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In search of the market in China

The regional dimension of Hong Kong's creative industries

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ABSTRACT This article examines the economic performance of Hong Kong's creative industries. It describes the intermittent growth and economic slowdown of the industries, and, on the other hand, reveals the strategies of the industry sector in penetrating the regional markets of China. By consolidating its financial support to the development of cultural industries in China and/or by extending economic collaboration with the fast-growing economic regions of the mainland, Hong Kong's creative industries demonstrate great flexibility in adapting themselves to the fast-changing scene of the cultural economies in China. Although market barriers remain strong in the mainland market, there is a growing and ever-lasting economic division of labour, as shown in animation and film industries, between Hong Kong and major Chinese cities, which sheds light on the future of Hong Kong's creative sector in the Chinese market.

KEYWORDS animation industry · cultural/creative industries · cultural economy of China and Hong Kong · film industry

Introduction

A body of policy studies on cultural creative industries in Asia generally subscribes to a view that the fast-growing industry is the engine of economic growth.[1] Although the scope and boundary of cultural creative industries

are blurred and vary in local contexts, they characterize an economic sector by engaging in the production of semiotic values and by exploiting intellectual property rights and cultural resources for wealth creation and employment. This body of policy research genuinely subscribes to the 'growth formula' of the creative industries. This optimistic view of economic growth has been conveyed in a number of studies in Europe and North America. As generally reported, this is an urban phenomenon. The creative industries are driven by ever-growing demand for cultural products and services in urban communities endowed with high disposable income (Scott, 2004). Besides, the potential for promoting export trade is tremendous, and it can become the driving force for a country to maintain a competitive edge in the global division of cultural trade and cultural production. Yet, most of these claims are uncritically accepted. In particular, when they are endorsed by Asian countries that are captivated by the notion of creative industries, there is little discussion on the local or regional configuration of creative industries, and the institutional factors and competitive environments that shape the trajectory of cultural creative industries.

This article, taking Hong Kong's creative industries as an example, reveals the local reception of the notion of creative industries and examines the extent of Hong Kong's creative industries in transforming the local economy. It pinpoints the fact that, despite the call to promote cultural creative industries, they remain a marginal economic sector that plays a less impressive role in revitalising the local economy than one might have expected from the upbeat policy research. This article argues that instead of devising an omnibus framework for promoting the creative industries as a whole, policy planning for cultural creative industries has to be industry specific, giving support to individual industry segments and addressing the issues arising from integration with both the sub-regional and national economy in China.

Growth path and economic transformation

Hong Kong's economic structure has undergone significant transformation from a manufacturing-based economy into one predominantly dependent on service sectors during the past two decades. In terms of contribution to gross domestic product (GDP), Hong Kong's manufacturing industry has declined substantially since the 1980s. As shown in Table 1, its share of GDP dropped from 23.6 percent in 1980 to 4.5 percent in 2002. In the same period, service industries rose rapidly, from 67.3 percent in 1980 to 87.5 percent in 2002.

Economic transformation has been largely driven by the relocation of Hong Kong's manufacturing industry. Since China adopted the open-door policy in 1979, Hong Kong manufacturers have moved labour-intensive

Table 1 Percentage share of services and manufacturing sectors in GDP in selected years

	1980	*1985*	*1990*	*1995*	*2000*	*2001*	*2002*
Manufacturing, value added (% of GDP)	23.6	22.0	17.5	8.3	5.8	5.2	4.5
Manufacturing, value added (current LCU)	3181.6	5622.9	9846.0	8611.4	7165.6	6351.9	5484.8
Services, etc., value added (% of GDP)	67.3	69.5	74.4	83.7	85.7	86.5	87.5
Services, etc., value added (constant LCU)	–	–	–	–	105,320.0	106,778.9	109,861.6

Note: LCU: Local currency unit in billion Hong Kong dollars.
Source: World Development Indicators Database.

operations across the border to take advantage of abundant land and labour supply. In particular, the Pearl River Delta of Guangdong has become the most important sub-region where manufacturers choose to set up their operations. During the period 1979–2001, cumulative foreign direct investment (FDI) from Hong Kong into Guangdong Province amounted to US$ 79 billion, accounting for 71 percent of total FDI inflows in Guangdong (FHKI, 2003). The relocation of manufacturing out of Hong Kong, however, ushered in great demand for support services – including trade finance, banking, insurance, communication services, transportation and logistic support – so that manufacturers headquartered in Hong Kong could operate their business and command their industrial operations in Guangdong Province. Through that economic restructuring, Hong Kong has evolved into a service centre. A substantial share of Hong Kong's service economy can properly be considered manufacturing-related 'producer services', which mean that a lot of embodied services are purchased by producers for use in the production process. According to Wong and Tao, the producer service sector comprises imports/exports, wholesale and retail trade, transport, storage and communications, restaurants and hotels, community and personal services, finance, insurance, business services and real estate (Wong and Tao, 2000). According to a recent study, percentage share of producer services in Hong Kong's GDP accounted for 42.7 percent in 1980, but it rose to 50 percent in 1997 (Wong and Tao, 2002).

Whatever the underlying causes of Hong Kong's economic transformation, public opinions towards the declining manufacturing sector and predominant service economy are mixed. On the one hand, given the close relationship between Hong Kong and Guangdong (the Pearl River Delta, in particular), optimists believe that Hong Kong can maintain its competitiveness by serving the hinterland as a hub, remain a service centre, and capitalise on the manufacturing base of Guangdong Province to compete in the world merchandise market (Sung, 2004). On the other hand, there is mounting concern about the volatile nature of a service-dominated economy where jobs created in the service sector are more volatile, and as the economy turns weak, unemployment escalates. This opinion is generally shared among industrialists and business leaders in Hong Kong, who believe that a balanced mix of service and manufacturing sectors could pave the way for the sustainable growth of the local economy. Against this background, the notion of 'neo-industrialisation' – emphasising the production of high-value goods with design content, high-technology and service-enhanced industries – has received widespread discussion within the community (Berger and Lester, 1997; HKPRI, 2003).

Economic performance of the cultural creative industries in Hong Kong

The Asian financial crisis in 1997, and its accompanying economic downturn, gave serious hits to the local economy of Hong Kong. It was during the low ebb of recession that the concern about sustainable growth and prospects of local economic development became a pressing public issue. The high hope of creative industries as the driver of economic revitalisation and re-engineering was attractive to policymakers. There is no doubt that policymakers in Hong Kong are in favour of the creative industries and that public resources have been pooled together to promote the industry sector.[2] However, a broad view of the economic performance of Hong Kong's creative industries during the period 1996–2003 gives the impression that the industry contributes little in transforming the economic components of the local economy and it promises even less in sustaining economic growth and creating jobs.

In 1996, Hong Kong's creative industries shared 4.1 percent of local GDP. During the economic downturn that began in 1997, the sector plunged to its lowest ebb, contributing only 39 billion HK dollars, or about 3.4 percent of local GDP. Although the creative sector has recovered and gained a modest increase in the share of GDP from 3.8 percent in 2000 to 4.1 percent in 2003, its economic contribution to the local economy is limited; it could only maintain the same scale and magnitude in local GDP as in 1996. In short, during the period 1996 and 2003, the industry shared about 3.8 percent to 4.1 percent of local GDP. There is actually no substantial change in the economic size of creative industries, if our measurement is in terms of percentage share of local GDP. In terms of average annual growth, value added by the cultural creative industries in this period accounted for a growth of only 0.1 percent.

Nor is the growth of individual segments impressive. Only three segments – information technology and related services, internet and telecommunication services, and television, radio and theatrical production – enjoyed an average annual growth (8.8 percent, 1.1 percent and 10.4 percent respectively) during the period 1996–2003. Most other industries included in the statistical framework of creative industries – including jewellery production, advertising, design services, architectural design services, the film industry, photography and publishing industries – suffered differing degrees of negative growth.

The promise of job creation driven by the development of cultural creative industries is, however, not yet realised. In 2004, there were 163,300 workers employed in the segments related to creative industries (Table 2). However, average annual growth of the whole sector in the period 1996 and 2004 is negligible, at 0.5 percent. After excluding two segments – 'software and internet services' and 'electronic games centres and miscellaneous

Table 2 Employment figures for personnel engaged in Hong Kong's cultural creative industries (CCIs), 1995–2004

	1995	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*
Persons engaged in 11 segments of CCIs	156,715	157,168	160,893	149,858	147,841	154,354	168,453	171,310	159,927	163,367
Persons engaged in 9 segments (without IT and miscellaneous)	147,029	146,973	150,526	136,718	133,818	136,491	135,244	132,560	123,810	126,074

Source: Census and Statistics Department, Hong Kong Special Administrative Region.

industries' – from our calculation owing to changing methodology in compiling statistical data, the average annual growth of employment in the creative industries was actually negative, at –1.9 percent!

What would explain the unrealised promises of economic growth or economic transformation that might have been attributed to the rise of cultural creative industries? One explanation is the tools of measurement. Researchers who are familiar with the national accounting of the creative industries would point out that there is no comprehensive measure of the creative industries. The industry sector cuts across many boundaries of industry segments and there are multiple overlapping areas that make precise statistical measures difficult to obtain. Design services, for instance, are usually employed by manufacturers as key inputs in the production process for making toys, electronic products, watches and spectacles, but these services are cost items rather than end products that generate business receipts. As intermediary services required in the manufacturing process, these services cannot be properly evaluated and their value cannot be disaggregated from the earnings of the manufacturing sector. This is one of the many examples that show the limitation of national statistics in mapping the economic strength of cultural creative industries.

There is another reason for underestimating the role played by the cultural creative industries in transforming the local economic structure. There are indeed many dynamic changes in Hong Kong's creative industries, but these changes are not yet quantified, or they are difficult to evaluate. They include cross-border investment of cultural creative industries in China, transformations in business processes and models, movement of creative workforces from Hong Kong to China, as well as the dynamic relationships between the local creative economy and the mainland market. All these ongoing developments will lay the foundation for the growth of Hong Kong's cultural creative industries in the near future, but their immediate impacts on the local economy are not obvious. Recent developments of Hong Kong's animation and comic industries and the film industry illustrate the dynamics. Their attempts to penetrate the mainland market offer illuminating experiences in search of the ways and paths towards realising an integrated regional and national creative economy in China.

Developing the market in China: Hong Kong's animation and film industries

In Hong Kong, animation is a key industry within the policy framework of digital entertainment industries, as defined by the Hong Kong government. The industry group includes computer animation, games (online, mobile and PC games), educational entertainment software and companies engaging in the production of digital image and visual effects (CITB, 2003).

Although early commercial productions started in the 1980s, it is an infant industry. In the mid-1990s, a few local productions were released, offering a variety of popular products from animated films, cartoon TV series, to cartoon series in VCD and DVD formats. But in general, locally made animated films were still at the stage of infancy, with few productions and fewer successes in both local and overseas markets. For example, the box office takings of the animated film *A Chinese Ghost Story* recorded 8 million HK dollars in 1997. Subsequently, in 2001, *Master Q 2001* and *McDull Story* recorded 20 million and 15 million HK dollars respectively in the local box office. These productions can be regarded as the representative works of the past 10 years.[3] Although local animated films have been continually produced and released, including *Master Q Movie: Naughty Detective* in 2003, *McDull: Prince Butter-bun* in 2004, and a 3D animation film *Dragon Blade* in 2005, *Master Q* (2003) and *McDull* (2004) only recorded 1.24 and 4.69 million HK dollars in the local box office respectively. Their economic returns were far from satisfactory.

The local market in Hong Kong is limited in size and its commercial prospects are highly uncertain. Animation firms therefore have developed new strategies to explore the potential of the mainland market. Some have relocated their production bases to China, engaging in outsourcing productions for overseas and mainland markets. In the 1990s, animation enterprises that set up production bases mostly agglomerated in Shenzhen, a neighbouring economic zone rapidly developed during the 1980s. Recently, however, owing to the rapid development of the coastal cities in China and the favourable policies for animation industry at the provincial and city level, individual companies have extended their connection to Guangzhou, Shanghai, Hangzhou, Nanjing and other places.

Asia Animation Ltd, Colorland, AGOGO Corporation and Universal Digital Creative Holding Co. Ltd are the market players who have set up production bases in China and have actively explored the mainland market. But their strategies are completely different. Asia Animation positively promotes local creation, focusing on television animation in compact discs. It has purchased copyrights from others or produced its own proprietary works by nurturing local cartoonists and creative forces. The copyrights of animation series such as *Master Q* and *Five Sons One Zen* are bought from Taiwan's original creators and reproduced in large quantities of compact discs in China, while *Ka Yin Mam*, *5th Generation of Dragon & Tiger* and *Storm Ride* were locally made. The company distributed the works through local publishers and outlets in China. Colorland, a Hong Kong company listed in Singapore, has undertaken outsourcing business from the US and European markets, but recently has developed its own DVD products to offer for sale in the USA. *In Search of Santa* was one of its representative works. As for the AGOGO Corporation, it adopted a similar strategy to Colorland, undertaking US and European outsourcing orders. However, it also develops its own products or

engages in co-production. *Jack & Marcel* and *Tomato Twins*, for instance, are comparatively popular productions of the AGOGO in overseas markets. Although they seldom release their works in Hong Kong and Chinese markets, these two companies take advantage of the cheap labour costs on the mainland and produce their products for overseas retail markets or European broadcasters. As for Universal Digital, it is a listed company in Hong Kong. Its original business is as an equipment supplier, providing systems to operators of digital cinemas and engaging in some activities in computer imaging and creative productions. In addition, it also offers animation training courses in Shenzhen and Shanghai. The company released its first 3D movie on the market in 2004, *Thru the Moebius Strip*, targeting the US market.

The operations of the above companies tell us about the changing business models of Hong Kong's cultural creative industries. Publishing an animation work in China is difficult – no matter if it is in the form of film exhibited in cinemas, or a cartoon series on television. There are many restrictions on producing animations for the home market in China. In particular, foreign companies – including Hong Kong's production houses – are barred from the market unless they form partnerships with local companies in China. Censorship is another concern. It is designed to screen out 'unhealthy' contents, but its operations lack transparency and discourage overseas investors from making serious commitments in the emerging market. For all these reasons, Hong Kong's animation companies play safe and operate their business on a limited scale. On the one hand, they avoid making serious investments in the mainland market, taking advantage of its cheap labour for producing works and animation products for overseas markets. Animation made in China – but not for the Chinese market – will not be subject to the stringent controls imposed by the censorship system. Operating their businesses in a different way, Hong Kong's animation companies will sell their rights to local publishers or distributors for one-off royalty fees or share profits on a pro-rata basis. This arrangement minimises the risk and uncertainty owing to the practices of local censorship and administrative embezzlement.

Hong Kong's film industry tells a different story. In comparison to the infant animation industry, Hong Kong's film-makers enjoy established standing in regional and international film markets, and they have rich experience in developing collaborations with production houses and distribution companies in China. Yet, Hong Kong's film market remains at a low ebb. The quantity of local production showed a drop from 131 films in 2000 to 116 films in 2001. In 2002 and 2003, the industry witnessed a drastic drop to 51 and 41 films respectively. Because of poor performance in the local box office, film investors have withdrawn from investment, and this is likely to lead to further decline in local production (Table 3).

The decline of the local film market, moreover, reveals the Hong Kong film industry's growing dependence on the mainland market. Since the

Table 3 Overview of Hong Kong's film industry, 1996–2003

	1996	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
Business income	5118	4972	4483	4433	5732	5173	5056	–
Increased value	1458	1320	1109	963	1648	1111	1367	1410*
Box office income	1222	1156	1088	916	964	1034	908	899
HK product export	46.9	69.3	234.1	541.5	889.7	782.4	582	437
Transit	183.4	146.3	146.3	320.7	360.1	658.7	448	614
Import	593.4	627.3	353	409	3 46.6	551	577	831

Note: Million Hong Kong dollars; * estimated numerical value.
Source: Census and Statistic Department; HK Film Oscar Award Association data.

deregulation of the mainland film market in the 1990s, Hong Kong's filmmakers have penetrated the market in China by conducting co-productions with film studios in China. Some investors have also built cinemas in the coastal cities in Beijing, Shanghai and Shenzhen. According to industry sources, Hong Kong's film companies recoup more than one-third of their investment from the Chinese market. (The substantial interests are shown in the box office of co-productions in China, Appendix A.)

Despite their growing interest in the mainland market, Hong Kong's filmmakers still complain of the rigid censorship system that excessively restricts the creativity of film production. There are only a few film genres that have a relatively high chance of being exhibited in China. Stories related to politically sensitive issues, religion, superstition, crime and violence will be subject to tough standards of control. Apart from censorship, a more challenging issue is rampant piracy, which effectively destroys one of the revenue streams of the industry. There is little hope of recouping film investment from the video market in China. New releases in cinema will be massively reproduced in pirated discs and immediately sold on the video market. Therefore, Hong Kong's film companies find it difficult to participate in video businesses – although they are relatively successful in penetrating the production and exhibition markets in China.

The above cases of Hong Kong's animation and film industries show that there is a rough and uneven path in terms of accessing the mainland market. The market is fenced and underdeveloped although its potential – both in terms of consumption and production power – is unrealized. Barriers exist in every aspect of the animation and film industries. In the foreseeable future, a number of factors – including stringent controls on foreign ownership, censorship of content, confusing licensing and regulatory policies, and weak protection of intellectual property rights – will impact on the development of Hong Kong's animation and film industries as they attempt to build their production and distribution networks in the Chinese market. However, on the more positive side, seeds of change have been planted and Hong Kong's cultural creative industries have shown great flexibility in adapting themselves to the market environment of China.

Appendix A

Box office of selected national films and imported films in 2003

Ranking	*Title of film*	*Box office 100 million RMB*	*Remarks*	*Import foreign film*	*Box office 100 million RMB*
1	Cell	5300		Harry Potter II	5200
2	Warriors of Heaven and Earth	3800	*	The Matrix Reloaded II	4200
3	Internal Affairs III	3650	*	The Matrix Revolution III	4166
4	Cat & Mouse	2200	*	Finding Nemo	3300
5	Zhou Yu de Huoche	1900	*	Terminator 3, Rise of The Machines	2817
6	Nuan Chun	1400		The Medallion	2500
7	Heroic Duo	1150	*	The Curse of The Black Pearl, Pirates of Caribbean	2250
8	Deng Xiao Ping	1100		The Lord of the Rings	2100
9	Love for all Seasons	1000	*	The Recruit	1700
10	Sound of Colors	950	*	Charlie's Angels: Full Throttle	1300
11	Jing Tao Hai Lang	900			
12	Jade Goddess of Mercy	900	*		
13	Love Undercover II	850	*		
14	Running on Karma	800	*		
15	The Death Curse	680	*		
16	Cala, My Dog!	650			
17	Green Tea	650			
18	My Dream Girls	650	*		
19	Zou Jin Mao Zedong	500			
20	Good Times, Bad Times	450	*		

Note: * co-productions.
Source: Statistics from the State Administration of Radio, Film and Television, 2003; Jinghua Shibao, 20th December 2003.

Notes

1 A number of countries in Asia have produced policy documents on cultural creative industries. For Singapore, see ERC Service Industries Subcommittee Workgroup on Creative Industries, Creative Industry Development Strategy, Singapore, 2002; Toh Mun Heng, Adrian Choo and Terence Ho, 'Economic Contributions of Singapore's Creative Industries', Economic Survey of Singapore, first quarter, 2003; New Zealand Institute of Economic Research, Creative Industries in New Zealand: Economic Contribution, March, 2002; Jingji Bu Wenhua Chuangyi Chanye Tuidong Xiaozu, Annual Report of Taiwan's Cultural Creative Industries, Taipei: jingji bu wenchuang bangongshi, 2004–2005. For China and Hong Kong, see Zhongguo wenhua chanye fazhan baogao, Beijing: shehui kexue wenxian chubanshe, 2001–2005; Central Policy Unit, Baseline Study on Hong Kong's Creative Industries, Hong Kong: Special Administrative Region Government, 2003.

2 For instance, advocacy of the creative industries has been repeatedly emphasised in the respective year of the Chief Executive's Policy Address since 2001; Hong Kong (China), Chief Executive, Policy Address, Hong Kong: Printing Department, 2002–2005. The public sector also endorses the idea of cultural creative industries; see Hong Kong Arts Development Council, Introduction to Creative Industries: The Case of United Kingdom and Implementation Strategies in Hong Kong, May, 2000; Hong Kong General Chamber of Commerce (HKGCC), to be the Services Metropolis of the Pearl River Delta: A Blueprint for Hong Kong, November, 2002.

3 In addition, Dayaowang, manufactured by Next Media Ltd, failed to garner satisfactory results; Jade Animation Production, a subsidiary company of TVB, was also a market participant with the early production of Idiom Animation Gallery in the 1990s and Magical Eagle & Chivalrous Partner in 2002. These works were considered to be relatively successful animation series.

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