The globalization of film business and its effect on the Malaysian film industry

Introduction

Background of study

Globalization has significantly changed the trends, patterns in the global film industry and it has become one of the most important industries within the creative industries (UNCTAD, 2008; Rampal, 2005; Scott, 2004), is estimated to be worth $60 million annually (UNCTAD, 2008). Since, global flows of television product and global film market were dominated by Western countries; this has sparked heated debate on the effects of film consumption on citizens and local audience. Moreover, the emergence of “culture imperialism” theory has further intensified the debate and hence, most research concerns the cultural effects of film consumption (e.g. Nordenstreng and Varis, 1974; Pawanteh, 2006; Rampal, 2005; Scott, 2004; Sinclair et al., 1996). In recent years, studies have found that film industry has become a new dynamic industry in the world trade. The increasing importance of this sector to the economy has been widely mentioned in previous studies (e.g. UNCTAD, 2008; UNESCO, 2006; Scott, 2004). However, despite the potential economic contributions of the film industry, little attention has been given by scholars other than those from culture and media studies. Furthermore, studies on film industry focus only on major global film industry like Hollywood in the USA and Bollywood in India.

Film industry has moved beyond merely the issue of circulation of film product around the world. The recent trend in film production is the shifting away of production location from producers’ country to foreign location. With the emergence of a New International Division of Cultural Labour (NIDCL), many foreign producers are motivated to shoot films in foreign land to capitalize on, among other things, cheaper production costs. For example, US film producers have been shooting films in countries like Canada and Mexico to take advantage of lower labor costs and other attractive incentives provided by the host government. In response to this trend, many countries are moving towards attracting foreign producers to shoot at their country to benefit from the externalities and spill over associated with foreign operations. Among factors that influence foreign film producers to shoot in foreign location are the availability of cheap labor, beneficial exchange rates, attractive location, attractive tax incentives and other favorable terms offered by host countries.

The globalization of film business has subsequently affected many countries in different ways. In the case of developing countries, some are able to respond by successfully developing their indigenous film industry and become major global player like in the case of Argentina, Brazil and Mexico, while others are still struggling to ensure the existence of their indigenous film industry. Previous studies suggest that the outcome of globalization varies between counties (Lall, 2004; Stiglitz, 2004; Yeung, 2002) as globalization poses both opportunities and threats especially to developing countries. The globalization of film business has affected many countries and how the indigenous film industry is affected by the new trends in global film business is the main motivation of the study. The study is to examine how local film production companies respond to these global changes.
Methodology

Interviews were conducted as the primary source of information from film industry players in Malaysia. One important consideration is that the company is actively producing film as many registered film companies in Malaysia are domain. The guidelines for data collection for case studies by Yin (2003) were closely followed. The participants of the interviews were from one government agency (FINAS); and 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) 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 content was analyzed to highlight emergent themes.

Findings

Film industry in Malaysia

Film production was introduced in Malaysia in the 1930s during the colonial era. Lent (1991) reported that film production was initiated by foreign talent and foreign capital. After independence and by 1970s political leaders were sympathetic of the fate of local film industry and began to realize the importance of promoting the development of the indigenous film industry (Ahmad, 2000). To assist the development of the industry, the government formed FINAS (National Film Development Corporation Malaysia) in 1981. This agency was formed to develop and regulate the national film industry. Since then, the indigenous film industry becomes a formal and a recognized national industry (Ahmad, 2000).

Malaysia embraces an open market policy as evidenced by its stance on attracting foreign direct investment. Indeed, foreign direct investment is instrumental in the development of the Malaysian manufacturing industry. The manufacturing sector has become the leading growth sector of the economy. From 1957 to 2005, the real gross domestic product (GDP) grew by an average of 6.5 percent per year. The Malaysian population, approximately 28 million in 2009, is a relatively small economy. Hence, the market for locally consumed products is small and limited. Hence, economic integration is pertinent to Malaysia as the economy is very much export-oriented. Malaysia has long benefited from greater integration in the world economy.

In the case of Malaysian film industry, its contribution to the economy is insignificant. However, under the current condition of globalization, the government has made considerable effort to uplift the standard of the indigenous film industry. FINAS is an agency authorized by the government to spearhead the development of the indigenous film industry. Indeed, one of the mission statements of FINAS is for the indigenous film industry to achieve an international standard. Traditionally, the films produced were mainly targeted at local consumption. In this context, local television stations play an important role in the development of local film companies. To rationalize its profit, the budget for filmmaking only took into consideration the expected income from the local market. As mentioned earlier, globalization poses opportunities as well as threats to developing countries. Opportunities could be rationalized from greater market access and expansion opportunities, threats could be in terms of stiff competition that could be detrimental to the development of sustainable indigenous film industry.

Competition

Theoretically, as in the free market economy, competition is the fundamental principle to market efficiency. Competition leads to optimal use of resources and better choices of goods and services for consumers. Embracing free market also mean free flows of goods and services across border. An early study on global flows of cultural products led to the
development of the “cultural imperialism” theory (Schiller, 1976). The theory concludes that global film markets are dominated by western products and that it causes negative consequences for cultures of many nations. The study also shows that the early patterns of media technology and television program flows show that the television program market was dominated by western industrialized countries, specifically the US. Further, a study done by Nordenstreng and Varis (1974) on global television program flows found a “one-way street” with developed countries, particularly the US, dominating the exportation of television programs. Following the first research, Varis (1985), in a similar attempt, reported that US dominance is pervasive and concluded that “[..] no major changes have taken place since 1973” (p. 83). Even a recent report by UNCTAD (2008) shows that developed countries are still dominating the global market for audiovisual products. Data on the importation of film products shows that the Malaysian market for film products is inundated with foreign films as shown in Table I.

Table I indicates that the total number of imported films from 2004 to 2009 was 8,723, 11,508, 11,508, 9,282, 6,358 and 6,130 respectively. While Table II shows that in 2004 there were only 528 films produced, 527 in 2005, 615 in 2006, 527 in 2007, 550 and 606 in 2008 and 2009 respectively. In comparison to imported and locally produced films, although the total number of imported films reduced over the years, the quantitative data evidences shows that the number of locally produced films is far behind the imported ones.

The data presented above refutes the claim made by IIPA (2008) that Malaysian government imposes import quota on foreign films. IIPA (2008) claimed that Malaysian broadcasting industry is subject to broadcast quota and investment restrictions imposed by the

<table>
<thead>
<tr>
<th>Table I</th>
<th>Importation of films, 2004-2009</th>
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<tbody>
<tr>
<td>Types of films</td>
<td>2004</td>
</tr>
<tr>
<td>Feature</td>
<td>3,754</td>
</tr>
<tr>
<td>Documentary</td>
<td>2,424</td>
</tr>
<tr>
<td>Musical</td>
<td>714</td>
</tr>
<tr>
<td>Animation</td>
<td>45</td>
</tr>
<tr>
<td>Trailer</td>
<td>952</td>
</tr>
<tr>
<td>Sports</td>
<td>94</td>
</tr>
<tr>
<td>Commercial</td>
<td>22</td>
</tr>
<tr>
<td>Comedy</td>
<td>6</td>
</tr>
<tr>
<td>Promotion</td>
<td>319</td>
</tr>
<tr>
<td>Reality TV</td>
<td>0</td>
</tr>
<tr>
<td>Game show</td>
<td>0</td>
</tr>
<tr>
<td>Education</td>
<td>0</td>
</tr>
<tr>
<td>Others</td>
<td>23</td>
</tr>
<tr>
<td>Total</td>
<td>8,723</td>
</tr>
</tbody>
</table>

Source: FINAS (2009a)

<table>
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<tr>
<th>Table II</th>
<th>Number of local films produced based on category: 2004-2009</th>
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</thead>
<tbody>
<tr>
<td>Category</td>
<td>2004</td>
</tr>
<tr>
<td>Feature cinema</td>
<td>33</td>
</tr>
<tr>
<td>Feature VCD</td>
<td>27</td>
</tr>
<tr>
<td>Feature TV</td>
<td>146</td>
</tr>
<tr>
<td>Drama TV</td>
<td>137</td>
</tr>
<tr>
<td>Musical</td>
<td>45</td>
</tr>
<tr>
<td>Documentary</td>
<td>77</td>
</tr>
<tr>
<td>Education and others</td>
<td>63</td>
</tr>
<tr>
<td>Animation</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>528</td>
</tr>
</tbody>
</table>

Source: FINAS (2009b)
government. Broadcast stations are required to devote 70 to 80 percent of their total airtime to locally made films.

According to the respondents, they are fully aware of the effects of competition. However, they suggest that “competition is good” as it exposes local players to foreign competition and, in response, local companies are able to learn and develop their own film products and strive to reach international standards. For example, in response to the influx of soap operas from Latin America known as *telenovela*, the Malaysian film producers began to produce their own *telenovela* (*New Straits Times*, 13 December 2003). This assertion supports previous studies by Hoskins and Mirus (1988) and Pool (1977) in that competition from foreign film products could be one of the reasons influencing the increase in locally produced films in developing countries. Although competition is good for the industry to become more efficient, they also argue that government need to support them as Malaysian film industry is small and relatively fragile.

The role of government

The globalization of film business has increased competition and for a relatively small film industry like Malaysia, the effect of increased competition is definitely a concern. Since Malaysia is practicing a free-market ideology, erecting barrier for the inflows of foreign film is not a good option. Hence, to mitigate the negative effects of globalization, the government has made considerable effort to assist and promote the development of indigenous film industry. Notwithstanding, government intervention is subject to heated debate, especially among the free-market supporters. Government intervention is criticized as opening the way for the unbecoming behavior of national governments and the abuse of power.

However, it has been argued that less developed countries lack the ability to compete in the international arena. Thus, studies claim that globalization increases competition and that indigenous industries in less developed countries are unable to compete with international players (Hartungi, 2006; Stiglitz, 2002; Khor, 2000; Jomo, 2001). Furthermore, advances in digital technology and communications are altering the way the industry works (Wong et al., 2007). These have posed challenges, especially to developing countries in developing their indigenous film industry. Although films were introduced to Malaysia (then was known as Malaya) in the 1930s, it was only in the 1970s that the government realized the importance of nurturing the indigenous film industry. Cultural factor is one of the important factors for a country to maintain a sustainable film industry. As according to UNCTAD (2008) film can be one way of cultural preservation. One could not imagine if you cannot produce your own culture. In addition, by developing indigenous industry is a means of economic diversification. The film industry was rationalized with the establishment of FINAS, a government agency responsible for the development of the industry (Ahmad, 2000). Since then, the government has played an important role in promoting the development of the indigenous film industry. At present, the film industry shows impressive development (by local standards) judging from the increased number of films produced annually. In the case of feature films, the number of cinema admissions has increased remarkably over the years. The number of made-for-TV films is also increasing, consistent with the development in broadcast television stations. Currently, there are two public television stations, four private and one subscription-based television station in Malaysia. The television broadcasting industry is important for domestically produced films.

The government’s role is instrumental in the development of the indigenous film industry. Recognizing the intensified competition resulting from globalization, the government intervened to spur indigenous film industry development and has identified areas within the film industry to be emphasized and developed:

- In the area of film production, the industry is to produce more quality films that could be marketed internationally. In ensuring its objective, the government provides financial and non-financial assistance, which includes subsidies, grants, film-related training and courses to local players.
The government has identified animation as another sector to be developed. Judging from the huge potential global market for animation films, the government through Malaysian Development Corporation (MDEC) is providing infrastructure and other incentives. Other agencies like Malaysian Institute of Microelectronic Systems (MIMOS), an agency under the purview of the Malaysian Ministry of Science, Technology and Innovation (MOSTI), is actively providing assistance to newly established production houses in the development of animated films.

The government also aims to turn Malaysia into an attractive shooting location. FINAS is currently studying ways to attract international producers to shoot films in Malaysia by studying how to formulate effective policies and incentives.

Recognizing the importance of developing creative industries, in the recent Malaysian 2010 Budget, the government allocated RM200 million for the development of this industry, with emphasis given to the development of films and animation production (www.epu.gov.my). The government through FINAS (National Film Development Corporation) is actively promoting the development of the film industry to become an international player.

New challenges in developing film industry

The film industry in Malaysia is a small industry in terms of the quantity of films produced annually as well as its contribution to the economy. Currently, annual productions of local drama and serials total about 300-400 programs, not including the in-house production by individual television stations and an average of 30 feature films annually (http://sinemalaysia.com.my). The main challenge faced by the local industry as a result of globalization is mainly from the influx of foreign film products. As a commitment to embracing the open market and globalization, Malaysia does not protect the importation of foreign products. Foreign films are free to enter the local market under minimal requirements:

- they have to pass through the Malaysian Film Censorship Board, which is the government authority that is responsible for granting licenses to the film for public viewing; and
- they have to provide subtitles in the Malay language.

Other than the rules and regulations stipulated under the Film Censorship Act, films from any country are free to enter the Malaysian market. To a certain extent, the local film industry is affected by foreign products that undermine the local films in the local market. Previous studies (Hoskins and McFadyen, 1991; Vogel, 2001) found that in order to penetrate the international market, films should be successful in the local market. In Malaysia’s case, the indigenous film industry is striving to compete with foreign films in the local market. In this circumstance, it is obvious that it will be tougher for the industry to compete in the international arena. Furthermore, it is especially difficult for local films to compete with big-budgeted foreign films.

One of the main challenges facing the indigenous film industry is the fact that the Malaysian domestic market is small. It was estimated that the total audience for feature films was approximately 5.29 million in 2008 out of a total population of approximately 28 million (www.sinemalamaysia.com.my). While in the programs rating for television broadcast, films that achieve 2 million viewers are already considered a successful film. It is evident that most successful film industries that achieve export potential are those with huge home-based markets like Brazil, Mexico not to mention Hollywood and Bollywood.

Animation films are seen as global products and easily directed towards enticing global audiences. The success of an animated film titled *Geng: Pengembaraan Bermula* is a new phenomenon in the local film industry. With the achievement made by a local production house, Les’ Copaque Production Sdn Bhd, the government is optimistic that locally, Malaysians have the capability to benefit from the animation sector. Nevertheless, to compete in the animation sector would mean that the industry is competing with big-budgeted giant global players like Disney. This is a challenge for a relatively small industry. Thus, government support is deemed necessary, as the local producers are definitely not in the same league with other global film players.
International producers are taking advantage of the emergence of the new international division of cultural labor by searching for cheaper production costs in foreign countries. As in the case of FDI in Malaysia, which has contributed to economic growth and provided externalities, the government foresees that similar benefits would accrue to the film industry by attracting foreign film producers. However, neighboring countries, including Thailand and Singapore, also have the same strategy. Malaysia should have a competitive advantage in competing with other countries for foreign film projects. This is not easy, as the government has to formulate policies and provide incentive structure that is attractive to foreign producers.

Conclusion and recommendations

This study suggests that the trends in global film business pose inevitable forces on Malaysian film industry. One of the credible threats to indigenous film players is direct competition from the influx of foreign film products. It has been argued that globalization presents challenges to developing countries, particularly through increased competition. For developing countries, the role of the government is instrumental in ensuring that the film industry not only survives but is also able to respond to the benefits brought about by globalization. Other studies confirm that the government is behind the success of the indigenous film industry in many countries (e.g. Lee, 2008; Jin, 2006).

In the case of the Malaysian film industry, it is acknowledged that the local market is small and that the market size of a nation dictates the budget for film production. Hence, to compete with big-budgeted foreign films is not a feasible option. Rather, the industry should venture and compete in an area where it has a competitive advantage. One area that local people have shown their capability is the animation sector. Les’ Copaque Production was the first private production house that produced 3D animation and was very successful in the local market. Their products have subsequently been marketed internationally. In a recent development, December 2009, their animation series is now available on ASTRO’s Disney Channel. This proves that local people are actually capable of developing their own film products. In another area of animation, Malaysia has skilled people that are capable of taking up outsourcing jobs. With the relatively cheap cost of labor, Malaysia should attract global film clusters (like Hollywood) to outsource their production of animation work. Local public and private universities are offering more film and multimedia related courses for students. Each year, quite a number of students graduate from film related courses (Utusan Online, 30 June 2008). Taking advantage of the emergence of the new international division of cultural labor will provide employment opportunities, especially for new graduates.

Malaysia is fortunate, having an abundance of beautiful locations suitable for film shooting. This could attract “runaway productions” and provide employment for local people, which could lead to knowledge transfer. With strategic planning, Malaysia could benefit from the globalization of the film business. The government plays an important role in nurturing and promoting the development of the indigenous film industry through its policy and regulatory framework. The government, through FINAS, has taken the necessary action to promote the development of the indigenous film industry. Nevertheless, much need to be done to ensure that the government’s funds are properly channeled and used in the most efficient way.

Films as part of cultural products are deemed as being important for the preservation of culture. In the era of globalization, film products are not only important as a means of cultural preservation but films are now traded as commodities. With the associated stiff competition to attract FDI in the manufacturing sector, developing the indigenous film industry should be seen as the diversification of economic activities to ensure the country is not too dependent on a particular sector to achieve economic development. Similar to the policies directed towards attracting FDI in manufacturing, the government should formulate policies to attract foreign film projects to Malaysia to benefit from knowledge transfer and other externalities associated with foreign operations in the host country. This paper could perhaps helps to unravel the potential of the film industry and serves as a wake-up call for scholars to study the film industry from various perspectives.
References


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