



COVER SHEET

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Created in China: the new catch up strategy

Michael Keane

Senior Research Fellow

Australian Research Council Centre for Excellence for Creative Industries and Innovation
Queensland University of Technology, Brisbane, Australia.

Email m.keane@qut.edu.au

ABSTRACT

This paper examines conditions of possibility for Chinese cultural exports, drawing attention to a recent report on China's cultural trade deficit. While the ubiquitous 'made in China' brand points to future prosperity and global dominance, there are many in China who argue that China needs to embrace an under-represented 'created in China' vision. The article points out that while there are important lessons to be gained from neighbouring East-Asian countries, China's capacity to develop creative exportable content remains dependent on social liberalisation as much as industry development.

Introduction

Imagine this: The year is 2010. Microsoft CEO Bill Gates is convening a shareholder meeting of the Double Happiness Software Company from the Beijing World Trade Centre, built on the site of the 2008 Beijing Olympic Games. Meanwhile in Shanghai, the board of the Oriental News Corporation mounts a takeover bid for The New York Times. This M&A activity coincides with speech by the governor of California Tom Cruise, who argues for further tax concessions to attract Chinese blockbuster cinema to 'offshore' some of its production from Zhejiang's Hengdian studios to Hollywood.

Is this scenario possible? Will we be celebrating Chinese creativity at the Oscars, at Cannes, and at Sundance? Will the nationalistic fervour of 'a Chinese century' eventually challenge the

‘soft power’ of the U.S. —the indirect influence over hearts and minds that the American entertainment industry complex claims globally? As Jack Valenti, Chairman of the Hollywood-based Motion Picture Association claimed ‘Ideas go where armies cannot venture.’ Valenti wrote this in 2000, arguing to Congress that China’s accession to the World Trade Organisation would provide Chinese citizens deprived of democracy with new ideas about their relationship with their political masters (Valenti 2000). So rather than the high politics of international relations, the bearer of democracy is content.

What does this tell us? First, that the U.S. entertainment industry has played a dominant role in foreign policy over the past five or so decades. Hollywood’s success has meant that the world knows what pax-Americana stands for, warts and all. On the cold war front during the high times of socialism, the Chinese media churned out propaganda to remind its mainly peasant population of the good times they were enjoying, or would enjoy as the result of successive five year plans. Apart from its international propaganda service manned by Xinhua News Agency workers, China did not export its film and television. Even by the 1990s, Chinese films that enjoyed success internationally were those that indirectly critiqued the Communist Party, as adjudicated by critics and audiences living in the so-called ‘free world’. In 2005, the Ministry of Culture drew attention to China’s cultural trade deficit. Some of the figures are interesting. In 2003, China imported 12, 518 copyrighted books and exported just 81; it imported nearly 1.2 million audio and video products. While this was almost the same number as it exported, there was a massive revenue difference (*People’s Daily* 22 August, 2005).

Here is another image worth considering. In October 2005 *TIME ASIA* magazine featured the winner of the popular talent contest *Super Female Voice* (Hunan Satellite TV) as the cover of its annual Asian Heroes issue. The story headlined ‘Li Yuchun: Loved for Being Herself’ (Jakes 2005 *TIME ASIA*). Tens of thousands of fans of the Chinese super Idol show had responded overwhelmingly to a spiky-haired twenty-one year old music student from Sichuan province. Some suggested she resembled an animation character more than a standard Chinese pop star. Other international media were also quick to notice the power of ideas in a pop format. *The Economist* announced ‘Democracy Idol: A television show challenges the authorities’ (*The Economist* 8 September 2005). Many within China’s political elite were more sceptical of the quasi-democratic function, pointing out that if the model of democracy so celebrated by foreign media were to be extended to the political process, as some international reports audaciously

suggested, then China's elected leaders would be as lacking in political skills as Ms Li was deficient in her vocal range.

As the above example of television idolatry demonstrates new global business models have (to varying extents) displaced direct state subsidy in China. China's media and communication industries now stand at the threshold of profitability. For instance, the value of SMS activity generated by *Super Female Voice* was RMB 30 million, while the named product sponsor, *Mongolian Cow Yoghurt*, tripled its sales (*City News* 27 August 2005). The company is now ranked alongside Haier (whitegoods) and Lenovo (computers) as a Chinese national champion. In one elimination episode on 19th August 2005, 4.925 million votes were received from 875, 420 different voters (*Beijing Entertainment News* 27 August 2005). Despite this success, the show was hardly original or creative. It was a copy of an international formula, like many more of Hunan TV's shows. In 2002 the channel produced a version of Big Brother soporifically entitled *Perfect Holiday*. The producer of *Perfect Holiday* had the previous year concocted a look-alike version of *Survivor* filmed in Sichuan Province called *Into Shangri-La* (Keane 2004).

To put these developments into context, the Chinese media have borrowed, appropriated and cloned global business models. What does this imply for the creative value of China's media? In media and communications original content is important, as long as it can be protected in order to distribute across multiple platforms (first release, video, cable, publishing, merchandising etc). For instance, original animated video (OAV) refers to animation content that has not been screened on TV. In other words, this is the content that is not derived, formatted, recycled or re-versioned. However, producing original content in China is difficult due to a number of reasons. First, there is a very low risk mentality in media and communications industries, a consequence of strict censorship regimes. Many good projects have been torpedoed by officials, intent on guarding the morals of audiences. Compare this with South Korea, which liberalised its censorship regimes a few years ago, thus allowing filmmakers more creative latitude. The results have been a number of creative films with box office success, not just domestically but internationally (Yoon 2001). A second reason why good content fails to make it to Chinese screens is a lack of finance. This is evident in animation and short film, which are traditionally the domains where new ideas are tried out. According to Jerry Wang, CEO of Moli Media, a company that aggregates content and helps local producers to find markets, 'The only real way so far for creative people to make money has been to serve clients; for example clients like Intel or

Sony. In this model there is limited creativity. It's not possible to create original content; or if there is original content there is no means to sell it to the consumer.' (Interview with author July 21, 2005)

However, addressing this problem is important and the key growth areas are digital media. According to PriceWaterhouse Coopers, the value of the video games industry globally was \$US25.4 billion in 2004 and is anticipated to hit \$US54.6 billion in 2009. The Asia Pacific is expected to take \$23.1 billion of this share (PwC 2005). The average growth rate of the Chinese game market from 2003 to 2008 is projected as 44.9% (Ministry of Economic Affairs Digital Content Industry Office 2004).

Other key areas are digital TV and IPTV, both platforms offering an opportunity to exploit the digital content boom in animation and short films. Internet Protocol TV (IPTV), which allows Internet access through the TV monitor, offers a vision for China's leading video games developer, the Shanghai-based Shanda company. Aspiring to be China's Disney, Shanda has already bought up key assets in leading Internet company Sina Corp., mobile games developer Digital Red, literature website Qidian, and South Korean game developer Actoz. While up to 70% of online games played in China's Internet cafes are developed in Korea, Korean firms rarely invest directly within China in R&D or even manage content distribution; they find a Chinese or Taiwanese firm to do this. In the case of the first really big multiplayer role playing games, The Legend of Mir and The Legend of Mir II, Shanda merely acted as a licensor. Companies such as Taiwan's GAMANIA have developed popular games such as Lineage and Warring States, which tap into the common reservoirs of Chinese history. Recognising that more than 90% of online game players are male, Shanda launched Magical Land in July 2005, a fantasy cartoon-style MMORPG to appeal more to female and younger age group user segments, an important demographic segment for Shanda's home entertainment strategy.

Think local, act global

For China the slogan ‘think global act local’ can be rephrased as ‘think local, act global’. Another way to express this conundrum is: how does China move from a preoccupation with the national management of culture to the internationalisation of its cultural industries? How can Chinese cultural products compete with their East Asian counterparts in regional and international markets? What role does China play in the pan-Asian cultural marketplace? Is it a follower or a leader?

These questions have seldom exercised the attention of researchers of contemporary Chinese culture in the Western academic hemisphere. A concern with examining China’s control of its media and cultural industries obscures the reality that China is moving to be competitive in the evolving new media landscape. The imperative to internationalise and export culture has become important even as China exports its manufactured goods to all parts of the world. The question also raises issues about the role of artists and producers in China. During the past decade governments, business, and elements within global civil society have increasingly come to view artists and those working in cultural industries as service providers (Yúdice 2003). Privatisation of public resources has meant artists now provide their services more often for corporate sponsors and governments. In addition, in the commercial sphere creative workers are *content providers*—developers of intellectual property that can be sold at a fixed price or licensed according to agreements in multiple markets, and in multiple formats. Cultural goods and services are the subject of trade and cross-border markets. These market transactions are framed by intellectual property rights enshrined in global trade agreements (Drahos and Braithwaite 2002).

Less to the fore in cultural trade debates, however, is innovation, a term more often associated with science and technology. A global shift—from *culture* to *services* to *knowledge*—reflects the expansion of international markets for cultural goods and services. Culture and content have converged. In China the shift has been more incremental, from artists and cultural workers as political service providers towards producers/entrepreneurs within the socialist market economy. What does such a shift mean for national culture in China, and furthermore what might this mean for cultural diversity? Will the commercialisation of culture advantage or disadvantage Chinese national culture?

There are no easy answers to these questions. Nevertheless, in accepting that ‘culturalisation of the economy’ (Yúdice 2003) is a political reality China’s next stage of development may be one in which its cultural industries successfully target regional and

international markets. In order to achieve this, however, there is a need for Chinese cultural industries to break free of institutional and political shackles and to embrace the kind of ‘creative destruction’ that has typified the success of its near neighbour South Korea during the past several years (Yoon 2001).

A good example of how local content can reassert itself against the financial resources of international companies is China’s Diggi Awards. This began as an annual event supported by Intel and Macromedia and Pentium 4 Flash. In 2002 and 2003 it was known as the Intel creativity contest. The following year Jerry Wang, a young entrepreneur who had worked with Macromedia Tom.com after graduating from Tonji University in marine geology set up the *Diggi Awards*, in the process establishing relationships with the Ministry of Culture and several other ministries to promote a National Diggi Awards competition by 2005. In effect, from a commercial venture initiated by Intel in order to scout new talent and ideas within China, the Diggi Awards has turned into a government-supported digital creativity contest.

This enterprise shows that government can indeed play an enabling role in creative industries, even in China. The model is not dissimilar to the international pop Idol content. Moli Media, the company set up by Jerry Wang, establishes a network of relationships with people working in the creative industries. While the company could have followed the Chinese model of developing its own content using in-house developers, it chose to aggregate content using an agent model. In other words, it facilitates a community of content developers. Each winner of the contest signs a contract and contributes content such as animated films. Moli Media then redistributes this through Internet channels, broadband, and mobile channels to consumers. So in effect, Moli Media provides infrastructure and expertise to aggregate content, while establishing e-payment channels to assist individuals to recoup financial gain for their creative labour.

A further project resulting from the success of the National Diggi Awards is the preservation of intangible culture, which includes elements like opera and comic dialogue (*xiangsheng*). The Ministry of Culture (MoC) is providing the themes and cultural resources to be protected and Moli Media has signed contracts with more than 300 individual studios to digitize them. For instance, Beijing opera can be animated so that young people can identify with it (Interview with author July 21, 2005). From both these examples, the Ministry of Culture is acting with a view to the future, challenging many Western perceptions of it as a conservative inward-looking state ideological apparatus.

The paradox of Chinese productivity

In December 2001 China formally signed into the World Trade Organisation, the premier global trading club led by its former capitalist foes. Repercussions were widespread across many industry sectors, so much so that a central Finance Ministry official used the metaphor of a ‘wrecking ball’ to suggest a force that smashes old institutional practices and allows the marketplace to rebuild with greater capacity (Jin 2002).

China’s late entry in 2001 allowed it to take the next step to invigorate its stalling economic reforms. The WTO wrecking ball facilitated the kind of Schumpeterian ‘creative destruction’ that resonated with statist discourses of catch-up and advanced productive forces (Schumpeter 1961). For the U.S. and other potential ‘investors’ in the Chinese market, this was an event whose significance was compared to the fall of the Berlin Wall. As U.S. Trade Representative Charlene Barshefsky pointed out in 2000 during the lead up negotiations, former Cold War suspicions were being laid to rest in the cause of global cooperation as the U.S.—the leader of the free world—helps ‘communist central planning regimes’ integrate into rules-based world trade. In Barshefsky’s assessment China’s accession would aid world prosperity and stability (Barshefsky 2000: 5).

The new economy was the key theme of Shanghai APEC Summit in the same year that China joined the WTO. Leaders from countries as geographically disparate as Peru, the U.S. and China agreed that the new economy was about transformation. The APEC Summit of 2001 focused explicitly on how structural policy reforms could exploit networked technologies to generate greater productivity. It noted ‘Productivity rises because unproductive activities are more easily identified and harder to justify and perpetuate in the presence of greater awareness.’ Acknowledging the APEC leader’s endorsement of the knowledge-based economy in report the previous year, 2001 Summit document focused on the ‘right policy environment’ to yield the ‘higher productivity’ of the ‘new style of economy’ where policies ‘transcend the traditional boundaries’ (APEC 2001).

Whereas China’s modernization during the post-Mao Zedong reform period was built on harnessing productive forces and consolidating the industrial base, the developed free market

economies were proceeding through structural transformations that would in turn impact upon East Asia. Elsewhere I have described these changes in more detail (Keane 2006 forthcoming). The first transformation was the increased role of 'intellectual capital', illustrated by the rising contribution of services in GDP. As service-led growth impacts upon production, one kind of knowledge is combined with several other kinds to produce a good or service. For firms to increase, or deploy their intellectual capital effectively, it has become necessary to complement knowledge with that of other firms, often by way of some collaborative agreement. The globalisation of advertising industries is a case in point. For instance, branding and marketing 'adds value' to products; moreover, the value chain of advertising services may include the adaptation of campaigns for different markets. For the newer knowledge-based industries such as digital content (games, mobile content, network services, digital post-production services, and digital learning), the value chain is even more complex and cross-media collaboration opportunities more evident. This extends from content design, authoring, packaging, management, storage, publishing, marketing, and distribution (Forf'as 2002).

The second change in the global economy has been an increase in cooperative ventures and levels of integration among the main wealth-creating nations with alliances most pronounced in knowledge-intensive sectors such as IT, media and communications, and Internet services. Probably the most high profile case of communications M&A was the alliance between AOL and Time Warner in 2000. The third change over the past four decades concerns market liberalisation. Within the global economy market liberalisation has increased with protected economies trading sovereignty for free trade concessions. U.S. trade negotiators have played an important role in brokering such liberalisations, working through international forums such as the General Agreement on Trade and Tariffs (GATT), its successor the WTO, and international development agencies the World Bank and the International Monetary Fund. Such was the leading role of the U.S. in pursuing global market liberalisation that a list of ten policy recommendations became known as the Washington Consensus. Authored by U.S. economist John Williamson in 1989, this prescription for developing countries to reform their economies is regarded by many international policy makers as shorthand for the market-centred policies of privatisation and liberalisation (Naim 1999). The Washington Consensus aimed to break down state protection of industries. Open flows of trade and investment have in turn increased interdependence between nation and enhanced globalisation.

Fourth, and most importantly, new major economic players have emerged within the global economy. The rise of the New Industrialising Economies of East Asia has created a shift in the locus of development in high-technology and communications industries (see below). Three of these—Hong Kong, Singapore, and Korea—are among the wealthiest countries in the world. Several of the new players, moreover, are developing countries, although mostly in Asia and Latin America. Recently emerging countries have achieved growth through providing cheap labour for companies located in the First World. For example, Mexico's 'maquiladora' strategy of providing factories for processing U.S. industries now faces intense competition from China where costs are even cheaper, quality control is better, and physical infrastructure is improving. As Daniel Rosen points out, while Mexico was changing to accommodate global business chains, China was changing faster (Rosen 2003). The solution for Mexico is to leapfrog or at least climb into a higher value-added spectrum of production, not an easy task considering the low human resource base. As many writers have pointed out, knowledge-intensive asset-augmenting activities tend to remain heavily concentrated in advanced industrialized countries (Dunning 2000). The reshaping of the global economy, and associated foreign direct investment flows, is therefore heavily influenced by low-cost location production. This applies equally to textiles as it does to making cinema (Christopherson 2005; Elmer and Gasher 2005).

The East Asian flying geese

The East Asian region has witnessed its own catch-up phase since the 1970s. With the advanced economies moving inexorably towards a knowledge-based economy, the only real option for the new industrialising economies of East Asia was to follow. The flying geese model (FG model) describes how developing economies are drawn into competitive forms of production and industry regulation. Developed by Kaname Akamatsu in the 1930s (see Ozawa 2003) it entails a sequential process of tandem growth among closely interacting nations through leader-emulator relationships. In contrast to the kind of economic integration typified by free trade agreements, this *de facto* integration model has no official requirements for entry. In other words, follower economies can 'free-ride' on the growth stimulated by the first goose.

The emergence of East Asia is built on the flying geese model and exchanges of skill, the transfer of production capabilities, investment, and management. These intangibles, sometimes

classified under the label of new economy, have long been associated with global cities like New York, London, and Zurich, internationalising via Japan and Hong Kong to Taiwan, South Korea, and now China. The so-called ‘East Asian miracle’ was characterised by government protection of infant industries and a focus on differentiated manufacturing (World Bank 1993). New institutional practices developed in response to market liberalisations and trade agreements, which as I have indicated above, emanated from the Washington Consensus and from U.S trade representatives and policy brokers in developing countries. Technological advances— including convergence and digitisation—provided opportunities for growth in the region while the corrective effects of the 1997 Asian financial crisis led to more transparency and less interventionist markets. As Ozama *et al* note, the Asian financial crisis of 1997 signified that ‘governing the market’ could not remain as the recipe for future growth (Wade, 1990: Ozama et al 2001).

However, this openness does not imply the retreat of the nation-state from policy making, nor does it imply a level playing field for international investment. East Asia’s ‘catch-up’ was achieved through a state-directed brand of capitalism. Aside from protectionism, characteristics included shared growth (subsidies and job security for employees), extended credit from central banks, and large industrial conglomerates. Moreover, in order to understand existing modes of production and distribution within East Asia, we need to recognize that cultural borrowing, combined with a range of trade and industrial policies, encouraged high-tech and capital intensive industries in the region, allowing countries like Japan, Singapore, Taiwan, and South Korea to become competitive during the mid-1980s. In particular, Das has observed the ‘flying geese’ paradigm, arguing that Asia’s electronics industry development resulted from technology transfers, direct foreign investment, and the formation of subsidiaries by transnational corporations (Das, cited in Trappey and Chen 2001).

The confidence derived from competitiveness has asserted itself in hardware (fabrication of communication appliances) and software (cinema, television, animation, and multimedia production) in recent years. Ozawa *et al.* (2001) have described a stage-based process of industrial structural transformation that shaped the growth of service-led economies in the East Asian region. The first stage is labour-intensive industries, typified by textiles. Drawing on cheap labour and low cost location this model favours countries with large populations with relatively low education. The following stage is ‘non-differentiated’ scale-driven industries such as steel,

basic chemicals, and heavy machinery. ‘Differentiated’ assembly-based industries, in particular automobiles and electric/electronics goods are the third stage while the R&D-intensive industries of specialty chips and bio-technology constitute the advanced stages of productive transformation. The most recent stage of development can be identified as the ‘McLuhan’ stage (named after the media guru, Marshall McLuhan). This is led and driven-by the information technology revolution (Ozama et al 2001). The McLuhan industries produce abstract or conceptual goods, including services, which may not be fully captured in conventional national income accounting systems. But the important point to bear in mind is that artefacts such as PCs, mobile phone handsets and handheld computers are manufactured in the industrial models that predated the service-knowledge era. The new industries impact on all the ‘old generation’—or old economy industries—in the areas of management, production, procurement, distribution, and customer services.

The first Asian economy to proceed through the previous four stages was Japan, now the acknowledged leader in the McLuhan stage of development. The Asian tigers (Hong Kong, Singapore, Taiwan and most notably South Korea) have in many industrial sectors already caught up with Japan and are stepping up their efforts in R&D activities. The ASEAN-4 countries of Thailand, Malaysia, Indonesia and the Philippines still remain within the scale-driven manufacturing stage, although they have successfully entered the labour-intensive, standardized low-end segments of the assembly-based differentiated industries. China, however, thanks largely to the focus on the four modernizations and the need to absorb a huge labour pool remains a manufacturing country, although it is well advanced in assembly-based industries, especially automobiles and consumer electronics. China has taken advantage of its huge domestic markets that can attract foreign multinationals and technologies.

Understanding the bigger picture

Despite the internationalisation of the cultural economy, much research in the field of China studies still proceeds on the assumption of the nation state as a container, a unified spatio-temporality (Sassen 2001; see Curtin 2003). Conversely, China’s new leap forward needs to be framed from the perspective of catch-up (the flying geese model) as well as from its positioning within the global economy and its distinctive political institutions. While neighbours Taiwan,

South Korea, and Hong Kong SAR derive more than 70 percent of GDP from services, China is a manufacturing economy. As numerous authors have pointed out—some in alarmist rhetoric—the ‘made in China’ development model is impacting upon global employment as companies in developed countries look to outsource their production (Ross 2006; McGregor 2005; Fishman 2005; Shenkar 2005; Rosen 2003). However, China’s move from the slow lane of manufacturing onto the information superhighway is now evident in the streetscapes of Beijing, Shanghai and Guangzhou. Local technology brands like Bird and Lenovo compete with international players such as Nokia and Microsoft. More money was spent in 2004 on fibre-optic information highways than bitumen highways.

Global and regional integration is transforming China and changing practices. Nevertheless, there is a need to exercise a degree of caution when ascribing global models to explain or evaluate China’s progress. In some respects China is exceptional. It is different from its East Asian neighbours in many ways. Politically, it is still a one-party state, economically it is a manufacturing powerhouse, geographically, it has several distinct regions (the coastal area, the far west, etc) and thirty-one provinces, and socially, it is experiencing unprecedented unemployment and class fragmentation. All these factors are important in the China puzzle.

When China joined the WTO, there was a sense of expectation from many within the international business community that China would play by the rules and its emergence would create unprecedented opportunities for earning wealth with the Chinese middle classes, a social demographic varying between 48 million and 90—100 million (depending on comparative global incomes), yearning to consume (See Nolan 2004, 16). As Donald and Benewick point out, ‘In 1998 China was the 15th largest trading nation in the world. By 2003, it was the fourth and snapping at the heels of Japan’ (Donald and Benewick 2005, 14). However, as international business has painfully realized, Chinese political economy is much more complicated than that of most developing countries—notably those that acceded to Washington Consensus principles in exchange for foreign aid. The author of a recent influential report writes:

China is in the process of building the greatest asymmetric superpower the world has ever seen, a nation that relies less on traditional tools of power projection than any in history and leads instead by the electric power of its example and the bluff impact of its size.

(Ramo 2004, 3)

The Beijing Consensus was written by Joshua Cooper Ramo, the former Foreign Editor of *Time* magazine, and is founded on three theorems about how to organise the place of a developing country in the world. In Ramo's analysis these relate to innovation, sustainability and equality, and self-determination. The core argument of this short and overtly polemic document is that China's emergence is remaking the international order and challenging the neo-liberal prescription for global trade staked out by the Washington Consensus.

The first of the Beijing Consensus theorems is directly related to China's catch-up. In fact, the Washington Consensus' advocacy of deregulation in telecommunications and finance industries seems to fit with China's development, at least in the sense of promoting the 'advanced productive forces'. Ozama *et al* note that 'an application of information technology enhances transactional efficiency and productivity . . . *the more archaic, distorted, an inefficient an industry is, the greater the potential gains from the IT revolution, hence the faster the productivity growth* (Ozama *et al* 2001, 296, emphasis in original). As a significant 'latecomer' China changes the model. According to Hu Anguang, latecomer countries have the advantages of 'selectiveness, diversification, and creativeness' in terms of the design of their industrial model (Hu 2002). In recognising this latecomer advantage, the first Beijing Consensus theorem rejects the argument that developing countries need to adopt trailing-edge technologies. China now has more mobile handsets than wired phones and according to one leading business writer 'seeks to compress 200 years of post-Industrial Revolution into a couple of decades' (O'hame 2005, 37).

China's search for an innovation system is a reflection of global developments, notably in the domains of science and technology. Public policy even extended to 'innovative culture'— an apparent convergence of 'the advanced productive forces and advanced Chinese culture'. A Cultural Industry Development and Innovation Centre was established in 2002 Shanghai's Jiaotong University, followed by a similar cultural innovation centre within Beijing University (Keane 2004a). However, the innovation slogans visible on Chinese walls and billboards, and the designation of research centres, highlights a palpable weakness within the cultural sector. Compared with China's East Asian neighbours, Taiwan, South Korea, Japan, and Hong Kong SAR—countries that successfully export their creativity within Asia and even internationally— China 'cultural trade deficit' is a cause for alarm. According to the Deputy Director of the

Culture Market Department within the Chinese Ministry of Culture, ‘The market share of Chinese cultural products in the United States is close to zero’ (*People’s Daily* 22 August 2005).

The cultural trade deficit argument is even more compelling when we consider the vast resources committed to informatization (*xinxihua*)—a term widely used in China to describe the uptake of Information and Communication Technologies (ICTs). Growth of China’s IT industry has been maintained at two to three times GDP over the last decade, while e-government has been rolled out in a bid to provide new streamlined services for business. Fast-tracking China’s IT industry was a key element of China’s 10th Five Year Plan, with an emphasis on making digital television and broadband affordable and available.

The question that now exercises the minds of many in the cultural sector is not so much why China has a cultural trade deficit but how does it break through into higher value ‘creative’ productivity. By 2005 think-tanks and local governments were beginning to embrace a new kind of discourse. Su Tong, the director of the Beijing-based Creative China Industrial Alliance argued that the preoccupation with the term ‘material productivity’ had led to an assumption that productivity was directly equated with material production. Su argues that in talking about productivity China has been overly preoccupied with materials that are manufactured, and the measurement of these. According to such a perspective, material productivity is the pre-eminent criterion in policy-making (Su, interview with author July 20, 2005).

In short, the realisation is that culture can be a driver of innovation and a means to engage with a knowledge-based economy, rather than being just a superstructural reflection of the material base. In addition, there is recognition that an over-emphasis on the cheap labour advantage might condemn China to remaining a factory for world production and a developing nation, rather than catching up with its fast-moving Asian tiger neighbours. The new development strategy is also a catch-up strategy, based on creative industries growth in several countries. It looks to transform the concept of material productivity into ‘innovative productivity’ (Su 2005). According to this view the knowledge-based economy is the engine that China needs to transform material productivity into innovative productivity. The seeds for this transformation are expressed in two slogans articulated by the Creative China Industrial Alliance: *from a material productivity index to people’s creativity index* (Chinese translation) and *from made in China to created in China* (*cong zhizao dao chuangzao*). Su Tong argues that ‘The application of creativity (instead of material productivity) emphasizes a national creativity index that can help

more people to realize that a core of productivity is actually people's creativity.' Su adds:

In the past we held to a slogan in China: science and technology are primary productive forces. However, no one really thought about what science and technology entailed. For instance, we imagined that science and technology were new machines and new techniques. So we imported equipment and machines in the belief that once we had these new machines we would possess new technology. Now we hope to change this perception, and change the relation between arts and technology.

(Su Tong, Interview with author June, 20, 2005)

But aside from the rapid growth of its near neighbours, the evidence base for cultural development has yet to be established within China. Areas of economic activity such as services and culture have not been accounted for in existing national productivity evaluation systems. Indeed, national accounting for culture in China is fraught by problems of classification and measurement. A lack of rigorous statistical scrutiny of the intangible nature of cultural services is not, however, only applicable to China. It is a general observation of cultural development globally that the intangible benefits of creativity have been under-represented. For instance, how does one accurately measure the value of branding and marketing? This is even more problematic in China where media industry ratings are inclined to be a mixture of fact and fiction, generated to impress would-be advertisers. The slow transformation of China's cultural and media industries from public institutions (*shiye danwei*) into profit making industries (*wenhua chanye*) is reflected in the kinds of expertise available.

Conclusion: a great new leap forward?

The creative industries models that are now being considered in China are central to the development of Chinese culture in post-WTO era, and to reversing the 'cultural trade deficit'. A key ingredient is creative personnel, growing the skill base. The focus of the Shanghai Personnel Bureau's 2005 survey of professional development expertise was on nurturing and attracting high-level creative and management professionals over the next three to five years. At the top of

the list was 'arts and culture' professionals. According to Fritz Demopoulos, co-founder of travel meta-search engine Qunar.com, a veteran with 8 years experience in China, 'We certainly see a range of entrepreneurial business opportunities in media, wireless and the internet. To execute our plans and build creative teams, on one hand we tap into a well-established base of highly-skilled technical professionals; and on the other, a small, but emerging class of innovative & creative talents' (Interview with author July 22, 2005).

An important point to bear in mind is that China's rapid modernization is occurring within a global context of technical change and explosive globalisation. While this global environment provides opportunities for China to exploit its competitive advantages of low cost labour and a docile workforce to accumulate national savings, there are dangers of relying too much on these labour assets. In the end whether the scenario sketched out at the beginning of this paper comes to fruition will depend to a great extent on whether the government has the will to allow greater creative latitude to its communications and cultural industries. The issue of Chinese ownership of Disney may one day be more attention-grabbing than claims about Disney products' colonisation of Chinese youth.

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Bio:

Dr. Michael Keane is currently a Centre Fellow within the Australian Research Council Centre of Excellence in Creative Industries and Innovation (CCI) at Queensland University of Technology, Brisbane, Australia. His research interests include audio-visual industry policy and development in China, South Korea, and Taiwan; television formats in Asia; and creative industries internationalization and innovation in China.

*His most recent book (co-authored with Anthony Fung and Albert Moran) is *New Television, Globalization and the East Asian Cultural Imagination*. (Hong Kong University Press in press forthcoming 2006). This is a major study of the evolving landscape of television in China, Hong Kong SAR, South Korea, Japan and Taiwan.*

*Michael is currently working on three books: a single-authored manuscript *Created in China: the Great New Leap Forward* (RoutledgeCurzon), a jointly-authored manuscript with Albert Moran *Re-making Television: the New Global Culture* (John Libbey Press), and an edited anthology with Ying Zhu and Ruoyun Bai called *TV Drama in China: Unfolding Narratives of Tradition, Political Transformation and Cosmopolitan Identity* (HKU Press).*

*Previous edited books include *Media in China, Consumption, Content and Crisis*, (with Stephanie Hemelryk Donald and Yin Hong, RoutledgeCurzon 2002), *Television across Asia: Television Industries, Programme Formats and Globalization* (with Albert Moran, RoutledgeCurzon 2004) and *Innovation in Australian Arts, Media, and Design: New Challenges for the Tertiary Sector* (with Rod Wissler, Brad Haseman, and Sue-Ann Wallace, Post Press 2004).*