

CHAPTER 8

CONSEQUENCES OF STATE INTERVENTION IN PROMOTING THE DEVELOPMENT OF THE FILM INDUSTRY

In examining the role played by the Malaysian government in promoting the development of the indigenous film production industry, the study reveals important findings that merit attention. The previous chapter discussed the internal factors that have shaped the present film industry today. This chapter does not intend to argue over the behaviour of the national government but rather to highlight the outcomes and unintended consequences of government involvement in the industry's development. The chapter begins with a discussion on government intervention in section 8.1. This is then followed by a discussion on the government's policy frameworks that prioritise *Bumiputera* participation in key sectors. Lastly, the chapter reveals some cases associated with the consequences of government involvement in the economy.

8.1 GOVERNMENT INTERVENTION IN THE ECONOMY

Globalisation is argued to have altered the behaviour of national governments as a result of, for example, further liberalisation of the economy. The effects of globalisation upon nation states have been widely discussed in the literature. The justification for government intervention is especially relevant in the case of less-developed countries. The reason for intervention by governments to regulate markets and provide essential information has been recognised by the World Bank (1997). Many LCDs have seen that economic conditions and weak private enterprise necessitate government intervention.

Within the globalisation literature, many have argued that the forces of globalisation are weakening national governments and their autonomy in policy-making (Haque, 2006; Davies et al., 2005; Higgot, 1998 and Strange, 1996). The present study found that although the role of the government has been influenced by the forces of globalisation, it does not weaken it. Indeed, studies show that national governments strengthen, in that, despite embracing liberalisation they still find new avenues for policy-making (Zaharom, 2000). In fact, many governments are pursuing a pragmatic approach, which also means that they liberalise as well as regulate in whichever areas deemed necessary. In relation to the findings in previous chapters, the study found active government involvement in promoting the development of the indigenous film industry. Indeed, as found in the literature, governments in many countries are actively regulating and supporting the development of their indigenous film industry.

The degrees of government intervention differ between countries as it depends mostly on the particular economic system and economic conditions. As a matter of fact, many governments in less-developed countries are, to a certain degree, actively intervening in the economy. In the world economy, there are two major economic systems 1) the capitalist (market economy) system and 2) the socialist system. The degrees of government intervention are mostly weak within the capitalist system, while, for the socialist system, there is mostly strong government intervention. However, most countries embrace a pragmatic approach or a combination of the two economic systems. Furthermore, within the capitalism system, a variety of approaches are embraced by national governments. The three significant ones (Doremus et al., in Dicken, 2007, p. 177) are:

- Neo-liberal market capitalism: exemplified by the United States and, to a lesser extent, the United Kingdom.

- Social market capitalism: exemplified by Germany, Scandinavia and many other European countries.
- Developmental capitalism: exemplified by Japan, South Korea, Taiwan, Singapore and most other East Asian countries

As discussed in previous chapters, in many East Asian countries, the role of government is instrumental in the area of economic development. The success of the Malaysian industrialisation strategy, for example, is the result of active government involvement in shaping the direction of the economy (Jomo, 2001, 2000, 1997; Akyuz, Chang and Kozul-Wright, 1998). The growth of the Malaysian economy is associated with the role of foreign direct investment. Many studies have examined the effects of FDI on the Malaysian economy and found positive effects (see for eg. Rasiah, 1999; Ismail, 1995). FDI through MNCs has contributed to externalities in terms of the transfer of technology and knowledge. This has resulted in the development of local industry, especially local supporting industries. Without government policy intervention to ensure that transfer from MNCs to locals takes place, the transfer of technology and knowledge would be unlikely to materialise or at best would be minimal. As a result of government intervention through regulatory framework and policies directed at particular industries or economic activities, Malaysia is recognised as being able to achieve impressive economic growth.

On the other hand, concerning economic development, researchers also found the consequences of state policies, in that it limits economic development (Henderson, 2007; Ismail, 1995). The next section is a discussion and highlights how the government's national policy intervention is intended to promote the development of *Bumiputera* film producers.

8.2 *BUMIPUTERA AND THE FILM INDUSTRY*

Chapter Six highlighted the role played by the government in promoting the development of the indigenous film production industry. The study found that the government actively supports the industry through the provision of direct government subsidies and other indirect assistance. The establishment of FINAS as a government body authorised to govern the film industry is one of the indications of the government's strong support. As mentioned earlier, other government agencies in Malaysia are also beginning to realise the economic potential of the film industry and have begun to give support to industry players.

The film industry is recognised by the government as being not merely a means of cultural preservation but as a potential contributor to the economy. In particular, as mentioned earlier, the setting up of FINAS as an agency was done to support the development of the film industry. Recognising the importance of nurturing local production houses, the government formulated policies to encourage local television stations to support local programmes by imposing certain quotas. The government itself, through the public television broadcast channel (RTM), is responsible for supporting local film industry players.

The overall policies affecting the development of the indigenous film industry can be traced back to the objective of the formulation of the NEP as discussed in earlier chapters. The NEP main objective is to eradicate poverty irrespective of race and to restructure the economy so that the *Bumiputera* assume the target of 30 percent of the country's wealth by increasing their ownership in sectors in which they were a minority. As a result of the NEP, the *Bumiputera* ownership in major sectors of the economy

increased (Hara, 1991). Under the NEP the government introduced strategies to restructure the economy that resulted in the government playing an interventionist role. The film industry is also affected by the NEP as witnessed by the increase of *Bumiputera* players in the film industry, which was previously dominated by foreign talent and foreign capital (Ahmad, 2000).

The case of the interventionist role played by the government to promote *Bumiputera* entrepreneurs and increase their participation in the film sector is through the status of 'National Film'. The government has outlined that the national film must be in the national language, i.e. *Bahasa Malaysia*. This would mean that any Malaysian-made films that do not use *Bahasa Malaysia* do not qualify as 'national films' and will be classified as foreign films. The status of national films is important to enjoy certain benefits and incentives provided by the government. The consequences of not having a 'national film' status would mean ineligibility for tax rebates, local film awards shows and subjection to taxation similar to foreign films. This strategy increases *Bumiputera* participation in the film industry and indirectly shuns non-*Bumiputera* film players. This strategy is similar to that of the FDI, where the government policy in attracting foreign capital is deliberately used as a means to undermine local capital that was previously dominated by non-*Bumiputera* (Jesudason, 1989). In other words, it also marginalises other races.

Similar to other sectors of the economy, government intervention is instrumental in promoting *Bumiputera* participation in the key sectors of the economy where the *Bumiputera* were the minority. However, the government's interventionist role is not without consequences. What has emerged from the interventionist policy is commonly associated with bureaucracy, a waste of government resources, and abuse of power

through the government's corporate involvement, which led to 'cronyism' or 'favouritism'. As emphasised by Krueger (1990, p. 11),⁴⁹ in the context of pervasive government involvement in and control over economic activity, there is evidence that many of the programmes and policies that had been adopted with the stated objective of helping the poor have in fact disproportionately benefited the more affluent members of society. The following section reveals in further detail the adverse impact of an interventionist policy on the development of the indigenous film production industry.

8.3 CONSEQUENCES OF GOVERNMENT POLICIES AND SUPPORT

In line with the national economic policy, other government policies are also directed towards the achievement of the NEP's aspirations. The policies of the NEP are translated and exercised through various government agencies. In the context of the film production industry, this is carried out by the Ministry of Information through its Department of Broadcasting (RTM). Through the interviews, it was gathered that RTM has a policy of giving priority to local film players in general and *Bumiputera* companies in particular in programme supply contracts. According to RTM, they uphold the government's policy to uplift the development of indigenous industry (which comprised mostly *Bumiputera* players). The policy is translated into giving more hours or programme slots to local production houses. Notwithstanding this fact, the implementation of such policy intervention is subject to inappropriate exercises and abuse of power within the organisation, which hinders the development of the indigenous film production industry.

As a result of criticism and complaints the industry players towards its procurement practices, RTM has been trying to improve its procurement procedures and guidelines.

⁴⁹ See also Datta-Chaudhuri (1990).

Consequently RTM procures its programmes through tenders and has imposed that all programme suppliers must be registered with RTM. The suppliers are then graded according to their capabilities and strength. Among the criteria given emphasis are years of experience in film production, number of permanent employees, technical capabilities and facilities, financial resources and the company's credibility. In order to practise a more stringent guideline, RTM also sends their officers to the premises of the suppliers to evaluate their background before they are given the approval to register as a programme supplier to RTM. Following the evaluation, the companies are also given specific grading that determines their limitations in terms of the contract value of the tenders for which they can participate.

In spite of the stringent procurement practice and tendering exercises, there are still elements of cronyism and favouritism when the major supply contracts are still being awarded to the companies that have links to the leadership of RTM. Consistent with the study by Jomo (1994), the pattern in bidding for tenders suggested that some companies and production houses are able to bid successfully given their special influence and privileged information to bid. The existence of favouritism and cronyism in the evaluation and selection process of film suppliers for RTM has created a scenario whereby the line up of main players involved in the supply contract and procurement of television programmes for RTM differs with the changes of leadership in RTM as well as the Information Minister. This happens for the supply of syndicated foreign programmes as well as the supply of locally produced programmes.

In many cases, due to favouritism and cronyism, major supply contracts are awarded to companies that have no proper track record and which lack the capability to perform their responsibilities. This scenario creates immediate new industry players, at the same

time it reduces the involvement and the business opportunities of the existing players. The information gathered for this research has revealed that the new players that have been awarded with major supply contracts are normally those who are closely linked to the leadership of the ministries and government agencies. These new players are normally alien to the film industry and have no experience in the film industry. New players are encouraged to enter the film industry through their close ties with the leadership that provide them with the opportunity to benefit from government contracts. In addition, compared to other television stations, RTM is paying higher and more attractive prices for programme procurement. For example, one episode/hour of a local programme is RM42,000 while other stations are paying around RM35,000. It is well known that doing business with RTM is desirable among film suppliers because of the higher profit margin.

However, for new players, there are costs associated with the start-up of a new company. In order for new players to enter the film industry, they have to build their capability from scratch and develop the required infrastructure for the new business operations. In the case of manpower, some might receive the migrations of experienced workers from the existing players (those who lost their jobs due to the expiration of their contracts as a result of changes in leadership). This is the common business cycle for companies that enter the industry as a result of business opportunities provided by close or political links with the leadership.

This scenario for new entrants as a result of business opportunities has undeniably affected the quality of the programmes broadcast at the government stations. As commented by other production houses, these made-for-television productions are mostly produced in a hasty manner and the quality is normally compromised as they are

merely there to fill the television programmes slots/hours allocated to them. Furthermore, the more serious implication is that this will adversely affect the growth of the local film industry as the growth of the potential and genuine indigenous film companies is stunted by the elements of favouritism and cronyism. Other film industry players lamented that these companies have no desire to contribute to the development of the indigenous film industry. After the expiration of the supply contract, many companies (closely linked to the leadership) cease to exist. By right, RTM's policy to support local players by airing more local programmes in its broadcast station should be able to help local players expand, grow their business and ultimately become international players. Instead, the study reveals that the government policies for assisting and supporting in the provision of supply contracts and other business opportunities are abused and used to serve certain vested interests.

A good example of this scenario is Ace Collection Sdn Bhd. In 2000 it was awarded a contract by the Ministry of Information to supply various foreign and local programmes to RTM for the programme slots covering 11 broadcast hours per week. As a new player, the company had gathered the required manpower and facilities for the new business. Within a short timeframe, a substantial amount of capital had been invested in building the company from scratch, until it reached a turnover of about RM30 million per annum. Through training and exposure, the employees of the company managed to gather knowledge and experience at local as well as international levels. However, with the change of leadership in the ministry, the service of this company was abruptly discontinued after only four years in operation, forcing the company to cease its operations. As a result, its experienced personnel and facilities were wasted. Now, the company is operating as a construction company.

The case of Ace Collection Sdn. Bhd. is evidence of the consequences of policy intervention by the government in developing indigenous industry, particularly in helping *Bumiputera* entrepreneurs. The result is tremendous wastage of the existing resources, infrastructure and experienced manpower and, in some instances, the companies had ceased operations or scaled down when their business was taken over by new players. Thus, all the experience and knowledge gained over the years are just wasted. Furthermore, business cooperation between the new players and the existing players is very rare as they are considered as strong competitors where amicable solutions for partnership are very difficult to achieve.

HVD Holdings is another case in point; a company that managed to secure major programme supply to RTM in the 1990s. Initially Holdings was able to produce good programmes for RTM. They came out with a new genre of television programme like *Pendekar* through cooperation with Hong Kong directors. *Pendekar* is a drama that used special effects and martial arts, a fusion of Malay *silat* and Hong Kong's *kung fu*. HVD Holding's contract with RTM was a result of its connection with the leadership at that particular time. HVD business with RTM was doing well and profitable, they later expanded their business by investing in building their own facilities and infrastructure to fill programme slots for RTM. It was said that they worked like a factory (mass production) to fulfil the requirement for programme slots. The business was so successful that they kept expanding. When the leadership was no longer in position, they lost the contract to supply the programmes and the company lost its business. HVD Holdings still exists but is no longer relying on government contracts. At that time, the business was badly affected and it was claimed that they were forced to dispose of their equipment and other assets at a cost of only RM80 million, far below the actual price of their assets.

In the course of initiating the development of the ICT sector, the government invested in the development of infrastructure in the Multimedia Super Corridor. MDeC's Creative Application Development Centre was specifically developed to encourage and develop local talent to become involved in the film and multimedia industry. MDeC is a government body that is responsible for promoting the development of the Malaysian ICT sector. Through its policy framework and incentives, MDeC is to promote the growth of the private sector in ICT-related industries, including the development of the animation sector. As discussed in the previous chapter, *Saladin* was the first three-dimension (3-D) animation project mooted by the then Prime Minister Dr. Mahathir Mohamad. This project was supposed to be the first national animation project, the outcome of which was expected to further spur the development of the animation sector and to realise MSC's aim of becoming a world hub for ICT. The national project of animation production was fully funded by the government and it was reported to cost more than RM10 million (a huge budget by Malaysian standard) upon completion.⁵⁰ The project began in 2002 and was initially aimed at producing *Saladin* the movie for cinema exhibition.

From the interviews with industry players, there is another side of the story to the claimed achievement of the *Saladin* project. *Saladin* was supposed to be a movie project. Government investment on this project was quite massive, in terms of infrastructure, facilities and grants to complete the project. However, after several years, the project was still way behind schedule and funds were diminishing. In order to materialise the project, it was decided to first come-up with an animated series. The first series was aired on the ASTRO channel and did not gain much attention from either the audience or the public. Unlike the impact brought by the release of the first 3-D

⁵⁰ http://www.saladin.tv/splash/images/saladin_flyer.pdf

animated movie by Les’Copaque (a private entity), there was no impact on the industry or animated sector per se as a result of the release of *Saladin* (the so-called national project). Information gathered from the industry claimed that the government funds were used inefficiently, in that the project was not completed on time. When the resources diminished, and when the public started to inquire, MDeC had to seek funds to pursue the project. It was claimed that the project was actually sold to Al-Jazeera. Hence, further investigation proves that *Saladin* is now a co-production project between MDeC and Al-Jazeera’s Children’s Channel. A recent development of *Saladin* is that it expected to complete its first 13 episodes by early 2010.

Recently the media reported that *Saladin* gained international recognition when it won the "Encouragement Award" at the 10th Edition of the Grand Prix Final of the Digicon 6 Competition in Tokyo. As a result, enquiries were made by foreign parties who were interested in distributing the series to other markets globally. According to Encik Kamil Othman, the Vice-President (Creative Multimedia) of Multimedia Development Corporation (MDeC), *Saladin* had successfully spurred the growth and encouraged additional creative content within the industry in search of co-production, content distribution and licensing opportunities.⁵¹ The award is an indication that Malaysia is capable of producing a world-class product and that local talent and know-how to produce animations can compete in the global market. The government foresees that through the opportunities in the global market, Malaysia, through the MSC, would continue to support the development of the indigenous animation industry.

Saladin is another noteworthy case of the inefficient use of government resources. The case emphasises that the government should not become directly involved in business

⁵¹ Bernama.com, 24 February 2009, “*Saladin* Success Woos Foreign Investors to Malaysian Animation Industry”, <http://www.bernama.com.my/bernama/v5/newsindex.php?id=391972>, retrieved March 2009.

activities but should promote the private sector. The plea from industry players is for the government to provide the necessary policy framework and other incentives to spur the growth of the film production industry through private initiatives. However, in doing so, the implementation of the policy should be transparent. The case of direct involvement in film activities by the government was seen as resulting in an unfavourable outcome.

This case is not unique to Malaysia but is present in recent developments in the global film industry. It was reported⁵² that Greek filmmakers were threatening to boycott the country's leading film festival. Their action was aimed at putting pressure on the Greek Ministry of Culture over the funding issues concerning its local film industry. The group, which calls itself "Film-makers in the fog", includes Yorgos Lanthimos, whose *Dogtooth* won a prize at the Cannes Film Festival earlier this year. Constantin Moriatis, a member of the group, told AFP that the protest was not aimed at the festival, but to demand the government to be more transparent. They claim that public grants are handed out in an opaque way and government's system is a mess that needs to be cleaned up and made more efficient.

In the discussion on the adverse impact of government intervention, the allegations not only emerged in public but academic discussions as well (e.g. Gomez and Jomo, 1999; Gomez, 1994; Lim, 1981). The case of *Saladdin* is consistent with the study by Gomez (1994) who found that government direct involvement in economic activities resulted in inefficiency and wastage of government resources. In his study on corporate involvement of Malaysian political parties, Gomez (1994) documented that the outcome of government active involvement in economic activities through public enterprises resulted in an inefficient state. These enterprises eventually became a burden and costly to the government. Realising the inefficiency of public enterprises managed by the

⁵² <http://malaysia.news.yahoo.com/afp/20091021/ten-entertainment-greece-film-1dc2b55.html>, retrieved 21 October 2009.

government, the government later decided to privatise these public enterprises under the Malaysian Privatisation Projects. However, the privatisation of the public sector has also suffered from constant criticism (see e.g. Syn, 2002; Gomez and Jomo, 1999; Jomo and Gomez, 1993). Accordingly, increased government intervention was seen to serve the interests of the governing class, 'self-aggrandising, politically influential rentiers' and the politically well-connected seeking to transform themselves into members of the bourgeoisie, albeit of a rentier rather than an entrepreneurial type (Jomo and Gomez, 2000, p. 289; Jomo 1993, p. 7-8).

The present study recognises the significant role played by the government to uplift and promote the development of local industries. However, the study also reveals the consequences of the government's interventionist policy, which creates wastage and hinders productivity. For example, government subsidies should create an innovative, competitive class of industry players but rather, the case revealed a politically dependent, protected class of rentier capitalists. As argued by free-market supporters, a government interventionist policy will lead to abuse. Strikingly, the two important themes that emerged from the case study that dominate the film industry players' concerns are:

1. With regard to the government policy framework, which is subject to abuse of power and encourages rent-seeking behaviour, it is found that this has benefited mostly those who are closely related to the leadership of a particular government agency.
2. Direct government investment in economic activities raises concerns as the case shows unbecoming outcomes. The case of the *Saladin* project is consistent with

Gomez's (1994) findings that the direct involvement of government in economic activities might be inimical rather than achieving the intended development objectives.

The film industry players interviewed indicated that the government has provided a proper channel and instruments to help the indigenous film industry develop. However, the efforts were tainted as it only reaches certain fraction. Industry players are concerned that if these problems are not rectified, the indigenous film industry will eventually be marginalised, rather than respond to the challenges of the process of globalisation.

RTM is moving towards digitisation of its television channels. This will mean that there will be more new television channels and more programme slots. With its commitment to assist local players, this exercise is supposed to benefit local industry players as more new channels provide more programme slots. RTM's commitment⁵³ to help local players will be futile if the current concerns in the procurement procedure and contract allocation process are not addressed appropriately.

At the outset, Malaysia is embracing economic liberalisation. According to Zaharom (2000), contrary to the belief that liberalisation means a relaxation of government control, liberalisation has not really resulted in the loosening of government intervention and control. In fact, his study shows that government presence over the media is stronger and more apparent. However, in the case of the influx of foreign programmes, by right, the government has a strong hold to limit the importation of foreign programmes (when the objective is to protect the indigenous film industry). But this is not the case, and instead the government is unable to respond to the industry's

⁵³ Interview with representative from RTM.

pleas to limit the importation of foreign programmes as it will be contrary to its liberalisation stance. At a higher level (media sector), the government is very restrictive concerning, for example, ownership and licensing issues. At another level, the government seems to be quite loose in protecting the industry. It can be observed that government efforts to develop the indigenous industry are not comprehensive nor consistent.

According to Wint (1998), the fundamental challenge facing governments in developing countries is a managerial challenge in which their ultimate objective is to preserve national welfare.

8.4 THE PROPOSED PINEWOOD ISKANDAR MALAYSIA

Iskandar Malaysia is a project by the government to develop the Malaysian Southern Region of Johor into a new economic zone. The project was established in 2006 under the leadership of the former Prime Minister Abdullah Ahmad Badawi, who proposed the new economic zone based on a feasibility study done by Khazanah Nasional Berhad, An agency that is responsible to administer the project is Iskandar Development Regional Authority (IRDA). This is another government mega project intended to spur and promote economic growth.

Located at Iskandar Malaysia is a proposed international film studio that will be known as Pinewood Iskandar Malaysia. The proposed studio is the collaboration between the Malaysian government and Pinewood Shepperton PLc, Britain. The establishment of the proposed studio will become a landmark development in the local film industry.

This mega project will be undertaken by Khazanah Nasional Berhad, a government linked company (GLC) which is the investment arm for the government.

Under this collaboration, the government through Khazanah Nasional will be investing RM400 million to develop a world class studio. Pinewood Shepperton Plc will be responsible for the operations of the studio which includes marketing and branding the studio at the international level. This project, as according to the press statement,⁵⁴ is expected to contribute RM1 billion to the economy in eight years time. This project will also benefit the local film players through direct exposure towards international film players.

The government's effort to develop the studio indicates the government's confidence in making the film industry one of the important economic sectors in Malaysia. However, this project came into the picture even after the failure of e-village, a quite similar project proposed under the Multimedia Super Corridor (MSC) project. This has raised concerns as this project uses public money. The return on investment of public money is of particular concern especially after the failure of e-village. It is hoped that, with the strategic marketing plan and other strategies, this investment will be a viable one and contribute to the development of the Malaysian film industry.

The previous study by Nain (1996) on Malaysian television content found that at the policy-making level, there have been various strategies and plans that were formulated aimed at improving the industry. However, he also argues that the trends and current practice indicates that the policies only remain at the policy level and are not effectively implemented.

⁵⁴ *Utusan Online*, 17 December 2009, 'Pelaburan RM400 juta'.

8.5 SUMMARY AND CONCLUSION

Government policies and efforts towards the development of the film production industry are genuine. However, the efforts are tainted by inappropriate behaviour of certain people who want to benefit from government contracts. Rent-seeking activities among politically linked businessmen and corporate groups are rampant. As revealed in the case of RTM, the government's direct involvement has also had an adverse impact on the local film industry development in the aspect of supply contracts and procurement of television programmes for RTM. Hence, the outcome of the issues discussed above is the limited development of the indigenous film production industry.

Indeed, the adverse impact of the government involvement is not unique to the film sector but is witnessed in other sectors of the economy as documented by Gomez (1994). The government has always assumed a central role in Malaysia. It should not, however, engage in economic activities that are traditionally not associated with the public sector like, as the present case study revealed, investing in animation projects. Despite all the flaws and abuses associated with the government's interventionist role, it does not amount to a complete rejection of government involvement. In fact, according to Jomo (2000) as a result of the 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. 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 has up to today.