CHAPTER 2

EFFECTS OF GLOBALISATION: A REVIEW AND SYNTHESIS OF THE LITERATURE

A review of the literature on globalisation highlights the issue of the effects of globalisation on the indigenous industry. It also highlights the implications of globalisation on countries' economic development. According to Spark (2007) and Jomo (2006) what informs today's debate on globalisation is the development of capitalism. Indeed, today's debate on globalisation originates from the struggle between liberalism and interventionism in economic management. This chapter will discuss the background of globalisation followed by a discussion on the theoretical framework for the study. Subsequently, how the spread of free trade and the free market takes place in the world-systems will be discussed in brief. This will enable a better understanding of the phenomenon of globalisation and its changing process that poses challenges, especially to today's developing countries. The review and synthesis of the globalisation literature constitute the interrogation of globalisation as a plausible framework to explain contemporary phenomena.

2.1 INTRODUCTION TO GLOBALISATION

In recent years, the phenomenon of globalisation has attracted the attention of the mass media and the scientific community alike. A generally accepted notion of globalisation refers to the growing integration of national economies into the world economy, resulting in the efficient allocation and distribution of resources. Far from merely being part of the world economy, nation states are also subject to influence by the global economic processes in this age of transformation. Thus, the impact of globalisation on national development has been widely discussed, resulting in divergent views, particularly between proponents and pessimists in both developed and developing countries. A core argument by proponents, concerning efficiency through the impact the new phenomenon of globalisation has on the competitiveness of economies, is that it will eventually increase consumer welfare. Pessimists emphasize the disadvantages of globalisation on nation states ranging from inequality, Western imperialism, diminishing national sovereignty, social insecurity, labour problems, environmental degradation to the issue of job losses, particularly for developed countries.

Above all, the primary contention of the impact of globalisation is that it brings about a fundamental change in human economic activities. The process of globalisation[4] increases the integration of the national economies with the worldwide economy, becoming dependent parts of the world-systems. The new development of electronic technology and telecommunications makes an important contribution to the emergence of the global market. The changing process of globalisation has moved from global commodity markets and services to global financial and monetary institutions.

In social terms, globalisation has affected people in all countries in their way of working and living. This includes issues such as inequality, social security, international crimes and so on. Globalisation makes global problems national as in the case of terrorism, international crime and the spread of epidemics like SARS and H1N1. No country can ignore the consequences of globalisation.

In political terms, concerns have been raised concerning globalisation and diminishing national sovereignty. The interplay between economic and political impacts is evident.

[4]" Globalisation is a complex syndrome of processes, in which actors network and macro-structures interconnect in an extremely intricate and dynamic way" (Dicken, 2007, p. 12). As a result, it is necessary to examine the outcome of these economic processes.

The process of globalisation requires further liberalisation in trade and investment for nation states. Indeed, most nations are members of the WTO, a body responsible for promoting free trade. It has been argued that this multilateral agency limits government's unilateral action, and that the presence of multinational corporations dictates the direction of national economies.

The process of globalisation, which also affects cultural diversity through the trend of cultural assimilation, particularly of Western values, intensifies the debate. This cultural challenge has become a common concern among developing countries. Many have pointed out that the entertainment industry, particularly Hollywood, is dominating the world not only in direct cultural influence but also by limiting the development of cultural industries in developing countries. The advancement of telecommunications technology and the expansion of the global network of the mass media have contributed to the expansion of Hollywood. The entertainment industry in the US is the biggest exporting industry, surpassing the exports of its automobile and aerospace industries (Plate, 2002). The impact is the inability of developing countries to catch up with developed ones in the competition for cultural products. As a result, the introduction of the culture of developed countries is common and inevitable as developing countries are unable to do the same.

In the discussion of culture and cultural industries, it is significant that the process of globalisation has turned cultural industries into an economy. Cultural goods and services are now a part of the important global economy. Trade in culture has increased tremendously. Data from UNCTAD (2008, p. 106) reveals that the value of the world exports of cultural goods and services reached $424.4 billion in 2005, accounting for 3.4 percent of world trade compared to $227.4 billion in 1996. Over the period 1996-

2005, cultural industries gained shares in the global market and the growing annual rate of 8.7 percent was reached for the period of 2000-2005. It is expected that due to the prospect of increased global demand, this upward trend will continue throughout the decade.

One of the features of the current process of globalisation that is the interest of the present study is the emergence of new developments in the service industry, i.e. cultural industries.[5] The market and production of this industry has turned global. According to the 1999 UNDP report, trade in cultural products and services expanded five times from 1980 to 1998. In 1990, a total of 55 percent of the world exports of cultural goods involved only four industrial countries, namely, Japan, the United States, Germany and the United Kingdom. In fact, in 1996, cultural products became the largest United States export leaving behind its traditional export sectors such as automobiles, agriculture, aerospace and defence. Indeed, with the export of cultural products alone, the US earned $60.2 billion in that year.

It cannot be denied that the fact that globalisation is a necessary process that provides opportunities for the integration of developing countries into the world economy and that it has associated benefits through the speeding up of economic growth and increased technological advancement. In the case of Asian nations, many have emerged from an underdeveloped economy to that of a so-called ‘economic miracle’. However, in recent decades, globalisation has also raised numerous concerns for many nations. In addition, the opportunities of globalisation are not the same between nations. For developing countries, although many economies have prospered, others are struggling with increased poverty. As reported by the UNDP (1999), one fifth of the world’s

[5] Cultural industries include media organisations, film production, audiovisual sphere, the print output, multimedia sector, architecture, performing arts, plastic arts, and cultural tourism (UNESCO, 2000).

population enjoys the highest income, lives in countries that possess 86 percent of the world's GDP, 82 percent of the world's export market, 68 percent of direct foreign investment, and 74 percent of the world's telephones. However, only 1 percent of the above was achieved by the population living in the lowest-income countries. The report also illustrates that the wealth of the three richest billionaires in the world was then valued at more than the total GDP of all underdeveloped nations where 600 million people live.

2.2 HISTORY AND DEVELOPMENT OF THE PROCESS OF GLOBALISATION

There is extensive literature on the history of globalisation and there is no consensus on when globalisation began. Some believe the same world-systems began earlier than the 1800s, dating back at least five thousand years ago before the voyages of discovery associated with Christopher Columbus, Vasco da Gama and others. The theoretical debate on the commencement of globalisation can be specified into three possibilities:

i) that globalisation has been in process since the dawn of history, that it has increased in its effect since that time, and that there has been a sudden and recent acceleration;

ii) that globalisation is co-temporal with modernisation and the development of capitalism, and that there has been a recent acceleration; or

iii) that globalisation is a recent phenomenon associated with other social processes called post-industrial, post-modernisation or the disorganisation of capitalism (Waters, 2001, p.6).

Following authors like O'Rourke and Williamson (2002), who contend that globalisation began in the early nineteenth-century, as evidenced by the occurrence of commodity price convergence, it is sufficient to discuss the developments that began in the nineteenth century, as the main objective of this chapter is to examine how the globalisation process spread and affects today's developing countries, particularly Malaysia. This is because the characteristics of nineteenth-century globalisation tend to be associated with the current process of economic globalisation in terms of trade, investment and financial flows (UNDP, 1999).

The spread of globalisation is to promote economic efficiency based on the theory of comparative advantage. In explaining the outcome of free trade between two nations, the availability of a variety of goods to consumers will lower the prices that ultimately benefit the consumer (variety, products, choices at lower price). Thus, it leads to the specialisation of production of those goods that each country produces efficiently. In terms of a factor of production, it is expected to increase factor returns for countries that have an abundance of factor of production and vice versa. However, in the long run it is expected that the losing sector, as a result of lower factor of production, will induce other sectors to employ this labour or capital. In principle, the promotion of globalisation is for the benefit of people all over the world. However, the process of globalisation is without cost attached to it, which is the interest of the present study. Following the discussion is a brief review of the early era of globalisation.

2.2.1 The Golden Age of the Early Globalisation Process

There are different views on the specific historical epoch of globalisation and whether it is an old or a new phenomenon. However, many authors (for example, Bairoch, 1996; Kozul-Wright, 2006, Nayyar 2006) believe that although the term was newly coined globalisation is not new a phenomenon. According to Sachs and Warner (1995, p. 5), "the re-emergence of global, capitalist market economy since 1950 and especially since the mid-1980s, in an important sense re-establishes the global market economy that had existed one hundred years earlier". The nineteenth century era of globalisation was mainly among the countries that are today identified as rich or developed countries. The epoch can be traced back from the period of 1870 to 1914 characterised as the era of laissez-faire, championed by Britain after the abandonment of the old mercantilist protection measures in 1846, especially the abandonment of agriculture protection by the Corn Law. As a result, there were rapid expansion of international trade, investment and finance across borders. It is also argued that the world before the twentieth century was more globalised judging from not only the freer movement of goods and capital but labour across national boundaries.

The phases of globalisation coincided with the advancement of science and technology, especially in shipping, the telegraph and railways. This marked development of transportation and communication networks physically linked together different parts of the world. The invention of new technologies during the First Industrial Revolution in Britain increased the process of globalisation. The ability to traverse geographical distances was made possible by increased technology in transportation. The Significant achievement was made through the invention of the steam engine. This reduced shipping freight by two-thirds between 1870-1900. Events such as the opening of the Suez Canal in 1869 halved the distance from London to Bombay. The shorter shipping routes passing through the Black Sea and Egyptian ports further reduced the cost of freight. Railway transport was important during this century, connecting the hinterlands of countries with the world economy. The advancement of science and technology in transport and communication made the globalisation of economic activities easier. In communication technology, the revolution in telegraphic communication further shrank the world. The process was further enhanced by the reduction in tariff barriers pioneered by an Anglo-French agreement. These phenomena characterised the era of globalisation in the mid-nineteenth century.

In terms of international trade expansion, it was estimated that the growth of world trade was more than the world output. Estimation by Maddison (1989) showed that the world trade growth was 3.9 percent per annum, exceeding the world output of 2.5 percent per annum, while Mitchie and Kitson's (1995) estimation of trade growth and world output was a ratio of 3.5 percent to 2.7 percent per annum. This epoch also experienced a steady increase in the share of world trade in world output. Bairoch and Kozul-Wright (1996) found that the share of exports to GDP for Western Europe rose from 13.9 per cent in 1870 to 18.3 percent in 1913. For sixteen developed countries, Maddison (1989) reported an increase from 18.2 percent in 1900 to 21.2 percent in 1913. However, the export-GDP ratio was much lower in the US and Japan.

Similarly, international investment experienced the same expansion as trade during 1870 to 1913 with the increase in the world stock of foreign direct investment estimated at US$14 billion. The UNCTAD (1994) estimated that in 1913, the stock of foreign direct investment in the world economy was equivalent to 9 percent of the world output. During this age of imperialism, the primary source of foreign capital came from Western Europe. Bairoch and Kozul-Wright (1996) noted that in 1914 Britain, Germany and France accounted for $33 billion from a total stock of $44 billion. In developing countries, Maddison (1989) reported that there was a rise from $5.3 billion in 1870 to $11.4 billion in 1900 and $22.7 billion in 1914 for the stock of direct and portfolio foreign investment. The inflow of foreign capital to developing countries is the result of imperialism. For example, the British share of foreign investment in Europe and the US dropped from 52 percent to 26 percent between 1879-1914 but rose from 33-55 percent for Latin America and British colonies during the same period.

The integration of international financial markets was also significant, beginning in the nineteenth century to provide a channel for portfolio investment flows. For example, in 1913, foreign securities constituted 59 percent of total securities traded in London while Paris constituted 53 percent of the total (Morgenstern, 1959).

2.2.2 The Late Twentieth Century

The expansion of world trade in the final quarter of the nineteenth century was led by British 'imperialist' trade. However, the post-Second World War witnessed the emergence of the United States as the new power economically, politically and militarily. With the collapse of socialism, the United States seized the opportunity to take advantage of promoting a liberalised trade regime. The main vehicle for its deliberate move was the General Agreement on Tariffs and Trade (GATT), which was established to achieve a two-pronged strategy of (i) encouraging members to restrict protection to tariff duties; and (ii) seeking consensus to tariff reduction. The economic landscape of hegemony had shifted from that of Britain to America (Waters, 2001).

Between 1948 and 1966 world trade grew from 6.6 percent per annum to 9.2 percent per annum between 1966 and 1973. During this period, the share of world trade witnessed a relative decline of the British share and an increase in that of the European Union, and the emergence of Japan as a new trading power. The emergence of less-developed countries (LDCs) and newly industrialising-countries increasing their share of world trade improved in the 1950s and remained stable at 25 to 30 percent (Waters, 2001).

This new phenomenon generally increased the level of global economic interdependence.

Much of the characteristics of globalisation in the early epoch are similar to the current wave of globalisation with the growing economic integration in trade, investment and finance. However, the deepening of the current process of globalisation poses new challenges, especially for developing countries. In quantifying the stage of globalisation, indicators like the volume and growth of world trade or foreign investment, or the share of imports and exports to GDP are the commonly used measures. However, despite these quantitative indicators, globalisation implies additional structural aspects of global economic integration. The new processes characterising the new period of globalisation according to the UNDP (1999) are:

(i) The emergence of new markets, financial markets and services like insurance and tourism that are organised at a global scale.

(ii) The new actors such as multinational corporations (MNCs) and other international organisations (WTO, IMF, World Bank).

(iii) New rules and norms have been developed to organise the global economy such as the strengthening of intellectual property rights (IPRs).

(iv) The creation of cheaper and faster communication tools as a result of increases in information and telecommunication technology.

In addition, the current globalisation process witnessed the emergence of a new economic power that changed the global economic activities landscape. Henderson (2008) foresees that the rise of China is driving the global economy in an unprecedented way. China’s dynamism and international expansion is expected to affect developed countries as much as many other developing countries. Henderson (2008) further argues that the current pattern of China’s expansion provides new opportunities as well as threats to many developing countries particularly with regard to their national development projects.

2.3 THE DEBATE ON THE EFFECTS OF GLOBALISATION

The debate on the effects of globalisation is so extensive that there are many claims that the discussions are clouded with myth and exaggeration. The different reactions towards globalisation are partly a result of different interpretations of the concepts (Intriligator, 2004; Sumner, 2004). Many have seen globalisation as a ‘good thing’ that advances the world economy (e.g: Bhagwati, 2004; World Bank, 2002; Friedman, 2000; International Monetary Fund, 1997; Ohmae, 1990); others are very critical of its consequences, especially for the less developed countries (e.g; Jomo, 2006; Giddens, 2000; Khor, 2000; Rodrik, 1997) while authors like Stiglitz (2006, 2004) and others argue that despite the concern over its negative consequences, globalisation can foster development in the majority of the world. The main criticisms concerning globalisation range from the ‘rules of the game’, which claims that globalisation brought about unfair competition that mostly benefits developed countries, globalisation erodes national sovereignty, globalisation advances material values over other values, and that globalisation created many losers.

In the case of economic sovereignty, for example, there are claims over the erosion of economic sovereignty through the hegemony of global economics, politics and culture (Hague, 2006; Davies et al., 2005; Higgot, 1998; Strange, 1995). In defending the relevancy of nation-states in the process of globalisation, advocates of globalisation have refuted the claim over diminishing sovereignty and argue that it strengthens nation-states by virtue of state involvement in the globalisation process (Shin, 2005; Weiss, 1997; Zysman 1996; Wade, 1996; Hirst and Thompson, 1995). They further argue that by virtue of the integration into the world economy, nation-states are inevitably subjected to external influence in one way or another, however, this does not amount to diminishing sovereignty. In many cases in developing countries, evidence shows that at present (as in the case of Malaysia) the reality persists that nation-states have yet to be completely substituted or deleted from the world map. They continue to exist within their own institutional arrangements, imposing policies whenever necessary.

In this respect, according to Sumner (2004), the unresolved debate on the impact of globalisation is due to different conceptualisations and quantifications of the concept; globalisation as internationalisation and globalisation as economic liberalisation. Globalisation as internationalisation is an increase in trade and capital volume while globalisation as economic liberalisation is the reduction in trade barriers or capital controls. Sumner found that sceptics view globalisation as economic liberalisation; therefore, the consequences are much highlighted, whereas proponents view it as internationalisation that emphasises its benefits. Indeed, according to You and Lee (2000) what advances globalisation is not merely technologically determined phenomena but a result of the spread of neo-liberal policies that promote cross-border and free flows of capital, goods and services, people, ideas and information.

The debate over the benefits and consequences of globalisation are indeed highly dependent on arguments that are based on a particular self-interest. In reviewing the work and literature on globalisation, it is evident that diverging perspectives are common between those representing developed countries and those of less developed ones. For example, Paul Samuelson who is an advocate of free-trade, later argues that globalisation, in reference to a shift in production location, is bad for Americans as it caused a major shift in employment to a cheaper labour location (Samuelson, 2004). This view contradicts those countries that have emerged as location sources of cheap labour that view globalisation as a good thing as it benefits them tremendously in creating employment. From this illustration, the good or bad is relative to who is the 'winner' and 'loser' in the process of greater economic integration and increased competition.

As studies have shown, it is difficult to conclude whether the effects of globalisation are positive or negative as the impacts are different between countries, sectors, society and individuals (Lall, 2004; Stiglitz, 2004; Yeung, 2002). Therefore, within the context of the globalisation process, it is imperative not to generalise the impacts but rather to treat the impacts of globalisation as being unique to particular countries, sectors, societies and the like. Furthermore, one cannot conclude that it is only globalisation that is affecting them as some are affected as a result of internal factors or the interplay between external (the process of globalisation) and internal factors. In analysing the effects of economic globalisation on the Asian financial crisis, Yeung (2002, p.300) argued that "the crisis was not simply an outcome of economic globalisation versus localities, but a consequence of spatiality of economic globalisation mediated through locally contingent conditions that varied from one country to another". In addition, Lall (2004) argues that the effects of globalisation are difficult to generalise as they are context specific, dynamic and changeable, reflecting particular interactions in each economy between the external facets of globalisation (e.g. shrinking economic distance, greater trade or the spread of international production) that apply to the economy and the internal factors that affect its response. Thus, the present study investigates how a sector within the cultural industries of a single country responds or reacts in the current process of globalisation, as a national economic sector within the nation-state as well as in the international arena.

2.4 UNDERSTANDING GLOBALISATION: DEFINITIONS AND CONCEPTS

The literature on globalisation is voluminous and the concepts and implications are subject to heated debate resulting from different perspectives of the term ‘globalisation’ itself. Although, the growing economic integration among nations is generally an acceptable definition of the term ‘globalisation’ the term is not exclusive in explaining economic activities. It also includes social, political and cultural aspects. However, frequently, economic globalisation received the most contention in the literature and its implications are subject to intense debate and controversy (Bhagwati, 2004; Jomo, 2006; Giddens, 1990). Economic globalisation, as defined by Bhagwati (2004, p.3), “constitutes integration of national economies into the international economies through trade, direct foreign investment, short-term capital flows, international flows of workers and humanity generally, and flows of technology...”. A broader definition by Held and McGrew (1999, p.1) states that, “the world is rapidly being moulded into a shared social space by economic and technological forces…for many globalisation is also associated with a sense of political fatalism and chronic insecurity in that the sheer scale of contemporary social and economic change appears to outstrip the capacity of national governments or citizens to control, or resist that change”. Judging from the current scenario, Malhotra (1997, p. 1) concludes that the end of the twentieth century process of globalisation is primarily “economic and finance-led”. It can be observed that there are three different dimensions of globalisation, namely, increase in trade flows, increase in FDI and increase in financial flows.

There are many definitions and concepts of globalisation used by analysts and scholars to examine globalisation. Lall (2004, p. 3), in his study on the relationship between globalisation and employment, has synthesised some of the most prominent indicators of globalisation used in the literature on globalisation. They are categorised as follows:

1. Outcome: For economic historians the most preferred outcome indicator of globalisation is the convergence of product prices between exporting and importing countries, a good direct measure of economic distance (transport and transaction costs in and policy barriers to trade) between economies. The manifestation of globalisation also arises from flows of products, intermediate inputs, equipment, services, and finance, which includes loans, FDI and portfolio investment, information, technology and skills. The most commonly used measure relates to these, in particular to trade and capital. However, care has to be taken in interpreting outcome measures when the measures reflect factors other than globalisation and when the closer integration of economies does not result in greater trade or other flows. The latter point is particularly apt today, as a number of developing countries opening themselves to global markets are not enjoying a concomitant increase in exports or FDI.

2. Transport and communication costs: Many analysts used factors like falling transport, information transmission and communication costs in the discussion on globalisation as they can be measured directly.

3. Policy liberalisation: The policy process of economic liberalisation is another indicator used by analysts to measure globalisation. Policies to facilitate closer economic integration of freer trade, direct investment, borrowing and portfolio

investment, privatisation and so on are sometimes used to measure globalisation. 'Openness' is the most common measure used (most often trade/GDP ratios) or trade liberalisation (nominal tariffs, relative exchange rates, black market premia on exchange rate or qualitative indices of liberalisation). Openness and liberalisation measures are, however, hard to calculate: indicators of openness may be arbitrary, nominal tariffs may not capture the true incidence of barriers and other measures may be misleading. In any case, it is not clear that they measure 'true' national participation in globalisation: a country may be participating more effectively in the globalised economy while retaining trade and other restrictions than by having completely liberal policies. In other words, given infant industry considerations and widespread information and coordination failures, it may be the case that countries can link to and leverage export markets and FDI more effectively by using selective interventions (Stiglitz, 2000; Lall, 2001). Surely, Korea and Taiwan in the heyday of their industrial policies were more 'globalised' than many African countries today that 'adjusted' according to IMF strictures? Thus, no unequivocal indicator of globalisation follows from policy analysis.

4. Forms of globalisation: Some analysts take particular forms of globalised production as its manifestation. An important one is integrated production systems where an activity is 'fragmented' and processes or functions are located in different countries and measured by the flow of parts and components for further processing.

5. Actors of globalisation: MNCs as drivers of globalisation are a common association. Some analysts equate globalisation with the spread of MNCs and

> the growing dominance of large firms in global value chains. If this definition is accepted, the share of MNCs in various forms of economic activity becomes a good measure of globalisation. However, this is clearly a rather restricted measure, excluding many other dimensions of the phenomenon that do not involve direct equity participation. In fact, it even underestimates the importance of MNCs in economic life, since they rely increasingly on external suppliers and sub-contractors.

Lall (2004) concluded that there are indeed no precise measures of globalisation. However, analysts appear to agree on what globalisation is in general. Furthermore, Lall foresees that it is unlikely that a perfect measure of globalisation will emerge. Subsequently, he admits that the divergent concepts of globalisation make it very difficult to measure the impact of globalisation on anything. However, he does not suggest that any attempt to study the impact of globalisation will be futile. He argues that "the fact that globalisation has so many aspects that 'hang together' makes it all the more important to discuss its impact, even in an imprecise way" (p, 4).

Sparks (2007) who argues over the inadequacy of current globalisation theories in providing an accurate picture of the contemporary world has, nevertheless, agreed that issues pertaining to the concern over capitalism like inequality, imperialism and state power remain central to the analysis of contemporary society.

The present study is inclined to a more cogent and relevant explanation of the concept of globalisation as illustrated by Dicken (2007) who refers to globalisation as a complex of interrelated processes that transform the global economy in the way it is now. He argues that globalisation is not "some kind of all-embracing, inexorable, irreversible, homogenising force but rather constituted through, and transformed by, a complex of interrelated processes rather than by some single force called 'globalisation'. The processes that are transforming the geo-economy are highly uneven in their operation and in their effects. Without doubt the world *is* a qualitatively different place from that of only 60 to 70 years ago, although it is not so much more open as increasingly *interconnected* in rather different ways" (p. 29).

Rather than arguing over the differences in concept, the present study establishes the definition of globalisation from an economic geography perspective. Hence, following Dicken (2007), this study takes the view that the process of globalisation refers to the changes in the pattern and trend of global production, distribution and consumption of goods and services. As emphasised by Dicken (2007, p. 7), old geographies of production, distribution and consumption are continuously being disrupted; new geographies of production, distribution and consumption are continuously being created. This qualitative change is characterised by *deep integration* that has affected many in different ways. The main purpose of this study is to examine the effects and consequences of such changes on the state and industry sector. Rather than examining a 'what if' scenario, the present study examines Malaysia's actual experience in responding to the global economic scenario and the effects of its engagement with the world capitalist system.

A way to examine the effects or outcome of the process of globalisation is by understanding the changing global environment such as digital technological advancements in filmmaking. It may affect the indigenous industry in a way that allows production houses to stay competitive. To respond to global challenges requires a comprehensive understanding of both local and global industry, as the changing environment will have an impact on the business aspect of the industry.

2.5 GLOBALISATION – A THEORETICAL FRAMEWORK

Globalisation is used as a theoretical lens in which the global effect of capitalism is to be understood. Indeed, Sparks (2007) and Jomo (2006) claim that it is the development of capitalism that informs today's debate on globalisation. Globalisation, for the past two decades shows the acceleration and growth of economic networks operating on a basis of worldwide scale and this accelerated growth is a result of the flows and processes of economic activities that increasingly transcend national boundaries. According to Dicken (2007) the fundamental premise of globalisation approach is a greater level of integration termed as '*deep integration*' that plays a crucial role in its impact to most types of economic and social changes.

Applying globalisation as a framework for the study will enable understanding of the effects of globalisation from the perspective of the study participants. This is in view of the fact that the film industry has now become a global business, both in the developed as well as developing countries (UNCTAD, 2008). The appropriate response towards this new global trend in the film business is made possible by the process of globalisation, which according to some writers (such as Evuleocha, 2008; Gao, 2009; Lorenzen, 2007; Ryoo, 2008; Shin, 2005) economically benefits developing countries. Furthermore, globalisation takes into consideration many aspects of global discourses and does not ignore the cultural aspect of developing nations (UNCTAD, 2008, UNDP, 2004; UNESCO, 2002). It also acknowledges the desire of developing countries to participate in the global economy and acknowledges the difficulties associated with embracing and adapting Western ideologies to suit a developing country's own unique characteristics (Reyes, 2001). Functionally, qualitative features characterise globalisation debate. According to Dicken (2007, p. 8) the processes of globalisation are different from internationalisation processes. Globalisation processes deal with the geographical development of economic performance and cover the functional formatting of such activities as well. This process of globalisation transforms the geo-economy, which is highly uneven in its operation and its effects (Dicken, 2007, p. 29).

It is necessary to trace the foundations of globalisation if the objective is to introduce globalisation as a constructive framework that has a positive effect. Globalisation recognises that technological advancement, especially in communication and transportation, resulted in more countries being able to interact with each other. This interrelationship involves government affairs as well as the public (Stiglitz, 2004; Reyes, 2001) and occurs among developed countries as much as among less developed countries. This kind of technological advancement enables poor countries to apply new technology and makes it possible for them to participate in the global economy. Communication as a key component of globalisation helps to speed up the transfer of technologies from one country to another (Stiglitz, 2004). Furthermore, as far as economic activities are concerned, technology benefits minor local businesses. Globalisation increases global competition. Although there are concerns over the negative impact of competition, especially among developing countries, the beneficial effects of globalisation are evidenced in terms of increasing production and efficiency. In some cases, competition has led developing countries to achieve economic growth and development. As a result of the rationalisation of production on a global scale and the spread of technology, globalisation increases productivity (Intriligator, 2004; Tanzi, 2004, Zineldin, 2002).

On the other hand, another important feature of globalisation is its effect on nation-states. It has been argued that globalisation affects nation-states in a way that they are subject to various changes, such as changes in the size of the economy, internal demand, the structure of exports, the degree of economic growth and even the periphery position of international relations (Reyes, 2001). Previous studies on globalisation forecast the end of national boundaries, national corporations, national industries, and national economies. They argue that all will merge into corresponding transnational organisations outside the reach of national laws, regulations and actions (e.g. Bhagwati, 2004; Ohmae, 1990). This argument further heightened the globalisation debate in which globalisation is associated with the weakening of national government in policymaking (Haque, 2006; Davies et al., 2005; Higgot, 1998, Strange, 1996). This argument can be traced back from the view of dependency theory. The main view of dependency theory is that capitalism is the main cause of Third World underdevelopment. This theory focuses on the totality of society and the social system periphery that highlights the differences between imperialistic countries in the first world and underdeveloped countries. This theory incorporates elements of neo-Marxist theory and adopts a ‘revolution of under-developed nation model’.

In the case of cultural industries of the Third World, particularly the expansion of the film sector, scholars in the field of media studies, mass communications and cultural studies have been interested in the cultural effects of the globalisation of film and television programming. This is evidenced by the highly debated ‘cultural imperialism’ or ‘culture dependence’ theory which emphasises American domination in media industries (Schiller, 1976). It was claimed that American aid and assistance to develop media industries in Third World countries was an attempt to achieve global domination.

Studies by Nordenstreng and Varis (1974) and Varis (1985) confirm the above claim by documenting the global market share of television programmes, and the findings demonstrated that developed countries spearheaded by the US were dominating the international market share. This has created concern, especially regarding the cultural effects of the importation of Western programmes to locals.

According to the ‘cultural imperialism’ perspective, the pattern for international telecommunications traffic, such as television programmes, mirrors the domination in the economic and political order of developed countries. This is particularly evident in the American ‘cultural imperialism’ in peripheral countries, which raises concern that it threatens the traditional culture and way of life as it is accused of carrying American capitalist ideologies. For proponents of the free-market, although quantitative evidence demonstrates that the United States dominates the exports of cultural trade, this is merely due to economic factors. United States hegemony in cultural trade can be attributed to its economic advantages in terms of its large and highly competitive market, large production budgets, advanced production technology and that English is among the most widely spoken language in the world (although language is not necessarily an advantage) (Hoskins and McFayden, 1991). In addition, authors like Sinclair, Jacka and Cunningham (1996, p. 8) argue that the cultural imperialism critique “tended to identify the USA as the single centre of a process of mediacentric capitalist culture influence which emanated out to the rest of the world in the form of television programmes. It also assumed that these programmes have an inevitable and self-sufficient ideological effect upon their helpless audience in the periphery”. Further, Rampal (2005) argues that there is lack of empirical evidence showing that US cultural trade domination is influencing countries’ domestic and international policies.

Cultural imperialism perspective has been used by many previous studies to explain Western cultural influence on local audiences. The studies found that empirical evidence does not support the perspective (e.g. Rampal, 2005; Giddens, 1999; Sinclair, Jacka and Cunningham, 1996). However, on the basis of globalisation and the free-market view, the fact remains that quantitative evidences show developed countries domination in cultural trade (UNCTAD, 2008).

Review of the literature on globalisation suggests that the debate on the effects of globalisation can be simplified to those concerning the developmental issues of a nation. The term globalisation according to Nayyar (2006, p. 71) is used in a positive sense to describe a process of increasing integration into the world economy and it is used in a normative sense to prescribe a strategy of economic development based on rapid integration with the world economy. The studies on the consequences of globalisation and increased economic integration concern mostly with developmental issues of national economies (see for example Henderson, 2005, 2002; Ewert and Henderson, 2004).

Globalisation renders different impacts on various countries and regions given their historical, political and cultural trajectories. It recognises that not all countries are able to benefit from greater integration. Some countries have greater capability than others to participate successfully in the economic condition of the new world and some remain marginalised (O'Brien and Leichenko, 2003; Reyes, 2001). Hence, as globalisation forces are always emerging in particular locales, a study on globalisation must begin by taking into consideration the specific geopolitical and historical context, even if the overall intention of a certain study is to reach global generalisation (Ryoo, 2004). This study takes globalisation as a plausible framework to explain phenomena currently occurring and impacting most parts of the world. Further, the study will look at the specific aspects and debates on how the process of globalisation affects the development of the indigenous film production industry.

2.6 SPECIFIC ASPECTS OF GLOBALISATION: A THEORETICAL FOUNDATION

Studies on the effects of globalisation are extensive with particular attention given to the economic impacts of globalisation. In examining the effects, previous studies focus on a particular aspect such as the effect of globalisation on employment, effect on economic growth and development, while others focus on its effect on poverty and equality. Note that it is not possible for a single researcher to examine and embrace all possible aspects of globalisation but rather focus on particular aspects of globalisation. This study focuses on the most debatable effects of the process of increased economic globalisation. The review of globalisation literature has revealed three important dimensions of globalisation debate namely its effects on competition, technology and the role of government.

2.6.1 Globalisation and Increased Competition

The globalisation phenomena that occur today are the result of a combination of factors ranging from technological advancement, falling barriers to trade and investment, and the spread of neo-liberal ideology of the free market, liberalisation and deregulation. Thus, globalisation brings the domestic economy closer to an international economy in many ways. The onrush of globalisation into a market has presented significant economic policy challenges to nation-states by providing an environment that is more productive and competitive in the global markets. As argued by Porter (1990) the renowned author of *The Competitive Advantage of Nations*, nations have to increase their competitive advantage to be able to succeed in this modern economy and compete at the international level. The motivation behind embracing globalisation and liberalisation is to bring efficiency to the economy through competition. Without the existence of competition, the market is characterised by the monopoly system, and in the case of the command economy, the allocation of resources is under the purview of the state government. The outcome would be the deprivation of choice of products at the best lowest price for consumers as a whole. The basic tenet behind embracing the benefit of ‘competition’ is how the profit motive of individuals in pursuing their own interest will lead toward serving the public interest (Smith, 1976).

The discussion that links the advantage of globalisation and efficiency is voluminous in the literature (e.g. Wolf, 2005; Bhagwati, 2004; Friedman, 2000; Ohmae, 1990) not to mention the influence of Adam Smith and David Ricardo. However, globalisation is not without debate, as more recent literature addresses the disadvantages of globalisation with particular attention to its impact on less developed countries. Although many criticisms of the effects of globalisation have been brushed aside by its supporters, there is no doubt that increased globalisation is adversely affecting some indigenous industries in many of the less developed countries. Stiglitiz (2002), though a supporter of globalisation, even suggested that globalisation might have an adverse effect on indigenous industries in less developed countries, citing a Jamaican case and that, “opening up the Jamaican milk industry to U.S. imports may have hurt local dairy farmers” (Stiglitz, 2002: p. 5). This argument was based on the limited capability of the local industry to face competition from international players.

Competitive pressures force many organisations to re-strategise the business to ensure survival. Indeed, the phenomena of stiff competition characterises the contemporary business environment. In the context of business organisations, Ismail (2007) argues that globalisation is indeed the outcome of a hyper-competitive business environment that could, at a certain level, pose a negative outcome. To understand the behaviour of organisations is to understand the nature of competitive pressures in the global business environment where all sectors of the economy are affected. He further argues that the behaviour of organisations is a response to hyper-competitive pressures where firms are forced to be slim and lean.

Concerning the effects of globalisation on economic growth, the discussion of uneven development is prevalent. As reported by UNDP's Human Development Report (1999), the new model of economic growth, based on the expansion of international trade and development of new technologies, causes uneven benefits to the global society with two-thirds of humanity being excluded from it and, consequently, they are excluded from the construction of the information society. This is particularly so for developing countries that are experiencing a weakening of their production capabilities. With respect to trade flows, important disparities exist among countries.

Globalisation, as has been pointed out, is often associated with the capitalist free market system (Sparks, 2007; Jomo, 2006; Ferguson, 1992). Many countries, especially the developed ones, have seen cultural industries, particularly film products in solely economic terms and that it should be subject to market forces. Others have traditionally tied cultural industries to national identity and argue that cultural works deserve a special status rather than that of a regular tradable commodity (Wheeler, 2000). The differing views between the cultural and economic characteristics of international flow of film products further complicate the issue.

Hence, the literature shows that competition is at the heart of the globalisation discussion. The general argument on the effects of the process of globalisation is that globalisation increased competition and that competition is a fundamental principle of economic efficiency. On the other hand, others argue that globalisation increased competition and that indigenous industries are not able to compete with global players (Hartungi, 2006; Stiglitz, 2002; Khor, 2000; Jomo, 1996).

Rather than assessing industry competitiveness, this study makes an empirical assessment of the current state of the indigenous film and production industry in the wake of stiff global competition. Despite the increasing importance of this sector in the new global economy, there is hardly any study conducted that focuses on how it affects the development of the indigenous film production industry.

2.6.2 Globalisation and Technological Advancement

Falling trade and investment barriers have been significant in the massive flow of cultural products. Underlying the process of globalisation of economic activities is technological change. It can be said that technological advancement is one of the most important processes of globalisation that transforms the patterns of the economy. Advancements in technology, particularly in information and communication technologies have altered the pattern and trend of global cultural industries. Technologies are dramatically influencing the structure of the industries and the strategies of firms competing in these industries. Technology is both driven by, and a key driver of globalisation, as technology enables firms within an industry to capture economies of scale and scope by going global.

The emergence of new media such as satellite networks has dramatically changed the pattern in audiovisual industries. A major shift in the mass media industry occurred with the introduction of cable and satellite broadcasting. This was then followed by the widespread deregulation in the media industry in many countries. As a result, the number of television channels available in many countries increased dramatically, particularly with the accessibility of cable and satellite networks. The major effect on the television industry was not only the commercial value of the television industry (in terms of increasing the advertising revenues) but also the increasing demand for television content.

In film and television production, technologies simplify the way film and television programmes are produced. Berwanger (1988, p. 81 cited in Hoskins and McFadyen, 1991) wrote:

> "News and documentary films and, to an increasing degree, entertainment series as well, can be produced in countries that have never known the jobs of film laboratory technicians, film cameramen, nor those of the technicians and skilled workers responsible for producing the equipment they need."

Initially, it was developed countries, particularly the United States, that had a competitive advantage in film technology. However, according to Hoskin and McFadyen (1991, p. 8) the US learning curve cost advantages were largely tied to experience with film technology. Technological discontinuities involving solid-state microelectronics are rendering this established technology obsolete and thus nullifying the advantage.

According to Stiglitz (2004) the division between developed and developing countries because of globalisation was not only a gap in resources or capital but, most importantly, a gap in knowledge and technologies. That is why globalisation resulted in differing economic performance between countries. The underlying success as outlined by Stiglitz depends solely on the ability of countries to access and penetrate new technology, which includes (i) the ability and willingness to undertake risks (ii) capital markets that were able and willing to supply funds to new enterprises (iii) a trained and technologically savvy labour force (iv) a close connection between universities and research centres, and (v) the business community.

Many non-Western countries have benefited from the adoption of technology in filmmaking. In addition, non-Western countries, for example, have an abundance of cheap labour and have been able to develop their own local expertise. South Korea and Japan are among the countries that have benefited from technology in film animation and have developed their own capabilities by penetrating deeper into new technologies. As mentioned by Collins et al. (1988, p. 54, cited in Hoskins and McFadyen, 1991):

> "Leapfrogging has occurred for one specialised programme type, computerised animations, where Japan has been quicker than the U.S. to adopt new technology, and as a result is now the largest exporter of a program format once dominated by the U.S."

Hence, their products are able to meet export potential and their experts are highly sought after.

Consequently, as much as the advancement of technology has benefited developing countries in developing their own industry, it also poses a threat to the film industry. For example, the application of new technologies in film production, like the special effects and the application of information technologies in distribution (the new media like the

Internet and mobile communication) and other aspects of film business, may exert adverse effects on the indigenous film industry. As new technologies evolve, the industry has to respond to the new challenges. In the current scenario, the introduction of digital technology is transforming the industry in the way films are produced. Digital technology and the widely used computer-generated imaging (CGI) are challenges faced by today's film producers. On the one hand, digital technology in filmmaking, like HD, has benefited film producers as it saves cost and time in producing films compared to the traditional 35mm film stock. HD technology enables a film project to achieve higher project completion rates, faster processing times and easier manipulation of content, the potential for interactive narrative, greater resistance of digital media to degradation, better quality images, and new delivery possibilities.[6] In terms of film distribution, digital technologies enable film products to be distributed to buyers all over the world through the use of satellite or fibre-optic cables, at the same time reducing the cost of distributing bulky film stocks.

However, on the other hand, technology may also pose a threat to the local film production industry. Currently, many successful Hollywood movies are capitalising on the use of CGI technology. The cost of making movies using CGI is very high and mostly only big-budget movies are able to benefit from this technology. According to the *Hollywood Reporter*, eleven MPA Member Company films broke the $200 million barrier overseas in 2007. These movies were produced using CGI technology and have successfully penetrated and attracted a global audience. Table 3.1 below shows the revenue earned by Hollywood's MPA films in 2007.

[6] Department of Canadian Heritage's Website.

Table 2.1
Motion Picture Association - Member Company Films 2007

No.	Movie Title	Global Revenue (in US$mil)
1	Pirates of the Caribbean: At World's End	653
2	Harry Potter & the Order of the Phoenix	645
3	Spiderman 3	555
4	Shrek the Third	475
5	Ratatouille	411
6	Transformers	387
7	The Simpson's Movie	343
8	Night at the Museum	262
9	Live Free or Die Hard	248
10	300	246
11	The Bourne Ultimatum	215

Source: *The Hollywood Reporter* (http://www.mpaa.org), retrieved in December 2008.

In addition, given the advanced application of ICT towards a ubiquitous communication network, all producers and firms in cultural industries will face uncertainties over the impact of a new constellation of ICT such as high definition TV, interactive TV, mobile phone TV; and the convergence of wired and wireless, satellite and terrestrial TV; film, multi-media contents at large; and the mergers of content and conduit agencies, which will enable programmes of choice to be downloaded at will in any order (Lai, 2006, p. 65).

As discussed, the advancement of filmmaking technology can be either opportunities or threats to the local film production industry. As argued by Tushman and Anderson (1986, p. 442) "major technological shifts can be classified as competence-destroying or competence-enhancing because they either destroy or enhance the competence of existing firms in the industry". It is argued that although globalisation allows the transmission of knowledge and technologies at a much greater pace, it does not mean that it automatically benefits developing countries. Other factors like the nature of the technologies and countries' policies are influencing the adoption or transfer of technologies (Archibugi and Pietrobelli, 2003).

The adoption and adaptation of new technologies is crucial if a country wants to take the opportunity of developing their domestic film production industry. There are many ways in which technology can be acquired. In the case of foreign direct investment, many host governments emphasise the transfer of technology from MNCs to local firms and, thus, the ability to adopt new technologies is crucial in the development of the domestic industry. The present study will analyse the role of technology in the development of the film production industry and how the domestic film production industry has responded to the challenges in technology evolution.

2.6.3 Globalisation and the Role of Government

Adam Smith, the founder of classical economics, argued for the limited role of governments. In his book *The Wealth of Nations* (1976) he contended that the duty of a government is to safeguard external and internal security.

> "according to the system of natural liberty, the sovereign has only three duties to attend to, namely, external security, internal security (law and law enforcement), and certain public works and certain public institutions" (Smith, 1976, pp. 687-688).

The major function of governments is to protect a citizen's freedom both from enemies outside as well as from its own fellow citizens: to preserve law and order, to enforce private contracts, to foster competitive markets (Friedman, 1982). He further argued that the private sector is a check on powers of the governmental sector and an effective protection of freedom of speech, and of thought. Supporting Smith and Friedman is Tabellini (2005) who argued for the necessity of minimalist government, as for many developing countries it becomes a challenge to create basic legal and institutional infrastructures that protect property rights, enforce public contracts and allow individuals to take advantage of market opportunities. In addition, governments should also provide public goods, correct market failure, reduce inequalities in income and opportunities and stabilise excessive economic fluctuations.

The proponents of classical economics, Adam Smith, David Ricardo, Karl Marx and others were among detractors against government intervention in the economy as it creates disincentive and can cause detrimental effects. It was argued that during the process of economic development in the Western developed countries in the nineteenth century, private enterprises played an important role in the economy while the role of governments was limited to providing a favourable environment for private capital formation. Generally, within the capitalist system, the presence of government in the economy is mostly weak. After the collapse of authoritative economic theories, such as classical economics in the 1920s and 1930s, Keynes supported the idea of a new expansion of government. It was followed by contemporary analysis on the importance of the role of government for countries seeking international competitiveness (Porter, 1990). In the context of developing countries, there is little debate on the importance of government intervention but a significant debate concerns the nature and degree of the role of governments in the economy. Government interventions can be categorised into two categories, (i) functional intervention and, (ii) selective intervention (Wint 1998: p. 281). Functional intervention is government intervention that seeks to affect the entire economy and is neutral on its impact to firms, offering the prospect of the creation of a "level playing field" and improvement in the functioning of a market such as government participation in generic education and general infrastructure development. While selective intervention includes government interventions that favour particular sectors or firms, thereby, by extension, discriminating against other sectors and firms within the economy like providing incentives in terms of import protection or export promotion, to particular industries or firms.

There was no criticism over functional intervention by the World Bank (1993) judging from the report that attributed the success of government policy interventions that ‘got the basics right’, in the report of the economic success of eight high performing Asian economies. However, critics have been harsh on selective intervention, which could cause serious ‘government failure’. The critics are based on neo-liberalists who emphasise the negative dimension of state power in developing countries that tend to see state power as corrupt, self-interested and incompetent (Mosley et al., 1991). In his study on the governments’ role in the Caribbean economies, Wint (1998) concluded that functional and selective interventions are interrelated. He argues that where a government is involved in selective intervention to attract foreign investors, it should also ensure that the risks associated with foreign investment are reduced by using functional intervention to develop infrastructure and restore macroeconomic stability.

The process of globalisation increases market forces in an economy. Thus, many have associated the process of globalisation with the weakening of national government in policymaking (Haque, 2006; Davies et al., 2005; Higgot, 1998; Strange, 1996). Indeed, scholars have different views on the issue of government intervention. In embracing a market economy, unlike most developed countries, developing countries face the issue of fragile private enterprises and weak economic conditions. This demands government intervention in the economy, which could regulate the market and provide essential information for the market to work well for the economy. Most developing countries, to a certain degree, have high government intervention in the economy by virtue of the formulation and the implementation of industrialisation strategies (Jomo, 1997). Many have found that government intervention in the economy is undesirable. Even the World Bank (1993) reported that the successful economies enjoyed by Southeast Asian countries were due to their embracing a market economy.

However, inconsistent with the World Bank Report, authors like Jomo (2001, 1997) and Akyüz, Chang and Kozul-Wright (1998) argued that what makes the Southeast Asian ‘economic miracle’ is not merely the result of the adoption of economic liberalisation preached by the Washington Consensus but that many factors contributed to it, including the political and historical circumstances of individual countries. Hence, what is observable is the differing degree of economic performance for each country. In the case of East Asian economic development, Henderson (1993) argues that neo-classical economic theory is deficient in explaining the industrialisation strategy implemented by the states. He further argues that the role of the state is instrumental in influencing their economic development. Undeniably, one of the factors that contributed to the Asian economic miracle is active government intervention in the economy through industrialisation strategy.

The argument over the consequences of globalisation on less developed countries resulted in supporting, to a certain degree, the move towards protectionism and state intervention. This is because it was argued that the economies of developing countries are relatively weaker than the developed countries and are at the losing end in the era of intense competition brought about by the process of globalisation (for example, Jomo, 2006; Khor, 2000; Hartungi, 2006). One of the most common reasons for government intervention is to protect domestic industries from ‘unfair’ foreign competition. An internationally acceptable economic argument for government intervention is ‘infant industry argument’, which has been advocated since 1792, by Alexander Hamilton

(Hill, 2006). Over the past fifty years, the infant industry argument has been recognised as a legitimate reason for protectionism under GATT. Under the infant industry argument, governments are allowed to temporarily support the development of new industry by restricting foreign competition through the imposition of high tariffs, import quotas or subsidies. As, according to Jomo (1996) and Hartungi (2006), developing countries should be allowed to protect their industry until they achieve sufficient competitiveness to compete at the international level. They argued that industrialised countries had at one time protected their industries to achieve their competitiveness. In order to compete fairly at the international level, industries from less developed countries should reach international competitiveness, as there must be a ‘level playing field’ for less developed countries to survive.

Previous studies (Lall, 1994; Wade, 1990; Amsden, 1989) show that governments can play a pro-active role in the development of local firms through the provision of subsidies (which include low-interest loans, tariff exemptions on inputs and protection on outputs) without adversely affecting its long-term efficiency such as in the case of South Korea and Taiwan. Government can help local firms in other ways by offering subsidised training, grants, and providing research and development facilities. In the case of foreign direct investment, for example, governments can promote linkages between multinational corporations and local firms by tying local sourcing conditions to incentives like tax holidays.

In the case of cultural industries, protection is recognised internationally under the term ‘cultural exemption’ to preserve cultural diversity. Although developed countries, championed by the United States, have advocated the liberalisation of cultural industries, many countries feel that protectionism is necessary for the sake of cultural preservation.

The issues concerning the economic role of governments have been widely debated. As discussed earlier, limited government involvement in the economy is the view of classical economists, who argued that government should limit its role to major functions such as law and order, defence, basic public services, and the protections of property rights. Others are in favour of government intervention to stabilise the economy by maintaining a level of aggregate demand consistent with the full utilisation of available resources. The more contemporary analysts argue for economic relevance of government in supporting the development of certain industries. Thus, the question remains whether government should be actively involved in the economic activities of a state. Under such a highly debated issue, the present study will analyse and evaluate the relevance of government involvement and support to spur the growth of the indigenous film industry. In the development of indigenous cultural industries, particularly the film production industry, many authors recognise the importance of policy makers to set policies that are relevant to the development of the industry (e.g. UNCTAD, 2008; UNESCO, 2005; Baltrucshat, 2002; Kozul-Wright and Stanbury, 1998).

2.7 SUMMARY AND CONCLUSION

The basic theory behind the emergence of new cultural industries is competitive advantage and its economic contribution in general (Hoskins and Fayden, 1991), which is mostly determined by the advancement in information and communication technologies that led to a notable change in the way in which the industry works. In this framework, globalisation and the liberalisation of the international market have increased competition as well as provided new opportunities, pushing countries and industry to respond to global trends in order to seize opportunities that will ultimately contribute to the development of the economy. In this respect, the analysis of the study focuses on globalisation literature referring to the globalisation of economic activities. The changing process of globalisation has made the global economic scenario more complicated. It has dramatically changed the way of doing business. Along with the changes in the global economic landscape are opportunities as much as risks that could directly or indirectly affect countries.

As mentioned earlier, the extent to which this process affects an economy differs between countries, be it the more developed or Third World countries. In general, evidence shows that only a small number of developing countries have experienced economic growth (e.g., Dicken, 2007; Wang, 2003; Higgot and Payne, 2000). The same goes for the sectoral level, where not all sectors have benefited from the changing process of globalisation, and some prosper while others are surviving or succumbing. The process of globalisation has had a different impact from country to country and even between sectors within the economy, as this process of change resulted in winners and losers (see O'Brien and Leichenko, 2003). Although the impact of globalisation on a country or industry is observable, we cannot separate its total impact from that of other forces at work in the economy. Reasons for development can be found elsewhere in the pattern of the economy and other internal factors that are not necessarily related to globalisation. Therefore, the present study attempts to examine the effects of the changing process of globalisation on a single industry in Malaysia, and how it influences the development of the indigenous film production industry, taking into consideration the interplay between external and internal forces.

This chapter reviewed a body of literature concerning globalisation. Evidence from prior research suggests that the studies of the effects of globalisation have focused on other sectors, especially the manufacturing sector. Since the existing theoretical basis for understanding the growth and internationalisation of the film industry in the context of developing countries is poor (Lorenzen and Taeube, 2008) the theoretical foundation outlined earlier used the theoretical discussion that was developed for other phenomena, particularly the manufacturing industries and the role played by foreign direct investment.[7] Based on previous studies, specific aspects of globalisation that are of present concern pertain to the technological changes in filmmaking, increased competition and the role of the state in industry development. Having outlined the theoretical foundation for the study, the next chapter will review in further detail the literature pertaining to the globalisation of the film business.

[7] A significant part of the theoretical discussion in this study is drawn from the work of Dicken (2007) and Reyes (2001).