
Exporting Chinese Culture: Industry Financing Models in Film and Television

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Abstract

This article examines the financing of creative industries in the People's Republic of China. *Creative industries* embrace both traditional and contemporary culture, but exportable industries are primarily content-driven. This focus on export content shifts the development argument away from the provision of infrastructure towards innovation in the global economy. The concern of this paper therefore is on the synergy between financial and creative inputs into production, distribution, and marketing of film and television. The paper also makes some concluding observations about the prospects for digital content industries, and points towards a bottom-up model of development applicable across a range of creative and content industries.

Introduction: Abundance without Value

For would-be investors China's huge population evokes visions of massive demographics yearning for new goods and services. *Fortune* magazine (October 4, 2004) illustrates how yearning is linked to earning – that is, capitalizing on the commercialization of Chinese lifestyles. It euphorically editorializes 'The remarkable rise of China is one of the mega-stories of our time' (16). Impressive testimonials to peaceful evolution towards free market capitalism attract foreign investors and international marketers hoping to feature in the next stage of China's market reforms. More cautionary stories, however, have appeared in *Newsweek*, which devoted a special issue (Fall/Winter 2002) to China, entitled 'The Five Faces of China: Can Beijing and the World Handle the Country's Split Personality?' Tales of unfulfilled expectations are also chronicled in Joe Studwell's *The China Dream* (2002).

The business world's preoccupation with China Unlimited (*Fortune*) – and the prominence given to the Chinese Communist Party's censorship of cultural works (see Kraus 2004) – overshadows China's unfulfilled efforts to develop global cultural markets. This failure to compete is a problem of scale in two respects. First, the vast size of the Chinese domestic market provides little incentive for domestic producers to target international high-value markets. Second, the fragmentation of the national market into provincial empires makes value creation (that is, the creation of powerful brands) difficult. A legacy of Communist propaganda organization, fragmentation has also resulted in ineffective distribution networks. Many small media empires do not create incentives to syndicate or trade licenses (rights). To complicate the scenario for development, a persistence of protectionist policies in media, communications and culture reveals a tendency to emphasize the national character of production and in doing so neglects the nurturing of national champions and targeting of potentially lucrative international markets.

This article examines the financing of creative industries in the People's Republic of China. *Creative industries* embrace both traditional and contemporary culture, but exportable industries are primarily content-driven. This focus on export content shifts the development argument away from the provision of infrastructure towards innovation in the global economy. The concern of this paper therefore is on the synergy between financial and creative inputs into production, distribution, and marketing of film and television. The paper also make some concluding observations about the prospects for digital content industries, and points towards a bottom-up model of development applicable across a range of creative and content industries.

Development Agendas and International Perspectives

I use the term 'development' in relation to China with the qualification that ongoing tensions persist between state modernization agendas and the internationalization of the cultural economy. This tension is illustrated in divisions, both digital and in the distribution of material goods. The experience of consumer society is connected both virtually and materially to the flow of goods and services available in developed markets. Shanghai, Beijing, and Guangzhou are world cities where advertisements for global goods and services greet commuters and tourists, mobile phones are seemingly ever-present, and drinking Starbucks coffee is for many young people a marker of cosmopolitanism. Contrast this with the sluggish pace of cultural development in Taiyuan, the capital of Shanxi province in north-west China and the heartland of traditional Chinese culture, where global brand products are conspicuously absent from purview and coal mining remains the main source of income.¹

China is, however, in transition, moving from an era of state intervention in all areas of social life under state socialism to cautious acceptance of the values of neo-liberalism and scepticism of the economic benefits of the 'Washington Consensus'. The Washington Consensus was the name given by US economist John Williamson in 1989 to a list of ten policy recommendations for countries to reform their economies. It has since become shorthand for the market-centred policies of privatisation and liberalisation. While neo-liberalism is broadly encapsulated in a shift from people's dependency on the state for the provision of services to an ethic of self-reliance and responsibility, the Washington Consensus aims to break down dirigisme economies and state protection of industries. However, as Naim (1999) has pointed out, the irony of the Washington Consensus is that it overlooked globalization. The years between 1994 and 1999 witnessed a contagion of economic crises in ten middle-income countries that had relatively open economies. Meanwhile China's largely insulated economy continued to experience double digit growth. China's acceptance of global market rules coincided with its entry into the World Trade Organization in December 2001, and was fundamentally a triumph of pragmatics over national sovereignty. Entry into the world's premier trading club even led a senior government official to use the metaphor of a 'wrecking ball' to suggest a force that smashes old institutional practices and allows the marketplace to rebuild with greater capacity (Jin 2002).

The question is then: how is such 'creative destruction' occurring in media industries, if at all? In spite of the success of a few media enterprises, creative industries in China are fragile when compared with the corporate structures and production relations of Hollywood. In developed economies the mass media are dominated by highly concentrated forms of organization. As Alan Scott argues, economies of scale mean that value is maximized and risk is minimized, often through entering into financing or co-production arrangements with independents (Scott 2004). Media conglomerates such as Disney and the BBC have become globally recognized brands in their own right and have established internationalization strategies. In China, the options for development of audio-visual industries are still uncertain and subject to vagaries in national media policy. Media organizations may expand provincially; they may aspire to horizontal integration; but the bottom line is likely to remain a lack of capital, which forces them to seek out low-cost ways of competing in a crowded media industry.

Globalization, Internationalization and Modernity

It is now widely accepted, both by scholars and policy makers, that economic globalization has changed the relationship between developed and developing countries. In particular, the global expansion of communication technologies demonstrates how creative industries are being drawn into closer association with theories of social transformation. While internationalisation, globalization, and

modernity are analogous concepts in some respects, there are distinctions that need to be clarified. In short, internationalization is a rational activity, rather than a transformative 'end of history'. Internationalization describes the expansion of individual firms' economic activities across national boundaries in an effort to attain economies of scale and scope. To achieve internationalization producers need to understand the local context, the socio-political and economic processes of acquiring and exploiting local knowledge. In television industries for instance financial returns on program development and production are extended across, and within new territories. In cinema co-productions and runaway productions are a means of ensuring cost savings (Christopherson 2005). Dicken (1998) argues that internationalization is essentially a quantitative process.

In contrast globalization is more qualitative and concerns the functional integration of internationally dispersed activities into broader social, cultural, political, and economic realities. Some prominent scholars of media and social change have associated globalization with late modernity (Giddens 1990; Robertson 1992) although such assertions have provoked claims of *just whose* late modernity—namely that the concept of modernity is very much European, predominately capitalist, and applies less to developing countries where people have uneven access to global communications, travel, and actual lifestyle choices. Others opt for more flexible concepts: such as 'ubiquitous modernity' (Iwabuchi 2004) and 'alternative modernities' (Liu 2004). In the former Iwabuchi argues that the Western gaze, which has determined discursive constructs of non-Western modernity, has melted into a 'global gaze' in which the forces of media globalization and consumer culture play important roles. People attest to feeling the same and feeling dissimilar within globally franchised consumer culture—from eating at Subways to watching franchised reality TV.

Shops in Chinese cities now display the same products found in downtown New York, more often than not cheap copies, and often embodying 'Chinese characteristics'—that is, subtle variations that allow local producers or fabricators to claim some degree of originality. Echoing this, Liu Kang (2004, 27) argues for a variety of modernities for every modern nation-state 'because the uniqueness and specificities of each nation-state's encounter with modernity constitute irrefutable differences and alternatives to Eurocentric capitalist modernity'. In this view modernity does not develop teleologically, despite the global reach of capital and identifiable symptoms such as the spread of transnational firms and the increased flow of trans-border information, monetary, population and symbolic goods.

Calls for the convergence of modernity on the one hand and its fragmentation into alternative or plural modernities on the other, illustrate a world in which the nation-state no longer over-determines cultural representations. Regions and

localities generate 'variable geographies' and alert us to the illusion of permanent associations between space, territory and cultural organization (Appadurai 2001, 8). Whereas modernity (and modernization theory) is concerned with rupture, process, and innovation, and in doing so recalls a series of bracketed pasts identified by big ideas such as tradition, history, evolution, antiquity, and civilisation, globalization captures 'the in-betweenness of a world always on the brink of newness' (Shami 2001, 220).

Likewise, franchised products in Tokyo, Taipei, Seoul, and Shanghai show that globalization is often incremental and continuing as international formulas are adjusted, appropriated, and licensed. Globalization by franchising provides a very different model of development, one that is flexible, post-Fordist, and subject to user innovation

The most obvious implication of this is the increase in outsourcing. It is worth therefore to briefly consider recent trends in industrial organization within the developed economy in order to reflect on how developing countries function as a second tier of resources and production capability. A way to understand the global restructuring of production and distribution is Michael Storper's (2000) categorization of levels of economic activity. Within the context of globalization, Storper argues that there are four levels of economic activity: *economic specialization*, *de-territorialized production* (production of goods in lowest cost locations), *partially traded or non-traded services*, and *routine manufacturing and services*.

The first level of activity, economic specialization, describes local industrial specializations and specific skill-based activities – namely products and services that target world markets. These are largely driven by soft factors of embedded knowledge and skills -- and are capable of 'taking the market' over a wide territory; for instance, 'winner-take-all products and services' such as global financial services, media, sports, higher-level corporate management, business consulting, science and medicine, as well as blockbuster cinema [*Titanic*, *Harry Potter*, *Lord of the Rings*], business 'stars' [Bill Gates and Jack Welch], or sports stars [David Beckham and Tiger Woods]. These products have a global presence, brand recognition, and can command high prices. By the time of the international release of *Harry Potter and the Order of the Phoenix*, a bookshop in Beijing's main international shopping mall had on hand one thousand copies. These blockbusters and global brand services are often incubated in 'export-oriented, specialized industrial clusters'. Hollywood and Silicon Valley, which are result of institutionally embedded know-how, produce continuous learning and innovation. The output of these centres targets world markets.

The second level or organization is globalization through *de-territorialization*: 'the spectacular cases of off-shoring that are so prominent in the media' (Storper 49).

Because of rising production costs in developed economies the manufacture of sophisticated products and services is relocated to developing countries. Outsourced productions in cinema are the most noteworthy example of how international producers seek to minimize costs (Miller *et al* 2001). In order to attract these high value creative industries, governments (national and local) provide incentives such as tax relief, waivers of location fees, equity investment, and a range of subsidies. The anticipated pay-off is the stimulation of local industries through providing training and employment, as well as the attraction of related providers into the area. For both developed countries (Australia, New Zealand, Canada) and developing countries (China, Mexico) this often results in competition to provide economic discounts and bureaucratic concessions so that future multiplier effects will be generated in local industries and economies.

Partially tradable or non-tradable services are the third level of international economic activity. Many of these 'services' are point-of-purchase delivery and are local. For foreign companies to gain a presence in the developing market they need to draw on local expertise. Where internationalization occurs it is often through foreign direct investment or franchising using localized global brand names. McDonalds is successfully localized in China as *maidanglao*—but the hamburgers taste the same. Service industries play a key role in the reshaping and restructuring of global activity in a number of ways. First, the current re-invention of global capitalism is driven by service industries. Second, many services involve high levels of internationalized 'intangibles' – for instance, notions about product quality and value creation. Services such as branding, marketing, and consulting are seen as creating a culture of competition and business ethics where it did not formerly exist. Third, services are often partially tradable or non-tradable. Many are purely local, drawing on local tastes and values. The internationalized services as such need to partner up with local knowledge, in turn creating mutual benefits and cultural technology transfer.

The fourth level of activity according to Storper is *contestable markets in routine manufacturing and services*. Globalization allows for the replication of codified information such that it is possible to make products and services at any location in the globe. The same argument applies to the cultural economy. Unscrambling the code and reverse engineering allows massive replication in the same way that television formats have become transparent templates for globalization. For instance, the television quiz show *Who Wants to be a Millionaire* has been remade in cheaper and cheaper versions and imitated relentlessly across the globe.

The point of this brief analysis is that markets (and therefore economic returns) for products and services are impacted by the four tiers of globalization. The demand for innovation drives the imperative to constantly examine the

international market for opportunities. But if products produced in one country are easily replicable, albeit with some localization, market value will be affected. This leads back to the conundrum of creativity: how do developing countries compete? If it is easier to compete in the cultural economy by making local versions of global products—or by acting as a low-cost location for footloose multinationals—then the specificity of culture is ultimately eroded. On the other hand, a focus on the national can have the effect of marginalizing the cultural product and ensuring that it fits only into a niche culture market, as illustrated by national cinema and world music. The dilemma for producers, moreover, is making a leap into high-value markets: independents located in developing countries do not have the resources to incubate, produce, and market so as to produce ‘winner-takes-all’ branded products and services. In many instances, new artists are discovered in the margins and expediency drives them or their agents into the arms of international financiers, often handing over the valuable IP rents in the process.

Paradoxical Relationships between Creativity and Control in China

The process of starting a creative business in China is not straightforward. Funding is just one of the impediments. Another significant hurdle to navigate is the intractability of the regulatory system that oversees particular creative industries sectors. In new and potentially profitable industries such as streaming content firms need to obtain multiple licenses. Over-bureaucratization is endemic to the cultural sector and works against implementation of long-term business models. In television drama production, licenses are provisionally given to new entrants for short-form productions (see Yin 2002). Joint venture productions in the television and film industries are permitted on a case-by-case basis. The necessity of obtaining multiple permits to produce creative content, often from different industry regulators (Ministry of Culture, The State Administration of Industry and Commerce, The State Administration of Radio, Film, and Television, Ministry of Information Industry), can act as a deterrent to entry into creative industries. This entry barrier is further exacerbated by dependency on relationship maintenance as a means of achieving success. This leads to uncertainty and fosters a huge grey market where permits are not required. There are some notable start-up exceptions in the ICT sector such as Netease (Internet portal) and the Hunan Television consortium in southern China (see below), but in most cases these success stories have resulted from foreign investment or early entry into the marketplace.

These factors, in combination with existing conventions within the marketplace, notably a propensity to rely on relationships make it difficult for cultural enterprises to generate start-up capital. Product innovation is therefore more likely to be incremental and imitation is favoured over innovation. The focus on imitation has led to the success of Japanese and Korean creative industries.

Whereas these countries have managed to move to the next stage (innovation), China remains locked into a cycle of dependency.

Film Industry Financing

As evident in the credits of Chinese films, investment derives from multiple sources, including private loans and investments from small enterprises. Much of this finance, however, is fragmented and directed into films that have no real chance of achieving return on investment. The principal financiers of the Chinese film industry are *government*: direct support for approved films as well as indirect support for co-productions via tax breaks and reductions of expensive red tape; *foreign investors*: particular in co-productions and joint-venture arrangements; *major business enterprises*: through revenue-sharing arrangements and product endorsements in film; *advertising companies*: often through brokering of services such as post-production; and *state-owned enterprises*: many of these such as the People's Liberation Army, are in fact highly profitable enterprises with interests in communications.

The diversity of financing in the Chinese film industry is nevertheless a positive development. In 1995 the Chinese government promoted non-state investment by allowing investors (both individuals and non-state enterprises) whose outlay was more than 70 percent of budget to be regarded as producers. The following year this was reduced to 30 percent (Chu 2002, 46). However, the stipulation that studios produce a quota of approved 'main melody' works (*zhuxuanlü zuopin*)—that is, propagandistic films echoing China's reform—led exhibitors to prefer non-political overseas productions for box office revenue. In 2003 80 percent of revenue from box office receipts came from the 20 imported blockbusters (Hua 2004). According to official statistics copyright earnings on imported films were 10 times more than those received from domestic productions (Liu 2004).

The politicization of film content, erratic censorship regimes, and the necessity of managing scripts to appease officials, impacts on production investment in two ways. First, it discourages domestic investors who are unwilling to sink their capital into scripts that are politically doctored; and second, it opens up a private investment market for the more adventurous producers. Since 1997 the partial privatization of China's leading film studios (Beijing Forbidden City Film Corporation, Xian Film Corporation, Ermei Film Corporation, and Shanghai Film Corporation) has stimulated private investment and co-productions. Most of the capital investment has come from Hong Kong, Taiwan and Japan. While the majority of films in 2003 were still produced by the state-funded studios, there was a significant increase in the number of films (Ibid, 32) produced by privately invested companies. Some of the more notable independent production and investment houses are Beijing New Vista, Huayi Brothers and Taihe Film

Investment Company, and Century Hero Audio-visual Investment Company (Yin 2004).

The success of China's film industry and the capacity to create exportable content is contingent on unleashing creativity as much as stimulating finance. In this sense it is not just a case of investment but equally important, of having a climate that encourages film makers to experiment with new ideas and themes. The film industry is currently underperforming in comparison to industries in Korea, Taiwan, and Hong Kong, despite the endorsement by Quentin Tarantino of China's creative talent base. Tarantino has undoubtedly been impressed by the willingness of the Chinese to work enthusiastically for low salaries in contrast to the spiralling costs in other international locations. But creativity is often equated with fashion. Ten years ago China's fifth wave generation of film makers—such as Zhang Yimou, Chen Kaige and Tian Zhuangzhuang were acknowledged internationally (see Berry 1991; 1998; Zhang 2004). The publicity generated by international art-house successes such as *Raise the Red Lantern* and *Farewell My Concubine* promoted interest in investment in Chinese cinema. The main beneficiaries of foreign investment were directors Zhang Yimou and Chen Kaige. Recent years have witnessed a decline in success on international markets and stagnation domestically. Box office takings in 2003 were rmb 800 million yuan (US\$ 97 m), a little more than half of the rmb 1.5 billion of the mid-1990s (Hua 2004, 120). Only ten Chinese movies achieved box office sales of more than rmb 5 million (US\$600,000)—a statistic that reflects the dependency relationship between the film makers and the state. Return on investment is also stymied by a lack of enforceable copyright regime that sees pirated copies widely readily available on city streets, although recent efforts have been made by filmmakers to negate the effects of pirating (see below).

As China's film fortunes wane the Korean film industry has achieved international recognition. With a population of more than 1.3 billion China's cinema box office revenue is just 25 percent of that of Korea, whose population is 47 million (Yin 2004, 147). Can China learn something from Korea where money has poured into film making from a range of private investors? The success of the Korean new wave has seen film financing models going on-line, allowing ordinary people to buy into the movie-business (Kim 2003). *Netizen funds* are a way by which (mostly) young Koreans invest in film projects for a return based on the movie's success after release.

In China, international directors are likely to be seen as folk heroes bearing money, technology, and skills. Unfortunately, this is often true whether these 'foreigners' have links to majors or are just speculators seeking to utilize the cheap resources in China. International connections are important in order to break out of the cycle of dependency on state funding. In 2003 more than half of the 140 feature films

made in China received substantial investment from government but less than half the number of films legitimately screened in Chinese cinemas in 2003 were profitable, and as mentioned above, the heavy grossing films were international 'blockbusters'.

Despite an increase in overall numbers of films produced in China the average cost of production was only rmb 3 million (USD362,000), or 0.5 percent of the average cost of production in the U.S. (Yin 2004). It is interesting to note that the most competitive offerings in the marketplace were privately funded—films such as *Cellphone* (*shouji*), *Green Tea* (*lücha*), *Hero* (*yingxiong*), *Heroes of Heaven and Earth* (*tiandi yingxiong*), *Zhuobe's Train* (*Zhoube de bouche*), and *Happy Together* (*Ni he wo zai yiqi*). The film *Cellphone* (*shouji*), which was produced by director Feng Xiaogang in 2003 raised the investment stakes to a new level of commercialization. *Cellphone* received investment finance from a number of sources with major contributions coming from Motorola, China Mobile, BMW, and Mtone (a Chinese internet content provider). Motorola invested rmb 4 million (USD484,000), China Mobile rmb 800,000 (USD97,000), while BMW contributed rmb 1.2 million (USD145,000). Sponsors received product placement and visible recognition in the film promotional messages. For instance, the protagonist of the film—a successful TV talk host who inadvertently left a message from a lover on his new Motorola cellphone—also drives a BMW. In addition, Motorola and BMW's logo were displayed prominently on advertising billboards. Music copyright delivered a further rmb 8 million (US\$968,000) (Meng 2004). In addition to securing financial support, the production company (Huayi Brothers and Taihe Film Investment Company), which is incidentally the advertising agent for China Mobile, sought to ensure returns on investment by working with a Guangdong-based DVD maker to produce cheaper legitimate versions in efforts to limit piracy (*Shanghai Daily* Jan 21, 2004).

Television Industry Financing

Television is an industry that employs an army of people in China. The flow of investment is more dynamic than cinema as the market is shaped by domestic consumption and broadly supported by advertising. In addition to above the line ad spend, the sources for investment in Chinese television production are *government funds*: for approved programming, mostly directed through China Central Television CCTV; *below the line strategies*: product placement, product tie-ins, advertorials, and use of SMS revenue sharing with telecoms and affiliated web portals; and *investment from enterprises*: both state-owned and private (*minyinying*).

Television stations are still technically owned by the state but they are now allowed to apply for licenses to operate as corporate entities responsible for their profits and losses. A stimulus to market competition is the growing ad spend as China's

consumer market develops. The market for prime time television has acted as a barometer for assigning value to productions and pursuing a strategy of branding. The competitive nature of television production and the diminution of investment by government have forced production units to countenance a range of financing options. During the 1980s and for most of the 1990s there was no effective media market due to the integration of production and broadcasting within television stations, that is, each station had its own drama production or documentary unit. The rights to broadcast programs were held by stations and more often than not programming was bartered at television markets, held in Sichuan, Shanghai and later, Beijing. Under this model the government allocated an amount of funds to stations to produce a designated number of programs, including a percentage of politically correct documentaries and dramas rehearsing the history of the nation or the virtues of reform.

The 1990s witnessed a period in which state funding diminished and producers began to seek funds from other sources, particularly in the genre of popular television drama (Yin 2002). This system still exists. Often a producer or a 'middle man' who might be a cultural entrepreneur with connections in the corporate world is engaged to raise funds. The producer (or alternatively someone in the production company) might also approach an old school friend or army comrade of high rank and ask for financial favours. This is not straightforward philanthropy, however, but investment based on *guanxi* (reciprocal) relationships. Direct investments are also negotiated with profitable enterprises that stand to gain on their outlay or simply wish to have their name and/or product associated with the program or placed within the screenplay.

The advertising market in Chinese television has moved ahead in leaps and bounds, attracting more than 40% of ad spend (ACNielsen). As Napoli (2001) argues media firms operate in two markets. The first is the content market, which is further sub-divided into the wholesale (upstream) market and the retail (downstream) market. The wholesale market is the buying of programs by media outlets such as television stations; here most of the content is purchased domestically often between stations, although more and more programming is sold through agents, at television markets, or through syndication and licenses.

The downstream content market is where the stations directly sell their programs to consumers via subscription. In China cable television is ubiquitous but the business model remains low value because subscription to the 30 or so channels is under priced. The second market for media is the audience itself and this is the emerging market in China where the mass audience for television – some 900 million -- is shared among some several hundred stations. The bulk of income for television stations, and for producers, now comes from advertising. To understand how advertising directly impacts production, we need to consider that for the past

two decades Chinese media have sought to buy programs but have lacked the capital. One way of ensuring production finance is through the sale of advertising packages. While this is not unique to China it has evolved along with product placement as perhaps the leading financial strategy in the post-subsidy media sector. A program is 'bought' by a broadcaster, not in hard cash but through the allocation of advertising time, usually one or two minutes, that the producer (or agent) of the programs can subsequently on-sell. This strategy emerged in the 1980s when foreign programs were first sighted on Chinese television. The practice was adopted by Chinese producers as a means of guaranteeing a budget. For instance the producers of the 1993 hit TV series *Beijingers in New York* (*Beijing ren zai Niuyue*) managed to secure a loan from the Bank of China due to having already on-sold their advertising packages.

The recent consolidation of China's television broadcasters into mega-conglomerates (echoing the formation of film corporations) has seen the emergence of new business models, including increased outsourcing to new independent companies and the subsequent trading in program rights in China's evolving multi-channel marketplace, which is enhanced by digital television roll out. Consolidation has also pushed up the value of advertising. The development of independent creative production, however, is constrained by the need to establish relationships with regulators in order to secure licenses.

Listing on the stock exchange is a means of investment that has become common in China's television. The most successful commercial venture to utilize the stock listing model of raising finance has been the Hunan Television Broadcast and Media Company (*Hunan dianguang chuanmei*) network in southern China. Hunan TV, a provincial station, controlled 75 per cent of in-province advertising revenue by the late-1990s and subsequently used this advertising base to set up a shell company and list on the Shenzhen Stock Exchange market. The company issued 50 million A shares before its float on March 25, 1999. It was the first Chinese media company to incorporate private capital from the stock exchange into its funding structure. The stock issue raised some Rmb459 million (Zhang and Fang 2004).

In the context of financing, the listing was a successful move; it raised capital and also attracted attention to alternative models of financing. In 1999 the company's total revenues reached Rmb330 million -- an increase of 53.24 percent over 1998. In the first half of 2000 advertising revenue alone reached Rmb217 million, an increase of 56 percent on the same period of the preceding year with the company's shares reaching a high of 44 yuan. However, by 2003 the price had dropped to 29 yuan (Zhang and Fang 2004, 163).

Countenancing the Digital Leap

Digital content industries provide new challenges for investment in the creative industries (unfortunately there is no scope to address these issues in this paper.) The range of products and services that are described as digital content industries are extensive and include interactive multimedia, digital film and television production and post-production, interactive and digital television, digital video arts production, computer and online games, design and advertising, educational content production, digital publishing, digital and online music, digital applications. Many of these businesses are small and medium enterprises that would seem to fit naturally into the fragmented communications environment in China. On the other hand, the digital content marketplace is typified by a small number of large players, such as net portals, service providers, broadband companies, and telecommunications carriers. In this sense the digital content market is different from the Chinese television market and replicates the Western broadcasting model.

Digital content industries are increasingly valuable to national economies and the Chinese government is investing heavily in video games production in Shanghai and an animation centre in Beijing. These are joint public-private ventures that draw upon government largesse towards new industry/ new economy development in the wake of Korea and Japan's video games exports. The government recognizes that digital content industries are growth industries and that they have global impact; that is, products and applications developed in China can be marketed globally, in comparison to television and film, which is hampered by being nationally specific. In addition, digital content is invariably produced with the intent of repurposing in multiple platforms: cable, free-to-air, Internet, mobile phone etc. The average projected growth rate of the Chinese video game market for instance is 44.9 percent (Ministry of Economic Affairs 2004). These new industries, however, will need to replicate the global model of production: that is, by developing a small number of large market organizers. Until recently oligopoly structures have not existed in China due to the need to control information.

Digital media is especially relevant to user-led innovation. There is a need to respond quickly to consumer demand and this gives China an advantage in that it has a large consumer base to test new products and applications. Already SMS and gaming have delivered huge profits to telecommunications companies such as China Mobile and portals including Netease, Sina.com, and Sohu.com. Meanwhile the concepts of marketing, branding, and intellectual property have become central to reform agendas and economic development strategies, both local (provincial, metropolitan) and nationally (national centres for innovation) (c.f. Keane 2004).

Indeed, the growth of the global cultural economy reframes the four levels of globalization thesis (Storper 2000) and emphasizes relations between creativity, innovation, national culture and development. Countries with deep reserves of

tradition and large consumer bases can now serve as innovation centres, where ideas are tested and value is created in a manner not dissimilar to how focus group labs operate within the entertainment industries in the developed world. For instance, in television industries worldwide more attention is being paid to product development and its link to ancillary merchandising. Ideas, products, and notably applications of mobile devices, are routinely tested in Chinese markets. Developing 'take-the-market' products and services, however, will be a question of successfully facilitating soft factors of embedded knowledge and skills, perhaps through location specific clusters. However, while ideas may be generated in developing countries, finance to commercialize still comes primarily from multinational investors (e.g. Disney's adaptation of the Chinese story *Mulan* or US film investment in the Qin dynasty epic *Hero (yingxiong)*). In order to avoid becoming a low cost location for media production (Miller et al 2001), China needs to further develop its own industrial base and to recognize the importance of intellectual property protection in developing local creativity. The synergy between creative enterprise and financial inputs into core creativity, R&D, incubation, and marketing now becomes central to meet the challenge of developing export content.

Concluding Remarks: Rethinking the Development of Exports

A bottom-up development model is needed if we are to understand the challenges confronting China's media industries as they attempt to internationalize. I have written about this in more detail elsewhere (Keane *et al* 2006 forthcoming; Keane 2006 forthcoming). The key issue is: how do countries move from a low national production base into competitive export markets? The transition encompasses a five-stage process. First, low-cost outsourcing allows developing industries some degree of capitalisation and asset development although the technology transfer is limited and the product is made for overseas distribution (that is, rights do not flow back to the developing country). Second, isomorphism and cloning practices emerge due to the low capital base. These allow developing countries to exploit successes in other markets. In many cases this is done without transfer of copyrights or license fees. Third, a greater flow of cultural technology transfer occurs when legitimate co-productions and franchising agreements occur. In many cases the resulting co-production is recognised as an export, rather than an outsourced commodity. This is a well-recognised industry development strategy. Fourth, niche markets and regional breakthroughs are occurring more frequently due to the search for the next killer (content) application. Finally, cultural/industrial milieu and local clusters can be produced to target high-value exports. These media capitals (Curtin 2003) bring with them economies of scale and scope, the attraction of foreign investment, the certainty of rights management, and greater network and distribution complementarities. The model demonstrates how

once peripheral media economies (South Korea, Taiwan, and now PRC) have become competitive: moving from low-value NICL strategies (outsourcing locations for 1st and 2nd tier economies); shifting towards opportunistic cloning strategies (formatting); internationalising through franchising and co-productions; seeking out differentiated niche markets – and ultimately targeting high value export markets through industrial policy. Successful exports of Chinese film and television, moreover, are ultimately contingent on institutional reforms within China, which will bring these five growth stages into synergistic alignment in order to generate greater value and industry confidence.

Notes

¹ Shanxi has a rich and colourful cultural heritages, earning the name "Museum of Ancient Chinese Culture." The province's numerous scenic spots include Yungang Grottoes, Buddhist Temples of Wutai Mountain, Hanging Monastery and Pingyao Ancient City

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