

Globalization in the 1990s

By Roman Terrill

What does "globalization" mean? The word, of course, has many meanings, definitions, and descriptions. Given the real impact of globalization in your communities, debating and discussing its many manifestations is not merely an academic exercise. The IMF (and the World Bank) knows this. After all, it is a global institution in charge of global surveillance of economies. What really concerned the IMF and policymakers worldwide in the late 1990s was that frequently the media explored, and people were more likely to talk about, the negative meanings, definitions, and descriptions of globalization. Part Three will help you understand various positive and negative aspects of financial globalization, especially in the context of the Mexican and Asian financial crises. Although we will address both the World Bank and the IMF, much of our discussion will focus on the latter.

In this section we provide a background to help you appreciate how economic and financial globalization affects you personally (both in the short term and in the long run), and how it affects the structure and operation of your country's government. The first part will describe key aspects of globalization in the late 1990s, such as increased international trade and financial flows, which have enabled people and businesses in other parts of the world to have a real and sometimes immediate impact on your life, and vice versa. In many cases, globalization required painful and unwanted adjustments in local communities, ranging from loss of jobs to changes in deeply rooted customs and values. The IMF and policymakers worldwide were fully aware of the negative aspects of globalization in the late 1990s. But they believed—and they wanted you to believe—that the benefits of globalization outweigh the costs.

In the second part of this section, we will describe the globalization of the movie industry to help you understand the significance financial globalization had in the late 1990s. Using the movie "Titanic" as an example, we will demonstrate that globalization promoted business enterprise and produced exciting products for consumers around the world. But this resulted in "cultural hegemony," that is, the gradual spread and dominance of ideas, tastes, and styles from a society in another part of the world—in many cases the United States.

Like the movie industry, financial globalization produced significant opportunities for businesses and investors as well as provided borrowers with sophisticated financial

products. But these benefits, made possible because of a reduction in government regulations, came with a price: Financial globalization required countries—perhaps yours—to adopt painful and sometimes unwanted economic and political reforms that reflect the views and values of other countries, particularly those of the United States.

A. The Marketing of Globalization: Is Globalization Really Worth It?

1. Globalization Usually Refers to the Declining Significance of National Borders Brought About by Increased Trade, the Spread of Information Technology, Cross-Border Financial Flows, and Cultural Transfers.

When government leaders, business people, and members of the media refer to globalization, it is safe to assume they are referring to the declining significance of national borders in the operation of national economies. Several forces contributed to this phenomenon.

One factor relates to increased trade throughout the world resulting from reductions in trade barriers, such as tariffs (a tax) or quotas (quantitative limits) on imports. The rapid increase in trade between countries has allowed companies to sell to customers all over the globe. Increased trade has also provided consumers with a wider selection of goods and services than would otherwise be available if their choices were limited to domestically-produced goods and services.

Technology transfers have also contributed to globalization. Improved technology, especially the rapid spread of computer technology, has accelerated the flow of information across, and often without regard to, national borders. A steady, reliable flow of information is an important predicate for cooperation among companies and other institutions from different countries.

Globalization is also tied to accelerated economic integration through private cross-border financial flows. Whether it's BMW and Mercedes Benz constructing factories in the southern United States, or U.S. pension fund managers investing billions of dollars in Mexican or Thai stocks, the economies of individual nations have become increasingly integrated because of private, cross-border financial flows. The nature of these financial flows during the late 1990s will be discussed at length in the following sections.

Cultural transfers that have given consumers "global tastes" also contribute to globalization. The three factors we have just described encourage or permit cultural transfers, accelerating the demand for cultural imports, ranging from movies (which you will

read about below) and music to fashion and food.

The net result of globalization is the steady reduction of government involvement in national economies. For example, governments own and operate fewer industries. They are reducing and in some cases abolishing price controls for goods and services consumed in their countries. And they are lowering, if not abolishing, barriers to imports of goods and services and permitting greater foreign investment. These "liberalizations" have allowed "the market" to operate more freely than it has throughout most of the century. This, in turn, has caused a convergence of domestic regulatory systems or global integration.

2. The Media's Coverage of Globalization Issues is Likely to Contain Painful Stories about Globalization.

Although academics frequently wrote about the positive aspects of globalization in the late 1990s, such as increased economic efficiency for individual countries and the global system, the popular media were likely to describe globalization's negative side, using stories that many of us can relate to. Let's look, for example, at a two-part series in the New York Times in the late 1990s regarding globalization's effects on the poor in Brazil and Argentina.

The article on Brazil introduces us to a country that, in terms of broad economic statistics, had undoubtedly benefited from the forces of globalization in the late 1990s. The article's principal point is that while certain groups of Brazilians have benefited, others have definitely suffered. On the one hand, privatization of formerly state-owned industries will earn the Brazilian government billions of dollars. On the other hand, former employees of those same privatized industries have formed what the paper calls "militant" organizations. These organizations openly contested the "neo-liberal" forces of globalization by organizing laid-off and unemployed workers around socialist principles. The article recognized that globalization benefited certain industries and regions of Brazil during the late 1990s, but it warned that unless the benefits are spread more evenly among social groups, political instability will threaten the sustainability of Brazil's economic "success."

The article on Argentina introduced the reader to a country aggressively pursuing the benefits of a global economy during the late 1990s. Many of its state industries were privatized. Foreign corporations were building factories and warehouses in Argentina at a rapid rate. New shopping malls were constructed and filled with glamorous products from around the world. New investments were reported daily. Once again, however, the article recognized these "achievements" but focused more on the unemployed and the poor, who

blamed globalization for their predicament. We are asked to consider the plight of a 53-year old steelworker who was laid-off following the decline in contracts with the government. He was too young for a pension, but too old to be re-trained for a job in the "global economy."

3. The IMF Believed More Should be Done to Explain Globalization, Especially Its Positive Aspects.

In the late 1990s, the IMF believed that since globalization was a positive economic and financial trend, it should be encouraged, not resisted. However, as manifested by countless press accounts and public protests, the IMF knew that many people around the world did not share its optimism about the phenomenon. Thus, it called on member governments to conduct a public relations effort to persuade the citizenry that globalization is a positive force. Its 1997 Annual Report reflected the importance it placed on people's perceptions of globalization, and reflected its efforts to see that those perceptions are positive. Here is a quote from the report, with a portion italicized to indicate why the IMF was concerned about globalization's reputation during the late 1990s:

Directors [of the IMF] agreed that globalization had contributed enormously to global prosperity. Countries aligning their policies with the forces of globalization by embracing reforms, liberalizing markets, and pursuing sound macroeconomic policies had generally fared well. Directors stressed that the challenge to governments was not how to resist the forces of globalization but rather how to enable their economies to benefit from these forces. Although globalization might adversely affect employment opportunities and wages in some segments of society in the short run while the economy adjusted, it had not been the principal force behind the unfavorable developments in employment and income distribution observed in some advanced economies.

Board members noted that governments should have made greater efforts in the late 1990s to explain what globalization did and did not do. Public debate often focused excessively on perceived negative aspects of globalization, especially the presumed adverse effects on employment and real wages, particularly of the low skilled.

This passage reveals that the IMF was mindful that people often associate negative economic conditions with the forces of globalization. This prompted the IMF to stress a proactive approach to the issue. The Fund believed that once provided with all the information regarding globalization, people will be convinced of its benefits and will tolerate what the Fund believes to be its temporary costs.

B. Hollywood as a Metaphor to Understand Major Aspects of Financial Globalization during the Late 1990s

It requires no special skill or knowledge to understand the significance of financial globalization during the late 1990s. You do not have to be a sophisticated investor, a banker, a financial analyst, an economist in your country's finance ministry, or a bureaucrat at the IMF. Financial globalization can be understood by explaining aspects of a "product" you have probably consumed at one time or another in your community - movies. In the next few pages of the E-Book, we will use the movie industry to help you understand why the IMF and world leaders, during the late 1990s, constantly referred to the "unique challenges and opportunities of an increasingly global economy."

1. The Global Screening of "Titanic" Increased the Studio's Profits Tremendously.

The Hollywood film "Titanic" grossed over \$1 billion in worldwide ticket receipts. Like other major U.S. films, "Titanic" generated nearly half of its ticket revenues, around \$500 million, from moviegoers outside the United States. The cost to the studio of making and then marketing "Titanic" was around \$300 million. From these facts, one can easily see the financial benefits of a global economy to the American studio that produced and markets the film. Had they shown the movie only in the U.S., "Titanic" would have made a profit of (only) \$200 million. The ability to sell "Titanic" abroad allowed the studio to make a whopping \$700 million in gross profit.

2. Without Substantial Foreign Receipts, "Titanic," a Highly Acclaimed Movie, May Not Have Been Produced.

There is another less obvious benefit of a global audience for films than the enormous amount of money "Titanic" made for the Hollywood studio. It is quite realistic to assume that, absent the ability to market "Titanic" abroad, the film never would have been made in the first place. Before production on the film began, the predictions of its U.S. ticket receipts were not nearly as high as they turned out to be. If the movie had to rely on U.S. ticket receipts alone to cover the huge cost of making the three-hour film, it likely would not have been made at all. The prospect of a global audience, therefore, justified the investment in the big-budget film. In other words, people in Ohio never would have seen "Titanic" unless the studio was confident that people in Oslo would be willing and able to see it as well.

The principal benefits of globalization in the example of "Titanic" were the prospect

for greater profits for the company that made the film, and the prospect for "bigger," more technically spectacular films for the average movie-goer. But were there any drawbacks to the globalization of the movie industry? In other words, did the global marketing of "Titanic" pose any tangible harms or problems? Some very vocal French citizens would answer yes.

3. Globalization of the Movie Industry May Have Resulted in Hollywood's Cultural Hegemony.

The example of "Titanic" provides a good illustration of the problems the global market for films may have had in the late 1990s. Some European observers pointed out that only the Hollywood studios have the distribution networks (agreements with theaters in nearly every country to show the studios' films) that allow them to justify such enormous budgets. While Hollywood benefited from the globalization of movie audiences, a film studio in France cannot, because no U.S., or Mexican, or even Belgian theater will show its film. The benefits of a global film audience were not accessible in the late 1990s to the vast majority of countries, whose film studios could not afford to create a global network of distribution, and whose films probably would not be marketable to a world-wide audience anyway, because they were not made in English. The concern is that with every new "Titanic" swallowing up the limited amount of money movie-goers have to spend, there is a risk that there will be fewer movie-goers in France with any money left to spend on French-made movies.

The French government responded to the threat American films pose to the French film industry by subsidizing (or protecting) its domestic industry. A portion of the receipts earned from American movies shown in France was designated to fund French cultural projects. Furthermore, a fixed percentage of movie screens nation-wide were reserved for French films. This drove up the costs for the American studios that now must compete for a limited number of screens to show their movies.

The subsidy to French filmmakers was in jeopardy of being ruled invalid by the World Trade Organization (WTO), an international trade organization that enforces trade agreements and monitors trade laws world wide. A late 1990s multinational agreement on the liberalization of intellectual property laws, the U.S. government, and indirectly the politically powerful Hollywood lobby, pushed the WTO to rule this French subsidy an unfair restraint on trade. During this time, the U.S. contended that through free and open trade, moviegoers worldwide would be able to view the movies of their choice, and the

makers of those movies would prosper. Filmmakers who make movies that people do not want to see will fail. The French responded that only the U.S. benefits from the global movie market, and, more importantly, that without its subsidy for French films, a critical aspect of French culture was at risk of being lost.

One response to France's concern was to dismiss it entirely. So what if French filmmakers cannot make a movie that anyone other than the French cultural elite would care to see? Why should French citizens, who earn their euros honestly, not be able to spend their money on "Titanic" if they so desire? If French filmmakers want the benefits of the global marketplace for movies, then they should develop a global distribution network like the Hollywood studios have, and they should start making movies that a global audience wants to see. If that means the French have to start making films like "Waterworld," "Jurassic Park," and "Titanic," then so be it.

Despite the economic logic of the pro-market argument, arguments favoring the preservation of culture cannot be ignored. Should an informed citizenry have the right to choose whether the benefits of having access to perhaps technically superior American movies truly outweigh the harms that that access might have on their domestic film industry? In other words, appreciating the likelihood that, if given the choice between seeing "Titanic" and "Les Miserables," the average French person would choose "Titanic," should the French be able to consent to having that choice taken from them? And if they do choose to deny themselves the economic choice to see or not see "Titanic," should an international institution like the WTO be able to re-impose it on them?

4. Films and Finance: The Globalization of Each Industry Creates Similar Issues.

If, at this stage, you understand the issues presented but are not sure how you would answer some of the questions, then you are capable of understanding the concerns of individuals, communities, and countries about the globalization of financial systems. The same themes raised in the "Titanic" example came up in the discussion of the global financial system during the late 1990s. Financial globalization provided borrowers worldwide with greater access to less expensive and potentially more sophisticated forms of capital than otherwise were possible. It also provided powerful financial institutions and investors more opportunities to make increasingly large profits on their investments. But, as in the "Titanic" example, many have questioned whether unrestrained access to foreign, or global, capital is worth the price.

Financial globalization occurred largely because countries around the world have "liberalized" their economies. Broadly speaking, this means that they have reduced or eliminated state ownership of industries and reduced or reformed the regulation of their economies. These reforms attracted investors from around the world who believed that such reforms would lead to short- and long-term economic growth. The money these investors brought to these countries helped stimulate economic activity.

Some argued that the reforms required to attract foreign investment, such as massive reductions in government spending and government employment, caused serious harm to certain communities and domestic industries. And increasingly, as global investors and the IMF demand ever more stringent "liberalization" policies to secure the flow of investment money into the country, leaders question whether the benefits of financial globalization are worth its costs. Just as the global audience for films raised concerns that the commercially-dominant film studios of Hollywood would force other countries to make movies "the Hollywood way" in order to survive, there was increasing concern that financial globalization was forcing countries to adopt economic and political reforms "required" by the dominant players in the financial markets, the U.S. in particular. The reforms have been so profound that citizens in these countries have witnessed a fundamental change in the social, economic, political, and cultural make-up of their countries.

Emily Marriott, a UICIFD staff member, contributed to the 2007 update.