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Book Review — Digitized Version

[Book Review of] Haggard, Stephan: Developing nations and the politics of global integration: Washington, DC, Brookings Inst., 1995

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Suggested Citation: Langhammer, Rolf J. (1996) : [Book Review of] Haggard, Stephan: Developing nations and the politics of global integration: Washington, DC, Brookings Inst., 1995, Weltwirtschaftliches Archiv, ISSN 0043-2636, Mohr, Tübingen, Vol. 132, Iss. 2, pp. 395-396

This Version is available at:

<https://hdl.handle.net/10419/2214>

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all prospective investors expected the same tax rate. Some might expect that others will be taxed to protect them. The problem is that no one can be sure that a government that cannot meet all its contractual obligations will choose to honor one that protects a new investor's interests.

Resident and nonresident investment in a country where the government is in default is like being asked to buy a ticket for a bus that has half as many seats as riders with tickets. We would have to know a great deal about how such conflicts are resolved before investing in such a ticket. One expectation might be that the bus company will buy out passengers at a premium as is typically the case in airlines in the United States. Another is that the bus company really has plenty of seats and canceled a half-full trip in order to save money. In this case we would have to evaluate the factors that determine the company's willingness to honor its contracts. Another is that riders carry weapons and extort rides even if they haven't bought tickets. Another is that riders and bus companies value their long-run relationship and generally try to honor contracts. Another is that disgruntled ticket holders will mill around, lie in front of the bus, "fly" off with seats and tires and otherwise interfere with "normal" bus operations.

Each of the above *assumptions* about how conflict is resolved in international credit markets can provide the basis for understanding the events that followed the 1982 crisis. Each has quite different implications for the future. Cline's message is that as long as countries embrace good policies and do not intentionally default on their obligations international capital markets are their friends.

An alternative message is that international capital markets are subject to interest rate and other shocks that make external debt dangerous to countries that have limited abilities to raise the internal transfers required by large debts and changes in international prices and interest rates. Financial markets may not yield the hoped for efficiency when faced with periodically insolvent governments. The implication is that developing countries should limit external debt and discourage private external debt that the government might be obliged to acquire. The very high interest rates they might have to pay to finance their activities domestically provide the correct incentive for avoiding government deficits.

Readers will not find all the answers in this book but they will find a wealth of information and a clear and forceful discussion of one of the alternative interpretations.

Michael P. Dooley

Haggard, Stephan, *Developing Nations and the Politics of Global Integration*. Washington, D.C., 1995. The Brookings Institution. XXVI, 178 pp.

Since the mid-eighties we observe an unprecedented opening of developing countries' markets to international competition. Parallel to the beginning of the multilateral trade negotiations (Uruguay Round), many developing countries began to liberalise unilaterally ("shallow" integration), either under no pressure or when they faced unsustainable macroeconomic imbalances (structural adjustment). Others, mostly more advanced developing countries, went further to "deep integration" by co-ordinating policies either regionally with major developed countries (as in NAFTA), or multilaterally through actively participating in new issues such as TRIPs and TRIMs, or finally in a bilateral way by removing frictions between different corporate structures (as in the US Structural Impediments Initiative Talks with Asian countries).

Haggard's monograph encompasses the analysis of factors underlying these two ways of integration. After discussing the increasing pressure of both the OECD countries upon developing countries to abandon free rider behaviour in the GATT and the Bretton Woods Institutions towards stricter conditionality, he analyses the two options of integration separately for three developing regions: East and Southeast Asia, Latin America and a third, rather mixed group composed of ACP countries, other EC Associates (Mediterranean countries) and India. A final concluding chapter is devoted to an outlook on whether regionalism or multilateralism on the one hand and deep or shallow integration on the other hand will determine developing countries' future policies. An economist's comment by Sebastian Edwards complements Haggard's analysis from a developing country's perspective.

Though Haggard sees that outward orientation of developing countries has been driven by both internal and external conditions, his entire analysis focuses predominantly on the latter with a strong US bias. In his view, four external factors led developing countries to revise their resistance against market opening: the debt crisis of the early eighties, the tougher conditionality of the World Bank and particularly the IMF, the increasingly positive perception of OECD countries to retaliate against successful exporters from the developing world if their markets remained closed and, finally, the extended coverage of new important issues in the GATT and its successor, the WTO (TRIPs, TRIMs, services, rule discipline), which furthered the reputation of the international commercial institutions as a supporter of catching-up processes.

While the relevance of these factors cannot be denied, Haggard pays very little attention to important changes in the developing countries themselves (as Edwards correctly argues), for instance, the recognition of policymakers that without substantial reforms the control over the tax base could not be regained or the emergence of domestic "growth coalitions" against the blocking import-substituting groups. Given his US-centric view, it does not come as a surprise that he sees NAFTA as the only regional "deep integration" approach between developing and developed countries and thus regionalism not as central as many other scholars. Yet, this is misleading as it ignores recent events in Europe which explicitly embark upon deep integration, such as the customs union between the EU and Turkey and the Europe Agreements between the EU and the transformation countries as a pre-stage to deeper integration. What he also neglects are first endeavours to abolish the unsuccessful non-reciprocal aid type of "shallow integration" between the EU and the Mediterranean/African region and to replace them either by free trade arrangements (after the EU Barcelona summit) or MFN treatment with financial transfers (phasing out Lomé IV after the year 2000).

He is right to argue that the WTO can be expected to be of increasing importance for the advanced developing countries and that multilateralism will therefore have much more appeal due to the larger scope of issues and the extension of rule discipline to hitherto excluded sectors like agriculture and textiles. But this does not degrade the parallel avenue of regional "deep integration" between OECD countries and neighbouring lower-income countries if the latter can diminish OECD countries' welfare by negative cross-border externalities and if such regionally limited effects can be better contained by deep than by shallow integration.

Haggard's monograph is an insightful analysis of driving external forces of stronger developing countries' commitments in international economic policy co-ordination putting an end to freeridership. Yet, to be more balanced, it requires both an economist's view on internal changes in developing countries and a companion piece on recent institutional changes in Europe.

Rolf J. Langhammer