

Cultural Industry in China: Challenge and Response

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(Abstract)

China is in WTO after 15 years hard work. Under the influence of globalization China is facing with great opportunity and challenge. In spite of the difficult challenge, I think we will get our achievement if only we follow WTO regulations and innovate in notion, system, and technology. Challenges and Responses are:

One is Innovation on the way of thinking for almost all persons, especially for those entrepreneurs of cultural business. We should adjust the way of managing and marketing and capital market and note marketing and change the tactics of management. What is more important is to encourage scale economy to build China “aircraft carrier”. For example, main enterprise merges with small ones at the cost of nothing, so it gets no pressure of draw back the cost. The merge will lead to administration division between main enterprise and the small one. So after a few years, cultural enterprise becoming main body in market competition is the key stone for the cultural industry intensivism.

Two is system innovation, including government system innovation of reforming management system, changing government function and improving management quality, management innovation of reforming management mechanism and succeeding in competition financial, and investment mechanism innovation of reforming investment system of cultural industry and broadening financing ways.

Three is technological innovation. Firstly, the creation of new product is an important part improving cultural industry technology, which leads and support new product to be developed. Secondly, advanced technology can bring about renovation of broadcasting publishing, entertainment technology and equipment. To boost technology application will enhance our cultural industry competition at a new technology platform. Finally, increasing core technology to develop cultural product and service with high technology, market promise and strong competition is the key stone.

(a short description of the author)

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(A Whole Paper)

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China was the 143th member of WTO, World Trading Organization on December 11, 2001. This is a great response. No one will get into a whole collapse in its cultural industry after entering into WTO. In fact, Chinese cultural industry is developing with a rapid step within 2 years even if there were many questions.

Part □: Innovation on the Way of Thinking

In China, great changes have been taken place in the way of thinking and saying for many people. This also gave a large change in the developing cultural industry. However, for managers of cultural enterprises, the way of thinking in structure and its managing, marketing about the industry must be innovated once more.

1) adjust the way of managing and marketing and capital market

This includes 5 aspects in China:

Firstly, the press entered into non-cultural industry and commerce. Secondly, the press went gradually into financial and securities industry. Thirdly, many cultural enterprises formed a partnership in some special ways. Fourthly, some cultural enterprises bought stocks and became important stockholders. Fifthly, a few (maybe more and more) enterprises went directly into securities market and collect money.

2) note marketing and change the tactics of management

As known to all, the most innovative marketing notion in the world is with Hollywood the best example. We think what is the most important is to fulfill four requirements in order to explore our new marketing measures for cultural industry, which should follow market model and institution. Firstly, conduct market research. Take the example of Universal film company: they analyze 200-400 audiences at the beginning; then choose 10-12 from various layers and show them the film; they record the reactions to examine to what extent their production would be accepted and accordingly plan how to promote it later. The company will check up the marketing effect nation-wide to adapt their marketing measures and investment in 4 weeks before the movie is released. Secondly, make sure of market orientation, to acquire a unique status in consumers' mind. *Aiada* which was showed in the second Shanghai International Art Festival identify themselves as "a perfect combination between fine arts and entertainment" to attract both art fans and outdoorsmen

to opera. Thirdly, to enforce the notion “marketing is communicating ideas”. The organizer of *Aiadi* and *Misery World* in Shanghai International Art Festival conducted the promotion wide: press conference, interview of designer, director and act, rehearsal and lecture on opera. That really offer the audiences high expectation. Fourthly, innovative marketing tactics.

3) encourage scale economy to build China “aircraft carrier”.

In this respect, cultural industry in Beijing and Shanghai adapted structure, enlarged scales, increased strength, and prepared for industry group. For example, Beijing, which is near the political center, organized Beijing TV station, Beijing cable TV station, Beijing Broadcast Station, Gehua Cultural Development Group into Beijing media group; organized People Press, People literal Press, Business Press, Zhonghua Press, China Cyclopedic Press, China Books Import and Export group into China Press Group which includes over 5000 employees, asset about 5 billion RMB, revenue about 2.5 billion RMB; organized CCTV, China People Broadcast Station, China International Broadcast Station, China film Group into China media Group which include over 20000 employees, asset of 21.4 billion RMB, revenue of 11 billion RMB and is the biggest cultural industry group.

Shanghai has organized Oriental Pearl Inc., Shanghai Film Group, Shanghai Yongle Group, Shanghai Animation Group, Shanghai Press Group, Shanghai Jingwen Investment Company, Sony Disk Company Shanghai, Shanghai Century Press Group, Shanghai Wenhui-Xinmin Newspaper Group, Shanghai Xinhua Release Group etc. from 1992. In 2001, under leadership of government, Shanghai reorganized asset and found Shanghai Media Group including 16 performing organization and SFV, OTV, SCTV, Shanghai Oriental Pearl Inc., Shanghai Film Group, Shanghai Yongle Film Group, combining functions as broadcasting, movie and TV show, network and press.

It linked resources from cultural system and communication capability from media system to become an integrated media group.

Of course if we look from global competition, China cultural present three problems in the process of intensivism. Firstly, scale is too small. Guangzhou Ribao Group and similar groups in Beijing and Shanghai can be seen as little giant in china, but the biggest of them, China Broadcasting Group only has asset of 21.4 billion RMB. Meanwhile, Sony has the annual revenue of \$ 53.156 billion, Disney \$ 22.976 billion, Time Warner 14.582 billion regardless of its merge with AOL, which was worth \$ 3500 billion. In today's world nine giants rule the cultural market: Time Warner, Disney, Bertelsmann, Viacom, News Corps, Sony, TCL, Universal and HNK. With the lead of nine giants, top 50 media and entertainment companies occupied 95% of world cultural market. Nowadays, news communicated around world is monopolized by seven west nations, 70% of which was monopolized by international companies..

Secondly, relevancy is low. Because of system obstacles, industry rampart has not disappeared under plan economy model. Expect some big industry group such as Beijing Broadcasting Group, SMG, China Broadcasting and Film Group most industry group cannot conduct regroup crossing industry, let alone crossing area and country. West developed group characterized by crossing media and industry control 80% culture resources and market through merging with different media in different country. We are really in the stage of small production.

Finally, we lack of competition. Our industry group grows under “first impetus” from government lacking competition environment. Under present political institution, government is easy to control the enterprise but difficult to develop it. Enterprise supported by state resource and policy privilege without competition can not grow strong regardless of its scale. On the other hand,

no market experience will lead to many abuses in growing “big and strong”.

For example, main enterprise merges with small ones at the cost of nothing, so it gets no pressure of draw back the cost; the merge will lead to administration division between main enterprise and the small one. So from a long view, cultural enterprise becoming main body in market competition is the key stone for the cultural industry intensivism.

Part □: System Innovation

System is the regulations and rules which require everybody to observed. Great development for cultural industry is based on system innovation, which includes government system, industry system, investment and financing system and resource location system.

1.government system innovation: to reform management system, to change government function and improve management quality.

China entering WTO involves more government than enterprise. Of 23 treaties of WTO there are only two involving enterprise. The rest aims at government behavior. So facing WTO, we first need to reform existing cultural industry governing system, enforce government institution reforming, abolish overlapped institution and intersected department, and establish united management organization with responsibility for cultivate, manage, correspond and supervise cultural market including entertainment, performance, fine arts, audios & videos, publishing, advertisement. And condensed, effective, probity, authoritative administration system should be established according to the laws of administration and market economy.

On the other hand, government functions are expected to be changed, government-enterprise be separated and cultural department behavior be regulated. To deal with detail, firstly cultural authority is expected to be separated from cultural enterprise and transit its running cultural into administration to realize socialized cultural. Secondly, some administration authority and enforcement authority are expected to be drew back to change the situation that cultural enterprise get administration authority over cultural market as a play who also is a referee. In march 2001, bureau of culture & media Shanghai separated some art corps from administration authority in charge and consign them to culture & media market entity. For example, Shanghai opera corps, Shanghai light music corps, Shanghai drama center are consigned to SIV while Shanghai acrobatics corps, Shanghai acrobatics school, Shanghai Acrobatics Theater which united in the form of joint-stock company are also consigned to Shanghai Media Group. In April, Shanghai Media Group was established, which separated the administration authority from itself, with the asset of 15billion RMB, revenue in 2001 2.7billion RMB, profit 0.9billion RMB, being another “big one” second to Hunan Media Group. These measures characterized by separated enterprise from government gives impetus to Shanghai cultural industry.

Government is expected to be a “market –relative” one in post WTO era, which leads, connects, corresponds, supervises and directs the market. Foreign government leaders come to china followed by a big group of enterpriser delegacy and act as market man for enterprise. For example, USA government behave so in negotiation of intellect property and service trade. Such case can be seen in Bertelsmann occupying shanghai book distribution market too. Kin Dakong as South Korea president advertise in person for Korea tourism. In shanghai, many successful case, such as opera AIDA, Shanghai international art festival and Shanghai international Film Festival, also embodied

“positive government ”and”limited intervene ”.

2.management innovation : reform management mechanism and succeed in competition

Firstly, to explore new mechanism of distribution. Shanghai Yongle film company for the first time conducted “binding” mechanism in reward distribution that producer, director and most act got reward according to profit and major creator got reward only after the revenue met cost. The mechanism based on return impel the producer strictly check the cost, improve quality and enlarge market effect. The film which carry out the mechanism was spent only 4 million on but reach a box-office of 5million in Shanghai alone.

Secondly, to establish the mechanism of sharing risk. In 1999, OTV signed a agreement with Guangdong Juxing film Company on the trade of TV play *Ages of Wind and Cloud*. The agreement said that OTV would deduct the purchase by 3000 every volume if the audience rating was below 20% and increased the purchase by the same sum if above 20%. It was the first adventure agreement in domestic TV show market and represent the effective attempt of sharing risk mechanism between producer and Broadcaster.

Thirdly, to explore mechanism of competition. The president of China film Group stated that film companies would compete to get the release right of imported film in the future, which meant that monopoly would be broken in release phase of imported film. The reform was carried out once came out. In May 2002, China Film Company initiatively offered the release right of two American films to the winner of competition—— Beijing Xinynglian and Shanghai Jiahe. That has created an environment of competition and encouraged other companies.

3.Financing and investment mechanism innovation: reform investment system of cultural industry and broaden financing ways.

In USA, Hollywood could not have occupy the global media market without financing support from Wall Street city man. Our cultural enterprise also need large amount of money of back up facing foreign cultural industry giant. To extend financing and investing channel, a cultural enterprise can:

- (1) Establish joint-stock company. Cultural enterprise attempt the form of joint-stock company to raise capital.
- (2) Establish joint venture. Cultural industry contains broadcasting frequency time, television channel, press distribution channel, various information network and itself is huge resource.
- (3) Establish economic and cultural combo. In west, business enterprise involving cultural industry is proved an effect way to improve both economy and culture and promise a nice future. In drawing policy, we should support the uniting between business enterprise and cultural enterprise and support the social-running enterprise by offering tax privilege and convenience.
- (4) Practice club institution. For example, in September 2001, CITIC, the biggest investor in China, and China Film Company, the biggest film company, invested in Century Hero Film Investing Ltd.
- (5) Issue lottery. The state launches lottery and establishes arts and culture fund based on proportionately lottery revenue to support culture and arts.

4□Culture resource location mechanism innovation: conform and relocate reasonably various culture resource

Cultural industry resource involves four types:

Monetary resource is what drives industry investment and function;
Tech resource, including energy, raw material, technology and equipment;
Patent right, including copyright, patent right, label right and license right of culture image in broad sense, protected by laws.

Intellect resource, determining the culture level in certain cultural product and service.

The appreciate and globalized relocation of culture resource determines whether a cultural enterprise is vigorous, industry structure reasonable and competition strong.

Generally speaking, the usage rating is the lowest of isolated resource but the highest of various resources, which are organized with agility. Regardless to how strong is its competition, an enterprise should keep investing on its resource and conform other resource to its own. The consign of 16 art crops to media group in Shanghai make the arts crops and media company to share monetary, material, human resources. Liangzhu of Shanghai Ballet Crops performed in public in Shanghai Grand Theater, combining human resource with theater's ticket net. The Media in Shanghai also release new vision *Hong Lou Meng* with Yueju crops, *Aida* and *Wild Zebra* with opera crops, which led to great success.

There are many positive cases in China. Shengzheng is a special district without much cultural accumulation and natural tourism resources. But Shengzheng set up "Widows of World", "Splendid China", "China Folklore Village" and "Happy Valley" four topic park, collecting famous scenic spot, folklore and entertainment establishment of world and China. They attract a large number of tourist and lead to great social and economic benefit. In 1999, the revenue of these topic parks reached over 4 billion and keeping increasing. In 2002, classical musical *Misery World* was performed in Shanghai. The performance located classical literary work, musical experience from Broadway, tech equipment and market resource from China together to present a great artistic banquet. It represent international resource relocation of creative mind, artist, equipment and market.

Part □ Technological Innovation

Firstly, the creation of new product is an important part improving cultural industry technology, which leads and support new product to be developed. Secondly, advanced technology can bring about renovation of broadcasting, publishing, entertainment technology and equipment. To boost technology application will enhance our cultural industry competition at a new technology platform. Finally, increasing core technology to develop cultural product and service with high technology, market promise and strong competition is the key stone.

The investment in technology of culture industry is probably returned. The population of USA is only 5% of the world but its film occupies 87% of world market. Special effect is what make it, which characterizes *Titanic*, *Star War*, *Lion King*, *Future Water World*, *Jurassic etc.*

The situation is the same in China. American film *Pearl Harbor* that was projected in 765 cinemas in China had a box office of 100 million RMB and has reached the highest revenue of imported films for 3 years. The first 30 cinemas had a box office of 33.75 million; represent 34.12% of national box office revenue. The nine of them were modern multi-screens built in recent years, such as Shanghai Meilong-Huanyi cinema, Guangzhou Tianhe cinema, Beijing Xindongan cinema

etc; the 80s of them is invested in post the 90s', such as Shanghai Film City, Zhejiang Qingchun Film World; the rest of them such as Beijing Shoudu, Shanghai Daguangming etc. were reconstructed in recent years. They all have a new feature that follows the market trend and meets social need and invests a great deal in cinema equipments with high technology.

These cases give out a signal that who advance the technology innovation will be the big winner in market return.

Technology advance impel a series innovation in cultural industry. The combination of High-tech and cultural industry gives birth to new industry product. For example, digital library collect image, text, language, audio, video, software and science data with high value and processes, conserve and manage it to increase knowledge value; meanwhile it is also responsible for intellect property, usage right and data safe. The digital television and film also bring radical innovation in china broadcasting and film industry.

Now china not only have digital film but also begin researching on digital cinema line. The program of digital cinema line conducted by China Film Group is on its way to function. The Group organized a special group to finish <Feasibility Report for Digital Cinema Line> according to China Bureau of Media and China Media Group. The group has aimed at broadcasting The World Cup and choose 10 cinema which has a box office of 5 million every year, seats of about 300 and is equipped for digital film in 7 cities. It is reported that the prospective of digital cinema line is to build 100 digital cinema in China.

Multimedia in cultural industry is another spotlight. Multimedia interacts abilities of publishing, video & audio communication and computer and make people see and experience the world from a new angle. Multimedia characterized by true sound effect, fresh video frequency and agility mutual means has represented its cultural content based on high-tech. Multimedia set up a new industry in solid animation and special effect. "If mankind lives in a coordinate system made of science and culture the multimedia product is located on its intersection." American Congress Library has spent over 10million \$ on the system for multimedia video searches and play; Modern advertisement and film industry are also eager to multimedia technology. So the multimedia tech will develop cultural industry and enrich people's lives to great extent. Now net cultural industry is widely accepted and "e-business" has become a subject. Film fans felt convenience because of booking ticket on line in the 5th Shanghai International Film Festival. They need only sit at home and click the mouse to get the ticket they want.

Information wave is deeply changing cultural production and consumption in the 21st century. It enlarge the information in cultural product. Information product can stream freely out of original vehicle. The cost of communication is deducing and innovate the cultural industry forms. From "content industry" to the combination between "entertainment industry" and "media industry", then to the combination between information industry and cultural industry, the whole cultural sector is changing our life style deep and wide.

Firstly, new vehicles keep appearing with modern communication tech developing. It enlarges the coverage of cultural industry and make more and more people enjoy cultural product conveniently. Tech innovation extends the cultural market border. You need only click to gain what you used get from presses, magazines and books.

Secondly, digital tech and Internet fuse the industries and borders get blur between various industries. Traditional industry is being broken and new industry chain is gradually formed. In another word, the extension of cultural industry is being enlarged. In 1997 NAICS took place of

CIS and information industry is recognized. It involves publishing (including software publishing), film & recording industry, broadcasting industry, information service and data processing business. The industries with code of 51 are called content. The new word will promise a new industry combination wave. On October 1st, 2000, AOL and Time Warner declared to combine as a joint company. Cultural resources such as film, TV, audio, presses, magazines can not be further developed without net. Their communication and influence will be limited and fall into disuse. The conformity of cultural and information industry is a certainty in 21st century.

Our cultural industry will get great development space if cultural and information industry combine. Despite we have not our own Time Warner and AOL, but we are expected to get a long view toward future as we did to develop our own A-bomb. In the era of globalization, we get no speak right if we don't build our own cultural industry giant by our advanced thought and means.

China is in WTO after 15 years hard work. Under the influence of globalization China is facing with great opportunity and challenge. In spite of the difficult challenge, I think we will get our achievement if only we follow WTO regulations and innovate in notion, system, and technology.