

ARTIKEL ULASAN/REVIEW ARTICLE

KHOR KOK PENG, THE MALAYSIAN ECONOMY - STRUCTURES AND DEPENDENCE*

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[The purpose of this article is to look at Khor's *The Malaysian Economy* in some depth. It is a serious book, raising serious theoretical and policy issues and deserves extended discussion. Khor argues that the aim of the book, which is an updated version of an earlier thesis, "... is to provide an alternative view of the structure of the Malaysian economy and the way it has been developing from the colonial period to the present". (page 1) The main focus of attention is on the dependent structures of the economy and the consequent loss in surplus which, Khor argues, provides an important (though by no means complete) explanation for the continued underdevelopment of the country, despite relatively high rates of growth. All of this is set out in the first page of the book, so the reader is very quickly given a firm idea of what the book is about.]

Khor's Dependency Approach

Khor adopts the four categories of dependence - direct, trade, financial and technical - identified by Tamas Szentes (1973), a Hungarian economist. Khor then attempts to measure the outflows or surplus from Malaysia under these four heads in both the colonial and post-colonial periods. In fact, most of the book (about three-fifths) focuses on the post-colonial period. I have attempted to summarise Khor's forms of dependence and the outflows of surplus associated with them in Table 1, but before I look at some of these in detail, I want first to make some comments of the general methodology both implicit and explicit in Khor's dependency approach and at the political implications which follow from such an approach. (insert Table 1 here)

The book is very much in the tradition of Paul Baran (Baran, 1957; Gunder Frank (1967 and 1981), Samir Amin (1976), and Immanuel Wallerstein (1977), in which the focus is on the external dependency of Third World countries in both the colonial and post-colonial periods. Applying such 'dependency' approach to Malaysia is not quite as novel as Khor suggests on his first page. Khor's is not the first 'dependency' study on Malaysia though it does provide a vivid contrast to most other economic studies of Malaysia, for the latter have usually confined themselves to looking at the

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MALAYSIA AND DEPENDENCY - A SUMMARY OF KHOR'S ANALYSIS

From of Dependence		Form of loss of surplus	
1. Direct	- foreign ownership of capital	- Outflow of profit	in colonial period (1939) estimated to be as much as a third of total output (p. 229)
2. Trade	- 'unequal exchange'	- Low wages in Malaysia gives rise to low price	
	- deteriorating term of trade	- loss due to falling price	
	- foreign monopoly of services, especially shipping	- high payments for services by Malaysia	
3. Financial	- foreign control of credit (especially in colonial period under Currency Board)	- devaluation of reserves and defence payments to colonial government	for 1982 estimated to be 40% of GNP - (28% in form of terms of trade loss) (p. 231)
	- reliance on foreign loans due to conservative policy (high reserves) of Central Bank		
4. Technical	transfer of technology	- royalty payments plus outflow of "profit" hidden by transfer pricing	
	- reverse transfer of technology ('brain drain')	- payments for overseas training and emigration of skilled labour	

so-called internal or sectoral aspects of the economy. It is in this re-orientation that Khor's book is undoubtedly welcome. But there is a danger of throwing the baby out with bath water. For, as Khor admits in his last chapter, the dependency approach is also limited (see page 245).

Some Limitations of Dependence Theory

It is limited because it does not connect with the 'internal' aspects of the political economy. As a result, in my view, it suffers from the same defects as the dependency approach, of Baran, Frank, Amin and Wallerstein. In this dependency approach, the outside world (the exploiting First and Second Worlds) have classes - the Third World doesn't. At most, the Third World is left with what Frank has called a 'Lumpenbourgeoisie'. In 1972, Frank admitted that the lack of class analysis in his works was a deficiency (see Frank, 1972, 10), but he has since done nothing to rectify it (see the critical article by Bernstein and Nicholas, 1983). This lack of class analysis implies that little change has taken place in the 'South' even after the emergence of a large number of politically independent countries in the 1950's and 1960's. It was to this somewhat static analysis on the Third World that Bill Warren reacted - perhaps overreacted - in his book *Imperialism; Pioneer of Capitalism* published in 1980 after his death. Warren argued that, even with Imperialism, there had not only been growth in the Gross Domestic Products of Third World countries but there had also been progress in such 'social welfare' measures as life expectation and literacy.

Warren's criticisms have been useful in raising the following question: why has it been necessary to resort to monopoly to explain the unevenness of development between capitalist nations, whereas the uneven development of capitalism within particular national boundaries has been analysed on the basis of class and capitalist competition? (see Anwar Shaikh, in Nell (ed), 1980, 211). The question that immediately follows from this is: is it possible to accurately analyse the development process of a Third World country by using the same methodology as that used elsewhere? My answer briefly is - yes.

I believe that the good test of a theory is how good a guide to action it is; and furthermore that the best guide to action is given by a 'political economy' approach, which provides an analysis of the way in which the class structure of a particular society is shaped by, and shapes the relationships with 'one class constituent, namely "foreign-based capital"'. This is true whether the analysis is in the Malaysian, British or any other 'national' context. Khor's study does not provide such an analysis. Nevertheless, as I emphasised earlier, his book is welcome. It is welcome because it is a rare dependency study of Malaysia, and as such is healthy in providing an antidote to the more or less completely classless or orthodox 'analyses' of the

re-gerast
Malaysian economy ranging from David Lim's *Economic Growth and Development in West Malaysia* (1970) to the collection of articles edited by Iskandar and Osman-Rani and published last year (1983).

Dependency and Other Schools of Economics

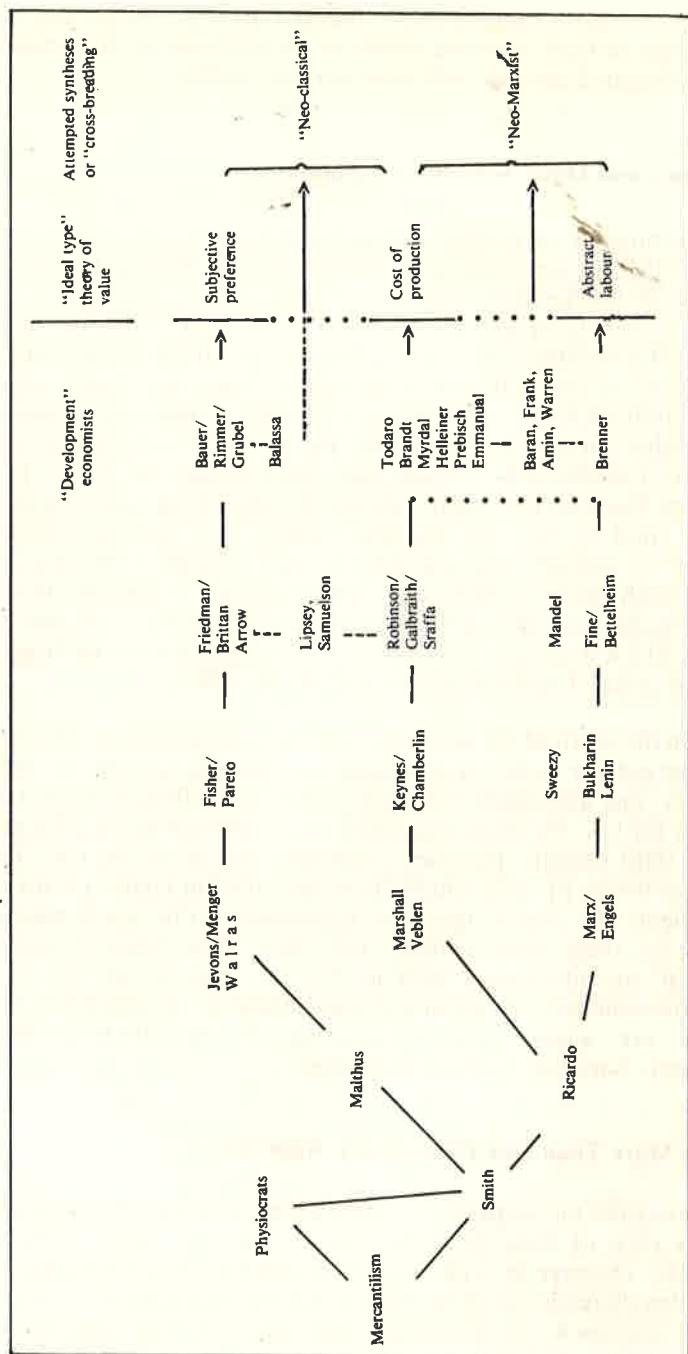
Unfortunately, as Gabriel Palma pointed out in a review of dependency theory; "... the contribution of dependency has been up to now more of a critique of development strategies in general than an attempt to make practical contributions to them" (Palma 1978, 882). Thus, the main contribution of dependency has been to encourage further studies which have been critical of the orthodox approaches. Note that I say approaches because, unlike Khor, I think that it is possible to distinguish quite clearly two orthodox approaches - what may be called the 'subjective preference' and 'cost-of-production' schools (see the summary in Figure 1). These schools are based on particular theories of value or 'causation' and are 'rationalist' (that is they are logical), 'realist' (i.e. refer to contemporary evidence) to support their arguments, and 'activist' (advocate coherent policies which appeal to particular interest-groups or classes). In referring to the orthodox approach, Khor is presumably referring to the neo-classical synthesis which is dying a slow death after being shown to be illogical during the so-called 'Capital Controversy' of the 1960's.

From the death of the synthesis, and the associated crisis of economics, there emerged (or rather re-emerged) two distinct schools of 'orthodox' economics, one associated with such writers as Galbraith in the USA and Kaldor in the UK, the other associated with Friedman in the USA and Alan Walters, until recently Thatcher's economic adviser in the UK. The third school' or theory of value which I have identified in Figure 1 is the abstract labour theory. Of course, not every economist can be neatly pigeon-holed into one of these three schools, but these ideal types to provide the theoretical and ideological back-up for the interests of the owners of capital, the managers of capital and wage labour or the peasantry. Politically, they are aligned with 'Conservative', 'Social-Democratic' and 'Democratic Socialist' political groupings.

There Is More Than One Dependency Approach

It is beyond the scope of even such a long review as this to go into more detail on each of these three theories of value (for more, refer to *Why Economists Disagree* by Cole, Cameron and Edwards 1983). But the purpose of this digression is to emphasise that the dependency approach is not the only approach in economics that one can find coming from the political left.

FIGURE 1:
THE HISTORICAL DEVELOPMENT OF ECONOMIC THOUGHT



Indeed some dependency writers, such as Cardoso, have even talked of a number of dependency approaches, with the methodology adopted and popularised by what Cardoso calls the "North American current" being a distortion of earlier dependency studies (see Cardoso, 1977). Cardoso has argued that the earlier studies put much more stress on the class structure in the 'dependent' countries, and talked much more in terms of 'Dependent-associated Development' (for a recent example of a study in this tradition, see the book on Brazil by Peter Evans, 1979). In its emphasis on the class structure within the dependent countries, this approach is clearly closer to a more dialectical, political economy approach.

But Khor Kok Peng's book is much more in tune with the North American approach of Baran, Frank, Amin and Wallerstein, in which surplus is conceived of as a physical surplus fought over at the level of distribution. By contrast, the approach based on an abstract labour theory of value argues that surplus is created within production, but only realised and appropriated through the market. Although perhaps a difficult distinction to grasp, this is a politically important one. For it follows from the abstract labour approach that both the extraction and appropriation of surplus value within capitalism are by no means obvious. For in capitalism, as opposed to pre-capitalist or feudal societies, workers are not obviously forced to work for no pay. The surplus is not extracted through the direct use of force, as it was (or is) in a tributary or feudal economy.

Instead, in capitalism, commodities tend to exchange at their values and this is true of all commodities, including the labour-power which workers sell to the controllers of the offices, factories and plantations. Labour-power is sold at its value, which is the value of the wage goods consumed by the worker and his or her family. But in general, labour-power produces more value than it is paid for, the difference being the source of surplus. Although it is extracted in production, surplus is distributed through the market, through the tendency for the rate of profit to be equalized, which in turn results from the relentless search by capital for profit, the source of its survival. As a result of this realisation of surplus through the market, surplus takes a value form. Thus labour is socially abstracted through the market.

All of this seems and is a complicated process, which is why it can be said that: "All science would be superfluous if the outward appearance and the essence of things directly coincided". The essence of the capitalist system is hidden by the price forms of the anonymous market place, so that capitalists as well as workers can be deceived. The appearance is one of quality since all commodities tend to exchange at their values - and so the relations between people appear as relations between things.

Dependency - Further Criticism

The contribution of dependency theory - here I refer to the North American current - has been that it has attempted to dig beneath this appearance of world capitalism. At the same time, however, its limitation has been that it has done little more than scratch the surface.

This is not a case of mere theoretical nit-picking. The distinctions between the dependency synthesis and the abstract labour theory are politically vital. For if, as in dependency theory, capitalism is largely analysed through market processes, the abolition of capitalism would seem to be through the abolition of the market. Spatial autarky (national socialism) would seem to be both the means and end of socialism. This is, I think, where dependency leads. Whereas if capitalism is defined as the control and accumulation by a few of the factories, plantations and other means of production with which the many have to work, then the abolition of capitalism would seem to be based on a fundamental redistribution of power to the direct producers. This is the path of abstract labour theory. Its policy and political conclusions differ from those of the dependency theorists, because the methodology is different. For the abstract labour theorists, class is the fundamental division in capitalism, while for the dependency theorists, the country is the primary unit of analysis. Those who see class as the primary division do not deny that the nationalism may be an important component of a strategy leading towards socialism, but they deny that this is the goal, that this is socialism.

The tendency is for dependency theorists, and Khor is no exception in this respect, to view capitalism as monopolistic in both the economic and political spheres. This is, as Warren pointed out in his *Imperialism; Pioneer of Capitalism*, a legacy of an earlier pamphlet entitled *Imperialism* written at the time of the First World War. Since that time, the term "monopoly capital" has often been applied to the economic as well as the political sphere. This is unfortunate because, although capital is not atomistically competitive as claimed by subjective preference theorists, it is, nevertheless, competitive. Indeed, it is precisely because of the accumulation of capital and the war-like fight by capitalists for surplus value that the capitalist system is prone to crises brought on by the tendency of the rate of profit to fall. Thus, there are important differences between the dependency and the abstract labour approaches. The differences are important not because they lead to Ph.D. theses, but for their political implications. Some of the major differences which I have been discussing are summarised in Table 2.

Dependency - Policy and Political Implications in Malaysia

If these differences bore you or seem irrelevant to a review of Khor, particularly

TABLE II
SOME CONTRASTS BETWEEN THE COSTS-OF-PRODUCTION,
'DEPENDENCY' AND 'ABSTRACT LABOUR' APPROACHES

	Theory of value		
	"cost-of-production"	"dependency"	"abstract labour"
Surplus identified in:	direct or 'physical' form	direct or 'physical'	value form
form			
'Classes' defined at level of:	market distribution	market distribution	means of production
Power structure			
identified at			
level of:			
(a) economy	imperfectly competitive	monopolistic	corporately competitive
(b) politics	imperfectly competitive ('pluralist')	monopolistic	monopolistic (ruling class dominant)

Kok Peng's book, it may be useful to look at Khor's discussion of the policy issues which arise from his approach. He discusses these in Chapter 15 of *The Malaysian Economy*. As stated above, the obvious policy which results from a dependency approach is one of self-reliance. But Khor casts doubt on such a policy. On page 239, he states that "It is ... pertinent to note that recognition of the high costs of dependence does not imply a recommendation to completely cut off the country's economic links with the rest of the world". Thus the argument is one of reducing dependence. As Khor puts it; "... the issue is what can be done to reduce the costs of dependence in the short-run and to eradicate the sources of dependence in the long-run, while at the same time improving the living standards of the people" (page 239).

If such a policy means the strengthening of national capital, then this may be progressive as a nationalist means to a socialist end. But a more fundamental redistribution of power is, I believe, a necessary objective if the living standards of the majority of Malaysians are to be improved, particularly if that improvement is defined in relative terms, which is what

Khor implies when he refers to equality and inequality. If the ultimate objective is seen as a more complete democracy, in which the control of land and machines, as well as the political system is equalised, then it may be misleading to pose the policy issues in terms of export promotion (of, say, textiles and transistors) or of import substitution (of, say, cars or condensed milk) in the way that they are posed by the orthodox schools. Instead, the focus should be on import substitution or export promotion with what organisations (that is, companies or cooperatives.)

Khor, on page 244 of his book, states that "the proper balance between the export and domestic sectors and the correct 'mix' of crops and of foreign and local investments will, of course, be difficult to decide upon. The difficulties include unknown factors such as the relative economic returns obtainable in future from the different crops. For instance, rubber is presently more profitable than rice (acre for acre)". But this reasoning reveals his fundamental units of analysis, namely commodities and country, rather than the alternatives of control and class. When considering issues of equality, inequality and the living standards of the Malaysian people as a whole, the question is less one of estimating the profitability of rubber or rice than of considering to whom the activity is profitable. The limitation of dependency analysis is exposed by the way in which Khor poses the strategic (or policy) questions.

In Malaysia, in the 1960's phase of consumer-goods import substitution, when a high level of tariff protection led to limited industrialisation together with high profits and/or waste, there was growing inequality. This growing inequality could be blamed on dependency, in the sense that much of the investment in import substitution was made by foreign capital with the profits accruing to foreign companies (see Edwards 1975). Then, in the 1970's, the promotion of exports from Free Trade Zones was also accompanied by increasing inequality. Again, it can be said that this was due to dependency in the sense that the investment was dominated by foreign capital. But, more recently, since the mid-1970's, there has been a growth of investment by state capitalist organisations, namely the public authorities and 'off-budget agencies' (such as Petronas, MAS, MISC, Malaysian Highway Authority, HICOM, UDA, etc.). Again, there is little sign of growing equality, except in the limited sense of producing a parity of ringgit millionaires - i.e. as many Malay millionaires as there are Chinese.

Is this lack of equality in the present 'state capitalist' phase due to dependency? The answer is yes, but only in the limited sense that foreign capital can still be said to dominate Malaysian capitalism. But the limitation of the dependency approach is that its methodology puts country before

ss and commodities before control - and the approach has difficulty in
ing the development of capitalist accumulation and the associated
anges in class and communal relations.

Thus, it is important to look at the *changing nature* of foreign domina-
n. British-based capitalism has been declining in the past 25 years with
rising strength of Japanese-based capital. This applies not only in
Malaysia, but in the world economy generally. As a result, the 'Look East'
policy has simply been an additional nail in the coffin of British capital. I
come back to this point later, but, before doing so, I want to look at some
the details of Khor's book.

Some Detailed Comments on Khor's Book

Up till now, in this review, I have been commenting on Khor's general
methodology. Now I want to make some brief comments on detailed
pects of Khor's study. These concern:

his calculations of the "losses" in the post-colonial period arising
from a deterioration in the terms of trade;

his estimates of the "losses" due to Malaysia's financial 'dependence'
in the post-colonial period; and

his arguments relating to the "losses" due to the cartelisation of ship-
ping.

The Terms of Trade "Loss"

For 1982, Khor Kok Peng estimated the outflow of surplus from
Malaysia to be 40% of national income. Even this large proportion was, he
repeated, an understatement of the outflow since it did not include the
outflows hidden by "transfer pricing" and "unequal exchange". I come
back later to the issue of "transfer pricing", but here I want to focus on the
alleged loss arising from Malaysia's deterioration in the terms of trade.
Khor argues that, in 1982, the loss for Peninsular Malaysia due to the
deterioration in the terms of trade amounted to just under \$6 billion,
equivalent to 28 per cent of 1982 national output (pp. 230/231). To put this
another way, if Peninsular Malaysia's export prices had kept pace with im-
port prices since 1959, the 1982 national income would have been 28%
higher. Khor then went on to argue that: "Assuming the extent of the loss
is the same for Malaysia as a whole (i.e. 28% of the GNP), the surplus
transfer would amount to \$16,305 million at current prices" (p.231).

There are two grounds on which I question this analysis. Firstly, the "loss" is hypothetical. In the sense that the calculations are based on a comparison of the actual prices with a somewhat arbitrary alternative. The alternative of constant prices is arbitrary because, using rubber as an example, the price has fallen (relative to other commodities) because the productivity of rubber production has risen. The synthetic rubber industry was promoted by the US government towards the end of the Second World War, and, having been that initial boost, has continued to expand without subsidies and despite the rise in oil prices in the 1970's (see Edward, 1982). Thus the post-war fall in the price of rubber is not due to the low wages in the natural rubber plantations but rather to capital accumulation in the synthetic rubber industry. So in what sense is this a "loss"? It is clearly hypothetical in the sense that it is comparing the actual situation with an alternative in which the synthetic rubber industry does not exist.

TABLE III
THE BARTER TERMS OF TRADE
- PENINSULAR MALAYSIA AND MALAYSIA - 1967 - 1982

Barter terms of trade		
(export price index divided by import price index) (1970 = 100)		
Peninsular	Malaysia ¹	Malaysia ²
1967	100	98
1970	100	100
1975	68	93
1980	95	117
1981	77	107
1982	71	105

Notes and Sources:

1. Derived from page 177, Khor Kok Peng, 1983. Khor's figures match those given in the Treasury's Economic Reports. His series (for which 1959 = 100) was converted to 1970 = 100.
2. Derived from the World Bank's *World Tables* for 1976 (p. 346) and 1980 (p. 324) and from the Malaysian Government's Fourth Malaysia Plan 1981 - 1985 (p. 24) and the Mid-Term Review of the Fourth Malaysia Plan (p.54).

But there is a second weakness in this terms of trade analysis to which I wish to draw attention. For, as already pointed out, Khor assumes that the terms of trade deterioration for Peninsular Malaysia between 1959 and 1982 applies to Malaysia as a whole. Any calculation for the period before 1963 is meaningless of course, because Malaysia did not exist until 1963, but even if our attention is focused on the period since 1963, it is not valid to assume that the deterioration in Peninsular Malaysia's terms of trade applied to Malaysia as a whole. Table 3 shows why. Although I have not been able to obtain figures for Malaysia's terms of trade from 1964 to 1966, the figures since 1967 show that whereas the terms of trade for the Peninsular Malaysia dropped 29 points from 100 in 1967 to 71 in 1982, the all-Malaysia terms of trade rose by 7 percentage points from 98 to 105. Does such an improvement in the terms of trade for Malaysia (and deterioration for the rest of the world) imply that the countries importing from Malaysia are suffering from their 'dependence' on the Malaysian economy?

The 'Losses' Due to Financial Dependence

The second detailed comment on Khor's analysis that I wish to make relates to the alleged "financial dependence" in the post-colonial period. This is discussed in his ninth and thirteenth chapters. One of Khor's arguments under this heading is that the official policy of giving priority to the building up of reserves has meant that Malaysia has remained dependent on relatively expensive foreign borrowing to finance much of its investment (see page 114). Khor points out (on pages 190 and 191) that, whereas in 1981 Bank Negara made a net profit of \$392 million on total assets of \$11,702 million, the interest payments on the Federal Government's external debt of \$1,738 million totalled \$630 million. He then points out that if these loans of \$1,738 million were paid off by running down external reserves by the same amount, the saving would be about \$375 million a year (page 191).

Here two points need to be made. *Firstly* the \$375 million profit of the Bank Negara is calculated after deducting the cost of running the Bank. Khor is not suggesting that the Bank Negara be abolished, so that these costs would continue to be incurred. Secondly, although Malaysia's Central Bank may err on the side of caution, it is extremely doubtful whether it could provide both the foreign exchange to finance foreign trade and the protection for the ringgit, if foreign exchange reserves were reduced by \$7.7 billion from the 1981 level of \$9.8 billion. As Table 4 shows, if that were done, the reserves would be only 6% of total imports compared to the present level of 110%. In other words, the reserves would cover only 22 days for imports compared to the present level 110 days. It is highly probable that, in such a situation, the ringgit would come under pressure and be devalued. Some of my banking friends in Malaysia might argue that this would be a better policy than borrowing to support the ringgit, but this is not Khor's argument.

3. The 'Losses' Due to Shipping Cartelisation

In general, the 'evidence' provided by Khor is consistent with his theory. But, in some cases, arguments are put forward which are not supported by data. One example, already given, concerns his assumption that the terms of trade for all-Malaysia moved in the same direction as the terms of trade of Peninsular Malaysia. This assumption was shown to be invalid. Another part of the book where scanty evidence is given (although its effect is less serious) is that part which discusses the "losses" due to the cartelisation of shipping. On page 109, Khor argues that a large share of the total Malaysian shipment is carried by Shipping Conferences and that, due to their near-monopoly position on certain routes, these cartels are able to charge freight rates at levels that earn them more than a reasonable profit margin. Now it may be the case that the shipping cartelisation gives rise to higher freight charges than would otherwise be the case in a more competitive market, but Khor gives no evidence to support his argument that the higher charges are reflected, not in waste (such as excess capacity) but in higher profits.

TABLE IV
MALAYSIA'S FOREIGN EXCHANGE RESERVES AND TRADE:
1967 AND 1981

	\$ billion		% of column (1) to column (2)
	external reserves	imports	
	(1)	(2)	
1967	1.0	4.1	24
1981 (actual)	9.8	33.1	30
1981 (after paying off the Federal Government's external debt of \$7.7 billion)	2.1	33.1	6

Sources: External reserves from page 118, Khor, 1983. Imports from page 87, Khor, 1983.

Despite these detailed criticisms it is worth re-emphasising the more fundamental point made in this review, namely that, although the book is a welcome change from the usual studies on the Malaysian economy, the dependency approach adopted has its limitations. But it is also important to emphasise that to criticise the methodology used is not the same as denying that British colonialism was imperialistic. Nor do I wish to deny that foreign-based capital is still dominant in Malaysia. It almost certainly is.

Thus it is important for pressure to be put on the Malaysian government to drive a hard bargain with foreign investors and suppliers of technology. For example, no study has been carried out in Malaysia on transfer pricing, and yet the "profits" remitted from Malaysia but hidden from view by transfer pricing may be considerable. Transfer prices refer to the prices at which goods and services are exchanged between subsidiary companies controlled by the same multinational holding company (MNC). These are likely to differ from the so-called "arms-length" prices at which the same goods and services would be bought and sold between independent companies. MNC's may have a variety of incentives for using transfer prices differing from "arms-length" prices - they may be able to reduce their total tax bill or they may be able to make profits at the expense of "minority" shareholders where, as in Malaysia, the MNC's control "joint ventures".

The possible "losses" from transfer pricing are considerable, given the degree of foreign control (as opposed to ownership) of the Malaysian economy. For example, if the transfer pricing averaged only 10% of all Malaysian trade (imports and exports), the loss in 1980 alone would have been about \$6 billion. If you think that an average figure of 10% is too high, refer to some of the examples given in a book on transfer pricing edited by Murray and published in 1981. However, in spite of transfer pricing being illegal in Malaysia, I think I am correct in saying that no study has been done, despite occasional concern being expressed by the government (see, for example, page 84, Khor, 1983).

A Brief Conclusion

Thus, because of the continued (albeit declining) dominance of the Malaysian economy by foreign capital, the dependency approach is a welcome change from the conventional 'internal' analysis of the Malaysian economy. But, though welcome, it is limited in its focus. For, in addition to the tributary nature of the British colonial power, it is important to recognise the broader political consequences of British Colonial rule. It is important to recognise the ways in which colonial control shaped the com-

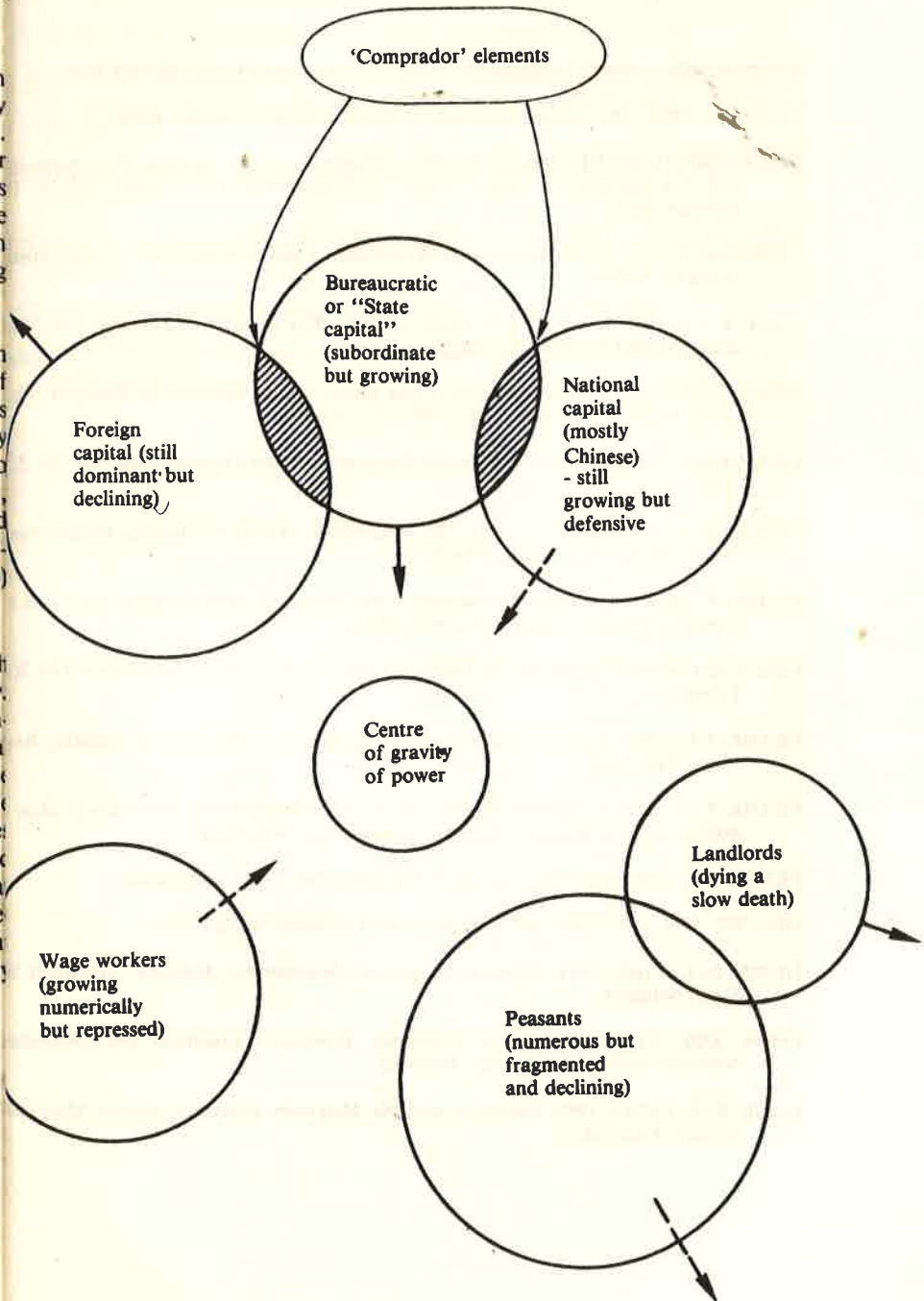
munist as well as class structure of present-day Malaysia. These effects are emphasised in the books by Stenson (1980) and Hua (1983); it is essential to understand them in order to understand the dynamic of capitalist accumulation in Malaysia.

Similarly, I believe that Khor's analysis is misleading when it leads him to say that "the relative prosperity of the Malaysian economy can be largely attributed to the abundance of natural resources" (Khor, 1983, page 234). For example, rubber was developed in Malaysia (and *not* in the many other sub-tropical areas climatically suitable) because, at the beginning of this century, the British state and British companies had gained control of the land and were in a position to import cheap (because desperate) labour from India. Climatically, of course, Malaysia was (and is) suitable for producing natural rubber, but that is far from the whole story.

Thus the methodology of dependency is, I believe, less than adequate in understanding the changing class structure and political economy of Malaysia. Schematically, and somewhat crudely, the present situation is shown in Figure 2. Thus foreign-based capital still dominates the economy but it is declining. It is declining in its control of the economy, but it also declining politically because of national divisions (British, American, Japanese, etc.) and to a lesser extent due to divisions between industrial and financial capital. Malaysian state or bureaucratic capital is becoming (slowly) more independent both of foreign capital and of national (private) capital. Nevertheless it still retains a strong, comprador, flavour.

And so, my brief conclusion to this long review is to recommend, with reservations, the book by Khor Kok Peng on *The Malaysian Economy: structures and dependence*. For, although I have argued that the dependency approach has several limitations in getting to grips with the political economy of Malaysia, Khor's book is a stimulating and provocative challenge to the orthodox books on the Malaysian economy. Briefly the limitations of dependency lie in its emphasis on distribution, commodities and countries and not on the social relations of production and on class and capital accumulation. Having said this, it is important to re-emphasise that to expose the limitations of dependency methodology is not the same as denying the possibility that nationalism *may* be a progressive strategy. But even if progressive, it is only a strategy - a means to the end of a genuinely democratic society with greater equality of power and control.

FIGURE II
CLASS AND POWER IN MALAYSIA - A SCHEMATIC VIEW



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