



THE CLASH OF GLOBALIZATIONS

Essays on the Political Economy of Trade and Development Policy

Kevin P. Gallagher

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Reviewed by Vuyo Njokweni (Research, Gauteng Provincial Legislature)

Trade politics have traditionally been mainly shaped by domestic concerns. In this collection of essays, Kevin Gallagher explores the extent to which “global trading regime [is] reducing the ability of nation-states to pursue policies for financial stability and economic growth, and ... the political factors explaining such changes in policy space over time, across different types of treaties and across nations” (1).

The vastly different political-economic projects of the developing and the developed world have set the scene for a “clash of globalisations”. Readers of this book should heed Ha-Joon Chang’s prescient statement that “economics is a political argument” – this goes to the heart of the conceptualisation of global trade. At play between developed and developing countries are issues of investment, competition, transparency in government procurement and trade facilitation, otherwise known as the “Singapore issues”. In fact, these have had severe unintended effects on the political autonomy of developing economies.

The thorny issue of the merits or demerits of capital controls is clinically addressed. While conventional economic

theory suggests that capital controls do not have any redeeming features, given their constraining effect on the ability of firms to access and raise capital. But without capital controls, how are developing countries to survive speculative attacks, bubbles and market crashes? Are there reliable policy instruments to circumvent these vagaries? Seemingly, it is a double-edged sword of “damned if you do, damned if you don’t”. Capital markets are not perfect.

The degree of policy leverage that countries can exercise is not only confined to World Trade Organisation (WTO) regulations. The book neatly deals with other constraints encountered by countries deploying capital controls, and is decidedly in favour of capital controls. In the absence of independent monetary policy, capital controls become the necessary antidote for developing countries to manage price stability and output growth. However, the book makes a strong case for capital control under the following conditions: where controls are on capital transactions and not current transactions; and where there are committed financial services as required by the World Bank and the General Agreement on Trade in Services (GATS).

One would have appreciated an exhaustive analysis of alternatives to the WTO, bilateral investment treaties (BITs), free trade agreements (FTAs), World Bank and the GATS in the form of BRICS trade policies and their implications. The rise of BRICS has fundamentally changed the international trade narrative that

used to be dominated by the developed economies. For example, recourse to FTAs between China and its counterparts in the developing world would probably lead to a different conclusion.

Another prickly topic addressed in the book is the practice of bailouts, which, in the opinion of the Gallagher, pose systemic risks such as moral hazard. This is resonant with Hamlet’s injunction to “neither a borrower nor a lender be, for a loan oft loses both itself and friend. And borrowing dulls the edge of husbandry”. The discussion of sovereign debt restructuring is also well timed. In its current form, it literally amounts to a takeover of the debtor nation’s economy. Gallagher aptly states that “sovereign debt restructuring could be interpreted as constituting a direct or indirect expropriation”. The book convincingly concludes that the vulture funds that have been used to pursue debtor nations have not been fair – let alone efficient. Greedy creditors or vulture funds from the developed world created perverse incentives to the detriment of the developing countries, confirming an existing consensus among some leading scholars that there is a need for a new mechanism for sovereign debt restructuring. The lack of collective action to further the interests of the developing countries over the past thirty years is isolated as a major contributor to the lack of policy space for developing countries to pursue their interests.

Overall, the book provides essential nuggets to consider the political economy of trade for policymakers. [NA](#)