"The Transformation of China's Economy." *How Creativity is Changing China*. Wuwei, Li. London: Bloomsbury Academic, 2011. 25–46. *Bloomsbury Collections*. Web. 26 Apr. 2023. <<http://dx.doi.org/10.5040/9781849666565.ch-002>>.

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The Transformation of China's Economy

The Issue

The past thirty years of reform and opening up have produced tremendous changes in China. China's economy has grown so fast and maintained growth for so long that this is generally considered an economic 'miracle.' But behind such rapid growth, problems have arisen that are not conducive to sustainable social development. China's growth is achieved at the expense of the environment and natural resources. A priority issue is how to transform this growth model into a creative economy model. Whereas the growth model is driven by investment and at the expense of resources, the creative economy model is driven by consumption. In the latter model, creativity and innovation are the investments.

The international financial crisis which started in 2008 sank the global economy into recession. China's economy slowed as many export-oriented and investment-driven industries were affected. Export trade in the first three months of 2009 was down 24 per cent from the previous year confirming a downward trend in the economy. International cities such as Beijing and Shanghai faced problems of weakened industries, increased business costs and a worsening urban ecology. At the same time, it became apparent that the industrial heritage of receding manufacturing industries was providing development space for economic transformation.

In this chapter I address the following questions: First, how might traditional industries increase value added and maintain competitiveness? Second, how should resource-reliant manufacturing industries adjust their industrial structures? Third, how might creative industries invest in related industries in order to leverage coordinated economic development?

I have discussed such issues in my earlier book *Study on the Transformation of Economic Growth Models*.¹ I was one of the first economists to propose a link

¹Wuwei Li and Huiming Wang, *Study on the Transformation of Economic Growth Models* (Shanghai: Hok-lam Press, 2006).

between creative industries and the transformation of economic development models. As early as 2005, I initiated the idea that creative industries are an industrial form that adapts to the knowledge economy. I argued that cultural creativity and technological innovation are the two driving engines for increasing industry value added and competitiveness. In terms of industrial structure, creative industries are characterized by the application of high technology; creativity permeates industrial production processes ranging from primary to service industries. At the heart of creative industries is innovation, which is why many developed countries, after achieving industrialization, have recognized innovation to be an important strategic initiative to stimulate economic transformation and competitiveness.

China is at a critical point in its development. The global economic crisis, caused by the financial crisis, has quickened the pace at which China is upgrading and adapting its industrial structure. China's central cities, now in a post-industrial era, are facing substantive challenges, including the depletion of natural resources, increasing pressure on the environment, the decline of manufacturing industries and the impact of these things on quality of life. To maintain a sustainable economy, China needs to bring about a fundamental transformation of its economic model. In other words, China needs to change the current investment-driven, economic growth model characterized by high consumption of resources, high pollution, excessive production capacity and low value added. China should actively seek a new economic form, in which the industrial structure will be rational, the economy can develop in an orderly way and socially sustainable development can be achieved. The creative economy is just such an economic form.

Creative Industries in the Economic Crisis

During 2008 and 2009 when the Chinese economy was affected by the global economic recession, the creative industries experienced breakthrough growth. In 2008, China's online games sector achieved sales income of RMB 18.38 billion, up 76.6 per cent from the previous year, as well as export growth of over 20 per cent. The animation industry achieved a growth of over 46 per cent. The total revenue from radio, film and television (including financial assistance

income) in 2008 was up by 20.49 per cent from the previous year.² Box office takings increased by 35 per cent; in January and February 2009 the box office was 110 per cent up from the same period in 2008. In 2009, stimulated by a series of central government policies to 'maintain capital growth, expand domestic demand and readjust structure', GDP growth reached 8.7 per cent. The creative industries moreover achieved an overall growth of 17 per cent, making an important contribution to the Chinese economy.³

In recent years, the growth of creative industries in many regions of China has been higher than the conventional economic growth indicators. In 2007, general GDP growth in Beijing, Shanghai and Shenzhen was 12.3 per cent, 13.3 per cent and 15 per cent respectively while that of creative industries in those cities was 19.4 per cent, 22.8 per cent and 25.9 per cent. In the second-tier cities it has been a similar story. In 2008, for instance, value added by creative industries in Hangzhou and Qingdao reached RMB 57.986 billion and RMB 31.9 billion respectively, up by 17.6 per cent and 22.6 per cent. Creative industries in China's middle and western areas have performed well. The value added of creative industries in 2008 in Chongqing, for instance, reached RMB 24 billion while Changsha had RMB 27 billion, an annual growth of 30 per cent and 17 per cent respectively.⁴

International experience shows that creative industries have played a key role in times of economic crisis and in turn have stimulated the development of new industries. Hollywood and Disney rose out of the Great Depression of the 1930s; Japan's animation success emerged from the oil crisis of the 1970s; IT and content industries sprang up during the 1997 Asian financial crisis and reversed the economic downslide. Japan and South Korea had similar experiences. During the Asian financial crisis, South Korea suffered economic depression and a sharp increase in unemployment. People who lost their jobs killed time and released frustration by spending many hours playing internet games. The government seized this opportunity to encourage the development of animation and gaming, thus generating momentum in these sectors. Taking advantage of this impetus

² According to the 2009 Blue Book of Radio and Television (*Development Report of China's Radio and Television 2009*), (Beijing: Xinhua Press, 2009).

³ 2009–2010 China Cultural Creative Industries Development Research Report. CCID Consulting, China <http://www.docin.com/p-67596359.html> [accessed 8 March 2011].

⁴ Jingcheng Zhang, *Chinese Creative Industries Report (2009)*, (Beijing: China Economic Publishing House, 2009).

and fully supported by government, South Korea's film and television industries, together with the music industry, took off. A 'Korean wave' ensued across Asia, assisting tourism and the export of South Korean products. It was the development of creative industries that helped the country's recovery from the financial crisis. Again, during the 2008 world financial crisis, Japanese *manga* saw a big growth in trade while at the same time undertaking the social role of assuring public confidence.⁵ These cases show that it is the outpouring and accumulation of creative power that have helped nations in times of economic crisis.

An interesting phenomenon in economics is referred to as the 'lipstick effect'. In the US it has been observed that whenever the economy is not in good shape, sales of lipsticks rise. Why is this? When the economy is not good income and consumption habits are affected. Anxiety about the future is expressed in degrees of psychological stress that need to be relieved. The demand-oriented creative industries have seen this as an opportunity and have taken to providing a 'happy world' in which the public can release stress and frustration. In times of economic crisis, people tend to buy less expensive luxuries. Hence lipstick, as something 'cheap and non-essential', becomes female consumers' preferred choice. The same can be said about consumption of cultural products. When there is more leisure time but an inverse proportion of income, people tend to seek psychological comfort through consuming cheap goods. They like to go to movies, play games and watch animated cartoons to obtain a sense of satisfaction at a reasonable price. At the same time society needs creative industries to provide cultural expressions that help restore the public's confidence in the future. US movies have benefitted in the past from the 'lipstick effect'. The Great Depression of the 1920s and 1930s gave birth to the cartoon image of Mickey Mouse, the musical *The Wizard of Oz*, the classic film *Gone with the Wind*, the comedy of Charlie Chaplin and many film production companies.

Creativity and Innovation

For China the significance of creative industries is not limited to a new 'industry' concept; nor is it confined to the production and export of cultural

⁵ Xiaoxu Wang (2009), 'Financial Crisis is the Opportunity to Boost The Culture Industry,' *Hubei Daily*, 2 June 2009.

and creative products. Rather, the significance lies in a capacity to stimulate innovation in established industries and bring about systemic innovation more broadly. Industrial innovation has become an urgent and important project. Currently, China's reliance on foreign technology is over 50 per cent. 70 per cent of new technologies come from foreign sources.⁶ With increasing pressure on resources and the environment, China's manufacturing industries must increase their innovation capacity in order to change the production mode of low value added, high resource consumption and high levels of pollution.

China needs innovative spirit. John Howkins believes the biggest problem China faces is how to transform from a manufacturing country with cost as its main source of competitiveness into a creative economy with innovation as its main competitive advantage. Creative industries go beyond the scope of traditional cultural industries, regrouping human and cultural capital and bringing it into the economic system. By utilizing creativity, for instance, established industries can add more cultural elements to products and services and bring about differentiated competition. They can also build distinctive brands so as to increase competitiveness. Cultural creativity can be incorporated into the design of all kinds of products and even into urban construction. The use of colour to cater to people's mood, the use of design to provide physical comforts and operational convenience, and the design of unique shapes and features serve to effectively increase the value added of products.

Intellectual Property (IP)

Apart from encouraging innovation and high value added, intellectual property protection is a means of expanding creative industries and strengthening the commercialization of innovation. IP is at the core of creative industries' value chain. This idea has been largely accepted across the world. Creativity can create wealth if it takes place through the development and utilization of intellectual property. The process is cultural creativity → intellectual property → wealth creation. Due to the fact that creative products normally have more visible external expressions

⁶Wuwei Li (2009), 'Proposal on including Creative Industries in the National Innovation Plan,' *Economic Daily*, 21 May 2009. <http://www.chinanews.com.cn/cj/cj-cyzh/news/2009/05-21/1701840.shtml> [accessed 8 March 2011].

than new scientific products, they are more likely to be copied and plagiarized. Therefore creative industries are in greater need of IP protection.

China has already produced a series of IP-related legislation such as patent law, copyright law, trademark law and laws corresponding to their implementation. A legal framework has developed regarding IP in compliance with international law. From a micro perspective, an enterprise IP strategy should be implemented that includes the creation, trade and management of intellectual property. For creative enterprises, IP is their most important asset as cultural and creative results can only be turned into industrial products and achieve maximum profits through the creation and commercial operation of intellectual property. The creation of intellectual property includes attaining patent or copyright through technological innovation and cultural creativity, and by extension building brands and registering trademarks. In other words, enterprises should not only acquire and retain core intellectual property (copyright for a cultural and creative result) but also obtain as much related external intellectual property as possible. This will constitute a powerful IP safety net and ensure the maximization of economic benefits.

A good example is the web song *Mouse Loves Rice* which has not only obtained copyright but also been registered as a trademark. The song has become a brand.⁷ Through IP, it has gained earnings from concerts, release of discs, karaoke and ringtones. Through branding, it has been developed into a novel, a musical movie, a TV drama series and a suite of mobile games, all carrying the same name. This example demonstrates that patent, copyright, brand and trademark can be commercial operation tools. Disney's success is based on a similar process: creating a story, producing an animation concept, attracting audiences, registering a brand, making related products, and reaping huge profits. The animated characters they have developed such as Mickey Mouse, Donald Duck, and The Lion King have generated considerable wealth from IP.

Creative industries are characterized by large numbers of small and medium-sized enterprises (SMEs). These companies are weak in terms of protecting their rights and it is not feasible for the government to take direct responsibility for such a large number and range of SMEs. So SMEs need to cooperate and help each other in legal matters. In April 2004, twenty-three enterprises at Tianzifang, a creative

⁷The song 'Mouse loves Rice' was composed by Chengang Yang. <http://yule.sohu.com/20050513/n225548156.shtml> [accessed 8 March 2011].

industries cluster in Shanghai, established the Tianzifang IP Protection Alliance to pool resources for IP protection, industry self-regulation and collaborative marketing. Based on this experience and supported by the municipal government's IP bureau, a city-wide IP protection alliance was established in May 2008 with improved and expanded services. Protected by this alliance, market competitiveness of a large number of SMEs in Shanghai has been markedly improved.

Risks and Benefits

Creative industries are characterized by high risk and high benefits. The value of cultural and creative companies is determined by products and by human capital assets. Many factors can affect the IP value of cultural products, which results in uncertainty in business activities.

What kinds of risks are involved in creative business activities? What are the types and features of these risks?

Creative products are uncertain in terms of demand

The demand for cultural and creative products is different from that of industrial products (or the products of material industries) such as electric rice cookers. It is relatively easy to predict the demand for such things. The demand for cultural and creative products is difficult to predict as there is no utility demand for these kinds of products. Consequently, there is uncertainty in demand. For instance, it is hard to predict audiences for a movie because consumer choice can be affected by a number of factors such as the theme of the movie, the nature of the marketing, the income level of the audience, the nature of distribution and the extent of word-of-mouth promotion. This is why it is normal practice for the film industry to predict box office success based on past experiences. Although *Avatar* was predicted to bring in a total income of US\$ one billion for investors, it was only after the film had premiered that the actual demand for it became evident.

Creativity is easy to copy

A good idea is not easy to come up with. Dissemination of the idea, however, costs almost nothing. For example, it is hard to turn out a good idea for a movie; but the resulting script can be easily copied and disseminated by other

people. Without sound IP protection, creative ideas are likely to be copied. The end result could be that copycats benefit from other people's work without being punished while the creators won't get due returns for their high-risk investment.

Cultural products do not have physical forms

Unlike products that have their own physical forms and are difficult to copy and disseminate, such as housing and electric rice cookers, cultural products and services (such as design, film and TV products and game software) are often digital artefacts and a easy prey for copycats. For instance, the cost of reproducing a DVD of a movie, a TV series or music is low and the production process is easy. This is the technological reason for frequent pirating. IP protection is therefore very important. It cost US\$300 million to make *Avatar*, but the cost of making a DVD copy is almost nothing.

There is uncertainty in technology, process and market acceptance

The production of creative products (the realization of creativity) may require technology; the production process may take a long time; and the final product may or may not be accepted by the market. This is another risk for creative products. Film is a good example by way of illustration: the production process involves a lengthy chain; the producers often have no control over the distribution and screening processes. This adds to uncertainty in the film industry.

This was the case with *Avatar*. To achieve the extraordinary 3D visual effects, the production costs reached US\$300 million and it took twelve years and the production of numerous computer special effects. The process involved not only artistic creativity and high production costs but also the development and application of new technology.

Not all big investments can expect high returns. Huge investment in culture and creativity may result in low or even no returns. With a box office income of 1.35 billion yuan on the Chinese market, *Avatar* is a rare exception. Generally speaking, at least 60 per cent of film investment loses money. Of the 400–500 movies produced annually on the Chinese film market, only 100 to 120 movies are screened in cinema chains. Among these, 30 per cent makes money, 40 per cent break even and 30 per cent lose money. It is similar story in other film markets across the world.

The phenomenon of *shanzhai*

Innovation and imitation are two sides of the same coin: they exist alongside China's great leap forward from backwards technology to advanced research and development, with China's transformation from large-scale imitation to originality. *Shanzhai* (cheap copy, copycat) is a word that has been popular in China since 2008. It first appeared in the IT industry in 2005 when a large number of small factories flourished in Shenzhen, Zhejiang and Jiangsu, engaged in producing cheap copies of famous brands including mobile phones and digital products. Some made modifications to the famous brands, turning Nokia to Nokir, Samsung to Samsing and Sony-Ericsson to Suny-Ericcsun. Though there is some innovation involved in the production process, in copying authentic products these factories do not need to spend money on R&D; so they are able to sell these products at a much lower price, at one-fifth of the cost of the authentic products and sometimes even less. As a result, there is considerable impact on the market. This kind of copycat activity later spread to cultural formats and products such as paintings, and movies. Even the Spring Festival Evening Party, an annual event celebrating Chinese New Year broadcast on the national network, China Central TV, was not spared the *shanzhai* treatment. *Shanzhai* has since become a synonym for 'imitation,' 'copycat' and 'fake.'

An article published on *Lianhe zaobao*⁸ in Singapore suggests that *shanzhai* is a phenomenon in which mainstream brands are copied at low cost and innovated in terms of product functions. '*Shanzhai* culture' therefore refers to a highly mediated or highly disputed cultural phenomenon in which existing products (including cultural products) are redesigned, reproduced and marketed, usually at a cheaper price. Rather than generalizing the *shanzhai* phenomenon in the negative sense, we should differentiate good and bad *shanzhai* products, *shanzhai* cultures and *shanzhai* economies on a case-by-case basis.

First, *shanzhai* products are an example of copying, violation of rights and pirating. They represent an illegal act and violation of intellectual property rights. The act should be punished by administrative means or even taken to court.

⁸Yongxin Yang (2009), 'Do not enjoy the short-term pleasure of copy-cat', *Lianhe Zaobao*, Singapore, 5 Mar 2009. <http://www.chinanews.com.cn/hb/news/2009/03-05/1589554.shtml>

Although the superficial functions of *shanzhai* products may contain a certain degree of innovation and originality, *shanzhai* production is motivated by the pursuit of low-cost operation, tax evasion and short-term economic benefits. The *shanzhai* phenomenon reflects a series of social problems including a lack of effective supply in low-end market segments, the unwillingness of some enterprises to invest in R&D, the lack of IP protection, and weakness in policy and supervision of regulations. The establishment and implementation of an IP protection system has become one of the major challenges for China's transition to an innovative nation.

Second, the '*shanzhai* culture' or the low-cost copying of cultural products is in fact a kind of popular culture that is non-mainstream, anti-elite and challenges authority. It is a 'grassroots' culture with postmodern, deconstructive characteristics. It is often an act of popular culture in which people give full rein to their imagination and creativity for the purposes of self-entertainment. It is not always for profit and is often disseminated on networks that are outside the control of mainstream media. In contrast to authentic mainstream productions which are often costly and unpopular, *shanzhai* versions employ sarcasm, humour and grassroots language; in doing so they engage people's emotions. Through this practice, the grassroots creators challenge the mainstream with the marginal, the professional with the amateur.

When cultural production and mass communication are dominated by mainstream cultural institutions, many people try to enjoy cultural autonomy through this unique mode of imitation. In a way, *shanzhai* culture signifies the awakening of civic consciousness. It is a social phenomenon of self expression and creative expression. In this sense, society should be more tolerant of its existence as long as it is not conducted for economic benefit alone. Such tolerance would allow more space for people's cultural creativity and would be of benefit in terms of cultural competition and the development of cultural diversity.

Third, the *shanzhai* economy, a model of production by imitation, can be harmful for economic development and the process of modernization. Sociologist Ai Jun believes that the '*shanzhai* model' is inevitable in developing countries. However, he says the economy should move beyond the '*shanzhai* model' as soon as possible. Other economists agree that developing countries have the opportunity to take advantage as latecomers to catch up with advanced countries, particularly through the introduction of advanced technologies.

It is undeniable that one of the reasons for the rapid development of the Chinese economy in the past thirty years is the formation of global competitive advantages in manufacturing industries through the introduction of foreign capital and technology, technological transformation, cheap labour and the consumption of natural resources. Economic growth has been achieved largely through exports. I argue, however, that a nation that relies solely on imitation and lacks innovation has no future. The *shanzhai* economy is an unsustainable economic development model. *Shanzhai* products may bring short-term economic benefits for enterprises and consumers, but over time who would want to invest in R&D and originality if the interests of innovators and intellectual property cannot be effectively protected?

If a general mindset for imitation and opportunism is allowed to develop, the ability to innovate and create intellectual property will be limited to a few developed countries or advanced enterprises. The danger of the loss of innovative ability is real. China's small and medium-sized enterprises should encourage entrepreneurs to recognize innovation, risk-taking, risk management and risk commitment. Alternatively, government and regulators need to take necessary measures to contain *shanzhai* practice by fighting against piracy, by protecting intellectual property and by regulating the environment in which business operates.

Innovative Nation

For over half a century countries around the world have been looking for ways to realize industrialization and modernization from their respective points of departure. The international academic community defines an innovative nation as one that undertakes technological innovation as its basic economic strategy. Currently there are around twenty recognized innovative nations, including the United States, Japan, Finland and South Korea. Their common features are a high innovation index, over 70 per cent contribution of technological progress to economic growth, R&D investment accounting for over 2 per cent of GDP and lower than 30 per cent reliance on foreign technology.⁹

At the 2006 National Conference of Science and Technology in Beijing Chinese President Hu Jintao announced China's intention to become an

⁹Innovation Country: <http://baike.baidu.com/view/58084.htm> [accessed 8 March 2011].

innovative nation by 2020. The basic indicator for this is the contribution of scientific technology and innovation to economic growth, which will have to increase from 39 per cent to 60 per cent and the ratio of R&D investment in GDP which will have to increase from 1.35 per cent to 2.5 per cent. The latest results from the *Study on Scientific Contribution to Economic Development*, a national science research project, show that from 1980 to 2007 the total factor productivity (TFP) contribution to economic growth was 45.62 per cent and the rate of technological progress was 4.53 per cent. The research predicts that by 2020 scientific contribution may reach around 60 per cent. Increasing innovative capacity is becoming the central link in China's effort to readjust its economic structure, transform its development model and increase national competitiveness.

The Way to Economic Growth

Economic statistics indicate that the Chinese economy is recovering. However, the fundamental problems (or the contradictions caused by the imbalance of internal and external economic structures) that led to the economic downturn are yet to be solved. New consumer markets need to be opened and new hot spots of demand need to be created. During the transformation period, changing the approach to economic development will enable the Chinese economy to gain new momentum. To solve the problem of structural imbalance and to create a new growth engine, we need to transform and upgrade the economy. Creative industries will stimulate the transformation of the Chinese economy from the export-oriented approach to innovation-driven approach.

From the perspective of industry development, there are two ways to stimulate the transformation of China's economic growth. One is to increase the value added of China's manufacturing industries through upgrading, readjusting and innovating in terms of industrial structures. The other way is to develop new, innovative, eco-friendly industries with growth potential. Creative industries will help the Chinese economy to recover from the financial crisis and to open new markets.

Shenzhen, the frontier city of China's reform and opening up, has seized the opportunity to stimulate transformation through cultural and creative

industries. For its achievements in December of 2008 Shenzhen was named 'City of Design' by UNESCO. UNESCO also approved Shenzhen's application to join the UNESCO creative cities network. Shenzhen's approach is to combine branding with product design in an effort to drive transformation: to move from selling products to selling designs, from a focus on manufacturing industries to a focus on design industries; in other words, from a processing centre to a city of design. Taking advantage of its status as global 'City of Design', Shenzhen attracts international creative resources (including design talent, international exhibitions and creative enterprises) and promotes its design across China and across the world. The cultural expo held in Shenzhen in April 2009 attracted 3.5 million visitors (1.65 million more than the previous year) and achieved a business turnover of RMB 87.7 billion (RMB 37.8 billion more than the previous year). Currently, Shenzhen has 60 per cent of market share in the domestic industrial design market.¹⁰ Design reflects a higher position than some manufacturing and processing industries in the value chain. In the face of a financial crisis and the loss of policy advantages once held by processing and manufacturing industries, creative industries, and especially the design industry are expected to become a new advantage for Shenzhen.

Creative industries can also play a key role in the second approach to China's economic growth transformation, namely the promoting of new industries. Many creative industries are emerging industries that have come into being as the world has shifted to a knowledge economy. In the next few years, the combination of culture and technology will give rise to new industrial forms and communication channels. The boundaries between industries will become increasingly blurred. With technological innovation and large-scale development, cable TV network and wireless mobile networks are becoming important platforms for the integration of cultural and creative resources. Online libraries and newspapers, IPTV, digital cinema, video-on-demand, and TV and film content formatted for mobile devices are blurring industry boundaries even more. Digital technology is entering into a high-speed, large-scale commercial phase with unlimited market potential.

¹⁰ Fang Ni, (2010), 'The 4th Emerging Strategic Industry: Shenzhen's Creative Industries on the Road,' *Nanfang Daily*, 10 Aug 2010. Available at http://www.ceosz.cn/SzNews/SzYw/SzNews_20100811104908_55445_5.html [accessed 8 March 2011].

Emerging industries should be understood beyond their role in the sphere of industry. They should be understood in terms of their role in overturning and bringing about innovations in traditional economic development models, in upgrading industry structures, and in increasing overall regional competitiveness. To develop emerging industries so as to stimulate a new round of economic growth for China, we need to change the old strategy of following in the footsteps of others and replace the ‘advantage of the latecomer’ with a strategy driven by innovation.

Industries without Boundaries

In traditional economic theories of industry, an industry refers to a collective of enterprises that provides similar products and services. This implies artificially imposed boundaries between industries. In the twenty-first century, one characterized by a focus on markets, information and internationalization, however, the development models of conventional industries have experienced profound change. New approaches have led to expanded scale and scope of economic development, accelerated cycles of development, structural upgrading and greater systemic complexity. It has become inevitable for industry development to proceed from division of labour toward integration. These developments cannot be explained by traditional theories that worked well when industries had clear boundaries. For instance, new forms of industry such as cultural and information industries hardly belong to any of the old industry categories. We need to change our development concepts from being defined by division of labour so as to adapt to these new circumstances.

Creative industries are industries ‘without boundaries’.¹¹ Industries without boundaries have three features:

- **Integration with related industries:** industries without boundaries can be integrated into related industries and continuously regenerate through technology. It is very difficult to define the boundaries between the industries or to place them within the traditional categories of industry;

¹¹ Apart from making it possible to re-categorize the industries involved, the significance of this concept lies in creative industries’ impact on the evolution of industry structures.

- Soft elements as core competitiveness: in contrast to traditional industries which have increasing marginal cost and diminishing marginal revenue, industries without boundaries are characterized by diminishing marginal costs and increasing marginal revenue;
- Constant changes of boundaries: industries without boundaries are directly driven by consumption. Their resources, key industrial elements and operations are constantly reorganized according to constantly changing demand. The diverse and changing nature of demand contributes to the uncertainty of boundaries.

Why are creative industries 'industries without boundaries'?

First, innovations can be integrated with established cultural industries. A typical example is the online bookstore which has become an important channel for book consumption, providing instant information about new books and a personalized interface for consumers. In saving time and simplifying purchase procedures, online bookstores are reducing costs and providing more benefits to the reader. However, the online bookstore cannot provide the reader with the sensation and joy of roaming between bookshelves and flipping through the pages of new books. The reader can only find this in traditional bookstores. So there is a mutually supportive interaction between online and traditional bookstores, in which the boundaries between online and offline, virtual and physical are blurred. There is an element of reality in the virtual and an element of the virtual in physical reality. This kind of integration is stimulating the book sales industry.

Second, the extensive use of information technology together with a fundamental change in the mode of production have broken the traditional boundaries between the various cultural sectors and have led to more cross-penetration and integration. The customary idea of 'competition with clearly defined boundaries' among manufacturers has been replaced by an intersecting, and broader concept. In the process of coordinating related activities, there is cooperation as well as competition. Based on integrated digital technology, for example, there is increasing business integration among services, content and applications. Newspapers, TV, music, magazines, sport and other forms of entertainment have adopted online mixed multimedia formats. Such integration has broken through the division of labour restrictions and has enabled telecommunications, media and information technology enterprises to

establish cross products, cross platforms and revenue-sharing across sectors. This in turn has led to rational allocation of resources on a larger scale while bringing big business opportunities for enterprises.

Third, creative industries can achieve integration across boundaries. The principal components of creative industries are creative products; for instance in design industries this might include the idea for the design, a theme, a project plan, and ways of producing and marketing these. But creative industries often generate value through related products. Positioned in the upstream of the industry value chain, creative industries are able to achieve boundary-less integration. The significance is not limited to the pursuit of productivity in culture itself. The significance also lies in the production and application of creative achievements in various trades, industries and fields. This is an effective way to improve capacity and value added of industries.

Lastly, creative industries can achieve diffusion across boundaries. In the knowledge economy the essence of product competition is to influence or cater to the values, habits and customs of the public through cultural elements represented in a product. The aim is to have the public accept the product. To be specific, cultural connotations, cultural value added and cultural uniqueness increase the competitiveness of a product. These include concept, design, modelling, style, decoration, packaging, trademark and advertising. Whether or not a product will be accepted by the consumer largely depends on the cultural identity of the product. Behind each of the popular products of the 'Korean Wave', the 'Hong Kong and Taiwan Style' and the 'European Style', there is a degree of cultural accumulation in play. The significance of an excellent product goes beyond the product itself. The cultural element in the product has turned the consumption of the product into the consumption of culture. The in-built capacity of culture to diffuse enhances the product's marketability. The charm of creative industries is their capacity to diffuse across boundaries.

Transformation of Economic Development Mode

Resources transformation, value upgrade, structural optimization and market expansion are four models for the transformation of the existing model for economic development in China.

Resources transformation

As a result of the current model of extensive economic development huge quantities of material resources, especially energy, are becoming exhausted. Economic growth is at the cost of natural resources and the environment. Constraints on resources, environment and capital have become a bottleneck to economic development. Creative industries, however, are characterized by the continual release of individual creativity, generating new products and market demand by breaking through the constraints on resources.¹² This model can be understood from the following three perspectives:

First, when creativity becomes a leading resource in economic growth, the definition of resources is expanded. More elements can be included in the definition of 'resources', such as historical artefacts, folklore and elements of social life. These elements can be exploited and developed to promote economic growth.

Second, through developing humankind's intellectual capacity, that is, creativity, various resources – natural and cultural, tangible and intangible – can be effectively transformed into capital for economic development. For instance, a neglected river corridor in Chengdu, Sichuan Province provides a good example. The local government did not have the money to support the Jinjiang River redevelopment project and so decided to involve investors. Through market research and planning, a 6,000 square metre raised level was added as a commercial venue and the river corridor was restored. The restaurant on the upper level now has the best river view of the area, attracting swarms of customers. This is a win-win deal for the local government and the investors. This is also a good example of effective use of resources.

Third, the 'human brain' is a resource that can be exploited to 'make something out of nothing' and 'produce excellence out of something'. Creativity can break through the constraints of finite resources and promote economic growth; it can stimulate transformations among various kinds of capital (economic, cultural and social). This in turn means economic development relies more on cultural and social capital (the soft elements) as its driving force. This soft infrastructure model is characterized by a combination of

¹² Through creativity various resources can be turned into capital, which opens up new channels and markets for economic development. This model, when put into practice, will generate a process of multiple transformations from resources to capital and beyond to the market. These transformations will in turn promote the transformation of the model of economic growth.

creativity and technology, of creativity and markets. In its almost 100 years of development, Disney has continuously increased innovation and technology in its products according to market demand and in so doing has become a global entertainment brand. Its range of products, such as animation, toys, clothes, home décor and theme parks have not only made huge profits but have introduced a new development model for the entertainment industries. Britain's *Harry Potter* series is a typical example of 'producing excellence out of something'. The production of literature is an age-old profession. But *Harry Potter* has turned its author, J.K. Rowling from a poor teacher into a very rich person whose wealth rivals that of the Queen. It is a contemporary legend of wealth creation. The key to *Harry Potter*'s success is a combination of technology and the market; similarly many related products are produced to meet different levels of demand, ranging from hi-tech digital products such as movies, DVDs and games, to everyday items such as toys and clothes. Between related and derivative products industrial chains are established. Crude statistics show that related industries driven by *Harry Potter* have achieved a total economic turnover of US\$200 billion.¹³

Value upgrade

As mentioned in chapter one, we can divide the market value of goods into use value and symbolic value. The former represents the objective functions of the product (its usefulness) while the latter refers to the subjective intangibles that appeal to the human senses. The use value is enabled by technology and is the material basis of a product. The symbolic conceptual value refers to the cultural values embedded in the product. The ratio of the two components will change with economic development. In times marked by low-level economic development, outdated technology and material shortage, people pay attention to the utility of a product. But when the economy is doing better and people are well-off they may be more attracted to symbolic values. The market value of a product is increasingly determined by its symbolic value.¹⁴ In a general sense,

¹³ <http://www.dushu.com/news/2007/08-31/19979.html> [accessed 8 March 2011].

¹⁴ When we are in the age of knowledge economy where the exchange and expansion of technology is stepped up and commodities are in rich supply and tend to homogenize, the ratio of the concept value will be higher and people are more likely to identify with the intangibles in the product or services, such as class, feelings, sensations, appeals and meaning.

the symbolic value creates distinctiveness, contributing value added over and above the product quality. The essence of creativity is to produce satisfaction and happiness through exploitation of the symbolic value, to maximize the product's effectiveness and make the consumer feel happy.

Structural optimization

Creative industries demonstrate the integrated development of culture, science and economy. This kind of integration is established on the basis of providing highly personalized creative products for the consumer. This requires, on the one hand, diversified cultural resources and markets for cultural expansion. In addition, this also heavily relies on information technology. Only in virtual space can a personalized environment be created in which 'there is nothing you cannot achieve except that which you had not thought of'. Cultural elements and technological capability are important factors contributing to optimizing the existing economic development structure.

Every creative activity is carried out against a certain cultural background. Culture is the core element in creative industries' attempt to promote the transformation of the economic growth mode. Culture can bring about immeasurable value added.¹⁵ Creative industries use culture as a 'sharp instrument' to cut through a path for new industry models. The application of digital technology has enabled creative industries to integrate with a variety of other industries and trades.

The optimization of industrial structure comes in two modes. The first is structural optimization of traditional cultural resources, which are recreated and upgraded with wisdom, inspiration and imagination. The second mode is the structural optimization of existing industries. Industrial design, branding and marketing in creative industries have not only increased value added of manufacturing industries but have also enabled more flexible industrial structures. In urban agriculture, integration with tourism has brought about big changes. New features such as sightseeing, tourism and ecology are reaping profits. For instance, ticket sales at the Shanghai Port of Fresh Flowers have surpassed the actual sales of flowers. Currently, the Yangzi River Delta area has adopted agricultural tourism as a new approach to structurally benefit

¹⁵ See Li Wuwei, 2004. Culture can 'graft' seamlessly onto other industries; its links and products can subsequently form new industry sectors.

agriculture. Agricultural tourism has transformed from a model largely based on small scale cultivation and sporadic business. The integration of tourism represents a new regional mode of regional development.

Market expansion

The use of the cultural capacity of brands to identify with and form enduring relationships with consumers has become a highly intensive knowledge-based form of market competition. The construction of a brand must first identify the core competitiveness or the core value that differentiates the brand from others. The core value is the idea while at the heart of a brand is the producer's ability to identify and align his creative work and his own understanding of the world with the target market. There are four approaches by which creativity promotes brand construction and market expansion through advertising.

The first approach is by developing products that reinterpret national classics. Culture can be exhibited and maintained in traditional and modern forms in film, music, multimedia, drama and on the internet. A good example is *The Dream of Red Mansions*, a much loved Chinese classic novel from the Qing Dynasty. This classic has not depreciated with time. On the contrary, new value has been continuously generated from it. Value has been created from the original classic novel to forms of opera, comics, ballet and recordings before the 1980s, to TV drama, film, multimedia, CDs and karaoke since the 1990s, and more recently to entertainment shows, animation, SMS and web games.

A second approach is to develop local resources for the global market. In today's era of economic globalization, many products tend to be thematically similar, as well as similar in content and style. The globalization of cultural products is inevitable and has led to homogenization of aesthetic standards. On the one hand, brand expansion strategies pay attention to cultural trends in order to adapt to the global market demand. This strategy develops unique resources by repackaging historical figures, folk legends, science education and everyday themes.

A third approach is to innovate in development, that is, to establish an unprecedented, new, modern cultural and creative brand. Creative ideas are crucial to the success of a brand. They are dreams based on reality. A cultural and creative brand is a creation completely made by the producer, or the content value created by the creative entrepreneur. It can normally fit comfortably with modern views of consumption.

Last but not least, advertising greatly impacts the building of creative brands by establishing positive associations between the brand and the consumers. Advertising helps creative brands establish a good industry image and in turn promotes brand development. In a market economy advertising is one of the leading creative industries. The development of advertising directly expands markets. To a certain extent, we can say that without the support of advertising, the existing business approach of the media industries cannot survive.

Policy Suggestions

I am pleased to see the development of creative industries in China. In 2004–2005 when I first proposed the concept of ‘industries without boundaries’ there was uproar in the academic and industrial communities. At that time, creative industries were still at the embryonic stage and most people did not have a clear idea of what they represented, the features of the industries and the development approach. After five years of exploration and practice, there is now consensus among government, industry and academia. In practice, we note a search for common ground, as well as a process of exploring and innovating according to local conditions.

After years of theoretical research and practical investigation I have come to realize that it is not enough for the development of creative industries to rely solely on a city’s own ideas and strategies. Policy support from the central government is badly needed. So, at the two national congresses of 2008, I proposed the development idea of ‘creative agriculture.’ At the Second Session of the CPPCC National Committee in 2009, I delivered, on behalf of the KMT Central Committee, a speech entitled ‘To develop the creative industries and to promote economic innovation and upgrading of traditional industries’. In this speech, I called again for the central government to make creative industries policies. I put forward the following three suggestions that have raised awareness from all sectors concerned:

- Creative industries should be accepted into the national innovation plan: because technological innovation and cultural creativity are the two driving engines of sustainable economic development, creative industries should be incorporated as an important part of the innovation plan.

- A national association of creative industries should be established as soon as possible: The aim of this will be to integrate various social forces to assist the government in promoting creative industries. This will help overcome the drawbacks of fragmentation and help carry out international exchange in a more extensive way.
- Policies promoting the development of creative industries should be implemented: This includes mechanisms to stimulate investment and financing and to ensure risk-sharing as well as policies of IP protection and operation and training of talent related to creative industries.

With wide support from the public the proposal attracted the attention of the CPC Central Committee and the State Council. The goal of ‘actively developing creative industries’ appeared for the first time in the central government’s work report. On July 22, 2009, the executive meeting of the State Council chaired by Premier Wen Jiabao discussed and approved the ‘Revitalization Plan for the Cultural Industries,’ the first item of which is to step up the development of key cultural industries including cultural creativity, film and TV production, publishing and distribution, printing and manufacturing, advertising, performing arts and entertainment, cultural exhibition, digital content and animation. Another agenda item was to actively develop new forms of culture to stimulate cultural industries. The new industry forms include mobile multimedia broadcasting, web broadcasting and film, and mobile broadcasting and TV. There is no doubt that national policies on cultural and creative industries will provide strong policy support for nationwide development of creative industries.