

CHAPTER II

REVIEW OF LITERATURES

In this chapter we provide the background theories on trade as well as concepts regarding the characteristics of movies which are utilized in a conceptual framework for proceeding the analysis, followed by the methodology, the measurement and the data collection.

2.1. Theories of international trade, international competitiveness

The purpose of this section is briefly to outline the theories that economists have developed to explain the pattern of trade in the world. The following theories have provided us the inspiration to shape our conceptual framework described in 2.3.

Competitive Advantage

One of the recent approaches is the theory of competitive advantage initiated by M. E. Porter (Porter, 1990). He tried to explain why some nations are successful in exporting than other countries in particular goods or services, even in the international competition among advanced industrial countries with similar factor endowments.

Firstly, Porter argues that there are characteristics of a nation that allow its companies to create and sustain competitive advantage in particular industries, that is, the competitive advantage of nations. The following four broad attributes of a nation are key factors that shape the environment in which local companies compete each other to promote or impede the creation of competitive advantage (Porter, 1990:71):

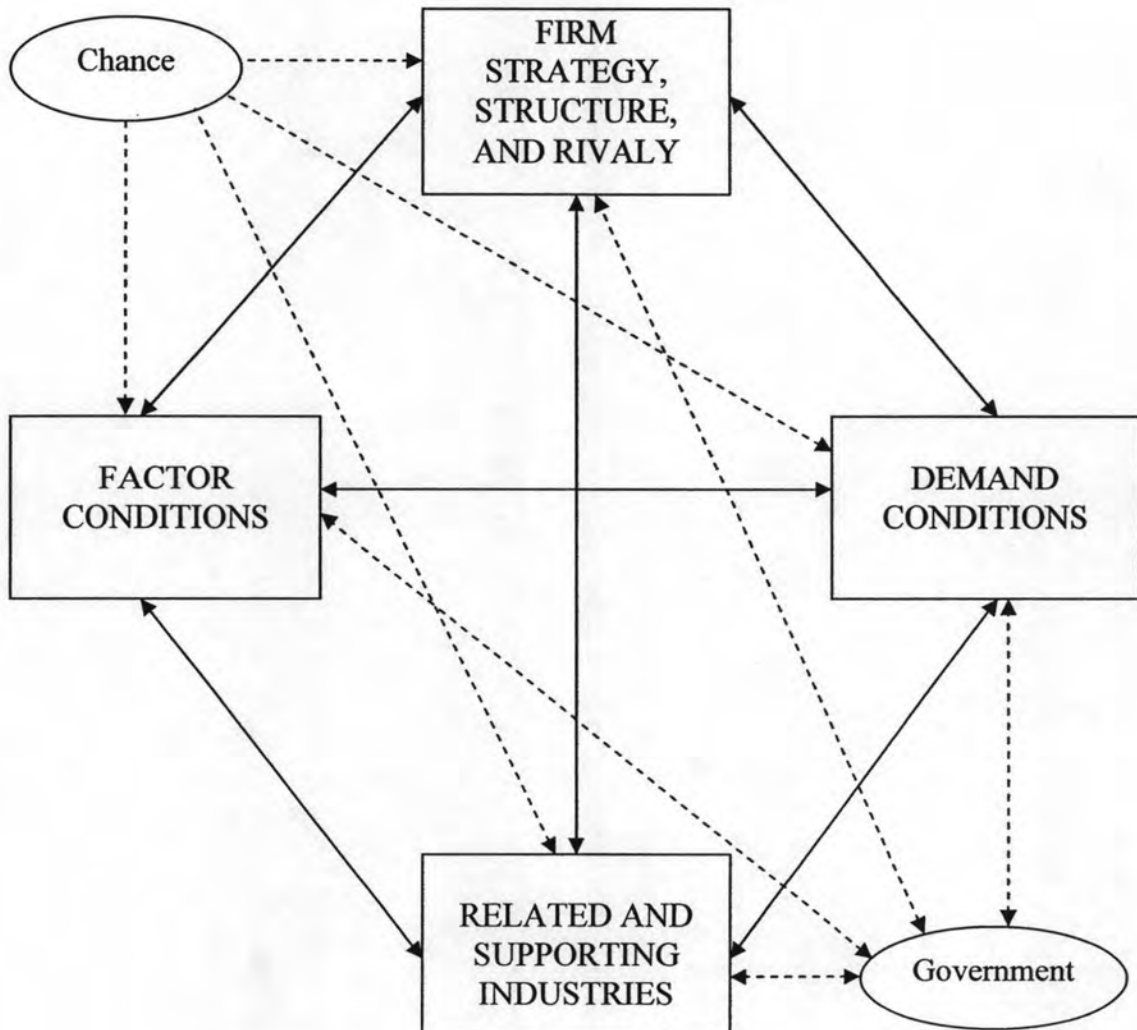
1. *Factor conditions.* The nation's position in factors of production, such as skilled labor or infrastructure, necessary to compete in a given industry.
2. *Demand conditions.* The nature of home demand for the industry's product or service.

3. *Related and supporting industries.* The presence or absence in the nation of supplier industries and related industries that are internationally competitive.

4. *Firm strategy, structure and rivalry.* The conditions in the nation governing how companies are created, organized, and managed, and the nature of domestic rivalry.

Figure 2.1

The Complete System of the Determinants of National Advantage
(Porter's Diamond Model)



Source: Adapted from Porter (1990:127)

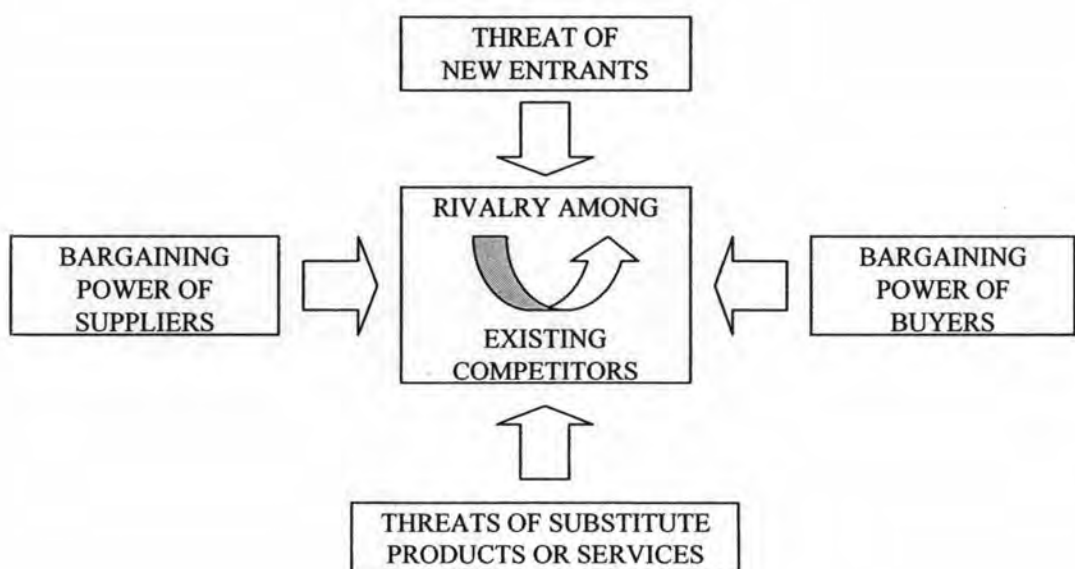
These four determinants, individually or as a system, create environment in which nation's companies are born and compete. If these determinants create favorable environment for companies, the opportunities to be more competitive increases, while the opposite can be also happened. This model is called the "diamond model."

Apart from the four attributes, Porter adds that the roles of chance and government are also vital factors, if not the most important. Chance events such as pure invention, major technological discontinuities, wars, etc, create discontinuities that allow countries to shift in competitive advantages, while government can also influence and be influenced by the four determinants of the diamond model with its policy options such as subsidies, regulations, etc. The complete system is illustrated in Figure 2.1.

Secondly, Porter argues that it is also important to understand the structure of the industry per se and how it is changing in order to build competitive strategy. Companies, through competitive strategy, can compete in their industry that is both profitable and sustainable.

Figure 2.2

The Five Competitive Forces that Determine Industry Competition



Source: Adapted from Porter (1990:35)

In any industry, whether it is domestic or international, the nature of competition is embodied in five competitive forces (Porter, 1990:35); (1) the threat of new entrants, (2) the threat of substitute products or services, (3) the bargaining power of suppliers, (4) the bargaining power of buyers, and (5) the rivalry among the existing competitors (see Figure 2-2).

By conducting numerous numbers of researches and interviews in variety of industries in many countries, Porter finally convinces himself that, with the analysis of the above determinants and forces in a national and industrial level, the nation, the industry or the company who has competitive advantage or international competitiveness defined here can be more successful than others in exporting.

Pearce and Robinson (2005), in a same vain, develop the Porter's idea. They add one more category called "factors in macro level" such as economic growth, lifestyle change, technological change, etc., as factors contributing to shape the environments in broader way for competitiveness.

The theory discussed so far is the attempt to explain the pattern of trade mainly from the supply side, focusing on the factors in production. In real economy, however, some of patterns of trade have still remained unexplainable by the above theory. Thus, different approaches have been also discussed in parallel with the above theory by providing alternative concepts to understand the pattern of trade.

Product Life Cycle

Product Cycle or Product Life Cycle (PLC) theory is also one of the alternative theories to explain the patterns of trade. It is first initiated by Raymond Vernon (1966) to provide a new idea to explain the internationalization pattern of the U. S. companies, which was not consistent with the H-O model based on the concept of comparative advantage. The logic is simple and straightforward but this theory has a powerful application for many sorts of products to explain the patterns of trade in macro level.

There are originally three stages in the development of production over time in the PLC. Firstly in the new product stage, a new product is innovated in the U.S. to meet

potential domestic needs (high-income needs), followed by exports to similar countries (or advanced countries), i.e., countries with similar needs, preferences and incomes. This stage is called the maturing product stage. In this stage, the new product begins to be standardized for mass production. Finally in the last stage called the standardized product stage, the product is already well known globally both for consumers and producers. Thus, even the developing countries can produce the product with cheaper costs and consequently the US starts to import the product.

The PLC is a macro level attempt to generalize patterns of trade between nations based on empirical data. It offers innovation and economies of scale as predominant explanatory variables. It also emphasizes the importance of technological spillovers. Vernon hypothesized a circular pattern of trade composition that occurs between trading partners in different stages of economic growth.

The Linder Hypothesis

A Swedish economist, Staffan B. Linder (1961) introduced an unorthodox approach to explain the patterns of production and trade from the demand side; the “Preference Similarity” theory or also known as the Linder Hypothesis. He assumes that consumer tastes in each country depend on per capita (or per person) income level and the production of a good at home depends on such domestic consumer tastes. Therefore, in the bilateral version of the Linder Hypothesis, trade of manufactured goods between two countries will be inversely related to the difference in their per capita incomes. Linder focuses on the importance of the influence of each demand structure to the pattern of trade. It is possible that trade is a by-product of the home market’s production and consumption pattern.

2.2. Characteristics and properties of movies as creative products

As a movie contains so profoundly cultural factors in its substance, we need to pay attention to the unique characteristics and properties of a movie as a good, otherwise our analysis merely based on the theories of international trade might mislead the conclusion

toward wrong ways, or simply overlook some factors which might consist of (or prevent from) competitiveness of the Thai movie industry.

In this regards, Caves (2000) provides us the useful concepts on creative products. The production of a movie requires a number of actors, a director, screenwriter, cinematographer, art director, composer, sound engineer, visual-effect specialist, make-up specialist, costume designer, and an editor who see themselves in some measure as artists. Then such artists and creators care vitally about the originality displayed, the technical prowess demonstrated, the resolution and harmony achieved in the creative act. As Frey (2003:7) also points out, artists “pursue art for art’s sake.” Therefore, a movie as a creative product has the so called “motley crew” property in which a number of implications about selecting the team of inputs for a given creative product and sustaining all team members’ cooperation while production is under way.

This “motley crew” property implies that it is important for the movie production not only to input the best artists in each creative process, but also to select the optimal combination of the team of the inputs in order to maximize the quality of the movie. It means that the role of the producer is also important to make the movie better.

To be competitive in a movie industry, thus, each company has to add its own creativity and originality in each movie production by selecting inputs strategically from the pool of the available resources. Therefore, the availability and quality of the following inputs for the production are also significant as the determinants of competitiveness¹:

1. Director
2. Screenwriter
3. Cinematographer
4. Art director

¹ The eleven categories except producer here derive from the categories for awards at the Thai National Film Association (Supannahong) Awards. As the awards are given to the best one in each category, the each category can be regarded as different artistic inputs to add quality and value in the production. I summed up the 15 categories except Best Picture in the awards into 11 categories; (1)Director (Best Director), (2)Screenwriter (Best Screenplay), (3)Cinematographer (Best Cinematography), (4)Art director (Best Art Direction), (5)Composer (Best Original Score, Best Original Song), (6)Sound engineer (Best Sound), (7)Visual-effect specialist (Best Visual Effect Award), (8)Make-up specialist (Best Make Up), (9)Costume designer (Best Costume Design), (10)Editor (Best Film Editing), and (11)Actor/Actress (Best Actor, Best Actress, Best Supporting Actor, Best Supporting Actress). The information is available from <http://www.thainationalfilm.com/> [March 2007]

5. Composer
6. Sound engineer
7. Visual-effect specialist
8. Make-up specialist
9. Costume designer
10. Editor
11. Actor / Actress
12. Producer

The strategy for the quality of the movie is also important to be competitive. As a movie is totally differentiated goods (both vertically and horizontally), it has the “infinite variety” property which provides infinite varieties of choices for the buyers to judge the overall quality levels of the movies with the combination of their traits, moods, styles, etc. Therefore, even though there is the so-called “A list / B list” property in a movie, which means the creative inputs themselves are vertically differentiated in terms of perceived skill, reliability, and adaptability, it is more important for the companies to establish a certain brand image strategically in particular taste groups (or segmented demands) for moviegoers so that their products can be more clearly differentiated with others in the terms of the quality.

As for the company level, the economies of scale can be also a key determinant to be competitive for exports. The economies of scale are the cost advantages that a company obtains due to expansion. They can also construct a managerial advantage by increasing specialities in each personnel and process. That is why we can witness in each country’s movie industry that vertical integration arises and/or monopolistic competition is conducted. In the case of Thai movie industry, Nukaew (2005) also concludes that the characteristic of the structure of the Thai movie industry is shaped by the monopolistic competition. Schulze (2005) also points out, a movie as a reproducible art is characterized by strong economies of scale at some stage of the production process. Variable costs are low, but fixed costs are high. Economies of scale cause the concentration of production activities as this minimizes fixed costs, which lead the company to be more competitive in cost factors.

2.3. Literatures on the Thai movie industry

Although the development and the current situation of the Thai movie industry will be fully examined in Chapter 3, here we should review the past endeavours and achievements of scholars who conducted surveys and researches on the Thai movie industry.

MIS (1998), a consulting company in Thailand, conducted a research entitled “The Study of Supply for Export Promotion and Development of the Service Sector” in which the Thai movie industry is also included in the report. They collected the data through in-depth interviews to the producers of Thai movie companies and experts in the field and tried to identify the factors which compose of obstacles and problems for export promotion.

Their conclusion can be summarised as follows:

- The scripts of the movies are not strong enough to be exported, for they are often merely the copies of foreign scripts, and/or lack of research for a scriptwriter to deepen the idea.
- The need of sub-titles becomes burden for export, for it costs a lot and does not fully reveal the true essence of meaning.
- The high-tariff on import of equipments and accessories for movie production becomes burden, for the high costs in preparation make investors think movie business as highly risky business, and consequently they withdraw from the business.

Having identified these factors, requests to the government listed below were addressed in the research paper as opinions of a group of Thai movie producers(MIS, 1998:12):

1. Government should act as a producer in terms of financing and sponsoring, thus different sorts of films could be made to enrich the films genre.
2. Government should conduct an on-going of films promotion.

3. Government should lower import tariff on movie's equipment and other accessories.
4. Government should consider the dismantling of "Censorship Board."
5. Government should seek cooperation with overseas movie experts as partners or consultants to exchanging ideas in terms of movie making and finding overseas markets.
6. Government should set up a "National Council of Thai Films," the agency being set up would be responsible directly of the whole process of movie-making.

These identified factors as well as the recommendations to the government will be re-examined by this study later.

From the view point of economics, Nukaew (2005)'s thesis for master degree entitled "Thai Film Business: A case study of large production companies" is almost only one achievement in this field. She analyses the structure of the movie business and the rate of concentration for movie genres during 1998 – 2004, mainly using the industrial organization theory based on the collected data through in-depth interviews to producers in large production companies as well as through written documents. She concludes that the structure of the Thai movie business forms a monopolistic competition. Such leading companies as Sahamonkol Film International, GTH, Five Star Production, RS Film, and Phranakorn Film almost dominate the market in both terms of revenue and the number of the produced movies. There are, however, still spaces for new companies equipped well with capital resource as well as knowledge about the movie production to enter the market rather freely. As for the genres of the movies produced recent years, drama is the most popular genre for the audience as it reflects the life style of contemporary society with the diversity in contents, and it consequently becomes the most produced genres with the highest ratio in production. Horror movies, mainly telling a story about ghosts, are also one of the popular genres for the audience and it earns the highest revenue in average per movie. The ratio of the production of horror movies, therefore, gradually gets higher in later years in the observed period. Nukaew's findings will be mentioned again in Chapter 3 to describe the current situation of the Thai movie industry.

For the other papers on the Thai movie industry, almost all of the analyses are conducted by the members in Communication Arts field, mainly focusing on the framework of marketing and communication. The findings of these literatures might be quoted later especially in Chapter III.

2.4. Conceptual framework

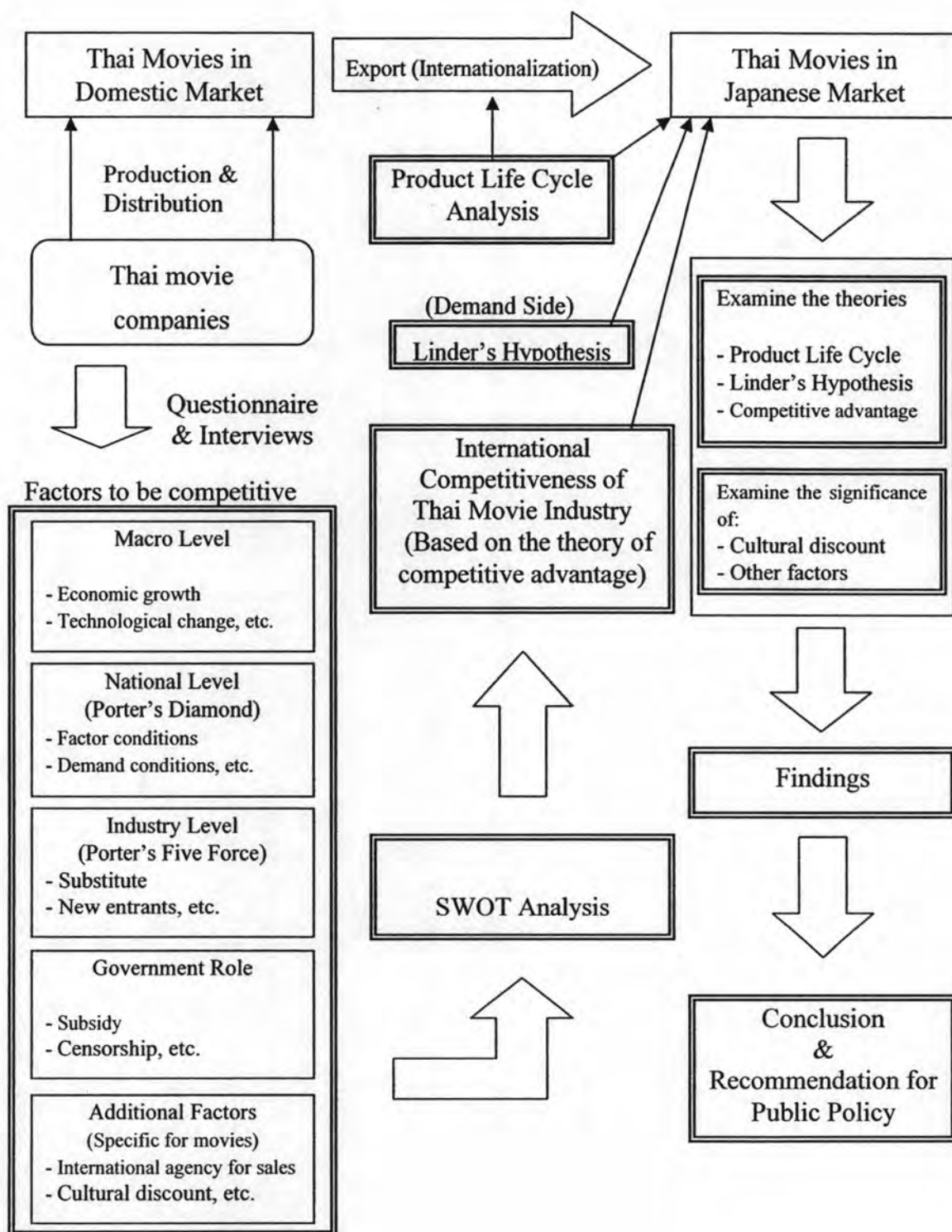
This study is conducted by basing on the following conceptual framework adapted from a couple of theories of trade and concepts on movie as a creative product discussed earlier. The outline of the conceptual framework is described graphically in Figure 2.3.

International Competitiveness by SWOT Analysis

In order to identify the factors which compose of the competitiveness of the Thai movie industry and Thai movies to commercially export abroad, the competitive advantage theory initiated by Porter (1990) is primarily employed, for we assume that the production side has affected to the trend of export the most. At the same time, however, we should pay a special attention to the unique characteristics of a movie as a creative product as discussed earlier. Each artistic endeavor in a movie crew contributes to add quality on the movie as a product. Therefore, the factors categorized in “human resources” in national level, for example, should be divided into specific skills and roles for a movie production. Then, the SWOT Analysis will be employed to explain the identified factors’ roles for the competitiveness of the Thai movie industry and companies. SWOT is an acronym for the internal Strengths and Weaknesses of a company and the environment Opportunities and Threats facing the company. Its basic principle states that strategy-making efforts must aim at producing a good fit between a company or a nation resources capability (as reflected by its balance of resource strengths and weaknesses) and its external situation (as reflected by opportunities and threats

Figure 2.3

The Conceptual Framework



Source: Made by the Author

emerged from macro environment and national environment) (Thompson and Strickland, 2003). A company or a nation tries to shape an effective strategy to maximize the

company's or nation's strength to capture opportunities as well as to minimize its weakness and avoid the threats, and consequently the company's or nation's competitiveness increases.

Although this theory and approach can be used as a powerful tool to analyze the competitiveness of the Thai movie industry, it is still difficult to fully explain the internationalization pattern of the Thai movie industry. Porter's theory of competitive advantage was in answer for why companies based in a particular nation are able to create and sustain competitive advantage against the *world's best competitors* in a particular field. The movie companies in Thailand are, however, not the dominant international competitors of the nations in the movie industry in the world.

Therefore, we still need to adopt other theories and concepts to analyze the pattern of trade in the case of the Thai movie industry.

Product Life Cycle and the Linder Hypothesis

One helpful theory is the Product Life Cycle (PLC) theory. Here we focus on the importance of dissemination of technological skills and innovative ideas over time in this framework. By carefully analyzing the changes in the innovative development in pattern of production in home market during the observed period, we can explore to find any cycling patterns in the changes over time. The timing the Thai movies started to be exported to Japan might coincide with the innovative stage in the product life cycle of the Thai movie industry.

At the same time, it is also important for us to examine the structure of demands for Thai movies both in home and foreign markets. To explore the structure of demand, the Linder Hypothesis gives us a good framework. The difference in the structure of demand in home and foreign markets, which are the markets in Thailand and Japan respectively, might cause the flow of Thai movies to Japan to serve for the demand in Japan which might not be fulfilled by the supplies in Japanese production.

These two theories will be adopted for the further analysis in Section 2 in Chapter IV.

Cultural Discount

The concept of cultural discount is also important for our study. According to Stigler and Becker (1977), arts including movies have a positively addictive nature as its consumption generates rising marginal utility due to consumption capital being built up within its own cultural context. This characteristic produces temporary cultural discount for unfamiliar foreign arts and hence in international movie trade. The cultural discount arises, according to Hoskins, McFadyen, and Finn (1997:4), “because viewers in importing markets generally find it difficult to identify with the way of life, values, history, institutions, myths, and physical environment depicted”. They continue:

A particular television programme, film, or video rooted in one culture, and thus attractive in the home market where viewers share a common knowledge and way of life, will have a diminished appeal elsewhere, as viewers find it difficult to identify with the style, values, beliefs, history, myths, institutions, physical environment, and behavioural patterns. If the programme or film is produced in another language, its appeal will be reduced by the need to employ dubbing or subtitling (Hoskins, McFadyen, and Finn, 1997:206).

This cultural discount implies that some Thai movies might not be able to penetrate the foreign markets even though they might have the strengths in determinants of competitiveness. Therefore, it is also important to understand which attributions of the Thai movies are likely to appeal or not to appeal to a foreign market, as well as the possible existence of cultural discount in trade.

2.5. Methodology

Firstly, we will conduct the SWOT analysis to examine the possible determinants of competitiveness of the Thai movie industry based on the collected data through quantitative approach, followed by a qualitative analysis through descriptive approach. The analysis will provide us the fundamental insights to explore the factors of competitiveness of the Thai movie industry and companies by identifying the opportunities and threats in the environment of the Thai movie industry in macro,

national and industry levels, as well as the strength and weakness of each company to export the movies to the Japanese market.

Secondly, the above results will be compared with the lists of Thai movies which could be commercially exported to the Japanese market (the list is attached in Appendix), and we will carefully examine whether the identified factors primarily based on competitive advantage theory and other concepts are match with the attributes of each exported movie or not.

Thirdly, on the other hand, the movement of the internationalization of the Thai movie industry over time will be analyzed through PLC and the Linder Hypothesis framework in descriptive approach.

The consequence of the above analyses will be confluent into the conclusion in the end.

2.6. Measurement and data collection

Measurement

In order to conduct the SWOT analysis in the first step in quantitative approach, the strengths, weaknesses of each company, as well as the opportunities and threats existing in environments have to be numerically scored, weighted and summed up together.

We classified the possible factors of the competitiveness for the Thai movie industry basically into three levels; macro, national, and industrial². The factors in macro level are often largely outside the power of companies such as technological change, lifestyle change, inflation rate and political situation and so on. They are usually beyond any single company's operating situation. The factors in national and industrial levels are resources and/or environments available for each company to strengthen their competitiveness. Each level has more detailed parameters primarily based on the theory of competitive advantage, as well as the other concepts specific to the characteristics of the movie as a creative product, as we summarized in the previous sections.

² For the classification of factors in three levels, see Porter (1990), Pearce and Robinson (2005) and Nahadi (2005).

Besides, we put more parameters related to the role of the government based on Porter's competitive advantage theory we mentioned in 2.1 in Chapter 2 and additional factors which are supposed to have some influence to the competitiveness of the Thai movie industry specific in case of export. For example, as Thai language is used to convey the story basically for Thai audience, sub-titles have to be available when the movie is shown in the international market. Access to the international market and the role of the international agency for sales can be also regarded as important factors as it functions as the bridge to connect Thai movie companies and foreign distributors who might be interested in purchasing the Thai movies. As we summarized in 2.4 in Chapter 2, the significance of cultural factor should be also examined in this analysis.

Therefore, we have five categories in total for the group of factors; macro, national and industrial levels, role of the government, and additional factors. Then, we assigned the weights into each category as follows, using 1.00 total score:

Macro level	0.15
National level	0.25
Industrial level	0.30
Role of government	0.15
Additional factors	0.15

The reasoning of weighting follows Porter (1990)'s idea. As the factors in narrower level are closer or more specific to the industry and/or companies, they are believed to have more impacts on the industry and/or companies. Therefore, the factors in the industrial level are more weighted than the ones in the national level, and the factors in the national level are more weighted than the ones in the macro level. As the other two categories are additional ones, we put the minimum weight equivalent to the weight for the macro level on the factors in the two categories.

Then each parameter is rated as a score by each respondent to a questionnaire, giving 7-scale importance column (most important as 7, least important as 1), as well as -3-to-3 scale favourability column (most favourable as 3, most unfavourable as -3).

As to the importance column, the score of each respondent is summed up and the mean and the standard deviation are calculated. These figures will be the useful

indications to be interpreted and analyzed. Regarding to the favourability column, firstly, each favourability score (-3-to-3) is multiplied by the mean of the importance score (1 to 7), as well as by the weight for each level. Then, each weighted favourability score is summed up and the mean and the standard deviation are calculated. These figures are used for the interpretation and analysis for the overall environments of the Thai movie industry.

As to the strengths and weaknesses of each Thai movie company, each weighted favourability score is summed up in each level as sub-totals, and then, the total score of each company is calculated by adding the all scores together. The total score will help us to rank each company in strengths in order and compare the results with the numbers and percentages of the exported movies of each company out of the numbers of the produced movies during 1999 – 2005.

As for the qualitative analysis, the direct observation will be carefully employed to explore the possible factors which might contribute to the competitiveness of the Thai movie industry, as well as cause the internationalization of the Thai movie industry.

Data collection

The primary data for the SWOT analysis were collected using a questionnaire and an in-depth interview administrated by the author to the targeted production companies as well as experts in the field as listed below:

- I. Mr. Gilbert Lim (Executive Vice President)
Sahamongkol Film International
- II. Mr. Tian Ponvanit (Director of International Sales and Acquisition)
Five Star Production
- III. Mr. Yongyoot Thongkongtoon (Head of International Department)
GMM Tai Hub Company Limited
- IV. Mr. Monthon Arayangkoon
(Assistant Director of Strategic Marketing Department)
Ms. Juntima Ryusirikul
(Assistant Director of Production & Creative Department)

RS Film & Distribution Co., Ltd.

- V. Mr. Samart Chansoon (Director of Research and Information Institute)
Office of Contemporary Art and Culture
- VI. Mr. Surasak Sunpituksaree (Secretary General)
The Federation of National Film Association of Thailand
- VII. Ms. Chalida Uabamrunjit (Project Director)
Thai Film Foundation
- VIII. Ms. Pimpaka Towira (Film Director / Ex-Film Reporter)
- XI. Mr. Kittisak Suwanapokin (Film Critic)
- X. Mr. Raksarn Wiwatsinudom (Associate Professor)
Faculty of Communication Arts, Chulalongkorn University

The other primary data mainly served for the analysis through the Linder Hypothesis approach, were collected using in-depth interviews to the targeted distribution companies in Japan as listed below:

- I. Mr. Tetsu Negami (Managing Director)
Klockworx Co., Ltd.
- II. Mr. Junichi Matsushita (CEO)
Art Port Inc.

The secondary data such as the information on laws and regulations, the Thai movies exported to Japan, as well as existing issues in the Thai movie industry are obtained from journals, magazines, papers, books and websites.