

International Political Economy

Analyzing the effects of politics on business and markets.

In this Issue:

IPE, Volume 6, Number 20
October 25, 1999

Political Watch

by Marvin Zonis

Americanization, Globalization, and the Disruption of Traditional Culture: Should Business Care?

Americanization is already pervasive and increasingly likely to be diffused throughout the world. It presents huge opportunities as well as risks. While the long-term results of Americanization will be positive for economies, states, and societies, the immediate consequences can be inimical to the interests of business. "Sense Making Crises" often follow from the disruptions of cultural competition. It is incumbent on businesses that are frequently the most effective communicators of Americanization to minimize its disruptive consequences without, at the same time, minimizing its diffusion.

News Watch

by Evan Felsing

France's Conflicted Relationship with Globalization

French attacks on Americanization and globalization are really part of an attempt to make sense of profound changes in society, the economy, and the state. Despite the antiglobalist rhetoric, these changes are likely to continue, making France more economically successful.

Short Takes

Russia: Plagued by disease; Counting the dead; **Czech Republic:** Return of the communists; **Iran:** New signals with US; **Iraq:** Suspicious deaths; **China:** Ready for the millennium bug; No to homosexuality; **Singapore:** Crisis quiets wedding bells; **Korea:** Unions to sue IMF; **Germany:** Nazi paranoia still strong; **United Kingdom:** Panicked Blair panders to the mentally ill; Soccer discrimination; **Italy:** Battle of the hyphen; **Israel:** Israelis and Palestinians contemplate economic future; Opening of Muslim world; **India:** Looming nuclear accident; Hindu nationalists to protest Pope; **Venezuela:** Tour de Chavez; **United States:** New clues on how politics work.

International Political Economy

Editor

Marvin Zonis, Professor of International Political Economy, Graduate School of Business, The University of Chicago

Managing Editor

Evan Felsing

Board of Advisors

Daniel Brumberg, Associate Professor of Political Science, Georgetown University
Sophie Meunier, Department of Political Science, MIT

Vladimir Popov, Professor, National Academy of the Economy, Russia

Steven Richmond, Professor, Istanbul, Turkey

Dwight Semler, *East European Constitutional Review*, and Department of Political Science, The University of Chicago

Dali Yang, Assistant Professor, Department of Political Science, The University of Chicago

Lincoln Y. Rathnam, Vistech Corporation, Boston

For Subscription information contact

Marvin Zonis + Associates, Inc.
312-397-0400
E-mail: welsh@mza-inc.com

For General information contact

Marvin Zonis + Associates, Inc.
John Hancock Center
875 North Michigan Avenue
Suite 2344
Chicago, Illinois 60611
Phone: 312-397-0400
Fax: 312-397-0440
www.mza-inc.com

©1999, Marvin Zonis + Associates, Inc., all rights reserved. Neither this publication nor parts thereof may be reproduced in any form without permission in writing from the publisher. The information contained herein has been obtained from sources believed to be reliable but is not necessarily complete, and its accuracy cannot be guaranteed. Any opinions expressed herein are subject to change without notice. MZ+A assumes no liability for the consequence of reliance upon any opinions or statement.

Marvin Zonis + Associates, Inc.

Principal

Marvin Zonis
zonis@mza-inc.com

Principal

Lucy Salenger
salenger@mza-inc.com

Managing Director

Daniel Wagner
wagner@mza-inc.com

Director of Operations

Robert Egge
egge@mza-inc.com

Director of Country Analysis

Samuel Wilkin
wilkin@mza-inc.com

Director of Administration

Nancy Werner

Director of Press Relations

Colleen Welsh

Director of Research

Allon Ivri

Production Coordinator

Michael Maconi

Information Technology Specialist

Zachary Pousman
pousman@mza-inc.com

Country Analysts

Evan Felsing
Kian Gohar
Jeff Greco
Christine Griffin
J.K. Joung
Dan Lefkovitz
Kevin McGahan
Kara Murphy
John Thompson, Jr.

Associates

Jennifer Amos
Emily Colantino
Eric Humphery
Jef Klazen
Jason McGraw
Diana O'Laughlin
Anupam Samanta
Michael Maier
Suzy Wang
Kevin Wanner

Americanization, Globalization, and the Disruption of Traditional Culture: Should Business Care?

by Marvin Zonis

BUSINESS IMPLICATIONS

- Investors need to be sensitive to and aware of the extent to which countries are characterized by Sense Making Crises, whether in response to the spread of the new global culture of “Americanization” or from other factors. Sense Making Crises may result in political and social instability and economic disruptions.
- Businesses need to act in ways that will minimize the disruptive consequences of their being carriers of “Americanization” so as to reduce the possibilities of a “backlash” and to reduce the likelihood of a Sense Making Crisis.
- One way to accomplish that is for Americans in general and business people in particular to moderate their grandiosity and arrogance—as exemplified by the current US predilection for “triumphalism,” trumpeting the collapse of the USSR and the emergence of the US as the sole superpower.
- Many other methods are appropriate. The old adage to “think global and act local” is worth following. The commitment of McDonald’s, for example, to local ownership, local employees, and to local sources of supply, is but one obvious example.
- The support by foreign multinationals of domestic cultural institutions is a simple but powerful way for businesses to contribute to and be identified with strong local cultures.

Fact: In 1996, US software and entertainment exports totaled more than \$60.2bn, more than any other US industries. Not only were the total exports huge but the US continues to run a massive trade surplus in its export of intellectual property. Since the collapse of the USSR, US intellectual property exports have more than doubled. (Total sales of US intellectual property do not include piracy, the illegal copying of such materials, which runs into many additional billions of dollars.)

Fact: *Reader’s Digest* circulates in 19 languages, with 48 international editions selling 28 million issues per month, twice as many as are sold in the US. *Cosmopolitan* magazine is the world’s best-selling women’s magazine, with 36 editions and international sales of 4.5 million copies, versus domestic sales of 2.7 million.

Fact: McDonald’s recently opened its 25,000th restaurant and continues to open new restaurants at the rate of 6 per day. More than half of all McDonald’s are located outside the US in 116 other countries.

Fact: Two-thirds of global movie box-office receipts are generated by US films.

Fact: Multinational corporations invested roughly \$3 in developing countries, in 1998, for every \$1 they repatriated, according the UN’s *1999 World Investment Report*. The report added that such “foreign direct investment is now the single most important source of external finance, overshadowing inflows from official aid and exceeding net lending by international banks.”

Fact: Some 60,000 corporations in the world operate in more than one country and have more than 500,000 foreign affiliates. Those transnational corporations (TNC) account for an estimated 25 percent of the world’s total output.

The “Americanization” of the World

US culture is rapidly becoming the most effective force for global unity in the history of the world. More than the Roman Empire, more than the Catholic Church or the Islamic faith, more than the great colonial empires, more than the USSR and communism, US culture is becoming truly pervasive and providing a new focus for global commonality and cohesion.

"Foreign direct investment is now the single most important source of external finance, overshadowing inflows from official aid and exceeding net lending by international banks."

—UN 1999 *World Investment Report*.

The questions are the following:

- What is the nature of that culture?
- Why is it becoming pervasive?
- What is the global response?
- What are the consequences for business?

The Nature of the New Globalizing Culture

Whatever it is that is sweeping around the world is, fundamentally, a product of the US, both in terms of its composition and its transmission. This "Americanization," as it is so widely labeled, has political, economic, and cultural components.

Democracy is now generally regarded as the most plausible model of political organization for most countries in the world.

The US economic model is becoming ever more universal.

US popular culture continues to become ever more popular in countries around the world. Several factors explain the growing dominance of US popular culture. For one thing, US movies and TV programs have achieved an extraordinary degree of professionalism and technical sophistication. This is largely because the US market is so large and generates such huge revenues that film and TV programs have had the resources to achieve the most professional standards. When those products enter the global market, they are superior to most other products made outside the US.

But above all, US popular culture embodies messages and themes that appeal, increasingly, to people all over the world, especially to the young. The central message of US popular culture is probably that of rebellion, not in the form of violent revolution but through a rejection of established modes of thought and action and a sense of the desirability of a confrontation with existing standards and practices. The US and its culture stand for some form of institutionalized rebellion.

What else does US popular culture stand for? The usual suspects: sex, violence, freedom, speed, individuality, wealth, progress, tolerance, optimism, and a host of other values that are found to be increasingly appealing. (It is important to note that these values are not being defended here, only noted. The old saying is worth repeating here. The US is the first country in the world to pass directly from barbarism to decay with no intervening culture whatsoever. The vulgarity, coarseness, and violence of much of US culture are to be deplored not celebrated.)

It is appropriate to refer to this new globalizing culture as "Americanization" despite the fact that many of its component parts do not originate in the US itself. Increasingly, for example, the US is being infused with elements of Spanish culture. (It is not by chance that over the last five years, 15 percent more students are studying Spanish. Meanwhile, French, the second most-popular foreign language, German, and Italian have been losing students. The Slavic languages—Russian and the others—have plunged by 50 percent.)

The US, after all, is itself an amalgam of cultural elements from around the world. Immigrants, artists, scholars, and business people all bring the world to the US. The

Total sales of Largest TNCs versus GDP of selected countries
(in billions of US\$)

Company	Sales
GM	178.2
Ford Motor Company	153.6
Royal Dutch/Shell Group	128
Exxon Corporation	120.3
GE	90.8

Country	GDP
Austria	178.2
Hong Kong, China	158.3
Denmark	125.2
Peru	114.1
Singapore	88.3

Americanization has proved to be and will continue to be profoundly destabilizing.

US, in turn, digests those cultural elements and fashions them into a new whole, not quite like any of the component parts and always within the framework of a distinctively American culture. As long as this is the case and as long as the US is driving the global cultural transformation, “Americanization” will seem like the appropriate label.

Why Is “Americanization” Becoming Pervasive?

The simplest explanation for the global success of American culture is that it fits the direction in which the world is going. This is not particularly surprising considering the triumph of US-style capitalism and US-style political democracy. The collapse of communism and the plunge in the appeal of Islamic fundamentalism, largely based on the disastrous state of the Islamic Republic of Iran, make the US model all the more appealing.

But there are other factors. US businesses are everywhere, and millions of Americans live outside the US as ambassadors of US culture.

Growing global prosperity is another factor. As countries have become richer, their television coverage has increased and has broadened into cable. In 1990, for example, Hungary had no cable television. Now, half its households are wired. The proliferation of channels has opened the door to the broadcast of more American programming. (Note that the argument here is that countries have not replaced their own cultural output with US output. But that new opportunities for the broadcast of both have been created.) At the same time, increased prosperity means the building of cinemas and the proliferation of more US films.

The spread of the Internet, a significantly English-language if not US phenomenon, has only greatly multiplied these existing trends.

What Is the Global Response?

Americanization has proved to be and will continue to be profoundly destabilizing. The dissemination of US culture and the resulting product, a hybrid infused with major elements of US culture, generates what I have elsewhere referred to as a “Sense Making Crisis.” The order of the world, the conventional and accepted expectations of the way the world is and how it will be, has been upset by the injection of American culture. The disruption of traditional ways of understanding and interpreting the world that is entailed by Americanization proves to make it increasingly more difficult for people around the world to make sense of their lives. After all, they had a complex set of rules governing behavior and organizing their world. To be culturally Thai in Thailand, for example, meant sharing an understanding of proper behavior as well as appropriate understandings of the way life is and should be. Those shared aspects of Thai culture are what make Thailand distinctive and the world sensible to people who are Thais. But with the infusion of Thailand by American culture, those ways of being and thinking are changed. They are not changed in any common way across the society. Young people especially buy into these new and foreign ideas. They change the most. So do some others. But in the process, the unity and coherence of Thai culture is lost along with a world that made sense. The loss of a “sensible” world, in turn, generates alienation, anomie, rootlessness, and boredom.



Can McDonald's still be considered American?

Source: McDonalds

The most worrisome consequence of Americanization is that it can produce a Sense Making Crisis in the countries where the meeting of the host culture and the invading culture is the most intense. The Sense Making Crisis, in turn, produces responses that are contrary to the interests of business.

The responses to such psychological states can be to turn to violence or to alcohol and drugs, to crime, to divorce, even to suicide and other manifestations of disorganization. In fact, as research demonstrates, given proper leadership, political instability and even revolution can follow from Sense Making Crises.

Countries around the world have responded in familiar and predictable ways to the increasing dangers of “Americanization.” The Taliban in Afghanistan have ordered that all satellite dishes be destroyed. But not only satellite receivers, they also ordered that all VCR players be destroyed. And amazingly enough, in a first for the world, in the summer of 1999, they ordered that all television sets in the country be destroyed.

We are familiar with the attempts of the Iranian clerics to wall off their people from the “nefarious plots of Zionism and the Great Satan.” In fact, few countries actually seek to wall themselves off from Americanization. Most political leaders appreciate that the consequences will be the decline of cultural vitality and lower rates of economic development with guaranteed political instability in their futures. Witness, for example, the turmoil that seized Iran in the summer of 1999. (A fascinating intermediate case is that of France. France hardly walls itself off from Americanization. But the French state is seeking to preserve and stimulate French culture through bureaucratic limitations on the spread of Americanization. See the accompanying *IPE* article by Evan Felsing.)

Nor is it likely that there will be more dramatic backlashes against Americanization. Remarkably, the hostility to Americanization has actually been decreasing in a number of areas of the world. Nowhere is this more true than in Latin America, where the fear of “Yankee imperialism” has diminished not only in regards to the economy—witness the dramatically greater commitment to free trade in South America—but in the cultural realm as well. Latin states seem much more confident, than ever before, in their ability to preserve the distinctiveness of their own cultures in the face of the US invasion.

Not too long ago, Eisuke Sakakibara, the outspoken head of Japan’s Ministry of Finance International Bureau suggested that the American campaign to reform Japan was “nothing less than an act of barbarism against [Japanese] cultural values.” Sakakibara has retired from MOF. His departure hardly signals the end of Japanese commitment to preserving their way of life in the face of the American invasion. But even in Japan, a radical opening is underway.

The great danger of Americanization is not that countries will refuse to open themselves to its possibilities. A few will remain isolated and are likely to fail. The great danger is not the backlash and the attack against Americanization resulting in less robust opportunities for global businesses. The backlash is almost everywhere diminished—even Dr. Mahathir is calmer than he was, and the major economies of the world are increasingly open to multinational firms.

The most worrisome consequence of Americanization is that it can produce a Sense Making Crisis in the countries where the meeting of the host culture and the invading culture is the most intense. The Sense Making Crisis, in turn, produces responses that are contrary to the interests of business.

In many instances, "Asian values" seem like a device for rationalizing the authoritarian power of the state and the allocation of resources to the allies of the state.

What Countries Are Most Likely to Experience Sense Making Crises?

The countries with Sense Making Crises are no particular mystery. The republics that have emerged from the wreckage of the USSR head the list of countries mired in Sense Making Crises—none more so than Russia. But their Sense Making Crises are not due to the invasion or the destabilizing consequences of Americanization. Their crises originate with the collapse of the established order, which they had been taught for 75 years was to be the model for the entire world.

Many of the states of the Middle Eastern are also in Sense Making Crises. Their long-standing attempts to fashion societies and economies and political systems that "work" for their peoples remain largely unsuccessful.

The most likely candidates for Sense Making Crises following from Americanization are the Asian states. They have, to varying extents, based their economic plans on what they like to label as "Asian values." These they hold to be fundamentally different from those in the US and to be characterized by social solidarity, cooperation rather than competition, hierarchy, obedience, discipline, and self-denial. Those claims appear to be ever more hollow, especially after the Asian economic debacle. In many instances, "Asian values" seem like a device for rationalizing the authoritarian power of the state and the allocation of resources to the allies of the state. As Asian states deal with the disruptions of their economic decline and with the ever intense Americanization hitting them, Sense Making Crises are likely to follow.

Sense Making Crises, in turn, produce periods of personal and social disintegration that impede the operation of firms, increase the risks of political instability, and diminish economic prospects.

Conclusion

Americanization is already pervasive and increasingly likely to be diffused throughout the world. The term refers to a peculiarly US cultural hybrid that is an amalgam of US values and cultural infusions from around the world. But because it emanates from the US and is largely the product of the US, it will continue to be called Americanization, with all the opportunities and risks that presents to US businesses in particular. While the long-term results of Americanization will be positive for economies, states, and societies, the immediate consequences can be disruptive and, therefore, inimical to the interests of business. Sense Making Crises often follow from the disruptions produced by cultural competition. It is incumbent on businesses that are frequently the most effective communicators of Americanization to minimize its disruptive consequences without, at the same time, minimizing its diffusion.

Source: Coca-Cola website

Around the World



France's Conflicted Relationship with Globalization

by Evan Felsing

Having masterminded the demolition of a McDonald's construction site, Jose Bove became a symbol of France's fight against globalization. As leader of the militant Confederation Paysanne, he also inspired farmers to dump tons of manure and rotten fruit on another restaurant run by the fast-food chain. In the process, he managed to get himself arrested and become simultaneously a *cause celebre* among the French public. Most French agree that globalization/Americanization is an assault on traditional French culture and values. (No one in France seems to recognize that 85 percent of the ingredients used by French McDonald's are produced by French farmers.)

BUSINESS IMPLICATIONS

- **Boycotts of American goods will continue sporadically, targeting highly visible symbols of globalization, like McDonald's.**
- **France will continue to remain a laggard in adopting EU directives, especially where globalization is concerned. More trade disputes are likely.**
- **The Socialist government's protectionist rhetoric is largely diversionary and should not dissuade investors from making investments in France. Nevertheless, government restrictions on firing employees and the 35-hour work week could harm the competitiveness of French companies.**
- **That antiglobalist rhetoric resonates in France even at a time of impressive economic growth suggests France may reject Americanization more virulently in the future.**
- **Despite the government's recent backslide, the Left will continue with its privatization program and economic liberalization.**

Rather than dismiss Bove and his lot, the French government, led by Prime Minister Lionel Jospin, seems to be inciting the popular backlash against globalization. Although Jospin's government showed a commitment to free-market reform during its first two years in office, in recent months the administration has reverted to economic nationalism and protectionist rhetoric.

The forces of globalization have indeed brought remarkable prosperity to France. Why then would Jospin turn against it? In short, the government has vilified globalism in an effort to divert attention from its domestic problems. Some of those problems emanate from globalization/Americanization, while others are the product of the new European order. The EU's increasing power has weakened the French state's control over its economy, produced substantial changes in the way France does business, and resulted in significant social change. In demonizing the global forces that have produced these new developments and pointing to phantom foreign enemies to explain the subsequent social disruptions, France might sacrifice the positive effects of a more global economy. Mounting xenophobia could be dangerous for the future of the country and for the EU.

The Reality of Globalization in France

Sometimes the perception of globalization can be more important than the reality. France has portrayed itself as a victim of a more global and Americanized world. But the impact of globalization, by nearly every measure, has been grossly exaggerated.

Despite open borders, France has suffered no intrusion of foreign firms. Of the top 50 European mergers and acquisitions in 1998, ranked by value, only one involved a foreign takeover of a French firm (The UK's Kingfisher acquired France's Castorama Dubois). Indeed, on the same list, six French companies acquired foreign firms. And an additional three French firms on the list acquired other French firms.

Neither has France felt any radical impact from changing immigration flows. France's foreign-born population continues to hover around 7 percent, compared with 10 percent in the US. Immigration flows have dropped by more than half from their peak in the 1960s, when hundreds of thousands of North Africans arrived annually. Nevertheless, immigration continues to be perceived as a problem, leading to the success, until recently, of extremist politicians like Jean-Marie Le Pen.

Nor has France been a victim of a sudden influx of foreign goods and services. The country has actually run a trade surplus throughout the 1990s, reaching a healthy \$44bn in 1998. Of that surplus, \$10bn is for products and services with the EU. France also has the largest current-account surplus of any country in the EU, at nearly \$39bn. The discrepancy between the balance-of-payments surplus and the current-account surplus reveals that more French people are investing abroad than foreigners are investing in France. And, while total foreign investment in France continues to increase, the French are investing abroad at an even faster rate.

Target Name	Target Country	Acquiror Name	Acquiror Country	Rankvalue of Deal (\$mn)
Amoco	US	British Petroleum	UK	55040.1
Chrysler	US	Daimler-Benz	Germany	40466.5
Astra	Sweden	Zeneca	UK	31787.0
PacifiCorp	US	Scottish Power	UK	12589.1
Generale de Banque	Belgium	Fortis	Belgium	12298.5
Petrofina	Belgium	Total	France	11546.1
Synthelabo (L'Oreal)	France	Sanofi	France	11209.6
General Accident	UK	Commercial Union	UK	11152.5
Unicredito	Italy	Credito Italiano	Italy	10959.0
PolyGram	Netherlands	Seagram	Canada	10253.5

Top 10 European Mergers and Acquisitions announced in 1998

Source: Worldlink

The one area where globalization truly has had an impact on France concerns the Parisian bourse—even here, however, France is no exception to its European neighbors. Over the last decade, the capitalization of the French stock market has nearly doubled, reaching 45 percent of GDP in 1998. But even this heightened activity is not unusual among west European countries, most of which have grown at similar or higher rates. The stock market's remarkable growth can be explained by two factors. In 1989, the French government relaxed legal restrictions on foreign investment. The next year it abolished exchange controls and brought the franc into the European Exchange Rate Mechanism. This boosted capital flows substantially and allowed foreign institutional investors, especially US-based pension-fund and mutual-fund managers, greater access to French markets.

Globalization Seen As a Threat

For many French people, this period of rapid stock-market growth marked the beginning of a new wave of globalization, typified by American institutional investors. Rather than welcoming the influx of foreign capital, the French government curiously has portrayed foreign investors as the bogeyman. When French telecommunications giant Alcatel announced an earnings shortfall last November, its share price fell 38 percent, mainly due to a sudden withdrawal of foreign pension funds and mutual funds. France was stunned by the swift justice meted out by foreign investors. Politicians played upon public sentiment and were quick to blame foreigners for Alcatel's woes—as opposed to the company's mismanagement.

In a similar case, Michelin's decision to lay off 10 percent of its work force on the same day that it posted a 17 percent jump in profits was also blamed on greedy foreign investors. The French were quick to discern that the company's downsizing scheme was dictated by its shareholders—the bulk of whom are foreign. Even the promarket president, Jacques Chirac, lashed out at the so-called *l'affair Michelin*, claiming that French companies' business decisions should not be dictated by "Scottish widows and California pensioners."

It is clear that France is undergoing massive social change. The most easily observable causes all point to globalization as the culprit.

Yet foreigners are hardly to blame for demanding that shareholder rights be protected. Nor are they responsible for the failure of the French themselves to invest in equities in French companies. The aversion can be explained, in part, by the government's meddling in the economy. In the mid-1980s, then-finance minister Edouard Balladur set up a complicated system of cross-shareholding, whereby recently privatized companies were given shares in each other in order to create a government-friendly voting minority that could prevent foreign takeovers. In addition, the government stocked the companies with executive appointees from the elite Ecole Nationale d'Administration. Mindful of the government's de facto control over the companies, French investors stayed away. In other areas of the economy, too, government intervention scared domestic investment away. The public simply did not trust the government with its money.

Beginning in the mid-1990s, the protective web of co-ownership began to unravel. Failures in cross-held companies sparked a series of share sell offs. Foreigners were fast to move in, buying up French companies and demanding that the firms become more competitive. Today, nearly 40 percent of French stocks are owned by foreigners. But this figure is not as shocking as many French politicians declare. In Germany at least 25 percent of shares are owned by foreigners; in Spain the figure is 35 percent; and in the Netherlands—one of Europe's star performers—the figure is 45 percent. While the public bemoans this apparent foreign takeover, French firms actively court foreign investment, even adopting American accounting standards. Today, 18 French companies are listed on the NYSE.

France's Mounting Social Discontent

Whether a side-effect of globalization/Americanization or the diminishing role of the state, it is clear that France is undergoing massive social change.

The most easily observable causes all point to globalization as the culprit. For instance, France's rapidly increasing obesity rate correlates to a surge in the number of fast-food restaurants, like McDonald's. The increased use of English reflects the prevalence of American cultural products, such as movies and the Internet. With such visible effects, the US has become an easy target for the French government.



French high school students demanding better funding for their schools.

Source: AP

But there are more-disturbing signs that point to a larger social disruption than globalization can account for—perhaps even a Sense Making Crisis. In 1998, crime increased 2.73 percent in France, bucking a downward trend in the rest of the developed world. France's suicide rate remains the fourth highest in the developed world, following only Finland, Denmark, and Austria. Furthermore, the French commit homicide at a higher rate than the Germans, British, and the Italians. More astonishing is the country's rate of alcoholism, the highest in Europe. More than five million people receive treatment annually for alcohol-related diseases. The expense for this treatment totals a whopping 1 percent of French GDP. Meanwhile, the French reportedly consume five times more Prozac than their British counterparts. Clearly something is wrong.

Other signs of France's social disruption abound. Last week, 60,000 students, ostensibly protesting poor school conditions, burned 15 cars and vandalized dozens of stores. Regionalism continues to mount from Brittany to the Pyrennees. Bombings remain a regular occurrence in Corsica.

With a mounting social crisis, and a public that perceives globalization as not only a threat but as the source of many of its problems, the government and many in the governing class could hardly pass up the opportunity to blame foreigners.

If globalization/Americanization is too simple and neat an explanation, perhaps France's high unemployment is the problem. Unemployment remains in double-digits, 11.3 percent, while for French youths, the rate is much higher, nearly 28 percent. In the immigrant-dominated suburbs of Paris, unemployment often reaches 40 percent. But this explanation for France's Sense Making Crisis is also not satisfactory. Spain, for example, with nearly 16 percent unemployment, has lower rates of suicide, homicide, and alcoholism.

A more compelling explanation for the discomforts of France is the bankruptcy of the legitimacy of the French state, diminishing the capacity of the government to fulfill its traditional role. For centuries, the state has based its legitimacy on its ability to provide security for everyone and to play an active role in corporate governance (*dirigisme*). But with the pressures of foreign shareholders, decades of botched government intervention, and a looming social-security crisis, the economy has started to decouple itself from the government's reach. As a result, French companies, often with foreign backing, have finally been allowed to compete. Inevitably, losers have begun to appear. As the protective blanket of the French state is removed, it has created social disorientation and discontent—a Sense Making Crisis—bred of the disintegration of the traditional role of the state. Some discontent has been directed at the government, in the case of strikes, and much of it has been internalized in the form of alcoholism and suicide. Still more discontent has been directed at foreigners and especially the US.

Attempts to Control Globalism: A Hidden Agenda?

Faced with its own diminished role, it is easy, then, to understand why the government and the governing elite have stepped up their use of protectionist and nationalist rhetoric. With a mounting social crisis, and a public that perceives globalization as not only a threat but as the source of many of its problems, the government and many in the governing class could hardly pass up the opportunity to blame foreigners. By attacking globalization, the government has been able to justify its desperate attempts to regain power and maintain control over the economy.

Conveniently, blaming foreigners serves two purposes for the government. First, it distracts public attention from the mounting social crisis, high unemployment, and several recent political gaffs. These gaffs include the arrest of the head of the Corsican Gendarmerie, Prefect Bernard Bonnet, accused of burning down a popular beach-side restaurant in a crude attempt to intimidate the island's separatist movement. Second, the government has carved out a new role for itself as the protector of the people from "foreign" threats. This claim allows the administration to justify the continuation of its dirigist policies, which often defy EU law and free-market principles.

French finance minister Dominique Strauss-Kahn, on several recent occasions, has raised the specter of "foreign takeovers" as a justification for the government's interventionist policies. In the mergers of both Elf-Aquitaine-TotalFina and BNP-Paribas (Societe Generale), Strauss-Kahn made it very clear that foreign bids were not welcome and that the government wanted to create "national champions" in both the oil and banking industries. By most counts, the government's meddling in the mergers did little to facilitate the process and may have created unnecessary complications. Other areas of government intervention are sure to cause more problems in the future. France's recalcitrance on agricultural policy, including its unwillingness to

Backlash from *l'affair Michelin* has forced PM Jospin to re-establish his leftist credentials.



Source: Michelin website

Having proved its leftist credentials by standing up to the forces of Americanization and globalization, the government is likely to back down.

lift sanctions on British and American beef, has already led to trade disputes, as has its refusal to open the electricity industry to foreign competition.

In its efforts to “tame” globalism, the government has even threatened domestic firms. Following *l'affair* Michelin, Prime Minister Jospin announced plans to penalize companies that use large numbers of temporary contractors and that layoff employees as a result of restructuring. Companies who “abusively” cut jobs will be subject to stiff fines, hurting their competitiveness and providing a perverse incentive structure that will lead to tremendous inefficiencies.

Consequences

The government's economic nationalism will have serious impacts on the French economy. The US has already slapped sanctions on French luxury goods, like foie gras and Roquefort cheese. (In fact, it was to protest the US sanctions on Roquefort that led Bove to lead the attacks on the local McDonald's.) The British government is threatening EU action over its beef dispute, and the German and Dutch governments are threatening EU action over Electricite de France's (EDF) closure to foreign competition. (Typical of France's relationship with globalization, the government has defied EU law by refusing to open up its domestic power market, while the state power monopoly, EDF, has been acquiring foreign companies recently opened to competition.)

Economic nationalism can easily turn dangerous. Once the public becomes enthused with nationalistic policymaking, it can pull the government farther than it had originally intended to go—and cost dearly. The bankruptcy of Credit Lyonnais, another national champion, cost tax-payers some 150 billion francs (\$27bn) to recapitalize. Nationalism is a costly luxury the French can ill afford.

The government's nationalist policies can be harmful in other ways as well. By prohibiting foreign acquisition of French firms while encouraging domestic mergers, the government is reducing domestic competition, likely to raise consumer prices. In addition, government-supported mega-corporations realize that, in the name of patriotism, the French government will do just about anything to ensure their success, a classic moral hazard. Knowing that they cannot fail, the mega-companies may be tempted to take risks they normally would not. Should one of these giants fail, French consumers will have to pay. Finally, and most importantly, the Socialists' meddling could throw France into conflict with the EU. France's emerging protectionism threatens the very foundation of the EU—free-trade.

Despite these dangers, France has violated only relatively minor EU regulations. In fact, having proved its leftist credentials by standing up to the forces of Americanization and globalization, the government is likely to back down. Jospin, who has turned out to be more like Tony Blair than Francois Mitterand, will continue to help the economy liberalize in the future. But because economic liberalization continues to reshape the government's relationship with the public, Jospin will be forced, from time to time, to backpedal and make concessions. Attacks on globalization and Americanization are likely to be some of those concessions. Investors should not get taken in by the protectionist rhetoric. France is moving in the right direction.



Members of the European Parliament in Paris protesting the French ban on British Beef

Source: AP

Evan Felsing is Managing Editor of The Journal of International Political Economy and a Lead Country Analyst with Marvin Zonis + Associates, Inc.

Short Takes

QUOTEWORTHY: “Efforts to date amount to little more than creative accounting techniques designed to mask insolvency. Banks are being restructured Asian style . . . with all sorts of tricks being used to hide the fact that most banks outside of Singapore, Hong Kong, and the Philippines are bankrupt.” Phillipe Delhaise, President of Thomson Bank Watch, speaking to an audience of 700 economists and businessmen at the East Asia Economic Summit.

“When you divide these [economic] achievements by our 1.25 billion population, the figure becomes really small . . . The biggest problem I’m facing at the moment is the large population of China.” Chinese president Jiang Zemin, prior to his visit to the UK, a first by a Chinese head of state.

“Suddenly, last night, the phone rang. I lifted the receiver and I heard ‘Hi.’ It was Raisa phoning. I said to her, ‘Where are you calling from?’ And then the conversation ended. I woke up.” Mikhail Gorbachev, in his first interview following the funeral of his wife.

“The Diet [lower house of parliament] should discuss whether Japan would be better off if it armed itself with nuclear weapons. Nuclear weapons equates to a deterrent. If there were no punishment for rape, we would all be rapists. We do not become rapists because there is the deterrent of punishment.” Shingo Nishimura is the deputy head of the Defense Agency (probably will be forced to step down because of the nuke comment not his remarks regarding rape).

“If Moody’s had researched our management doctrine and passed judgment as a result, their rating would be welcome, but I cannot accept their issuance of a rating strictly on the basis of our balance sheet.” Go Wakitani, vice president of Japan’s Idemitsu Kosan Company.

FACTWORTHY: Telecom sales accounted for 52 percent, or \$141bn, of all worldwide revenues earned from privatization last year.

Crime in Japan rose by 7 percent in 1998, the highest level in its history. Nonetheless, crime is astoundingly low by US standards. For example, the total number of murders in Japan was 1,388, far below the number in many major US cities.

RUSSIA PLAGUED BY DISEASE. Murray Feshbach, the foremost expert on Russian social and environmental trends, has predicted that Russia’s population could fall to as low as 80 to 100 million people. Feshbach told a recent news conference of the sweeping rise of disease in Russia. Some 450,000 new cases of syphilis were reported in Russia in 1998, for example, compared with some 8,000 new cases recorded in the US. New tuberculosis cases numbered 108,000 versus 18,000 in the

According to Chechen leaders, almost 1,000 Russian soldiers have died in October alone, and 52 were taken prisoner.

US. The Russian Central Bureau of Epidemiology predicts that there will be two million cases of HIV in Russia by 2002. Russia has had the highest suicide rate in the world since 1992. The World Health Organization warns of the dangers of Russia's diseases spreading into Western Europe.

COUNTING THE DEAD. As the Russian military continues its attack on Chechnya, no one seems to agree on the number of casualties. According to ITAR-TASS, Moscow has sent 90,000 troops into the breakaway region, of whom 196 have been killed and 500 wounded. According to Chechen leaders, however, almost 1,000 Russian soldiers have died in October alone, and 52 were taken prisoner. One Russian soldier conceded, "We have suffered losses, but we are not allowed to disclose how many. And in any case, we don't really know for ourselves." In the meantime, nearly 160,000 refugees have fled the violence. The government insists "there is no war in the Chechen territory."



Underequipped Russian troops are forced to find goat milk in Chechnya.

Source: AP

RETURN OF THE COMMUNISTS. The Communist Party of Bohemia and Moravia is now the most popular party in the Czech Republic for the first time since 1989, according to the Institute for Public Opinion Research. The Communists now have 23 percent support, while the Civic Democratic Party (ODS) is in second place, with 21 percent. In a disappointing third place is the ruling Social Democratic Party, which has only 17.5 percent. The Social Democrats have led a minority government since June 1998, with the tacit support of ODS. But the arrangement has become increasingly unpopular with voters and has been blamed for the Czech Republic's lack of progress in preparing for EU membership. President Vaclav Havel has called on the noncommunist parties to end their "flirting and games."

NEW SIGNALS BETWEEN THE US AND IRAN. The US State Department has just released its 1999 list of foreign terrorist organizations. The Mujahedin-e Khalq organization (MKO) of Iran was designated once again as a terrorist organization. But, for the first time, its parent organization, the National Council of Resistance (NCR), was listed as an official alias of the MKO. This will subject that organization to the same terrorist-list penalties as the MKO, such as freezing of assets, prohibition on contributions from US citizens, and denial of visas to officials and most members. The Mujahedin have been the principal armed opposition to the Islamic Republic. They have military garrisons in Iraq, along the Iranian border. The NCR has offices in major Western cities, including in the US, and raises funds and propagandizes for its anticlerical campaign. Several dozen members of the US Congress have supported the NCR as a democratic alternative to the rule of the clerics. Iran responded by announcing that Iranian soldiers no longer trample on US or Israeli flags during their annual military parade for "Sacred Defense Week." Since the inception of the Islamic revolution, US and Israeli flags have been painted on the parade route (as well as on the entry way to all military buildings) so that Iranian

[Korean] unions blame the IMF's austerity program for creating a "chain of bankruptcy, even in sound businesses," by forcing interest rates higher. They demand 480 million won (\$400,000) in compensation on behalf of 12 workers who were dismissed

troops could walk on them. President Khatami ordered the practice ended this year, asking what Iranians would think if Americans walked on their flag.

DEATHS IN IRAQ. Rafi Dahham al-Tikriti, was dismissed as head of the Iraqi Moukhabarat (the intelligence service) and was reported to have died of a heart attack shortly after his dismissal. According to rumors in Baghdad, he died of a soft drink laced with poison. The rumor is not surprising since several high-ranking Iraqi officials have died recently, and Saddam is known for murdering those suspected of disloyalty.

CHINA READY FOR MILLENNIUM BUG? Beijing has announced that its weapons systems and nuclear plants will be fully functional on New Year's Day, despite Y2K fears. The official *Business Weekly*, has reported that a state commission claims that all defense facilities will be "reliable" on January 1. A dozen groups have been conducting spot checks on defense equipment and production lines since August. China's airlines have already tested measures designed to eliminate Y2K problems. Many senior airline executives plan to fly at year's end to prove the airlines are safe. Nonetheless, the CIA maintains that China, Russia, Ukraine, and Indonesia are among the countries most likely to suffer the greatest Y2K-related disruptions.

CHINA SAID NO TO HOMOSEXUALITY. A Beijing court has awarded damages to a man labeled a homosexual while simultaneously ruling that it was unacceptable in China. A man sued an author and a publishing house on the grounds of psychological damage, after a book alleged he was a homosexual. He claimed he was then subject to criticism by his friends and family and that his fiancée refused to marry him. The judge awarded him RMB9,000 (\$1,097) in damages and ordered that a written apology be printed in the *Legal Daily*, the newspaper of the justice ministry. The judge said: "Homosexuality in China today is considered as abnormal sexual behavior and is not acceptable to the public. Therefore, by describing the plaintiff as a homosexual without any proof, Fang Gang [the author] brought depression and psychological pain to him and affected his life and work, infringing his reputation."

SINGAPORE: CRISIS QUIETS WEDDING BELLS. Singapore is rebounding from the Asian financial crisis. But economic uncertainty has dampened the wedding plans of many Singaporeans who consider personal finances before tying the knot. In 1998, the number of marriages in the Lion City fell 10 percent from the previous year. A similar phenomenon occurred during Singapore's recession in the mid-1980s. If the economy fails to recover, marriages are likely to decline further—possibly contributing to a reduction in the birth rate.

KOREAN UNIONS TO SUE IMF. South Korean unions are suing the IMF for damages. According to the unions' spokesman, "The purpose of the lawsuit is to prove the failure of the IMF bailout program for South Korea and many global nongovernmental organizations are supporting our stance." The unions blame the IMF's austerity program for creating a "chain of bankruptcy, even in sound businesses," by forcing interest rates higher. They demand 480mn won (\$400,000) in compensation on behalf of 12 workers who were dismissed—a symbolic gesture to protest the IMF's "erroneous" policy. This is the first time the IMF has been sued by labor unions in a country to which it gave emergency aid.

Use of barter in Russian industrial transactions
(Percent of all transactions)

1992	6%
1993	9%
1994	17%
1995	22%
1996	35%
1997	41%
1998	50%

Source: McKinsey

The Scottish Daily Record newspaper has registered a complaint with the UK's Commission for Racial Equality, accusing English soccer officials of discrimination against Scottish soccer fans.

NAZI PARANOIA STILL STRONG IN GERMANY. Germany's Nazi past continues to provoke political controversy. The latest skirmish involves the Frankfurt book fair's decision to display a copy of *Mein Kampf* alongside the 99 other volumes an independent panel recently voted the most influential books of the century. The work itself is not for sale, and event organizers promised to integrate the display copy seamlessly into the overall exhibit. But local politicians became jittery as lawyers warned of potential pilgrimages by neo-Nazi enthusiasts and of criminal proceedings the state could initiate for contravening a federal ban on "hate material." In what may be the ultimate irony, organizers finally decided to comply with the law by displaying the book only under heavy glass and with extra security nearby. The fuss is likely to draw more attention to Hitler's oeuvre and to steal the thunder from the overall theme of the exhibit. Far from a monument to the innovative ideas that have shaped this century, the display will showcase only Germany's regressive censorship laws.

PANICKED BLAIR PANDERS TO THE MENTALLY ILL. Tony Blair was shocked when only 24 percent of Britons bothered to vote in European Parliament elections this June. The dismal turnout among working-class Laborites helped defeat Blair's Labor Party in that election, despite polls that showed the party comfortably ahead. So interior minister Jack Straw has vowed to increase turnout—by granting voting rights to psychiatric patients, long-term prisoners, and the homeless. Straw described his decision as an effort to revamp the UK's "Victorian" election laws, but Conservatives saw it differently. Some Tory leaders were only too eager to cede the criminal vote to Labor; others took little comfort in the thought that the mentally ill might now swing the UK's tightest elections. In the end, however, the expanded franchise highlights one of Blair's most persistent problems: his support is wide but shallow. The prime minister apparently hopes that expanding his electoral base will at least partly compensate for the mediocre enthusiasm he generates within that base.

SOCCER DISCRIMINATION. England and Scotland are rivals on the playing field, but now they may also be rivals in court. The Scottish *Daily Record* newspaper has registered a complaint with the UK's Commission for Racial Equality, accusing English soccer officials of discrimination against Scottish soccer fans. The controversy arose as England and Scotland prepare to meet in an upcoming soccer match. Officials miscalculated when they released 36,000 tickets for sale in England and 7,000 in Scotland. The football-loving Scots soon bought up their entire quota and began purchasing tickets from the English distributor. The English then refused to sell their tickets to Scots, prompting the *Daily Record* to file its complaint on behalf of the Scottish people. Officials, however, said race was irrelevant; they were more concerned with potential outbreaks of violence if English and Scottish fans were seated near each other. The incident offended and embarrassed almost everyone. Commentators wondered whether the UK can long survive if its ethnic groups are willing to hoard tickets, sue each other, and physically pummel one another over a sporting event. To many Britons, the incident brought home the lingering mistrust between the two groups in a way that long-standing but esoteric arguments debated in parliament have not.

ITALY'S BATTLE OF THE HYPHEN. The political future of Italian prime minister Massimo D'Alema rests on a hyphen, or so say his restless coalition partners. The

The former chief of India's Atomic Energy Regulatory Board (AERB) has issued a public warning that India is "likely to face a serious nuclear accident in the not-too-distant future."

current center-left government (hyphen intact) barely holds together the ten unruly parties in D'Alema's coalition, but many centrists would have it no other way. Under the leadership of former president Francesco Cossiga, the centrists are fighting to retain their separate identity and the prerogative to leave the coalition at will. But the dominant leftists are tired of Cossiga's wily maneuvering and are calling for a single, catch-all party—a "centerleft" government (no hyphen)—to impose discipline on their often wayward coalition partners. Neither group seems willing to back down, and both are threatening to sabotage D'Alema by fielding independent slates (and thus siphoning votes from his own party) in upcoming regional elections. If the impasse is not resolved soon, a nefarious hyphen could rupture D'Alema's carefully balanced government and usher in early elections that no one seems to want.

ISRAELIS AND PALESTINIANS CONTEMPLATE ECONOMIC FUTURE.

Israeli prime minister Ehud Barak has publicly supported the idea of economic separation between Israel and the imminent Palestinian state. Barak advocates building a fence between Israel and the West Bank and phasing Palestinian workers out of the Israeli economy, within three years. Under the current system, goods and labor move relatively freely between Israeli and Palestinian areas, and Israel facilitates all trade conducted by the Palestinian Authority. Barak's comments have sparked a debate within Israel and among the Palestinians over the economic future of the region. The separation idea is supported by an unlikely combination of Israeli rightists, who see Palestinian workers as a security risk, Israeli leftists, who condemn the "exploitation of Palestinians" by Israeli employers and manufacturers, and Palestinian nationalists, who view an independent currency and closed borders as crucial trappings of statehood. Meanwhile, economists frown on such protectionist arguments. They note that wages from labor in Israel comprise the bulk of the Palestinian economy and lament the economic inefficiencies that separation will surely engender on both sides of the future border. Most economists favor the creation of a formal free-trade zone between the two countries that would solidify their already substantial interdependence.

ISRAEL SEES OPENING OF MUSLIM WORLD. With the peace process progressing, Israel is improving its relations with Arab and Muslim countries. Since Ehud Barak's inauguration, in July, Israel has forged nondiplomatic ties with Qatar, Oman, Tunisia, and Morocco. The Israeli leadership is also encouraged by the election of Abdurahman Wahid as the new president of Indonesia—the world's most populous Muslim state. Wahid, an ardent but pluralist Muslim, came to Israel in 1997 to attend a conference, in which he criticized Islamic terror and supported the peace process. Wahid's election could spawn the establishment of diplomatic relations between the Israel and Indonesia. Meanwhile, the new military rulers of Pakistan have sent a message to Barak, promising that bilateral relations will not change. Though Pakistan and Israel do not have formal ties, the two states' intelligence services are in frequent contact over nuclear proliferation and regional weapons control.

INDIA'S LOOMING NUCLEAR ACCIDENT. The former chief of India's Atomic Energy Regulatory Board (AERB) has issued a public warning that India is "likely to face a serious nuclear accident in the not-too-distant future." He described a 1995 AERB report that details 130 defects in various nuclear installations around the country. The report establishes that the "degree of automation and cross-checks on

Several Hinduist organizations affiliated with India's ruling Bharitya Janata Party (BJP) are planning a march to protest the "Pope's refusal to tender an apology for the atrocities committed by the Church on the Hindus of Goa centuries ago."

safety in our older plants are very minimal." India's Department of Atomic Energy has not released the report to the public. India has experienced several close calls and minor gaffes, such as an explosion of leaking hydrogen in Narora, in 1993. But the former chief foresees an imminent nuclear accident on the scale of Tokaimura, Japan, or greater.

HINDU NATIONALISTS TO PROTEST POPE. Hindu nationalists in India are planning to protest Pope John Paul II's visit to New Delhi, on November 6. Several Hinduist organizations affiliated with India's ruling Bharitya Janata Party (BJP) are planning a march to protest the "Pope's refusal to tender an apology for the atrocities committed by the Church on the Hindus of Goa centuries ago." Militant Hindus accuse fifteenth-century Portuguese Catholic colonialists of terrorizing and eventually converting local Hindus in the western Indian territory of Goa, whose residents remain Christians. The head of the Hindu fundamentalist RSS, of which the BJP is the political arm, claims that the Pope still aims to spread Christianity in Asia. Meanwhile, Prime Minister Atal Behari Vajpayee, a lifelong RSS member, is distancing himself from the Hindu militant line and will welcome the Pope as an official state guest. Last year, Hindu groups targeted Christians throughout India in more than 100 separate incidences of violence.



Reformers? Venezuela's President Chavez and South Korea's Kim Dae-jung

Source: AP

TOUR DE CHAVEZ. Venezuela's President Chavez has spent the last two weeks traveling around Asia in an effort to raise foreign investment for his country's recession-ridden economy, which shrunk by 10 percent in the first half of the year. True to his character, Chavez repeatedly tested Asian protocol. While in China, he broke into a sprint while climbing the Great Wall of China, forcing journalists, bodyguards, ministers, and businessmen to run with him. In Tokyo, Chavez interrupted a hectic schedule to pitch baseballs to a Venezuelan playing in Japan's professional league. Ironically, when he received an honorary degree in South Korea, the program stated he had a masters in political science. In fact he never received the degree because he hasn't completed his thesis on how leaders can induce changes in society. Chavez explained, "I am finally finishing my thesis now, but in practice."

NEW CLUES ON HOW US POLITICS WORKS. Efforts to adopt campaign finance reform have foundered in the US Congress. Money speaks and many politicians want to be sure they can speak loudly when election time approaches. It turns out that the most vociferous opponents of campaign reform are not the politicians but nonpartisan public-interest groups. The National Right to Life Committee, for example, has played a huge behind-the-scenes role in defeating campaign reform. Reform would put limits on advertisements praising or blasting politicians for their stands on particular issues. For years, groups such as the NRLC (and others, such as the American Civil Liberties Union, National Rifle Association, and the Christian Coalition) have spent millions advancing their agendas through such ads. To prevent limitations on their right to do so, the NRLC has made opposition to campaign finance reform the litmus test for all politicians. The NRLC has been so dogmatic on the issue that even their ardent supporters are enraged. Representative Tony Hall, a devout Christian and ardent opponent of any form of abortion, stormed out of a meeting with the NRLC, muttering "To hell with you all."