Title : Global Economy and Its Influences on National Industry: A Case Study of Malaysia

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Global Economy and its Influence on National Industry: A Case Study of Malaysia

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The current scenario of global economies shows the changing trend in global economic activities. New industries like services industries are gaining their importance. This scenario has been made possible by the phenomena of globalisation. The forces brought about by globalisation phenomena pose many challenges and opportunities to national economies. Globalisation has significantly affects many countries, industries, businesses and citizens in many different ways. Hence, the present study is to investigate how national economy is affected by global economy by selecting Malaysian film industry as a case study. Subsequently, it examines the role of national government in ensuring harmonised national economic activities. Many developing countries acknowledge the necessity of government intervention to protect as well as promote the development of local industry. The findings are based upon interviews conducted with film industry players and relevant government agencies in Malaysia. This study suggests that the globalisation of film business provides opportunity for national film industry to penetrate global market and at the same time it posed threats especially in terms of competition from global players. The study suggests that government’s role is instrumental in ensuring the development of local industry. However, government intervention in the economies has led to the inefficiency in resources allocation. This study is perhaps one of the first to address the issue of government intervention in the film industry. Practically, it enhances the understanding on how global economies challenges local industry.

Keywords: global economy, globalisation, Malaysia, film industry

Introduction

The current scenario of global business environment shows the changing trend in global economic activities. The advancement of new communications and transportation technologies are so rapid providing new avenue for businesses to seek global customers and cheapest supplies. This new international business environment enables the creation of new economic activities. For example, new industries like service industries are gaining their importance. This scenario has been associated with globalisation phenomenon.

With the advancement of communications and transportation technologies, it made possible to increase efficiency in doing business in foreign land. Many business decisions are influenced by the desire to operate at the lowest cost. This movement of international production affects many countries in different ways. As a result of global business environment, Leinchko (2009) argues that there are winners and losers among countries. Countries which are able to benefit from globalisation are most likely to be the winners,
while losers are those which unable to reap the advantage of the new trends in global economic activities.

There are increasing trends towards the creation of new economic activities, an example is in global film business. Globalisation has significantly altered the trends in the global film industry. Developed countries have recognised the importance of the global market and global production location. There is an increasing trend for the film production sector to capitalise on foreign production locations. Producers are motivated to shoot their films in foreign locations as they are attracted by, among other factors, cheaper production costs. With the emergence of the New International Division of Cultural Labour (NIDCL), (Miller, 2003) similar to that of the trend in the global manufacturing industry, film production has also fled from industrialised countries to relocate to cheaper production locations. Globalisation allows multinationals to reduce labour costs and take advantage of tax incentives, exchange rates and more favourable terms offered by global locations for cultural production. Even American producers have increasingly shot in countries like Canada and Mexico (Gornostaeva and Brunet, 2009; Hoskins and McFadyen, 1991). Hence, many countries have responded to this global trend by positioning their countries as an attractive location for shooting films. The desire to attract global producers to shoot films is rooted in the goal to capture economic benefits and other spillover effects, which include employment, income, and the transfer of expertise.

Thus, it is the ability of developing countries to seize the opportunities brought about by the process of globalisation that differentiates between winners and losers in the process of globalisation. It can be concluded that globalisation has changed the way of doing business and that this development provides opportunities for developing countries to benefit from new trends in audiovisual industries (UNCTAD, 2008; Baltruschat, 2002).

The Changing Role of Government

During the process of economic development in the western developed countries in the nineteenth century, the role of governments was limited to providing a favourable environment for private capital formation and the major role played by private enterprises. Early proponents of classical economics argued that government intervention in the economy creates disincentives and can cause detrimental effects. Globalization spread free market and capitalist ideology which argues for a limited role of government in the economy.

However, the process of globalisation increases market forces in an economy. For economically smaller countries, these global forces are affecting their competitiveness and ability to survive even in their own domestic market. Authors like Haque (2006), Davies et al. (2005), Higgot (1998) and Strange (1996) claimed that the process of globalisation are weakening national government especially in the area of policymaking. In the case of developing countries, they are facing 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.

In the twenty-first century, governments in developing countries face dilemma to juggle between embracing free market ideology and the desire to protect national businesses from stiff foreign competition. This is because it was argued that the economies of many developing countries are relatively weaker than the developed countries (Jomo, 2006; Hartungi, 2006, Khor, 2000). Globalisation increase competition and that many developing countries are unable to withstand stiff competition from global industry players. Hence,
national industries need to be protected against ‘unfair’ foreign competition. One way of
government intervention is through national industrialisation strategy. For many Asian
countries, evidences show that government plays instrumental role in the development of
their national economies.

How Global Business Affects National Economies: The Case of Film Industry

The film industry began around the world at the same time in the 1880s and 1890s when a
rapid series of drawings or photographs was used as the basic technique in recording and
reproducing motion. Hence, the cinema industry started with a low possibility of commercial
value and its development was driven by the invention in filming technology. From this
perspective, the demand for the film industry was created by the supply that was fuelled by
continuous inventions and improvements in the technology to record and reproduce motion.

Inventions in cinematography led to the spread of filmmaking in the third World that was
able to make cinematography user friendly, enabling filmmaking to be one-man operation. As
according to Armes (1987) the cinematography was imported usually by businessmen to
countries as far as Brazil and India. Films reached the major cities of Asia, Latin America,
and North America within a matter of months of the first showings in Paris, London and New
York (Armes, 1987, p. 2). In East and Southeast Asian countries, the influence on local film
production was first initiated by the exhibition of films in countries that reflected the colonial
situation. Generally, advances in the industrialisation process throughout the region, which
began in the 1930s, marks the growth of local film production in the East and Southeast
Asian regions (Armes, 1987).

Earlier studies by Nordenstreng and Varis (1974, 1984) shows that the global flows of
television programmes indicate ‘one-way’ flows from developed to less developed countries.
Later, studies on the global flows of television programmes found that there were changes in
the nature of global television flows (Rogers and Antola, 1985; Oliviera, 1986). The study by
Rogers and Antola (1985), who studied the flows of television programmes between the
United States and Latin American countries, found that locally produced Brazilian, Mexican
and Venezuelan programmes successfully competed against the US television programmes
imports. For example, compared to the 1960s, Brazilian TV networks now broadcast almost
80 percent indigenous programmes, an increase of 40 percent (Oliveira, 1990; Straubhaar,
1984). In addition, the television programmes produced are able to displace US-imported
programmes in neighbouring countries (Rogers and Antola, 1985; Oliveira, 1990; Straubhaar,

Accordingly, the study by Varis (1984) on television programmes exchange shows that there
is a trend in the regional exchange of television programmes. He found that in Western and
Eastern European countries, more than 40 percent of the imported television programmes
originate in other countries of the region. The same scenario is evident where regional
programme exchanges can be traced among the Arab countries with approximately one-third
of the imported programmes coming from the countries within the region such as Egypt. In
these instances, cultural proximity plays an important role in the spread of television
programmes in the region. The study by Straubahaar (1991) in the Dominican Republic found
that audiences prefer more culturally proximate television programmes. This is because
audiences can relate easily to the common styles, values, beliefs, institutions and behavioural
patterns that are depicted in local or regional programmes compared to imported United
States television programmes. The study further revealed that locally-produced programmes
became the first preference followed by programmes from regional countries of Latin
America, Asia, or Africa, which shows that programmes are more culturally proximate, compared to programmes imported from the United States. The following are further discussions on countries that have successfully participated in the global audiovisual market.

In Latin America, regional integration through MERCOSUR has facilitated the development of cultural industries in the region, particularly the television production industry as discussed earlier. Argentina, Brazil and Colombia have emerged as important players in the global television industry. Indeed, the penetration of television broadcasting into the film production sector has benefited the industry tremendously in terms of programme exports. Brazil’s TV Globo and Mexico’s Televisa are the main exporters of television programmes, especially in the form of the popular ‘telenovela’ or soap opera.

India has emerged as the world’s largest film producer, producing about 1,000 commercial films annually, more than Hollywood, which produces around 800 commercial films annually. However, in terms of world market share Hollywood still dominates as India’s Bollywood products are mostly for domestic consumption only (UNCTAD, 2008). The exportation of India’s films predominantly focuses on the Indian diasporas market (e.g. Mauritius, Sri Lanka, Qatar, Oman, Fiji, Bahrain, Kuwait).

In Asia, China has emerged as one of the largest film producers. The development of the Chinese film industry is impressive, especially in its attempts to penetrate the Hollywood market. For example, the Chinese film *Crouching Tiger Hidden Dragon* grossed more than US$100 million in the United States market alone and it was the first foreign-language film to take in that amount of cash (Plate, 2002). Similarly with South Korea, which has emerged as one of the most successful film producers-its film industry has turned into an export-industry. The development of the Korean film industry can be traced back to 1996 when the government provided strong support for the industry to become one of its engines for economic growth (Jin, 2006). The success of Asian countries’ cinematic output and creativity has captured the interest of Hollywood. For example, Japanese horror movies are successfully capturing not only Asian audiences but also North American. The American horror movie *The Ring* was a Japanese re-make employing American actors and the shooting was done in American cities. The evidence thus indicates that Asian countries have been able to benefit and advance their capabilities in film production.

In response to the demand for cultural products by modern African countries, the Nigerian so-called ‘Nollywood’ has become successful in the video-based film industry. It has claimed to be the world’s third largest producer of feature films in terms of the number of films produced annually. The US$250 million a year industry is claimed to have generated thousands of jobs within a short time span of 13 years. Producing mostly low-budget films between 500 to 1,000 movies a year, the development of the Nollywood film industry is made possible by the availability of digital technology and Nigerian entrepreneurship. The huge African market provides the demand for Nollywood cultural products (http://www.thisisnollywood.com/).

The changing trend of global flows of film and television programmes has challenged the traditional debate of cultural imperialism and the North-South flows of cultural and media products (Sinclair, Jacka and Cunningham, 1996). Nonetheless, the US is still widely recognised as the largest producer and exporter of audiovisual services. Mukharjee (2002) reported that, in 1998, the US film, television and home video industries earned over US$12 billion through exports to 105 countries. In 2009, European Audiovisual Observatory
reported that US film industry dominates the world market in both production and distribution.

Generally, developing countries are the net importers of global television programmes or content. From the above evidence, although some have been successful in benefiting from its cultural industries, others lack the capacity to develop a sizable indigenous production industry. In light of the above, it can be summed up that one interesting development identified has been the rise of regional programmes suppliers. As reported by Wideman and Siwek, (1988), in Bicket (2003), Brazil and Mexico have been important exporters of programmes for the Latin American market while Egypt has been an important supplier to the Arab World. By the same token, Hong Kong supplies much of the programmes to the Southeast Asian market. Although quantitative evidence shows that the US exports to all these regions remains very important, regional producers have begun to offset the absolute impact of the US global and regional supply of programmes.

Methodology

The globalisation of film business has affected many countries and how the indigenous film industry is affected by the new trend in global film business is the main motivation of the study. The study is also to examine how local film production companies respond to these global changes. In order to increase our understanding of the phenomena under study, a qualitative research approach is employed. Interviews were conducted as the primary source of information from film industry players in Malaysia.

The population of the study obtained from Sinema Malaysia, an agency under FINAS. As at June 2009, there were 241 independent production houses.1 The purposive sampling of snowball or chain sampling was employed. This chain sampling begins with identifying the most relevant respondent that is willing to participate in the study as the purpose of the study is to gain a deeper understanding of the phenomenon. The criteria for the first sample selected is a company that is currently an active ‘hard-core player’ (the term used by industry people) in the production of films for cinema exhibition as well as for television broadcast. The study found many registered company were either dormant or non-active. The in-depth interview and the information gained led to the identification of other respondents. In this case, another production house was identified.

One important consideration is that the company is actively producing film as many registered film companies in Malaysia are dormant. The guidelines for data collection for case studies by Yin (2003) were closely followed. The participants of the interviews were from (i) one government agency (FINAS) and, (ii) representatives from six film production companies. The average interview sessions lasted two to three hours. Secondary documents were used as a means to gain multiple sources of evidence that will enable triangulation during the data analysis process. As according to Yin (2003, p. 87) the benefit of using documents is to corroborate and augment evidence from other sources. This can increase the quality of qualitative research associated with internal validity (Golafshani, 2003). Data from the interviews was transcribed and the contents were analysed to highlight emergent themes. The interviews were conducted in April 2009.

Findings

1 www.sinemamalaysia.com.my
Malaysian Case Study

The first feature film was introduced to Malaysia (known as Malaya) during British colonial period in 1898. However film was produced in Malaya/Singapore (Singapore was part of Malaya before 1963) in 1933. Historically, national film production was initiated by foreign capital and foreign talent. Local film was made and produced by Shanghai directors between 1938 to 1941 and later in the 1950s Indian directors were synonymous with local film production (Ahmad, 2000).

It was only in the 1970s that Malaysia begun to seriously look at the film as an important economic activity. At that time, many political leaders began to realise the importance of developing local film industry. Film was recognised as an industry after the establishment of National Film Development Corporation Malaysia (FINAS). FINAS is a government agency that is given the responsibility to develop and regulate local film industry.

Government support was one of the reasons behind the development of Malaysian film production industry. The importance of establishing local film industry is partly for cultural reason and also for economic reason. Nordenstreng and Varis (1974) reported that Asian countries imported nearly three quarters of their television program. For Malaysia, in 1970 the ratio of imported versus locally produced programmes was 71: 29. The influx of foreign programme is also associated with the concern over the influence of foreign culture to the citizens. Later, with the establishment of local television stations, local film production industry begin to experience changes with the increase of local production houses producing local programmes for television station (Ahmad, 2000). Television industry in Malaysia is restricted by the government. At present, there are six free television station operators namely RTM1, RTM2, TV3, NTV7, 8TV and Channel 9, and one subscription-based television station operator ASTRO. Local production houses actively produce made-for-television programmes targeting at local television stations.

Notwithstanding, despite increase number of local programmes produced, local film industry is still dominated by foreign films. Table 1 shows the total number of programmes imported between 2004-2009. Although there are decreasing number of total imported programmes particularly in 2008 and 2009, the ratio against locally produced films are still high as shown in Table 1 and Table 2.

Table 1: Importation of Foreign Films, 2004-2009

<table>
<thead>
<tr>
<th>TYPES OF FILMS</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feature</td>
<td>3,754</td>
<td>4,555</td>
<td>3,213</td>
<td>3,228</td>
<td>2,004</td>
<td>3,809</td>
</tr>
<tr>
<td>Documentary</td>
<td>2,424</td>
<td>3,312</td>
<td>1,477</td>
<td>2,262</td>
<td>1,839</td>
<td>543</td>
</tr>
<tr>
<td>Musical</td>
<td>714</td>
<td>14</td>
<td>951</td>
<td>1,260</td>
<td>437</td>
<td>137</td>
</tr>
<tr>
<td>Animation</td>
<td>45</td>
<td>0</td>
<td>155</td>
<td>7</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>Trailer</td>
<td>952</td>
<td>816</td>
<td>916</td>
<td>907</td>
<td>726</td>
<td>400</td>
</tr>
<tr>
<td>Sports</td>
<td>94</td>
<td>116</td>
<td>208</td>
<td>210</td>
<td>247</td>
<td>63</td>
</tr>
<tr>
<td>Commercial</td>
<td>22</td>
<td>487</td>
<td>691</td>
<td>727</td>
<td>700</td>
<td>805</td>
</tr>
<tr>
<td>Comedy</td>
<td>6</td>
<td>0</td>
<td>10</td>
<td>11</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Promotion</td>
<td>319</td>
<td>359</td>
<td>716</td>
<td>666</td>
<td>400</td>
<td>357</td>
</tr>
<tr>
<td>Reality TV</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
Despite increased competition by foreign players, the Malaysian film industry is developing progressively. This is based on the increasing number of films produced annually and the larger participation by industry players witnessing the increase number of film production houses.

Table 3 indicates the progress of local film industry. For example, the number of cinema admissions has increased from 16 million in 2004 to 40 million in 2009, an impressive number, by Malaysian standard.

**Table 2: Number of Local Production based on Category, 2004-2009**

<table>
<thead>
<tr>
<th>CATEGORY/YEAR</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feature Cinema</td>
<td>33</td>
<td>30</td>
<td>38</td>
<td>45</td>
<td>38</td>
<td>50</td>
</tr>
<tr>
<td>Feature VCD</td>
<td>27</td>
<td>8</td>
<td>13</td>
<td>5</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Feature TV</td>
<td>146</td>
<td>90</td>
<td>88</td>
<td>106</td>
<td>124</td>
<td>153</td>
</tr>
<tr>
<td>Drama TV</td>
<td>137</td>
<td>196</td>
<td>160</td>
<td>182</td>
<td>212</td>
<td>213</td>
</tr>
<tr>
<td>Musical</td>
<td>45</td>
<td>58</td>
<td>92</td>
<td>43</td>
<td>35</td>
<td>50</td>
</tr>
<tr>
<td>Documentary</td>
<td>77</td>
<td>82</td>
<td>109</td>
<td>91</td>
<td>67</td>
<td>63</td>
</tr>
<tr>
<td>Education and others</td>
<td>63</td>
<td>63</td>
<td>115</td>
<td>54</td>
<td>56</td>
<td>62</td>
</tr>
<tr>
<td>Animation</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>528</strong></td>
<td><strong>527</strong></td>
<td><strong>615</strong></td>
<td><strong>527</strong></td>
<td><strong>550</strong></td>
<td><strong>605</strong></td>
</tr>
</tbody>
</table>


**Government Involvement**

Government plays an instrumental role in the development of local film industry by supporting local film industry through the provision of incentives and grants as well as regulation governing the film sector. Specifically, government direct involvement can be seen in the role played by FINAS, an agency given the authority to develop and facilitates the film
industry. The 2005’s National Film Policy further strengthen FINAS’s role. The emphases of this policy are:

- To support the national film industry to be more progressive and internationally competitive.
- To be the catalyst for the industry’s development by making the country a filming destination in the region.

The new policy reflects government’s response to global trends in the film production industry. By aiming to be a hub for international filming, efforts are geared towards providing incentives to attract foreign producers to produce films in Malaysia.

FINAS has been providing direct assistance to film industry players which include the provision of facilities, funds, technical supports, training programmes and other related courses facilitated by FINAS. Another element of government assistance is through government control of the local cinema. Under ‘Syarat Wajib Tayang’ or ‘Compulsory Screening’ scheme, the exhibitors must screen approved (by FINAS) local film in the cinema hall. This is to ensure that exhibitors will not discriminate local films against the big-budgeted foreign films.

Other government agencies are also supportive of the local film industry. Ministry of Science and Technology and Innovation, Malaysia (MOSTI) for example is providing grants through its e-content fund for the production of animation films. Other agencies like Tourism Malaysia and Malaysian Development Corporation (MDeC) are actively sponsoring local film productions. In addition, Malaysian public television, RTM has allocated substantial number of television hours for local films. In recent development, Khazanah Berhad, an investment holding arm of the Government of Malaysia is investing RM400 million to develop a world-class film studio in collaboration with international player (Pinewood Shepperton Plc, Britain). This collaboration is to boost local film industry to become one of the important sectors in Malaysia.

Government through many of its agencies have facilitated the development of local film industry. However, according to local film players, there are many areas in which government can be more efficient in ensuring continuous development of the Malaysian film industry.

**Consequences of Government Involvement**

It is undeniable that film industry in Malaysia has received numerous supports from the government since its inception. However, government involvement is subject to criticism. According to the interviews, government’s continuous support has resulted in dependency among filmmakers on government assistance. Until recently, most production houses are still depending on government loans and grants to produce films.

In another area, government through its public television station RTM is pursuing a policy to give priority to local filmmakers by giving more hours or programme slots to local production houses. However, local production houses lamented that its procurement practices are abused where major film supply contracts are awarded to companies that have direct links to the leadership of RTM.

Another case in perspective is government direct involvement in the production first national animation project. Through MDeC, the government directly invested in national animation
project to produce film animation called *Saladin*. *Saladin* is an unsuccessful national project that has led to constant public debate.

Government has had a direct role in the recent growth and performance of the local film industry. Its involvement has positively impacted the direction of the industry. However, there is a need to ensure that the resources allocated for the development of the local film industry are used in the most efficient way and are fully capitalised for the benefit of the industry.

**Conclusion**

The government has always assumed a central role in Malaysian economy. Despite the criticism over government interventionist role, it does not amount to a complete rejection. According to Jomo (2000), as a result of government's interventionist role, the structural transformation and industrialisation of second-tier Southeast Asian NICs have gone well beyond what would have been achieved by exclusive reliance on market forces and private sector initiatives.

Globalisation increases competition and for economically smaller countries, this phenomenon poses challenges to their domestic industries. Without government supports, the industry can be swiped away by foreign competition which are also giant global players. Support from the government does not guarantee success but if properly implemented it can foster economic development. If the government can manage this, the industry may become more developed and progress better than it is today.

**References**


