Market Concentration in Taiwan's Cable Industry

A Case Study

This study reviews theoretical approaches of media concentration, examines the domination of two media conglomerates, the United Communications Group (UCG) and the Eastern Multimedia Group (EMG), over Taiwan's cable industry, and analyzes the market situation under their operation.

The study reveals that UCG and EMG engage not only in horizontal integration, but also in vertical integration. As of early 1999, among the existing 105 cable systems and 100 cable channels, UCG and EMG owned 62 systems and controlled 40 channels; i.e., they held 60 per cent of Taiwan's cable systems and 40 per cent of the channel market share. These two figures for 1999 are up 49 per cent and 10 per cent respectively from 1997.

After investigating ownership concentration and conglomeration, which has occurred in Taiwan's cable market, the study concludes that Taiwan's cable industry is dominated by UCG and EMG, and its future development and their further influences need to be carefully explored.

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Cable television in Taiwan emerged in the late 1970s as an underground medium because the Taiwanese government banned the new service at its outset, claiming political and national security concerns. Despite its illegality, cable television has prospered in Taiwan since its debut due to its abundance and diversified entertainment and information programmes. After more than one and a half decades of illegal operation, the Taiwanese government was forced, mainly by opposition parties, to enact a cable television law in July 1993 which legalized the industry.

This legislation was regarded as a media revolution in Taiwan, as the government had previously used martial law to suppress new media outlets. Media observers and researchers predicted that the newly legalized cable industry would become a strong competitor not only to the electronic media but also to print media, bringing Taiwan more information and programming choices. In fact, within less than two decades, the subscription rate of cable television in Taiwan has reached 75 to 80 per cent, the highest in Asia and higher than in the U.S.

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This study presents an economic, as well as an historic, analysis of Taiwan's cable television industry through an examination of the development of the cable television conglomerates. It begins with a theoretical review on the tendencies and implications of media concentration, followed by an economic analysis of Taiwan's cable industry, including market concentration and conglomeration of the media. It then reviews the major players, mainly two cable conglomerates of Taiwan's cable industry. This study concludes with a look towards the future of Taiwan's cable industry under the influence of economic tendencies of ownership concentration and conglomeration.

The Tendency Toward Media Concentration

To follow the logic of capital, capitalists inevitably penetrate new markets and territories in search of profits. In the meantime, as they search for profits, competition forces them to change their strategies of operation continually. In response, capitalists are forced to reduce competition in order to reduce the expenses and risks generated by competition. In terms of the process of seeking solutions, the merger-acquisition strategy toward concentration definitely has become a dominant tendency within modern

capitalism (Bettig, 1996).

Researchers have noticed that the mass media have been among the favourite targets for concentration activities (Exoo, 1994). Moreover, concentration in the communications industry is even greater than in other industries (Dye, 1995). In the communications industry, there are three primary forms of corporate concentration: (1) to own a large number of firms within a single medium, that is, to increase the concentration of market share (Albarran, 1996), (2) to cross-own distinctive media (Wasko, 1984), and (3) to add ownership of a whole array of media, not just one medium and not just cross-ownership of different media (Murdock, 1982). For instance, Time Warner owns various media outlets including film and television studios, television stations, cable channels and systems, music record labels, and magazines *(New York Times, 1995)*.

Since the 1950s, three indices have been developed which attempt to measure the concentration of structural competition in markets: (1) the concentration ratio is used to compare the ratio of total revenues of the major players in a particular market, the top four firms (CR4) or the top eight firms (CR8), with the revenues of the entire industry; (2) the *Lorenz Curve* interprets the inequality of market share among different firms; and (3) the Hertindahl-Hirschman Index (HHI) is calculated by measure that varies from 0 to 10,000 (Bates, 1993; Albarran, 1996). Among them, the concentration ratio (CR) reigns as the research focus for analysis of market power and its effects (Shepherd, 1987), and the HHI is probably the most sophisticated (Albarran, 1996). The Department of Justice relies primarily on both of these two indices (Atkin, 1994).

In an analysis of the concentration of economic power, Dye (1995) reveals that concentration of the communications sector is even greater than of the industry as a whole. As an example, an early study in 1967 by Monroe found that the concentration of ownership in the media occurred not only within the four major media (newspapers, magazines, radio and television), but also across the media industry (Monroe, 1967, cited in Clement, 1975). Moreover, Zucconi (1986) shows that 98 percent of U.S. daily newspapers have no competition; 1,656 of 1,700 dailies are the only newspapers in their respective cities.

In his study, Waterman (1991) found that since 1977, despite a slight decline in national concentration of broadcast television station groups (CR4 from 20.8 per cent in 1977 to 19.9 per cent in 1989), concentration had increased for daily newspaper chains (from 20.9 per cent to 24.7 per cent), multiple cable television system operators (from 24.5 per cent to 37.3 per cent), and movie theater operators (from 13.8 per cent to 30.1 per cent). More precisely, Bagdikian (1989) states that most local newspapers are monopolies; the three largest television firms own a third of all radio and television stations, and the seven second largest firms have only ten per cent; and the two largest cable television multiple system operators serve more than one-third of all subscribers. Meanwhile, the production of filmed-entertainment is dominated by 11 large firms which obtained 89.2 to 98.7 per cent shares of domestic film rentals between 1987 and 1992 (Wasko, 1995). Bagdikian (1992) 'concludes that 23 media firms dominated all major media in the U.S. in 1992 and that by the year 2000, all U.S. media will be controlled in the hands of six media conglomerates.'

The tendency toward concentration is evident not only in the U.S., but also in most capitalist countries. In 1913 Canada had 138 daily newspapers, but by 1958, the number shrank to 99 (Potter, 1965). In 1970, the Senate Report on the Mass Media of Canada showed that the three largest newspaper chains controlled 25 per cent of daily circulation in 1958, but this proportion increased to 45 per cent by 1970 (Senate Report, 1970). This government study covered 116 daily newspapers (66.4 per cent of which were owned by chains), 97 private television stations (48.5 per cent group-owned), and 272 radio stations (47.4 per cent group-owned) (Senate Report, 1970).

Similarly, in Europe, Norway has experienced an increased concentration of ownership in its media markets. For example, a study in 1995 showed that the three largest newspaper corporations controlled more than 52 per cent of the total daily circulation in Norway, and the largest firm owned 39.5 per cent (Hoyer and Ramstad, 1995). In exploration of media ownership in Sweden, a study in 1995 found a trend toward concentration of ownership in the newspaper, periodical and book publishing sectors. The ten largest owner-groups in Sweden controlled over three quarters (78.3 per cent.) of the total circulation of daily presses; the largest three firms controlled more than half of the circulation (51.8 per cent). Meanwhile, Sweden's newly opened broadcasting market is also largely owned by major media interests (Sundin, 1995).

Production in the major British mass media is also increasingly concentrated in the hands of few large firms. Murdock (1982) maintains that in the late 1970s, two thirds or more of the total material audience read, heard or looked at material produced by the top five corporations in the central sectors, such as newspapers, paperback books, records, and commercial television programming. Curran (1979) found that the five leading publishers of British national papers only controlled eight per cent of the weekly market in 1947; however, by 1976 their market share had increased to 25 per cent.

Finally, the following section reviews concentration occurring in the cable television industry in the U.S. Chan-Olmsted and Litman (1988)—examined the concentration of cable systems ownership in the U.S. and confirmed that the cable industry was slowly consolidating as a result of horizontal and vertical integration. Howard and Ogles (1994) note that a significant consolidation of ownership of cable television systems has taken place through a combination of mergers and acquisitions during the past two decades. The market share of the 50 largest cable television multiple system operators (MSOS) has significantly increased, from 60.1 per cent in 1972 to 74.2 per cent in 1985 and to 82.3 per cent of all subscribers in 1994. In addition, most cable television networks are controlled by about a dozen large corporations (Howard

and Ogles, 1994).

Examining the degree of concentration in the cable television industry using concentration ratios, Atkin (1994) asserts that the industry is moderately concentrated and is becoming more concentrated. The CR4 of cable television industry was 24.2 per cent in 1983; but by 1992, the CR4 expanded to 42.3 per cent (Akin, 1994). Moreover, the CR4 in early 1995 was 49.4 per cent, which implies that the current cable television industry is a moderately concentrated market structure with strong market power centralization in the hands of the top four firms (Chan-Olmsted, 1996). Howard and Ogles (1994) comment that concentration of ownership in cable television is expected to accelerate as the industry continues to follow the model of multiple ownership during the 1990s.

The Implications of Media Concentration

As Bagdikian (1992) states, at precisely the same time that many political systems of the world have become more democratic, the media industry has begun moving in the opposite direction, becoming more centralized, controlled by a few large private corporations. An abundance of studies have revealed that when the media industry becomes more concentrated and less competitive, the media, as well as their owners, not only have economic power, but also political power through the control of information (Albarran, 1996; Domhoff, 1978; Schiller, 1981; Hunt and Sherman, 1986; Bowles and Edwards, 1985). Thus, Gomery (1993) emphasizes that mass communications research should not ignore the economic implications of media ownership and how this translates into political and ideological power.

The power of large corporations rests not only in their size, but also in their ability to cooperate, through their interconnective relationships (Evans and Schneider, 1981). In 'interlocking directorships,' directors of one corporation may also sit on the boards of other corporations (Murdock, 1982; Evans and Schneider, 1981; Dye, 1995). For instance, in 1978, nine out of the top ten British communications companies had interlocking directorship relationships with at least one of Britain's top 250 industrial corporations, and six had links with a company in the top 20 (Murdock, 1982).

Various sources reveal that several countries have proposed in recent years, or will propose in the near future, an ownership ceiling in the media sector (Wasko, 1984; Roof, Trauth and Huffman, 1993; Hoyer and Ramstad, 1995; Doyle, 1995). As an example, despite the deregulatory intentions of the 1996 Telecommunications Act of the U.S., the Act mandates that a television broadcaster in an area may not own a cable television system in the same community (Parsons and Frieden, 1998). By the same token, in 1995 the British government suggested that an individual media operator may own up to a ceiling of 10 per cent of the total UK market and 20 per cent of any one media sector or geographical region (Doyle, 1995).

For society as a whole, concentration of media ownership may bring various detrimental effects. Magder (1989) maintains that increasing concentration and monopolization of the cultural industries have standardized and homogenized cultural production. Specifically, there are four strategies in which media owners may limit diversity: (1) to mobilize their media behind political or ideological causes they support; (2) to influence editorial decisions and stances on the issues they wish to control; (3) to maximize the complementaries or 'synergies' between their various media; and (4) to exercise their power to shape competition within markets where they are the dominant player (Murdock, 1994).

A report on hearings of the Committee on Telecommunications of the U.S. Senate asserts that heavy concentration of media by a few owners will limit the variety and scope of the sources of information that 'serve to shape our social, cultural and political thinking' (Wasko, 1984, p.215). Accordingly, Murdock (1994) argues that media concentration presents difficulties for the vitality of democracy since only a handful of individuals decide what should be read and heard from the media. For example, Dreier (1982) comments that four major newspapers, the *New York Times*, the *Washington Post*, the *Los Angeles Times*, and the *Wall Street Journal*, speak not only for their board of directors and owners, but also for an inner group of the larger capitalist class. Bagdikian (1992) asserts that as large media firms take over producing the content of American news and popular culture, they bring greater uniformity in this content, increase corporate pressure to highlight events, policies, and politicians favoured by media owners, and bend government policies to their collective will.

In the analysis of concentration in the communication industry, a report published by the United Nations concludes, 'concentration of resources and infrastructures is not only a growing trend, but also a worrying phenomenon which may adversely affect the freedom and democratization of communication' (UNESCO, 1988, p.111). In other words, since the power controlling the flow of information effectively affects the way people think, this power should not be concentrated in the hands of a few media conglomerates (*The Nations*, 1996).

Taiwan's Major Cable Conglomerates

Taiwan's cable industry has dramatically changed in terms of its structure since it was legalized in 1993. Its market has been dominated by economic power instead of political power; its operation has been dominated by domestic conglomerates and foreign media conglomerates instead of political parties (Yang, 1997). This tendency towards conglomeration has been repeated in the cable television industry (Yu, 1996), where the number of system operators decreased from 625 in 1993 to around 100 in 1998.

In Taiwan, various business conglomerates have acquired interests in the industry through mergers and acquisitions. As of August 1997, only 12 systems, which had been operating since the outset of Taiwan's cable television, remained under original ownership. Others have left or been sold to business conglomerates (Hsin, 1997b). The major domestic business conglomerates

broadly involved in Taiwan's cable television system and channel operation include the United Communications Group (UCG) and the Eastern Multimedia Group (EMG). In fact, UCG and EMG are two media conglomerates that have vigorously increased their shares in Taiwan's cable television market (Cho and Chung, 1997).

By horizontally acquiring cable systems island-wide and vertically investing in cable channels, UCG and EMG have been aggressively expanding their market share in Taiwan's cable industry. As of January of 1999, UCG and EMG control 62 cable television systems, or approximately 60 per cent of Taiwan's total cable systems. Meanwhile, these two cable conglomerates have 2.92 million subscribers, amounting to 70 per cent of Taiwan's four million cable subscribers. According to a survey conducted in 1998, UCG and EMG totally possess 15 and distribute 25 cable television channels, adding up to 40 per cent of Taiwan's 1 00 nation-wide cable channels (*Cable & Satellite Magazine*, 1998). Table I shows the market share of Taiwan's cable industry by the two cable conglomerates.

Apparently, UCG and EMG exercise a strategy of controlling the upstream programming market as well as downstream cable systems. In fact, these two cable conglomerates also have taken advantage of having a concentration of ownership in Taiwan's cable market. Take their strategy of selling cable channels as an example. On the one hand, UCG and EMG constantly merge or acquire cable systems to become outlets for their cable channels. On the other hand, they also sell all their channels as a package, i.e., 'bundling' to other independent cable systems.

Furthermore, through diverse strategies, these two cable conglomerates have been continually striving for leadership in the existing cable market. For instance, EMG combined with medium size popular cable channel operators, Sunli and GTV, to establish a cable channel coalition (Lu, 1997). In October 1997, the other three biggest channel operators, UCG, Filmate and Era, announced a plan to set up the Cable Channel Coalition, a strategic alliance aimed at competing with the EMG alliance in the cable channel market (Hsin, 1997a). In 1998, these two coalitions, which own approximately 60 channels in total, 60 per cent of Taiwan's 100 cable channels, agreed to market their channels jointly to system operators in a bundled package. The coalitions signify another form of concentration of Taiwan's cable television industry. The following section examines these two major cable television conglomerates.

United Communications Group (UCG)

Investing more than US$154 million (NT$5 billion) in the first phases of the market shakedown, UCG, a communication services division of the Koos Conglomerate, initiated investment in cable television in 1991, two years before the legalization of Taiwan's cable industry (Wu, 1997a). Within only a few years, UCG had been regarded as 'a fearsome monster' and had the potential to establish 'the kingdom of cable television' (Cho, 1997). In the end of 1994, when the Taiwanese government accepted applications for cable system operation, UCG submitted 23 applications (among 205) for operation licences and was finally granted 18 licences (Chen, 1998). By the fourth quarter of 1996, UCG kept acquiring cable systems nation-wide by investing more than US$123 million (NT$4 billion), increasing its number of systems to 22 (Hung, 1996).

As of January of 1999, according to the market data collected by the author, UCG has invested in 29 cable television systems with IO to 40 per cent of the share of each system and has totally controlled 1.4 million subscriptions. Meanwhile, UCG possesses or distributes 11 cable television channels. Specifically, UCG owns six cable television channels—one news channel, two movie channels, one Japanese channel, one sports channel, and one general entertainment channel—and holds exclusive distribution rights to five domestic or transnational cable channels, including Discovery (USA), Z Channel (Japan), etc. (Cable & Satellite Magazine, (1998).

UCG dominates Taiwan's cable television system operation and channel distribution through its three cable subsidiaries: Cycloria is in charge of cable television system engineering and acquisitions; Videoland controls

Table 1
The Penetration of Taiwan's Cable Industry by UCG and EMG

	UCG	*EMG*	*Total*	*Market Share*
Systems	29	33	62	60%
Subscribers	1.4 million	1.76 million	2.92 million*	70%
Channels	11	29	40	40%

* This figure is reduced by 240,000 subscribers, which the two conglomerates own but which overlap with each other, from the total amount of respective subscribers each group controls.
Sources: (1) Collected by the Author; (2) *Cable & Satellite Magazine* (1998, November).

Table 2
The Market Share of UCG Between Mid-1997 to Early 1999

	Mid-1997		*Early 1999*	
	Amount	*%*	*Amount*	*%*
Subscribers	0.8 million	18.6* million	1.4 million*	34%
Systems	38	—	29	28%
Channels	10	—	11	11%

* *Sources:* (1) Data collected by the author; (2) Chen (1998).

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With the wide availability of information has come the potential for improving the access of it to people everywhere, so raising their education, economic and social development levels. It is up to the present beneficiaries of the information society to ensure that this potential materializes.

There are about 120 million people throughout the world using the Internet. Experts estimate that five million more come online every month. You can bet that most of these are in industrialized countries. Rich countries have more resources to invest in the equipment necessary for access to the Internet. They have better telecommunications infrastructure. Poor countries have neither of these. This means that they have fewer opportunities to develop economically and socially in the directions that the Internet makes possible.

But the information rich— information poor divide is not based on economic differences only: repressive regimes—even in relatively rich countries—often want to restrict the availability of information to their citizens. Asian countries in particular view the internet as a threat to their national security because it has served to organize protest movements by linking dissidents at home and abroad. Inequalities may also result from differences in language. While communication within any group will be strengthened by the internet because it will be taking place in the language of that community, speakers of languages other than English will find it difficult to participate globally, unless translation software is available.

Both the public and the private sectors, nationally and internationally, thus have important roles to play in lessening the inequalities in access to the information society. The investments necessary to upgrade hardware and infrastructure, and so improve levels of education and technical competence must come from both these sources. However, it is up to policy makers to set the agenda, and by doing so, create the incentives necessary for private action.

Closely-related to this is the extent to which information on the internet should be regarded as proprietary and therefore subject to profit maximization. Copyright law, and laws relating to the protection of databases, computer software and trademarks, all limit information availability. The ever-expanding scope of proprietary rights in information does not make it easier to ensure that the information society remains genuinely available to all. People may end up paying for information from library archives that once were one open to all. Information rich countries could, for example, accept a limited ethical requirement to restrict the amount of privatized information, and give broad scope to legal exceptions, such as that of fair use. It should also be possible to allow the least developed countries extended transitional periods, as was done in the recent TRIPs (Trade-Related Aspects of Intellectual Property Rights) Agreement under the World Trade Organization, to help them ease into a new (and more demanding) system for the protection of intellectual property rights.

Privacy is another key issue. The ability to combine and analyze personal data from diverse sources (for example, from police, tax, judicial and financial records) makes available to prying eyes a wealth of information that can be used to the disadvantage of employees, tenants, debtors and citizens generally. The recent controversy over the Pentium III chip introduced by the Intel Corporation illustrates this point. The chip can identify the computer in which it is situated and so enable commercial enterprises to target their advertising to the preferences and purchasing patterns of the owner. The commercial incentives to make use of private information are too strong for the protection of privacy to be treated as a matter of self-regulation. NGOs have also expressed fears that this type of technical development could be used for political surveillance.

Legislation to safeguard privacy must come from governments, while the technical means of protection—such as encryption software, which scrambles information rendering it unintelligible to outsiders—is developed by private business. The point of these efforts is not to make private data completely inaccessible, but to keep access to a minimum. Laws and administrative practices allowing access should carefully define the purpose for which it may be sought, the people to whom it may be granted, and the conditions under which it be granted.

Access to information should be considered a human right, at least in a general sense, taking into account economic constraints and qualifications such as the importance of efficient law enforcement. These do not lessen its character as a human right; after all even that most fundamental or human rights — free speech — is not absolute. At the dawn of the nuclear age certain scientists lamented that the technological development of mankind had outstripped its moral development. Fifty years on we have learned to use our moral and prudential faculties to live with—and in a sense to tame—the nuclear beast. A consensus was achieved. The precedent exists. Surely then, we can rise to the occasion to face the challenges presented by the information society.

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