole must be sufficiently productive to increase exports or reduce imports or both, in amounts sufficient to cover the repatriated profits if pressure on the balance of payments is to be avoided" (1983:466).

However there is no reason to look at the overall performance of economy to measure the balance of payments effects of an individual M.N.E operating in developing countries. If the only criteria is balance of payments effect of M.N.Es then it is perfectly legitimate to judge it on the basis of capital inflow-outflow balance. Nevertheless Herrick and Kindleberger have a point in that in the case of import substituting and export promoting M.N.Es the method to measure contribution to balance of payments would be different. In the case of former, one would need to estimate how much capital outflow (foreign currency) is saved on balance of account by having M.N.Es serve domestic market and subtract it from total capital exports of M.N.Es to find out actual capital outflow. It also becomes relevant to ask how much capital outflow could be prevented if the M.N.Es were domestic firm.

Apart from overt effects of M.N.Es on the balance of payments, measured as capital inflow-outflow balance, there are two implicit methods by which host developing country's balance of payments may be worsened by M.N.Es operations; transfer pricing and tie-in agreements. The transfer price is

> "the price at which a transfer or sale of goods takes place within a firm, regardless of whether or not the firm spans different countries. Such prices can be quite different from the prices that would obtain in arm's length transactions, and can be used to shift profits clandestinely between affiliates and the parent company or between affiliates" (Hood and Young, 1979:190).

Transfer pricing can operate against the balance of payments of host developing country by high pricing of inputs M.N.Es buy from affiliated company through intra- trade. The overpriced inputs act as capital exports in disguise. In such cases

> "the costs are not simply balance of payments costs: local shareholders may lose part of their legitimate profits, workers may lose if wage increases are curbed, and consumers may pay higher prices" (Hood and Young, 1979:191).

Similarly, tie-in agreements that is, the obligation of affiliate M.N.Es in L.D.Cs to buy certain equipment and intermediate parts from parent company or another affiliates also impact negatively on balance of payments of L.D.Cs. Because such imports can be available in L.D.Cs or they may be high priced compared to other suppliers.

Employment and Wage Structure

The next contribution of M.N.Es is the creation of direct and indirect employment in L.D.Cs. Employment creation of M.N.Es as a positive effect on host countries is sensible only it is assumed that the jobs would not be created without M.N.Es. By virtue of their existence M.N.E clearly make some contribution to increasing level of employment in L.D.Cs. However there are criticisms that they use capital intensive production methods where there is plenty of labour; that they provide low skilled jobs, employ expatriates at managerial level and do very little in training senior local staff; that most of the income and employment is generated in the most developed region of host countries, thus widening the gap between poor and rich (Buckley and Casson, 1976).

A related issue is the effect of M.N.Es on wage structure. M.N.Es seem to be in a dilemma in this context. When they pay higher wages than those of host countries, which is the case most of the time (Reuber at al, 1973), they are accused of creating a "dual economy" (Kindleberger, 1969) and causing employer-employee conflicts and income inequality. When they pay less than home country wages, they are charged with exploiting labour (as long as productivity is the same). They are also accused of initiating and supporting anti-labour policies of host governments (Lall and Streeten, 1977).

Effects on Industry (market) Structure and Competition

Another impact of M.N.Es on L.D.Cs is concerned with the industry in which M.N.Es are operating and effects on local enterprises. Since M.N.Es enjoy variety of monopolistic or oligopolistic advantages over the local firms (economies of scale, access to credit, better technology and management skills, product differentiation etc.), they may outcompete or buy out local firms and drive them out of business. Monopolistic market position and concentration of M.N.Es in L.D.Cs is widely documented (Hood and Young, 1979). This certainly reduces the competitiveness in industries and increase the market power of M.N.Es which may determine the price and output in any sector of the economy. Consequently, the appropriation and repatriation of rents results in reduction of available local investment funds, and accumulation of capital in foreign hands. This kind of market structure may also depress the development of local entrepreneurial skills, capital accumulation and make market entry more difficult. Clearly, if such monopolistic positions are secured by M.N.Es in exports of minerals or primary products, they can keep prices at low levels than could be obtained otherwise to fuel the economies of developed countries. In such cases M.N.Es act as agents of unequal trade and can be accused of being instruments of imperialism.

On the benefit side, it is suggested that M.N.Es may increase competition and reduce prices by entering industries monopolised by local firms. But this is unlikely to be the case in developing countries where M.N.Es can easily outcompete local firms and establish monopoly position. At best they may engage in collusive, price fixing or market sharing agreements with local or other firms.

Linkages Between the Industries

The stimulation of other industries is also considered as a potential positive economic effect of M.N.Es. Nevertheless it is suggested that M.N.Es import more inputs for the production than their local counterparts do and that they do not provide backward or forward linkages with local industries. Empirical investigations of this kind supported this proposition (Biersteker, 1978; Cohen, 1973; McAleece and McDonald, 1978).

Economic Autonomy and Dependence

Finally, even if they contribute to material development, L.D.Cs perceive M.N.Es as being agents reducing economic autonomy and strengthening dependency. Two schools of thought clash on this issue. "Bargaining school" admits that at the outset, despite the raw material, labour and market advantages of L.D.Cs, M.N.Es possess more bargaining assets (i.e. capital, technology and managerial skills) (Grieco, 1985). But this could change in favour of developing countries in due course by which autonomy and dependence could be secured. Conversely, "Marxist dependency school" postulates that

> "the form and growth of the important sectors of the developing countries are determined primarily by the M.N.Es acting outside the control of the host L.D.Cs governments. They are one of the instruments by which advanced capitalist countries keep the developing countries at a disadvantage in the international economy" (Chaudhuri, 1988:58).

It is a difficult issue to determine the criteria for judging the influence of M.N.Es on economic autonomy and independence. A number of ways and means can be pointed out to explain how M.N.Es can create dependence and structural limits on development in L.D.Cs.

(1) Involvement of M.N.Es in the "wrong industry" to divert resources to less important, "unnecessary" or dependent industries. For example it can be done by investing in industries and technologies that have high import content and do not reflect the basic needs and priorities of L.D.Cs.

(2) Restrictions on technology transfer and concentration on low skilled industries or not carrying R&D in L.D.Cs to create a technological dependence.

(3) Producing balance of payments deficits through "capital flights" or "decapitilisation" and retarding development. Because such capital flights force L.D.Cs to borrow or ask for aid from developed countries leading to vicious circle of dependence.

(4) M.N.Es can become so important for L.D.Cs' export industry that the level of export earnings of L.D.Cs, whatever their share, may become dependent on M.N.Es.

Socio-cultural Effects

Socio-cultural effects cover a wide range of issues and are perceived to be negative in general (Heininger, 1986). They centre around; (a) effects on working class, (b) effects on entrepreneurial class, (c) effects on ethnic stratification, (d) effects on economic inequalities, (e) effects on consumption patterns and values, (f) effects on knowledge and skills and finally (g) effects on overall cultural identity (Kumar, 1980). Effects on working class examines employment practices of M.N.Es, wage differentials and relation between anti-labour (labour repressive) policies and presence of M.N.Es, and emergence of labour aristocracy. Effects on entrepreneurial class investigates whether M.N.Es promotes or inhibits local entrepreneurship. Effects on ethnic stratification concentrates whether M.N.Es contribute to the domination of one ethnic group or provide opportunities for deprived ethnic groups. Effects on economic inequality seek links between economic disparities and presence of M.N.Es. Effects on consumption patterns are one of the most debated one. The argument is that M.N.Es create new consumption patterns and values similar to that of developed countries and do not necessarily reflect the need of the society in L.D.Cs. Coca-Cola is a case in point. By doing so, they are charged with misallocating resources, stimulating wrong appetites and distorting development (Solomon, 1979).

Effects on knowledge and skills are again broad issues. Not only does it cover knowledge and skills transferred and diffused in the host country by M.N.Es, but it also includes the content and extent of information passed on by M.N.Es involved in mass communications and other industries. Effects on cultural identity focus on transformation of the society on the whole towards "westernisation" in value systems, beliefs, life-styles and consumption patterns.

Political Effects

M.N.Es are believed to exert considerable political effects on host L.D.Cs. Evidently this is not mere speculation. It is shown that they use their economic power to affect political decision making by supporting or subverting certain political parties;

bribery; lobbying; putting pressure via host country (New Farmer, 1980; Heininger, 1986; Solomon, 1979). Mainly, the political influence of M.N.Es relate to the following issues:

(1) lax environment and health standards for their production;

(2) tax evasions and lower taxes;

(3) subsidies and public contracts;

(4) anti-union and anti-labour legislation;

(5) lax regulation regarding product content and advertising standards;

(6) monopoly and patent rights;

(7) favourable foreign investment legislation;

(8) other concessions.

Environmental Effects

Environmental effects are not confined to the activities of M.N.Es. But because of public pressure and restrictions at home they are said to shift pollution intensive forms of economic activity from higher to lower income countries (U.N.C.T.N.C, 1985). when one recalls the product cycle one thinks the technology cycle and relation between technology cycle and environmental effects. Concerning environmental effects a distinction is made between production pollution and product (consumption) pollution (U.N.C.T.N.C, 1985). The former implies the pollution generated during the production process, whereas the latter results from the use and disposal of final products. One can add another type of pollution, namely aesthetic pollution relating to architectural concerns. U.N.C.T.N.C (1988) warns that while the profits are internalised within the firm hazards on environment and human can be externalised which is a social cost.

More optimistically, M.N.Es may introduce new pollution control equipment and techniques, and contribute to the creation of environment-conscious among local entrepreneurs and public.

Conclusion

This chapter has tried to clarify four major issues:

(a) definition of M.N.Es;

(b) types of M.N.Es;

(c) theories of M.N.Es which try to explain the reasons for their international investments;

(d) impacts of M.N.Es on developing countries.

It is argued that the motives of M.N.Es to go international and factors that enable them to do so are diverse and may change from industry to industry. But they can be examined under the O.L.I framework. Similarly, impacts of M.N.Es on L.D.Cs is likely to be different depending on, among other things, the industry in which M.N.Es operate. That is why the next chapter looks at the particular case of M.N.Es in tourism and how they impact on host L.D.Cs.

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CHAPTER 4
TOURISM MULTINATIONALS AND DEVELOPING COUNTRIES

Introduction

This chapter has three aims. First, it will clarify the meaning of tourism multinationals. Second, it will provide a review of major studies on the role and impacts of tour operators, hotel chains, airlines, denoted here as tourism multinationals, on Third World tourism. Third, based on previous works, it will give a theoretical synthesis concerning the following issues: (a) the origin and development of each multinational tourism industry, (b) the role of each tourism multinational sector in the organisation of international tourism to developing countries, (c) various forms of involvement of tourism multinationals in developing countries, (d) benefits and disadvantages of tourism multinationals' involvement in Third World tourism. The synthesis will provide the theoretical framework for examining the case of Turkey.

The Concept of Tourism Multinationals

The concept of multinationalism in international tourism industry is quite different from other industries. Because not only non-equity, contractual involvement of firms in more than one country is widespread in international tourism but also there are tour operators which may be based in one country and may not have affiliates in another country but which severely affect tourism related businesses in other countries through contracts (management contracts or advance purchase of hotel rooms). This is due to the inevitably international nature of international tourism as its name suggests. For this reason a *contextual* definition and reference of tourism multinational enterprises are needed.

In this study, tourism multinationals refer to *tour operators, hotels, airlines or other firms, mainly from developed countries, which have more than 10% equity (ownership) or contractual involvement, e.g. management contracts, franchising and* *leasing agreements, in tour operation, hotel and airline industries in developing countries.* Clearly, those tour operators, airlines, hotels and other firms from developed countries may be part of a bigger conglomerate. What is important here is that they should have some form of involvement in tour operation, hotel or airline industry in developing countries. Although tourism multinationals may extend to other industries like car rental and catering services in developing countries, it is generally accepted that international tour operation, airline and hotel industries are the most important in determining the direction, volume and impacts of international tourism to developing countries.

Literature Review

The literature review revealed four major studies which are closely related to the present research These studies provide not only the basis for theoretical analysis on the role and impacts of tourism multinational corporations on the development of international tourism in developing countries but also the policy issues developing countries face.

I.U.O.T.O's Impact of International Tourism on the Economic Development of the Developing Countries

I.U.O.T.O's study was the first to recognise the importance of multinational hotel chains, airlines and tour operators in the development and sustenance of a tourism industry in developing countries. The study looked at the following issues in a *descriptive* way:

(1) the role of tourism multinationals, tour operators, airlines and hotel chains, in the organisation of international tourism to developing countries;

(2) the competitive advantages of tourism multinationals, whose headquarters are based in generating countries, *vis-à-vis* developing countries;

(3) various forms of tourism multinationals involvement in developing countries;

(4) integration between the tourism multinationals;

(5) consequences of tourism multinationals' involvement in terms of lost revenues to developing countries;
(6) possible policy measures developing countries may take in order to balance the interests of foreign tourism multinationals with those of the host country.

Although I.U.O.T.O's study lacks empirical quantitative facts, a number of qualitative conclusions reached by the study are relevant to the research under question. These are:
(1) all tourism multinational's headquarters are based in developed countries which are also tourist generating countries;
(2) tourism multinationals enjoy a number of advantages *vis-à-vis* developing country firms or governments,;
(3) the higher the density of tourism multinational involvement, the higher the loss of revenue that could have accrued to developing countries;
(4) there is a tendency for tour operators, airlines and hotel chains to integrate and consolidate;
(5) active host government involvement is necessary in designing and implementing policies for minimising adverse effects which may stem from multinational's involvement.

Britton's Analysis of International Tourism and Multinational Corporations in the Pacific

Britton (1982a, 1982b) analysed tourism multinationals in the Pacific Islands from the perspective of centre-periphery dependency relations. He likened international tourism to developing countries to a three tired hierarchy. At the first level, Britton argued, are the multinational tourism corporations - hotel chains airlines and tour operators - which are part of larger industrial or financial oligopolies in the generating countries.

The second level consists of travel trade representatives and corporate subsidiaries collaborating with commercial and political elite in less developed countries. At the lowest level are the petty local artisan and retail tourist sector. In the case of the Pacific Islands, Britton supported his hypothesis by documenting high ratios of foreign ownership and substantial turnover accruing to foreign tourism multinational enterprises like hotels, airlines, and travel agents. Britton came to the conclusion that Third World tourism is controlled by large metropolitan corporations and the main beneficiaries of tourism development in developing countries are those corporations and national elite. So tourism reinforces and strengthens the dependency of the Third World, especially those old colonial small Pacific islands. Empirical test of Britton's model was limited to a few islands in the Pacific and its applicability to all developing countries is arguable. However, the dependency paradigm and penetration of tourism multinationals in developing countries are also pertinent ways of analysis for the present study.

U.N.C.T.N.C's Transnational Corporations in International Tourism

U.N.C.T.N.C undertook an elaborate global analysis of each of the three tourism multinational sectors with specific references to developing countries. Backed by quantitative data, the study concentrated on the following aspects of tourism multinationals in relation to developing countries:

(1) geographical origin and worldwide distribution of tourism multinationals;

(2) the advantages and disadvantages of tourism multinationals from developed countries for Third World tourism;

(3) various forms of tourism multinationals' involvement in developing countries,

(4) some policy considerations for developing countries with regard to foreign tourism multinationals.

Two main conclusions of the U.N.C.T.N.C's study are particularly important for further elaboration in the present research. First, it posited that impacts of each multinational sector were different. Second, impacts of tourism multinationals were also different depending on the size of the host country, general and tourism development level, type of tourism promoted, host government policies and form of involvement.

Ascher's Transnational Corporations and Cultural Identities

Ascher's study attempted to show that the forces controlling international tourism, that is, tourism multinationals, to developing countries are beyond the control of developing countries. He stressed that tourism multinationals are still strengthening and stretching their realm of influence worldwide by integration and diversification. Ascher challenges the optimistic hypothesis that tourism multinationals would provide Third World with the entry to the international tourism market, bring in foreign investment, generate badly needed foreign exchange, supply the technical know-how and direct the flow of tourists to their doors. He argues that tourism multinationals have their own calculated reasons for entering the developing countries; to capture untapped markets, to take advantage from unusual provisions offered by host governments, to have special freedom in their business affairs, to repatriate the profits.

In the final analysis, Ascher does not rule out the role for tourism multinationals in Third World tourism. But he calls for active host government involvement and strategies for developing countries to attain some of their goals. He recommends: (a) more endogenous development, (b) placing tighter control over tourism multinationals' operations, (c) attracting social tourism from developed countries, (d) forming regional cooparative schemes among the neighbouring countries and (e) implementing genuine tourism planning.

Whether these suggestions are realistic or not, all these issues bear relevance to the present discussion for determining policies for tourism multinationals in the case of Turkey.

Tourism Multinationals in Developing Countries: A Synthesis

Multinational Hotel Enterprises (The Accommodation Sub-sector)

There are many reasons for the existence of multinational hotels operating in L.D.Cs. Before applying the O.L.I (ownership, location, internationalisation) paradigm to explain international operations of hotels in developing countries, it is perhaps useful to look at geographical origin and distribution, market share, and type of involvement of multinational hotels in L.D.Cs.

Geographical Origin and Distribution of Multinationals Hotels

As in other industries, multinational hotels from advanced countries, notably from America, dominate the scene. The U.N.C.T.N.C (1982) study, which is the most comprehensive to date, revealed 81 multinational hotels from 22 countries associated with two or more hotels abroad amounting to 1,025 hotels and 270,646 rooms. As

Table 4.1 Number of Units and Rooms In Transnational Associated Hotels Abroad by Country/Region and Market Share of Countries and Regions.

LEADING COUNTRIES OR GROUPS OF COUNTRIES	PARENT GROUP	NO. OF HOTELS ABROAD	% OF HOTELS	NO. OF ROOMS ABROAD	% OF ROOMS
U.S.A	22	508	49.6	152,118	56.2
FRANCE	8	156	15.2	35,374	13.1
U.K	13	147	8.5	21,190	7.8
OTHER EUROPE	14	87	3.9	10,557	3.9
OTHER DEVELOPED ECONOMIES	8	65	3.6	10,549	3.9
DEVELOPING COUNTRIES	9	37	3.6	10.549	3.9
TOTAL	81	1,025	100.0	270,646	100.0

Source: U.N.C.T.N.C (1982)

can be seen in Table 4.1, US based multinationals account for almost 50% of all transnational associated hotels and 56% of the rooms. However, the acquisition of Hilton International by the U.K based Ladbroke Group in 1987 must have reduced the share of U.S and increased that of U.K. French and British based multinational hotels

Table 4.2 Geographical Distribution of Multinational Hotels along with Bed Numbers Abroad

	DEVELOPED COUNTRIES		DEVELOPING COUNTRIES	
REGIONS	No. of Hotels	No. Of Rooms	No of Hotels	No of Rooms
NORTH AMERICA	137	35,095	-	-
EUROPE	365	95,658	-	-
MIDDLE EAST	-	-	63	16,292
AFRICA	4	1,040	104	22,235
ASIA	9	5,835	86	33,323
OCEANIC	24	4,344	33	5,055
L. AMERICA	-	-	101	27,444
CARIBBEAN AND WESTERN ISLANDS	-	-	99	24,325
TOTAL	539	141,972	486	128,674
% of All Countries	52.6	52.5	47.4	47.5

Source: U.N.C.T.N.C (1982).

Table 4.3 Distribution of Transnational Associated Hotels Abroad by Main Activity of Parent Group, 1978.

	DEVELOPED COUNTRIES		DEVELOPING COUNTRIES	
PARENT GROUP				
HOTEL CHAINS ASSOCIATED WITH AIRLINES	113	21	164	33.7
HOTEL CHAINS INDEPENDENT OF AIRLINES	384	72.2	303	62.4
HOTEL DEVELOPMENT AND MANAGEMENT CONSULTANTS	1	0.2		2.9
TOUR OPERATORS AND TRAVEL AGENTS	41	7.6	5	1.0
TOTAL	539	100	486	100

Source: U.N.C.T.N.C (1982).

account for another 30% of transnational hotels and 25% of the rooms together. The share of L.D.Cs as the base for multinational associated hotels and rooms are as small as 3.6% and 3.9% respectively. The geographical origins of multinational hotels endorse the fact that main tourist generating countries are also the home of multinational hotels. Regarding the geographical distribution, 52,2% of multinational associated hotels and 52.5% of rooms were located in developed market economies, whereas 47.4% of hotels and 47.5 of rooms were located in L.D.Cs. As shown in Table 4.2, amongst developed regions, Europe ranks first and North America second as the host to multinational associated hotels. South-east Asia is the dominant host region amongst developing regions. The share of Latin America, Caribbean and Africa is almost the same.

The U.N.C.T.N.C study revealed four types of multinational hotels abroad by main activity of parent group. Table 4.3 exhibit the percentage of multinational associated hotels both in developed and developing countries according to the activity of parent company. The data show that majority of multinational associated hotels in developing countries, 62,4%, are related to independent hotel chains, which can be called horizontal expansion. Another 33.7% is related to airlines.

Market Share

Market share of multinational associated hotels in a developing country can be estimated by dividing the number of multinational associated hotel rooms by total hotel rooms in that country. This ratio was found to be changing between 10% and 61% in L.D.Cs (Dunning, 1988). However there is a deficiency with this estimation. Despite the fact that multinational hotels are generally in the high class group, the calculation takes all sorts of hotels into consideration in a given country. That means that the actual foreign participation ratio is much higher for the luxury class hotels. It is observed that the smaller the country the higher the share of multinational associated hotels. Another feature affecting market share relates to size. The average number of rooms in multinational associated hotels is estimated to be four times as large as that of the indigenous ones (U.N.C.T.N.C, 1982).

Forms of Involvement

There are variety of forms by which an multinational hotel may be involved in a developing country. These forms are not only peculiar to multinational hotels but applicable to other businesses as well. The major forms used in hotel industry will be surveyed below.

Equity Participation

Equity participation ranges from wholly owned subsidiaries to minority ownership of the project. Equity participation other than whole ownership is usually called joint ventures.

> "A joint venture normally implies the sharing of assets, risks and profits, and participation in the ownership of a particular enterprise or investment project by more than one firm or economic group" (Oman, 1984:12).

If the equity does not exceed 10% of the investment there is a tendency to call it portfolio investment. In the context of multinational hotels, Dunning and McQueen (1982) found that multinational hotel companies avoid 100% and majority ownership in L.D.Cs. Foreign capital participation is observed to be in the form of minority equity participation or portfolio investment.

Dave (1984) also acknowledges that the most common form of contribution is to working capital. Similarly, U.N.C.T.N.C (1990) reports that multinational hotel chains sometimes make loan contribution for pre-opening activities and for the cost of the early stages of operation of the hotel. Statistically, Dunning and McQueen showed that about 48% of the multinational associated hotel rooms in developed countries were under ownership (wholly, majority, minority) of multinational hotels as compared to 18% in the case of developing countries. As can be deduced from Table 4.4, 18% is the average of all periods. Attention is called to the sharp decline in the equity participation in developing countries after 1975, which is 6.7%. The decline in equity participation is partly attributable to the nationalisation of, and general hostility towards, M.N.Es in the 1970s in developing countries.

Management Contracts

Another form of involvement of multinational hotel companies is through management contracts. The content of a management contract is summarised as follows:

> "a management contract is an agreement between a hotel owner and a hotel operating company (chain) by which the owner employs the operator as an agent to assume full responsibility for the management of the property in a professional manner. As an agent the operator pays in the name of the owner all property operating expenses from the cash flow generated through operations, retains its management fees and remits the remaining cash, if any, to the owner. the owner provides the hotel property, to include land, building, furniture, furnishings, and equipment and working capital, while assuming full legal and financial responsibility for the hotel" (Dave, 1984:54).

Operational responsibility is assumed by the contractor (Housdon, 1984). In some cases management contracts may involve both the development, design and construction of the hotel besides its day to day operation (U.N.C.T.N.C, 1989). The fees for the management company take several forms depending on the terms agreed on the contract.

Empirical evidence shows that management contracts have been the preferred form of involvement by multinational hotel companies. U.N estimated that 63.1% of transnational associated hotel rooms in developing countries for all periods was based on management contracts whereas the corresponding figure for developed countries was 25.5% (Table 4.4). Once again the tendency towards management contract after 1975 should be paid attention, which is 90.6% for L.D.Cs. When compared regionally, only 2% of multinational associated hotel rooms in Europe are based on management contract whereas the corresponding figures are 75% in the Middle East, 72% in Africa, 60% in Asia, and 47% in Latin America. These figures suggest that although there is capital available in the Middle East and Africa, there is not enough management expertise and international experience in hotel management. Relatively lower level of management contracts in Asia and Latin America is a sign of expertise acquired and the determination to indigenise management. A more recent study surveyed 17 hotel agreements in developing countries and found that only one was under a leasing agreement and one under a franchise agreement, the rest being management contracts (U.N.C.T.N.C, 1990).

Table 4.4 Percentage of Rooms of Transnational Associated Hotels Abroad by Form and Date of Involvement

	EQUITY PARTICIPA-TION (%)	MANAGEMENT CONTRACTS (%)	FRANCHISING (%)	LEASING (%)
DEVELOPED COUNTRIES				
before 1964	41.0	30.0		28.1
1965-1974	60.1	29.5		10.5
1975+after	25.7	65.4		8.8
ALL PERIODS	47.8	23.5	16.8	11.9
DEVELOPING COUNTRIES				
before 1964	21.8	33.2		45.0
1965-1974	22.2	56.8		22.2
1975+after	6.7	90.6		2.7
ALL PERIODS	17.6	63.1	9.0	10.3

Source: Dunning and McQueen (1982).

Franchising

The third form of multinational involvement in the hotel sector in developing countries is through the sale of a franchise or a franchising agreement. Bought and Dixon (1989:1) describe franchising as

> "a system of distribution whereby one party (the franchiser) grants to a second party (the franchisee) the right to distribute products, or perform services, and to operate a business in accordance with an established marketing system. The franchiser provides the franchisee with expertise, trademarks, the corporate image, and both initial and operating support, in return for which the franchisee pays to the franchiser certain fees".

Franchising hotel agreements allows the independent owner of a hotel to use the name, trademark, communication and reservation system of the transnational hotel chain. The hotel franchiser may also provide designs, operation manuals, the training of staff, new operating techniques and advertising. The hotel franchisee, in return, pays a fee usually comprising a fixed sum, plus a percentage of commission on rooms sold and maintain and operate the hotel in accordance with the standards laid down by the hotel chain (Dave, 1984).

Dunning and McQueen (1982) suggest that 9% of transnational associated hotel rooms were based on franchising agreements compared to 16.8 % in developed market economies (Table 4.4).

Leasing

Leasing is another alternative way for multinational hotels to be involved in L.D.Cs. Under leasing agreement, the multinational hotel company (lessee) assumes the responsibility for operating the hotel including revenues and losses. Also, the lessee provides initial capital and certain inventories for the hotel (Dave , 1984). On the other hand, the owner provides the property and does not take any role in management and control. He gets paid a rent according to the type of leasing agreement. Basically, there are two types of leasing agreements; the operating lease where "the owner's rental is a percentage of the profits (no profits no rents)", and a real lease where "the owner is paid a fixed or flat rent of a specified amount, perhaps coupled with a participation in gross revenues or profits" (U.N.C.T.N.C, 1990:40)

Leasing agreements do not seem to be the preferred form of involvement of multinational hotels. They only account for 2.7% of the multinational associated hotels in L.D.Cs. The reasons for low levels of leasing agreements may be that multinational hotels do not find the scale and quality of locally built and owned hotels appropriate to their operations and standards. There is also higher risk of losses in leasing agreements compared to management contracts.

Other Technical Service Agreements

A final loosely defined form of multinational hotel involvement is technical service agreements. According to Dave (1984:54):

> "they may be very specific and relate to particular aspects of the establishment and management of a hotel, or they may incorporate a completely turnkey operation".

Littlejohn (1985) found this definition too broad and suggested further clarification of the term in order to distinguish it from hotel consortia which is a joint marketing and purchasing agreement among individual/independent hotels or hotel groups nationally or internationally.

Explanation of multinational Hotel Involvement in Developing Countries

In the previous chapter, eclectic (O.L.I) paradigm (internalisation, location and ownership advantages) is introduced to explain the extent, form and pattern of international involvement of firms, Below is an application of this theoretical framework to the multinational hotel involvement in L.D.Cs.

Ownership Advantages

There are a number of ownership or firm specific advantages which enable hotels from developed countries to operate successfully and competitively in developing countries. First of all, multinational hotels have considerable organisational and managerial expertise in provision of hotel services. The "intangible asset", e.g. expertise, extends to hotel development (physical planning, design, furnishing of a hotel), provision of on premises services, marketing, and complementary services. These advantages can be put to work elsewhere with little cost and have a positive value in foreign countries (unfamiliar environments) for it guarantees a certain quality of service and economises on consumers search cost (Hennart, 1982). The source of expertise stems from the fact that the commercial development of the industry took place in today's advanced countries (Burkart and Medlik, 1981), and those advanced countries are the principal tourist generating countries today. So they are better acquainted with potential tourists' lifestyles and tastes which enable them to provide certain quality of lodgings, planning and design of the hotel, food and beverage and other services accordingly. They are in a position to determine "international standards" which are their own.

Secondly, because of their previous operation in tourist generating countries, they have established a "trademark" or "goodwill" among customers associated with the quality of services which create consumer loyalty. This loyalty is enhanced by the fact that tourism is an "experience good" and holidays are bought "site unseen" which may lead potential tourists to associate service quality in a developing country with the existence of familiar multinational hotel names. This is another advantage of multinational hotels operating in developing countries *vis-à-vis* indigenous ones.

The third firm specific advantage is connected with the size and scope of multinational hotels. Since they are larger, more diversified, experienced and have an international orientation, they can achieve economies of scale by sourcing inputs from an international perspective, by getting discounts as a result of bulk purchasing. As regards size and economies of scale Littlejohn notes that

> "the larger the hotel is, the more will be the resources at its disposal to stimulate a high level of occupancy. It will achieve this by having the ability to engage in marketing activities and have access to central computerised systems on the one hand, and greater operating efficiencies, particularly in relation to labour on the other" (1985:161-162).

Fourthly, the ownership of a central reservation system (C.R.S) enable multinational hotels to be connected directly with travel agents, tour operators or airlines in tourist generating countries whose potential customers can book rooms well before their journey. Not many local hotels in developing countries can afford to install C.R.Ss. Even if they do they would hardly be given precedence over multinational hotels by intermediaries in tourist generating countries. Finally, the integration, close association or strategic co-operation and good public relations of multinational hotels with tour operators, travel agents and airlines in tourist generating countries also contribute to their firm specific advantage. The fact that their headquarters are also located in tourist generating countries make close contacts with the travel trade much easier.

Location Advantages

Locational factors determine whereabouts of production. From multinational hotels' point of view, locational advantages answer questions like which country, "where in that country, what kind and how big a hotel and what form should the participation take" (Dunning, 1988:258). According to Dunning there are five groups of factors which determine the attractions of a particular country for multinational hotel involvement.

> "First, and most obvious are all the factors determining the volume, kind and rate of growth of tourism, particularly business tourism to a particular country. Second, is the availability of the appropriate infrastructure for tourism, e.g. transport and communication facilities. Third, is the availability and quality of hotel inputs, including hotel staff and essential services which can not be imported. Fourth, is the policy of the government towards foreign direct investment in general. Fifth, is the general political, economic and social stability of the country and attitudes of the local population to foreign countries" (1988:258).

To these one should add the ratio of foreign involvement in a recipient country (that is the saturation of the market in terms of foreign involvement) and the growth rate hotel supply *vis-à-vis* indigenous managerial capacity in destination countries.

Internalisation Advantages

In the previous chapter, internalisation theory asserted that firms internalise markets (create an internal market) whenever they incur higher costs in the external market or accrue higher revenues in the internal market. It is also pointed out that when internalisation occurs across national borders, that leads to foreign direct investment, hence M.N.Es. So far, internalisation of markets is seen as the ownership of affiliates and control along with it. Although it is shown that ownership and strict control are not the necessary criteria for firms to be considered as M.N.Es, international hotel industry brings a new dimension and concrete example of how markets can be internalised and control be exerted by other means other than ownership.

It has been observed that multinational expansion in developing countries is largely based on management contracts (90% after 1975). It appears that most of management contracts are accompanied with franchising agreement and merely franchising agreements constitutes a very small proportion. It has also been observed that equity ownership is either in the form of minority ownership or portfolio investment and negligible; as is the case with leasing agreements. In this case the internalisation theory should provide an answer as to why markets are not internalised in the traditional sense and what determines the form of involvement by foreign firms in the hotel industry. It is the present author's view that three factors are relevant in providing the answer; the nature of demand for tourism, hence hotels in L.D.Cs, the nature of hotel industry as an investment opportunity, and related to the two, relative superiority of type of involvement.

As regards the nature of demand for the hotel industry in developing countries several factors are outstanding. First, demand is highly elastic. Demand elasticity is of two kind, price elasticity of demand (percentage change in quantity bought divided by percentage change in price) and income elasticity of demand (percentage change in quantity demanded divided by percentage change in income). In tourism, demand for long-haul travel is considered to be income-elastic, and price-elastic for short-haul (Jenkins, 1991). Since prices of goods, services and income are determined by external economic and political factors there is no guarantee that there will be constant demand for the lodging industry in L.D.Cs. As occupancy levels suggest (Table 4.5), demand for the hotel industry in L.D.Cs also fluctuates depending on many factors including exchange rates, political stability, natural disasters, disease, climatic changes and image. Second, demand for hotel industry is highly seasonal. Third, tourism is a discretionary purchase and substitutable, there is always probability of a shift in consumer preferences. These factors suggest that demand for lodging industry is quite unstable.

Table 4.5 Annual Room Occupancy Ratios in Different Regions in Various Years

REGIONS	1977 (%)	1978 (%)	1982 (%)	1983 (%)	1984 (%)	1985 (%)	1986 (%)
AFRICA	68.2	73.9	66	65.4	71.3	61.8	55.9
ASIA	69.8	74.2	76.1	67.3	65.1	68.3	67.9
MIDDLE EAST	80.5	71.3	61.2	62	53.3	61.8	55.9
LATIN AMERICA	80.2	78.4	72	59.6	62	67.9	63

Source: Horwath and Horwath International, (1979; 1984; 1985; 1987).

Concerning the nature of the hotel industry as an investment opportunity, it is a capital intensive industry (Ascher, 1985) and highly risky especially in developing countries because of the uncertainty of demand and environment outlined above.

Taking the two factors into consideration, one could see that management contracts are superior to other forms of involvement from multinational hotels' point of view. In the first place, they allow multinationals hotels to exert *de facto* control over day to day operation and secure reasonable revenues while avoiding *de jure* ownership, responsibi'ity and heavy and risky financial investment. In the second place, they allow multinational hotels to penetrate markets *vis-à-vis* competitors, especially in countries where there is oversupply of luxury hotels without necessary local management resources.

In the third place, the fast expansion also enhances brand identification and helps achieve economies of scale in marketing, purchasing, accounting and financial services (Dave, 1984). In the fourth place, as discussed earlier, contracts are not a perfect way of transaction and when conflict emerges, the less independent party will interpret contractual ambiguities to their own advantage (Williamson, 1971). Thus, ambiguities and escape clauses enable multinational hotels to withdraw from the contract (Dave, 1984). Finally, given the uncertainty of demand, rapid horizontal expansion through management contracts increase the stable income stream. U.N.C.T.N.C (1982) and others (McNulty and Wafer, 1990) seem to be wrong in suggesting that a management contract is a strategy to circumvent governments that oppose majority equity by foreigners for the fact that out of 25 developing countries for which information on foreign investment incentive laws were examined, none was found to prohibit foreign ownership in tourism (U.N.C.T.N.C, 1989). It is also interesting to note that, the share of franchising agreements is very small in developing countries. This must be due to the high transaction costs of monitoring and ensuring quality and standards (Hennart, 1991). Obviously, failure of a franchisee to implement the same standard of a franchiser damages the reputation of the franchiser in general.

Dunning (1988) observes that internalisation (form of involvement) would also depend on host country (where the M.N.E operates) and home country (where the M.N.E originates) characteristics as well as multinational hotels' characteristics. With respect to the former, he revealed that in the Middle East where there is a fast growth rate of hotel supply and lack of trained indigenous hotel staff, the main form of involvement is management contract rather than equity investment or franchising. On the other hand, in India where there are government regulations (management contracts are not allowed) and along with a strong indigenous hotel sector, few management contracts are found. He also notes that in more advanced countries like Mexico and South Korea management contracts are gradually giving way to marketing oriented and specific assistance agreements. Concerning home country characteristics, he notices that British and Scandinavian firms tend to own a higher proportion than do other nationals. In Dunning's view multinational firm characteristics are also important in determination of form of involvement. For instance, those firms which are specialised in marketing a hotel may be content with a franchise agreement. Those specialised in property development may seek ownership for reasons of speculation or taking the advantage of strong currency against weaker ones. It is also likely that other multinationals with interests in related tourist activities may wish to have some equity participation in order to capture the full benefits of the co-ordination of those activities.

Benefits of Multinational Hotel Involvement in Developing Countries

The benefits developing countries may obtain from the presence of multinational hotels can be grouped into five: assurance of service quality and security, provision of technical and managerial expertise, provision of market connections, project funding and efficiency. First, at the initial stage of tourism development, multinational hotels serve as quality and security assuring bodies since tourists look for familiarity in unknown, unfamiliar environments. This helps the establishment of an acceptable tourism image for the destination country. As Cohen (1972:166) has observed

> "most tourists seem to need something familiar around them. Something to remind them of home. Whether it is food, newspaper, living quarters or another person from their native country. many of today's tourists are able to enjoy the experience of change and novelty only from a strong base of familiarity which enables them to feel secure enough to enjoy the strangeness of what they experience. They would like to experience the novelty of the macro involvement of a strange place from the security of a familiar micro-environment. And many will not venture abroad except on those well trodden paths equipped with familiar means of transformation, hotels and food".

Also, since holidays are bought "sight unseen" (Jenkins, 1982), the knowledge that home-familiar hotels exist in developing countries encourage would-be tourists and reduce their "information search cost". Second, multinational hotels can provide a wide range of technical and managerial expertise both at the pre-opening stage of hotel development and operation stage. Depending on general and tourism development level and management know-how, developing countries may want to unbundle these provisions relating to (a) pre-opening stage of hotel (engineering, architecture, interior design, staff training etc.), (b) operational stage (preparation of food, drinks, rooms, marketing, reservation systems, accounting, training etc.). In fact, of all contributions, the single most important benefit of multinational hotels to host developing countries is considered to be in the area of training of human resources or so-called "soft technology" transfer (U.N.C.T.N.C, 1989).

Third, multinational hotels provide market connections or marketing ties through reservation systems, public relations with travel trade, e.g. tour operators, travel agents and airlines. Multinational hotels which have worldwide operations and which may be integrated with tour operators, travel agents, airlines or industrial conglomerates, provide effective worldwide organisation and co-ordination as well as network communication which enable them to direct tourist flows to particular destinations.

Fourth, multinational hotels may contribute to the financing of hotels, especially in capital scarce L.D.Cs. Nevertheless, considering the strategies held by multinational hotels (i.e. expansion based largely on management contracts), this is bound to be nil or minimal. Finally, another benefit of multinational hotels relates to efficiency. However, it is a difficult concept to determine in the hotel industry. one way may be to look at the performance, namely net profits or occupancy rates of the same hotel with and without multinational involvement. This approach fails in that it is very difficult to test it empirically it seems that the best way of evaluating efficiency is to compare occupancy rates of multinational associated hotels with those of the same class indigenous ones.

Potential Disadvantages of Multinational Hotel Involvement in Developing Countries

There are both economic and non-economic costs which arise due to the presence of multinational associated hotels in L.D.Cs. In the first place, they may affect the scale (size) and type (class) of hotels promoted. The basic issue here is that there may be incompatibility between host governments and international investors as to the size and type of hotels to be developed, which affect the general scale of tourist development. This issue relates to Jenkins' minimum scale discussion. He argues that "below a unit size operating costs are likely to be unattractive to an investor or management company" (Jenkins, 1982:236). This is because of the economies of scale and scope which large projects offer to international hotel developers. They either develop and/or manage large business class hotels in big city centres or resort hotels in resorts including casino and convention facilities. That is why it is realistic to assume that multinational hotels, whose preferences seem to be large scale four or five star hotels will, dictate the size and standards. However if a destination country wants to develop small-scale, integrated tourism outlined by Jenkins (1982) and Butler (1990) in some regions or on the whole because of small size of country, fragile environment or socio-cultural concerns, then it should carefully evaluate what role, if any, multinational hotels can play in that kind of development.

McNulty and Wafer (1990) give examples of such locally owned and managed, small scale heritage tourism which preserve natural and cultural resources and benefit locals economically better than large scale mass tourism, owned and managed by multinationals. But this kind of tourist development has the problems of achieving scale economies, marketing, low occupancy, low volume, lack of competitiveness which determine the commercial viability of the undertaking. In some cases, it may be possible to develop a dual structure with large scale, multinational associated hotels along with medium and mall scale, locally owned and managed pensions, guest houses and hotels.

In the second place, both in cities and holiday resorts multinational hotels tend to form enclaves which may increase the resentment of local people towards tourists and foreign involvement. The source of resentment may be the affluence international tourists enjoy while locals are in chronic poverty or exclusion of locals from communal resorts or other resources. For example McNulty and Wafer (1990) reports a case from *Cote D'ivoire* where a multinational hotel uses vast amount of water every day while nearby villagers have no running water and condemn "ghettoism and alienation". In the third place, repatriation of profits, management and franchising fees and imports increase leakages, hence foreign exchange costs. These capital flights decrease foreign exchange earnings that might have accrued in the case of local ownership and management and impacts negatively on the balance of payments. The *direct* financial capital contribution of a single multinational associated hotel to the balance of payments can be calculated as follows in an open economy:

$B_c = E_i - (I_d + P_t)$ where;

B_c= contribution to balance of payments,

E_i= earnings from international tourists in a given year,

I_d= direct imports in a given year,

P_t= total transferred profits and royalties in a given year.

This formula simply shows that the capital inflow from international tourists should be higher than direct capital outflows of the multinational associated hotels.

In the fourth place, some of the business practices of multinational associated hotels can be economically detrimental to the host developing country. Two such practices are excessive management or franchising fees and deliberate unnecessary imports. As to the former practice, U.N.C.T.N.C (1982) found that management fees in ten multinational hotels in developed countries were significantly less than those in developing countries. Considering that the owner bears the risks of the investment and other financial obligations, and the hotel management groups assume no greater risks or a standard of performance in majority of management contracts in L.D.Cs (U.N.C.T.N.C, 1990), such higher fees can be said to be exploitative. This is probably due to lack of bargaining skills and information limitation in L.D.Cs. As regards the latter, there may be many reasons for multinational hotels not to buy local goods and services. For instance, Belisle (1985) examined, without distinguishing between multinational and national hotels, 60 Jamaican hotels and discovered that 54.2% of the food by value is imported. Among the causes of high import content and lack of linkage, Belisle identified, are high prices, quality of supplies combined with varying tourist tastes, uncertainty of supply, technological limitations and marketing inadequacies. Another reason for the failure of linkages may be the deliberate policies of multinational associated hotels to insist on certain materials marked with company logos and products to be bought from abroad in order to benefit the affiliated company or to maintain the customer loyalty. U.N.C.T.N.C notes that

> "in the hotel business that is normally connected with the acquisition of such items as food, beverage, fixtures, inventory, equipment or furniture from certain sources, the requirements may be so specific (and perhaps unnecessarily so) that only a number of (foreign) suppliers can fulfil them" (1989:26).

Transfer pricing is another tool used in accounting which may be disadvantageous for host country. For example if multinational hotel operates on the basis of management contract or franchising, the prices of imports it specifies to be bought from certain sources can be inflated (overpriced), so that the affiliated firm abroad can make smart profits. Alternatively, if multinational hotel is wholly or majority foreign owned, the imports can be underpriced to decrease tariffs paid or overpriced to reduce total liability for taxes over profits. The latter disguises capital exports as overpayment for imported products.

In theory, it is also possible that inclusive tour prices charged can be underpriced to reduce total earnings, hence taxes. The choice will often depend on government tax policies and regulations, import incentives and restrictions, tariff payments and final profitability of each practice. Also, certain business transactions between tour operators in tourist generating country and multinational associated hotels in developing countries may reduce foreign exchange flows. U.N.C.T.N.C (1982:79) explains such transactions:

> "The organisation providing the tourist services may not, for example, receive foreign exchange directly, but rather a credit with the tour operator in the tourist generating country, upon which it may be able to draw at a future date. An alternative method is for the tour operators to give their customers vouchers which they hand to the local supplier of the tourist service. The latter may then cash the vouchers in tourist generating country. A third example is where the supplier of the tourist services in the host country is part of a vertically integrated transnational corporation and where payments and receipts between subsidiaries of the enterprise are simple bookkeeping transactions recorded at prices designed to promote enterprises global objective".

Bribery should also be mentioned as a harmful practice. For example, multinational hotel owners (local ones as well) can offer bribes or donations to political parties or civil servants in return for unlawful concessions like tax evasion, public contracts, land allocations etc.

Finally, there is the dependency argument as a disadvantage which suggests that developing countries will never be able to break away from dependence on multinational hotels' skills, expertise and market connections in tourist generating countries. In the wider context of tourism development in developing countries, this dependence is attributed to (a) the fact that developing countries cater primarily for tourism generated in a few industrialised, (b) corporate control and direction of tourism demand by tour operators, airlines and hotel chains in tourist generating countries (Britton, 1982a), (c) the use of imported goods, materials and foreign expertise according to the standards and tastes of developed countries. The fact that expatriates hold key positions and are paid better than locals may enhance dependency and lead to a sense of inferiority of locals (Ascher, 1985).

While management expertise and skills can be acquired by developing countries, as in the case of India, the advantages of multinational hotels are unlikely to diminish in two areas; market connections including reservation systems, other links with travel trade, and brand image. There is every reason to believe that these two will dominate the future relations between host developing countries and multinational hotels. This is because developing countries

> "lack a full understanding of the markets they are reaching out to, their elasticity and what the impact of changes in prise and rate might be" (McNulty and Wafer, 1990:294).

They are likely to use the information limitation of developing countries (spatial market failure in tourism makes it easier) by emphasising their knowledge of tourism market, brand image, market power, influential connections and public relations with travel trade coupled with financial and managerial resources. Consequently, it may be said that there is *marketing dependency* for developing countries on multinational hotels together with tour operators, travel agents and airlines.

Tour Operators

Tour operators (wholesalers) are agents that play an important role in international tourism. McIntosh and Goldner (1990:101) defines the industry as follows:

> "the tour wholesale business consists primarily of planning, preparing and marketing vacation tour, including making reservations and consolidating transportation, accommodation and ground services into a tour assembled for a departure date to a specific destination. Tours are sold (at a single price) to the public (in generating countries) through retail outlets such as travel agents or airline offices".

It is possible that the package can be flexible and contain various modes of transportation and accommodation. Mainly, there are two types of inclusive air (package) tours; inclusive tour by charter (ITC) which is non-scheduled and inclusive tour on scheduled service (ITX) (Burkart and Medlik, 1981). Historical developments in social, economic, psychological, technological, and organisational environment in industrial countries have prepared a base for mass tourism, which in turn gave rise to emergence and position of tour operators as being "interpreters and co-ordinators of tourism demand" today (Dobie, 1976).

Development of the Tour Operation Industry

Although the first package tour was introduced in 1841 by Thomas Cook in the U.K, the slow mode of transportation, high cost, poor communication and elite nature of tourism inhibited the growth of industry until the 1950s. With the arrival of mass tourism as a result of increased disposable income, leisure time, and decreased transport costs, improvements in transport technology, communication, education, a new form of travel experience was fostered by middlemen that came to be called tour operators in the mid 1960s. There are many reasons that put tour operator between suppliers in destinations and potential tourists and make them interpreters and co-ordinaters of tourism demand and services internationally. First, as said before some of the tourism supply services need to be undertaken in the generating country. Most important, provision of information about destinations, prices and reservations of transport and lodging. "Tourists may not be certain of the type of holiday they want nor which destination to visit" (Britton, 1982a:337). Second, inclusive tours are offered at lower prices than total sum of individual travel expenditure or prices offered by travel agents.

Third, inclusive tours conform to the psychological needs of tourist security and familiarity in strange environments. They also reduce consumers' search cost and likely pitfalls during travel experience. Fourth, they increase occupancy rates and reduce promotional costs for suppliers (Sheldon, 1986). Fifth, the existence of surplus capacity on airlines also backs the growth of tour operators. Sixth, the existence of inclusive tours is suggested to be a way to increase oligopolistic profits, to evade price regulations, and to take advantage of commercial opportunities in related businesses (Sheldon, 1986). The argument is that producers who have a strong position in one product market (airlines) may wish to extend it by engaging in related or complementary product markets (tour operation).

Assuming that tour operators or airlines have oligopolistic power on the direction of tourism demand, then they can appropriate and maintain high profits while minimising the profit of other suppliers through package tours. Finally, another factor that makes tour operators and inclusive tours thrive is the fact that suppliers in destination countries can not market their product directly partly because of spatial market failure, psychic distance and partly because of transaction costs, such as disadvantageous exchange rates, language barriers, lack of knowledge of market and international perspective.

Market Structure in Generating Countries

The tour operation industry in tourist generating countries may be characterised by two types of tour operators: (a) a few large tour operators, which are integrated with airlines and travel agents and have substantial market shares, concerned with mass tourism (large volume) to established destinations and resorts; (b) many medium and small size tour operators that specialise in particular segment of the market (special interest groups), such as ethnic groups, cultural/historic tourism, sports, etc. (U.N.C.T.N.C, 1982; Zammit, 1981, Critchley, 1992).

In the inclusive tour market, market domination of a few large tour operators integrated with airlines or travel agents applies to many European generating countries including Scandinavian countries and Japan (U.N.C.T.N.C, 1982, Critchley, 1992). For instance, six tour operators accounted for 75 per cent of the inclusive tour market in the UK in 1986 (Fitch, 1987). Further concentration continues in the 1990s (Critchley, 1992). Crithcley (1992) notes that the top three of four tour operators, integrated with airlines, control over 70% of the total inclusive tour market in the UK. Similarly, four tour operators have a market share of 71.1% in Germany and the top fifteen tour operators control 80% of market in France (Critchley, 1992).

The tour operation industry in the U.S.A is less concentrated and operates on a relatively smaller scale due to the geographical spread of population, variety of tourism amenities in the country and nearby destinations (U.N.C.T.N.C, 1982). Most of the package tours in the USA are domestic and handled by small or medium size tour operators.

Explanation of the Tour Operation Industry

Ownership Advantages

Ownership advantages (firm specific) of tour operators in generating countries are attributable to: (a) transactional market failures of destination country firms associated with the structure of international tourism distribution system; (b) their being located in the generating country combined with the market structure of the industry. Since they are based in generating countries, they have "the knowledge of tastes and needs of the customers" (Witt et al, 1991). Because of market power (the power to divert large numbers of tourists to particular destinations) at home and the availability of alternative destinations, they have much flexibility that gives them substantial bargaining position *vis-à-vis* suppliers in destination countries over the prices of accommodation and other services.

Obviously, tourism is a destination competitive industry. They have a good opportunity to coerce destinations benefiting from information limitation of developing countries and uncertainty of tourist demand. The result is reduced accommodation and other service costs, which in turn lower the costs of the whole package. Because tourism is price elastic, they are able to attract high volume and achieve economies of scale that contributes to their firm specific advantages. Besides,

> "the tour operator can give explicit or implicit quality guarantees to the tourists and these reduce the perceived risks of default, poor service and other transactional uncertainties" (Buckley, 1987:192).

This is especially true for unfamiliar environments (L.D.Cs). Of course there are some ownership advantages relating to market structure that do not apply to all tour operators located in generating countries.

Some tour operators are a part of a larger parent company, frequently of airlines and banks. It is those tour operators that tend to be large and account for much of the market share. For instance, all of big tour operators in the UK, Thomson, Cosmos, Airtours, Owners Abroad Group are integrated with airlines as is the position in other European countries and Japan. In this case, market entry to the large tour operator market is quite difficult since new entrants are compelled to enter airline and the tour operation industry at the same time in order to achieve economies of scale. In addition, computerised reservation system which is crucial to tour operators requires much larger investment adding to ownership advantages.

Finally, there are transactional market failures that prevent receiving country firms from competing *vis-à-vis* tour operators located in developed countries. First, because of hard currency of generating countries, operating costs are very high for developing country firms. Second, there are costs and barriers associated with lack of knowledge of the culture, laws and market trends. Third, because of integration between tour operators and airlines, there is the difficulty of market entry. Fourth, tour operators in developed countries are less affected by the seasonal structure of tours since they have many alternative destinations whereas receiving developing country firms lack an international perspective. Lastly, there is the danger that destination countries could face collective protest of large tour operators and airlines if their business is threatened. All contribute to the ownership advantages of tour operators, As is clear, some of these advantages are country specific that apply to all tour operators and some are firm specific.

Location Advantages

Location advantages for tour operators in generating countries determine which destinations to serve. As Jenkins (1982: 233) put it most elegantly

> "the business objectives of tour wholesalers might be represented as being the need to identify and organise travel opportunities to destinations which will be acceptable to customers".

Although acceptability changes in relation to different market segments, if not to individual tourists, several factors that affect acceptability of a destination, hence tour wholesalers' choice of destination, can be mentioned. First, is the type and standard of tourist amenity provided (accommodation, infrastructure, food, recreation facilities, transport, communication). Second, is the exchange rate and prices in destination compared to generating country and other destinations. Third, is the attractions of receiving country (manmade or natural). Fourth, is the distance and relative profitability of destinations. Fifth, is the image, the size of destination, and volume, kind and rate of tourism growth. Sixth, is the market trends in generating country. Finally, the general political, social and economic stability of the country and attitude of the local population to foreign tourists.

Internalisation Advantages

As noted earlier, internalisation theory explains determinants and forms of involvement of multinationals in host countries. There are three options for generating tour operators to be involved in a tourist receiving L.D.C. They can expand horizontally by establishing an affiliate, or they can integrate vertically with hotels and/or airlines in L.D.Cs. It seems that tour operators prefer none. U.N.C.T.N.C (1982) study found that only one per cent of multinational hotels in L.D.Cs are associated with tour operators. What is apparent is that they only integrate with generating country airlines (scheduled or charter) and prefer ambiguous contracts, which may not have a legal basis in many cases, with hotels in L.D.Cs.

In this case many tour operators are not multinational, since they do not have strictly legal and binding contractual or equity involvement in more than two countries. However, lack of data as to how many tour operators integrated in three stages - tour operator, airlines (in generating countries) and hotels in L.D.Cs - poses difficulties for decisive conclusion. But the fact remains that only one percent of transnational associated hotels in developing countries have some form of tour operator involvement. Certainly this does not mean that they do not influence and control suppliers in destination countries. Why then do they not internalise markets by integrating (in the traditional sense) into hotels in L.D.Cs? The explanation that comes to mind at first is that some tour operators are so small and medium sized and asset specificity (the value of assets) is not too high, so they can not commit substantial investments in hotels.

Another explanation may be that they may not have the expertise in development and management of hotels. But these are not bone fide explanations for there are large tour operators that are part of airlines, banks and other commercial interests and are able to manage foreign affiliates. After all management can be bought and finance can be created. The answer probably rests on the assessment of the hotel industry as investment opportunity in L.D.Cs, flexibility and negotiation power of tour operators. Concerning the former, it is shown that hotel investment is capital intensive and risky due to uncertainty and seasonality of demand, political, social and economic instability both in generating and receiving countries. As to the latter, by disintegration and contracts, tour operators avoid "sunk costs" and they are able to put pressure on hotel prices in L.D.Cs; maintain flexibility against seasonality and other factors that may discourage tourism to particular destinations.

Impacts on Host Countries

Having explained various advantages and the influential role of tour operators on tourist demand and flow patterns, it is necessary to investigate the consequences which may be already clear from the L.D.Cs point of view. As a broad statement, The impacts of tour operators on L.D.Cs

> "depend upon the size and number of inclusive tours from the tourist generating country to the tourist receiving country and on the size and structure of tour operators in the tourist generating country" (U.N.C.T.N.C, 1982:45).

In terms of positive impacts, tour operators can help establish and improve the image of a destination country. By directing tourists flows to destinations they favour, they contribute to the increase in occupancy rate and foreign exchange earnings in destination L.D.Cs. However, much of the debate concentrates on negative impacts. For convenience, these impacts are to be examined under five headings.

Impacts on Volume, Scale and Rapidity of Tourism Development

One of the most important impacts of tour operators relates to the volume of tourists they can divert to particular destinations. Large tour operators dealing in mass tourism (especially sunlust travellers) will not include destination in their lists, among other things, unless L.D.Cs provide acceptable amenities including large hotel developments associated with high foreign involvement. As they cater for a large volume which enables them to achieve economies of scale, they will only want to negotiate and contract with large hotels which are capable of providing international standards and handling a high volume of business.

Clearly, those hotels are likely to be multinational associated and/or beyond a minimum scale. It is already noted that this type of hotel development (luxuries) can hardly be met within the economy of L.D.Cs both during construction and operation and raises the import requirements and leakages. Apart from large scale development, sudden large flows of tourists also affect the rapidity of tourist development which may cause environmental, socio-cultural, planning and manpower problems for host developing countries.

Economic Vulnerability and Dependency

The next area of impacts is concerned with the economic vulnerability and dependency stemming from reliance on tour operators for their supply of tourists. This may prove to have a detrimental effect on destinations which have a high ratio of group travellers. They may find their heavy investments in tourist complexes idle when tour operators switch to other destinations. There may be ample reason for tour operators to switch to other destinations.

The destination might cease to be profitable or competitive as a result of government regulations, exchange rate changes or other political, economic and social factors prevailing in destinations (the example Egypt recently). Also, conflicts between large tour operators and receiving countries may be a cause to stop serving that particular destination. Remembering that tour operators are only integrated with home country airlines and do not have long-term financial commitment at stake in L.D.Cs, they are in a flexible position to switch to alternative destinations.

Bargaining Power and Business Practice

Another area of impacts is the notion of bargaining power of large tour operators *vis-à-vis* local suppliers and business practices in their relations with L.D.Cs. The substantial power of large tour operators to direct significant flows of tourists to particular destinations and particular hotels gives them superior bargaining power over recipient L.D.Cs, especially hotels. One should count information limitation, uncertainty of business, similarity of touristic qualities of countries and competition among L.D.Cs as factors enhancing this power. In order to reduce the total cost of the whole package, by which competitiveness and economies of scale are achieved in generating countries, tour operators

> "depress hotel rates and levels which hardly provide operating profits and some apply the ultimate pressure of all or nothing exclusive deals with host country hotels in L.D.Cs" (Zammit, 1981:51).

Obviously, the pressure from tour operators worsens when there is ample hotel supply. Of course, overall foreign exchange earnings accruing to destination L.D.Cs is reduced in this way. Another issue is the business practises. U.N.C.T.N.C summarises how different methods of payments and practices may reduce the flow of foreign exchange to L.D.Cs:

> "The organisation providing the tourist services (in receiving L.D.Cs) may not for example receive foreign currency directly, but rather a credit which the tour operator in the tourist generating country, upon which it may be able to draw at a future date. An alternative way is for tour operators to give their customer vouchers which they hand to the local supplier of the tourist service. The latter may then cash the vouchers in the tourist generating country. A third example is when the supplier of the tourist services in the host country is part of a vertically integrated transnational corporation and where payments are simple book-keeping transactions recorded at prices and designed to promote to the enterprises' global objective" (1982:51).

Image Creation

It is argued that in order to force hoteliers and host countries to accept low rates and remain flexible against fluctuations in tourism demand, tour operators sell a number of destinations more or less indiscriminately (many undifferentiated product) (Ascher, 1985; Britton, 1979; Lea, 1988; Medlik and Middleton, 1973). By doing this not only do they shape tourist expectations (sea, sun, sand, sex, servility) but also they create images of peoples, cultures that may be inconsistent with reality. The problem, according to Ascher, is not that tourists find what had already expected or their expectations remain unfulfilled but that people in L.D.Cs end up by corresponding to the images created by tour operators, what is called self-fulfilling prophesies in sociology. In other words, the attitudes and behaviour of local people towards tourists are imposed.

Seasonality

Whether tour operators exacerbate seasonality or help scatter it is another issue of impacts. Tour operators may worsen seasonality by switching their promotional efforts to particular destinations in different periods of the year (U.N.C.T.N.C, 1982). In other words, they direct large flows of tourists to destinations in the best time of the season, which of course increase the pressure on hotel supply and congestion during peak season in L.D.Cs and cause under-utilised capacity and unemployment in the rest of the reason. On the other hand, they can help reduce seasonality by organising tours during off peak season for incentive travellers or special interest groups.

Air Transport

International air transport is another multinational industry that has been one of the primary forces in the emergence of international mass tourism after World War 2 and is paramount for its continuation. Air transport is particularly important for tourism and trade of L.D.Cs most of which are long-haul destinations and where 70 to 90 per cent of tourist arrivals are by air (Ascher, 1985). Therefore, it is necessary to have a quick look at the major historical developments and international environment of the industry before considering the situation of L.D.Cs.

Developments in the Air Transport Industry: An Overview

After the Second World War, technological achievements of civil aviation, to which the war years were a stimuli, has opened a new era in international transport. The economic, and social conditions that shape demand were also improving rapidly in the post-war period. The late 1940's and 50' had already witnessed travellers switch from trains and ships to automobiles and airlines. The introduction of jet travel in the late 1950s made travel faster, safer and less expensive and accessible to mass market. Furthermore, the advent of inclusive tour fares, an upsurge of charter flights in the 1960s, the growth of various incentive fares and arrival of wide bodied aircrafts in the 1970s led to the development of the international air transport industry and phenomenon of mass tourism. There was a cause and effect relation between mass tourism, air transport and social and economic factors interchangeably

International Institutional Environment of the Airline Industry

Despite deregulation in the U.S.A in 1978 and slow steps taken towards liberalisation (which is a European version of deregulation) in Europe, international airline industry operates in a rather regulated environment based on bilateral agreements between sovereign states. Most countries have seen the airline industry as a strategic sector in terms of international trade, prestige, security, political independence and other economic considerations.

Developing nations favour regulations and subsidies to national airlines not only because of above mentioned benefits but also for the survival of national carriers. Even under deregulated environment in the U.S.A, Department of Transport and Bankruptcy Court Administration keep many airlines alive by subsidising and many states have their publicly owned and subsidised carriers (The Economist, 1991). So is the case in Europe. But this should not hinder the very existence of powerful, diversified private airlines in the U.S.A and Europe. Needless to say that almost in all developing countries airlines are state owned and subsidised or regionally owned in a few cases.

It was in the Paris Conference in 1919 that nations agreed that each was to have sovereign control over its air space (Straszheim, 1969). In 1944, representatives of fifty-four nations gathered in Chicago in order to discuss possible increases in air traffic expected after the war and to provide an environment for the healthy growth of the industry. The Chicago Convention endorsed the principle that nations had sovereignty over air space above their land. It laid down the international rights of civil transport operators which provided the framework within which bilateral agreements could be negotiated between governments. These rights are termed as five freedoms (Ellison and Stafford, 1974). They are:

(1) the right to fly over another state's territory without landing;

(2) the right to land on another state's territory for technical reasons (fuelling);

(3) the right to establish a route to another country and carry passengers in both directions;

(4) the right to pick up passengers at a third country on return flight to the country of origin;

(5) the right of a country to transport goods and passengers between two other countries.

The first two freedoms were accepted by all participants which came to be called Multilateral International Air Services Transit Agreement. The rest was left to bilateral negotiations. The Chicago Convention also created the International Civil Aviation Organisation (I.C.A.O) as an agent of the United Nations to establish uniformity and co-ordination and act as a forum for commercial aspects of civil aviation. Another outcome of the Chicago Convention was the re-constitution of International Air Transport Association (I.A.T.A) with 33 member airlines whose main function was to regulate air fares and service conditions subject to unanimous approval by all governments.

Two years later after the Chicago Convention the first bilateral agreement, Bermuda 1, was signed between the U.S.A and the U.K. It included the first four freedoms between the two without restricting capacity. It also accepted the fares set by I.A.T.A. Later on, Bermuda 1 became the blueprint for other bilateral agreements. Subsequent agreements deviated from the unrestricted capacity and grant of the fifth freedom. Especially excessive use of the fifth freedom has been a thorny issue and gave rise to a sixth freedom that came out to imply restrictions in the fifth freedom.

In the Chicago Convention there was no mention of non-scheduled charter flights. However, I.A.T.A members adopted the concept of "affinity group charters" for non-scheduled flights. It imposed limitations including price on charters. As the European Civil Aviation Conference backed up the adoption of inclusive tour charters and the number of non-I.A.T.A member airlines expanded, I.A.T.A members failed to compete in the charter market due to the membership restrictions. Therefore, many I.A.T.A member airlines established their charter subsidiaries. Briefly, the present institutional regulation and structure of international air transport was rooted in the Chicago Convention and involves the following:

(1) bilateral agreements between countries based on principles of six freedom;

(2) agreements between airlines - between individual airlines and collective agreements between scheduled airlines - through I.A.T.A, Association of European Airlines (A.E.A) and European Regional Airlines Organisation (E.R.A.O) which are subject to respective government approval;

(3) multilateral treaties between groups of countries, such as pooling agreements whereby scheduled airlines operating the same route agree on matters ranging from an agreed division of all or part of the revenues earned on the route to an exchange information on passenger and cargo carryings or I.T.C rules that determine conditions for non-scheduled flights in Europe;

(4) regulatory activities by national aeronautical authorities.

Explaining Involvement of the Airline Industry

The airline industry is multinational by nature. However, in order to understand air traffic flow patterns and impacts on L.D.C tourism, the O.L.I paradigm provides a useful framework.

Ownership Advantages

The airline industry requires a highly sophisticated technology possessed only by the developed countries. It covers the actual manufacture of aircraft, technical maintenance, computerised reservation systems and ground handling equipment. Expertise and finance necessary for the production and operation of airlines are only found in a few industrial countries. It is a dependent and very costly investment from the L.D.Cs' point of view. Among other ownership (firm specific) advantages are diversification into tour operation and travel agents; computer reservation systems; the knowledge of main generating markets; various price discrimination tactics; diversification into domestic network in order to feed the international operations of "hubs". Large capacity aircrafts are another source of advantage, which lower operating costs. For example, Ascher (1985) reports that operating costs of L.D.C airlines are 30 per cent higher than those of developed countries as a result of high cost of fuel, maintenance, training purchased at high prices and weakness of currency. Existence of large, diversified private sector and superior managerial resources are also important.

Location Advantages

The location (route) to which airlines serve is dependent on bilateral negotiations. Besides, bilateral agreements there are some other locational factors that determine commercial viability of the route. Most obvious ones are:

(1) the volume of traffic to/from the destination,

(2) the distance and size of destination,

(3) cost of flight and other services in destination closely related with exchange rate,

(4) general political, social and economic stability of a destination.

Internalisation Advantages

Naturally, airlines establish their offices and occasionally technical services in destination countries they serve. Because of the nature of the international airline industry, which requires services to be produced and offered between countries rather than within a particular country exclusively, airlines do not face the problem of serving a market by choosing between exporting, contractual agreements or establishing a subsidiary in a developing country. Besides there are no advantages to be gained by owning a subsidiary (apart from travel agents or offices), by which process internalisation across national boundaries occurs. On the contrary if ownership advantages, i.e. technology, are transferred to developing countries, there may be transactional losses like loosing technological lead. In this context, it may be said that internalisation in the conventional sense, i.e. establishing a subsidiary, do not lead to transactional or other gains in the airline industry because of the industry characteristics.

Impacts on Developing Countries

The international air transport industry has a key role in the economic development (through trade, balance of payments etc.), image and integration of L.D.Cs into the World environment and in the general development of tourism in particular. U.N.C.T.N.C study expresses this important role as follows:

> "most developing countries rely on air transport for the growth of their tourism sector. The cost of travel and frequency of service offered by the airlines, particularly, of the developed countries, is thus a major determinant of availability and form of tourism in these countries" (1982:69).

International airlines' (scheduled or non-scheduled) impacts on L.D.C tourism can be examined in two broad categories. First, airlines from main generating countries affect the amount of tourist traffic directed towards L.D.Cs. The direction of traffic is based on locational factors identified earlier and bilateral agreements. The inclusion of L.D.Cs as a tourist destination by developed country airlines enhance public awareness and image of destination through promotion efforts. The power of airlines for directing large numbers of tourist to particular destinations is strengthened by their integration with tour operator in the main tourist generating countries.

In this respect, the effects on long- and short-haul destinations can be different. Inclusive charter flights or seat-only charters can handle large numbers of tourists by back to back services to short-haul destinations seasonally. In this case developing countries are faced with two options: to allow charters or not to allow. If they choose the first, they may lose potential travellers and receipts on their scheduled flights. If they choose the second, then they lose potential tourists coming to their destination. For long-hall destinations, charter flights may be less important as long-haul destinations appeal to high income, special interest seeking and small sized tourist market. So low price and inclusive tours may be less attractive, which means that scheduled and part-charters on scheduled flights may be more important for long-haul destinations. The second category of impacts is concerned with the income lost to destination countries as a result of operations of airlines from developed countries. Although there seems to be fair competition between developed and L.D.C airlines as they both hold the right to negotiate capacity, fares, number of flights, developed country airlines are better placed in terms of bargaining power and competitiveness and have a higher market share. The reason for this is the high level investment required in equipment and maintenance and other ownership advantages (Walter, 1978).

If one needs to reiterate, the advantages of developed country airlines include integration with tour operators and travel agents through ownership and reservation systems; price discrimination through inclusive tours; lower operating costs; large aircraft capacity; existence of a lively market wishing to travel abroad; other financial, technical and managerial resources. The result is a higher load factor for developed country airlines and market share, which increase bargaining power. Having explained these advantages it is not difficult to guess that L.D.Cs can not get into pooling agreements and are unable to restrict operation for the fear of retaliation. Of course the implication for L.D.Cs is low foreign currency earnings and even lower in cases where developed country airlines own or manages hotels in L.D.Cs.

Conclusion

This chapter has clarified the concept of tourism multinationals, reviewed the key works on the role and impacts of tourism multinationals on international tourism development in developing countries. It also provided a theoretical synthesis regarding the role and impacts, forms of involvement, benefits and disadvantages of tourism multinationals, on Third World tourism development.

The synthesis suggests that there is a need for cautionary approach to the involvement of tourism multinationals in L.D.Cs. On the positive side, tourism multinational may play an invaluable role for the development of tourism. They provide market connections, finance, management expertise and skill, and build an image for L.D.Cs. Tourism multinationals also influence tourists' choice of a particular destination by giving quality assurance and co-ordinating travel services. On the negative side, the involvement of tourism multinationals may lead to unwanted scale and undesirable type of tourism development, reduced economic benefits, negative distributional effects, and a degree of dependence for the future direction of tourist flows, which may have further negative implications for destination countries in terms of their ability to make decisions on certain issues, namely exchange rates, and prices. It is in the context of these positive and negative aspects that the case study of Turkey will examine the current position of tourism multinationals' involvement in the tourism development, and explore opportunities for striking a balance between the two by pursuing appropriate policies and co-operation. The next chapter gives a general profile of Turkey, its economy, international tourist development, and the role of international tourism in the Turkish economy before examining the experience of Turkey with tourism multinationals.

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PART THREE: EMPIRICAL CASE STUDY OF TURKEY

CHAPTER 5
INTERNATIONAL TOURISM AND TURKEY

Introduction

This chapter reviews the various aspects of international tourism development in Turkey since the 1970s. It begins with a general profile of the country regarding geography, climate, population and culture, political system and administration. The chapter also summarises the inherited economic and social structure from the Ottoman Empire and goes on to describe major policies, practices, and the structure of the economics of the new Republic of Turkey. Furthermore it examines tourism development since the 1970s, its failures and successes. It also looks at public policies and institutions that have been coping with international tourism as well as urgent problems of tourism development in Turkey at present.

Geography

The Republic of Turkey is situated on a rectangular peninsula at the western end of the Asian and the south-eastern end of the European Continents (Figure 5.1). The European and Asian portions of the country, known as Thrace and Anatolia (or Asia Minor) respectively, are separated by the Sea of Marmara which links the Black Sea with the Aegean Sea through the Bosphorus and Dardanelles Straits. Turkey is bounded, on the north, by the Black Sea; on the north-east and east, by Commonwealth of Independent States and Iran; on the south, by Iraq and Syria and the Mediterranean Sea; on the west, by Bulgaria, Greece and the Aegean Sea. Its location as a passage land between the East and the West has been a central factor in Turkey's history, politics, economics and culture.

Turkey has a total area of, together with lakes and two small islands in the Aegean Sea, 780,576 sq. km. of which three percent is on the European side. The territory of the Republic is roughly in the shape of a rectangle measuring 550 km. from north to south and 1565 km. from east to west at its widest point. It is located between latitudes 42° and 36°

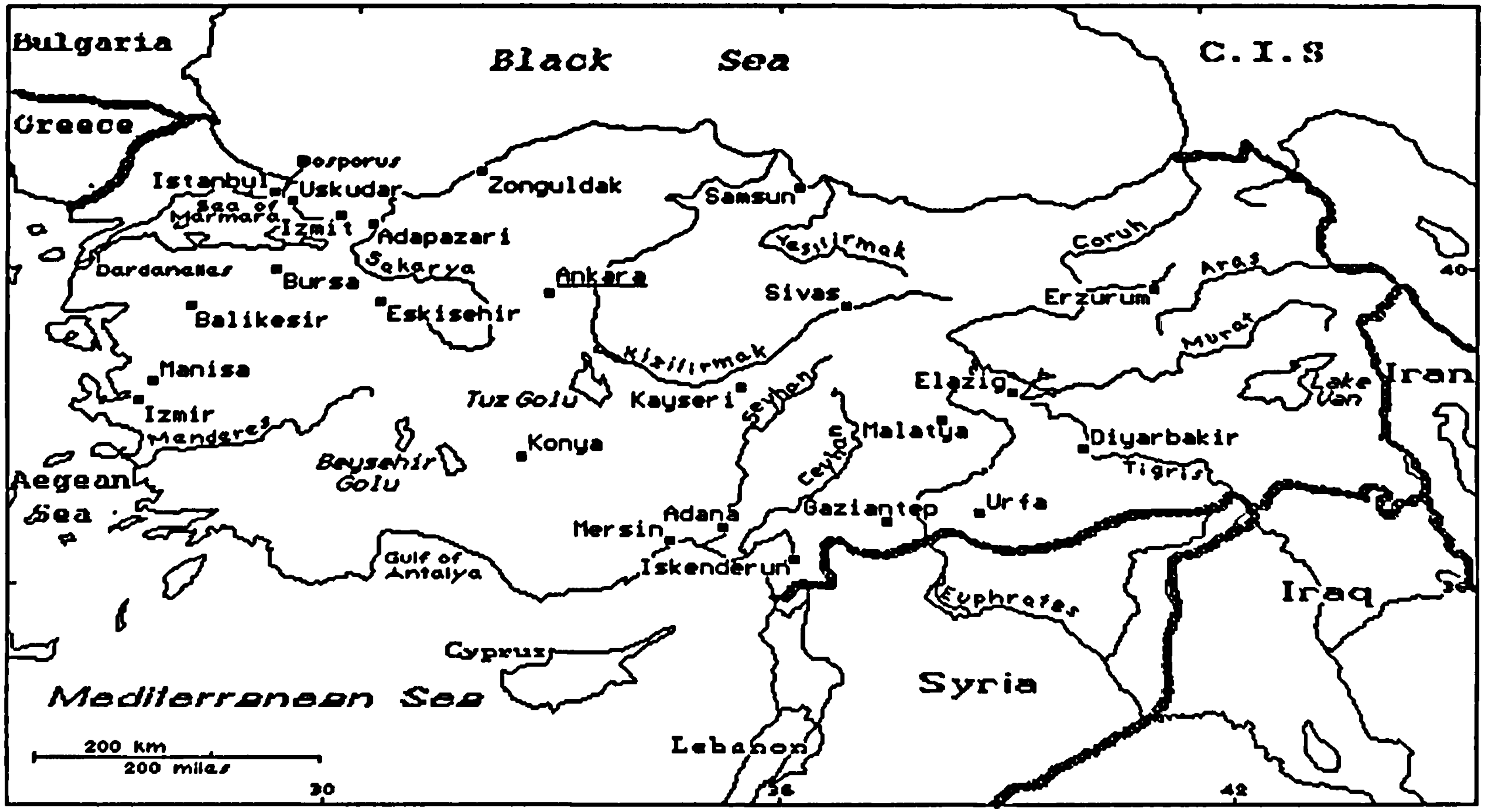

Figure 5.1 Map of Turkey

N and 25° 40' and 44° 48'E longitudes. The country possesses a cultivable area of 544,000 sq. km. and forests of 106,000 sq. km. Turkey has also a coastline of 8,333 km. and mountain ranges of varying size enclosing a series of inland plateaux. The average elevation above sea level is 1330 meters. The elevation rises gradually from west to east. The country's mountains extend parallel to the coasts in the north and south, and are concentrated in the eastern Anatolia.

Climate

Affected by both the topographic features and its location, the climate of Turkey is varied. Mainly, four regions showing similar climatic conditions can be distinguished. The south and west coasts have a Mediterranean climate with hot, dry summers and mild, rainy winters. The Black Sea coast enjoys warm summers, mild winters and a fair amount of rainfall throughout the year. The north-eastern plateaux have fairly warm summers but severe winters. The semi-arid interior and the south east have cold, moist winters and hot, dry summers.

Population and Culture

Turkey has a population of approximately 57 million, still increasing at an average annual rate of 2.2 per cent (State Institute of Statistics, 1990). The great majority of people are Turks and Turkish speaking. However several ethnic groups exist, Kurds being the largest. Other very small groups include Greeks, Arabs, Jews and Armenians. Around 40% of the total population live in rural areas. But urbanisation is taking place fairly rapidly.

Although Turkey is a secular state, 99 per cent of the population claim to be Muslims. In cultural terms, Turkey, especially the urban centres, have been influenced by European culture and share similar development orientations. However, there are frequent reminders of Turkey as part of Asia connected with its historical past.

Political System and Administration

The republic's political structure is based on democratic multi-party parliamentary system. Legislative power is vested in the Grand National Assembly of Turkey with 450 deputies, who are elected for a five year term. President of the republic is elected for seven years by the parliament.

Governance and administration of the country are fairly centralised. The country is divided into 72 provinces which, in turn, are subdivided into administrative districts. Governors of the provinces (mayors) are appointed by the central government. Every province and administrative district has its municipal (whose chairman is elected), which exerts great influence in the administration.

Economic Background

When the republic of Turkey was founded in 1923 (after the war of independence) succeeding the Ottoman Empire, which was defeated in the First World War, Turkey inherited economic and social structure of its predecessor. Main characteristics of this structure at the foundation of the republic are summarised below.

The Ottoman Economic and Social Legacy

Majority of economic activity was based on primitive agricultural production in the Ottoman Empire. Estimates of the G.N.P composition show that agricultural production accounted for 47%, industry 12%, and services 28% of G.N.P in 1913 (Kepenek, 1990). Around 90% of people were illiterate and living in rural areas. Although the land ownership belonged to the Empire in earlier times, towards the Empire's end, the central administration had sold the land for increasing its income or given away to individuals for collecting taxes in the name of the government.

Another reason for private ownership was the weakening of central administration by which some individuals possessed the land, with the backing of imperialist powers and began producing for foreign markets. The privatisation of land ownership in such ways were quite unequal and showed feudal structure in some parts of the country, especially in south-east Anatolia. As for the production methods, it was primitive to a great extent. But, there is evidence that some new techniques and mechanisation were introduced in the production of raw materials like cotton and tobacco for foreign markets (Issawi, 1981). In addition, irrigation works, opening up of technical schools for agricultural production show the importance given to agriculture.

The Ottoman Empire had not caught up the industrial revolution taking place since the mid-eighteenth century in the West. Industrial production made up only 12% of G.N.P. By content or force, the Ottoman market has been open to Western industrial products. This probably contributed to the stagnation of indigenous industrial development. Industrial and commercial sectors of the economy were in the hands of minority groups, notably Greeks, Jews, Armenians, and foreigners. For example, it is estimated that Greeks owned 50%, Armenians 20% Jews 5% and other foreigner 10% of the Ottoman industrial capital in 1915 (State Institute of Statistics, 1973).

Moreover, industrial and commercial activities of foreigners and minority groups were relegated to those areas which directly benefited the imperialist centres, including extraction or production of minerals and raw materials, transportation system, banking, commerce and education. Thus, Turkey has been linked to imperialist centres as a provider of natural resources and market for finished Western goods (Berberoglu, 1982). Naturally, the profits of foreigners were not reinvested in the economy. Being unable to pay for the expensive industrial products, the Empire was faced with a balance of payment problem. This led the Empire to borrow substantial amount of money which Turkey inherited and paid until 1952. Being in debt and inferior technologically also meant being in the command of others for the Empire. Briefly, main characteristics of the Ottoman industry were as follows:

(1) Almost all industrial firms were possessed either by foreigners or minority groups. Too many concessions had been granted to them, like exemption from taxes, custom duties, military service.

(2) Majority of industrial firms were small family businesses with two or less personnel and serving the near market.

(3) Industrial production concentrated on mining, weaving, clothing, food processing and

furniture manufacturing.

(4) The local market was not protected against foreign industrial products.

Services like banking, transportation, insurance, education, commerce also played an important part in the Ottoman economy (28% of G.N.P). This was due to the fact that the Ottoman empire was a market for finished Western goods and a store for raw materials. Kepenek (1990) notes that the biggest capital accumulation took place in the above mentioned services sector.

Economics of The New Republic

The founders of the new republic of Turkey intended to transform economic, political, social and institutional structure of society from middle ages to the twentieth century. On the economic front, five principles, obviously backed up by constitutional and institutional changes, can be interpreted to be guiding economic policy and implementation until 1980. They are: (1) "etatism", (2) industrialisation through planning, (3) creating an indigenous private economy, (4) import substitution, (5) co-operation with international business and finance. Further clarification of these principles without going into micro economic details is necessary since they are basics to an understanding of Turkish economy.

Etatism

"Etatism" is the active and large involvement of the state as producer and consumer in an economy. At least there are three reasons why etatism was one of the principles in Turkish economic policy and practice. First, Turkey inherited a tradition where everything is expected from the state; like a father; and individuals were seen as passive servers of the state rather than vice versa or in a relationship of mutuality. Second, Turkey lacked indigenous manpower, a commercial and industrial class (captains of industry) which is necessary for economic development. Third is the international historical atmosphere in the 1920s and 30s. There was the flourishing ideology of communism in the neighbourhood and the crisis of capitalist system. Thus, from the early days of the

Republic, the state was involved in establishing state owned banks, industrial firms in addition to more general tasks like improving infrastructure, education and training, health and regulating commerce and trade. It also nationalised foreign firms or acquired majority of shares or encouraged joint venture. Despite the privatisation attempts of the 1980s, and early 90s, which will be mentioned a little later, state owned enterprises account for 40% of G.N.P in the economy (Economist, 1991).

Industrialisation Through Planning

Another issue which permeated the economic policy was the industrialisation by means of planning. This was apparent in the first economic congress of the republic which was convened in 1923 to formulate the economic policy. The first five year industrial development plan took shape in 1934. Although planning was abandoned during the liberal government, between 1950 and 1963, Turkey still continues to direct its economy through development plans for a period of five year.

Creating Indigenous Private Economy

Since Turkey lacked a commercial and industrial class, it wanted to create one. It was spelled out that large government involvement in industry and finance was done with a view to handing these firms over to the private sector in the future. The underlying purpose was to assist the capital accumulation of the private sector in this way. But this transformation never took place and remains one of the controversial issues of politic-economic decision making. Elsewhere, major concessions, monopolies, credits, donations, subsidies were given to the private sector. Many "saving operations" took place. This policy and its implementation is referred to as "making the private industry prosper with the public hand" or "creation of a capitalist in every neighbourhood" in popular expressions in Turkey. Main beneficiaries of this practice were politically and militarily oriented people or landlords. With the exception of privatisation of state-owned industrial and financial firms, this policy and its implementation can be said to be successful. This is because, there are a few private conglomerates which dominate some of the industrial sectors of the economy and have subsidiaries outside the country.

Import Substitution

Import substitution was another leg of the overall picture of economic policy until 1980. In this respect, the private sector was to produce durable and non-durable consumer goods, whereas the state concentrated on producing cheap intermediate goods for the private industry as well as non-profitable services. Import substitution meant populism, that is, high wages policy for manpower and subsidies for agricultural production and encouragement for the industry and overvaluation of fixed Turkish Lira to make importation of intermediate goods cheaper. There were two constant problems of import substitution policy; inflation and lack of foreign currency which gave rise to balance of payment deficit and external debt problems.

Inflation was the result of a mixture of several factors. Rising prices of intermediate goods imported from developed countries (especially after the oil shock of 1973), monopoly structure in the protected market, uncontrolled money supply and increase of prices in state owned enterprises for political reasons rather than economic were among them. Lack of foreign currency, ending in balance of payment deficit and external debt, was the obvious result of an economy which had no export orientation, imported much of intermediate goods rather than producing at home. Although Turkey exported agricultural produce and had an inflow of remittances of workers abroad, it was not enough to cover the imports.

Co-operation with International Business and Finance

In order to speed up the technological transfer and find finance and hard currency for industrial projects, foreign investment and joint ventures were encouraged. Foreign investment legislation was prepared by American assistance. An Industrial Development Bank also was founded to finance joint ventures. Foreign investors and foreign-local joint ventures enjoyed monopoly profits in many sectors behind the protection walls. While the outflow of financial capital was higher than that of initial capital inflow brought by foreign investment; worsening balance of payment position, foreign investors preferred to import intermediate industrial goods creating "assembly industries" (Sonmez, 1992). Nevertheless, the private conglomerates dominating the consumer market today came out of foreign-local joint ventures and were among the founders of Industrial Development Bank. Production in heavy industry and intermediate industrial products was left to the public sector to provide the private sector with the cheap inputs.

Faced with the balance of payment problem and a debt crisis, Turkey changed the course of its economy from import substitution to export promotion in 1980. Main elements of export promotion, designed and closely watched by the I.M.F and the World Bank, are as follows (Aricanli and Rodrik, 1989; Kazgan, 1988):

(1) Liberalisation of imports, prices and financial markets;

(2) Encouragement and heavy subsidisation of exports;

(3) Transformation from fixed to floating exchange rate mechanism;

(4) Devaluation of the Turkish Lira several times;

(5) Privatisation of state owned enterprises;

(6) Anti-labour policies (low wages, anti-unionist movement, insecurity in the working environment);

(7) Curbing internal demand;

(8) Decrease in public investments and budget;

(9) A preference for giant conglomerates rather than small firms;

(10) More incentives and role for foreign investment;

Basically, the programme was intended to give an international scope to the capital accumulation of the private sector while easing the balance of payments deficit, unemployment and debt crisis. Although export performance since 1980 has been outstanding, it did not relieve the balance of payment deficit, unemployment and external debt. On the contrary, with the effect of devaluation, they have soared to record levels.

Current Shape of the Economy

When compared with the state of today's industrial nations, Turkey is described as a newly industrialising country with middle per capita income (O.E.C.D, 1989). In terms of United Nations' Human Development Index, it ranks 71st among the nations of the World achieving medium human development. Table 5.1 shows how Turkey features in some of the most important variables of Human Development Index.

Table 5.1 Indicators of Human Development Index for Turkey

	LIFE EXPECTANCY AT BIRTH (%, 1990)	ADULT LITERACY RATE (%, 1990)	MEAN YEARS OF SCHOOLING (1990)	REAL G.D.P(US$,1989)
TURKEY	65.1	80.7	3.5	4,002

Source: United Nations Development Program (1992).

Between 1963-1980, that is when planned import substitution was practised, Turkey achieved an average 6% growth rate annually. The structure of the economy has been transformed. There has been considerable increase in the share of industry and services while agriculture's share has declined dramatically over the last three decades (Table 5.2). In the last ten years, Turkey's economic growth rate has been around 5% (Table 5.3). Its programme of export promotion has been considered a dramatic success. While exports were US$2.9 billion in 1980 it rose to approximately US$13 billion in 1990 showing an increase of 445% in ten years or an annual average increase of 45%. However, macroeconomic indicators of the economy have not been satisfactory.

Table 5.2 Sectoral Composition of G.D.P in the Turkish Economy, 1963-1989

	SHARE (%)			
SECTORS	1963	1970	1980	1989
INDUSTRY	16	20.5	31.0	32.3
AGRICULTURE	39	31.5	21.7	17.2
SERVICES	45	48	47.3	50.5

Source: Derived From O.E.C.D (1992) and Kepenek (1990).

Table 5.3 Some Macro-Economic Indicators of Turkish Economy, 1982-1990

YEARS	GROWTH RATE (%)	INFLATION RATE (%)	BALANCE OF PAYMENTS DEFICIT (Million $)
1982	4.6	27.5	-3.097
1983	3.3	28.0	-3.507
1984	5.9	50.0	-3.624
1985	5.1	43.9	-3.386
1986	8.0	30.0	-3.648
1987	7.4	38.2	-3.968
1988	3.4	65.7	-2.678
1989	1.9	68.2	-4.167
1990	9.2	53.1	-9.342

Source: Sonmez (1992).

First, inflation and balance of payments deficits were on the rise, which is not a sign of good macro economic management (Table 5.2). Second, unemployment remained around 10% in the 1980s (World Bank, 1990). However, overemployment, especially in state-owned enterprises, and inaccurate statistics underestimate the actual unemployment rate. As for the sectoral distribution of employed workforce, 50.6% belonged to the agricultural sector while 15.2% were employed in industry and 34.2% in the service sector (State Planning Organisation, 1990).

Third, external debt was also negative during the last ten years. It has worsened since the 1980 export promotion programme which was supposed to be the solution to the problem. External debt reached a total of US$49 billion in 1990 while it was US$15 billion in 1980 (Sonmez, 1992). The ratios of external debt to national income, which was 44% in 1990, and to exports, 378% in 1990, give a good indication of how serious problems Turkish economy faces. Finally, income disparities and unequal regional developments continue to be macroeconomic problems.

International Tourism in Turkey

In this section different aspects of international tourism development in Turkey will be examined. These will include characteristics of international tourism in Turkey, tourism in the economy, public management of tourism (policies and institutions), and problems of tourism development.

Characteristics of International Tourism in Turkey

In order to understand the present state of tourism development in Turkey, a number of its features are explored in this section. These features include; growth and development of international tourism, nature of tourism product and development, tourist market features, tourist features, accommodation features and seasonality.

Growth and Development of International Tourism

The growth of international tourism in Turkey has made significant progress over the past two decades. Although the growth has been slow and gradual during the period between 1970-1981, it has accelerated since 1982. For example, tourist arrivals (Table 5.4) and tourist bed capacity (Table 5.5) have increased 94% and 105% respectively within a 12 year period between 1970-1981 whereas the corresponding increases were 408% and 253% between 1982-1992. Similarly tourist receipts (Table 5.4) increased 639% between 1970-1981 and 883% between 1982-1992. It must be noted that tourist arrivals and bed capacity are more reliable for the comparative growth between the two periods since inaccurate estimations based on surveys, inflation, floating exchange rate and devaluation or revaluation distort the real changes in tourist receipts. Also, the share of tourism receipts in gross national product and export earnings between 1970-1981 improved but only slightly and remained stagnant at long intervals (Table 5.6). It can be seen from Table 5.6 that the share of tourism receipts in gross national product remained, on average, 0.5% between 1970-1981. The same is also true for the share of tourism receipts in the export earnings, which was, on average, 11% between 1970-1981.
However, the share of tourism receipts in the gross national product went up from 0.8% in 1981 to 2.4% in 1992 (Table 5.6). Equally, the share of tourism receipts in export earnings rose from 8.1% in 1981 to 24.7% in 1992 (Table 5.6).

The decades between 1960-1980 have been rightly described as "decades of lost

Table 5.4 Tourist Arrivals and Receipts in Turkey, 1970-1992

YEARS	NO. OF ARRIVALS ('000)	*RECEIPTS (MILLION US$)	YEARS	NO. OF ARRIVALS ('000)	*RECEIPTS (MILLION US$)
1970	724.2	51.6	1982	1,391.7	370.3
1971	926.0	62.9	1983	1,625.7	411.1
1972	1,034.9	103.7	1984	2,117.0	840.0
1973	1,341.5	171.5	1985	2,614.9	1,482.0
1974	1,110.2	193.7	1986	2,391.0	1,215.0
1975	1,540.9	200.9	1987	2,855.5	1,721.1
1976	1,675.8	180.5	1988	4,172.7	2,355.3
1977	1,661.4	204.9	1989	4,459.1	2,556.5
1978	1,644.1	230.4	1990	5,389.3	3,225.0
1979	1,523.6	280.7	1991	5,517.3	2,654.0
1980	1,288.0	326.7	1992	7,076.0	3,639.0
1981	1,405.3	381.3			

Source: Ministry of Tourism (1993a).
* In current prices

Table 5.5 Growth of Tourism Operation Licensed Accommodation in Turkey, 1970-1992

YEARS	NO. OF ESTABLISH-MENT	NO. OF BEDS	YEARS	NO. OF ESTABLISH-MENT	NO. OF BEDS
1970	292	28,354	1981	529	58,242
1971	337	32,114	1982	569	62,372
1972	363	34,628	1983	611	65,934
1973	388	38,528	1984	642	68,266
1974	400	40,895	1985	689	85,995
1975	421	44,957	1986	731	92,129
1976	439	47,307	1987	834	106,214
1977	446	50,379	1988	957	122,306
1978	473	52,385	1989	1,102	146,086
1979	494	53,956	1990	1,260	173,227
1980	511	56,044	1991	1,404	200,678
			1992	1,498	219,940

Source : Barutcugil (1986), Ministry of Tourism (1993b).

opportunities for Turkish tourism" (Economist Intelligence Unit, 1981:13). For example, if Turkey is compared with some of its competitors in the Mediterranean region for the year of 1980 (Table 5.7), regarding tourism's magnitude (in terms of tourist arrivals, tourist receipts, bed capacity and tourist receipts in G.N.P), the above statement is easily justified.

Table 5.6 Share of Tourism Receipts in the G.N.P and Export Earnings of Turkey, 1970-1992

YEARS	SHARE OF TOURISM RECEIPTS IN G.N.P (%)	SHARE OF TOURISM RECEIPTS IN EXPORT EARNINGS (%)	YEARS	SHARE OF TOURISM RECEIPTS IN G.N.P (%)	SHARE OF TOURISM RECEIPTS IN EXPORT EARNINGS (%)
1970	0.5	8.8	1982	0.7	6.5
1971	0.5	9.3	1983	0.8	7.2
1972	0.6	12.4	1984	1.7	11.8
1973	0.8	13.0	1985	2.8	18.6
1974	0.6	12.6	1986	2.1	16.3
1975	0.5	14.3	1987	2.6	16.9
1976	0.4	9.2	1988	3.3	20.2
1977	0.4	11.7	1989	2.3	22.0
1978	0.4	10.1	1990	2.2	25.5
1979	0.5	12.4	1991	1.8	19.5
1980	0.6	11.2	1992	2.4	24.7
1981	0.8	8.1			

Source: Ministry of Tourism (1993a).

Numerous factors can be attributed to the to the relative underdevelopment of the Turkish tourism industry during the 1960s and 1970s. First and foremost , political instability produced an undercurrent of violence which discouraged would-be tourists and tour operators. Turkey had three military coups between 1960-1980 and the violent struggle between dictatorship and parliamentary democracy, right wing and left wing, and Islamic fundamentalists and seculars also continued during the period. Second, Turkey had very poor infrastructure and superstructure which did not meet the standards of international tourism (Economist Intelligence Unit, 1981).

Third, up to the early 1980s Turkey's tourism product offered to foreign markets had been history- culture-based (Yarcan, 1990). Yarcan further notes that both the State's and tour operators' marketing efforts always concentrated on the cultural and historical resources of the country. Mass beach tourism was rejected on moral grounds Nor did it own the physical infrastructure, accommodation and airport facilities near sun-sea-sand resorts for mass tourism. As a result of focusing on limited wanderlust segment of the market, Turkey could not benefit from the mass tourism boom of the 1960s and 1970s.

Table 5.7 Comparison of Turkish Tourism's Magnitude with its Traditional Competitors, 1980

COUNTRIES	TOURIST ARRIVALS ('000)	RECEIPTS (MILLION US$)	BED CAPACITY	SHARE OF TOURIST RECEIPTS IN G.N.P
GREECE	4,796	1,734	265,552	4.1
SPAIN	22,500	6,968	983,187	3.5
PORTUGAL	3,762	942	99,886	5.0
YUGOSLAVIA	6,410	1,115	272,802	1.9
TURKEY	1,288	327	49,267	0.5

Source: W.T.O (1981), O.E.C.D (1981).

Fourth, in line with the promotion of cultural tourism, Turkey did not allow charter flights to fly in. This is done with a view to restricting mass beach tourism, and preventing foreign charter airlines from capturing the national airline's scheduled market share by cutting prices. This policy was abandoned with the emergence of national private charter airlines in the 1980s. Fifth, although Investment Incentives Act for the Tourism Industry was passed in 1953, it suffered from ambiguity as investors had to juggle between Tourism Act and various other acts. Finally, Turkey's priority was industrialisation and the Turkish Lira was overvalued for the importation of intermediate goods. This may have caused the prices of tourism services and goods to be more expensive than they would be in the case of floating exchange rate mechanism. All in all, it is difficult to highlight one variable and neglect others as the cause of underdevelopment of the tourism sector during the period. Instead, it can be said that the ingredients of the tourism development system were not in place. However, 1980 was the turning point for Turkish tourism industry in a number of ways.

Despite its huge potential, Turkish tourism is still at the initial stage of its development. But, as figures showed earlier, it has made considerable progress within the last decade. Surely, a combination of different but compatible factors were responsible for the success story of Turkish tourism in the 1980s. Most important of these factors are reviewed below including socio-political stability and an attitude change to international tourism; enlargement of tourism investment incentives; determination of tourist regions, zones and centres, and speeding up infrastructural investments; transformation of the nature of the tourism development; devaluation of Turkish Lira; the tourism multinationals factor.

Socio-political Stability and Attitude Change to International Tourism

The military junta ended ongoing terrorism and anarchy stemming from ideological differences and restored peace in 1980. The military government of 1980 saw international tourism not only as a serious foreign currency earning export industry but also as an international image booster with its modern airlines, luxury accommodation, recreation and entertainment facilities. The National Security Council received a report on the problems of tourism and the measures taken for its development in 1980. Consequently, the tourism sector was identified as a top priority export industry. The opposition to mass tourism by previous civil governments on moralistic ground, among others, was rejected (Economist Intelligence Unit, 1981). Thus, an environment of greater respect for law and order, and robust willingness provided the framework for developing international tourism.

Enlargement of Tourism Investment Incentives

In line with the attitude change of those in power to international tourism, tourism investment incentives were revised and enlarged. Foreign investments were given the same rights and obligations as local capital. The transfer of profits, fees, royalties, and the repatriation of capital in the event of liquidation or sale are guaranteed (General Directorate of Foreign Investment, 1992). In addition, Turkey offered a secured environment to foreign investors by being party to several bilateral and multilateral agreements and organisations. Main tourism investment incentives included the following (Kalkan, 1989) :

(1) The provision of infrastructure, electricity, water, roads and telecommunications, by public sector to project sites;

(2) The allocation of publicly owned land to private investors on a lease basis up to 99 years;

(3) Long term investment credits(in foreign currency if needed) with low interest rates;

(4) Investment allowances up to 100% of total cost;

(5) Exemption from construction and property taxes;

(6) Tax deduction on foreign exchange earnings up to 20% of annual foreign exchange gross earnings;

(7) Employment of foreign personnel up to 20% of total employees;

(8) Import facilities and exemption from import taxes;

(9) The cheapest tariff rates for electricity, gas and water in the tourist establishments;

(10) Exemption from building taxes;

(11) Postponement of value added tax;

In addition to these incentives, there were subsidies as well. In fact, it has been suggested that 10% of tourist operation licensed accommodation received subsidies ranging from 15% to 40% of the total cost of the project (Association of Tourism Investors, 1992)). The incentives were rationalised according to the priorities given to different regions. Moreover, to evaluate investments and implement the incentive measures for foreign investors, the Government established the General Directorate of Foreign Investment as the sole body for avoiding red tape.

Determination of Tourist Regions, Zones and Centres and Speeding up Infrastructural Investments

Another development in the 1980's was the determination of tourist regions, zones and centres. This has been done with a view to evaluating tourist attractions, determining touristically important or potential sites, providing infrastructure and investment incentives according to a worked out plan. Tourism centres, zones and regions were determined as the order of touristic importance, and received incentives accordingly. All the coastlines along the Mediterranean and Aegean Seas, which were neglected before, were included in the priority list for tourism development. Infrustructural investments were speeded up by the public sector in designated areas.

In this direction, drinking water supply, sewage and waste water treatment plants, electrification and telecommunication investments are completed in the tourism areas and on the Aegean and Mediterranean coastlines which are planned and opened to investments (O.E.C.D, 1992). A new airport, Dalaman, was opened in the Mediterranean Region for international charter flights which brought together beautiful summer resorts within the reach of travellers in a limited amount of time. Three other airports, two in the Mediterranean and one in the Aegean Region were improved and opened for charter flights as well. Another airport in the Mediterranean coast is included in the investment programme for 1990-1994. Additionally, attempts to improve and open military airports to civilian transport have been carried out. Restrictions on charter flights were removed through bilateral agreements.

Transformation of the Nature of Tourism Development

As noted earlier, Turkey offered history-culture based tourist product before the 1980's. Having learned that the market for this sort of tourist product was limited in numbers and appealed only to those with relatively high income, good education and special interest, Turkey decided to opt for large scale mass tourism which required the development of coastal tourism (beach holidays) accompanied with inclusive tours. It is estimated that between 70-80% of tourists coming to Turkey are sunlust seeking vacationists and 58% came by inclusive tours (Ministry of Tourism, 1989).

Devaluation of the Turkish Lira

Another factor that contributed to the rapid growth of tourism was the devaluation of the Turkish Lira. Before the 1980's Turkish Lira was overvalued due to import substitution policy which required the importation of investment and intermediate goods from industrial countries. As a part of export promotion policies, devaluation and floating exchange rate were adopted. For example while $1 was exchanged at 70 TL in 1980, it rose to 2,607 TL in 1990 (Sonmez, 1992). That means that a holiday costing 100TL (US$1.42) in 1980, was costing 551TL (US$0.21) in 1990. Allowing inflationary increase.

that is almost 700% decrease on the value of TL against US dollar. Similarly, 1 German Mark rose from 87 TL in 1983 to 1,621 TL in 1990 (Sonmez, 1992). Studies carried out on price competitiveness of destinations in the Mediterranean before 1980 clearly show that Turkey was the most expensive tourist destination in relation to Spain, Greece, Bulgaria, Tunis, Algeria (Kircioglu et al, 1983). So, devaluation must have played its role in the relative upsurge of Turkish tourism in the 1980s.

The Tourism Multinationals Factor

In the 1980's, Turkey offered an alternative and less spoiled destination for European tour operators and charter airlines while tourist amenities were provided at the same or less cost level. It is also likely that tour operators and charter airlines negotiated with hoteliers in Turkey in such a way that gave them a good profit margin. Describing the role of foreign tour operators and charter airlines in the development of Turkish tourism, Yarcan (1990) notes vertical integration between foreign hotel management firms, tour operators and charter airlines. So, the willingness of tour operators and charter airlines to divert tourist traffic to a destination should be borne in mind in addition to acceptable conditions regarding tourism assets and facilities, type of tourism development, political and economic situation in the destination. Further analysis of how tourism multinationals helped Turkish tourism development is given in chapter six.

Tourism Product and Nature of Tourism Development

Tourism product is so broad a concept that it virtually includes everything about a potential destination country. This comes from the fact that the tourism product is an amalgam of different goods and services, historical and cultural attractions, and natural features present, among others, in the destination under question. In order to make it intelligible, the meaning of tourism product is restricted here to immediate tourist activities and experiences that can be undertaken or experienced in Turkey. offer. In other words, tourism product is defined according to a priori tourist motivations.

In this respect, tourism product of Turkey is examined under five broad headings;

beach tourism, history-culture based tourism, winter tourism, special interest tourism and business tourism. Obviously these groups do not cover all the constituents of tourism product like attractions, facilities and accessibility in terms of time and cost of a destination. But this contextual definition has the advantage of combining immediate tourist motivations with the most relevant and essential part of tourism product to be marketed with other complementary elements of tourism product. However, this classification should not mean that various activities undertaken under each category are not interchangeable with others.

Beach Tourism

Turkey is well endowed with climatic and natural prerequisites of beach tourism. It is surrounded with four seas, the Black Sea, the Marmara, the Aegean and the Mediterranean. Turkey has 1432 km long natural beaches (Commission of Tourism and Promotion, 1978). The summer season lasts seven months in the coastal areas except the Black Sea where it is four mounts. The annual amount of sunshine ranges from 150 days in the north to 300 days in the south and west. The monthly average sea temperature from April to October on the Mediterranean and Aegean regions is around 22-24 centigrade (Tourism Bank, 1985). These coastlines offer similar swimming, sunbathing, fishing, yachting and water sports opportunities often against a more picturesque backdrop of simple Turkish villages or small town architecture, old stone castles or historical sites, and the Anatolian mountain ranges. Being undeveloped until recently they are relatively unspoilt.

History-Culture Based Tourism

There are few countries which have gone as many changes as Turkey throughout the history. Beginning from the seventh millennium B.C, it has been the homeland of many civilisations; the Hittites, the Assyrians, the Persians, the Urartuans, the Hellenes, the Romans, the Byzantine, the Selcuks, and the Ottomans. Each civilisation left its traces on the land from antiquity to the Ottomans. Turkey has been subject to many invasions and centre of the World empires at times. Turks love to describe their country as open air museum because of so many traces, historical sites, building and objects of culture from the past. According to a recent research, Turkey has 2,363,652 historical art objects in 170 museums (World Newspaper, 1993); 10,000 protected heritage sites and 50,000 excavation sites (Kircioglu and Nazilli, 1983). In terms of culture, Turkey is one of the countries trying to fuse eastern and western values together.

Winter Tourism

Skiing and related winter sports can be considered as constituting winter tourism. Because of its irregular topographic features, Turkey offers potentials for winter tourism. Mountains of varying heights, the highest being 5165m, on the backgrounds of the coastal areas and in the interior have convenient slopes and are covered with snow for a period of 4-5 months in a year(Tourism Bank, 1985).

Special Interest Tourism

There are many activities that can be put under the special interest tourism category. In terms of what Turkey can offer, the following special interests are the most important that can be provided:

(1) Pilgrimage;

(2) Mountaineering;

(3) Trekking;

(4) Visiting battlefields,

(5) Hunting, fishing, diving and other water sports;

(6) Yachting;

(7) Health tourism (spas);

(8) Shopping;

(9) Birdwatching;

(10) Visiting friends and relatives.

Business Tourism

Turkey is, in a remarkable sense, a passage land between Europe and Asia. Not only is Turkey a member of social-political-economic European institutions such as N.A.T.O, O.E.C.D, E.F.T.A, European Council, but also it has close ties culturally and economically with Islamic countries in the Middle East and North Africa. With the dissolution of the old Soviet Union, Turkey pioneered the Black Sea Economic Co-operation Project and strengthened economic and cultural ties with newly emerged Turkish republics in Central Asia. Turkey also have gone a long way in the industrialisation process and launched liberal economic policies since 1980s. All these developments point to the fact that Turkey is well placed for the prospect of business tourism.

On the basis of the above classification, the nature of tourism development in Turkey can easily be identified. It is already pointed out that before 1980, Turkey's tourism product was history and culture based (Kircioglu and Nazilli, 1983; Yarcan, 1990). A survey of 180 European tour operators in 1979 concluded that Turkey is perceived as a destination for historical and cultural interests to a great extent (Kircioglu and Nazilli, 1983). With the promotion of large scale mass tourism in coastal areas, this image has changed dramatically since 1980.

The contention that Turkey now is primarily conceived as a destination for beach holidays is demonstrated in the next chapter where foreign tour operators' role is discussed. It can also be shown by looking at the distribution of licensed tourist beds regionally. 61.20% of all tourist beds are in the Aegean and the Mediterranean Regions which are most convenient for large scale coastal tourism. Another 24.43% is in the Marmara Region which is also attractive for beach holidays. As regards winter tourism, it is still at an underdeveloped stage despite its potentials. Although there are 4 skiing centres; Mount Uludag (2,500m), Mount Bolu (2,200m), Mount Antalya (2,000m), Mount Akdag (2,500m), only one of them, Uludag, has international service outlook with 2,636 bed capacity, (Ministry of Tourism, 1992c; Tourism Bank, 1985).

However, there are four skiing centres planned to be opened with 24.000 bed capacity in the eastern part of Anatolia in the near future. According to the Ministry of

Tourism, the infrustructural plans are already completed (Gurson, 1992). Two more existing skiing centres will be enlarged and upgraded. The rationale behind the skiing centre plans are to extend the tourism season into winter, reduce seasonal unemployment and prepare Turkey for the Olympic Winter Games. With respect to business tourism, it is also a growing part of tourism product and market segment in Turkey where all international hotel chains like Hilton, Sheraton, Etap, Conrad, Ramada Inns and many others have subsidiaries in main metropolis like Istanbul, Ankara, Izmir, Antalya.

Table 5.8 Motivations for the Tourism Product of Turkey

MAIN TRAVEL MOTIVATIONS	PERCENTAGE(%)
RELAXATION(BEACH HOLIDAYS)	75.6
CULTURE TOURISM	7.2
BUSINESS TOURISM	6.9
VISITING FRIENDS & RELATIVES	2.5
SHOPPING	3.5
OTHER	4.3

Source: Ministry of Tourism (1989).

Finally, special interest tourism do not seem to be accounting for a large part of tourists coming to Turkey. Nevertheless, Turkey has the potential tourist products for tapping into tourist market niches noted as special interest tourism above. In order to understand the current nature of tourism development, A survey, carried out by the Ministry of Tourism, investigating the main motivation for visiting Turkey gives a clear indication of the current nature of tourism development in Turkey (Table 5.8)

Tourist Market Features

The geographical location of Turkey makes it one of the short-haul destinations, within the reach of four hours flight from most capitals in Europe, its main tourist generating market which. As can be deduced from Table 5.9, Turkey received 87.4% of

Table 5.9 Origins of Visitors to Turkey, 1992

ORIGIN	NO. OF TOURIST('000)	SHARE (%)
Germany	1,165.1	16.47
U.K	314.6	4.45
France	247.6	3.50
Netherlands	204.8	2.89
Austria	204.6	2.89
Italy	158.185	2.24
Greece	147.1	2.08
Sweden	120.2	1.70
Finland	104.1	1.47
Switzerland	78.7	1.11
Belgium	75.0	1.06
Denmark	64.0	0.90
Spain	47.3	0.67
Norway	42.4	0.60
Ireland	22.9	0.33
Portugal	5.8	0.08
Island	2.4	0.03
Luxembourg	1.7	0.02
EUROPE O.E.C.D	**3,007.2**	**42.4**
U.S.A	162.4	2.58
Japan	36.3	0.51
Australia	30.9	0.44
Canada	26.3	0.37
N. Zealand	7.3	0.10
TOTAL O.E.C.D	**3,290.7**	**46.5**
C.I.S	1,241.0	17.54
Bulgaria	818.8	11.57
Romania	566.6	8.01

Table Cont'd

Yugoslavia	155.5	2.2.
Hungary	148.1	2.09
Czechoslovakia	126.7	1.79
Poland	111.9	1.58
Other East Europe	13.6	0.19
TOTAL EAST EUROPE	**3,182.6**	**45**
OTHER	602.7	8.5
TOTAL	**7,076.0**	**100.0**

Source: Ministry of Tourism (1993a).

tourist arrivals from Europe in 1992, 42.4% of which is from European O.E.C.D countries, and 45% from Eastern Europe. Among European O.E.C.D countries, Germany, United Kingdom, France, Austria, Netherlands, Italy and Greece are the most important tourist generating sources for Turkey in order of importance (Table 5.9). Recently there has been a great increase in the share of visitors coming from Eastern Europe whose share went up from 16% in 1989 to 45% in 1992 after the dissolution of socialist bloc and its regimes. In the east European market, Commonwealth of Independent States, Bulgaria, Romania are the main tourist generators to Turkey (Table 5.9).

Tourist Features

A number of features can be investigated among the travellers coming to a particular destination. Leaving aside demographic and socio-economic characteristics which require more detailed and larger surveys here are considered "average stay", "spending per tourist", "means of transport" and "travel organisation". According to the survey conducted by the Ministry of Tourism (1989), average stay per tourist was 10 days in 1986, 7 in 1987 and 9 in 1988. As to the average spending per tourist, it was US$621 in 1990, US$520 in 1991 and US$533 in 1993 at current consumer prices (Ministry of Tourism, 1993a). Regarding the means of transport used by incoming tourists, 46.79% came by land, 42.08 by air, 10.05 by sea and 1.08 by train in 1992 (Ministry of Tourism, 1993a). Concerning the travel organisation, it is found that around 60% of tourists took inclusive tours while the remaining 40% were independent travellers (Ministry of Tourism, 1989).

Table 5.10 Tourism Operation and Investment Licensed beds According to Type, Class and Share in 1991

TYPE	CLASS	NUMBER OF BEDS			
		TOURISM OPERATION LICENSED	% OF TOTAL	TOURISM INVEST-MENT LICENSED	% OF TOTAL
Hotels			75		76
	5 stars	36,051	22	33,598	14
	4 stars	21,937	13	43,100	19
	3 stars	48,224	30	106,106	45
	2 stars	40,914	25	45,254	19
	1 star	17,040	10	7,294	3
Motels			1.5		2
	1st class	1,743	51	2,022	43
	2nd class	1,684	49	2,716	57
Holiday Village			15		16
	1st class	30,852	94	41,006	82
	2nd class	1,848	6	8,965	18
Boarding Houses		5.862	2.5	8,842	3
Campings		6,998	3	5,863	3
Inns		1,181	0.5	150	0.0
Thermal Resorts		40	0.0	-	-
Apart Hotels		1,440	0.5	-	-
Special Licenses		4,126	2	4,227	1
TOTAL		219,940	100.0	309,139	100.0

Source: Ministry of Tourism (1992).

Accommodation Features

Turkey has 219,940 operation licensed tourist beds and 309,139 beds which have been given tourism investment license as of 1992 (Ministry of Tourism, 1992b). In addition, there are 194,481 beds in operation which are licensed by municipals, 78,222 of which are reported to be in "good condition" that can meet international standards. The first feature to be mentioned is the operation and investment licensed tourist beds according to the type, class and share of different accommodations. As can be seen from the Table 5.10, hotels account for 75% of all tourism operation licensed beds while holiday villages account for another 15%. Among hotels themselves those three stars and over make up 64% hotel beds. Similar concentration can also be seen in tourism investment licensed beds where hotels are responsible for 76% of beds and holiday villages 16%. Three stars and over hotels constitute 78% of tourism investment licensed beds.

The second feature is the regional distribution of tourism operation and investment licensed beds which give a good indication of present and potential tourism development with respect to the location. Table 5.11 shows that around 60% of operation licensed and 70% of investment licensed beds are in the Aegean and the Mediterranean regions. If the

Table 5.11 Regional Distribution of Tourism Operation and Investment licensed Beds in Turkey, 1991

REGION	TOURISM OPERATION LICENSED BEDS(%)	TOURISM INVESTMENT LICENSED BEDS(%)
MARMARA	24.43	12.83
AEGEAN	28.42	39.88
MEDITERRANEAN	31.76	33.29
CENTRAL ANATOLIA	9.83	5.74
BLACK SEA	2.74	2.74
EASTERN ANATOLIA	1.50	2.60
SOUTH-EAST ANATOLIA	1.30	2.92

Source: Ministry of Tourism (1992).

Marmara region is added to these two regions, around 85% of tourist beds are and will continue to be in these three regions. Not only these regions have the most beautiful sun-sea resorts but also historical and cultural tourist attractions as well as infrastructure and superstructure. Although Central and Eastern Anatolia, and Black Sea Regions are comparable to these regions in terms of historical, cultural and natural attractions, they lack the lure of beach tourism involving large numbers; such is the imperative of beach tourism in the international tourist market for developing countries.

The final feature of the accommodation sector to be looked at is the occupancy rate. It is natural for occupancy rates to change according to the location and type of the accommodation. But, here is given the yearly average occupancy rate without distinguishing between them. As it is shown in Table 5.12, occupancy rate varied from 43% to 50% between 1980 and 1992 averaging 46% for the 13 year period.

Table 5.12 Average Occupancy Rates Between 1980-1991

YEAR	OCCP. RATE(%)	YEAR	OCCP. RATE(%)
1980	44.3	1987	49.1
1981	42.9	1988	50.4
1982	43.0	1989	47.3
1983	43.3	1990	48.1
1984	48.5	1991	37.6
1985	49.0	1992	49.8
1986	46.3		

Source: Ministry of Tourism (1993b).

Seasonality

Seasonality is the concentration of tourist movements, hence tourist product and services in time and space in a destination country. Basically, seasonality is caused by the holiday taking-patterns of generating countries and climatic conditions in destinations both

Table 5.13 Monthly Distribution of Tourist Arrivals to Turkey, 1990-1992

MONTHS	MONTHLY DISTRIBUTION OF TOURIST ARRIVALS (%)*		
	1990	1991	1992
January	2	3	3
February	3	3	4
March	5	5	5
April	8	7	8
May	10	9	10
June	10	9	10
July	13	11.5	14
August	14	14	14
September	12	14	12
October	10	10.5	10
November	7	7	5
December	6	7	5

Source: Derived from Ministry of Tourism (1992a).
***Rounded**

of which are difficult to change. Being no exception, Turkey's tourism industry also shows concentration patterns. For example, as can be inferred from Table, 69% in 1990, 68% in 1991 and 70% in 1992 of all tourists came between May and October, that is within the period of six months. It is also clear from the table that peak season lasts three months between July and September accounting for 50% in 1992 of all incoming tourists within three months. As noted before, seasonality creates two main problems: under-utilised capacity and seasonal unemployment

Tourism in the Turkish Economy

Tourism is playing an increasing role in the Turkish economy. Export promotion programme of 1980 gave priority to international tourism for easing lack of foreign currency, debt crisis, and unemployment. As shown in chapter two, there are different dimensions to look at when evaluating the contribution of tourism to an economy and in developing countries in particular. In the context of the Turkish economy, the share of tourism receipts in the G.N.P and export earnings, employment provision, integration with other sectors and regional development will be considered.

Tourist Receipts in G.N.P and Export Earnings

Tourist arrivals to Turkey reached 7,076,096 in 1992 resulting in an estimated US$3,639 million tourist receipts. Tourist receipts make up 2.4% of G.N.P and 24.7% of export earnings in 1992, contributing positively to the balance of payments. The

Table 5.14 Comparison of Tourist Receipts with those of Export Commodities in 1989 in Turkey

EXPORTS	(US$ Million)
AGRICULTURAL PRODUCTS	2,127
Cereals	315
Fruits and vegetables	789
Industrial crops and forestry products Live animals and sea products	693
	330
MINING AND QUARRYING PRODUCTS	377
PROCESSED AND MANUFACTURED PRODUCTS	9,088
Processed agricultural products	919
Manufactured products	8,169
TOURISM	2,557

Source: O.E.C.D (1991).

significance of tourism as a foreign exchange earner in comparison to visible export commodities can be seen in Table 5.14.

Tourism and Employment

As regards employment provided by the tourism industry, there are different figures from different sources. According to a study undertaken jointly by the Turkish Ministry of Tourism and I.L.O, 134,034 jobs were created as a direct result of tourism in 1989 (O.E.C.D, 1992). Recently, Association of Tourism Investors (1992) claimed direct employment creation to be 127,720 in 1990. When direct and indirect employment is taken together, it is estimated that tourism provides as many as 400,000 jobs, which make up 2.3% of working population (Sarac, 1991). However, seasonality of employment and low skill and low job status in tourism cause high employee turnover resulting in the employment of unqualified manpower. As to the degree of foreign employment for high skilled managerial jobs in the tourism sector, there has been no study or figure released from government sources.

Tourism and Integration with Other Sectors

Regarding the integration with other sectors of the economy, two methods, namely income multipliers and input-output analysis are used to determine it. Studies of the tourism income multiplier on Turkey assert that it ranges between 1.5-2.0 depending on sectors (Olali and Timur, 1988). It means that every US$1 of tourist expenditure creates between $1.5-2.0 income in the economy before it leaks out. The size of the tourism income multiplier indicates the degree to which other sectors of the economy serve the tourist industry (Archer, 1979). The higher the income multiplier the more tourism is integrated with other sectors. In this respect, the tourism income multiplier of Turkey is higher than many developing countries. This reflects Turkey's large agricultural base, the level of industrialisation attained and the integration between these industries and tourism.

Input-output analysis also shows a high degree of integration. In a recent study, it was found that every 1,000 Turkish Lira (TL) spent on tourism creates a demand of 1,737 TL in direct and indirect industries which provide input to the tourism industry, that is backward linkages (Association of Tourism Investors, 1992). It is also found that an *increase of 1,000 TL in the production of tourist goods and services* offered a possible demand increase of 1,187 TL in industries to which tourism provide inputs, that is, forward linkages. The same study claims that when tourism consumption increases 1,000TL, it needs the importation of intermediate goods worth of only 70TL, which is 10% of the consumption. As long as investment stage is concerned it is reported that imports constitute 15-17% of the total investment. All these may be an indication of strong sectoral linkages and low leakages.

However, what is lacking in the above mentioned benefits of tourism is a cost-benefit analysis from public sector's point of view plus a qualitative assessment of environmental and socio-cultural effects of tourism for Turkey which are beyond the scope of the study. However, the fact that tourism plays a crucial role as provider of employment and foreign currency in the economy is well established. The policies and institutions Turkey has been using in managing the tourism sector, with its failures and successes, are the themes to be looked at in the next section.

Tourism and Regional Development

It is noted before that the contribution of international tourism to regional development is another economic benefit for developing countries. The experience of Turkey suggests that the case is overestimated. As shown before around 80% percent of tourist beds are located in the south and west part of Turkey covering the Mediterranean, the Aegean and the Marmara regions. These three regions are the most developed ones economically. Touristic concentration occur in these regions because they have the combination of assets for beach and historic-cultural tourism appealing to mass market. Although other regions have touristic merit for nature and cultural tourism, the market is limited to special interest groups which are small in size.

Public Sector Management of Tourism: Policies and institutions

A basic policy issue for any developing country is the degree, content and organisation of public sector involvement in the development and management of international tourism. In this respect, public sector involvement in Turkish tourism has been active involvement in the development, control and management of tourism. The main reasons for active government involvement in developing countries are well documented and justified (Jenkins, 1980; Jenkins and Henry, 1982). A tradition of etatism, lack of private sector and international experience, lack of basic tourism infrastructure and superstructure are the most relevant, among other reasons, in the case of Turkey. Below are policies and institutions by which Turkey responded to the management of tourism.

Public Body Responsible for Tourism: Ministry of Tourism

The history of efforts to set up a public body responsible for tourism in Turkey goes back to the early years of the Republic. The first enterprise in this respect was the foundation of the Association of Turkish Tourist Guides in 1923 in Istanbul. The aim of this semi-public organisation was to protect historical and cultural monuments, to promote tourism through published documents and to guide tourists coming to Turkey (Dikmen, et al, 1965). In 1930, the name of the organisation was changed to Institution of Turkish Touring and Automobile and it still continues its services today.

Having established etatism as one of its politic-economic policy and practice, the first public institution responsible for tourism, namely the Tourism Bureau, was founded in 1934 within the Foreign Trade Office. This office was given the responsibility to propagate Turkey abroad. In 1939, the tourism bureau was renamed as the Directory of Tourism within the Ministry of Commerce. Finally, after a few more changes of name and the ministry to which the directory of tourism was accountable, the Ministry of Tourism was founded in 1963. The ministry was given the responsibility to:

> "develop domestic and international tourism; make tourism an integrated and profitable part of the economy; evaluate and protect tourism assets in Turkey; provide guidelines for, and encourage private sector; provide co-ordination between public-public and private-public sectors; be engaged in tourism related tasks like tourism education and training, project evaluation, physical planning, accumulation of statistics, market research etc.; promote Turkey abroad" (Barutcugil, 1986:70).

Briefly, with the establishment of the Ministry of Tourism, specific tourism policies and planning begin to proceed in line with the five year development plans of Turkey, which were also resumed in 1963. Although development plans are prepared by the State Planning Organisation, Ministry of Tourism participates in the preparation of tourism policies and planning. The sixth year plan covering the period 1990-1994 came into force in 1990. It sees tourism as a priority export industry for increasing employment, G.D.P, foreign exchange earnings and reducing balance of payments deficits. The sixth five-year tourism plan formulated the following tourism policy objectives (O.E.C.D, 1992) :

(1) general tourism policy will be prepared in co-operation with the tourism related public bodies and private entrepreneurs;

(2) priority will be given to the protection of the environment, natural and cultural assets;

(3) present accommodation will be given momentum to operate under proper health and safety standards, provided that their infrastructures are complete;

(4) infrastructural improvement, vocational training and marketing studies will be encouraged;

(5) new measures will be taken to introduce second homes on to the tourist market and to encourage marketing companies;

(6) tourist management will be improved and small-sized accommodation and family management will be supported;

(7) measures will be taken for increasing occupancy rates and quality of existing accommodation of existing and potential tourism supply. Further studies will be made to spread the tourist season throughout the year;

(8) charter transportation will be improved and Turkish travel agencies will be encouraged to improve their competitiveness among foreign tour operators;

(9) improvement of cruise tourism will be supported and related infrastructural systems will be established according to priorities;

(10) co-operation between the public and private sector will be encouraged for marketing and promotion of the tourism sector;

(11) rapid collection and evaluation of statistical data will be provided according to the orientation needs of the tourism sector;

(12) for professional tourism training, training centres will be modernised, hotel-school systems will become widespread and foreign language teaching will be practised in these institutions

(13) the resources of the Turkish Development Bank will be utilised so that the productivity and the volume of private investments can be enhanced;

(14) some of the functions now performed by the Ministry of Tourism in Ankara will be decentralised to regional, municipal and professional level;

(15) the role of government as an active entrepreneur will be changed to that of enabling, facilitating, co-ordinating and supervising statutory body.

(16) the accommodations registered by the municipals will be upgraded;

(17) facilities will be provided for Turkish nationals to take holidays under favourable

conditions.
These are only the policy directions for the planning period. More specific projects to be carried out are included in annual plans.

Thus, the Ministry of Tourism acts not only as a regulatory, co-ordinating and enabling body for both the public and the private sector, but it also is involved actively in marketing, education and training, research, tourism planning and investment and many other issues as they relate to tourism. Needless to say, because of the multi-faceted nature of tourism, the task requires a lot of co-operation with other ministries and institutions which sometimes causes power and responsibility relegation, and organisational problems.

Enactment of Law for the Encouragement of Tourism

In order to encourage the private sector, the first tourism investment incentives act was passed in 1953 (Barutcugil, 1986). The act covered the following incentives:
(1) exemption from building tax for five years;
(2) eligibility for Tourism Bank loans;
(3) foreign currency allocation.
However, until the revision and enlargement of tourism investment incentives in 1982, it did not play an important role in encouraging the tourism sector. The reason was not the lack of investment incentives but rather the bureaucracy involved in securing incentives from different public bodies. But most of all, the lack of entrepreneurial experience in international tourism, lack of infrastructure and superstructure and political and social instability accounted for failure of substantial tourism development until 1980s.

In 1982, Turkey enacted its Law for the encouragement of Tourism No. 2634. The purpose was to ensure that necessary arrangements are made and necessary measures are taken in order to regulate, develop and provide with a dynamic structure and operation of the tourism sector. The law is quite comprehensive containing roles of the private and public sectors, certification of tourism investments, various tourism investment incentives, regulations and inspection rules for tourist establishments, establishment of touristic regions, zones and centres etc. A detailed analysis of Tourism Encouragement Law and many other laws and acts concerning tourism can be found in Kalkan (1989).

Establishment of the Tourism Bank

Another effort by the public sector to develop tourism was the establishment of the Tourism Bank. The Tourism Bank was created in 1955 in order to encourage the private sector by providing long term credits with low-interest rates, to set up and operate exemplary (i.e. conforming to international standards) facilities in the sphere of tourism, and to develop domestic and international tourism (Ozdemir, 1990). It established exemplary travel agencies, accommodations, marinas etc. in significant tourist centres and provided in-house training. Today, it has 18 hotels and motels, a campsite, 4 yacht marinas and a travel agency. These 23 outlets comprise 2,815 rooms, 7,140 beds, space for 1,025 yacht (Ozdemir, 1990). In 1988, these establishments were all brought together under one roof as Turban Tourism Plc and put on the list for privatisation. The Tourism Bank was joined with the Turkish Development Bank in 1991.

However, the public sector's involvement in tourism as entrepreneur was not restricted to the Tourism Bank. Up to the 1980s, it monopolised the air, railway and sea transport networks. The extent of government involvement in tourism clearly reflects the politic-economic philosophy (Asiatic mode of production), and the level of economic development. Nevertheless, the public sector's role as entrepreneur in the tourism sector is small and likely to decrease because of the privatisation programme. For example, in the accommodation sub-sector, the public sector owned only 4.8% of operation licensed tourist accommodation beds amounting to 9700 beds (Ozdemir, 1990). The public sector also owns only 1 travel agency out of 1432 registered travel agencies and 4 yacht marinas out of 37 (Izmir Economic Congress, 1992). Another tourism sub-sector where the share of the public sector involvement is in decrease is transportation. Regarding air transport, Turkish airline was a state monopoly until 1984. But the situation has changed since then. In 1993, Turkish Airlines owned 57% of total civil air carriers and 52% of seat capacity, the rest being private (Ministry of Transportation, 1992).

The public sector has a monopoly of railways while it is not involved in land transportation. As to the sea transport, it is also dominated by the public sector despite the emerging private companies. Even if privatisation programme goes ahead public sector's involvement in tourism is to remain in areas of education, encouragement of private tourism industry, protecting natural, historical and cultural heritage, providing infrastructure, regulatory framework and standards for the industry and participating in marketing.

Developments in Tourism Education

Finally, tourism education should be counted among the institutional changes as part of policy objectives to develop tourist industry. As a profession, vocational and technical tourism education is carried out at four different levels. First, there is the vocational high schools for Tourism and Hoteliers where students are allowed after junior high school (Sarac, 1991). A combination of education and training takes three or four years and graduates are employed as operational staff, mainly in hotels. Courses include front office, food and beverage, housekeeping and food production. There is one exceptional high school which lasts for seven years and trains only cooks. The first of these high schools was opened in 1966 and the second in 1977. With the tourism boom of 1980s, the number reached to 29 of which two are private high schools.

Secondly, there is the university level which is divided into Vocational Schools for Tourism, and Tourism and Hotel Management schools. Vocational Schools for Tourism accept ordinary or vocational high school graduates through university entrance examination. The duration of study is two years. Their aim is to provide manpower for the middle management positions in the tourism industry. There are 28 of them at the present (Sarac, 1991). As for the Tourism and Hotel Management Schools, they aim to prepare qualified manpower for the management positions in different sub-sectors of the tourism industry. They are also of late origin, the first being opened in 1978 reached a total of eight in 1991. The duration of study ranges between 4-5 years.

Thirdly, there is the Tourism Training Centres. There are 13 of these, one being owned by a trust, and they provide training courses in front office, housekeeping, food preparation and services. The courses are of 30 weeks duration, divided in 16 weeks within school premises and 14 weeks in hotels for practice. Graduates of junior high school are accepted to the programme. These courses have an earlier beginning (1967) and graduates are more popular. Finally, there are the professional tourist guide courses, organised by Ministry of Tourism, lasting from 3 months for regional to 6 months for country-wide guideship.

Problems of Turkish Tourism Development

If policies and institutions are not attaining tourism policy objectives, it is sensible to assume that there are some problems. These problems may be external or internal to the destination country. Not everything seems to be well and good with the attainment of Turkish tourism policy objectives. From government and newspaper reports, academic studies and utterances of organisations involved in tourism, it is possible to see some of the most urgent and important problems Turkish tourism face.

Rapid and Unplanned Tourism Development

It is often argued that the transition to mass tourism and intensification of tourist traffic in the 1980s gave rise to unplanned tourism development resulting in haphazard hotel developments on the coast, destruction of natural beauty and other environmental problems (Barchard, 1990; Kizik and Kara, 1990). Criticisms included: (a) the lack of national, regional or local master plans covering all aspects of systems of tourism development, like infrastructure, environmental and resort planning, etc.; (b) hasty and crude evaluations of tourist projects leading to over-construction and environmental hazards; (c) plunder of public land by private interest groups through public authority acquiescence; (d) inefficient and unbalanced distribution of accommodation in terms of types and region. Turkey is also criticised for "premature marketing", i.e. promotion that outstripped product development (Ashworth, 1991). Turkey promoted large scale beach tourism through package tours before the infrastructure, qualified manpower and other utilities were in place. This has resulted in pressure on the existing infrastructure. Part of the problem stemmed from the presence of too many laws and public institutions (central or local) involved in matters that have relevance to tourist development (Kizik and Kalkan, 1990). Although positive steps have been taken in the direction of tourism planning (see O.E.C.D, 1992), city, environment or resort planning is a wider issue in the face of rapid urbanisation in Turkey.

Lack of Qualified Manpower

Another problem of Turkish tourism is the serious shortage of trained and qualified manpower (Barchard, 1990; Barutcugil, 1986). Mainly there are three complications with the manpower issue. First, the number of tourist establishments, particularly accommodation, have gone up so fast that available supply of manpower could not keep up with the demand. For example, I.L.O estimated in 1990 that the accommodation sub-sector would need 60,000 new personnel in five years time, that is, 12,000 a year whereas total supply of qualified personnel is estimated to be 3,000 annually at present (Korzay, 1992). Moreover, research with a sample of 5,261 indicated that 95% of those currently employed in the accommodation sector did not have any tourism education or training (Saruhan, 1986).

Secondly, there are problems regarding the quality of tourism education. As noted earlier, majority of tourism schools or tourism training centres were opened after 1980 in a rush to meet the increasing qualified manpower demand. The result was the employment of unqualified tourism educators, establishment of tourism programmes irrelevant to the actual needs of the tourist industry and emphasis on theoretical aspects of tourism education without practice (Sarac, 1991).

Thirdly, there is the difficulty in attracting and maintaining those, in the tourist industry, who had some sort of tourism education. For example, a survey showed that out of 3,349 persons who had tourism education at the university level, only 6% were found to be working in the tourism industry (Hacioglu, 1985). The reasons for the failure of school-industry integration are seasonality of tourist industry, low job status offered, high expectations of trained students and low profile of tourism as a vocation among others.

Lack of Co-ordination

Tourism industry is composed of so many sub-sectors that many public institutions are involved in the decision making process regarding tourism one way or another.

Municipals, Ministry of Tourism, Ministry of Construction and Housing, Ministry of Agriculture and Forestry and State Planning Organisation are examples of such public institutions (Kalkan, 1989). The problem arises when there is no harmony or when there is overrule of decisions being taken by diverse pubic organisations. Although a Tourism Co-ordination Group was founded in 1982, there remains considerable areas of disagreement, as well as communication and co-ordination gaps.

Abuse of Tourism Investment Incentives

The 1982 Tourism Encouragement Law offered generous tourism investment incentives to both foreign and national investors. The misuse of incentives manifested itself in different ways. First, there were unreturned and lost credits. It is reported that 653 billion Turkish Lira were declared "lost credits" and there were 135 cases in the court connected with it as of 1993 (Milliyet, 1993). Second, there were cases where credits were taken for tourism investment but investment did not take place. It is estimated that 60,000 beds which had tourism investment license were not existing in reality (Milliyet, 1993). Third, there were cases where incentives were given on the bases of inner party courtesy or intimacy of friendship and relationship rather than entrepreneurial capability.

Seasonality

The seasonal character of tourism is another problem, in Turkey. As explained earlier, around 70% of all tourist arrivals take place between May and October within six months, and 50% between July and September within three months. As Dieke (1991:279) observes seasonality means "costs in terms of underutilisation of productive capacity and in particular, high levels of seasonal employment". Since the main causes of seasonality are climatic conditions in receiving countries and holiday taking patterns in generating countries, the problem of seasonality can not be eradicated entirely either for Turkey or for any other country.

Marketing Dependency

Another bottleneck of Turkish tourism is the marketing dependency. Marketing dependency is a result of different factors. Major ones are:
(1) spatial distance between generating and receiving countries;
(2) penetration of tourist generating markets by tour operators, travel agencies and airlines of generating countries;
(3) inability of generating firms to operate successfully in generating countries because of lack of international experience, high costs, unaccustomed cultural environment, etc.

The most important consequence of marketing dependency is the price reduction demands of tour operators in generating countries and threats to divert tourist traffic. Further analysis of marketing dependency and possible actions against it are considered in the discussion of tourism multinationals in the next chapter.

Political and Socio-cultural Stability

Political and socio-cultural stability is the prerequisite for the development and continuation of the tourist industry in any country. In this respect, Turkey does not have a good historical record. The socio-political unrest between left and right, Islamic fundamentalist and seculars, despotic governments and democratic demands led to three military coups since 1960. Another threat to socio-political stability is the terrorist activities of Kurdish Separatist Group, which accelerated in the 1980s. At times, this terrorist group threatens to direct its attacks on tourist establishments in order to discourage potential tourists. Although the latest operations of the Turkish army led the terrorist group to declare a cease-fire, it is a possible threat for the security of both national and international tourists.

Conclusion

This chapter looked at the development of international tourism and its features, in broad terms, in Turkey. It has described hurdles that inhibited tourism development and showed how Turkey tried to overcome them, with some success in the 1980s and what problems remain. It is argued that there were many elements involved in the acceleration of tourism development in the 1980s. One of these elements has been the foreign investment legislation and along with it the role of foreign tour operators, airlines and hotel chains, denoted here as tourism multinationals. In order to understand this very important external component, the next chapter tries to make a situation analysis of the role of tourism multinationals on tourism in Turkey.

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CHAPTER 6
TOURISM MULTINATIONALS IN TURKEY

Introduction

This chapter presents the results of field research concerning the significance of tourism multinationals on international tourism development in Turkey. The analysis is carried out at sectoral level including the accommodation sub-sector, tour operation and airlines. Section two covers the accommodation sub-sector and looks at investment incentives for foreign investors and the extent and nature of present foreign investment in the accommodation sub-sector in Turkey. Section three deals with the role and effects of foreign tour operators on Turkish tourism in three ways. First, it surveys the foreign investment in the travel agency and tour operation sub-sectors in Turkey. Second, choosing Great Britain as a representative of a tourist generating market in Europe for Turkey, it examines the UK tour operators' brochures and catalogues to find out the type of tourism (tours) promoted to, and image of, Turkey. Finally, it gives an analysis of the questionnaires sent to UK tour operators. Section four examines the third of tourism multinationals sector - airlines. In this section, the structure of Turkish airline industry in terms of ownership, seat and aircraft capacity, is reviewed briefly. In addition, the market shares of foreign airlines in incoming and outgoing tourists from/to Turkey are compared with those of Turkish carriers. Major problems for Turkish carriers to raise their market share are also discussed.

The Accommodation Sub-sector

Tourism Investment Incentives For Foreign Investment in the Accommodation Industry

Law for the Encouragement of Tourism No. 2634 of 1982 offered generous tourism investment incentives to foreign investors. These incentives can be grouped into three parts: general guarantees and privileges, incentives during the investment phase and incentives during the operation phase (General Directorate of Foreign Investment, 1992; Kalkan, 1989).

General Guarantees and Privileges

(1) Equality with Domestic Companies: Totally or partially owned foreign companies benefit from all privileges and incentives available to Turkish-owned companies.
(2) Repatriation of Profits, Management or Royalty Fees: The transfer of profits, fees and royalties are guaranteed. In the case of liquidation, repatriation of capital is also permitted.
(3) Participation Ratio: There is no limitation for assigning expatriates as managers and technical staff.
(4) Repayment of Foreign Credits: Annual interest and principal instalments of foreign credits enjoy a transfer guarantee.
(5) No Red Tape: To implement investment incentives effectively and to reduce bureaucracy to a minimum level, the General Directorate of Foreign Investment has been established.
(6) Participation in International Investment Promotion and Protection Agreements: Turkey has accepted O.E.C.D codes for Liberalisation of capital Movements and Invisible Transactions and terms of International Centre for Settlement of Investment Disputes. Turkey also signed agreements with many countries for reciprocal promotion and protection of investments.

Incentives During the Investment Phase

(1) Infrastructure Provision: Projects located in designated tourism development zones or centres benefit from infrastructure facilities provided by the government in accordance with tourism oriented plans drawn up by the Ministry of Tourism. These facilities which include electricity, water, roads, sewerage systems and telecommunications are supplied by the government to project sites without any financial and other contribution from the private investors. Where selected sites for tourism projects are outside existing tourism development zones or centres, the Ministry is empowered to declare these sites

development zones so that investors may benefit from the infrastructure incentives.

(2) Land Allocation: The Ministry of Tourism offers publicly owned land designated for tourism investment to potential investors as part of the investment promotion scheme. Such land does not have to be in a tourism development zone or centre. The allocation is on a long term lease basis from 49 to 99 years. The lessee pays 0.5% of the value of the leased land to the Ministry of Tourism annually. In addition, for land owned by the Ministry of Forestry, 3% of the total land value has to be paid to the Ministry of Forestry every year.

(3) Provision of Long-term Investment Credits: Long term and low interest credits are provided both in Turkish Lira and foreign currency. Ministry of Tourism determines the terms of credit like grace period, payback period, interest rates and those who are eligible for the credit every year. The amount of credit changes from 25% to 75% of the total project cost depending on the type and size of accommodation and where it is located.

(4) Exemptions From Customs Duties: No custom duties are charged for the imported tools and machines to be used in the investment, if imported tools and machines are in the Global List. If these items are obtained locally, 20% of the cost is paid by the government.

(5) Exemption From Construction Tax: Construction tax is levied on buildings which is based on the size of the construction area. Approved and licensed tourism projects society are exempted from this tax.

(6) Encouragement Fund: This is a financial incentive paid directly to the investors who use their own capital for the investment. It ranges between 15% and 40% of investors capital to be invested, depending on the location of the investment.

<u>Incentives During the Operation Period</u>

(1) Priority In The Instalment Of Telephone And Telex Facilities

(2) Employment Of Foreign Personnel Up To 20% Of The Total Workforce

(3) Minimum Tariff Rates Are Charged For Electricity, Gas And Water Bills

(4) Exemption From Property Tax, Which Is 0.6% Of Value Of The Property Yearly, For A Period Of Five Years

(5) Importation Of Foreign Goods And Services Which Are Not Available In Turkey

In order to benefit from these incentives, the investors are required to obtain a tourism investment and operation licence from the Ministry of Tourism and tourism encouragement licence from the State Planning Organisation. Also incentives are available for accommodations with 70 or more bed capacity.

Analysis of Foreign Investment in the Accommodation Sub-sector in Turkey

Equity Participation

Foreign equity participation can be in the form of wholly, majority or minority ownership of the investment. The research into the records of the Ministry of Tourism up to 1990 revealed that 54 accommodation establishments had some form of foreign equity participation. As Table 6.1 shows out of 54 firms, 11 (20%) were wholly foreign owned

Table 6.1 Foreign Equity Participation in the Accommodation Sub-sector in Turkey

FORM OF EQUITY	NO. OF FIRMS	PERCENTAGE(%)
Wholly foreign owned	11	20
Majority foreign owned	15	28
Minority foreign owned	24	44.5
Co-owned (50% foreign, 50% national)	4	7.5
TOTAL	54	100

Source: Ministry of Tourism (1991).

15 (28%) were majority owned, 24 (44.5%) were minority foreign owned and 4 (7.5%) were co-owned by foreigners and Turkish investors. Table 6.2 shows wholly foreign owned accommodations regarding the investor, type of accommodation, bed number and origin country of investment. In 1990, wholly foreign owned accommodation made up only 0.8% of the total in terms of number of establishment and 4% in terms of bed number. As to the type of wholly foreign owned accommodation, 3 (27.5%) were five star hotels, 3 (27.5%) three star hotels, 1 (9%) four star hotel, 1 (9%) motel and 3 (27%) holiday villages.

Various features of majority and minority foreign owned accommodation

Table 6.2 Wholly Foreign Owned Accommodations in Turkey According to Type, Number of Beds, Investor and Origin Country of Investment

FOREIGN INVESTOR	TYPE	NO. OF BEDS	ORIGIN COUNTRY OF INVESTMENT
Klaus Besirsky	3 star hotel	238	Germany
Klaus Besirsky	"	336	Germany
Klaus Besirsky	"	580	Germany
Voyager Ltd.	5 star hotel	837	UK
Club Mediterranean	1st class holiday village	1106	France
ITT Sheraton International	5 star hotel	880	USA
Trushouse Forte Pol. And Sanbar Group	"	740	Panama-30% UK-7% Sweden-25% Japan-38%
Behrooz Tahoorzudeh	3 star hotel	194	Iran
Club Mediterranean	1st class holiday village	1000	France
Club Mediterranean	1st class motel	134	France
Club Mediterranean	1st class holiday village	1025	France

Source: Ministry of Tourism (1991).

Table 6.3 Majority Foreign Owned Accommodations in Turkey According to Type, Number of Beds, Investor and Origin Country of Investment

FOREIGN INVESTOR	TYPE OF ACCOMMODATION	NO. OF BEDS	ORIGIN AND SHARE OF INVESTMENT
Intur Investment	5 star hotel	676	Switzerland-55%
Compaigne Int. Des Wagons	5 star hotel	362	Belgium-80%
Compaigne Int. Des Wagons	3 star hotel	105	Belgium-80%
Corinthia Investments Ltd.	4 star hotel	270	UK-60%
Graft CIE A.G	5 star hotel	724	Switzerland-70%
Otic Oversees Tourists Invest.	1st class holiday village	1008	UK-80%
Meridien A.S	4 star hotel	646	Switzerland-70%
Icfag Invest Control	1st class holiday village	664	Switzerland and Iran-53%
Turkey Urban Development Co.	5 star hotel	1264	Japan-90%
Movenpick Hotels	"	623	Switzerland-60%
Hilton Hotels	"	760	USA-59%
Compaign Int. Des Wagons	"	359	Belgium-70%
Karl Sonnleitner	1st class holiday village	3030	Germany-80%
Ugon Schweizer	4 star hotel	567	Germany-96%
Khalil Abdullah	"	530	Saudi Arabia-70%

Source Ministry of Tourism (1991)

Table 6.4 Minority and Co-Foreign Owned Accommodations in Turkey According to Type, Investor, Number of Beds and origin Country of Investment

Foreign Investor	Accommodation Type	No. of beds	Origin and share of investor
General Dynamics Hilton Shaker holding Adham Corporation	5 star hotel	670	USA-21% Luxembourg-17% S Arabia-9%
German State Investment Bank	3 star hotel	797	Germany-45%
Titas GMBH	4 star hotel	654	Germany-10%
Touristic GMBH	1st star holiday village	928	Germany-50%
Hans Zurniedern	"	685	Germany-25%
Touristic GMBH	"	1008	Germany-50%
Ridvan Serbes	3 star hotel	446	Germany-15%
Wilhelm Venzin	"	134	Switzerland-15%
Icfag Invest Control	1st class holiday village	898	Germany-10% Iran-5% Switzerland-18%
Titas GMBH	3 star hotel	218	Germany-31%
Conodek	4 star hotel	192	Switzerland-32%
Conrad Inter Invest Corp.	5 star hotel	1301	UK-40%
Compaign Int. Des. Wagons	5 star hotel	789	Belgium-49%
Arizko	4 star hotel	624	S. Arabia-40%
Sports Gomlek	"	1716	UK-18.5%
Turkish-Danish Investment Co.	1st class holiday village	1030	Denmark-11%
Compaign Int. Des. Wagons	5 star hotel	256	Belgium-30%
D. Anderson	2nd class holiday village	432	USA-20%
Sunsail Limited	2 star hotel	100	UK-50%
Martine A. Carton	2 star hotel	104	Holland-49%
Roman Bresky	"	76	Austria-50%
VCM Video Copy GMBH	3 star hotel	278	Germany-49%
British Petroleum	Camping	750	UK-49%
British Petroleum	"	96	"
"	"	807	"
"	"	174	"
"	"	492	"
"	"	540	"

Source: Ministry of Tourism (1991).

establishments are also shown in Table 6.3 and Table 6.4. If foreign equity involvement (wholly, majority or minority) is taken as a whole, they make up 4% of all licensed accommodation establishments and 12% of licensed tourist beds in 1990. That means that only 12% of tourist beds are under foreign ownership.

A number of significant features of foreign equity involvement in accommodation sector can be identified. First, 69%(37 firms) of equity involvement took place after 1980, that is, when there was an acceleration of tourism development in the form of mass package holidays for mainly seaside resorts. The remaining 31% (17 firms) of equity involvement was before 1980. Second, as Table 6.5 shows 42.5% of the accommodations

Table 6.5 Distribution of Foreign Equity Involvement According to Accommodation Type in Turkey

ACCOMMODATION TYPE	NO. OF ACCOMMODATION	PERCENTAGE(%)
5 star hotel	13	24
4" "	10	18.5
3" "	8	15
2" "	3	5.5
13 holiday village	13	24
Motel	1	2
Camping	6	11
TOTAL	54	100

Source: Ministry of Tourism (1991).

were five or four star luxury hotels, 24% holiday village, 15% three star hotels, 11% campings and 2% two star hotels. Third, 59%(32 firms) of the accommodations were located in beach resorts, 28% (15 firms) in big metropolitan city centres and 13% (7 firms) near natural or historical sites. Fourth, in terms of size, foreign equity seem to concentrate on large scale accommodation. For example, average bed number per firm is 652. Fifth, an examination of Table 6.2, show that investors which specialise in international luxury hotel chains like Hilton, Sheraton, Club Mediterranean, Trusthouse Forte prefer either wholly or majority equity involvement. One explanation for this kind of investment behaviour might be the concern for the quality of service and management. Generous investment incentives and freedom of repatriation of profits may be another factor. Finally, as for the origin country of equity involvement, Germany, UK Switzerland, Belgium, France and USA are the most important investors respectively (Table 6.6). It must be noted that in Table 6.6

the number of equity involvement in terms of origin country, which is 64, is higher than total foreign equity involvement, which is 54. This is because more than one country have equity involvement in some of the projects, which increase the number of origin country of investment.

Table 6.6 Origin Countries of Foreign Equity Involvement in the Accommodation Sub-sector in Turkey

ORIGIN COUNTRY OF INVESTMENT	NO. OF EQUITY INVOLVEMENT	PERCENTAGE(%)
Germany	14	22
UK	14	22
Switzerland	9	14.5
Belgium	5	8
France	4	6.5
USA	4	6.5
Iran	3	5
S.Arabia	3	5
Japan	2	3
Austria	1	1.5
Panama	1	1.5
Luxembourg	1	1.5
Denmark	1	1.5
Holland	1	1.5
TOTAL	63	100

Source: Derived From Table 6.2, 6.3, 6.4.

Contractual Involvement

Contractual agreements in tourism may be in the form of franchising agreements, management contracts, and leasing or a combination of the three which are explored in chapter 4. Foreign investment legislation of Turkey approve licensing, know-how, technical assistance and management agreements to be made with persons and legal persons resident abroad. In the evaluation of agreements, the following factors are considered necessary: absence of limitations concerning sale price and exports; calculation of payments on the basis of production and net sales price; specification of dispute settlement procedures to be indicated as the term of agreement.

The research found out that there were 16 contractual agreements as of 1992 which consisted of 9 management contracts and 7 franchising agreements (Dankal, 1992). The contents of these agreements were not disclosed because of confidentiality.

Overall foreign involvement in the accommodation sector in Turkey differs from the experience of other developing countries in terms of mode of market entry. For example, while the share of foreign equity involvement as percentage of all forms of foreign involvement is 31.4% in developing countries, it is 77% in Turkey. Similarly, management contracts account for 44% of all foreign involvement in developing countries while it is 13% in Turkey (Table 6.7). The difference in the mode of market entry in the

Table 6.7 Comparison of Forms of Foreign Involvement in the Accommodation Sub-sector in Turkey and Developing Countries

FORMS OF INVOLVEMENT	DEVELOPING COUNTRIES (% OF ALL FOREIGN INVOLVEMENT)	TURKEY (% OF ALL FOREIGN INVOLVEMENT)
Equity Involvement	31.4	77
Management Contracts	44.7	13
Franchising Agreements	11.7	10
leasing	12.2	-

Source: Derived From U.N.C.T.N.C (1982) and Table 6.2, 6.3, 6.4.

case of Turkey can be attributed to three factors: (1) generous investment incentives, as noted earlier, for equity investors; (2) lack of qualified manpower in terms of management and marketing expertise and concern for the quality of services; (3) a perception of Turkey as a more stable investment environment. One could also argue that devaluation of Turkish Lira in the 1980s, Turkey's acceptance of I.M.F's stabilisation and liberalisation programme welcoming foreign investment, and rapid tourism development were other important factors that persuaded foreign investors to take investment opportunities in Turkey.

Tour Operators

The analysis of the role and impacts of foreign tour operators on Turkish tourism is carried out at three different levels. First, the extent of foreign investment in tour operators and travel agents industry in Turkey is surveyed. Second, in order to understand the tourism image of, and tours promoted to, Turkey by British tour operators, a content analysis of the tour operators' brochures and catalogues is carried out. Third, a questionnaire was sent out to the British tour operators "selling" Turkey as a tourist destination in order to find out (a) how they evaluate Turkey as a destination, (b)how important they are for Turkish tourism in terms of tourist volume (inclusive tours), (c) if they have monopoly or oligopoly power in inclusive tour market to Turkey from Britain, (d) if they are integrated with airlines or hotel. chains in Britain or Turkey.

Table 6.8 Foreign Tour operators and Travel Agents in Turkey According to Location, Equity Share and Origin Country of Investment

COMPANY	LOCATION	SHARE OF FOREIGN EQUITY (%)	COUNTRY OF ORIGIN
Air Tur	Istanbul	25	Germany
Antuktur	Antalya	82.22	"
Cameltur	Antalya	25	"
Contu Tourism	Istanbul	49	"
Dream Tours	Antalya	90	"
Dilan Tur	Istanbul	50	Italy
Ekin Turizm	"	9.47	Holland
Ekiptur	"	37	Italy
Gartur	Izmir	75	Germany
Holitur	Antalya	15	"
Hontur	Istanbul	96	Holland
Infotur	"	60	Germany
Intourist	"	50	Russia
Iztur	"	60	Switzerland
Mihan Tur	"	100	Iran
Pentur	Antalya	10	Germany
Sun Tur	"	2.50	"
Rultur	Mugla	42	Switzerland
Sumer Seyahat	Istanbul	50	England
Tantur	"	50	Germany
Tour Europe	Izmir	75	England
Ultur	Antalya	5	Germany
Tattu	Istanbul	45	"

Source: General Directorate of Foreign Direct Investment (1992).

Foreign Travel Agents in Turkey

The survey of foreign investment report (General Directorate of Foreign Investment, 1992), revealed 23 travel agents which had varying degrees of foreign equity involvement. As Table 6.8 shows, 11 of the travel agents are minority foreign owned, 7 are majority foreign owned, 1 wholly foreign owned and 1 co-owned. Overall they make up only 1.5% of travel agents in Turkey. The existence of foreign travel agents in Turkey can be interpreted in different ways. One reason may be that tour operators in generating countries want to make sure the quality of services provided by establishing a subsidiary and monitoring ground arrangements, tours and accommodation services. Another reason may be to be closer to the suppliers (hoteliers, tour guides, ground service providers) in order to negotiate with them more effectively on the prices.

Content Analysis of the UK Tour Operators' Brochures and Catalogues

Type of Tourism (tours) Promoted and Image of Turkey

Naturally, the type of tourism or tours offered by British tour operators are correlated with the portrayed image of Turkey to potential tourists. Nevertheless, similar

Table 6.9 Types of Tours to Turkey Along with the Number and Percentage of Tour Operators Selling These Tours

TYPES OF TOURISM	NO. OF TOUR OPERATORS	PERCENTAGE (%)
Beach tourism	21	58
History-culture based tourism	6	17
Special interest tours	5	14
Cruise tours	4	11
Total	36	100

Source: Derived from the UK Tour Operators' Catalogues and Brochures 1991/1992.

elements of Turkey's image appear constantly in the different types of tourism promoted.

Despite the lack of clear-cut categories, considering the main emphasis, four types of tourism or tours can be identified; beach tourism, exclusively history-culture based tourism, special interest tours and cruise tours. The tour types, number and percentage of British tour operators selling them are shown in Table 6.9. Further analysis of these tour types are provided below.

Beach Tourism

Tours in this category cover summer resorts on the Aegean and Mediterranean coasts. Holidays offered under this category can be classified as traditional summer holidays (i.e. sea, sand, sun) promising relaxation, peace of mind, entertainment, various sports or outdoor activities by the sea resorts. Since some of these resorts are close to ancient sites, historical monuments, historical and cultural aspects of the country are noted as an extra bonus to the interested travellers. With respect to Turkey's image, the main elements emphasised in these types of tours are:

(1) cheap summer resorts;

(2) unspoilt beaches;

(3) beautiful scenery with green forests, mountains and villages in the background of beaches;

(4) hospitable people, unspoilt by modernisation;

(5) a good cuisine;

(6) shopping facilities, especially cheap carpets, leather, and jewellery;

(7) historical and cultural ruins and remains of ancient civilisations, which are close to summer resorts.

It is also emphasised that Turkey is the land where east meets west, modern with traditional, and mysticism with rationalism. Understandably, varieties in this group, appealing to families, club members, self caterers, to those who seek peace of mind or lively nightlife exist. It seems that these tours are by far the most popular ones. Out of 36 tour operators surveyed 21, that is 58%, were found to be selling this type of holidays. It should be noted that if cruise tours, and three special interest tours are excluded, which are offered once in a year, beach holidays account for 71% of all types of tours. As for the promotion period, 13 of them (62%) sell Turkey between May-October; 4 (19%) between April-October; 1 (4.5%) between April-November; 1 (4.5%) between April-September and 2 (10%) all year around. It was also found that 43% of these types of tours are one-centre oriented beach holidays, whereas the remaining 57% can be one centre beach holidays or two or more centre oriented tours combining beach holidays with history-culture based tourism in the Marmara, the Aegean and the Mediterranean regions.

Exclusively History-culture Based Tourism

These tours concentrate on the variety of archaeological sites, historical monuments, architecturally significant buildings, museums, natural wonders and other heritage left by different phases of Anatolian civilisations, from Hittites to ancient Greeks, from Roman Empire to Seljuk Turks and Ottoman Empire. Out of 36 tour operators, 6 (17%) was found to be selling history-culture based tours. In terms of structure, these tours can be subdivided into three groups:

(1) multi-centre tours within Turkey;

(2) multi destination tours along with Turkey;

(3) short breaks in single city centres in Turkey.

From the tour catalogues and brochures, it was discovered that 2 tour operators were selling short breaks in city centres, 1 was selling multi-destination tours and 3 were selling multi-centre tours within Turkey. Depending on the structure of the tour, travel time ranges from two days in the case of city breaks to 7 weeks in the case of multi-destination tours. As to the travel mode, it may include only air or land travel or it may combine air with land or rail travel. Geographically, there is no concentration of these tours. With respect to promotion period, 3 tour operators sell these tours throughout all year, while the rest of tour operators' programs fall within April-December.

Special Interest Tours

Under the special interest tours, various travel experiences were offered. Overall 5 (14%) tour operators were offering so-called special interest tours. These special interest holidays are shown below.

(1) Hiking, trekking, mountain walking. Two tour operators were selling these types of holidays. One tour operator sold these tours throughout the year and the other between June-September.

(2) Battlefield tours. Only one tour operator offered this type of holiday. This holiday is offered only in April.

(3) Pilgrimage tours (visiting important places and buildings from religious point of view). Only one tour operator offered this type of holiday. It is promoted between March-September

(4) Bird Watching. Only one tour operator offered this type of holiday. This tour is offered only in April.

Cruise Tours

Tours in this group include inclusive ship cruises or charterable yachts. Four (11%) tour operators offered cruise tours. These tours are multi-centred in the Mediterranean sea and call at several ancient sites and resorts or cities on the west part of Turkey. Cruise tours are available between April-December. Tours in this category stress the richness of historical and cultural attractions as well as natural beauties, i.e. sea, bays, scenery, mountains along the Mediterranean and Aegean coasts.

The Analysis of the Questionnaire for the UK Tour Operators

A structured questionnaire (Appendix c) was sent to 36 tour operators who provided the researcher with their brochures and catalogues featuring Turkey (Appendix A). In the first despatch very low response rate was obtained. Therefore the questionnaire was sent for the second time after which 21 tour operators returned the questionnaire, a response rate of 57%. However, many questions in the questionnaire were returned unanswered. The reasons given for this were that the questions did not apply to their particular operation; or that the information was confidential. Some tour operators did not provide any justification at all. From the available information, the analysis of the questionnaire is done under two headings below: Turkey as a Tourist Destination and Features and Business Operations of the UK tour operators "selling" Turkey.

Turkey as a Tourist Destination

In this category, answers were gathered to several questions regarding Turkey as a Tourist destinations. These questions were: (a) what are the most important factors for British tour operators to "sell" Turkey as a tourist destination? (b) What business problems do UK tour operators face when "selling" Turkey? (c) What are the common complaints from tourists who visited Turkey? (d) are UK tour operators satisfied with the help they get from Turkish National Tourist Office in London? and (e) How did UK tour operators see the potential of tourist development in Turkey?.

In relation to factors that motivated the UK tour operators to include Turkey in their tour programs, Table 6.10 provides these factors, importance given to each factor

Table 6.10 Ranking of Factors that Influence the UK Tour Operators' Choice of Turkey as a Tourist Destination

MOTIVATING FACTORS	MAXIMUM ATTAINABLE POINT	ACTUAL POINTS ATTAINED	RANK
Overall price	210	145	1
Political and social stability	"	137	2
Quality of tourist accommodation and services	"	132	3
Availability of, and permissiveness to beach tourism	"	126	4
Historical and cultural attractions	"	121	5
Attitudes of local people towards tourists	"	117	6
The degree of tourism development	"	114	7
Co-operation and promotional efforts of Turkey	"	110	8
Trends in popular or particular tourism demand	"	108	9
Sanitation standards	"	103	10
Physical distance from the origin country	"	98	11
Image of Turkey	"	97	12
Diversity and uniqueness of the tourist product	"	94	13
Economic development level	"	93	14
Availability and quality of entertainment facilities	"	88	15
The degree of environmental quality	"	86	16
Availability of shopping facilities	"	75	17

and their relative ranking. As can be seen from the table, the five most important factors were overall price, political and social stability, quality of tourist accommodation and services, availability of, and permissiveness to beach tourism, historical and cultural attractions respectively.

Table 6.11 Business Difficulties UK Tour Operators Face When "Selling" Turkey

BUSINESS DIFFICULTIES	NUMBER OF TOUR OPERATORS MENTIONING	RANKING
Late price announcements (giving) to UK tour operators by hoteliers in Turkey	13	1
Lack of advertising in the media from Turkish sources and advertising at wrong times	9	2
Alteration of scheduled air flights	7	3
Overall cost of the tour	5	4

Regarding the business difficulties the UK tour operators face when "selling" Turkey, the following are mentioned in order of frequency: late price announcements (given) to theUK tour operators by hoteliers in Turkey, lack of advertising in the media from Turkish sources and advertising at wrong times, alteration of scheduled air flights, overall cost of the tour (Table 6.11).

As for the common complaints of tourists returning from a visit to Turkey, tour operators stated that they were: low service standards, delays and changes in flights, stomach upsets, lack of tourist information services (especially in emergency situations), overcharge by taxi drivers in order of importance (Table 6.12).

Table 6.12 Complaints of Tourists to the UK Tour Operators After a Visit to Turkey

Complaints From Tourists	No. of Tour Operator Mentioning	Ranking
Low service standards	8	1
Delays and changes in flights	7	2
stomach upsets	5	3
Lack of tourist information services (especially in emergency situations)	3	4
Overcharge by taxi drivers	2	5

Relating to help from, and co-operation of, the Turkish National Tourist Office, all tour operators declared that it was adequate. However one particular criticism was that the timing of promotional spending was done at the "wrong time".

Finally, when tour operators were asked how they saw the potential of tourist development in Turkey, all envisaged a gradual development but were concerned about the over-development of beach resorts and tourist attractions; political and social stability and overall service quality.

Some Features and Business Operations of the UK Tour Operators Selling Turkey

Although answers to questions in this part of the questionnaire were rather limited, a few tentative conclusions can be established. First, a few large tour operators who are specialised in summer beach holidays to Turkey are integrated into airlines and some are integrated with both airlines and travel agents and have central reservation system in the UK. Such integration help control distribution channels, provide higher market share and capture economic benefits of offering integrated services in the related sub-sectors of tourism. Table 6.13 shows these integrated tour operators. Second, related to the first there seems to be an oligopoly power of these large tour operators in beach holiday

Table 6.13 UK Tour Operators that are Integrated into Airlines and Travel Agents and that "Sell" Turkey

Tour Operator Group	Airlines	Travel Agency
Airtours	Airtours	No
Cosmos	Air Monarch Avro	yes
Owners Abroad Group	Air 2000	Yes
Thompson Group	Britannia Airways Orion Airways	Yes

Source: Field Research and Key Tour Publications (1993).

market to Turkey. For example Owners Abroad Leisure Group (O.A.G) control five major tour operators that organise inclusive beach holidays to Turkey. These companies are Enterprise, Sovereign, Falcon, Sunmed and Tjaereborg. Another group, Thompson, control three tour operators; Horizon, Skytours and Lunn Poly which organise beach holidays to Turkey. It means that out of 21 tour operators organising beach holidays to Turkey, 9 were controlled by two tour operator groups. Also these large companies, that is O.A.G, Cosmos, Airtours and Thompson controlled 63.5 of the inclusive tour market in the UK in 1991 (Key Note Publications, 1992, 1993). Third, integrated large tour operators do not use Turkish carriers in their inclusive tours.

An examination of the tour operators' brochures revealed that Turkish carriers are featured by tour operators (Table 6.14) that are smaller, not integrated and do not have very large market share. The most frequently featured airlines in the catalogues and brochures were Dan Air (10 times), Air 2000 (9 times), Monarch (8 times), Britannia (6 times) and Airtours (5 times). All these airlines are part of a group of tour operators and/or travel

Table 6.14 Turkish Carriers and the UK Tour Operators that Feature them

TURKISH CARRIERS	TOUR OPERATORS THAT FEATURED TURKISH CARRIERS
Turkish Airlines	Balkan Holidays; Sunquest; Regent; Celebrity Holidays; Steepwest; Metak Holidays
Green Air	Sunquest; Metak Holidays
Sultan Air	Sunquest; Metak Holidays

Source: Field Research

agents "selling" Turkey and control 62% of outgoing charter passengers from the UK (Key Note Publications, 1993). Fourth, tour operators indicated that between 70 and 90% of tours they sold used inclusive tour charters (ITC) rather than scheduled plus charter tours. Finally none of the tour operators responded have ownership or contractual involvement in Turkish airline or the accommodation sub-sector.

Airlines

As discussed in chapter 4, airlines are another multinational sub-sector of the international tourism industry that play a key role in the development and sustenance of Third World Tourism. Not only is it important that foreign airlines from the main tourist generating countries should be willing to divert tourist traffic to L.D.Cs but it is also important that developing countries' national airlines should have a "fair" share of incoming and outgoing tourists to increase overall tourist earnings. So this part of the empirical field research focused on (a) structure of Turkish airline industry in terms of its fleet, and ownership structure; (b) its market share in incoming and outgoing tourist market (scheduled or charter) compared to foreign airlines; (c) major problems to increase its market share.

Structure of Turkish Airline Industry

The Turkish airline industry is represented by a relatively large public airline and 15 small private airline companies. Overall it has 98 aircraft, of which 54 (55%) are

Table 6.15 Structure of Airline Industry in Turkey in terms of Ownership, Activity and Seat Capacity

AIRLINES	ACTIVITY	NO. OF AIRCRAFT	SEAT CAPACITY
PUBLIC OWNED			
Turkish Airlines	A	44	7240
PRIVATE OWNED			
Sonmez Airlines	A	3	40
Istanbul Airlines	A	12	1898
Bodrum Imsik Airlines	A	2	44
Tur-Europe Airlines	A	6	1038
Birgen Airlines	B	2	470
T.H.T Airlines	B	4	256
Sultan Airlines	B	4	536
Sun Express	B	3	444
Pegasus Airlines	B	2	340
Green Airlines	A	5	628
Onur Airlines	C	2	348
Bosphorus Airlines	C	2	300
Albatros Airlines	C	1	167
Mas Airlines	B	3	105
Alfa Airlines	C	1	167
TOTAL		98	14021

Source: Ministry of Transport (1992).
A: Permitted to operate domestic and international scheduled/charter and freight services
B: Permitted to operate domestic and international charter and freight services
C: Permitted to operate international charter services.

privately owned and 44 (45%) are publicly owned, with a 14,021 seat capacity, of which 6,781 (48%) belong to private sector and 7,240 belong to public sector (Table 6 .15) Private airlines have emerged after 1985 when the government decided to end the monopoly position of publicly owned Turkish Airlines. For example, 14 out of 15 private airlines have been licensed to operate after 1988. So private airlines are rather fragmented and try to establish a certain service quality, customer loyalty and market share. In terms of ownership, substantial shares of four private airlines are held by foreign investment; 49% of Green Air by Russia, 49% of Onur Air by the U.K, 49% of Pegasus by Ireland and 25% of Sultan Air by Sweden.

Market Share of Foreign and Turkish Carriers

A large volume of tourist arrivals to, and departures from, ranging from 70 to 90%, developing countries are by air (Ascher, 1985). The share of developing countries' airlines are usually very small. In the case of Turkey, outgoing and incoming travellers by air constituted an air travel market of approximately 4.5 million passengers in 1992 (Table 6.16). It means that if foreign and Turkish travellers are taken together 47% of all arrivals to, and departures from, Turkey are by air (Ministry of Tourism, 1993a). As Table 6.16 shows 52% of arrivals and 55% of departures by air are through charter flights. Th remaining 48% of arrivals and 45% percent of departures by air are handled by schedule flights.

Table 6.16 Share of Tourist Arrivals to, and Departures from, Turkey by Air ir terms of Charter and Scheduled Flights

TYPE OF FLIGHT SERVICE	NO OF ARRIVALS	SHARE (%)	NO OF DEPARTURES	SHARE (%)
Charter	2,436,767	52	2,461,200	55
Scheduled	2,275,251	48	2,010,133	45
Total	4,712,018	100	4,471,333	100

Source: Estimated from Ministry of Tourism (1993a) and (1993c).

As far as Turkish carriers' share in incoming and outgoing tourist market is concerned, as Table 6.17 reveal foreign airlines account for 68% of arrivals and 67.5%

departures by charter flights and 66% of arrivals and 64% of departures by scheduled flights. Turkish carriers control 32% of arrivals and 32.5% of departures by charters and 34% of arrivals and 36% of departures by scheduled flights (Table 6. 17). In fact the share of Turkish carriers would be much smaller if only the foreign visitors' arrivals or departures

Table 6.17 Share of Turkish and Foreign Carriers in Arrivals to, and Departures from, Turkey by Charter and Scheduled Flights in 1992

	SHARE OF FOREIGN CARRIERS (%)		SHARE OF TURKISH CARRIERS (%)	
	Arrivals	Departures	Arrivals	Departures
CHARTER	68	67.5	32	32.5
SCHEDULED	66	64	34	36

Source: Estimated from Ministry of Tourism (1993a; 1993c).

by charter or scheduled flights were included in the statistics. The present classification of passengers arriving in or leaving Turkey by charter or scheduled flights do not distinguish between foreigners and nationals. That is why large numbers of Turkish immigrant workers in Europe (about two million), who take their holiday in Turkey and probably prefer a Turkish carrier, shoot up the market share for Turkish carriers. Relatively high share of foreign airlines reflect the various competitive advantages foreign airlines of tourist generating countries enjoy *vis-à-vis* Turkish carriers. These advantages are explained below where difficulties for Turkish carriers to increase their market share are discussed.

Problems for Turkish Carriers to Increase Their Market Share

Since developed countries are the main tourist generating countries it is understandable that developed country's airlines have a higher share of incoming or outgoing travellers to particular Third World destinations. However in order not to lose around 40% of all tourist spending outright, developing country airlines should strive to increase their market share in air travel market to/from their countries. But a few obstacles stand in the way of doing that due to several advantageous developed country airlines enjoy including integration with tour operators and travel agents; ownership of central reservation system; advantages of being based in tourist generating home market; better technical and management resources.

Integration of Foreign Airlines with Tour Operators and Travel Agents

In order to penetrate and control market and sales channels, developed country airlines integrate with tour operators and travel agents in their home market. Major UK airlines are the prototype of this kind of integration. For example British Airways has its own tour operator and 40 outlets as travel agents (Key Note Publications, 1992). Air 2000 have the control of nine tour operators including Sovereign, Martyn Holidays, Enterprise, Falcon, Sunmed, Redwing, Twentys, Olympic and Tjaereborg (Owners Abroad Group, 1992). Britannia and Orion Airways are controlled by Thompson Group of tour operators and travel agents including Horizon Holidays, Portland Holidays, Sky Tours, Airlink, and Lunn Poly. Similarly Air Tour and Air Monarch have their own tour operators. Such integration and strategic agreements and alliances reduce the chance for Turkish or any other developing country carriers to influence sales channels across the market. Because integration and strategic agreements bind tour operators and travel agents informally to be loyal to their own, associated or national airlines.

Central Reservation System

The introduction of new technology has had a major impact on tourism industry. At the forefront of this new technology has been the installation of central reservation systems (C.R.S). Originally C.R.Ss were developed by airlines to automate their passenger seat reservation and ticketing processes. Today C.R.Ss can display the availability of, and make reservations for, flights, hotels, inclusive tours, car rentals and other travel related data. C.R.Ss enable travel agents and consumers to find out the price, availability of flight or accommodation etc. and book instantly.

In order to-tie in tour operators and travel agents, airlines install their own CRS in tour operators and travel agents' outlets and shops (Doganis, 1991). This practice provides many benefits for the owner airlines. First, it creates loyalty between the owner airline and tour operators and travel agents. The reason for the loyalty is that airline owning a CRS encourages agencies through free installation and other incentives, since its share of tickets sold is normally higher when an agent is using its CRS (Doganis, 1991). Also travel agents have more confidence in the accuracy of information on the airline owning the CRS than in the information on other airlines shown on the same computer. In fact as noted earlier there may be integration or tacit agreements between the owner airline and user travel agents. Second, it enables the airline to penetrate main sales channels, which are travel agents, throughout tourist generating market. Third, it provides a consumer profile data bank to the CRS owner carrier, which may be used to segment markets and adjust prices accordingly. Finally, CRS may act as a barrier for other airlines to have access to main sales channels. So C.R.Ss create mainly four problems for Turkish carriers to increase its market share; access problem, high price for access, display bias, and preference of travel agents or tour operators.

Access Problem

There are basically two types of C.R.Ss in current use: multi-access system, which allow agents to access several participating airlines' data basis, and single-access system, which allow entry only to the database of "vendor" (owner) airline (Katz, 1988). In the case of single-access system, developing country airlines are excluded directly. As for multi-access systems, airlines other than owner airline are forced to pay "access charges".

High Price for Access

Access charges are paid by non CRS owner carriers to vendor carriers for having displayed their fares, flight schedules, seat availability and for the making of reservations and issuance of tickets through the system. There are also "service enhancement charges" for bookings made other than flights like car rentals. hotels etc. (Katz, 1988). The fees charged for bookings of non-owner airlines are criticised for being too high (Doganis, 1991). They also increase the seat cost of non-owner airlines while contributing to revenues of owner airline. For example, American Airlines' Sabre CRS produced a profit of US$178 million out of a total revenue of US$372 (Doganis, 1991).

Computer Display Bias

The display of flights or other services on CRS screens are biased in favour of owner airline. CRS bias involve

> "competitors flights appearing on a later computer screen than the flights of the vendor-carrier even when the competitors flights are more direct or convenient or less expensive" (Katz, 1988:89).

The importance of computer display bias lies in the fact that around 90% of bookings were made from flights shown on the first page of computer screen and 50% from the first two lines (Doganis, 1991).

Preference of Travel Agents and Tour Operators

There may be many reasons for tour operators and travel agents for preferring CRS owner or national carriers rather than a foreign carrier in tourist generating countries. First, as shown earlier there may be integration between airlines and tour operators or travel agents. Second, there may be tacit agreements between the three. Third, CRS owning carrier may have more reliable and quality service. Forth, "booking fees" paid by travel agents for reservations made for non CRS owning but participating airlines may inhibit the preference of travel agents for CRS participating airlines. Finally there may be patriotic reasons for choosing a national carrier rather than a foreign carrier.

Advantages of Being Based in a Tourist Generating Home Market

The existence of a lively domestic tourist market willing and able to travel abroad provide obvious advantages for developed country airlines. The advantages may stem from the better knowledge of travellers' culture, habits, socio-economic profile etc. Also, as noted earlier penetration of home market can be made easier by consolidation with tour operators and travel agents and loyalty to national airlines.

Better Technical and Management Resources

The final barrier for Turkish airlines to increase its share of incoming or outgoing tourists involve the superior technological and management capability of developed country airlines. The application of technology in aviation may lead to fuel efficiency, higher safety and speed standards, higher seat capacity aircrafts, all of which may reduce overall costs of airlines. C.R.Ss are another example where technological development helped some airlines to penetrate markets and increase their share. Since a few industrial countries are in the forefront of aviation technology, developing countries are not usually in a position to take immediate advantages of such new technologies. Even technical know how for leased or bought airlines can be a problem in developing countries. For example two of the most important problems of private Turkish airline sector were lack of technical maintenance service and the use of foreign pilots which caused communication problems (Akyuz, 1992). Similarly better management techniques and qualified man power of developed country airlines contribute to the reduction of costs and better service quality.

Conclusion

This chapter made a situation analysis regarding tourism multinationals as they affect international tourist development in various ways in Turkey. On the basis of this present state of analysis, the next section brings out critical issues or problem areas that came out of the case study of tourism multinationals in the context of Turkey and make some policy suggestions.

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CHAPTER 7 CONCLUSIONS AND RECOMMENDATIONS

Introduction

This research was an attempt to understand the significance of tourism multinationals in terms of their role and impacts on the development and sustainability of an international tourism industry in developing countries, with the particular example of Turkey. As hypothesised in the beginning, the ultimate aim was to demonstrate that

(1) significant international tourism development in developing countries is accompanied *sine qua non* with tourism multinationals' involvement, co-operation and willingness;

(2) in order to take advantage of the inescapable role of tourism multinationals and benefits they provide, and to balance the conflicting interests and objectives of host nations with those of tourism multinationals, developing countries, being a more dependent party, need to:

(a) provide a stable and hospitable investment environment for foreign investors in tourism;

(b) design and implement policies regarding tourism multinationals in line with general and tourism development objectives;

(c) co-operate, be flexible and reconcile with tourism multinationals;

(d) persuade tourism multinationals through negotiations and concessions to share the benefits of tourism.

The case of Turkey has shown that since 1980 the increase in international tourism went hand in hand with a generous and hospitable environment for foreign investment, and a rise in foreign investment in the accommodation sub-sector. There were also the co-operation and willingness of tour operators and airlines in tourist generating countries to promote Turkey as a new tourist destination. As the situation analysis showed airlines from main tourist generating countries control a large part of tourist flows to Turkey at present. Similarly the examination of the role of tour operators in the UK revealed that a few oligopolistic large tour operators, integrated with airlines and/or travel agents, have a very significant role in making Turkey's tourism image, and directing inclusive tours for mass beach holidays to Turkey. So these can be taken as evidence that there were parallel developments in rapid international tourist development in Turkey and (1) generous investment incentives for foreign investors; (2) an increase in foreign investment in the accommodation sub-sector in Turkey; and (3) willingness of tour operators and airlines in generating countries to "sell" Turkey as a destination. However, while the involvement of tourism multinationals has been a *necessary* condition for the rapid development of international tourism in Turkey, it was not *sufficient*. In the case of Turkey sufficient conditions included:

(1) political will on the part of Turkish elite to promote tourism;

(2) political and social stability;

(3) devaluation of the Turkish Lira;

(4) heavy investments by the public sector in tourism related infrastructure;

(5) a change in the type of tourism promoted from history-culture-based tourism to large scale mass beach tourism;

(6) generous investment incentives for both local and foreign investors;

(7) Turkey's acceptance of liberalisation (stability) programme imposed by I.M.F and World Bank.

The important role of tourism multinationals in tourism development, and the degree of dependence on foreign airlines and tour operators for the direction of tourist flows to Turkey require consideration of issues or problem areas arising from their involvement. Thus it is necessary to concentrate on optimising benefits and reducing negative aspects of tourism multinationals.

Problem Areas (Issues)

Although this study could not explore all economic and non-economic impacts in detail arising from tourism multinationals' involvement in Turkish tourism (mainly because of lack of data and non-co-operative attitude of tourism multinationals), a few issues regarding tourism multinationals, that may have potential negative consequences for Turkish tourism and economy, have been identified.

The Accommodation Sub-sector

As far as the accommodation sector is concerned, there are several problems to be addressed. To begin with, investment incentives for foreign investors seem to be too generous at the present. Few countries offer incentives as extensive as Turkey. It causes lost revenues for the government and unplanned oversupply of accommodations, which may lead to price reduction demands of tour operators, low levels of occupancy and environmental problems. Also, the majority of incentives are not location and accommodation type specific. The former arguably contributes to concentration of tourism activities, economic benefits thereof, on certain sites in the Mediterranean and the Aegean regions. The latter increases the level of unplanned development as to where and what type accommodations Turkey needs, which is partly due to lack of regional and locational physical plans. Similarly, there are no incentives for foreign investors, or conditions to receive incentives for that matter, to train and indigenise management personnel within certain time limit.

Another problem with the accommodation sector is the lack of strategy regarding the preferred form of foreign involvement amongst full foreign ownership, joint ventures, management contracts, franchising. Any form of foreign involvement is accepted. There is a need to determine what type of foreign involvement is preferable and beneficial for Turkish tourism, and support it with incentives and regulations.

Finally, the large scale of multinational associated accommodations (average bed number is 652 presently) may pose threats to the environment, if rigorous physical planning is not implemented by the government in Turkey. There is a need to prevent unsightly large scale ribbon tourist development and promote small and medium scale accommodations where necessary.

Tour Operators

Tour operators in tourist generating countries present mainly three problems for Turkish tourism. First, price reduction demands of tour operators depress accommodation prices in Turkey and reduce profit margins, which result in overall reduced economic benefits from tourism. Price reduction demands are often accompanied with threats to divert tourist flows to other destinations offering similar tourist attractions and services. Secondly, since tour operators are the main "tourism-image makers" of destinations, there is a danger that the image and type of tourism Turkey wants to promote are not properly represented. For example the survey of the UK tour operators' brochures showed that cultural and historical tourism and winter tourism are under-represented, which possibly contributes to seasonality of tourism in Turkey. Finally, the high percentage of inclusive tours to Turkey, 51% of all tourists arrive in an inclusive tour (Ministry of Tourism, 1993), mean substantial lost revenues for Turkish economy since some of the services in inclusive tours, notably air fares, are prepaid to foreign tour operators or airlines in tourist generating countries. Such a high percentage of inclusive tours also mean that the successful future of Turkish tourism depends on, to some extent, the consent, willingness and initiative of major tour operators in tourist generating countries.

Airlines

While foreign airlines, along with tour operators from tourist generating countries, are one of the necessary forces in the further development of international tourism in Turkey, their involvement is not all beneficial. They organise a large percentage of tourists coming to Turkey. This means a low market share for Turkish carriers in incoming and outgoing tourists, lost revenues to the Turkish economy and dependency. Inexperience and the fragmented structure of the private airline industry in Turkey, is one the reasons for the low market share in incoming and outgoing tourists. Lack of joint ventures, strategic alliances and marketing agreements with tour operators and airlines in tourist generating countries are possibly other reasons, among others, for Turkish carriers' low market share.

Recommendations on Critical Policy Issues

The critical issues or impacts arising out of tourism multinationals' involvement in Turkish tourism require Turkish tourism policy makers and planners to develop and pursue policies for a stable and satisfying relationship between tourism multinationals and Turkey.

Below are provided some of the critical policy issues and recommendations on them regarding tourism multinationals in three sub-sectors of the tourism industry. Particular emphasis has been given to policy issues governments in Turkey need to watch in order to maximise the benefits of tourism and multinationals' involvement in the long term.

The Accommodation Sub-sector

Recommendations with respect to foreign investment in the accommodation sub-sector in Turkey can be examined under five headings: (a) review of investment incentives for foreign investors; (b) forms of involvement; (c) the scale of accommodation; (d) sectoral linkages; (e) indigenous employment and training; (f) integration and grouping for nationally owned accommodations.

Review of Investment Incentives for Foreign Investors

The first policy issue is to consider the appropriateness of present investment incentives for foreign investors in the accommodation sub-sector. As reviewed in chapter 6 Turkey rightly offered generous investment incentives to attract foreign investors at the initial stage. However, a few shortcomings of these incentives noted earlier give the researcher a room for several policy suggestions.

(1) Investment incentives should be made more selective with respect to location, and type (class) of multinational associated accommodations, which is in line with tourist development plans. Although the present incentives dictate the size of accommodations to some extent (incentives are given to accommodations with 70 or more beds), they apply to all touristic centres and regions and class of accommodation at the same degree. Differentiation of incentives according to specific tourist zones and accommodation type may help reduce crowding and congestion in some places, spread the benefits of tourism to less developed areas and increase the type of accommodation desired in tourist plans.

(2) Discriminatory incentives against foreign investors, which do not exist at present, can be approved where appropriate as domestic investors tend to be more stable and long

term. This can be done especially to encourage foreign investors to undertake joint ventures rather than total ownership.

(3) Incentive beneficiaries should be monitored so that investment proceeds according to the initial plan. A lot of cases have been reported in Turkey where incentives are taken but not invested in the accommodation industry or in Turkey.

(4) Further re-investment incentives can be provided to prevent the repatriation of profits and royalties.

(5) As international tourism "takes off" in Turkey, there should be gradual reductions in incentives.

(6) There is a need to introduce incentives to encourage multinational associated accommodations to train locals and indigenise management personnel.

(7)) Turkey should co-operate with other countries at the regional level in the Mediterranean for the homogenisation of investment incentives. This would be beneficial economically for all countries concerned instead of competing between themselves, which end in further concessions to foreign investors.

In the last analysis, it should not be forgotten that investment incentives are only one of the factors that may attract foreign investors. There are other groups of factors which determine the attractions of a particular country for multinational hotel involvement in addition to government policy towards foreign investment.

> "First, and most obvious are all the factors determining the volume, kind and rate of growth of tourism, particularly business tourism to a particular country. Second, is the availability of the appropriate infrastructure for tourism, e.g. transport and communication facilities. Third, is the availability and quality of hotel inputs, including hotel staff and essential services which can not be imported. Fourth, is the general political, economic and social stability of the country and attitudes of the local population to foreign countries" (Dunning, 1988:258).

Forms of Involvement

In theory although Turkey has the right to legislate the desired form of involvement, it appears that because of the lack of bargaining power it is mostly the multinational hotels that choose the appropriate form of involvement relevant to their strategies.

So what are the policy issues to be addressed with respect to the type of involvement in Turkey? As shown in chapter six, majority (77%) of all foreign investment in the accommodation sub-sector is in the form of equity involvement. Initial foreign investment in the form of equity provides finance and management expertise. It also serves as a means to keep the commitment of foreign investors (because of vested interest), who may be airlines, tour operators, hotels or other businesses in tourist generating countries, to the project and tourist development in Turkey. Financial involvement of multinational hotels also increases the performance of the project. However, in the long term profit repatriation of foreign owned accommodations may put pressure on the balance of payment. But as long as foreign owners' profits come from international tourists, the effect on the balance of payments is unlikely to be negative.

Nevertheless domination of local ownership and market share in the accommodation sub-sector is preferable. The reason is that it would provide more capital accumulation opportunities (profits) in local hands which may be reinvested in the economy rather than repatriated abroad in the case of foreign ownership. To continue to hold this position three strategies may be suggested.

First, more joint ventures should be promoted rather than total foreign ownership. This can be achieved by limiting the shares of foreign equity or shares to some extent. Second, if total foreign ownership continues to be allowed, there should be a requirement for the company to sell some of the shares to locals for reasons of distributional economic benefits. Third, to prevent foreign domination and profits being repatriated, thus reducing overall tourist receipts, there should be an arbitrary limit in the mind of planners behind which no foreign investment can be allowed. For example it may be decided that no more than 20-30% of all beds should be under foreign ownership.

As for contractual foreign involvement, the author suggests that the contents of management and franchising agreements should be revealed by the State Planning Organisation and comparison of terms of contracts be made with other developed and developing countries. Overall the following may guide the policy with respect to contractual foreign involvement:

(1) excessive loyalty and management fees should be avoided, (comparison of terms of

contracts with other developed and developing countries can be helpful);

(2) to increase the effectiveness of management contracts, management fees can be linked to performance, e.g. occupancy or profit rate;

(3) as Turkey acquires qualified manpower over time, management contracts can be prohibited as is the case in India (U.N.C.T.N.C, 1982);

(4) with the passage of time, management contracts should give way to franchising agreements or only marketing agreements as indigenous personnel acquire managerial skills;

(5) long term (5 years and above) contractual agreements should be avoided for it will affect the achievement orientation of management. Moreover, better deals can be struck in future or expatriate management can be replaced by locals;

(6) responsibility for renewal of the contracts should remain with the local owner;

(7) it is also important that Turkey obtain references and information regarding the business activities of the company before they get into any contract. The information may be provided from other developing countries, United Nations Centre on Transnational Corporations or from the company itself.

The Scale of Accommodation Development

Another policy issue relates to the scale of tourist development in Turkey. This study has found that the scale of foreign associated accommodations is quite large; average bed number is 652. They are overwhelmingly three or over star hotels or holiday villages. This confirms Jenkins' argument that (1982:336) "below a unit size operating costs are likely to be unattractive to an (international) investor or management company". This is because of the economies of scale large projects offer to international hotel developers.

As for policies against scale, it should be noted that there is nothing inherently evil about the large scale accommodation development and it may be even inevitable in the case of large scale mass beach tourism and business tourism. For Turkey two policy issues are the environmental and income distribution effects of large scale foreign owned accommodation.

In fact these are the two most important criticisms against large scale foreign owned accommodations in developing countries. Environmental problems can be reduced by the application of rigorous physical planning and project evaluation involving environmental standards. As for the income distribution effects, several remedies are already suggested like promoting joint ventures by limiting the share of foreigners, compelling foreign owners to sell some percentage of shares to locals, and not allowing absolute foreign domination in the accommodation sector. The range of tourist products and tourist types enable Turkey to promote small, medium and large scale accommodations.

Sectoral Linkages

The accommodation sector has a lot of potential for providing inter-sectoral linkages (especially backward) and acting as a catalyst for agricultural and manufacturing industry. The policy issue concerning the multinational hotels and sectoral linkage effect is that governments in Turkey should ensure that multinational associated hotels use local goods and services if they are available domestically at comparable prices, quality and delivery date. At present there are no studies investigating the linkage effects of foreign associated accommodations. This should be pursued by government and researchers and necessary measures be taken to insist on the maximum use of local materials, and supplies in the design, construction and operation of accommodations. This can be achieved by limiting imports, charging high tariffs for imported goods which are locally available, or giving incentives for using local goods and services.

Indigenous Employment and Training

Of all contributions, the single most important benefit of multinational hotels to host developing countries is considered to be in the area of training human resources or so-called "soft technology" transfer. At the initial stages of tourist development expatriate management of multinational associated or national hotels may be justified due to lack of skilled management personnel and experience in the field. However, policies and ways of implementation should be prepared and sanctioned for raising local management pool and reducing the proportion of foreign labour. As Jenkins and Henry put it

> "the use of foreign expertise is often the only means of jumping the development gap between the indigenously available management and technical skills and the level of experience and competence needed to organise and sustain an international industry. In the short term, the use of foreign nationals in the tourist sector must be regarded as one of the costs of development. In the long term, an integral part of development strategy will be, whenever possible, to replace foreign employees by local people" (Jenkins, 1982:512).

For this reason, the author suggests that there should an investigation into the current level and position of expatriates in tourism in Turkey. Precautions should be taken to replace expatriates. In addition to national tourism education and training systems, government can make use of considerable expertise and training schemes of multinational hotels. For example training schemes can be negotiated and contracted in the initial dealings with such companies. More specifically conditions to hand over management to nationals within a specific period of time can be determined. Alternatively, additional incentives like tax reductions, accelerated depreciation can be used to encourage multinational enterprises for training local manpower. Since most jobs in the accommodation industry are low or medium skilled and can be standardised to some extent, the emphasis should be on the training and employment of local people at the managerial level.

Integration for Nationally Owned Accommodations

Nationally owned accommodations should seek horizontal and vertical integration in order to increase their effectiveness and maintain market domination. Horizontal integration would give greater exchange and diffusion of management expertise, more in-house training possibilities, establishment of service standards, discounts on bulk purchasing and increased resources for marketing. Vertical integration with airlines or other transport companies and travel agents would increase market links of accommodations.

Tour Operators

The existence of large tour operators which are integrated with airlines and travel agents and which have the control of substantial tourist flows to Turkey require some policies which are critical and should be pursued. These policy issues can be grouped into three: co-operation and flexibility, determination of accommodation prices at home and acquisition of shares of large tour operators.

Co-operation and Flexibility

There is a need for the Turkish tourist authorities and tourist businesses to be more co-operative and flexible with tour operators in tourist generating countries. That is because it is likely that tour operators and travel agents will continue to be the primary agents in holiday selling channels and there is very little chance for Turkey to bypass them. The nature of co-operation may take different forms. First, more information on tourist attractions, tour plans, availability of accommodation and other tourist services can be provided. For this purpose a tourism guide book for tour operators, which can be updated yearly, can be prepared and distributed freely to tour operators. Second, familiarisation tours to Turkey for large tour operators' employees at all levels can be organised. Not only do such tours enable tour operators' employers to have more accurate information on Turkey as a destination but they may also provide incentives to promote Turkey with more enthusiasm. Third, Turkish tourist authorities and tourist business may share some of the promotion costs of tour operators directly related to Turkey. For example, the cost of tour brochures and travel catalogues relating to Turkey can be shared. Finally, there should be willingness on the part of government to allow large conglomerate tour operators and airlines from tourist generating countries to have commercial interests, particularly in the form of join ventures, in the accommodation sub-sector. Such commercial interests are a sort of incentives for tour operators to promote international tourism development in Turkey.

Determination of Accommodation Prices at Home

This policy issue, determination of accommodation prices in Turkey, is *indirectly* related to tour operators. Tour operators in the main tourist generating countries have a vital interest in having accommodation prices as low as possible to increase their profit margin and to remain competitive in the inclusive tour market. Price reduction demands of tour operators may be so strong that they threaten destinations to divert tourists to other places if their demands are not met. The end result of such threats are reduced accommodation prices for tour operators which lead to lower economic benefits for the host country.

To prevent such low prices, the author suggests that association of hoteliers at the national and regional level determine lower and upper limits behind which no accommodation owner is allowed to offer for inclusive and independent travellers. Obviously, prices would change according to *accommodation type, region and time of the year*. Government approval and co-operation should also be sought in the determination of prices. This is due to the fact that prices are directly affected by exchange rates in the international context and there is a need for the stability and predictability of exchange rates since tourist prices are generally determined a year in advance of brochure publication. Of course prices in other tourist generating and competitor tourist receiving destinations should also be taken into consideration in such price determination.

Acquisition of Shares of Large Tour Operators and Airlines

In order to effect the decision making process of large tour operators and airlines in tourist generating countries, one strategy may be to own a significant part of the shares of such companies. If integrated horizontally and vertically, hotel and airline groups in Turkey may have the financial resources to acquire shares of large tour operators and airlines. Holding of shares by Turkish companies in this way would have some influence on tour operators and airlines in tourist generating countries to promote Turkey more exclusively and intensively. However, the willingness of large tour operators and airlines to sell significant part of their shares to Turkish business interest is a necessary condition, which can not be guaranteed, for the success of this strategy.

Airlines

Foreign airlines from the main tourist generating countries, which may be integrated into tour operation and/or travel agents as in the case of the UK, control a substantial part of international tourist flows to and from Turkey. In order to increase the number of tourists carried by Turkish carriers, which may lead to greater economic benefits and declining level of dependence on foreign airlines, five policy issues are can be mentioned: liberal air transport policies, consolidation in Turkish airline industry, establishment of jointly owned offices in tourist generating countries, participation in central reservation systems, vertical integration, niche marketing in tourist generating countries.

Liberal Air Transport Policies

For the maintenance and further development of its international tourist industry, Turkey has an interest in pursuing a fairly liberal air transport policy based on bilateral agreements. Liberalism in this case does not mean non-intervention by the government but a *willingness and openness* to negotiate bilateral scheduled and charter air service agreements with other countries. The closure of domestic markets to foreign airlines, limitations in route designation and licensing, route access, capacity and tariff determination can be approved depending on the country negotiated, with mutuality and estimated costs and benefits of such agreements. However the European Community is increasingly willing to consider itself as one entity and take over bilateral negotiations between the Community as a whole and third countries. If that happens, Turkey's negotiation and competitive power may be greatly reduced. There is a danger that the European Community may offer Turkish carriers a limited number of points (route rights) in Europe but demand, in return, that European airlines should be able to fly from any point in the community to Turkey. Even if the negotiation is based on "reciprocity of route rights", multiple designation of Community airlines from European points to Turkey will mean that on routes where previously Turkish carriers were competing with a weaker and limited number of airlines, they may find themselves competing with many strong European carriers. For these reasons, Turkey should favour bilateral agreements at individual country level and try to create two or three strong carriers.

Consolidation in Turkish Airline Industry

As shown earlier, the airline industry in Turkey is characterised by too many small and weak private airlines except the publicly owned Turkish Airlines. To be more efficient and viable financially, technically and managerially in the international context, the author suggests that 15 existing private airlines consolidate their resources to create 2 or 3 strong private airlines. This kind of grouping of small airlines provides many benefits including sharing and "rationalisation" of routs, better management of prices instead of damaging competition, larger technical, managerial and financial resources at hand, which may be used to increase efficiency and service quality. The nature of such groupings may be based on common ownership via mergers, take-overs or cross share holding.

As for the publicly owned Turkish Airlines, it can continue to be in public ownership with improved management and closer technical and managerial co-operation with the private sector. To improve management and foster closer public-private industry co-operation, Turkish Airline may be privatised partially. Alternatively, it can be privatised totally if it remains in the ownership of national capitalists who are committed to economic nationalism.

In addition to the domination of domestic market by national consolidation, cross share holding with other European airlines and strategic marketing alliances would strengthen Turkish carriers in international context.

Vertical Integration

As tourism consists of a chain of services, Turkish carriers should seek vertical integration into accommodations, tour operators and travel agents sub-sectors, by which they can provide "better integrated services", compete against foreign airlines and increase their market share. For example while integration with hotels in Turkey would provide a better co-ordination of flight plus accommodation services for tourists, integration with tour operators or travel agents in tourist generating countries would strengthen the marketing channels of Turkish carriers. As for the nature of integration, they may change from total ownership to holding of some shares, from sharing a reservation system to "strategic alliances".

Establishment of Jointly Owned Offices in Tourist Generating Countries

Turkish carriers and hoteliers may jointly establish multi-purpose offices in main city centres of major tourist generating countries for Turkey. Such offices would act as a travel agent and tour operator for Turkish carriers and hotels. It would also assume other marketing responsibilities like media advertising, public relations with tour operators and travel agents and co-ordination of reservations made by tour operators and travel agents in tourist generating countries. The joint ownership of such offices would prevent repetition of efforts and expenses committed by independent airlines or hotels. However this must be understood as a *complimentary* effort to increase the share of Turkish carriers in incoming tourist market. it can not bypass or undermine the importance of large airlines, tour operators and travel agents in directing large tourist flows to Turkey.

Participation in Central Reservation Systems

Participation in a central reservation system is a crucial and necessary policy decision for Turkish carriers in their attempts to increase their market share and competitiveness against foreign airlines operating to Turkey. The importance of central reservation systems as a strategic marketing tool lies in the fact that 80% of flight bookings in the UK and the USA are done through travel agents and tour operators and 90% of ticket sales are issued by automated central reservation systems (Doganis, 1991; Katz, 1988). However participation in a central reservation system does not guarantee a higher market share unless Turkish carriers' flights are represented fairly without computer display bias, discrimination and high fees charged for access. Loyalty and preference of tour operator and travel agents for some airlines is another potential problem that may prevent a "fair representation" of Turkish carriers in such systems. That is why initiatives at government and international level for a "fair representation and business practice" in airline industry are necessary.

Niche Marketing

Target marketing in tourist generating markets is another strategy that can be used by Turkish carriers to increase their market share. As large tour operators and travel agents who are integrated with airlines prefer their own airlines in their sales efforts, there is a need for Turkish carriers to associate themselves with special interest tour operators and independent travel agents. More sensitive pricing and target marketing according to market profile would also help achieve higher market shares for Turkish carriers.

Lessons For Third World Countries

The study of rapid tourism development and the role and impacts of tourism multinationals in this process in Turkey present a few lessons for other developing countries, which are seeking further tourism development. First of all, the case of Turkey shows that rapid tourism development goes hand in hand with a stable and hospitable investment environment for foreign investors. Generous investment incentives and pro-business attitude of the government do play an important part in attracting foreign investment in the accommodation sub-sector. However, it should be noted that this is only one of the elements of tourism development. Other factors that contributed to tourism development in the case of Turkey include:

(1) political will and the commitment on the part of the government to promote tourism;

(2) political and social stability;

(3) devaluation of the Turkish Lira;

(4) determination of tourism zones and centres and heavy investments by the public sector in tourism related infrastructure;

(5) a change in the type of tourism promoted from history-culture-based tourism to large scale mass beach tourism.

Secondly, acceptance of I.M.F and World Bank stability programmes, which advocate a bigger role for the private sector and contraction of the public sector, can mobilise foreign investment from developed countries. Thirdly, there is a need to understand the impacts of tourism multinationals and develop policies to ensure that negative impacts are minimised while positive impacts, which are in accordance with tourism development plans and development policies are maximised. In this context, governments should take an active role in developing and implementing policies. Finally, co-operation with tourism multinationals should be an integral part of tourism policy to develop and sustain international tourism in LDCs.

Recommendations For Further Research

Related future research can develop in different ways. First, this topic could be more fully developed with further research if greater access to information is provided. Second, more case studies of the experience of individual developing countries with tourism multinationals would be useful in giving a comparative perspective. Third, another avenue could be to focus on only one firm, for example, a multinational hotel and examine its contribution to the balance of payments, training and sectoral linkages in some detail.

Conclusion

This chapter has looked at the broad conclusions of the case study of Turkey in relation to present role and impacts of tourism multinationals on international tourism in Turkey. Additionally, some problems arising out of tourism multinationals involvement in Turkey have been identified. The chapter also made alternative policy suggestions to balance the positive and negative effects of tourism multinationals on Turkish tourism and economy. Overall it has been shown that tourism multinationals as an external force played an important part in the rapid development of international tourism in Turkey and continue to do so. It has been stressed that in order to prevent total foreign domination, reduce dependence on tourism multinationals and take advantage of the benefits tourism multinationals provide, Turkey need to (a) determine policies, which have been suggested, with regard to tourism multinationals and implement them; (b) be flexible and co-operative in its relation with tourism multinationals; (c) provide a stable and hospitable investment environment and offer commercial benefits for tourism multinationals in Turkey; (d) work for the betterment and pre-eminence of the national accommodation, airline and tour operation industries. Finally, recommendations for further research on the topic are provided.

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APPENDICES

APPENDICES

Appendix A

The Addresses of the UK Tour Operators Which were "Selling" Turkey as a Tourist Destinations in 1991/1992

(1) Allegro Holidays, 15a church St. Reigate, Surrey RH2 OAA

(2) Aquasport Tours Ltd. O.C.T. Ltd. 181 Edward St. Brighton, Sussex, BN2 2JB

(3) Autotours Ltd. 20 Craven Terrace, London W2 3QH

(4) Balkan Holidays, Sofia House, 19 Conduit, London W12 9TD

(5) Bales Tours Ltd. Bales House, Barrington Rd., Dorking, Surrey RH4 3EJ

(6) Celebrity Holidays and Travel, 18 Frith St. London W1V 5TS

(7) Crestar Yacht Charters, Colette Court, 125/126 sloane St. London SW 1X 9AU

(8) Cygnus Wildlife Holidays Ltd. 96 Fore St. Kingsbridge, Devon TQ7 1PY

(9) Cosmosair, Tourama House, 17 Homesdale Rd. Bromley, Kent BR2 9LX

(10) Club 18-30 Holidays Ltd. ILG Travel Ltd. Academic House, 24-28 Oval Rd. London NW1 7DE

(11) Cresta Holidays, Cresta House, 32 Victoria St. Altrincham, Cheshire WA14 1ET

(12) Encounter Overland Ltd. 267 Old Brompton Rd. London SW5

(13) Epirotiki Lines, Westmoreland House, 127-131, Regent St. London W1R 7HA

(14) Exodus Expeditions, 9 Weir Road, London SW12 OLT,

(15) Explore World-wide Ltd. 1 Frederick Street, Aldershot, Hamshire GU 11 1LQ

(16) Enterprise Holidays, Redwing Holidays, Groundstar House, Crawley, West Sussex

(17) Fairways and Swinford Travel Ltd. Sea Containers House, 20 Upper Ground, London, SE1 9PF

(18) Falkon Leisure Group Limited, 33 Notting Hill Gate, London W11 3JQ

(19) Fred Olsen Holidays, Crown House, Crown St. Ipswich, Suffolk IP1 3HB

(20) Golden Horn Travel, Golden House, 29 Great Pulteney, St. London W1R 3DD

(21) Goldrex Group Travel, P.O.Box 101, West Brompton, London SW 10

(22) HF Holidays Ltd. 142-142, Great North Way, London NW4 1EG

(23) Hann Overland, 203 Vauxhall Bridge Rd. London SW 1Y 1ER

(24) Holt's Battlefield Tours, Golden Key Building, 15 Market St. Sandwich, Kent CT 13 9DA

(25) Halsy Marine Ltd. 22 Boston Place, Dorset Square, London NW1 6HZ

(26) Inter-church Travel Ltd. The Saga Building, Middleburg Sq. Folkestone, Kent CT20 1AZ

(27) Metak Holidays, 70 Wellbeck St. London W1M 7HA

(28) Lamington Travel Ltd. 46/48, Shepherd Market, Curzon St. London W1Y 7HP

(29) Modernline Holidays, Hastings Rd. St. Helier, Jersey, Channel Islands

(30) Mark Warner, 20 Kensington Church St. London WB 4EP

(31) Mancunia Travel Ltd. Peter House, 2-14 Oxford St.
Manchester M1 5AW

(32) Naturetrek, All Saints Passage, 100 Wondsworth, High St. London SW 18 4LE

(33) Orient Tours Ltd. Kent House, 87 Regent St. London W1R 8LS

(34) Ornit Holidays, 1/3 Victoria Drive, Bagnor Regis, Sussex PO 21 2PW

(35) Regent Holidays, Regent House, 31A High St. Shanklin, Isle of Wight PO 37 6JW

(36) Romanian Holidays, 54 Pembroke Rd. London W8 6NX

(37) Schoolplan Travel Ltd. Oliver House, 18 Marine, Parade, Brighton, E. Sussex BN2 1TL

(38) Sherpa Expeditions, 131A Heston Rd. Hounslow, Middx TW5 ORD

(39) Ski Lovers Limited, 11 Liston Court, High St. Marlow, Bucks SL7 1ER

(40) Stallard Holidays, 29 Stoke Newington Rd. London N16 8BL

(41) Steepwest Holidays Ltd. 130-132 Wardour Street, London W1Y 3AU

(42) Sunquest Holidays, Aldine House, 9-15 Aldine St. London W12 AW

(43) Swan Hellenic Art Treasures, 77 New Oxford St. London WC 1A 1PP

(44) Sunmed Holidays, Groundstar House, London Rd. Crawley, W. Sussex RH10 2TB

(45) Sovereign Holidays, Redwing Holidays, Groundstar House, London Rd. Crawley, West Sussex, RH 10 2TB

(46) Select Holidays, ILG Travel Ltd. Bircherly St. Hertford SG14 1BH

(47) Slade Travel Ltd. 417 Hendon Way, London NW4 3LH

(48) Timsway Holidays, Nightingale Corner, Little Chalfront, Blucks HP7 9QS

(49) Top Deck Travel, 131/135 Earls Court Rd. Earl Court London SW5 9RH

(50) Trafalgar, 9/11 Bressenden Place, London SW1E 5DF

(51) Twickers World Ltd. 22 Churc St. Twickenham, Middx TW1 3NW

(52) Thomson Holiday Ltd. Greater London House, Hampstead Rd. London NW1 7SD

(53) Tjaereborg Ltd. 194 Campden Hill Rd. London W8 7TH

(54) Top Yacht Charter, Andrew Hill Lane, Hedgerley, Bucks SL2 3HW

(55) Travelscene LTd. 11-15 St. Ann's Rd. Harrow, Middx HA1 1AS

(56) UK Express, Whitehall House, 41 Whitehall, London SW 1A 2BY

(57) Wallace Arnold Tours Ltd. Gelderd Rd. Leeds, West Yorkshire LS12 6DH

(58) Wings Holidays, Joseph Rank House(5th floor), Haydens Rd. Harlow, Essex CM20 1LZ

Appendix B

Letter Requesting the UK Tour Operators' Brouchers and Catalogues, that Feature Turkey as a Tourist Destination

Dear Sir/Madam

I will be grateful if you could send me your summer and winter Brouchers and catalogues, particularly those relating to Turkey as a Tourist destination.

Yours faithfully

Salih Kusluvan

Appendix C

Questionnaire for the UK Tour Operators "Selling" Turkey as a Tourist Destination

QUESTIONNAIRE

The following questionnaire is composed of multiple choice and open ended questions. Please answer them as appropriate. If your answer corresponds to more than one option, please tick all.

A. COMPANY PROFILE

(1) What is the legal name of your company?

....

(2) Is your company involved only in tour operation or both tour operation and travel agency activities?

[] Both
[] only tour operation

(3) Does your company have any branch operations in UK?

[] yes ......Number :
[] no

(4) How many of them are involved in only tour operations?

....

(5) How many of them are involved in both tour operation and travel agency activities?

....

B. DESTINATION

(6) When selling a package tour to Turkey, which of the following factors are most important? Please rank each factor on a scale of 1 to 10; 1 being least important and 10 most important.

Item no. factor	scale 1 to 10
1. overall price of the tour	_____

2. diversity and uniqueness of the tourist product ____
3. physical distance from the origin country ____
4. quality of tourist accommodation and services ____
5. image of Turkey ____
6. the degree of tourism development ____
7. the degree of environmental quality ____
8. co-operation and promotional efforts of ____
9. trends in popular or particular tourism demand ____
10. economic development level ____
11. political and social stability ____
12. historical and cultural attractions ____
13. attitudes of local people towards tourists ____
14. sanitation standards ____
15. availability of, and permissiveness to, beach tourism ____
16. availability and quality of entertainment facilities ____
17. availability of shopping facilities ____
18. other (please write)

.
.
.

(7) What type of tourism (relating to travel experience) is your company selling to Turkey? Please write in order of popularity.

1.
2.
3.

(8) Are you selling Turkey as a:

[] summer destination
[] winter destination
[] whole year round destination

(9) Between which periods are you selling Turkey as a summer or winter destination ?

(a) between .... as a summer destination.
(b) between .... as a winter destination.
(c) all year round

(10) How many inclusive holidays did your company sell to Turkey in 1991?

....

(11) How many independent travellers booked Turkey through your company in 1991?

....

C. BUSINESS RELATIONS

(12) Does your company hold an equity or other commercial interests in any British airline companies?

[] yes
[] No (please skip to 15)

(13) Which of the following business arrangements does your company have in any British airline company?

[] ownership ----Percentage =
[] management contracts
[] lease
[] none

(14) Does your company hold an equity or other commercial interests in any Turkish airline companies?

[] yes
[] no (please skip to 17)

(15) Which of the following business arrangements does your company have with Turkish airline companies?

[] ownership ----- Percentage =
[] franchising
[] management contracts
[] lease
[] none

(16) Is your company linked through central reservation system to any of the following?

[] any UK airlines
[] any Turkish airlines
[] multinational associated hotels in Turkey
[] locally owned hotels in Turkey.
[] travel agents in the U.K.
[] tour operators or travel agents in Turkey

(17) Does your company have ownership(wholly or partially), management, franchising or leasing interests in the accommodation sector in Turkey?

[] yes
[] no (please skip to 20)

(18) Which of the following business arrangements does your company have in the

accommodation sector in Turkey?

[] ownership ---- Percentage =
[] franchising
[] management contracts
[] leasing
[] none

(19) What percentage of all inclusive tours you sold to Turkey used a Turkish air carrier in 1991?

....

(20) Which are the main airlines you use for your inclusive tours to Turkey?

(a)
(b)
(c)
(d)

(21) What is the relative share of scheduled and charter flights you use for inclusive tour to Turkey in 1991?

(%)

(a) charters ... .
(b) scheduled . .....

(22) What percentage of all inclusive tours you sold used multinational associated hotels in Turkey in 1991? Multinational involvement refers to any foreign involvement - ownership, management and franchising contracts or lease - in the accommodation sector in Turkey.

....

(23) What are the main problems you encounter in selling holidays to Turkey? Please write in your comments.

.
.
.
.
.

(24) What are the main business difficulties you have in organising holidays in Turkey?

.
.
.
.

(25) Are you receiving funds for your promotional efforts from the following organisations?

	Yes	/No
(a) Turkish National Tourist Office in U.K.	[]	[]
(b)Turkish airlines	[]	[]
(c)Turkish hotels	[]	[]

(26) Do you receive co-operation from the Turkish National Tourism Organisation?

[] yes
[] No (please skip to 29)

(27) Would you describe the co-operation as :

[] excellent
[] adequate
[] inadequate - Please state why?

.
.
.

(28) What are the main complaints you receive from clients returning from a holiday in Turkey?

.
.
.
.

(29) Do you think that your company's inclusive tour sales to Turkey will increase in the coming years?

[] yes
[] no

(30) For how long have you been selling Turkey as a tourist destination?

....

(31) How do you see Turkey's tourism development potential in the next 5-10 years?

.
.
.

(32) Do you have any comments you wish to make?

THANK YOU

Appendix D

Letter Which Accompanied the Questionnaire for the UK Tour Operators "selling" Turkey.

Dear Sir/Madam,

I am a research student from The Scottish Hotel School. I am undertaking research on the role and impacts of U.K. tour operators on tourism in Turkey. I am writing to you in order to ask for your co-operation as tour operators "selling" Turkey as a tourist destination. I would welcome your opinion on Turkey as a tourist destination. A questionnaire and stamped addressed envelope are enclosed for this purpose.

Part of the research project will be carried out in Turkey and the main findings, which may be of interest to you, can be made available.

All the information you provide will be treated confidentially. Thank you in anticipation of your earliest attention and co-operation.

Yours faithfully

Salih Kusluvan

Appendix E

The Names and Addresses of Accommodations with some Form of Foreign Equity Involvement in Turkey

(1) Ciragan Sarayi Oteli, Ciragan Cad. Yildiz, Besikdas, Istanbul

(2) Sandes Tur. Isl ve Tic. A.S, Sakizagaci Mevkii, Doganbey Koyu, Seferhisar-Izmir

(3) Akdeniz Tur. Tes. A.S., Foca Tatil Koyu, Foca, Izmir

(4) Akdeniz Tur. Tes. A.S., Kaya Moteli, Germeli Dagi, Uchisar, Nevsehir

(5) Akdeniz Tur. Tes. A.S., kemer Tatil Koyu, Eski Koyalti Mevkii, Kemer, Antalya

(6) Jan-Al Exa Turistik Park Tesisleri, Gundogdu Mevkii, Manavgat,Antalya

(7) Jan-Al Exa Turistik Park Tesisleri, Gundogdu Mevkii, Manavgat,Antalya

(8) Jan-Al Exa Turistik Park Tesisleri, Gundogdu Mevkii, Manavgat,Antalya

(9) Voyager Oteli,Konyaalti, Antalya

(10) Kusadasi Tatil Koyu, Aslanburnu Mevkii, Kusadasi, Aydin

(11) Sheraton Oteli, Mete Cad. Taksim, Istanbul

(12) Sheraton Oteli, Gaziosmanpasa, Ankara

(13) Hilton Oteli, Tahran Cad. No:12, Ankara

(14) Otel Altinel, Tandogan Meydani, Ankara

(15) Etap Mola Oteli, Ataturk Bulvari, No:80, Yenisehir, Ankara

(16) Excelsior Corinthia Hotel, Titreyengol Mevkii Tur. Al. Side, Antalya

(17) Beach Hotel, Guney Antalya Tur Alani, Tekirova, Antalya

(18) Incekum, Alanya, Antalya

(19) Kiris Ot. Ve Tur. A.S, Kiris Mevkii, Kemer, Antalya

(20) Tekirova Tatil Koyu, Tekirova, Antalya

(21) Salima Beldibi Tatil Koyu, Guney Antalya Tur Alani, Tekirova, Antalya

(22) Ati Anadolu Tur. Tat A.S, Guney Antalya Tur Alani, Tekirova, Antalya

(23) Dim Holding A.S, Guney Antalya Tur Alani, Tekirova, Antalya

(24) Guney Tur. Ve Tur. Yat. A.S , Titreyengol, Side, Antalya

(25) Cesars Oteli, Kumkoy Bingesik Mevkii, Manavgat, Antalya

(26) Tursev Oteli, Titreyengol, Side, Manavgat, Antalya

(27) Camyuva Tatil Koyu, Camyuva Koyu, kemer, Antalya

(28) Robinson Club, Pamfilya Tatil Koyu, Acisu, Sorgun-Side, Antalya

(29) Incekum Otel , Incekum-Alanya, Antalya

(30) Anatolia, Cekirge Meydani, Bursa

(31) Seven Hills Hotel, Yildiz Cad. Besiktas, Istanbul

(32) The Bosphorous, Taslik, Besiktas-Istanbul

(33) Foks Tur.Yat ve Isl., Ayazaga Koyu, Buyukdere Asfalti, Sisli-Istanbul

(34) Hilton Oteli, Cumhuriyet Cad. Harbiye, Istanbul

(35) Etap Marmara, Taki Zafer Cad. Taksim-Istanbul

(36) Etap Oteli, Mesrutiyet Cad. Tepebasi, Istanbul

(37) Balcova Agememnon Kap., Balcova-Izmir

(38) Club Citadel, Ciftlik Koyu, Cesme-Izmir

(39) Iteka Izmir Tur. Komp., Inciralti Mevkii, Izmir

(40) Otel Teos, Sigacik Mah. Seferhisar-Izmir

(41) Altinyunus Tatil Koyu, Boyalik Mevkii, Cesme-Izmir

(42) Etap Iznir Oteli, 2. Kordon, Dr Hulisi Bey Cad. Izmir

(43) Royal Marmaris Tur. Adakoy Yalacibogaz Mevkii, Marmaris-Mugla

(44) Amos Oteli, Kemeralti Mah. Marmaris-Mugla

(45) Bayhd Yuzer Otel, Keciadasi, Marmaris, Izmir

(46) Hayal beldesi Tur., Kiziltepe Mevkii, 2. Mintika Mahallesi, Nevsehir

(47) Aarlik Oteli, Gumbet Mevkii, Bodrum-Mugla

(48) Labranda Hotel, Gulluk koyu, Sirakil Mevkii, Milas, Mugla

(49) Kamping Kervansaray Mocamp, Okurcular Koyu Mevkii, Alanya, Aydin

(50) Kamping Kervansaray Mocamp, Otuzbirler Plaji Mevkii, Kusadasi-Aydin

(51) Kamping Kervansaray Kumluk Mocamp, Panayir Koyu Kumluk Alani, Bursa

(52) Kamping Kervansaray Ysekadin Kamping, Kirishane, Edirne

(53) Kamping Kervansaray Mocamp Kizkalesi, Silifke-Erdemli, Icel

(54) Kamping Kartalepe Mocamp, Bakirkoy, Kartaltepe, Istanbul

Appendix F

Questionnaire and Accompanying Letter for Multinational Associated Accommodations in Turkey

Dear Sir/Madam;

I am a research student in the United Kingdom and I am undertaking a research on foreign investment in the accommodation sector in Turkey. According to the information provided by the Ministry of Tourism, Your firm has also some form of foreign equity involvement.

I would be very grateful if you could help my research by completing the enclosed questionnaire.

I can assure you that all the information you provide will be treated confidentially and anonymously.

Yours faithfully

Salih Kusluvan

QUESTIONNAIRE

A. INVESTMENT CHARACTERISTICS

(1) What is the nature of foreign investment?

[] ownership....Percentage =
[] management contracts
[] franchising
[] lease

(2) What is the origin country and share of foreign investment in your company?

Country	Amount Of Capital (TL)	Share (%)
(a)		
(b)		
(c)		

(3) Who initiated the foreign investment?

[] foreign investors
[] Turkish government
[] Turkish businessman

(4) What is the type of accommodation?

[] hotel
[] motel
[] holiday village
[] pension
[] other(please write)

(5) When did the accommodation begin service?

....

(6) What is the class of accommodation?

....

(7) What is the size of accommodation?

room number =
bed number =

(8) How is the structure of funding for the investment?

Sources	Percentage(%)
(a) from foreign sources abroad	....
(b) from government credits	....
(c) from local banks	....
(d) from foreign banks operating in Turkey	....
(e) from Turkish private sector	. ...
(f) from direct public finance	....

B. EMPLOYMENT

(9) What is the total employee number?

(a) summer season =
(b) winter season =

(10) How many foreigner are employed?

(a) winter season =
(b) summer season =

(11) At what level are the foreign employees employed?

(a) senior management ....number =
(b) middle management.....number =
(c) junior management.....number =
(d) other personnel.......number =

(12) Does the accommodation have training programmes for indigenous labour?

[] yes
[] no (please skip to 13)

(13) At what level does the training take place?

[] senior management
[] middle management
[] junior management
[] other personnel

(14) Does the accommodation run training programmes for those who are not employed in the enterprise?

[] yes
[] no

C. BUSINESS MATTERS

(15) Does the accommodation use a central reservation system?

[] yes
[] no

(16) Is the reservation system owned by a foreign multinational company?

[] yes
[] no

(17) To which of the following businesses the central reservation system is linked?, if you have one.

[] foreign airlines
[] foreign tour operators or travel agents
[] local tour operator or travel agents
[] hotels in Turkey
[] hotels abroad

(18) Which of the following commercial arrangements does the accommodation have with Turkish airline industry?

[] ownership.....Percentage =
[] management contracts
[] franchising
[] leasing
[] none

(19) Which of the following commercial arrangements does the accommodation have with foreign airlines serving Turkey?

[] ownership.....Percentage =
[] management contracts
[] franchising
[] lease
[] none

(20) Which of the following commercial arrangements does the accommodation have with Turkish tour operators or travel agents?

[] ownership....Percentage =
[] management contracts
[] franchising
[] leasing
[] none

(21) Which of the following commercial arrangements does the accommodation have with Turkish tour operators or travel agents?

[] ownership....Percentage =
[] management contracts
[] franchising
[] leasing
[] none

(22) What was the relative share of independent and group travellers among your guests in 1991?

share (%)

independent:...................
group : ....

(23) What was the percentage of independent travellers who booked through central reservation system?

....

(24) Approximately what percentage of all costs account for buying foreign goods and services?

....

(25) In which of the following ways do you think your company improves Turkey's image abroad and contribute to tourism development in Turkey?

[] by providing and assuring quality accommodation for potential tourists
[] by conducting public relations with travel trade abroad
[] by providing central reservation system
[] by training indigenous labour
[] by contributing to promotional efforts abroad

(26) How would you describe overall present business environment for your operations in Turkey? Business environment may relate to government incentives and regulations, social, political and economic stability, qualified manpower, environmental care etc.

[] excellent
[] encouraging
[] indifferent
[] discouraging

(27) What are your main discontents concerning operating environment in Turkey? Please write.

.
.
.

(28) If the foreign investment is based on management contract, franchising or leasing agreements, would you please send a copy of the contract?

(29) Do you wish to make any comments?

THANK YOU

Appendix G

Reminder Letter for Multinational Associated Accommodations in Turkey

Dear Sir/Madam;

I refer to my recent questionnaire for which I could not receive a response from you.

I would be most grateful if you could fill in and return the questionnaire as soon as possible as my research time is limited in Turkey.

Yours faithfully

Salih Kusluvan

Appendix H

Unstructured Questions for Personal Interviews

(1) Assuming that foreign tour operator have a strong bargaining position and there is an element of dependency on them, what can be done to countervail this strong bargaining position, reduce dependency and avoid price taking practices, price reduction demands and threats to switch to other destinations?

(2) Is there a real need for Turkey to promote tourism abroad directly by-passing foreign tour operators? To what extent, and by which means it can be achieved?

(3) Assuming that a large amount of tourists coming to Turkey are carried by foreign airlines, what can be done to increase the share of passengers carried by Turkish airlines?

(4) What should be the reaction of Turkey to European air liberalisation taking place gradually? With respect to scheduled and charter flights, should Turkey negotiate unilaterally or collectively with European countries?

(5) Do you think that the scale of multinational hotels are in accordance with government policies and environmental quality?

(6) Assuming that most of multinational associated hotels are managed by foreigners, What can be done to indigenise management personnel? To What extent multinational hotels can be of any use in this sense?

(7) Do you think that investment incentives played a significant role in attracting foreign investors to tourism sector?

(8) What other factors were important for foreign involvement in Turkish tourism?