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Financing Creative Industries in Developing Country Contexts

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In this paper we address some issues of financing for creative industries in developing countries, including the relationship between financial investment and best practice. The discussion illustrates how different modes of finance are adopted – or how they might be employed - to develop sustainable and export orientated creative industries. In addition, we touch upon the larger and more difficult question of why cultural products and services from developing countries struggle to make an impression in global markets.

Three regions of the globe offer important and different lessons. These are the People's Republic of China, Latin America, and Indigenous Australia. Examples from these specific 'regions' include the commercial mass media (exemplifying economies of scale and quality) as well as smaller innovative niche markets (illustrating unique and distinctive inputs). In defining the scope of our discussion we acknowledge sectors identified by the UNCTAD XI High Level Panel on Creative Industries and Development as the core creative industries, namely: motion picture industry, the recording industry, music, publishing, books, journal and newspaper publishing, computer software industry, music and theatre production, photography, commercial art and display, radio, television, and cable broadcasting industries (UNCTAD 2004). It should be made clear at the outset, however, that this discussion does not claim to represent a comprehensive survey of creative industries financing in what are highly differentiated global regions.

This paper is organised as follows: First, we introduce some key issues in relation to financing creative industries in developing countries, including a basic value chain framework. The first section also provides a typology of the cultural sectors in relation to developing country contexts. This is followed by a snapshot of the kinds of markets that currently exist. The second section is a discussion of barriers to development and modes of finance currently being utilised or contemplated.

In the third section we examine specific case studies (from China, Latin America, and Indigenous Australia) that illustrate the following:

- Shifts from a state-centred to a mixed financing model (China);
- Reliance on foreign finance leading to weaknesses in value chain and how private partnerships can overcome systemic distribution barriers (Latin America); and
- Hurdles facing micro-financing models and lessons for developing international niche markets (Indigenous Australia).

This is followed by a synthesis of the findings of this study.

EXECUTIVE SUMMARY

This paper examines modes of finance and barriers to the development of export orientated creative industries in the following regions: China, Latin America and Indigenous Australia. While the term 'creative industries' has yet to be widely embraced, it is evident that culture is increasingly used as a resource for development. In these regions, however, creative industries are still predominantly viewed as having a strong association with traditional, official or national culture, a perception that needs to be broadened in order to maximise future diverse economic development. The findings of this study are categorised into three sections: emerging trends and issues, modes of finance, and lessons learnt from the case studies.

Emerging trends and issues

- The role of culture in development is currently being reassessed. The issue we have canvassed here is not about access - but growing capacity and reforming financial mechanisms. Structural adjustments and reform within developing countries mandated by the IMF and the World Bank are beginning to indirectly effect the cultural sector: new management strategies and new business models have been taken up.
- New financial models are emerging in response to the inherently risky nature of creative business models. An emerging trend is the development of safeguards and specific parameters as a feature of creative industries financing and risk management.
- National economic agendas need to understand how traditional cultural segments are increasingly influenced by the marketplace.
- Creative industries in developing countries may struggle to compete in international markets on a national level, but targeted development at a firm level may produce internationally competitive firms that in turn generate flow-on value for the broader economy.
- Developing competitive advantage at a firm level is essential to the development of export markets. The growth of creative industries needs to be assessed from the point of view of innovation incentive structures. Such incentives can come from the state in the form of direct industry assistance, or in an enabling sense, by providing incentives to middle players in the value chain.
- Finance, in a development context, cannot be considered in isolation from other issues. As well as finance, creative enterprises require specialised business support, marketing, management development, attention to innovation, copyright protection, and rights management.
- The majority of finance is directed towards the content creation and production stages of the value chain. However, primary barriers are the packaging, marketing, and distribution of creative products. Emphasis needs to be directed towards segments of the value chain that inhibit growth and information flows.

- In many sectors regulatory bottlenecks, as well as country-specific political and cultural barriers, act as primary barriers to development.
- Financing is closely linked to a need for an awareness of *types of markets* and *potential* markets for export. Cultural specificity works against the capacity for products from these regions to enter into mainstream global markets, with the exception being breakthrough cultural markets (world music, art-house cinema) and culturally proximate markets (e.g. Spanish or Chinese speaking markets). Economic agendas need to consider targeting and strengthening these potential markets.

Modes of finance

A number of primary finance trends emerge from this study:

- Financing is often serendipitous and fragmented.
- Institutional and informal people networks are extremely important in leveraging financial support and developing connections to financial sources.
- Most modes of finance are aimed at the creation and production stages of the value chain.
- There is a lack of large-scale capital investment in the regions and creative industries examined.
- Public subsidy remains the primary form of finance in the regions examined.
- Public support mechanisms have an important role to play in the future, however, they will need to re-focus on specific segments of the value chain where barriers stifle development.
- New technologies and in particular partnerships with technology firms (ISPs, telcos, etc), provide a new avenue to enter global markets and to overcome distribution barriers. In this context, countries that have networked information infrastructures in place have a considerable advantage.
- Public/private partnerships present a ‘third way’ of financing creative industries.
- Further examination is required to understand how public funding agencies can act as a short-term guarantor, to foster creative enterprises through a transition from a reliance on public funding to full or partial commercial viability derived from private forms of investment.

Case studies

China

China illustrates the shift from a state-centred financing regime to a mixed financing model with the rise of new private partnerships and innovative financing arrangements. It also illustrates the role of informal mechanisms in getting product into the marketplace. Irregular modes of production and distribution both inhibit and enable the flow of finance

with creative industries.

Latin America

For Latin America, reliance on foreign finance has led to weaknesses in the value chain. Most investment incentive schemes are directed towards foreign entities. However, innovative private partnership (more the exception than the rule) are enabling new modes of distribution, and creating synergy. Informal people networks play an important role in development, such as where a creator/producer is able to draw upon the institutional networks of another agent/intermediary.

Indigenous Australia

This case study illustrates that: individual actors can successfully adapt ‘traditional elite’ cultural forms (without losing cultural uniqueness or integrity) to appeal to the tastes of a specific *targeted* international audience and market. Informal people networks and the leverage of institutional networks (e.g. museums’ international networks) can be important in developing an international network, obtaining finance and establishing financial streams. Philanthropic, foundation and private investment can be important financial sources for the production and distribution of ‘traditional elite’ art.

INTRODUCTION

In the past decade there has been a great deal of attention focused on the role of ICTs as enablers of development (Preston 2001). As returns are eroded on lower-end manufacturing, countries are seeking technological innovation as a means of capturing markets higher up the value chain. Governments have responded by investing heavily in national information infrastructures that will bridge the manufacturing economy and the services economy (see Chin 2003). Along with this shift in priorities, there is increasing acknowledgement of the global knowledge-based economy - and associated *economies* such as the new economy, the online economy, the network economy, the learning economy, and the information economy (Xue and Sheehan 2002).

The value of the creative economy - and in particular the economic rents that are derived from intellectual property - has been heralded in industrialized and newly industrializing countries. The harnessing of creativity brings with it the potential of new wealth creation, the cultivation of local talent and the generation of creative capital, the development of new export markets, significant multiplier effects throughout the broader economy, the utilisation of information communication technologies and enhanced competitiveness in an increasingly global economy. The core creative industries, which include the value-added services that accrue with digital technologies, are now increasingly attractive to governments outside the developed world. However, optimism that these advanced services can provide a way forward is tempered by the knowledge that basic services are not universally available outside of large cities in developing countries.

While creative industries are considered to be new growth areas, in developing countries the output of creative industries barely figures in the reckoning of productivity. Creative

industries in developing countries are at a competitive disadvantage due to a more pressing need for financial aid to be directed at problems of education, poverty alleviation, and institution building. Likewise, the optimism that developing countries can leap-frog into a neo-classical economic paradigm, needs to be evaluated from the perspective of geography, social institutions, and lack of effective innovation systems (Sachs 2000).

This does not imply however, that creative industries cannot accrue capacity and value in developing countries. The dot-com crash of 2000 and the Asian financial crisis of 1997-1999 have caused governments and business to be more cautious about business models. While the former dampened the fervour of entrepreneurial services providers and start ups, the Asian economic crisis demonstrated that the state-industry nexus whereby powerful corporations and state-owned enterprises monopolised the market had actually worked against innovation, and in particular the formation of competitive creative industries that could generate export earnings. In this respect the most pertinent lessons about redundant development models in the creative industries has come via South Korea where prior to the Asian economic crisis much of the economy was controlled by *chaebols* (sprawling conglomerates). Short of cash following the Asian meltdown, the *chaebols* were forced to divest cultural industry assets, among which were large advertising agencies. Occurring during a period when Korea was moving from an export-oriented economy to a consumer service economy along with a concomitant increase in spending on advertising, this divestiture precipitated the growth of new competitive enterprises (Yoon 2002). In the same time frame – and in response to the dot.com crash – creative ventures such as SM Entertainment and record label YBM Seoul went public while other start-up entertainment businesses took advantage of government largesse towards culture industries and venture capital seed money. According to Suh-kyung Yoon, ‘Money has allowed the industry to prosper, but competition has sparked its creativity’ (Yoon 2001: 2).

This focus on the dual role of competition and creativity is relevant for our discussion of the financing of creative industries in developing countries. While start-up finance is a factor input often lacking in creative industries, the marriage of finance with creativity is (and has been) fraught with risk (see Ryan 1992). Many creative projects remain within the realm of ideas because there is inadequate finance to facilitate their development and a lack of support mechanisms such as marketing, distribution, and promotion to add value. In this context, forms of micro-finance have potential (for some creative *micro-enterprises*) to ‘kick-start’ or develop ideas to a level where they can be taken further. Moreover, in some newer and investment-heavy creative sectors, such as the video games and digital animation industries, there is reluctance from investors to commit ‘sunk’ funds to develop what might be seen as ‘risky business models’. This deficiency in funding mechanisms is linked to the unclear relationship between cultural capital and economic capital. Returns on investment in culture increasingly need to be quantified, whether positive public good externalities such as contributing to a peaceful and multicultural environment, or actual profits to shareholders.

In the words of Throsby (2001), cultural value is ‘various and variable’ (29). While he argues that the measurement of cultural value is difficult, it can be disaggregated into

several culturally valued components: aesthetics, spiritual, social, historical, symbolic and authenticity (159). Thus cultural value permeates myriad issues including cultural identity, diversity, creativity, cultural life of the community, regional development, and heritage tourism (148).

Cultural value in developing countries is often embedded within national cultural and folkloric contexts. Where there is a long cultural history, the creation of products for the marketplace is both constrained and aided by tradition. While many elements of traditional culture have contributed to the development of contemporary creative industries such as video gaming, design, and cinema, the maintenance of traditional aesthetic forms often requires that the aesthetic code remains intact. This can be illustrated by debates over the commercialisation of tradition. In portraying these separations, we provide the following segmentation in developing countries based on the nature of markets for cultural products.

Fig. 1 Cultural segmentation in developing countries

Segments	Examples	Investment and models	Returns/ markets
Traditional elite This segment most reflects aesthetics, authenticity, spirituality and inherent historical cultural identity	Indigenous (traditional) art, Chinese classical poetry.	Static aesthetic forms with low capacity for hybridisation; low value-adding and level of investment except in training of practitioners.	High value in original form in elite markets; some traction in tourism markets; Symbolic capital for national identity but often meets uninterested national markets
Traditional popular This segment reflects social, historic, and mythical forms	Folkloric legends and myths e.g. <i>Romance of the Three Kingdoms</i> (China); Dreamtime stories (Indigenous)	Evocative folk culture capable of commercialisation and hybridisation across mass media	Cross-cultural acceptance high, public domain IP but has capacity for transition and commercialisation into contemporary popular segment and breakthrough markets. Example of traditional motifs in video gaming
Contemporary elite Often prestigious	Ballet and symphony, high-end performing	High costs of production with patronage and	Discriminating markets but low economic returns; prestigious

cultural troupes; high social capital.	arts	business sponsorship; low capacity to commercialise due to consumer resistance	cultural capital
Contemporary popular Most closely correlated with the creative industries	Music, film, anime, video games, TV formats and series, advertising design, interactive content	Consumer driven; high value added upstream and downstream	National and international consumer markets, as well as linking to content seeking business markets

Source: adapted from Richard Kraus, 1995

The breakdown of cultural production and consumption into the above four categories is useful in identifying impediments to marketisation. However, it does not imply that cultural production is necessarily trapped within these ‘boxes’. While elite and popular cultures exist as critical discourses, research into consumption patterns shows that high culture users are increasingly eclectic in their tastes, becoming ‘cultural omnivores’ - that is, they consume both commercial and subsidized forms (O’Regan 2001: 9). Cultural consumption is not confined to the cinema, the museum or the art gallery. In contrast to a conservative predisposition to argue that there is not enough elite culture, or too much popular/commercial culture, there is a view that culture is ubiquitous and value-adding. In fact, culture is a vital element of economic value chains and it constitutes a way of life. It is also expressed in polyvalent forms from public art to folk festivals, from urban design to the design of web-sites.

It is important to recognise therefore that the globalisation of cultural production and governmental support of cultural policy are breaking down the divisions between what is elite and popular, and between what ought to be subsidized and what ought to be subject to market forces. Arguments, such as Throsby’s (2001), about the ‘intangible’ attributes of culture, which have long been the premise for public support of traditional classical, traditional contemporary, and elite segments remain pertinent, especially in developing countries, but the capacity of these segments to be repurposed via the medium of heritage and tourism for example, means that they are not insulated from the marketplace. Traditional forms of culture, aside from its role as maintaining cultural identity, now targets niche markets in innovative ways. In China, for instance, it is possible to download a classical Chinese poem on a mobile phone. This issue is pertinent if we consider that domestic creative industries in developing countries are still predominantly sourced from traditional culture.

Creative industries and location

In confronting the question of financing it is important to point out the fact that difficulties and barriers to raising finance for creative industries development are not limited to developing countries. A lack of start-up finance, capital for expansion, a scarcity of venture capital, the knowledge and inflexibility of commercial financial

institutions, as well as the monopolization of international markets by a few multinationals are problems faced by creative industries across the developed world. Barriers to financing creative industries in developing countries is exacerbated by information asymmetry, weak institutional and political support, low levels of entrepreneurial capability, a dependency on foreign firms and foreign investment, inefficient or non-existent copyright regimes and piracy.

The question is one of how to proceed in this environment. Michael Porter, well-known for his work on competitive advantage, asserts that the productivity of nations and regions depends on the value of products and services, their quality and uniqueness, and on the efficiency with which they are produced. In short, productivity depends on how firms (and nations) compete (Porter 2000: 16). While the issue of competitiveness has been critiqued in relation to developing countries (UNCTAD 2003), the creative industries do not replicate characteristics of industrial sectors. The discussion of China provides an instance where national investment in the video games industry is designed to create a base for the development of skills and expertise that will enable China to compete with Korea in this lucrative value-added field. Likewise, the involvement by the All China Sports Federation in the development of e-sports (national video gaming competitions) shows that competitiveness in such new sectors is contingent on national demand. China hopes to leverage its advantages of low cost Internet access and massive demand to develop an industry champion. The same applies in the broadcasting industries where state-directed agglomeration is aimed at increasing national competitiveness in response to the perceived threats of cultural imperialism by transnational media and communication companies (See Keane 2004). Moreover, there is overwhelming evidence to suggest that creative industries - and the networks that enable them - cluster in networked cities and regions in the developed countries, and increasingly in big cities in East Asia (see Yusuf and Nabeshima 2004).

The inability to raise finance for start-ups is just one reason for the lack of sustainability of creative businesses in developing countries, in comparison to resource-rich regions in developed countries. It also illustrates why places such as Hollywood in the US and Tokyo (Japan) have assumed leading roles as exporters of cultural content: the former for its film industry, the latter primarily for anime and video games. The quality and uniqueness that makes these products exportable depends on financial investment being readily available. The fact that multinational producers of creative content are cognisant of the role of breakthrough cultural movements (rap, 'world' music) provides some solace for developing countries and impoverished regions within developed countries, from where such breakthroughs and innovations are often incubated. However, the development of the quality and uniqueness of creative industries is also contingent on having a large consumer market available to test and feedback quickly into the product innovation cycle. In this sense knowledge of where markets lie for products is essential in the development process. This is clearly illustrated in the Indigenous Australian case study.

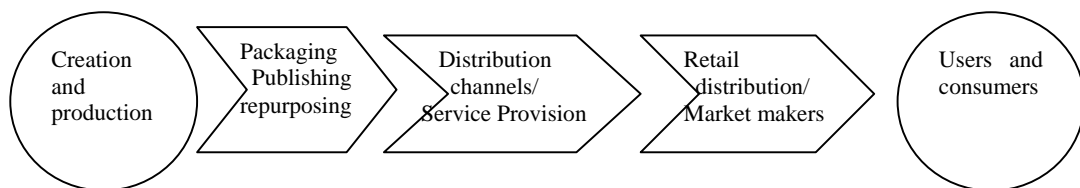
An emerging trend in the developed world is that creative industries (and creative practitioners) are needing to recognise the limits of purely grant-driven public funding

due to both the limited availability of such funding and also, the culture of grant dependency that it can generate. In the process, innovative activity is occurring, with a focus on establishing private and community partnerships. The report *Banking on Culture* illustrates European responses to the difficulties in obtaining funding through traditional means and how this is leading to new ways of obtaining finance and indeed how public and financial institutions finance creative industries. The issue of financing creative industries cannot be viewed in isolation from other integral issues that underpin the successful economic development of these industries. *Banking on Culture* illustrates three key issues that need to be considered in conjunction with issues of financing the creative industries. These three issues are:

- ‘creative enterprises and business require highly specialised business support delivered alongside finance;
- other forms of business support for marketing, management development and innovation are equally important; and
- creative industries need specific help to access effective and expanded protection for intellectual property rights’ (Hackett *et al* 2000: 4).

In short, the quality and the uniqueness of the product - as well as the efficiencies of production - may be comparable within developing economies, but middle value-adding factors in the value chain: namely promotion, branding, and distribution, as well as protections against piracy are underdeveloped. In fact, it is worth drawing attention to where value is lacking and ask if finance is being directed appropriately.

Fig 2. Basic value chain model



Source: Adapted from Cutler (2002) and Caves (2000).

What we note from the case studies in this report is that there are many variables and no general rule of thumb for where finance is best directed in the creative industries. It may not be simply a case of providing more finance to the creation and production stage of the chain but instead to target the distribution or marketing segments. If, for instance, there is a perceived weakness in branding or distribution, then mergers and acquisition activity, or joint ventures between international companies (with technical expertise, R&D, and distribution networks) and independent creatives (with local knowledge) may provide a better recipe for development. Moreover, while branding and distribution are problems

for small producers, increasing interactivity between users/consumers and creators/producers means that the latter have a better idea of how the marketplace is responding to new developments. In relation to export markets the Internet can provide a means of getting ones ideas to a wider market. This disintermediation reduces the role of the 'market makers': gatekeepers such as reviewers, festival curators, and the media promotional circuit. Most calls for funding, however, still come from the initial 'creation and production' segment in the value chain; for instance, funding to mount operatic productions or to finance a movie.

Types of markets

Dynamism of markets (i.e. demand) impacts directly upon the financial bottom line. The characteristics of markets also provide a barometer to measure export potential. The typology presented below is an attempt to represents the limitations and potential of markets for developing countries:

The uninterested (domestic) market

Producers of elite forms of traditional culture such as Beijing Opera (China) or Australian Indigenous culture often meet with consumer apathy within domestic markets. The problem of disinterest in national cultural treasures is often seen by supporters of such forms to be a simply an effect of a lack of finance but could be as much a result of discount due to ready availability and domestic everydayness .

The grants 'market'

This is where cultural producers compete for a limited supply of government and foundation funds for approved activities and projects, including those that enhance national or regional identity, and increasingly multiculturalism. As we observe in the case studies, culture that is beholden to government for support is often unable to sustain itself commercially. This is one of the standard rationales for subsidy. Alternatively, straight subsidy has come under increasing attack as it often leads to dependency and stymies entrepreneurial spirit in the creative industries.

The tourist market

Tourists seeking to purchase authentic cultural relics and experiences represent an important market for local creators. Cultural theme parks provide outlets for sale of Indigenous and national cultural goods. Tourist markets act as outlets for the work of creative producers, often independent producers or micro-businesses. Little product differentiation is required because tourists often seek artefacts identifiable with their tourist destination. The darker side of this trade is the high incidence of opportunistic copying and cloning, with value not being returned to the producer.

The Diaspora market

National and culturally specific cultural content can be successfully targeted at buyers located at a distance from the homeland. Diasporas often seek out authentic homeland culture. By way of contrast pockets of production exist within first world countries that service Diasporas and often squeeze out the authentic cultural production of the homeland. An example is the huge production centre for Vietnamese culture in California that is distributed internationally through diasporic retail outlets (Cunningham & Sinclair 2001).

Breakthrough markets

International elite markets such as Sotheby's auctions are an example of breakthrough markets. Product from the developing world finds itself occasionally celebrated as unique and valued. The market for Indigenous art (see case study below) represents a breakthrough into this narrow but lucrative market. Similarly, where the creative product or service from a marginal location is unique and distinctive it can inspire or kick-start a new mainstream fad, for example reggae in the 1970s; hip-hop in the 1980s; world music in the 1980-1990s.

FINANCING CREATIVE INDUSTRIES IN DEVELOPING COUNTRIES: BARRIERS AND MODES OF FINANCE

Barriers

There are numerous barriers to the development of export-orientated creative industries in the developing country contexts examined in this study. The tables illustrated below represent the primary financial, public support, distribution and piracy barriers restricting creative industries development in key sectors such as film, television, audiovisual/multimedia, publishing and performing arts. While many specific barriers are discussed in some detail in the respective case studies, this section presents an illustrative overview.

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 in order to operate. Over-bureaucratization is endemic to China's cultural sector and works against implementation of long-term business models. In television drama production, licenses are given to new entrants for short-form productions. Joint venture productions, moreover, 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 (broadcasting), but in most cases, these success stories have been supported by foreign investment and early entry into the marketplace.

Survivability of start-ups is thus endangered by regulatory agencies getting out of synchronization. This has the effect of creating systemic weaknesses in business models. Other difficulties facing start-ups include the high transaction costs associated with copyright and rights management, technology input costs, and the shortage of working capital and skill sets. In fact, the most pressing problem facing investment are copyright and revenue sharing. Lack of copyright protection in film, television, and Interactive software constrains investment. Investors in these industries are likely to see their profits dispersed via DVD pirates, or in the case of television their program ideas are copied without permission (Keane, Moran & Ryan 2003). Likewise, revenue from rights management is yet to be systematically regulated although the Chinese government is making concerted efforts in this area.

The necessity of conforming to governmentally prescribed forms and genres is complicated by distribution bottlenecks. 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.

In short the kind of reflexivity that is needed to ensure innovation and creativity, particularly in industries such as media, music, and entertainment software that operate in an environment of uncertainty, is stymied. While people working in creative industries often need to find creative solutions to problems such as bureaucracy and censorship, the solutions are often pragmatic and exemplify low risk-taking. In some respects therefore China's cultural sector embodies many aspects of developing countries. In other instances, it typifies a marketplace where there is a large enough domestic market to allow a multitude of small players to make money. The fragmentation of China's massive market is itself an impediment to the growth of brand equity.

Figure 3. China: Barriers to export orientated creative industries

Barriers	Film	Television	Audio-visual ¹	Publishing	Performing Arts
Start-up capital	✓		✓		
Working capital	✓	✓	✓		✓
Lack of business expansion Capital	✓	✓			✓
Distribution Barriers	✓	✓		✓	
Intellectual Property regime	✓	✓	✓	✓	
Piracy	✓				
Institutional Support framework				✓	✓

Latin America: Music

Latin American countries, notably Brazil and Mexico, have large and significant local music industries. Latin American music sales account for 5 per cent of total world music sales. As illustrated in figure 7, domestic consumption of local music is also healthy. With

¹ Audiovisual production in China is: Video games, Multimedia content and Internet-based content

the emergence of new music genres such as World Music, New Age Music, and Latin Music since the early 1990s new international markets and opportunities have opened up for Latin American music production (Gauthier & Yudice 2002: 10). As music is deeply rooted in local Latin American cultural traditions there is an abundance of naturally skilled local talent. There are low barriers to entry and no restrictive start-up capital requirements (artists generally draw upon personal savings or loans to purchase equipment) with artists beginning with live performance for payments, then move into broadcasting before embarking upon recording for the local market (Throsby 2002:14). The Latin American music industry has an established live music practise, a local and national broadcasting system, a domestic recording industry, and in some instances access to international markets.

However, the primary barrier to development of Latin American music is the domination of national and international commercial distribution channels by the 'major' transnational music corporations (EMI, BMG, the Warner Music group, Sony Music Entertainment and Universal/PolyGram). As one study has noted, 'if a recording produced by an independent company is successful, it is quite likely that big scale revenues from a newly discovered artist are not earned by the company. Rather, they generally are overtaken either by the majors who offer lucrative contracts to successful artists or they are pirated' (Gauthier & Yudice 2002: 10). As a result, talent is effectively 'poached', companies lose control of the distribution of their product, and economic returns are siphoned away from the country of origin. Throsby (2002) argues that independent firms act in ways that suit the 'majors' as they develop music outside of the mainstream, and if they generate new audiences, begin to become successful, and pose a threat to the 'majors' dominance, they are simply absorbed by the 'majors' (10). The combined lack of working capital and the lack of capital for business expansion stunt the growth of local companies and their capacity to compete against the majors.

Latin America: Film

Public support for the Latin American film industry is characterised by an over-reliance on foreign investment; this is reflected through a wide range of available tax breaks for foreign film-makers; in comparison negligible public financial and funding support are available for local production. The lack of public funding for local production is largely the product of an over-emphasis on regulatory and tax incentives. As a result, combined with low levels of private investment, there is a scarcity of start-up and working capital. Endemic piracy and copyright barriers stunt the commercialization and diffusion of Latin American film products, and restrict opportunities for the development of economically sustainable regional markets. The strengthening of copyright laws and the control of piracy may open up new economic markets throughout Latin America.

Figure 4. Latin America: Barriers to export orientated creative industries

Barriers	Music	Film
Start-up capital		✓
Working capital	✓	✓
Lack of capital for business Expansion	✓	✓
Distribution Barriers	✓	✓
Piracy	✓	✓
Institutional Support framework (Subsidy, grants, etc)	✓	✓

Finance

The modes of finance examined in this study are drawn from the case studies identified and are grouped into three principal categories: **‘Public support’**; **‘Private investment’** and **‘Hybrid/Other’**.

These categories are not mutually exclusive; they demonstrate degrees of overlap as investment in the creative industries is heterogenous and fragmented: in many instances a mix of public, private, and reciprocal partnerships.

Public support includes grants (e.g. from cultural and film funding agencies), tax breaks (including concessions and exemptions), and various levies to pool funds to finance local production.

Private investment includes direct private investment, commercial sponsorship or patronage, and various forms of contracts based on revenue sharing including venture capital.

Hybrid/Other includes philanthropic investment, co-productions or ventures where government has provided seed funding or start-up capital, and various forms of investment where services are provided based on furthering relationships.

NB: The appendix to this document contains a typology of the modes of finance identified and examined in this study.

A number of primary trends emerge in this study. First, financing is often serendipitous and fragmented. Public funding can be determined by political agendas as much as public demand for particular forms and private investment is often opportunistic. Financing is also fragmented, deriving from multiple sources. For example, sponsorship of prestigious cultural events and projects in developing countries by telecommunications and media companies, and national airlines, often supplements funding from government agencies. Second, organisational/institutional networks and informal people networks are extremely important in leveraging financial support and developing connections to financial sources. As Yudice (2003), illustrates, intermediaries such as curators are important in brokering

complex forms of collaboration between capital (often from the developed world). This is demonstrated in the discussion on the aboriginal art market. Third, most modes of finance are aimed at the creation and production stages of the value chain. This generally takes the form of grants for individual projects, grants for individual artists, commissioned pieces etc. There is limited funding targeted at other segments of the value chain. Fourth, there is a lack of large-scale capital investment in the regions and creative industries examined. Government and foundation largesse towards cultural and economic development rarely extends to large-scale funding. Fifth, new technologies, and in particular partnerships with technology firms (ISPs, telco's, etc), do provide avenues for firms to enter global markets and to overcome distribution barriers.

Nevertheless, despite the trend towards the commercialisation and privatisation of public cultural resources, there remains a strong role for governmental support mechanisms in sectors that are deemed to embody national or regional cultural value. For the state, whose capacity to fund cultural development is stretched, investment from the private sector, whether through sponsorship, advertising, or venture capital, provides a mechanism to get new industries up and running, and to wean them off the public purse. In China, for instance, the state invests in creative industries but encourages them to commercialise outputs and attract commercial investment including private sponsorship and advertising. The dividend that is returned to the state is increased taxation revenue. In Latin America on the other hand, the low levels of seed funding and capital investment has led to a rise in alternative models (grouped under 'Hybrid/ Other) that attempt to overcome barriers and compensate for the lack of public and private capital investment. Mixed forms of public/ private investment in creative industries are more evident in developing countries.

The establishment of creative enterprises is inherently risky. There is a need for mid-term seed funding to sustain business activities. Public/private partnerships present a 'third way' of financing creative industries. Further examination is required to understand how public funding agencies can act as a short-term guarantor, to foster creative enterprises through a transition from a reliance on public funding to full or partial commercial viability. This may include the initial provision of public seed or core capital funding with a mandate to develop enterprises commercially, to foster private partnerships, and to ensure they reach certain commercial milestones.

There are several issues that arise from the consideration of a 'third way'. The shift from public to private funding may require arts and cultural centres to develop 'commercial arms' to their organisations. Can public capital therefore be viewed as venture capital? The above Chinese example clearly illustrates that this is beginning to happen. Thinking in these terms has the potential to restructure the models by which creative enterprises are funded. Such a model encourages public funding agencies to be more strategic in how funds are allocated with more goal-orientated objectives rather than purely 'public good' objectives.

Models of public financing

The financing of the creative industries has an uneven legacy across the globe. Developing countries have often tended to fund culture more in the cause of national development and less as a means of economic development. One way of characterising the spectrum of public support for creative industries is through variations in what has sometimes been called ‘the arm’s length principle’ (For a discussion of this see <http://www.culturaleconomics.atfreeweb.com/arm's.htm>).

The arm’s length principle describes cultural policy models that allow degrees of involvement for government. It is a useful model because it pre-empts a shift towards commercialisation as more viable and less dependent and politicised model of financing.

At one end of the spectrum is the **engineer** state model, suggesting a direct and often intrusive public intervention into the domain of cultural production. The governments of the former Soviet Union and the People’s Republic of China favoured this model in order to control the output. Management was centralised, product was standardised, and autonomy was low. The **architect** state model is typified by a Ministry of Culture dispensing funds to creators and producers who meet national cultural objectives. The funding of flagship performing arts companies can often be linked to their role in supporting a national vision of excellence. Likewise a **patron** state model implies financial support administered through arm’s length councils, a model that has the advantage of promoting excellence without compromising the process of creativity. Grants, however, are often subject to risk preferences of grantees. Awards and prizes disbursed by councils are often distributed based on criteria that are directed towards specific rationales, which may not be linked to business development. However, an example of ‘aid’ that is linked to productivity is the Creative Capital Foundation (<http://www.creativecapital.org>) where marketing and other ‘non-artistic aid’ is provided. This model is more indicative of **facilitation**, which has increasingly been seen as the best means of assuring a mix of public-private support. Mechanisms include providing tax deductions for donor contributions to the creative industries and incentives for export-oriented creative industries. This model has a high uptake in the U.S.

Models of public-private funding: Micro-finance

Micro-finance is a mode of financing already employed in large number of developing countries as a means of poverty alleviation and as a way of financing micro-enterprises across a number of industries. The most common micro-finance models are: village banking, credit unions, self-help groups, and rural financial systems (McGuire & Conroy 2000: 5-6). The most notable institutional examples of successful micro-finance programs operating in developing countries are **Grameen Bank**² in Bangladesh, the Bolivian **BancoSol**³, and **PlaNet Finance**⁴ sponsored micro-finance institutions operating

² The Grameen Bank is the most renowned micro-finance bank in the world. It was established in Bangladesh 25 years ago and has now invested \$1 billion primarily in the form of small denomination loans of about \$30. The primary mode of finance is through peer group systems that lead to high repayment rates.

³ Banco Sol is a micro-finance institution, established in 1992 and operating in Latin America and the Caribbean. BancoSol provide several modes of micro-finance ‘based on group guarantees, sequential

in a number of countries. However, from preliminary analysis and evidence available, the majority of these micro-finance programs are generally aimed at financing micro-businesses in primary industries, retail, and marginalised social groups who may not have access to credit. Micro-finance programs of this sort have seldom been directed specifically at creative industries – at least in relation to enabling creative inputs. There are two sides to this the lack of uptake of micro-credit. While there may be a clear lack of financial assistance available for creative industries, there may also be a lack of awareness of available assistance measures on the part of the creative producers, especially in the case of generic financial models.

Nonetheless, micro-credit offers a viable model for financing *micro-business* in the creative industries – especially in terms of developing or ‘kick-starting’ ideas. *Banking on Culture* foregrounds micro-credit as a loan instrument with significant potential in developing micro-enterprises in the cultural sector (Hackett et al. 2002: ‘Section 5.3’). These findings are based upon a case study of the UK Full Circle Loan Fund established in 1997, a successful generic micro-credit fund supporting female entrepreneurs modelled on a Grameen Bank model of micro-finance.

The Grameen Bank micro-finance model is generally structured as follows: loans are lent at either start-up or growth phases of the business cycle; initial loans are restricted to income-generating activity. High repayment rates are achieved through peer group systems/group lending, social pressure and legal measures. Transaction transparency is an essential component and savings can be associated with credit to act as an additional safeguard⁵. The Full Circle Loan Fund adapts this model to suit female entrepreneurs with poor credit ratings. The Fund adopts its lending practices, its peer group and social pressure system, and its repayment structure. An added condition is the provision and approval of a workable business model. Although this fund is a generic mode of finance with a broad focus on financing micro-enterprises generally, it has financed a range of creative micro-enterprises such as: clothes designers, a book publisher, artists and a web page-designer (Hackett et al. 2002). There is potential for the development of similar models that can be used to provide either specific or generic finance for creative industries in developing countries contexts.

Micro-finance has potential for several reasons. First, it is already a proven and effective model of financing micro-business in developing countries. Second, it makes available amounts that are suitable for both start-up and working capital within some sectors (the average BancoSol loan is \$USD 1,390⁶). Third, it has the potential to develop micro-enterprises to a level where they become more attractive to investors, and eligible for other forms of credit (Nazirwan 2003: 1). Micro-credit models are flexible and can be

lending, a close relationship with the client, simple and speedy procedures’. Available: www.mixmarket.org.

⁴ PlaNET Finance is an international NGO that fosters and acts as an umbrella organisation for an international network of Microfinance institutions.

⁵ ‘Credit Delivery System’ [Online]. Available: <http://www.grameen-info.org/bank/cds.html> [Accessed 08/03/2004].

⁶ ‘General Institutional and Legal Data’, Available: www.mixmarket.org. [Accessed: 08/03/2004].

regionally or locally adapted thus making it a suitable model for most (and the poorest) developing country contexts. Finally, as safe-guard mechanisms are a standard feature of this financial model, many of the systemic problems in obtaining finance from commercial institutions – risk-management concerns, the intangible nature of creative assets, a lack of institutional specialisation – are to an extent mediated.

However, micro-credit is only really an appropriate instrument for small enterprises and certain creative activities such as photography, independent music, publishing, and similar forms of small-scale production. As *Banking on Culture* notes, micro-finance is not an effective form of finance in areas that require high-levels of grant funding or in larger commercial sectors requiring large capital injections such as venture capital, and equity investments.

Emerging characteristics of finance models: Parameters and Safeguards

An emerging trend for creative industries specific finance models is the development of unique parameters or safeguards to effectively cater for the intangible nature of creative assets and outputs, manage risk and to ensure the robustness of business models. The development of these parameters varies and depends on the type of finance being allocated. The following parameters are developed from findings in *Banking on Culture* and micro-finance models being applied by Grameen Bank and BancoSol.

Examples of emerging creative industries financing parameters are:

Loans, Credit and Funding

- Loans are lent to entrepreneurs at either start-up or growth phases of the business cycle;
- All applicants must provide a workable business model;
- In some cases potential borrowers must agree on becoming a member of a lending circle or a ‘peer group’ scheme consisting of small groups of borrowers who meet regularly, effectively providing a collective guarantee to the lender;
- High repayment rates are achieved through the peer group systems/group but also through innovative techniques such as group lending and social pressure, legal measures and economic sanctions.
- Specialised knowledge including an understanding of the respective sector, the market and pricing is becoming pertinent to the development of creative industries specific loans, the assessment of loan applications and the management of risk. To use the music sector as an example, the lending institution requires an informed and specialized knowledge of:
 - o the music market;
 - o income flows (regular gigs, potential merchandising, royalties structures, etc);
 - o pricing issues (gigs, likely CD sales, etc); and
 - o the nature and value of assets (guitars, amplifiers, mixers, etc).

Organisation and Institutional Parameters (Building the capacity of organizations to deliver loans)

- The provision of a business plan;
- Careful analysis and acceptance of the business plan;
- Innovative guarantee mechanisms;
- Different ways of accessing risk;
- Local and specialist knowledge to assess market trends and proposed business models;
- Methods to measure product or service effectiveness such as conventional impact assessments;
- Assessments of transparency or disclosure;
- Social accounting and auditing;
- Monitoring through management information; and
- Legal frameworks.

CASE STUDIES

FINANCING CREATIVE INDUSTRIES IN CHINA

Introduction

China is presented as a case study for the principal reason that it exemplifies a transitional environment (Curran and Park 2000, 13), in which many cultural institutions that were previously funded directly from the public purse are adopting a mixed model of enterprise and subsidy; this is often typified by unusual (and sometimes irregular) forms of financial investment. From an industry development perspective China is endeavouring to add value to its cultural economy by learning from creative industries' management models utilized in developed nations.

From the outset, however, we need to point out that the term used in this paper (creative industries) is yet to be officially recognised within China. Likewise, discussions of how creativity functions as an input into economic development are also relatively rare, apart from international business literature translated into Chinese. The more familiar term used in China is in fact, 'innovation' (in Chinese *chuangxin*), being part of the government's broad reform agenda promoting the concept of social renewal and progress (Yi 2000). The slogan 'innovation is the spirit of a nation's progress' is widely propagated and 'innovation centres' are to be found in Chinese universities, including cultural industries innovation centres at Shanghai Jiaotong University and Beijing (Peking) University. While innovation is widely touted, there is an acknowledgement among many critics and industry professionals that China needs to re-assess its cultural industries development approach due to a tendency to favour imitation over innovation. In short, while innovation is a theoretical catch word, it has yet to be transformed into practice. Innovation without creativity means that the pressure is on business to produce products and services that capture markets. As markets are fragmented, there is a tendency to borrow creativity from elsewhere (see Keane 2004).

The importance of creativity is now coming into finer focus in China. The reluctance (until recently) to see creativity as a crucial ingredient in relation to innovation can be

explained to some extent by the tendency to equate innovation with science and technology, and as an antidote for China's non-innovative manufacturing sectors. Another important reason for the lack of focus on creativity is the role of culture in socialist China, where cultural output was considered superstructural and intangible - rather than an economic commodity. In short, culture's role was to reflect the economic reality, a role that did not privilege the creator in the sense understood in liberal democracies. Until the early 1990s China's cultural sector produced standardized cultural goods and commodities, which were distributed to a national community, namely 'the people'. Output was largely organised around quotas and proscribed forms; and those who were charged with the responsibility of determining production criteria were in most cases bureaucrats with little real sympathy for the autonomy of creative artists.

While this description presents an industrial model of production, it did not mean that culture was an industry in the commercial sense. It was a state administered industry, one where the costs were born by government and business models were conspicuous by their absence. Cultural production was not about diversification, product differentiation, and profits. This 'engineer state' model receded in the wake of economic reform and gave way to a market model of production in the mid-1980s and early 1990s. In this transitional period central government moved away from direct administration and encouraged enterprise and local initiatives partly in order to amortise the cost of cultural production. The term 'cultural institution' (*wenhua shiye*) became the preferred term, at least until 1998, when the national government officially endorsed the concept of 'cultural industries' (*wenhua chanye*). Whereas the former designated publicly funded culture and included state-funded troupes such as musicians, dancers, opera troupes etc, the contemporary cultural industries are directly associated with the notion of enterprise. (See Keane 2004).

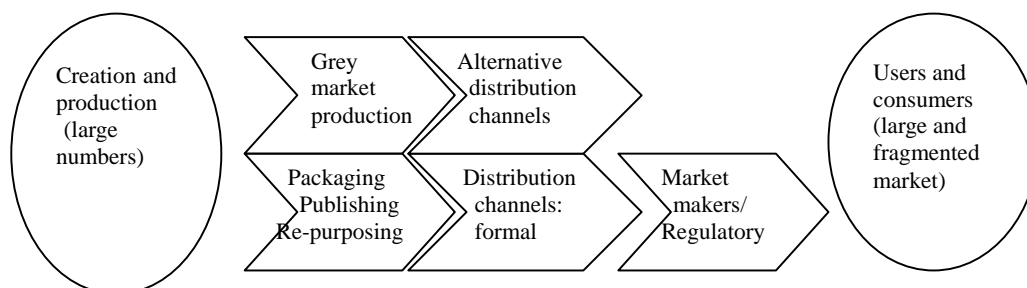
Statistics pertaining to the cultural industries in China can not be directly correlated with international benchmarks and are therefore best read as indicators of sectoral growth. According to Chinese Ministry of Culture, the value of the cultural sector increased from 1.21 billion yuan (\$USD146 Million) in 1990 to 8.37 billion yuan (\$USD1.01 billion) in 1998, representing a six-fold increase. Meanwhile the number of registered organizations associated with culture increased from 68,000 to 92,000 – an increase of 35%. Employment in the cultural sector increased 46%, from 495,000 to 721,000 during the same period. Most significantly, the number of private enterprises engaged in some form of cultural activity increased rapidly. In 1990 the private cultural sector numbered less than government cultural units. By 1998 private enterprises constituted 2.7 times the number of public units and the level of employment and the value of output was 1.5 times that of the official public cultural sector (Ministry of Culture 2003). When one takes into account that all of China's media are state owned, the dynamism of the surrounding or non-core enterprises is evident.

Despite impressive growth statistics and activity within the private sector, China's cultural consumption lags behind international benchmarks. Whereas cultural industries have become mainstay contributors to GDP in developed countries, the value of the (national) cultural economy in China in 1998 occupied just 0.26% of GDP and 0.8% of

the services sector. By comparison the cultural economy of the USA contributes an estimated 7% to GDP. In 1997 the consumption of culture and entertainment services per resident was 2.35% of total consumption, far below the level of developed countries and less than other developing countries (Ministry of Culture 2003). While these figures tell a less than impressive picture it should be noted that the majority of China's population are classified as peasants, despite recent trends suggesting massive urbanization. Moreover, if we look at mega-cities such as Beijing, Shanghai, Guangzhou, Chongqing, and Tianjin we find a strong level of cultural consumption. According to a recent report, the consumption of knowledge-based services by Beijing residents comprised more than 4% of expenditure (Luo & Zhao 2003). It also needs to be noted that there is also a high degree of elasticity inherent in these figures taking into account the grey economy and the high incidence of pirated cultural goods. In other words, much cultural consumption is not registered as market sales.

The basic value chain of Chinese creative industries/cultural industries is impacted upon by numerous impediments in the distribution channels segment (see below). In this sense it demonstrates unique characteristics that allow products to reach consumers more directly than the formal commercial route of proscribed distribution outlets, venues, and galleries. However, the high incidence of informal distribution of products (such as pirated DVDs and music CDs) and the frequent barter of services and content has seriously impacted upon the capacity to grow creative enterprises. Informal relationships based on guanxi (networks) further hinder the implementation of professionalism and best practice. Moreover, the large numbers at either end of the value chain (creators and end-users) mean that a great deal of importance is focused on the middle segments, which are stymied by institutional rigidities: for instance the role played by market makers - in many instances, officials who preside over allocation of book numbers, television production licenses, and permits.

Fig 5. China's unique value chain.



Source: CIRAC analysis 2004

Dominant sectors, targeted markets, and export potential

The dominant cultural sectors are here defined by China's own industry classification system. As the term cultural industries has recently evolved there is still no absolute line on what is included, and there is a tendency to add more sectors to the cultural economy, particularly with China now coming into contact with the concept of creative industries, which is favoured by Hong Kong, Singapore, Taiwan, and Korea – as well as Australia and New Zealand. Probably the most useful attempt to correlate the cultural industries with creative industries comes from the Chinese Academy of Social Science, which designates *core* industries such as media (publishing, broadcasting and digital content) and *non-core* performing arts industries. However, consensus among academics is that the broad cultural sector includes film, television, audiovisual, publishing, cultural arts, sport, and education. It is noteworthy that the cultural industries (as defined) in China do not as yet include architecture, advertising, design, and heritage (although these elements are indeed embedded within the current categories).

The following is a snapshot of business models, investment models, and export potential in these industries (with the exception of education) with particular emphasis on new financing models.

Film

The success of China's film industry and the capacity to create exportable content is contingent on unleashing creativity as much as stimulating finance. The film industry is currently in a state of crisis, despite the endorsement by Quentin Tarantino of China as an ideal location for production. Tarantino has undoubtedly been impressed by the willingness of Chinese to work enthusiastically for low salaries in contrast to the spiralling costs in other international locations. The most salient points to note, however, are that low levels of capital investment, combined with an unwillingness to embrace risk and flawed distribution segments in the value chain, are retarding the competitiveness of China's film industry. Ten years ago China's fifth wave generation of film makers –such as Zhang Yimou, Chen Kaige and Tian Zhuangzhuang were acknowledged internationally. As China's film fortunes wane the Korean film industry is achieved international recognition. Can China learn something from Korea where money has poured into the 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 with links to majors are likely to be seen as folk heroes bearing money, technology, and skills. Of these money is the most crucial. In 1995 the Chinese government promoted the development of non-state investment by allowing investors (both individuals and non-state enterprises) whose outlay was more than 70 per cent of budget to be regarded as producers. The following year this was reduced to 30 per cent (Chu 2002: 46). However, the government stipulation forcing studios to produce a quota of approved 'mainstream melody' films (that is, propagandistic films echoing China's reform) has meant that exhibitors have turned to foreign productions for box

office revenue. Investor unwillingness to support the film industry has opened the door for foreign investment. Since 1997 the partial privatisation 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 with most of the capital coming from Hong Kong, Taiwan and Japan. Return on investment is however stymied by a lack of enforceable copyright regime that sees pirated copies widely sold on city streets.

Television

Television is a creative industry that employs an army of people in China. 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 has been 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. The increasingly competitive nature of television production has forced production units to countenance a range of financing options. Often a producer or a 'middle man' is engaged to raise funds. This person might be a cultural entrepreneur with connections in the corporate world. The producer (or alternatively someone in the production company) may 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 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 programs rights in China's evolving multi-channel marketplace, which is enhanced by digital television roll out (Keane & Donald 2002). The development of independent creative production, however, is constrained by the need to establish relationships with regulators in order to secure licences. An additional means of investment that has become common in China's television and new media (Internet portals; broadband) sectors is listing on the Chinese stock exchange and Nasdec respectively. The most successful commercial venture to utilise this model of raising finance has been the Hunan Television 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 market.

Audio-visual

The audio-visual industries sectors (in China categorised as music CDs, DVDc, VCD, Internet-based content, and video games) vary in degrees of innovation and in their capacity to target export markets. While the domestic mass market for audio-visual products is large in terms of actual consumers, there exists a high degree of parasitic

imitation that constrains returns on investment. There is also massive copyright infringement and pirating, particularly in the popular music (CD) and film (DVD) industries. Problems replicated in the publishing industry (see below) pertain to the start-up of music operations. Record companies in China can only release albums through a music publisher/distributor, which by definition is a government entity. These music publishing houses recoup the bulk, approximately 60 per cent (See de Kloet 2002).

There are some notable exceptions in the audio-visual sector, however, that do allow substantial profits; these manage to cut out the grey markets and the rake-off by publishing houses by linking directly to a subscription model. For instance, the video games market demonstrates potential growth and presents a model for private investment. Most of the Internet portals in China currently derive from 15%-30% of their revenues from gaming (other significant earnings derive from the SMS boom). For instance, a leading Internet portal, NetEase, draws up to 38% of total revenue from gaming (Fong 2003).

Publishing

Publishing in China is typified by the relative cheap costs of reproduction and the relatively difficult process of getting product into the marketplace. China has its best sellers and its popular magazines but most publishing loses money due to the necessity of distribution through state outlets. Successful manuscripts are often duplicated and distributed on the grey market. As in the music publishing sector there are constraints imposed by the need to obtain a book number (license) in order to publish. These are allocated by government. A publishing house in China generally has several studios in which editors work. Editorial studios and publishing house have an internal commercial relationship. However, the editorial studios are not autonomous from publishing houses, although they may venture into the marketplace under their own imprint— a kind of semi-commercial arrangement. These independent commercial ventures still depend on publishing houses for the book number, which allows them to publish. They cannot form a business without this. At present, publishing is a controlled economy that is regulated by the book number system.

Greater financial autonomy exists in the magazine market although a proprietor of an independent magazine needs to be associated with a publishing company to obtain a license. While foreign investment in content publishing is prohibited there are a number of models to circumvent this bottleneck. A foreign publisher may not invest directly in a Chinese magazine start-up although it may obtain a license to form a joint venture and distribute a Chinese version in China after content has been vetted (for instance *Elle* and *Cosmopolitan* magazines). Alternatively, money is made available to magazine proprietors by informal investment mechanisms, that is, where the magazine proprietor has *guanxi* (relationship of trust) with a foreigner investor. Another model of publishing that typifies a model of disintermediation is online publishing whereby the author sells the rights to an online content provider linked to an Internet portal.

Cultural/ performing arts

The varieties of cultural arts are many, as would be expected in a country with such history and a depth of tradition. These include Beijing opera and kunqu (a form of high opera), modern classical opera and ballet, traditional and folk songs, acrobatic troupes, visual arts, calligraphy, spoken theatre, puppetry, and multimedia performance art. The cultural arts remain heavily reliant on government funding and are constantly faced with the dilemma of how to adopt new business models and to adapt their aesthetic practices to nurture younger audiences increasingly lured to interactive forms of performance and media. For some years now the Chinese government has levied a 3% tax on karaoke parlours and other popular entertainment venues with funds being returned to support the cultural arts (Kraus 2004). The reform of the cultural performing arts sector has recently entered a new phase with the setting up in April 2004 of the China Arts and Entertainment Group, which consists of nearly two dozen enterprises, including China Performing Arts Agency and China International Exhibition Centre. The two core companies will be State holding enterprises and will derive investment from all sectors of society, including individual and foreign capital. Two core companies will be China's sole agencies for running the global art performance and exhibition business sectors.

An interesting example of the avant-garde in China's cultural arts sector is the 798 Space in the Dashanzi Art district in north-east Beijing. The 798 Space is based upon a simple business proposition. Artists contribute a nominal fee for use of the space to the land owner, Hongkong Land Holdings, which has an eye to create an upscale environment for a residential development called Central Park. This instance of urban redevelopment it is not about heritage, but rather the future. The developer has reportedly spent massive amounts of money to refurbish the premises. It is unclear however, what will happen to the artist studios, cafes and bars when the factory is demolished in 2005 but in the interim the space provides a creative milieu for the development of avant-garde and experimental culture. The space operates via a collective management company in order to oversee the studio space, the products, and its activities. The area that houses this community (independent filmmakers, photographers, designers, video and visual artists, musicians and theatrical groups) is an old switching factory, no 798, from which the space derives its name. In April 2004 the organizing committee representing the studios housed in the 798 space are planning to organize the Dashanzi International Art Festival, which will incorporate contemporary Chinese and international art and performance.

According to the developers this collaborative venture between art and real estate will cultivate wealthy buyers. It is estimated that 30% of the traffic that passes through is non-Chinese, including many tourists. It is also estimated that 90% of the buyers of property at Central Park have the minimum of a bachelor's degree and 70% are employed by multinationals (Collier 2003). George Yudice (2003) has described similar sites of 'extracting cultural capital' in Mexico. His point about artists being 'service providers' is relevant: return on investment in such projects accrues to the land developers, the sponsors, curators, and artists. The district also benefits from the availability of low wages in the service sector, which paradoxically make the site attractive for international investors while at the same time making the district too expensive for ordinary Chinese. Arguably, the site also provides publicity for the Chinese contemporary art scene and the artists-in-residence will come into contact with international peers. This is the

impoverished under-funded segment of the art world forming a temporary development alliance with the wealthy elite. This ambitious project flies in the face of the traditionally conservative system of art patronage in China, where the new rich middle class embellish their homes with traditional forms such as calligraphy but seldom countenance experimental art. Moreover, state funds are rarely directed towards independent artists, although cities such as Beijing and Shanghai are keen to promote biennales to enhance their cosmopolitan status.

Sport

Sport is regarded as a cultural industry in China and indeed one where creativity is now emerging as an input. Sport is linked to broadcasting and advertising and this assumes greater importance as the Beijing Olympics moves closer. The importance of sport as a creative industry can be illustrated by the case of cyber-gaming and the government supported China E-Sports. China E-Sports Games, or CEG has been officially listed as the 99th competitive sports in China. The first China E-Sports games was sponsored by All-China Sports Federation, China Interactive Sports Development Co. and China Interactive Sports Communications Technology Co. in 2004. The event was a commercial enterprise: that is, competitors pay to play. As well, the competitions are broadcast on cable television channels. CEG includes competitions for 4 popular real-time PC games, FIFA Football, Half-Life: Counter Strike, Warcraft III: The Frozen Throne, and StarCraft: Brood War. Prior to official endorsement by the All China Sports Federation, several important international e-sport events had already been introduced into China. These included World Cyber Game (WCG) from South Korea, Electronic Sports World Cup (ESWC) from France and Cyberathlete Professional League (CPL) from the US.

The emergence of sports marketing and sponsorship is now emerging as a mainstream industry in the lead up to the Beijing Olympics. Foreign investment in Chinese sport via sports marketing companies like IMG have helped sports to develop a brand profile. Investors including Nike, Coca-Cola, Motorola, Siemens, Heineken, and Philip Morris have invested in high profile sports such as football, basketball, and formula one motor racing. In recent years the Chinese corporations Legend Computers and Li Ning Sports Goods have entered into the marketplace (Ashton 2002).

Change in business models

Markets for new cultural products are rapidly emerging, aided by the fact that China has on tap one of the most valuable resources for product development: large demographics of discriminating consumers willing to test new products and services. The domestic market for commercial creative industries is characterized by large numbers of persons engaged in cultural activities, both formally and informally. As Richard Kraus (2004) has noted in his recent publication *The Party and the Arty*, the arts-entertainment complex in China embraces a diversity of cultural workers and artists, who receive commissions, sponsorships, and salaries from a range of state-owned enterprises - and more recently private business. Kraus writes that 'Arts angels have mixed motives, ranging from a generous desire to support culture to vulgar self-promotion' (213). In typifying this

transitional funding cultural environment Kraus draws attention to new kinds of commercial patrons (220):

One Chengde wine company sponsored a local spoken drama troupe when it made a television play glorifying the history of its wine. An engineering-supplies company in Zhejiang provided travel expenses to enable an amateur playwright to accept a prize, then publicized its philanthropy. The Yangzi River Power Company funds tours by the Beijing Opera Company of Hubei, which considered changing its name to the China Yangzi River Power Company Beijing Opera Troupe...

This funding is evidence of the changing landscape. Branding is an idea that is beginning to take root within China's media and investment, sponsorship, and philanthropy are gradually increasing as the state moves further away from supporting the cultural sector. Within the formal sector (state funded troupes and institutions), a large percentage of funding goes to salaries and retirement pensions. Despite much rhetoric about cultural development and innovation from the central government, investment in cultural industries has never been a state priority. In fact, while average yearly investment by central and local governments increased by an average of 19.08 % and 9.48% respectively from 1998-2002, funding as a percentage of taxation income during the same period has declined rapidly. Investment nationwide as a percentage of income gained from the cultural sector has dropped from 10.6% to 0.2% (Wang & Song 2004). Much of this can be attributed to more efficient collection of revenue, and itself is testimony to the growing contribution of culture to GDP.

In attempting to offset this decline in government investment, there have been recommendations emanating from the Chinese Academy of Social Sciences that draw upon a national competitiveness paradigm: arguing for guaranteed funding for essential public cultural services, funds for strengthening national culture, and funds to support key projects and institutions. In addition there are recommendations to subsidize cultural institutions that are commercial, and to open up ways of rewarding non-government investment in such enterprises through preferential tax schemes, echoing international models. In short, the argument is a mix of national development and commercial reality (Wang & Song 2004).

FINANCING CREATIVE INDUSTRIES IN LATIN AMERICA

Introduction

As in other markets, independent creative production in Latin America faces serious financing constraints. The region's fragmentation (with the exception of large markets in Brazil, Mexico and possibly Argentina), provides incentives for entertainment *majors* in the region to focus on distribution of imported products rather than on artistic development. This, in conjunction with the globalization of media outlets and promotion vehicles, generates an increasing disconnection of the local audiences with Indigenous

genres, a situation that is illustrated in some Latin American music industries.

In the Latin American economies described in this report there is an excessive concentration of investment in large companies. This fact alone works to marginalize local cultural entrepreneurs. In addition, the lack of scale of the capital markets (especially the equity markets), generates barriers to the entry of investment capital to support small and medium enterprises.

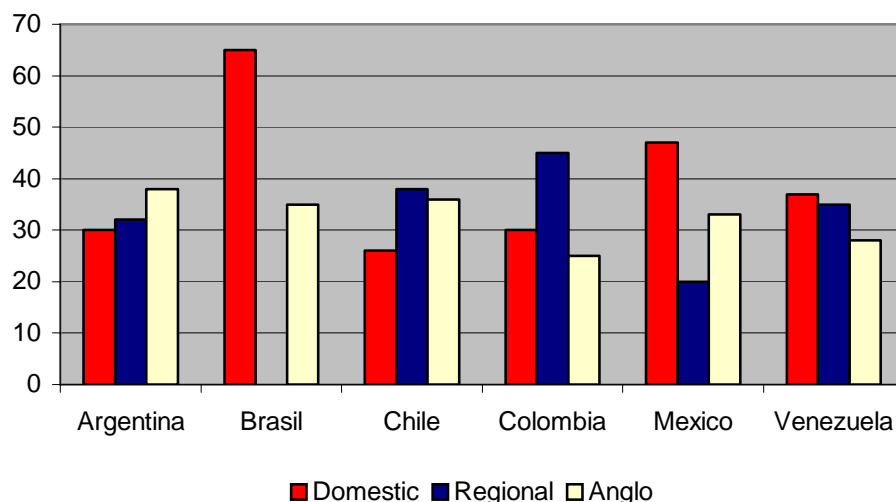
It is not altogether surprising that finance for creative production is highly concentrated in government agencies. These, and small seed capital sums provided by multi-task producers themselves (distributors, financiers etc.), are invested in the production of cultural goods that generally do not reach massive distribution. Both instruments are scarce by nature, and do not generate appropriate industry development incentives; indeed they may create dependency.

The Latin American Music Industry

The Latin music industry enjoys an average of between 4-5% percent of the music industry sales globally. During the last decade it has experienced an average yearly growth of 4%. During this period the industry has experienced steady growth in units, despite the significant impact of piracy on unit sales and late 90s currency devaluations on total revenue (Impacto del sector fonográfico sobre la economía colombiana).

There is evidence of strong consumption of local product (Mexico and Venezuela), of regional product (Colombia), and Portuguese product (Brazil). In Brazil, 75 per cent of total domestic music consumption is estimated to be local product; local Colombian consumption is estimated at 46%; and Venezuelan domestic consumption is valued at 35 percent. There is also high regional Latin American music consumption, with Columbia consuming 45 per cent of regional music products, Venezuela 35 percent and Chile 35 per cent. Considering the popularity of local and regional music through Latin America there is potential to strengthen regional consumption and markets for 'Latin music'.

Figure 6. Latin America: Local Music Consumption



Source: Yudice, George (1998), La Industria de la música en el marco de la integración América Latina-Estados Unidos, seminario Integración Económica e industrias culturales en América Latina y el Caribe, Buenos Aires.

Though some countries possess strong independent production activity, especially in folkloric genres, majors are active in all Latin American countries and account for the lion's share of each local market:

Figure 7. 'The Majors' share of the Latin American music market

Market Share	BMG	EMI	Polygram	Sony	Warner	Indies
Argentina	20	19	19	24	13	5
Brasil	13	16	20	17	15	19
Chile	18	20	18	24	17	3
Colombia	13	8	11	28	4	36
México	16	13	14	18	13	26
Venezuela	12	9	26	29	8	16
Average %	15	14	18	23	12	18

Source: CAB 2003b

The film industry

Like the European film industry, the Latin American film sector has suffered from cultural barriers across countries, limited production capabilities, 'art focus' over 'commercial focus', as well as limited distribution and promotion skills and capabilities. The region is characterized not only by small to medium independent markets, but also by low per capita income and volatile economies. It is estimated that in Latin American countries through the 1990s, local film companies received approximately 0.5 per cent per capita public assistance in comparison to approximately 1.8 per cent for the European industry and 5.5 per cent for the US local industry (CAB 2003a).

Financing

The globalization of culture, led by American content and symbols has had the effect of making cultural entities, practitioners, and workers in developing countries more aware of the need for financing and management support. Support alternatives need to take into account the fact that the commercial output of creative production is at most levels uncertain and risks may only be mitigated by achieving critical mass and developing industry structures in which distribution channels 'connect' and help to facilitate supply and demand (Hearn, Cunningham & Ordonez 2004). In addition, the distribution of investment between heritage and ongoing cultural industries development is typically biased towards the former, particularly in poorer regions.

As elsewhere the relationship between financing and industry development is unclear. First, to ensure the growth of competitive enterprises there is a need to focus on getting the right mix between (purely) private support and grant funding. Second, there is the issue of how to execute strategies. From a quick review of the features below, it can be concluded that the solution is somewhere in the middle rather than on the ends.

Emergence of purely private investors: Although it would be interesting to see venture capital funds targeting cultural startups, such entities act with the incentive to optimize profitability, and will only invest if the investment provides an 'exit path' towards value maximization (Hackett et al 2000). There is also the issue of scale. Venture capitalists will not be attracted to initiatives that do not have a sizeable market potential, or that can transform from interesting niche cultural manifestations to reach larger markets.

Grant funding: This is the traditional appeal to the public purse, usually on the basis of cultural worth and national identity. However, it leaves the cultural sector subject to the will of political turns and public capital availability. It also condemns the population to a diet of public culture and creates dependency within the cultural community, obstructing incentives for industry development and self sustainability. There should be no diminution of public funding; however, it should be investment as much as grant-driven, treat its client base in the most business-like fashion possible, and strategically target key points of the value chain not only production inputs.

The fact that neither capital nor private investment have proved to be suitable funding for creative production, makes clear the need and a role for new instruments that would be different in structure and could emerge from private-public partnerships. While public support can contribute to the new instruments financial resources and a tolerance for investment tenors, private agents would contribute investment discipline, a link to a broader investment community and asset management know-how.

Sources of funding in the region

Grant/state funding

Due to scarce public investment capital available much of the state support has been provided as regulatory incentives and tax-breaks. Extensive regulation to support cultural expressions and industries can be found in Latin American countries, particularly in the film and heritage sectors. No significant regulatory support was found in the case of the music industry.

In Chile, the Fondo de Artes y Cultura (FONDART) channels all government economic support to the sector. From its inception in 1992 the organization has financed almost 3,000 projects to the value of \$USD17M. The fund is administered by the Ministry of Education and evaluates and selects projects based on quality, budget, and viability.

In Colombia, the Ministry of Culture possesses limited resources for investment, most of which are dedicated to heritage preservation. Notwithstanding, an important amount of incentives and measures are targeted at culture and creativity, especially in the area of film. Film ticket pricing is exempt from VAT; Colombian income tax payable by foreigners will be calculated on the basis of 60% of the generated income; no taxes on remittances of proceeds of movie exploitation. In order to further encourage investment, reinvested profits in any of the stages of movie production receive a 50% exemption of income tax. All investments in the preservation of local movie material are 100% deductible from income tax. The law provides various authorizations to the Minister of culture to give further support to the cultural activity through regulatory changes.

Peru maintains similar film industry support schemes, including income tax exemption for revenue generated from motion picture commercialization (decree 42, 1995), and GST exemption for revenue generated from motion picture exploitation (decree 821, 1996)

In Venezuela 60% of the yearly budget of CNAC (National Autonomous Cinema Centre), is dedicated to local movie production and 100% of any investment in any stage or movie production is tax deductible

In Argentina 10% of all movie tickets, 10% of all movie sales or rentals and 25% of all income received by the National Radio Broadcasting aggregate funds for the 'Motion Picture Fund' administered by the INCAA (National Cinema Institute for Audiovisual Arts). This fund finances production of local films and the functioning of drama and movie schools.

As of writing, no systematic commercial funding models - such as private equity funds and commercial credit lines - have been identified in the region. This type of financing typically does not suit small companies and creative enterprises. However, there are some instances of innovative strategies to build value from a low base.

Case Study: Distribution of 'Arepa 3000' by Latin World Records (Contemporary popular)

Latin World Records is a Venezuelan independent record label owned by Samuel Quiroz,

a native Salvadorian and ex-investment banker. After more than twenty years in the finance world, Quiroz quit his job and with the support of his partners at Latin World Securities, founded Latin World Entertainment group. Since its inception the label has been characterized by an aggressive production schedule across a range of different genres including tropical, contemporary, pop and rock. The ability of LWR to sustain the scale of activity it has, is largely the result of resources Quiroz has been able to marshal from his linkages and experience in the Venezuelan business and investment community.

After one year of Quiroz heading LWR, Luaka Bop, an American independent record label began looking for a distributor for the Venezuelan fusion band, Amigos Invisibles' (an increasingly popular national band with a unique sound), second Album "Arepa 3000". One of the 'majors', EMI, had first option to contract though negotiations were not final. Learning of the proposed deal, Quiroz courted Luaka Bop and successfully obtained the distribution deal, although LWR at the time was primarily a small label focused on production and with limited distribution capacity. This was a major hurdle in obtaining the deal and only a firm commitment to purchasing a large number of CD units would convince Luaka's executives of granting LWR an exclusive distribution deal for this record.

Quiroz became acquainted with the forthcoming launch of a new prepaid mobile telephone product by Movilnet, one of the largest mobile operators in Venezuela. Realising that this product targeted the same youth demographics as 'Arepa 3000', he conceived the idea of bundling the record with the pre-paid mobile in a packaged deal. This would be the only way to get a legal copy of the record. Movilnet was fast to catch up on the idea and bought 80,000 units. This allowed Quiroz to secure the purchase of a number of copies quite in excess of Luaka's original sales estimates. A media campaign including TV and radio ads featuring the members of the band was launched.

This case illustrates a small indie label making a "big hit" in their first participation in the distribution business through an innovative scheme. This scheme illustrated innovation: flexibility in the understanding of what the product was (from selling a CD to using it to support the sale of a mobile phone), understanding that 80,000 records at a wholesale price would not represent a major investment for a mobile telephony company, and understanding that rather than selling your product to the retail market you can bring an additional intermediary (the mobile company) to the value chain to strengthen your marketing situation and magnify the distribution impact of your production. Replicating the scheme elsewhere is a matter of identifying when large corporates can use music products (gifts, campaign launches, charity, image campaigns etc.) in their product strategy.

Conceptually this case shows an alteration of the typical value chain where conventional distribution is bypassed in a form that does not generate retaliation from the channels. This allows for a wide distribution of a record, without losing value for the artist and the producer in the process. The record price is now embedded in the cost structure of the sponsoring company at a cost that only shows production cost (marketing and distribution have been "camouflaged" in the campaigns cost), in effect eliminating the wide margins

charged by distributors.

The value of this case is that irregardless of the structure it was business sense and savvy that made it possible. No capital investment from the producer, or from the local record company, was required.

Case Study: ‘KANKANO Laboratorio Cultural’ (Contemporary popular)

The Colombian music market is characterized by the presence of all six Majors and some independent local activity in the segment of tropical folkloric music. This supply structure has created important gaps in the offering of content and left an important number of artists in the margins of the market. Majors tend to produce artists that can be sold with the least local promotion and marketing effort. These are mainly international artists that reach the public eye through the ever growing effect of the international (mainly American) media which has been paid for by the holding companies of the Majors.

To a group of local musicians it was clear that their options within this industry scheme were very limited and that rather than trying to open a space for themselves in the current structure, the goal should be to define an alternative model in which production and promotion goals could be reached with the least amount of financial resources.

Various discussions and some opportunities (brought up by the landscape of the entertainment industry in Bogotá) helped create an idea that is on its way to consolidating a business model for musicians that require non mainstream options for the production and distribution of their musical output, either in the form of CDs or live presentations.

‘KANKANO Laboratorio Cultural’ is one of the only venues in Bogotá dedicated exclusively to the presentation of live music, mainly fusions of folklore and other music genres like jazz, funk, reggae, and rock. Rather than conceptualizing the idea as a pub, the owners, Gustavo Salcedo and Mayte Montero use the place as the promotion and distribution site for high quality musical acts. In addition to having a good acoustic condition (non-existent in other venues) the musicians are able to access recording and rehearsing space during day hours.

Currently KANKANO operates in a 300 square meter site in the north of Bogotá, with capacity to host up to 400 people in one evening. Attendance has averaged 60% to 70% since the venue opened in January 2003.

As a business model KANKANO envisions the possibility of consolidating an independent record label that can be distributed “in situ” or through mainstream distribution channels⁷. A natural step from its core production and promotion activities are artist development capabilities (i.e. tour support) and publishing. The fact that CD distribution will be stronger in Bogotá has made the owners think about the possibility of

⁷ The fact that the distribution in the Colombian market is not integrated with production (not that it is prohibited) and is 100% national brings interesting opportunities for independent producers.

opening other venues in different parts of the country in the medium term. Opening similar venues (or franchising this concept) in other areas allows the possibility of tapping an important revenue source: tourism. An entertainment venue focused in high quality local acts could be an interesting tourist attraction in places like Cartagena or Santa Martha, two Colombian cities of major local and international tourist affluence.

This case study highlights that the project is the result of the initiative of artists who thoughtfully identified a trend towards an increasing relevance of the “live act” in an environment where piracy allows cheap ownership of music products.

INDIGENOUS AUSTRALIAN VISUAL ART

Introduction

The Indigenous Australian context is not a developing country context. However, the isolated, impoverished ‘third world’ environment in which Aboriginal and Torres Strait Islander art has been produced since the 70s (Myers 2002; Altman et al. 2002) does strike many correlations with developing country contexts. Indeed, the lessons to be learned from the success of Indigenous Australian art exports have direct relevance to developing country contexts. Most importantly in the context of this study, despite the ‘third world’ conditions in which this art is produced, Indigenous Australian visual art has become an internationally renowned and economically significant Australian cultural export – arguably, one of Australia’s most significant exports ever. This international success has largely occurred outside of public support and public subsidy frameworks; it has been driven by individual actors and it has drawn upon finance from private, philanthropic, and foundational sources. In the seminal study *Painting Culture*, Myers (2002) illustrates that public subsidy and support mechanisms whilst sustaining production in the 1970s, largely limited the commercial flow of Indigenous Australian art to ‘uninterested’ domestic markets.

Over the space of three decades, Indigenous Australian art has become an industry reportedly worth between \$AUD 100 million and \$AUD 300 million (Altman et al. 2002: 3). It is estimated that there are 5000 artists and painters working in the industry making up between 25 and 50 per cent of total working Australian visual artists. This is a remarkable figure considering that the Indigenous population makes up approximately 2 per cent of the Australian population. In 1994 an Australia Council funded study found that the income generated from all Indigenous Australian creative activities (not including rural Aboriginal art) was estimated at \$720 million. Visual artists surveyed in the Council report contributed \$129 million to the economy - \$66 million from their principal artistic occupation and a further \$63 million from "other arts work" (quoted in Langsam 1997). Putting these figures in perspective, the Indigenous Australian ‘arts and crafts sector’ total is about the same size as the bauxite (\$774million in 1992-93, ABS) or copper (\$875million) industries and massively more important than uranium mining, valued at \$193 million for 1993-'94 (Langsam 1997). However it is important to note that

collecting accurate figures for the value of Indigenous Australian art is difficult as much is produced in isolated communities and records are unreliable.

For Indigenous people in Australia, and elsewhere in developing countries, the raw material of content creation is culture and knowledge. Combined with the creative talent of the artist, the performer and the technician (incubation), this becomes a unique and distinctive intellectual property that finds its way into several markets (domestic – Indigenous and non-Indigenous, tourist, and international) of which the most profitable is the elite international art or ‘high art’ market. The high end sale of Indigenous painting represents the meeting of third world producer and first world art patron and connoisseur. Moreover, a major feature of indigenous visual arts is that the majority of the output is produced in remote parts of northern and central Australia. The production and sale of arts and crafts constitute the only private sector economic activity in some communities. The circulation and delivery of Indigenous art characterize a value chain where cultural intermediaries play a key role, often drawing huge profits from their activity. Indigenous artists rarely negotiate directly with commercial galleries or retail outlets for the sale of their work. Their work is handled by Indigenous art centres or cooperatives. These organisations are staffed by art coordinators who operate as both commercial and cultural mediators between producers and mainly non-indigenous procurers of indigenous art. Commercial galleries and retail outlets also have a mediating role, but they rarely have direct contact with producers.

The Indigenous creative industries, despite their fragility, resemble mainstream creative industries, insofar as they are generally characterised by an over-supply of content-providers (Caves 2000) and dependent satellite producers clustered around profitable links in the chain, notably distribution.

Figure 8. Indigenous Creative Industries Value Chain

Content creation/origination	Intellectual property: the culture and knowledge of the Indigenous people of Australia and its expression in the form of oral history, Craft, performance, writing, music and song design etc.
Production and incubation	The process by which this intellectual property is transformed into products and services, including support mechanisms and resources, creative spaces, production infrastructure, manufacturing inputs, engineering etc.
Circulation	The means by which products and services are promoted to retailers and advertised to the consuming public. This includes various media, the role of managers, agents, databases, mailing lists, and websites.
Delivery mechanisms	The point of sale or distribution of

	products and services.
Current and potential markets	The market for indigenous creative practice. This varies across practice. For example, the market (audience) for story tellers and ceremonial performance is limited whereas the market for broadcasting is consistent. The four principal markets are government services, international tourism, domestic, and the indigenous market.

Source: Keane and Hartley 2001

The following case study examines the international profile of Indigenous dot (acrylic) paintings and the relationship between its position within elite markets and finance. This account is not exhaustive, and although it makes historical references is not an attempt at historical analysis of the developments leading to the establishment of an internationally successful export industry. It highlights the primary developments with an emphasis on drawing out the modes of finance involved in ensuring the success of this industry.

Indigenous creative industries are one of the least recognised but most vibrant and innovative sectors in Australia. In many instances, these creative enterprises thrive from minimal public funding and often community and local business support. The case of Indigenous ‘high art’ is just one example of the successful development of high-value, export orientated Indigenous Australian creative industries. There are several highly innovative export orientated Indigenous creative enterprises emerging. Some examples include:

- **Cyber Dreaming:** An innovative multimedia firm based in Brisbane.
Website: <http://www.cyberdreaming.com/>
- **Murri Radio:** An Indigenous operated country music community radio station based in Brisbane. It receives some public funding but receives 50 per cent of its funding from commercial sponsorship. It provides national niche programming (country music and Indigenous broadcasting) and has become the most successful community broadcaster in Australia. The station has ambitions to become self-funded in 3-5 years (Keane & Hartley 2001).
Website: <http://www.4aaa.org.au/>
- **Goolarri Media Enterprises:** Based in Broome, Goolarri is a cluster of integrated media enterprises – radio, television, film and television production services, recording facilities, events management and technical services – that links 16 indigenous media groups throughout Northwest Australia and community organisations developing a range of media products for popular and mainstream markets. Goolarri can be characterised as an entrepreneurial management team utilising local knowledge to create a commercialisable media brand and generating local content that embraces respect for tradition.
Website: <http://www.gme.com.au/>

- **Bangarra Dance Theatre:** Situated in New South Wales, Bangarra Dance Theatre is an internationally successful dance and performance company that combines Indigenous Australian tradition with popular contemporary dance styles. The company has now toured approximately 18 countries, undertaken extensive domestic tours and released a multimedia CD-Rom in collaboration with Australia's largest Telco. Website: <http://www.bangarra.com.au/home.html>

Case Study: The internationalisation of Indigenous Australian acrylic painting.

The beginnings

Until 40 years ago the Indigenous people known as the Pintupi lived in Australia's Western Desert without any involvement in the 'cash economy'. The Pintupi people, like many other Aboriginal groups, were brought in from the desert by the government during the 1950s and 1960s and settled on a government reserve at Papunya, Northwest of Alice Springs (Allan 2001). It was here, as one commentator has noted, in the 'oppressive, desolate and poverty-stricken conditions ... with one sixth of residents dying of treatable disease between 1961-1966' (Allan 2001) that the Papunya Tula Art movement emerged during the 1970s giving birth to contemporary Indigenous Australian acrylic 'high art'⁸, part of an industry that is now valued at least \$AUD100 million.

A school teacher posted at Papunya, Geoffrey Bardon, was an important figure in the early development of Aboriginal art. Before Bardon's arrival, Western Desert art was largely confined to Aboriginal ceremonial practices and some small-scale tourist sales (Allan 2001). Bardon was responsible for encouraging Indigenous Australians to express their traditional motifs and dreamtime stories through painting. In 1971 he submitted several acrylic works to the Alice Springs Caltex Art competition. The competition resulted in \$1,300 in cash sales. Bardon later established an artist's cooperative at Papunya and in 1972 he helped establish the Papunya Tula Artists limited liability company. After this initial success, over 600 paintings and 300 smaller works were produced over the next 18 months (Allan 2001).

Policy and the development of a market

From 1973-1975, Papunya Tula art production increased. The cash market, however, was still small-scale and largely informal. Arts advisers visited painting communities periodically to pay artists for completed paintings and to commission new ones. There were small scale exhibitions and modest sales to museums and art galleries in the Northern Territory but the survival of the Papunya Tula art collective was largely the result of government action.

The principal backers of Aboriginal acrylic arts throughout the 1970s were two government bodies: the Aboriginal Arts Board and Aboriginal Arts and Crafts Pty Ltd. Whilst these two bodies had initial success in developing a market for Aboriginal art,

⁸ Papunya Tula art is most famously known for the portrayal of traditional motifs in the form of acrylic 'dot' paintings.

according to Myers (2002: 134), 'there was a tremendous problem in maintaining a viable stream of circulation between artists desire to paint and scarce demand.'

A major policy problem that emerged was the purchasing procedure of Aboriginal Arts and Crafts. The company was developed to stabilise an income flow, foster production, increase employment and increase economic returns for artists. The company purchased paintings from artists, and acted as a wholesaler selling artworks to metropolitan retail outlets. The company paid for art-work at the point-of-sale, with the respective artist receiving payment immediately, not on consignment as was the procedure of most commercial galleries. The company failed to match sales with production rate, resulting in stock saturation, and the exhaustion of the company's funds. Consequently, no new paintings could be purchased leading to prolonged delays between the sale of artworks and cash flow back into art collectives. Additionally, without start-up capital arts advisers – who are important intermediaries between artists and the market – were unable to buy collections for potential exhibitions.

In response, Aboriginal Arts and Crafts developed a 60-day system, where the art work would be held for 60 days, allowing time for artwork to be sold before a payment was made to the artist. However, this system also failed with artists wanting immediate payment in exchange for their work. Soon artists and advisers began selling artwork to sources outside of the company. Private collectors were later to become important buyers. Grants from the Aboriginal Arts Board largely kept the Papunya Tula cooperative operational during the 1970s with its funds purchasing stockpiled paintings for museums and international 'cultural preservation' exhibitions (Myers 2002: 143).

The early stages of this market can be categorised as a *grants market*. Papunya Tula and other art collectives all competed for and became reliant upon limited funds from Aboriginal Arts and Crafts and the Aboriginal Arts Board. At the same time the government was attempting to develop the domestic 'uninterested market', namely, the broad population who had little interest in Aboriginal art. As Myers (2002) has argued, public support for the development of a market during this period can be characterised as a 'welfare' approach (135). Financial support was directed at the market without support directly going to producers in the form of fellowships or income support schemes, and was viewed as a 'culturally appropriate strategy for Aboriginal producers' (135).

During the early 1980s government policy shifted from a focus on cultural preservation to an emphasis on the development of an Aboriginal 'arts and crafts' industry: a broad term generally encompassing visual arts, souvenirs, crafts and performing arts. With this policy shift a more structured 'art world' emerged, generating increased journalistic attention, a growth in institutional recognition and acquisition and an expansion of retail galleries, collecting and curatorship (Myers 2002: 186). This policy rearticulation with a focus on 'economic enterprise' marked a concerted shift away from public subsidy (137). It was during this period, of policy restructuring and industry development that the international success and development of international markets for Aboriginal 'high art' occurred, largely outside of public funding mechanisms.

The 1988 Dreamings exhibition in New York

The 1988 Asia Society exhibition, *Dreamings: The Art of Aboriginal Australia*, held in New York from 6 October 31, was instrumental in the achievement of international critical acclaim, and recognition and the initiation of export markets for Indigenous dot-art. The exhibition drew an attendance of 27, 000 people, becoming the most successful event ever to be held at the Asia Society. It elevated Aboriginal art from being 'ethnographic art' (anthropological artefacts) to internationally renowned 'high art' sought after by elite up-scale galleries and collectors.

The *Dreamings* exhibition is important within the context of this study. First, the exhibition is an exemplary case of the successful production of cultural products for a *specific targeted audience*. The organisers of this exhibition carefully selected the venue. At the time the Asia Society galleries were important in the mediation of culture and commerce relations between the US and Asia; the art was displayed in ways that were new according to 'high art' styles, and was displayed in renowned galleries rather than in museums as it had been in the past (Myers 2002). As Myers notes the organisers of the exhibition 'constructed an Aboriginal art that ... was always understood partly as being directed to an American audience' (244).

The financing of this event is indicative of the move towards new private partnerships. The financing is illustrative of the successful utilization of informal networks of people and institutions. The organisers of the event sought to raise finance through private sources drawn from the Asia Society's business network. The exploitation of the Asia Society's structure was important as it 'worked through its trustees and its other connections' including 'hired consultants who could make connections to corporations' (Myers 2002: 243). The organisers attempted to obtain finance through Australian corporations working in the United States and via influential and wealthy Australians with an interest in art living in the United States. The strategy was directed at informal people connections and elite networks (that is, the connections exhibition organisers had with various elites) and through the utilisation of the Asia society's private consultants.

While financial support for the event failed to eventuate from the major Australian and corporate funding sources, finance eventually did arrive from other sources. It could be argued that the exhibition was the discovery of US financial interest in Aboriginal art. The exhibition received funding from the National Endowment for the Humanities⁹, and through associates of the Asia Society galleries network. In addition, the exhibition received funding from private/corporate sources such as the Andrew Mellon Foundation, the Starr Foundation and Westpac Banking Corporation.

The New York market, private collectors and philanthropy

While there is now a large number of public funding and grant schemes available for

⁹ NEH is an independent grant-making agency of the United States government dedicated to supporting research, education, preservation, and public programs in the humanities.

Aboriginal artists and arts enterprises through the Australia Council for the Arts¹⁰, international enthusiasm and most notably the New York market is largely driving demand, production and the development of the high-end of the Aboriginal arts industry.

In July 2003 Sotheby's (an important auction house for the sale of Indigenous Australian art) in New York sold 560 Aboriginal art works at a total of \$AUD 7.5 million (Cho 2004). Sotheby's percentage of international Indigenous Australian art sales has risen from 20 per cent in 1996 to 70 per cent in 2003 (Reid 2003). This market and the international markets for Indigenous Australian art more generally is characterised by a growing number of very serious collectors and a large number of occasional buyers (Reid 2003). The top-end of the New York market is characterised by lower demand but higher returns for artists and the lower is end is characterised by higher demand but lower value.

New York art Galleries have become important purchasers of Indigenous Australian art. Since the *Dreamings* exhibition in 1988 there has been a dramatic rise in the number of up-market galleries specialising in Indigenous Australian art and general galleries that have substantial sections dedicated to Indigenous Australian art. There are now direct linkages between up-scale galleries and 'talented artists' and cooperatives. Galleries are reported to foster and encourage artists to produce works either specifically for their galleries or to be auctioned at Sotheby's, New York (Reid 2003).

Private collectors and philanthropy have become another significant mode of finance for the production of Indigenous Australian art. A primary example of this is through the consideration of the private collection of 89 year-old Florida billionaire, John W. Kluge. Kluge has amassed one of the largest collections of Indigenous Australian art outside of Australia worth \$USD 5 million in 1997 (and is now estimated to be worth twice as much) containing 1,600 works from between the 1940s and 1990s. Kluge reportedly 'fell in love with Australian Aboriginal art' after seeing the *Dreamings* exhibition in New York in 1988 (Genocchio 2004). He brought his first pieces of Indigenous Australian art in 1988 – a total of 130 paintings for \$500, 000. The money from this sale was reportedly used by the 'impoverished reservation style community of some 700 people' to build an arts centre to contribute to the development of the region's art communities (Genocchio 2004). He also commissioned many pieces from individual artists and art collectives providing them with sources of income and investment. In 1996, Arts agents hired by Mr. Kluge reportedly injected \$AUD 500, 000 into several Aboriginal arts communities in Northern and Western Australia over a period of two years.

It is important to note that whilst private and philanthropic streams of finance have potential for arts and creative industries development more broadly they also create threats for individual producers. In the Indigenous Australian art context, private collectors, advisors and curators have been largely responsible for the exploitation of Aboriginal and Torres Strait Islander artists over the last three decades, with many artists not seeing any revenue from artworks worth thousands and in some cases hundreds of thousands of dollars. This also raises the issue of a need for appropriate copyright laws.

¹⁰ See <http://www.ozco.gov.au/boards/atsia/> [Accessed 23/03/2004].

CONCLUSION

We have examined modes of financing creative industries in three different regions: China, Latin America, and Indigenous Australia. While it is apparent that the term 'creative industries' has yet to be widely embraced, it is also evident that culture is increasingly used as a resource for development. In these regions, however, creative industries are still predominantly viewed as having a strong association with traditional, official or national culture, a perception that needs to be broadened in order to maximise future diverse economic development. This concluding section is divided into three sections: emerging trends and issues, modes of finance, and lessons learnt from the case studies.

The ultimate question, however, is whether or not creative industries in developing countries can reach a level where they can compete in the global market place.

Emerging trends and issues

The role of culture in development is currently being reassessed. The issue we have canvassed here is not about access - but growing capacity and reforming financial mechanisms. Events such as the dot.com crash and financial crises in Latin America and Asia have reshaped expectations and reformed practices. Structural adjustments imposed by the IMF and the World Bank on developing countries may have had little direct influence on the cultural sector but culture's increasing prominence as a contributor to GDP and national development means that flow-on effects have been registered: new management strategies and new business models have been taken up.

Creative industries are by nature risky business. Traditional industrial models cannot be imposed upon these industries. An interesting emerging trend is the development of safeguards and specific parameters as a feature of creative industries financing and risk management. Although these safeguards vary, they are designed to cater for the intangible nature of creative assets and outputs, to manage risk, and to ensure the robustness of business models.

While it is important that national economic agendas recognise the intangible attributes and value of cultural assets, there is also a need to understand how traditional cultural segments are increasingly influenced by the marketplace. Culture has become a significant economic force in its own right and is beginning to target niche markets.

Developing the competitive advantage of creative industries is essential to the growth of export markets. Creative industries in developing countries may struggle to compete in international markets on a national level, but targeted development at a firm level may produce internationally competitive firms that in turn generate flow-on value for the broader economy. It is useful to think of competitive advantage in terms of a national innovation system. The competitiveness of creative industries can be optimised on a

number of different levels: the level of the firm, the level of the sector, the regional level, or a national level (see QUT CIRAC & Cutler & Company 2003). In this sense the growth of creative industries needs to be assessed from the point of view of innovation incentive structures. Such incentives can come from the state in the form of direct industry assistance, or in an enabling sense, by providing incentives to middle players in the value chain. To illustrate this need to fix the 'middle factors' to ensure development, the competitiveness of the Chinese film and music industries is hampered by the role of pirates who are not cultural intermediaries in the true sense and could be more gainfully employed in other areas of the economy.

Banking on Culture illustrates that while finance is essential for creative industries development, finance cannot be considered in isolation of other inherently connected issues. Once again this relates to the unique nature of the creative industries. As well as finance, creative enterprises require specialised business support, marketing, management development, attention to innovation, copyright protection, and rights management.

The majority of finance is directed towards the content creation and production stages of the value chain. However, emphasis needs to be directed towards segments of the value chain that inhibit growth and information flows. This may - or may not - be the creation stage. As the majority of creative industries in developing countries emanate from deeply rooted cultural traditions, the impediments are not related so much to entry or production: but rather the packaging, marketing, and distribution of creative products. For instance, financial assistance or incentive could be directed at the distribution platform so as to support local content, which in turn provides a showcase. It is also noted that in many sectors regulatory bottlenecks, as well as country-specific political and cultural barriers, act as primary barriers to development.

Financing is closely linked to a need for an awareness of *types of markets* and *potential markets* for export. From an economic development perspective, cultural specificity works against the capacity for products from these regions to enter into mainstream global markets, with the exception being breakthrough cultural markets (world music, art-house cinema) and culturally proximate markets (e.g. Spanish or Chinese speaking markets). In terms of international export potential (in English or French-speaking locations for instance), creative products from developing countries are often sought after by educated elites, who may pay higher prices but whose consumption is more symbolic than routine. In other instances there is potential for the development of 'regional' or Diaspora markets. In Latin America, for example, there is potential for the development and strengthening of markets throughout 'culturally proximate' neighbouring countries.

Modes of finance

A number of primary finance trends emerge from this study. First, financing is often serendipitous and fragmented. Modes of finance are influenced by political agendas as much as public demand and private investments are often opportunistic. Financing is fragmented deriving from multiple sources. Second, institutional and informal people networks are extremely important in leveraging financial support and developing

connections to financial sources. Third, while most modes of finance are aimed at the creation and production stages of the value chain, private partnerships (e.g. small local enterprises that form alliances with larger and sometimes international companies) rather than direct capital investment, are becoming an important means in overcoming distribution and other market barriers. Strategic alliances with service providers, with high profile 'branded' media companies, and with distributors are becoming a way forward for smaller innovative businesses. In this sense investment is counted not purely in monetary terms but in the value of untraded interdependencies such as skills, know-how, branding, etc. Further, there is recognition that cultural workers are often linked into peer networks that circulate information. Cultural workers increasingly are inheriting a role as service providers in the new economy. Business seeks out their skills to infuse creative inputs into non-creative fields, such as government, education, and business promotion.

Alarmingly, but not unsurprisingly, large-scale capital investment is low. Because of the flexibility of the micro-finance model, the type of finance it delivers, and the inherent safeguard features it contains, micro-finance offers a viable model to 'kick-start ideas and develop micro-enterprises to a level where they can obtain funding from other public or commercial sources. However, this mode of finance is only suitable for limited creative sectors. Larger commercial sectors require greater levels of capital investment and venture capital.

While new modes of finance are emerging, in certain sectors public subsidy still remains the primary form of finance. Public support mechanisms still have an important role to play in the future, however, they will need to re-focus on specific segments of the value chain where barriers stifle development. New technologies and in particular partnerships with technology firms (ISPs, telcos, etc), also provide a new avenue to enter global markets and to overcome distribution barriers. In this context, countries that have networked information infrastructures in place have a considerable advantage.

There is a need for mid-term seed funding to sustain business activities. Public/private partnerships present a 'third way' of financing creative industries. Further examination is required to understand how public funding agencies can act as a short-term guarantor, to foster creative enterprises through a transition from a reliance on public funding to full or partial commercial viability derived from private forms of investment.

Case studies

China

China illustrates the shift from a state-centred financing regime to a mixed financing model with the rise of new private partnerships and innovative financing arrangements. This mixed financing model draws upon a number of modes of finance including public tax concessions at one end (remnants of a state-centred model) and private direct investment, technological enabled private online partnerships, collaboration between art and real-estate, and philanthropic investment. China also illustrates the role of informal mechanisms in getting product into the marketplace. Irregular modes of production and

distribution both inhibit and enable the flow of finance with creative industries.

Latin America

The Latin American case study illustrates some similar themes. Here reliance on foreign finance has led to weaknesses in the value chain. Most investment incentive schemes are directed towards foreign entities. However, innovative private partnership (more the exception than the rule) are enabling new modes of distribution, and creating synergy. Once again informal people networks play an important role in development, such as where a creator/producer is able to draw upon the institutional networks of another agent/intermediary.

Indigenous Australia

This case study exemplifies that a high-growth, high-economic value, export orientated industry *can* emerge from an impoverished, isolated, and an initially undeveloped context. Several key issues emerge from this case study with direct relevance to the development of niche international markets and the raising of new private financial sources. Individual actors can successfully adapt 'traditional elite' cultural forms (without losing cultural uniqueness or integrity) to appeal to the tastes of a specific *targeted* international audience and market. The mobilisation and utilisation of informal people networks can be a successful method of establishing an international network with linkages to important financial sources. The leverage of institutional networks with formal (business partnerships and international offices) or informal international networks (specialist consultants or informal people networks) can be an important means of obtaining finance and establishing financial streams. Philanthropic, foundational and private investment can be important financial sources for the production and distribution of 'traditional elite' art. Finally, these modes of finance are also potentially important in establishing, international finance streams and international markets.

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Appendix: Modes of Finance examined in this paper

Category	Type	Sector	Country/ Example	Page reference	Description
Public Support	Entertainment Levy/Tax	Performing Arts	China	23-24	China has a 3% tax on popular entertainment venues with funds being invested back into supporting the Arts.
	Funding Body	Art	Chile	29	The FONART fund is administered by the Ministry of Education and is the primary form of Public Art funding
	Tax Breaks/tax incentives	Film	Columbia	29	Foreign film producers tax will be calculated at 60 % of generated income/local film investment is 100% tax deductible and others
	Tax Exemptions	Film	Peru	29	Tax exemptions on local film production revenues
	Film Funding	Film	Venezuela	29	A percentage of a Government body's budget is invested in local movie production
	Movie levy & rental levy	Film	Argentina	29	Percentages of movie tickets, movie sales, rentals and all income received by the National Radio Broadcasting are collated to form the 'Motion Picture Fund' which funds local production.
Private Investment	Direct private investment	TV and film	China	21	A direct investment is made in return for publicity, such as program naming with products, and featuring of products on-screen
	IPO	TV and Internet	China	22	Chinese companies raise finance through public listings on both the Chinese and NASDAQ stock-exchanges
	Foreign investment through informal people networks	Media	China	21, 22	Informal investment arrangements circumvent regulatory barriers prohibiting foreign investment; investors often are foreign businesses
	Commercial Patronage	Cultural arts	China	23-24	Arts companies are sponsored by local companies
Hybrid/ Other	Philanthropy	Art	Aboriginal Art	37-38	Philanthropic funding have contributed to the development of Aboriginal art communities and a primary form of investment
	Attracting International professionals through co-productions	Film	China	21	The idea of luring International professionals to a local industry with links to 'majors', finance, technology and skills

	Philanthropic reciprocal investment	TV	China	21	Producers negotiate investment deals through personal contacts/networks or with private enterprise
	Publishing partnerships with Online content providers	Publishing	China	23	Publishers sell their rights to online content providers attached to Internet portals to ensure wide distribution.
	Collaborative venture: Art & real-estate	Art	China	23-24	Artists pay a nominal fee to use the 798 space which the owners are attempting to develop into a residential development project
	Private Incubation	Music	Colombia	31-32	Kankano Laboratorio Cultural has effectively become a private incubation centre providing musicians with a live venue, and a recording and rehearsal space
	Levering Institutional networks	Art	Aboriginal Art	37-38	The success of the <i>Dreamings</i> exhibition was in part through leveraging the international network, consultants and individual actors of the Asia Society
	Bundling of an audio CD with a mobile phone package deal	Music	Brazil	30-31	The album 'Arepa 3000' became part of a pre-paid mobile package from Movilnet, with 80, 000 units purchased by the telephony company