troubled times as a result of changing circumstances and priorities set by the present Malaysian leaders. One could not but agree with the observation that ". . . there are no longer any 'special relationships' which would work substantially in favour of the interests of the European countries". On the other hand, one of the European countries that has made considerable inroads into the region where previously it had no colonial links, has been West Germany, which has established bilateral economic ties with some of the ASEAN members; however, the book does not go into the details of the relationship. It does point out, nevertheless, that Foreign Minister Genscher was largely responsible for enlarging Germany's and the EEC's interests in ASEAN.

One of the major issues where ASEAN sought EEC support was that concerning Kampuchea, in particular the U.N. seat for Democratic Kampuchea and related issues. There have been varying degrees of support from among the Europeans but this is not discussed in detail in this study. As the Kampuchean issue is one of the main political concerns of ASEAN, it would be of interest to readers to learn more of the European and EEC stands on this issue. Other important issues, such as disagreements between countries of the two regions concerning protectionism and access to markets, and views on the Law of the Sea Conference, are mentioned in the text but unfortunately are not adequately discussed.

The authors appear uncertain in some of their concluding assessments on the prospects for economic relations between the two areas. Although in the larger context Europe's relations "cannot be seen as wholly good" there are cases of bilateral interactions that seem positive. After all, "ASEAN is only one of the elements of Southeast Asian economic and political development that is important to Europe". Politically, Western European countries do realize that it is important to take into account the "ASEAN view" on certain issues. In this respect, Chapter 6 is stimulating reading; it summarizes the relevant perspectives of European interests and discusses some of the salient features of related topics like Japan's role in the Pacific Community, and the Kampuchean issue — issues that have a bearing on European-ASEAN relations. The authors recommend that Europeans increase their level of participation in a region that could be in the forefront of economic and political development in Asia.

The major contribution of this study lies in the European perspective on European-ASEAN relations. Although it is not an extensive study, it presents some of the more sailent points in a concise and interesting manner and would therefore be of help to Europeans, especially the business community who would prefer a general overview of the ASEAN region without being bothered by too many figures and academic analyses. Indeed, to achieve better business links between the two regions, potential investors and policy-makers need to be kept informed and it is publications such as the work by Harris and Bridges that contribute towards this end.

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Economic Policies towards Transnational Corporations, the Experience of the ASEAN Countries. **By Friedrich von Kirchbach.** Baden-Baden: Nomos Verlagsgesellschaft, 1983. Pp. xx, 632.

There are few subjects that have given rise to more controversy in the field of economic development policy than transnational corporations (TNCs). On the one hand there are those who expect TNCs to provide capital, technology, management expertise, and the panacea to all the development problems of the host country. And there are those, on the other hand, who see in TNCs

the sell-out of the indigenous economy to foreign interests. The lack of agreement regarding the costs and benefits to the host country of direct foreign investment by TNCs is due in large measure to the fact that such investment takes a variety of different forms, meets completely different investment policies from country to country, and therefore gives rise to very varied experiences from case to case. Even among otherwise serious economists there is frequently a tendency to generalize from limited experience, and to impute to all cases in all countries the effect inferred from a negligible sample. Add to this the fact that the operation of transnational corporations is a highly political phenomenon, and a symbol of free enterprise for some while an exponent of the hated capitalist form of production for others, and it becomes clear why discussions on the direct foreign investment of TNCs in developing countries frequently generate more heat than light.

Friedrich von Kirchbach's book places the discussion on a firmer base. It examines the experience of the original five ASEAN countries *vis-à-vis* transnational corporations and looks at the economic policies adopted by each of them. The book is an immense compilation of material on the official policies towards TNCs arranged in a common order for each, and supplemented by analyses of the implementation and the actual effects of these policy measures with regard to specific development targets. This main body of the work, encompassing some 500 pages, is sandwiched between an introductory section and the conclusions of the study. While the main body of the book is sure to become and to remain for some time a valuable reference guide to economic development policy measures in the ASEAN countries, most readers will turn to the conclusions for an indication as to whether, and in what specific conditions, the contribution of TNCs to development is generally positive. Von Kirchbach examines this impact with regard to six criteria: the contribution to growth, to employment and manpower development, to the balance of payments of the host country, to government revenue, to the transfer of technology, and to the host country's economic dependence. The contributions to GNP growth have been significant in all ASEAN countries. They were affected to a larger extent by the foreign investment policies of the host countries. One of the major problems according to von Kirchbach is to prevent foreign investments displacing local firms on product markets. Apparently there has been keen competition between TNCs and local firms on some sector markets. Von Kirchbach concludes that TNCs have been able to crowd local firms out of the market for qualified labour in Thailand and Malaysia, while in the Philippines TNCs have frequently been charged with preempting the local capital market. The comparison of the ASEAN countries also suggests that economic policies towards TNCs can considerably influence the locational distribution of TNCs. In fact, TNCs turned out to be relatively more responsive to decentralization efforts than local firms. As far as the decentralization objective is concerned, the Malaysian foreign investment policy seems to be exemplary.

The fact that TNCs generally tend to be more capital-intensive and of a high-technology nature has resulted in a generally much smaller effect on employment than on growth. Von Kirchbach suggests that economic policies towards TNCs should concentrate on their qualitative contributions to employment. The experience of the ASEAN countries shows that the use of appropriate policies can considerably enhance TNCs' contributions to reducing ethnic imbalances in the employment structure, to eradicating low-wage jobs, and to improving skill levels and technology transfer. One of his recommendations is that TNCs should be induced to set up comprehensive training schemes.

Many students of foreign investment in developing countries have registered surprise at the fact that direct foreign invest-

ment in the long run has a negative effect on the balance of payments. However, it should be clear to any first semester student of economics that the purpose of any investment is to generate a return flow of income and, to the extent that this is repatriated, it is likely to be higher than the original flow of investment funds. Of course, many countries resort to the encouragement of capital inflow in order to alleviate short-term balance of payment problems, but unless such capital inflow can contribute to the general process of economic development and to the development of export industries, the long-term effect will be to increase the flow of profits and thus to an outflow of reserves. This is clearly recognized by von Kirchbach, and he points out that the balance of payments problem is most difficult for the more needy developing countries. As their social discount rate tends to be higher, they will accept the small benefit in terms of foreign capital inflows in the short run even though they have to tolerate negative long-term effects in the future.

The contribution of TNCs to tax revenue has been high — 4 per cent in the Philippines, up to 10 per cent in Thailand, and about one-third in Malaysia. In fact, TNCs' tax payments have been one of the key components in the value retained by the host country. The country studies indicate the limited effectiveness of tax incentives and the comparatively high cost in terms of public revenues foregone.

The contribution of TNCs' direct foreign investment to the transfer of technology is difficult to measure. Von Kirchbach uses the rapidly growing outflow of fees for licensing contracts, copyrights, management fees, and so forth as an indication. Not surprisingly, this trend has been particularly pronounced in countries with tight foreign ownership restrictions and with performance requirements in relation to TNCs' remittances. In the Philippines, for instance, such technology fees averaged 30 per cent of the total outflow of direct investment income between 1968 and 1977 and even reached 50 per cent in the late 1970s. On the other hand, von Kirchbach concludes that the objectives of the ASEAN countries' foreign investment policies have not always been sufficiently clear and realistic with regard to technology transfer. There has been a clear preference for large-scale prestigious projects and a rejection of second-hand machinery, although on economic grounds such policies could have been more enlightened.

One of the ways of reducing the dependence on foreign TNCs adopted by ASEAN countries appears to be a requirement for local participation of over 50 per cent. However, there are many ways of avoiding such regulations and maintaining control over subsidiaries without holding the capital majority, such as dummy constructions, technology contracts, revolving credit, marketing arrangements, suppliers credit, management contracts, and the supply of inputs. Overall, the country studies do not identify compelling economic arguments justifying the growing emphasis on local capital participation. In particular, the countries which are in a comparatively disadvantageous bargaining position *vis-à-vis* TNCs should, according to von Kirchbach, not waste their limited bargaining margin on ownership patterns, but should concentrate on the performance requirements of TNCs.

In general, von Kirchbach must be congratulated for having undertaken a very useful and thorough study of the role of TNCs in the development process in general and in the ASEAN countries in particular. The work was completed in 1981 and it is unfortunate that it has only just been published. In addition, this work would have benefited from thorough technical editing and typesetting. It is not understandable why a book of such magnitude, importance, and value in terms of previously unpublished material does not contain an index to assist the reader in finding the items he is most interested in. This is all the more important in a book which few people will

read from cover to cover. While the publishers may be congratulated for bringing out a book of this kind in what is, to them, a foreign language, distribution within Southeast Asia would have greatly benefited from publication in the region itself.

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The Malaysian Economy, Structure and Dependence. **By Khor Kok Peng.** Kuala Lumpur: Marican & Sons Malaysia Sdn. Bhd., 1983. Pp. x, 286.
Recession and the Malaysian Economy. **By Khor Kok Peng.** Penang: Institut Masyarakat, 1983. Pp. x, 89.

The first of these two books by Khor originated from a thesis which the author, now Research Director of the Consumers' Association of Penang, submitted for the degree of Master of Social Sciences at the Universiti Sains Malaysia in April 1979. The second is a revised and expanded version of a paper on "The Causes and Effects of the Current Global and Malaysian Slump", which the author presented at the Seventh Malaysian Economic Convention in early 1983. Both volumes complement each other to some extent, since the first describes the Malaysian economy in terms of dependency theory, while the second culminates in an "alternative development strategy", which Khor recommends to Malaysian leaders.

Both books are extremely well written and make for fascinating reading by the interested layman. But therein lies their intrinsic danger. Anybody without a grounding in basic economic theory can be easily dazzled by the forceful way in which Khor presents his arguments, chooses his terms, and selects his statistics, into believing the implied myth of a grand conspiracy by the developed countries of the West to subjugate the developing countries and in particular Malaysia by extracting "a large part of its economic income". Few will deny that Malaysia is a highly dependent economy in some sense. But to conclude from this that "a large amount of the country's economic resources is being channeled abroad principally to the developed countries" is obviously over-simplistic. An application of Khor's definitions and terminology to the Federal Republic of Germany, for instance, would have to conclude that the latter is at least as "dependent" as Malaysia, a fact Khor of course does not mention, even if he cannot have failed to consider it.

Dependence takes various forms, but according to Khor occurs in four main areas. "Direct economic dependence" is defined as "foreign ownership or control of various sectors and economic institutions in a country". "Trade dependence" is seen in the vulnerability to fluctuations of the export market, in the constraints to domestic investment caused by import leakages, in imported price inflation, and in the dominance of the developed countries over "invisible trade services" such as freight, insurance, packing, and marketing. The predominance of foreign banks and financial institutions gives rise to "financial dependence" while the reliance on grants and aids, which in turn leads to indebtedness of developing countries, is thrown in for good measure. Finally, "technical dependence" arises from the reliance of developing countries on "physical technology" and "intellectual technology" from the developed countries.

Obviously, "dependence" is an unfortunate phenomenon. But then, of course, so is the unequal international (and, one may add, internal) distribution of resources, wealth, and power. Recognition of these facts of life may lead one to indulge in some wishful thinking, but very little is to be achieved by merely decrying them. Khor himself is far too clever to explicitly draw the conclusions from his analysis that his readers are likely to infer in their enthusiasm for Khor's persuasive exposition. He