

Consultative Report commissioned by the Central Policy Unit, HKSAR Government

**Study on the Relationship between Hong
Kong's Cultural & Creative Industries and
the Pearl River Delta**

**Final Report
(Part II)**

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1 Advertising

Status of the Industry in Hong Kong

- 1.1 Because of its advanced economic development in the region, Hong Kong was the advertising centre of Asia in the 80's. However, with adjustment and competition brought forward by the huge market in Mainland China, its leading position is gradually diminishing. The Financial Crisis of 1998 and the SARS epidemic of 2003 dragged the industry to its lowest ebb since the handover.¹ Fortunately, the economic recovery in 2004 stimulated the local advertising industry. Hong Kong is within the region with the second highest per capita advertising expenditure (hereinafter referred to as adspend) in the world. The first half of 2004 recorded 24.38% increase in total local adspend compared to the same period in 2003.² The local adspend in November 2004 alone recorded HK\$3.66 billion, a 14% increase compared to 2003. Compared to the same period last year, the adspend during the first quarter of 2005 also recorded an increase, where cosmetics and skin care, beauty/slimming and fitness and travel & tourism service were highest (refer to Table 1 and 2). This indicates that Hong Kong's advertising industry is gradually climbing up from its lowest point in the 90s and from the blow in 2003 with overall contraction of expenditure in society.
- 1.2 As early as the beginning of the 90's, advertising companies in Hong Kong followed their long-term partners of multi-national companies to move north, and developed the market in eastern and northern China. Although the local sector viewed Guangdong and Hong Kong as one single market, the agencies were paying more attention to the Hong Kong market, because firstly, the industry relies more on interactive communication with local culture; secondly, advertising in the PRD region was mostly project-based instead of long-term collaboration; and thirdly, the economic environment in Hong Kong was quite good at that time. Hence the industry was not growing in the Guangdong region. This relatively under-developed market will become a new platform of development for Hong Kong. Right now, industry structure in the PRD is multi-dimensional, with a large population base, a middle to high income level

¹ The 2003 SARS epidemic directly caused shrinkage to Hong Kong's advertising expenses. According to A C Nelson's Survey on adspend, a drastic decrease of advertising income in several media was recorded in March that year, where adspend in cinema recorded a 90% decrease; 25% decrease for MTR advertisement; and 19% decrease for ATV. Since the figures were calculated in market value, the real decrease should be bigger. Source: 〈沙士衝擊媒體廣告收益劇降〉, *Shingpao*, 6 May 2003.

² 《Hong Kong Economic Handbook 2004》, p.271.

compare with other cities within the Mainland, strong consumption power, large market development potential, which are all positive signs towards the development of the advertising industry.

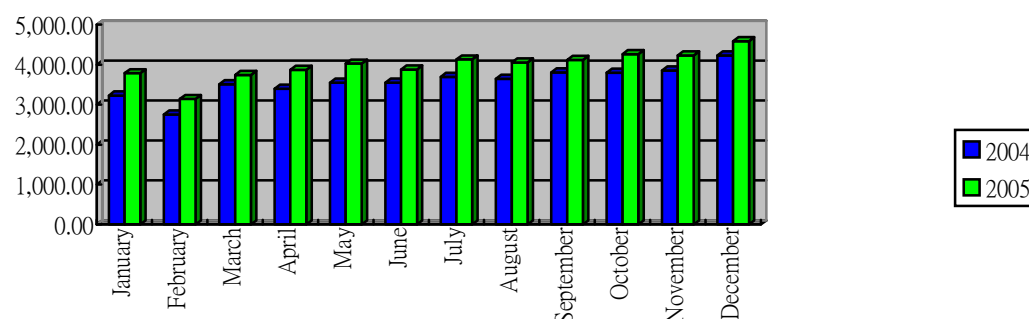
Table 1: Hong Kong Adspend in the last Quarter of 2005 - top 10 subcategories (HK\$ million, as of 6/1/06)

(Source: admanGo)

Hong Kong Adspend in the last Quarter of 2005 - top 10 subcategories (million HK\$)				
No.	Sub-categories	Accumulated total in last quarter 2005	Share of total	Year-on-Year comparison
1	Travel & Tourism Services - Travel Agencies	388.87	13.07%	-2.18%
2	Beauty, Slimming & Fitness - Beauty Salon, Fitness & Slimming Centres	388.59	13.06%	23.55%
3	Jewellery, Watches & Luxury Products - Watch & Clock	381.36	12.82%	34.45%
4	Mass Media - Newspaper & Publishing	358.93	12.06%	40.51%
5	Property & Real Estate - Residential Property	283.05	9.51%	-18.97%
6	Banking & Investment Services - Personal Loan & Financing	248.29	8.34%	18.77%
7	Banking & Investment Services - Credit Card	246.43	8.28%	18.95%
8	Jewellery, Watches & Luxury Products - Jewellery	231.74	7.79%	6.54%
9	Cosmetics & Skincare - Facial Cream	229.68	7.72%	-27.08%
10	Entertainment - Film & Theatre	218.94	7.36%	39.97%
	Total	2975.88	100%	9.99%

Table 2: Hong Kong Adspend – Monthly trend 2004 to 2005 as of 6/1/06

(Source: admanGo)



Year/ Month	January	February	March	April	May	June	July	August	September	October	November	December	Total
2004	3,226.83	2,750.11	3,508.35	3,399.20	3,551.82	3,546.40	3,695.56	3,647.75	3,807.25	3,799.95	3,853.02	4,231.67	43,017.91
2005	3,785.46	3,142.84	3,744.39	3,871.03	4,027.47	3,879.92	4,130.53	4,057.57	4,116.71	4,261.36	4,228.77	4,586.97	47,833.02

Status of the Industry in the PRD and Mainland

1.3 According to the Census Centre of the National Bureau of Statistics of China, advertising industry is defined as the industry that produces promotional activities on the media like newspapers, periodicals, outdoor bulletin structure, billboard, window display, Internet, communication devices and broadcast, movie and television etc., including advertising campaign, public relation, marketing survey, advertisement design and production, publicity, promotion, exhibition, advertising agency, mobile vehicle advertisement and the distribution of promotional materials. Media practitioners in the Mainland pointed out that, from 1999–2003, average growth of Mainland’s advertising industry was 14.8%, 8.3% higher than the national GDP.³ Despite a persistent growth in the Mainland economy and the 2008 Beijing Olympic factor, spend in the Mainland is only 0.5% of the GDP, which is way below the average of 0.6-2.2% of developed countries. Thus it is forecast that the growth potential of advertising is strong⁴ and should reach at least 20% in Beijing, Shanghai and Guangzhou in 2005 by practitioners in the local sector.

³ Mingpao Daily, 12 Dec 2004.

⁴ Apple Daily, 15 Dec 2004.

- 1.4 Guangdong is an important region, after Beijing and Shanghai, with advanced advertising development in Mainland China. The total sales of the three regions occupied more than 50% of that of the nation. According to the *China Advertising Yearbook*, Guangdong ranked third in the country in terms of total sales in 2002, with RMB14.318 billion; and the growth of advertising sales recorded 26.6%, which is the largest in the country.⁵ Based on the data supplied by the Business Administration of Guangdong, the advertising industry in Guangdong was well developed, with an increasing number of advertising companies. Towards the end of 2003, there were 10,800 advertising companies in the province, 92,900 people employed in the sector, and RMB16.589 billion advertising sales.⁶ By the end of 2004, there were 13,202 advertising companies in the province, a growth of 21% compared to 2003; 85,575 employees in the sector, a 9% decrease compared to previous year; and advertising sales of RMB21.16 billion, with RMB4.57 billion or 27.5% increase compared to 2003.⁷
- 1.5 In 2003, the top 5 products and services invested in advertising in the province were accordingly Real Estate and Property, Medicine, Home Appliances, Food and Vehicles, which occupied 18.38%, 9.32%, 8.93%, 7.60% and 6.83% respectively.⁸ But this ranking is changing in recent years. For example, Guangzhou, as a representative city within Guangdong and the PRD, the top 5 products and services which invested in advertising in October 2004 were accordingly Cosmetics/bathroom products, Real Estate and Property, Food, Medicine and Retail and Service Industries, which occupied 33.91%, 8.34%, 7.45%, 7.27% and 6.99% respectively. Within these Cosmetics was the largest, with an increase of RMB385 million compared to 2003, or a 40% increase, followed by Food advertisement, with 39.8% increase.⁹ The changes reflected that the consumption on personal care increases gradually. As for the broadcasting channels, some marketing research indicated that TV is still the major advertising media in the Mainland, which takes up 70% of the market in terms of advertising sales. Its percentage increase of 2.5% was the same as that of the whole advertising sector. In the PRD, TV, Radio, Newspaper and Magazine are the four main channels for promotion and publicity of the advertising industry.

⁵ *China Advertising Yearbook*, p. 23.

⁶ Source: 〈投放格局發生變化經營單位持續增長戶外廣告直線上升南粵廣告業“水漲船高”〉, *People's Daily*, 15 March 2004.

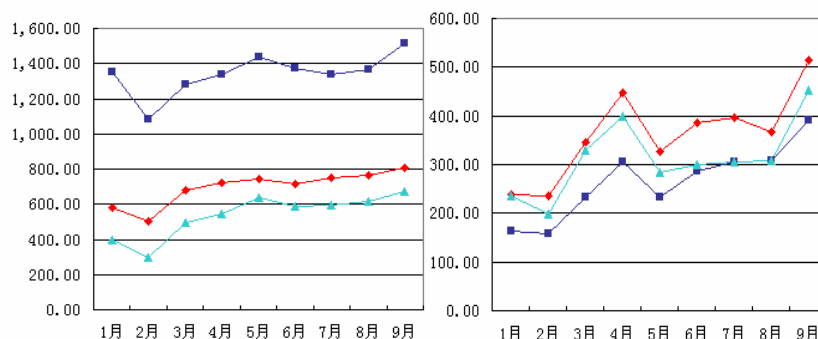
⁷ Source: 〈去年我省广告经营额为 211.6 亿元〉, *Nanfeng Daily*, 8 February 2005.

⁸ Source: 〈南粵廣告水漲船高〉, 《美國企業新聞社中經網》, 6 March 2004.

⁹ Source: CTR Marketing Research Monitoring Department: www.adexcvc.com/sjzh/2004/sj243.htm.

**TV (Left) and Magazine (Right) advertising investment trend in Mainland's three cities,
January to September 2004 (unit: million RMB)**

(Source: CTR Marketing Research Monitoring Department)



(Note: Blue: Shanghai; Red: Beijing; Green: Guangzhou)

Interview with the sector – Opinions on the development of Hong Kong advertising sector within the Mainland and the PRD

- 1.8 Practitioners in the Hong Kong advertising sector have been growing up in an environment with mixed Chinese and Western culture. The colonial background of Hong Kong, advantageous geographical location, well-established legislative system in addition to good economic environment has facilitated a clustering of multi-national corporations. Therefore, practitioners in the industry possess a global vision merged with Chinese and Western culture, and this feature is important to sectors that depend on creativity and innovation. Meanwhile, the Mainland market is gradually opening up. Although institutions in the Mainland are very focused on the training of advertising practitioners, their experience and vision are relatively weaker than Hong Kong practitioners. On the other hand, with the high flexibility and international vision, Hong Kong practitioners have been moving north since the early 90's. Practitioners in the industry reveal that Beijing and Shanghai are the two centres for advertising industry; while the geographically closer PRD and Guangdong regions are not their target for development and exploration.
- 1.9 As mentioned above, an advantage of Hong Kong practitioners working in the Mainland is the global vision and fruitful experience created by the social environment. In the past, creative Hong Kong practitioners were very popular in the Mainland, which indirectly indicated that Hong Kong advertising, no matter whether it was service, creativity or production, was stronger than Mainland companies. However, advertising industry in the Mainland is becoming more and more localized with only 2,000 graduates on average annually from the Mainland institutes majoring in advertising. Practitioners realize that, although demand for advertising in the PRD and the Mainland is much bigger than that of Hong Kong, the cultural and language difference will narrow the demand for Hong Kong talents.

- 1.10 Practitioners indicate that although Cantonese is the most popular dialect in the Guangdong area, Putonghua is still the official tongue between clients and advertising companies. If an advertising practitioner or producer wants to do business in the nation, good Putonghua is an essential ability they need to develop. Although Putonghua has been listed in the elective courses in the Hong Kong secondary and primary syllabuses, English and Cantonese are still the primary language of instruction; moreover, 90% Hong Kong people are Cantonese-speaking and the general usage of Putonghua is not popular.
- 1.11 Practitioners who work in the Mainland indicate that, clients in the Mainland believe that Taiwanese and Singaporeans are closer to them in terms of language and culture. This stimulates a higher demand for advertising practitioners from Taiwan and Singapore. Moreover, advertising industry is different from other manufacturing industry, which is not about taking order from the Mainland and then produce in Hong Kong; it is an industry that requires updated and full understanding of the culture, living condition, fashion and social background of the place. Before an advertisement is produced, detailed research and thorough understanding of the market's receptive power is required, but these are the weakness of Hong Kong practitioners. The strength of Hong Kong practitioners in the Mainland is restricted to professional knowledge, e.g. the purchasing of advertising time-slot, thus creating a pressure for the media department of advertising companies to employ local talents, especially creative director and media negotiator. Furthermore, Mainland corporations that would like to explore overseas market are less knowledgeable in international promotion and sales models, thus creating a demand for professional brand management service. In the meantime, the Hong Kong advertising sector developed three types of related businesses in the Mainland and the PRD: 1) corporate brand management, including strategy, package, graphic design etc; 2) product design; 3) interior design, including shopping mall, clubs, real estate show flats etc.
- 1.12 Indeed, informants told us that Mainland practitioners were quite advanced in terms of creative quality and vision. Firstly, information channels in the Mainland are now well developed, which provides practitioners there a wide platform to understand the world; secondly, talents working in the multi-national corporations and moved to the Mainland since the 90's have groomed new blood to take their lead. These new practitioners have absorbed the strengths of practitioners from Hong Kong and other parts of the world, as well as from the experiences accumulated in the rapid development of Mainland's advertising industry; lastly, advertising education is highly regarded in the Mainland as reflected, for instance, in the reform of the Beijing Broadcast Institute as the China Media University. The advertising education in the Mainland aims to train a new generation of practitioners equipped with Western advertising knowledge and good foundational understanding of local culture.
- 1.13 As for work attitude, practitioners working in the Mainland point out that many practitioners from Hong Kong are less determined than Taiwanese and Singaporeans, which is a barrier to career development. Moreover, salary tax in the Mainland is very high (about 40% of the salary). Most Mainland advertising companies are unwilling to employ Hong Kong practitioners who demand a high salary before tax. In comparison, a junior staff in the Hong Kong advertising company is paid HK\$8,000–9,000 per month, while the

Mainland counterpart is only RMB2,000. Hong Kong practitioners are therefore unwilling to work in the Mainland because of the salary difference.

- 1.14 Some practitioners express that, although the Hong Kong advertising sector thrives on the environment of market economy, the Government has never valued the education and training of advertising talents. They mention that many institutions in the Mainland have established a department of advertising as a platform for incubating talent; yet in the Hong Kong tertiary education, the only relevant professional training for the sector is the “department of communication” which has flourished since the 80’s. Albeit some institutions organize advertising workshops or seminars in the form of on-the-job training, they target people who have worked long in the field, with exceptional experience or even with master degree or above. Practitioners say that these conditions are understandable, but since academic qualification and work experience are two different things, people who have experience but lack academic qualification cannot transfer their knowledge in an academic environment and therefore making it difficult to train high quality advertising practitioners. Other practitioners also express that many universities and institutions are too theoretical and academic, which is ill-matched to the real working environment. Conversely, the apparently outdated apprenticeship system provides good foundational training, which is more applicable to the genuine needs of the market and the sector.
- 1.15 The Mainland market, whether it be the PRD, Guangzhou, Beijing or Shanghai, requires Putonghua as the communication medium in terms of client liaison and advertising production. However, current education in Hong Kong is still using English and Cantonese as the media of instruction; and the dispute on mother-tongue education in recent years is not about considering Putonghua as the mother-tongue. Practitioners express their worries over local students’ ability in Putonghua as barrier to advertising business between Hong Kong and Mainland. Apart from language, advertising is also territorial or region-specific, and the themes should tie in with local culture, otherwise the advertisement could not attract the local audience. Therefore, practitioners suggest improving students’ understanding of current affairs and culture of different parts of the Mainland by introducing different kinds of books and magazines on the Mainland cities, as preparation for their exposure in their career in future.
- 1.16 At present, there are about 20 international or large advertising companies and numerous small and local companies in the Mainland, which create severe competitions. Practitioners express that one of the biggest problems is loyalty. Many clients have a ‘learning attitude’ – when they realized there is nothing more to learn from an advertising company, they switch to another, which shortens the collaboration between the client and the advertising company. Even worse is the fact that some clients simply copy ideas from presentation by advertising companies, or ask another company to execute the same idea with minimal and superficial changes. This is because there is no regulation to protect advertising companies. Practitioners seem to accept the fate that this is the value system of the advertising clients in the Mainland, and it is difficult to establish rules to govern it. The fact is that more and more clients in the Mainland are progressing and seem to appreciate more the effort of advertising companies. Practitioners also point out that Mainland clients lack professional

insight in choosing advertising company, and business is based more on personal relationship. Sometimes, an advertising company may have already done a lot of work, but the client does not want to pay because they are not satisfied with the product. Lack of monitoring in such regard makes advertising companies difficult to survive in the Mainland.

- 1.17 As regards electronic media which is the top invested medium in advertising industry, the close proximity between Hong Kong and the PRD allows residents in the region to receive Hong Kong TV signals illegally through air waves since the 80s. The high quality of TV programmes during the golden period of Hong Kong television is more attractive to watch than those produced by the local provincial or municipal stations. Hence Hong Kong TV media has already absorbed a large number of PRD viewers. Many Mainland brand names would like to purchase advertising time slot in Hong Kong TV programmes to promote their business, hoping to turn the television viewers in both Hong Kong and the PRD into consumers via the reputation of Hong Kong television stations and their quality TV shows. Indeed, the TV media had the highest percentage of advertising investment among all media during the 80's, indicating the importance of television to the advertising industry.
- 1.18 Nevertheless, people from the marketing department in the Hong Kong TV stations express that, municipal TV stations in the PRD region replaces the original Hong Kong advertisement in the programmes with local advertisements secured by themselves. Even though the two TV stations in Hong Kong have now gained the local right to broadcast in the Mainland, this problem has not ceased, which seriously affects the free TV broadcast channels that rely on advertisement as their only source of income, as well as those Hong Kong and Mainland clients that pay for their advertisement to the TV channels. To resolve this problem, "sponsored TV programmes" are developed. The sponsored programme shows the sponsor's brand name from time to time during the broadcast, which achieves the expected promotion result. Practitioners resign that there is no means to completely stop the advertisement insert and the only thing they can do is to keep on negotiating with the municipal TV stations in order to minimize the loss incurred by such acts.

Interview with the sector – CEPA and WTO opportunities

- 1.19 Closer Economic Partnership Agreement (CEPA) relaxes the restriction on the development of Hong Kong advertising sector in the Mainland, which allows local advertising sector to establish companies in the form of sole proprietorship. According to the promises made by the Chinese Government for entering the World Trade Organization (WTO), foreign investors cannot hold more than 49% shares of a Mainland advertising company, and the registered capital cannot be less than US\$300,000 (around HK\$2.34 million). From the end of 2003, they would be allowed to increase shares to the controlling level, and by the end of 2005 sole proprietorship. CEPA therefore opened up the market for Hong Kong practitioners two years in advance. With further opening up of other service industries in the Mainland, Hong Kong companies providing professional brand management service for the Mainland will increase, which will create a market

trend of one-stop service.

- 1.20 CEPA is an important bridge between Hong Kong and the PRD advertising industry; it increases the exchange of talents between Mainland and Hong Kong, and facilitates a merge of capital and human resources. However, practitioners in PRD and Hong Kong have different views about CEPA and WTO. According to Hong Kong advertising practitioners, since regulations and detailed arrangements have not been established, few of them understand what the realistic operation and the established structure will be like. For instance, they do not even know how to obtain a Mainland license for an advertising company? Furthermore, some practitioners feel that lifting investment limitations does not really help the Hong Kong advertising industry, because advertisement is not a tangible product but a service; and the problem faced by the industry is not whether the company is solely owned, but how to survive in the Mainland.
- 1.21 Practitioners in the PRD believe that the influx of Hong Kong companies will be beneficial to the overall development of advertising industry in the PRD in terms of operation model and standard. But there is also opinion that competition between the Mainland and foreign companies actually started 10 years ago. The strong advertising companies from Hong Kong are all joint-ventures, which have found their Mainland partners within the last 10 years. Therefore, only the small and medium enterprises (SMEs) would rely on the help from CEPA. Hong Kong practitioners rightly point out that the problem for Hong Kong is not that companies cannot do business in the Mainland, but that small companies cannot find their joint-venture partners easily.
- 1.22 Some practitioners believe that CEPA benefits the small advertising companies in Hong Kong by allowing them to be sole proprietors in the Mainland since they could establish their own base there. For large or international companies, they have already established their strength through joint-venture before CEPA. Even though they could also become sole proprietors to develop their own network, they might still prefer to have a Mainland partner who knows the local culture, customer taste and market demand to promote their products. A new comer or foreigner who lacks the local support might not survive.
- 1.23 Large international companies have already been established in the Mainland for over 10 years, and have trained many talents there. SMEs are relatively less capable to sustain themselves for as long. Fierce competition probably allows only 5 to 6 international companies to remain profitable and it is virtually impossible for small companies to survive as sole proprietors. Hence some practitioners feel that CEPA is not very helpful to them. They regard networking as the most important resource while sole-proprietorship would require a lot of time and resources to develop. Therefore joint-venture or merger perhaps is more appropriate for them to consider.

Summary

- 1.24 Rapid development in the Mainland has created many business opportunities, and it is an inevitable trend for the Hong Kong advertising companies to merge with the Mainland market. The role and positioning of the Hong Kong market will be an important issue for the industry. Practitioners in Hong Kong worry that the role of Hong Kong as the advertising centre in Asia will gradually decline and become only one of the many markets in China. Hong Kong will eventually lose its regional leadership. Therefore, the immediate task is how to integrate Hong Kong with the huge PRD market of 80 million residents.
- 1.25 The advertising industry in Hong Kong had a glorious past in the 80's. With a wide global vision and different experiences of serving various clients, Hong Kong still has an edge in creativity, networking and knowledge in the field. Practitioners believe Hong Kong can form a strong advertising market with Guangdong and Southern China, but the problem is how to narrow down the language and cultural differences. In summary, the sector express the following points to foster a closer relationship with the advertising industry in the PRD:
- i. The advertising industry is a market-oriented industry after all. The market has always led industry developments. Large multi-national companies have adequate capital and network to develop their business. Hence government should not intervene with the industry and should let it develop on its own.
 - ii. In terms of education, the sector wishes that the government could provide more training channels for tertiary advertising education, and strengthen the training for different types of practitioners for the industry, in order to cope with the demand for advertising talents from Hong Kong and the Mainland.
 - iii. The advertising market changes everyday and its education should also be kept updated. Therefore, the sector wishes tertiary institutions could lower the pre-requisites of teaching for the industry, so that people with exceptional experience but limited academic qualification can also contribute their knowledge to students and to educate a new generation of talents with updated knowledge on the market.
 - iv. In terms of language, the sector wishes the government to strengthen Putonghua training in the primary, secondary and tertiary education. Starting with language, they hope more understanding of the Mainland could be added in terms of living, culture and social development in the curriculum so that students could follow closely what happens in the Mainland and prepare themselves better to work there in future.
 - v. The relaxation of investment restriction in CEPA only facilitates small advertising companies to enter the Mainland market, and is less effective for the overall development of Hong Kong's advertising industry. The sector believes that advertising is a service rather than a product, and their real problem is survival in the Mainland. Therefore, they suggest the government should establish some kind of departments or organisations to provide the latest information and support for SMEs interested in the Mainland market, which is a more effective measure in the long run.

2 Architecture

Industry structure, policy and economic performance in the Mainland

- 2.1 Based on the standards of the National Classification of Economic Occupations (GB/T4754—2002) the National Bureau of Statistics of China devised the Classification of Tertiary Industries in May 2003. According to this system, architecture is classified as a secondary industry, consisting mainly of the production (i.e. construction) of architectural products. Since this classification originates from a statistical and not occupational management viewpoint,¹ it also categorizes the related services such as engineering management service, engineering survey design, planning and management within the "Specialized technical service" of the "Scientific research, technical service and geological survey" groups. Our study focuses on architectural design and since the production of architectural products is not based on intellectual property rights, the latter is not within the scope of the study.
- 2.2 China is now undergoing a rapid development stage of economic construction. The development of architectural market has been speeded up by the infrastructural construction of cities, environmental improvement, city business centres, housing construction, building of satellite cities and construction of small towns. In 2004, the architectural design fees in the Mainland totaled RMB20 billion, thus making it a huge market for architectural design.²
- 2.3 According to the Ministry of Construction, the non-state owned portion of engineering, surveying and design consultancy enterprises in China has increased from 17.6% of 1997 to 28.8%. The trend of increase seems to be on-going, which is reflected in the increase of number of architects and engineering design companies. The state is controlling the total number of these firms to within 150-200 by quotas; but according to incomplete statistics, the present number of firms that have been approved by the Ministry reaches 166.³ This is consistent with the decline in the proportion of state-owned or state-controlled architectural enterprises and the rise of collective, private and joint-venture enterprises.

¹ The National Bureau of Statistics, 《國民經濟行業分類（GB4754-2002）注釋》 [National Classification of Economic Occupations]. Commentary, Design and Management of Statistics, 2003.

² *Hong Kong Commercial Daily*, “縱橫:外資設計業在內地的發展趨勢” [Development trend in the Mainland of foreign design sector], Hong Jun, June 9, 2005.

³ Ministry of Construction, “建設部關於公佈第二批建築工程設計事務所名單的公告” [Announcement of the second group of architecture, engineering and design firms] and also the third, fourth and fifth groups.

Table 1: the proportional changes of state-owned economy in architecture (%)**1990-2002**

Year	1990	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Enterprises	32.1	34.3	30.3	31.1	31.2	22.0	21.9	20.7	19.9	19.0	18.0	15.8
Employees	61.4	58.9	57.6	56.6	55.0	40.3	39.4	36.4	34.2	31.9	28.0	24.2
Revenue	69.5	65.9	63.2	65.2	61.4	50.2	49.6	45.4	43.6	40.4	34.9	30.1

Source: Ministry of Construction, 《中國建築業改革與發展研究報告》[Report on the study of reform and development of the Chinese construction industry], China Architecture and Building Press, 2003.

Registered architects

- 2.4 China announced the Ordinance of registered architects in 1995 which stipulates that only registered architects could carry out the work accorded to the title.⁴ Registered architects are divided again into Class I and II and their authorized work include (1) architectural design; (2) architectural design technical consultancy; (3) survey and authentication of buildings; (4) construction supervision and monitoring; (5) other work authorized by the Ministry of Construction.⁵
- 2.5 The examination, registration and carrying out of work of registered architects are supervised and led by the Ministry of Construction and Ministry of Personnel of the State Council; but the actual executive work of examination and registration is delegated to the regional management committees all over the country. In the past, the architectural design market in the Mainland has been monopolized by state-owned architectural institutes. Since the announcement by the Ministry of Construction of "Pilot test and measures of private design firms" in 1993 and "Management measures of architecture and engineering firms" in 2000, the composition of architectural design companies has gradually been diversified with competition among foreign firms, private firms, integrative design institutes, joint-ventured design firms etc.

Strengths and weaknesses of the sector in Mainland

- 2.6 State-operated design institutes have a long history and reputation in

⁴ Ordinance of registered architects, PRC, Chapter 4, Clause 25.

⁵ Ibid., Chapter 3, Clause 20. The difference between registration in the Mainland and in Hong Kong is that individual registered architect cannot contract for a project as a sole proprietor as in Hong Kong and must be associated with a design institute or company. Because of this limitation, even though many Hong Kong architects obtain registration in the Mainland, they still cannot practise because of barrier in setting up a company. Unless they spend most of their time in the Mainland, they cannot satisfy the requirement in establishing a company.

architectural and engineering design. At present, most of these institutes have been corporatized and are competitive in contracting architectural design. Another kind of cooperative design companies are the large scale production firms. Besides, there are also companies set up by famed designers solely or in partnership, which occupy considerable shares of the market.

- 2.14 Since architectural design involves a lot of technical issues, it used to be one of the more tightly controlled occupations in the Mainland. Although the sector is gradually opening up, foreign practitioners still have to rely on the cooperation of their Mainland counterparts in expanding the market since they are not conversant with Mainland policies and regulations. In the past, the collaborators with foreign companies were mostly the state-operated design institutes, because of talent concentration and higher standards, in addition to their official background which would make the approval processes easier. These joint-venture companies were all set up and approved before 2000 according to the 1992 Regulations on establishing joint-venture engineering and design organizations by the Ministry of Construction and Ministry of Commerce.
- 2.15 However, foreign joint-venture design companies are becoming rare and replaced by sole proprietors and franchises. The 2002 Regulations on foreign invested construction, engineering and design enterprises management has made it more flexible for foreign design companies to operate in the Mainland. This new policy allows foreign design companies to set up sole proprietary business in the Mainland and to contract solely for the design portion of a construction project, but with minimum registered capital of US\$200,000.
- 2.16 There is no limit on capital for franchising but there must be a Mainland design company as partner to sign the franchise agreement, to contract and to issue invoices. Both parties will divide the shares for finishing the design work. Since architectural design involves many technical issues, it is difficult for foreign companies to operate in the Mainland on their own. Many choose to collaborate with local designers who will assist the foreign firm in the planning and approval process, while the foreign designer provides the advanced technical knowledge and design and to take care of the contract management and tendering procedures.
- 2.17 According to informants from the sector, 140 companies from the top 200 design consultancies in the world have set up their offices in the Mainland. For example, the global call of tender for the design of the Olympic stadium in Beijing attracted 74 overseas firms as sole contender, representing 61% of the total number. Half of the 44 design firms participating in the design competition of the national stadium for the 2008 Olympic were from overseas. Overseas architectural design companies are now actively pursuing projects in the Mainland and many have succeeded in getting work.
- 2.18 As compared with Hong Kong, the architectural design sector in the Mainland is keener in design and design concept, especially for projects with state funds, which usually come with design competition and expert selection for the architect. The Mainland process stresses design a lot stronger and expects visualization of the design effects much sooner than in Hong Kong. Its mechanism is also more transparent and objective, which no doubt helps raise its professional standards. (Hong Kong on the other hand stresses service, firm

structure, experience and contact).

- 2.19 As regards weaknesses of the Mainland sector, Mainland architects have improved their global vision in recent years through magazines and foreign visits, and have therefore equalized with their Hong Kong counterparts; but the latter are still stronger in terms of understanding the real estate market and the management and economics of buildings. Besides, Hong Kong architects have extensive experience in contract management and supervision (which is not the scope of services by architects in the Mainland), and have better understanding in terms of materials, building craft, electrical, mechanical and structural coordination. These are usually what younger architects in the Mainland lack, who cannot control the whole evolving process of design to the final building. Traditionally, architects in the Mainland are not necessarily the leader in the building design team and may encounter some problems in coordinating with the structural and electrical & mechanical engineers.

Standard and problems in fees

- 2.20 Although foreign designers are more expensive, they could still win in many tendering because of their unique design and advanced technology, especially for high-rise and landmark projects in the big cities. Many high end and luxurious residential projects in the Mainland are usually designed by foreign architects. The well-known architectural firms in Hong Kong have also regarded Mainland projects as their main portfolio in recent years, and have recruited and trained a large number of design professionals there, indicating the Mainland design market is now the chief target for overseas design companies.⁶
- 2.21 The key for international competitiveness of design companies is creativity and not scale. It is international practice to finish a design through social coordination. At the moment, the majority of design institutes in China provide integrative service where social coordination is not apparent. The shortcoming in this is that various kinds of enterprises are competing on the same platform, which is not beneficial to raise the professional standards. The national policy, however, is to encourage professionalism. There is news that a new policy will be formed to classify design enterprises similar to the three-tier system for the construction enterprises, i.e. total contracting, professional contracting and labour contracting.⁷
- 2.22 Private design firms are a new force in recent years. They have a clear market positioning to benefit from the good general economic environment in the Mainland as well as their own design edge to gain success from the challenges posed by the state-owned design institutes and the foreign design companies. In general, the challenge for Mainland design companies is that there are still a majority of clients who do not wish to pay for creativity. Under this circumstance, the good design companies will thrive on their design abilities to provide professional service that could propagate the quality to each aspect of

⁶ Source as in Footnote 2.

⁷ *Fortune World*, “建築設計專業化還是綜合化？” [Architectural design professionalized or synthesized?], May 2005.

the project through scientific management, in order to stand out in the competition of fee cutting.⁸

- 2.23 At present there are a few government regulations on design fees such as "Standard on engineering surveying fee" and "Standard on engineering design fee" of 2002 as guides on charging fees. But in reality, the sector does not follow these guides because of severe fee undercutting. The difference in fee charges between foreign and Mainland firms could be as big as 2 or 3 times. Even among the Mainland companies, there is discrepancy of fee charges. This phenomenon is also prevalent in Hong Kong where professionalism is in high regard.⁹
- 2.24 There are some problems in the tendering and management system of design in the Mainland. For example, there is too much wastage in 2-D drawings, the quality of tendering companies varies greatly, the judgment of expert juries is questionable and the frequency of sudden changes is increasing. Interviewees from the sector express that many established firms would only participate in the large scale government tenders, but the incessant building of cities led by the regional governments might cause many contradictions and social problems for the relatively poor cities where their officials are also ambitious with construction.¹⁰

Difference in system and opportunities in CEPA

- 2.25 From the government and management of the sector perspective, the concept of a construction consultancy industry is not yet complete in the Mainland. The laws and regulations in the tendering and contracting of architectural design are also far from perfect. There are cross-over of functions in government administration and the inadequacy of functional transformation in government is also commonplace. The industry associations cannot perform actively and could not match their overseas counterparts.¹¹
- 2.26 The large design institutes in the Mainland have always been integrative and inclined towards technical design, which makes them competitive in contracting for large projects and quantitative productions. They are relatively weak in consultancy abilities and in professional characteristics. However, contemporary clients, especially those of commercial and residential projects, are now demanding design services that could turn their typologies into small scale and flexible design, as well as new abilities in project construction and

⁸ Shi Wei, "Shanghai Phenomena: survey of architectural design companies (from studio to firm)", *Times + Architecture*, 3rd Issue, 2003.

⁹ Yu Chunpu, "The status, problems and solutions for foreign architects in the Beijing design market", Beijing Survey Design Management Office, 2004.
<http://www.buildnet.cn/Resource/zhjyd/rezhj.asp?ID=54811151343205790> ◦

¹⁰ "The CBD of Beijing will be re-planned or re-tendered", *Beijing Star Daily*, February 21, 2002; Zhou Yiting, "The chance by Citic and Shanghai Times to divide and devour the RMB10 billion CBD plan of the North Outer Bund might be nil", *The Economic Observer*, January 28, 2003.

¹¹ <http://www.cin.gov.cn/indus/speech/2002052103.htm> ◦ China Jianzhu Bao, "設計業如何應對WTO" [How should the design sector deal with WTO], Wang Suqing, May 2002.

management.

- 2.26 The management of qualifications of registered architects in the Mainland at present is based on consideration of the quality of building construction; hence the management is centred on organization and not the individual, with design qualifications concentrated in the large design institutes. Interviewees point out that the structural engineer should bear the chief responsibility for construction and engineering quality, and the present management system does not fit the rules of architectural design.
- 2.27 The signing of CEPA has lowered the threshold for foreign architectural designers to enter the Mainland market and has provided room for development for the Hong Kong industry.¹² However, the sector reflects that although there is a mechanism for mutual recognition of qualifications (100 architects from each side obtained professional recognition in 2004 and the number increased to 120 in 2005), there are still many obstacles and it is not easy to practise in the Mainland with reasons outlined above.¹³

The link between HK and the PRD in the industry

- 2.28 Hong Kong is situated in the south and has been influenced by Lingnan culture for many years. Today's Shenzhen and the New Territories of Hong Kong both belonged historically to Bo An Village of Dongguan. They share the same cultural background and living habits. The walled villages discovered in both places are the good examples to testify this. The Tsang Tai Uk in Hong Kong and the He Wu Xin Ju in Longgang of Shenzhen as well as the Wan Xi Ju of Ping Shan all have site coverage over 15,000 sq m.¹⁴
- 2.29 On the other hand, urbanized residential architecture was once popular in both Hong Kong and Guangzhou. The "Tong Lau" (or literally Chinese style building) with residence above and shop below became the architectural landmark in both places in the 50s and 60s of the last century.¹⁵ Even in the modernization process of the 20th to 21st century, the mutual influence of architecture and urban design between Hong Kong and Mainland has been most obvious in the development of the PRD. Commercial and residential high rise towers a la Hong Kong Style have mushroomed in cities of the PRD since the 90s.
- 2.30 The living standards in the PRD have been rising with income per capita and social consumption ranking ahead of the nation. The demand by government

¹² Ibid.

¹³ The Chairman of Hong Kong Coalition of Professional Services (HKCPS) Mr C Y Leung wrote in the *Mingpao* of April 4, 2005 to express dissatisfaction of the slow progress of professional recognition for Hong Kong professionals in the Mainland, questioning the fact that recognized professionals still could not practise in the Mainland because of problems of system, bureaucracy and protectionism.

¹⁴ Lai, Peng, Lai, 《深港地區的圍屋及其保護與利用》[The protection and use of walled houses in Shenzhen and Hong Kong], *Nanfeng Architecture*, Vol. 73, 1999.

¹⁵ [The regional characteristics of Hong Kong modern architecture], *Nanfeng Architecture*, Vol. 81, 2001.

and residents on the living environment is also getting higher, which stimulates the provincial and municipal governments to speed up construction of urban commercial facilities.¹⁶ Meanwhile, large shopping malls have also transformed the consumption mode in the PRD cities, some of which have even developed a tourism, leisure and resort type of commercial community in the periphery of the malls.¹⁷ These have much bigger room for development than Hong Kong.

- 2.31 "The operating income of Guangdong surveying and design enterprises in 2001 was RMB6.785 billion, RMB2.912 billion of which was engineering design and RMB492 million in engineering surveying. The annual total cost of business was RMB4.914 billion, profit RMB544 million, profit tax RMB130 million and year-end asset worth of the whole industry RMB9.625 billion."¹⁸
- 2.32 "There were 784 companies in surveying and design (including surveying, design, main contractor, decorator, environmental protection, fire service and intelligent service) in Guangdong in 2001, with 43,315 workers, 7,539 of which held senior technical job titles occupying 17.41% of total, 15,181 of which held middle technical job titles at 35.5%, 12,244 of which held junior technical job titles at 28.27%, 4,685 of which held various kinds of registered professional qualifications at 10.82% of total."¹⁹
- 2.33 At present, the two departments of architecture in Hong Kong – University of Hong Kong and the Chinese University of Hong Kong – also enroll Mainland senior secondary school students, but not too many; while the proportion of Hong Kong students choosing to study in the Mainland is also rising. There are now 90 tertiary institutions in the Mainland that provide undergraduate programmes in architecture, 16 of which are not of the 5-year curriculum. There are three universities in Guangdong that offer 5-year undergraduate curriculum in architecture, viz. the Shenzhen University, the South China University of Technology and the Guangdong University of Technology.²⁰
- 2.34 The Hong Kong architecture industry sector is superior to the Mainland in terms of international experience and management standards, but the salary of Hong Kong architects is 4 to 5 times of the Mainland. More and more architectural firms in Hong Kong are now contracting out their drafting work to the architectural design institutes in the Mainland.²¹ The two places could complement each other in terms of human resources.
- 2.35 The architectural industry associations in the Mainland are mostly set up to protect the rights of their members and one of the more established associations is the Architectural Society of China (ASC), which has both individual and corporate membership. There are now 100,000 individual members and 300

¹⁶ *Business Alert-China*, Internal View of PRD, August 2003.

¹⁷ *Business Alert-China*, Internal View of PRD, February 2003.

¹⁸ *Construction Yearbook in China*, Architectural Design, Vol. 1, 2002, p. 279.

¹⁹ *Ibid.*

²⁰ Cf. <http://www.ccen.com.cn/jsjy/tjxk.htm> .

²¹ "The construction industry in Hong Kong", The 2002 *Construction Yearbook in China*, Beijing: China Architecture and Building Press, p. 806.

some corporate members. It is the national member of the International Union of Architects (UIA) and the Architects Regional Council Asia (ARCASIA).

- 2.36 The Hong Kong Institute of Architects (HKIA) conducted a questionnaire survey in February of 2004. Among the 307 interviewees, 104 employers and 127 employees expressed that they would participate or consider to participate in Mainland projects. 77% of these interviewees believed that getting the Class I registered architect status in the mainland would be beneficial to their work.

Survey on the relationship between the architectural firms in Hong Kong and the PRD

Background

- 2.37 The architectural design sector does not have a clear and independent category in the National Classification of Economic Occupations.²² Hence it is difficult to understand the value added and employment figures of the sector in the Mainland and the PRD.
- 2.38 We devise a questionnaire to survey the corporate members of the HKIA to understand the role and trade of the industry sector from Hong Kong in the Mainland. This survey obtained response from 25 companies with number of employees ranging from 2-10 persons to over 200 persons.²³

Data Analysis

- 2.39 60% of the companies are engaged in projects in the PRD. 70% companies among the remaining 40% that have no engagement with the PRD express no interest to explore the PRD or Mainland market.
- 2.40 Among those that have business in the PRD, 66.7% indicate that the PRD portion occupies 25% or less of their total business volume. However, 46.7% of those indicate that the PRD portion of their total profit ranges from 26-50% and another 46.7% indicate that it is less than 25%.
- 2.41 Among the architects that have projects in the PRD, 73.3% are engaged in projects with 10,000 sq m GFA or above. Most Hong Kong companies are engaged in residential and commercial projects – 20.8% indicate that residential projects occupy 26-50% of their total business with another 20.8% indicate 50-100%; 12.5% companies indicate that commercial projects occupy

²² According to 《國民經濟行業分類（GB4754-2002）注釋》[National Classification of Economic Occupations] by the National Bureau of Statistics, the closest occupation classifications to the “Architectural Design Service (8334)” of the Hong Kong Standard Industry Classification (HSIC) are the “Project preliminaries (5010)” and “Other unidentified architectural activities (5090)” listed under “Other architectural industries”. But neither of these two categories could accurately reflect the economic performance of the architectural design sector in China.

²³ There are 221 registered companies in the Hong Kong Institute of Architects. Hence the response rate of this survey was 11.3% and is considered high among similar kinds of survey.

- 25% or less of their total business and 20.8% indicate 26-50%.
- 2.42 16.6% companies indicate that institutional projects occupy 25% or less of their total business; only 8% companies indicate that they have done industrial projects.
- 2.43 Most companies would only allocate a small number of staff for the PRD projects. 60% would put 1-5 people on these projects; 13.3% 6-10 people, 6.7% 11-15 people; 13.3% 16-20 people. 46.7% companies indicate that the PRD staff occupies 25% or less of their total staff; 33.3% indicate 26-50%; 13.3% indicate 51-75%; only one company is using 76% or above of their total number of staff on the PRD projects.
- 2.44 Among the companies surveyed, the majority or 48% has not set up office in the PRD or Mainland, with 32% indicating that they would not consider doing so. 20% of all surveyed companies indicate they have set up office in the Mainland or PRD, with 10 staff or below (at 16%), their office size ranges from below 100 sq m to over 1,000 sq m.
- 2.45 Those who have offices in the Mainland are mostly located in Shanghai and Beijing. Only 4% companies set up offices in the PRD cities of Jiangmen and Zhongshan.
- 2.46 Among those companies that have not set up offices in the Mainland, their ideal location of branch office is: 12% in Shenzhen, 8% in Guangzhou and 4% in Shanghai.
- 2.47 28% of all surveyed companies indicate that they are collaborating with Mainland or PRD architectural companies; 60% indicate the opposite.

Conclusion of survey

- 2.48 For companies that have done projects in the PRD, 67% indicate that the PRD business occupies only 25% or below of their total business, but revenue from the PRD projects could occupy as much as 50% of their total revenue.
- 2.49 These companies are engaged mostly with large projects of over 10,000 sq m GFA, mainly of residential and commercial nature and very little of industrial nature.
- 2.50 In allocation of human resources, most Hong Kong companies (60%) hire 1-5 people for the Mainland or PRD projects. Considering the question of income mentioned above, the efficiency of Hong Kong architectural design firms is quite high.
- 2.51 However, the percentage of companies that do not have business in Mainland or the PRD is rather high. 40% of those surveyed do not have business there nor would consider setting up office there.
- 2.52 For companies that have business in the Mainland or the PRD, 48% has no office there and 32% does not consider doing so in future. Even for those that have set up office in the Mainland, their choice of location is not necessarily in the PRD but in Beijing or Shanghai.
- 2.53 Nevertheless, there are 20% companies that consider Shenzhen and Guangzhou

as the ideal location if they are to set up office in the Mainland in future.²⁴

Prospects

- 2.54 The rapid growth of the Chinese economy and the scale of fixed asset investment, the speeding process of urbanization, development of the real estate market will all provide more room for the market of architectural design. According to information from the Ministry of Construction, the Chinese construction industry will grow at an annual rate of 10% in the next five years. Take housing construction which occupies about 2/3 of the real estate market as example, the present GFA per capita in the Mainland is not quite 22 sq m, but the objective set for 2002 was 30-35 sq m. The urbanization rate in 2001 was 37.7% but the targets for 2010 and 2020 are 45% and 50% respectively.
- 2.55 According to prediction by the UN-Habitat, the world urbanization rate will reach 61% in 2025, but the urbanization trend in China will only be 45% in 2010 with urban population at about 630 million, which is below the world level. The pressure of urbanization no doubt will bring investment and also demand in architectural design service.
- 2.56 The 2008 Beijing Olympic and 2010 Shanghai World Expo will also increase the opportunity for architectural design market in the Mainland. In 2004, 16 departments of the Beijing Municipal Government including the Beijing Municipal Commission of Development and Reform jointly organized a promotional event for the Olympic economic market and announced 376 projects, 22 of which are emphatic projects and 354 general projects, with total investment reaching RMB135 billion. There are 154 preliminary projects confirmed by Tsingdao which can be divided into three categories as necessary, supplementary and related programmes of the Olympic, with a total investment sum of RMB78 billion.
- 2.57 Official figure of the total investment for the Shanghai World Expo is RMB30 billion. Since 2000, a series of planning decisions have already made Shanghai into a world studio for contemporary city planning. Many projects will progress from the conceptual into detailed design stage by 2005 which include: the Zizhu Science-based Industrial Park, the planning design for the Bund, North Outer Bund, Shanghai Ship Yard and Dolun Road in 2002, the CBD of the Bund, East Outer Bund, Fuxin Island, 293 sq km of Lingang New City and 11.51 sq km International Medical Science Park.
- 2.58 At present foreign planning and design companies have different modes of participation in the Mainland market, but if they wish to expand their business, they will face the problems of gaining recognition of qualifications for their practice as well as professional registration as a natural person. The Chinese

²⁴ Since the PRD is close to Hong Kong, one can still remote-control a project in the PRD from Hong Kong without the need of setting up an office there. But based on a similar reasoning, many Hong Kong companies move their drafting and drawing work to the PRD and especially Shenzhen simply because the base cost is lower there, since enforcement of the intellectual property rights for the drafting software in the Mainland is not as strict as Hong Kong. The production of perspective drawings and models has long left Hong Kong for the PRD.

government has not entered into any agreement with foreign institutes regarding such professional validation and will not do so immediately because of the impact this may have on the local sector. Interviewees believe that the government will be cautious and will keep the existing practice of controlling qualification of the companies as means of gaining access to the market.

- 2.59 Because the foreign planning and design professionals could not obtain recognition of their qualifications in the Mainland, their business development is limited. However, this policy seems to be relaxing with the mutual recognition of professional qualifications between Hong Kong and Mainland architects since 2004.²⁵ A total of 205 architects are recognized – 99 from the Mainland become HKIA members and 106 from Hong Kong become Class I registered architects in the Mainland.²⁶ In addition, the controversial review of design in working drawings is also changing: there will no longer be review of the content of government administration.²⁷
- 2.60 Professional institutes and societies of advanced countries are crucial in the development of the industry sector. According to informants in the sector, the industry associations and professional institutes in the Mainland are not as effective in helping the sector because they have not developed a mature self-governing mechanism. Unlike their foreign counterparts in forming the governance with bottom-up volunteers as well as having senior members of the profession to take office in the committees, Mainland institutes still adopt the traditional mode of management for enterprises, which is inadequate to produce an efficient and effective governance structure.
- 2.61 At the moment, only one association could be formed for one sector within one district, known as "one sector one association" policy, which brings along two problems. The first is the contradictions which exist among enterprises of different scales within the same association – since the value and interest of large companies are very different from the small ones. The second is that many regional associations of the same sector will be formed, which will divide the sector up too much with other professional associations. The architectural sector needs to find its market from different spheres and it seems that cross-region and cross-sector membership in the industry associations will be a trend.

Challenges and opportunities for Hong Kong architects

- 2.62 Interviewees opine that architecture is a sector with humanistic content. Architects should not be satisfied simply with earning more money but should consider solving the problems of human habitation and those between buildings

²⁵ Hong Kong Trade Development Council, "Summary of main service industries in Hong Kong: Architectural design." December, 2004.

²⁶ [CEPA links the architectural market in China with 205 people gaining mutual recognition of professional qualification.] <http://sz.focus.cn/newshtml/74876.html>.

²⁷ Jianzhu Shibao, 建設部取消調整的專案名單公佈 施工圖設計檔審查不再行政審批 [The Ministry of Construction cancels the announcement on the list of projects and will no longer conduct executive review of design of working drawings] (2004-6-7)

and cities from a higher cultural level, and strive to create a beautiful and harmonious community of all scales. Hong Kong architects should contribute their knowledge and international experience to the mother land by designing human settlement with sustainable concepts and environmental functions in the PRD and other Mainland regions.

- 2.63 In terms of human resources and developing a good social environment, the Hong Kong sector should organize more high level design competitions for the younger members and produce more magazines or critique columns in newspapers to introduce architectural design, to create impact of architecture on the lives of people and to raise the profile of architects in society. The sector could also be promoted through activities of NGOs such as organizing "Architecture Week", biennial exhibition, award with television broadcast, forum and lectures, setting up of foundation or trust to promote public education, sponsoring Hong Kong architects to take part in international design competition, publishing of books and projects and to participate in international exhibition.
- 2.64 There should be more small-scale projects for young architects and small firms to show their talents since most Hong Kong projects are large-scale investment that young architects have no opportunity to participate in. Japan is a good example in providing small projects to groom their talented young architects. The situation in Hong Kong is desperate since young architects could not take up a small project at the corner of a park (which will be under the Architectural Services Department) or any low-rise residential houses (the design of New Territory exempt house does not even require architect).
- 2.65 In 2005, the then Vice-minister of the Ministry of Commerce An Min emphasized that the impending stage of CEPA was to promote service trade and investment trade. He said that the Ministry regarded the recognition of Hong Kong professionals and their prospects of doing business in the Mainland as very important. The Ministry will further the dialogue with the Hong Kong industry sectors.²⁸
- 2.66 The level of architectural design in Hong Kong is still considered higher than the Mainland. Therefore, Hong Kong designers should be able to get more projects in the PRD and other parts of the Mainland through competitions. For instance, the winner of the recent international design competition of the Guangdong Provincial Museum is a Hong Kong architect.
- 2.67 There is at present no mechanism to allow the sector in Hong Kong to know of design competitions in various parts of the Mainland. It is suggested that the HKIA should cooperate with the Trade Development Council and the Economic and Trade Offices to set up such a channel, which will benefit not only architecture but also other kinds of cultural and creative industries.
- 2.68 The Architectural Services Department has had various kinds of public project experience which otherwise will not be available to private architectural firms, for example, the design of naval base and other cultural facilities. But many of these projects happened only once in Hong Kong and the experience

²⁸ [If Hong Kong architects are allowed to practise in the Mainland without residing there all the time, then they do not have to give up their business in Hong Kong.], *Mingpao* special news, April 11, 2005.

accumulated in ASD could not be exported or re-deployed. It is suggested that the government should set up a mechanism such as forming a consultancy company to allow government architects who had participated in these projects to bid for similar projects in other countries.

- 2.69 On the other hand, there should be knowledge and technology transfer with the engagement of foreign architects for Hong Kong projects, for example, in contracting out the large-scale projects to foreign companies, they are required to partner with a local company and encouraged to transfer their expert knowledge to the local architects.
- 2.70 The PRD has become the centre of materials and technology in relation to the architectural design sector, for instance in building materials and furniture production. Hong Kong architects should guard their position in creativity and management on the industry chain and try to retain this high value added segment in Hong Kong as the window of talents and investment for the PRD and Mainland market.

Civil architectural design market ranking survey in 2003 by *Architecture and Design*

排名	公司	营业额	排名	公司	营业额
1	中国建筑设计研究集团	10 亿	12	浙江省建筑设计研究院	1.2-1.7 亿
2	上海现代建筑设计有限公司	5 亿		广州市设计院	
3	中国联合工程公司	4.5-5 亿	14	深圳华森设计顾问有限公司	1-2 亿
4	同济大学建筑设计研究院	4.2 亿		上海天华建筑设计有限公司	
5	北京市建筑设计研究院	3.3 亿		北京中联环建文建筑设计有限公司	
6	深圳市建筑设计研究总院	2.94 亿	15	天津华汇泛华工程有限公司 设计公司	0.7-1 亿
7	天津市建筑设计院	2.25 亿		中建国际设计顾问有限公司	
8	重庆市设计院	1-2 亿		广东省建筑设计研究总院	
	中船第九设计研究院		20	沈阳新大陆建筑设计有限公司	0.5-0.7 亿
10	中国建筑西南设计研究院	1.3-1.8 亿		澳大利亚柏涛建筑设计公司	
11	王董国际有限公司	1.7 亿		北京维拓时代建筑设计有限公司	

Those related to the PRD: Number 6, 11 (HK company), 12, 14 and 15

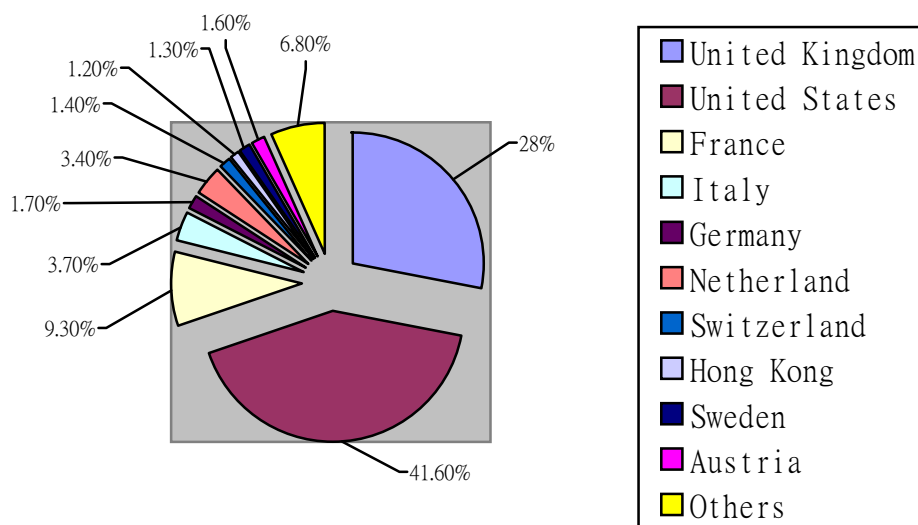
3 Art, Antiques and Crafts

- 3.1 The diverse Hong Kong art, antiques and crafts industry basically falls into the following categories: 1. Special crafts such as ceramics, jade sculptures and embroidery; 2. Assorted crafts such as reproduced jade accessories and old and new snuff bottles; 3. Crafted furniture such as Tamalan, redwood and screen; 4. Jewelry such as gold, silver, jade, and germ stones. According to the trade statistics of Hong Kong which separates the total export output of arts, collectables and antiques from the output of pearl and jade, the four categories of the industry can be further summarized into two aspects for study, i.e. art, collectables and antiques (the first to third categories), and jade (the fourth category).
- 3.2 According to the *Hong Kong Yearbook 2004*, the total import and export art products were HK\$1.3323 billion and HK\$838 million respectively in 2003, representing a 9.1% increase and 12.4% decrease. Antiques with more than a hundred year history accounted for HK\$627.8 million of the total import, while oil, Chinese and pastel painting accounted for HK\$481.7 million, and collectables for zoology, botany and mineralogy accounted for HK\$201 million. Sculptures made of various materials were worth HK\$82.82 million, while engravings and lithographs were worth a total of HK\$30.48 million.¹ Two organizations organized large-scale art auctions in 2003. The auctions organized by Sotheby's Hong Kong in spring and autumn had a turnover of HK\$100 million, while the jewelry and jade accessories auction by Christie's Hong Kong recorded a turnover of over HK\$60 million.² In 2003, Hong Kong represented 1.2% of sales in the world auction market (see figure below), with a 1.14% increase compared to 2002.³

¹ *Hong Kong Economic Yearbook 2004*, page 213.

² *Ibid.*, page 213-214.

³ *Art Market Insight 2002 and Art Market Trend 2003*, ArtPrice: www.artprice.com.

Distribution of the international auction sales in 2003

Source: ArtPrice.com

- 3.3 The jewelry industry in Hong Kong consists mainly of manufacturers, importers, exporters, wholesalers and retailers. As the fourth-largest exporter of luxury jewelry in the world, Hong Kong has a total export value of HKD\$ 20.7 billion in 2004, with an 18% to 19% increase compared to the value in 2003 of HKD\$17.3 billion.⁴ At present, America (HKD\$10.4 billion) is Hong Kong's largest export market, followed by United Kingdom (HKD\$1.8 billion), Japan (HKD\$1.3 billion) and Germany (HKD\$1 billion).⁵ In 2003, the number of visits made by mainland visitors was 8.46 million, representing 54.5% of the total number of visitors in Hong Kong.⁶ According to the study conducted by the Hong Kong Tourism Board, 90% of the Mainland visitors have participated in sales activities, which is the most active group among all nationalities. Of all the products bought by Mainland visitors, 27% are luxury products related jewelry and accessories.⁷
- 3.4 The jewelry industry in Hong Kong benefits greatly under the "Individual-visit Scheme". The turnover rate of jewelry during the Chinese New Year of 2005 recorded a 30% increase, as compared to the rate in 2004 of the same period, of which 90% of the turnover was by Mainland visitors.⁸ Representatives from the sector express that jewelry retailers benefit directly as more Mainland

⁴ Hong Kong Trade Development Council "Hong Kong's Total Exports of Articles of Precious Jewelry of Metal, Pearls, Stones (SITC897.3)"

⁵ Ibid.

⁶ "Statistics of Tourism 2003", page 5.

⁷ "Visitor Profile Report 2003", page 4, 6.

⁸ 見〈珠寶業界可創本土特色〉[The jewelry sector can create local character], the Macau Daily, March 5, 2005.

provinces participate in the “Individual-visit Scheme”, and hence employ more staff to cope with the increase in customers. There is an increase in the number of staff working in the jewelry industry, and the increase continued in 2004. On the contrary, representatives from the sector point out that the artifacts, collectables and antiques markets in the Mainland are blooming and are more open than before, which attract local and groups of collectors who used to search for Chinese antiques in Hong Kong to move to the Mainland. As Hong Kong loses its edge in export, wholesale and retail, the number of factories and employees in Hong Kong is also decreasing.

Industry in the Pearl River Delta Region

- 3.5 Enterprises with foreign investment are the major support for the development of jewelry industry in Guangdong and the Pearl River Delta region. According to the statistics by the Bureau of Statistics of Guangdong Province, the total export of pearl, gem stones and accessories by enterprises with foreign investment reached US\$807 million in 2002, representing almost 60% of the province’s total of RMB1.5 billion.⁹ Most of these enterprises came from Hong Kong, and a few from France and Thailand.
- 3.6 Jewelry enterprises of Hong Kong set up their manufacturing bases mainly in Panyu of Guangdong and the Shenzhen Special Economic Zone. Of the US\$2.2 billion jewelry export from Hong Kong in 2003, 70% were manufactured in the Mainland and exported through Hong Kong.¹⁰ Panyu, which accounts for the export of a quarter of the whole accessories in China, produces 50% of the output.¹¹ Moreover, accessories companies such as Shenzhen Ganlu Jewelry Company Limited, Shenzhen An Sheng Hua Industrial Development Company, and Shenzhen Bo Fook Jewelry Company, are appraised by China Promotion Commission for Brand Strategy as famous brand products in China in 2004.¹² The accumulated export value of jewelry accessories in 2004 had a 32.6% increase than the same period in 2003 (see table below). It shows that the jewelry industry in the Pearl River Delta region and Guangdong Province is growing rapidly.

⁹ *Guangdong Statistic Yearbook 2005*, p. 427-428.

¹⁰ 〈香港珠寶五成廣州製造〉 [50% of Hong Kong Jewelry is produced in Guangzhou], *Guangzhou Daily*, reprinted in HKTDC Industry News from China, September 24, 2004.

¹¹ 〈廣州番禺成爲東南亞最大的珠寶首飾加工基地〉 [Panyu has become the largest processing base of jewelry in Southeast Asia], *China Trade News*, reprinted from HKTDC Industry News from China, October 12, 2004.

¹² Famous Brands in China, China Promotion Commission for Brand Strategy, <http://www.chinamp.org/mpshow.php>.

The accumulated export value of jewelry accessories in Guangdong (in US\$)

Year	Month-end accumulation	% of year-on-year increase
September 2004	1,765,910,000	32.6%
September 2003	1,331,450,000	9.0%

(Source: Guangdong Social and Economic Monthly Statistical Digest)

- 3.7 The PRD is one of the many regions for import of crafts to Hong Kong. The antiques and crafts industry in the PRD are mainly supported by local capitals, with very little foreign investment. Hong Kong only plays a limited role in that region as a comprador. Although a lot of antique and artifact markets have been established recently such as the famous Guangzhou Xiguan Guwancheng, they fail to develop and attract buyers since most of these markets are scattered, small in scale and lack unique style and character.
- 3.8 At present, the import and export values of artifacts, collectibles and antiques are not satisfactory. Guangdong, which aspires to become a big cultural province, only attained an export and import value of USD\$ 6.71 million in 2004 (see table below) while their investment in cultural and heritage services (i.e. financial allocation/budget) kept increasing. According to the Ministry of Culture, the figure reached RMB1.45 billion in 2004, with RMB130 million or 10% increase compared to 2003; the total expenses in cultural and heritage services was 0.78% of the total provincial budget, and those of the PRD region (including Guangzhou, Shenzhen, Zhuhai, Dongguan, Zhongshan, Jiangmen and Foshan) reached RMB955 million, 65.9% of the provincial total and 1.1% increase from 2003.¹³
- 3.9 Facing such a weak market, some of the more historical and traditional handicrafts in the PRD such as Cantonese embroidery (one of the four famous embroidery styles in China – the rest are from Sichuan, Suzhou and Hunan) and Cantonese coloured pottery are dying because the long production process, small amount of production, low income of artists and artisans and difficulty in learning the skills are deterring people from going into this industry. On the contrary, the more practical and new art and crafts such as lighting in Foshan, crafts and toys in Chenghai, and gifts in Shenzhen are doing well because they fit the market needs.

The total import and export of art, collectibles and antiques in Guangdong (in US\$)

Year	Export	Import
September 2004	6,710,000	180,000
2003	5,710,000	100,000

(Source: Guangdong Social and Economic Monthly Statistical Digest)

¹³見〈2004年廣東省文化文物事業費增幅10%·2005年第6期·總第375期〉[Cultural budget in Guangdong increased by 10%, Vol. 6, 2005], Ministry of Culture, PRC: , 載自中華人民共和國文化部網頁: <http://www.ccnt.gov.cn/whcy/?nav=whcy01&id=1112341774>。

Sector Interview – Status of the Hong Kong industry in the PRD

Jewelry

- 3.10 Among Hong Kong's art, antiques and crafts industry, jewelry has the strongest tie with Mainland China and the Pearl River Delta. Hong Kong is currently the fourth largest jewelry exporter in the world, due to Hong Kong's political stability, sound legal system and the free trade policy, which attract a large number of overseas and Asian jewelry buyers and merchants to exhibit their products in Hong Kong.¹⁴ At the same time, Hong Kong's diverse social environment and vast information flow greatly benefited the creative jewelry industry in terms of absorbing new ideas and experience. Industry representatives generally believe that Hong Kong people's unique and broad world perspective is the sector's edge over others.
- 3.11 The market in the Mainland gradually opened since the late 70s, and jewelry merchants from Hong Kong started to develop their business in Mainland since the mid 80s. Many jewelry merchants shifted the production processes that required large amount of labour to the PRD as the salary and rent levels in Hong Kong were going up. Since the 90s, jewelry merchants in Hong Kong started to develop the sales market in the Mainland through consignment. However those who went in early are focusing on developing the markets in Beijing and Shanghai, while the PRD remains as the production and processing centre.
- 3.12 In recent years, brands from Hong Kong have penetrated into the Mainland and Pearl River Delta market and are very popular among the local population, whereas brands from the Mainland are only popular in their places of origination and business development is very limited. The markets for Hong Kong jewelry merchants are now shifting from the big cities such as Beijing and Shanghai to the Southeast. At present, the popularity and recognition of Hong Kong jewelry brands are definitely better than those from the North. According to a survey by the Hong Kong Trade Development Council in 2003, 91.5% interviewees from Guangzhou prefer the jewelry brands and shops from Hong Kong most (see table below). Practitioners believe that this is due to similarity of taste between consumers from Hong Kong and Guangdong, and the latter can familiarize themselves with these brands from Hong Kong television programmes.

Most popular jewelry and brands (Interviewees can choose more than one)

Brands	All interviewees	Guangzhou	Shanghai	Beijing	Dalian	Chengdu
Hong Kong	44.1%	91.5%	43.5%	64.5%	8.5%	12.5%
International	4.4%	2.0%	4.5%	7.0%	1.0%	7.5%
China	37.9%	5.5%	71.0%	56.0%	4.0%	53.0%

(Survey on consumption of jewelry in major cities in Mainland China, HKTDC)

¹⁴ According to statistics from the HK Tourism Board, international jewelry exhibitions organized in Hong Kong in 2004 include the Hong Kong International Jewellery Show, Asia's Fashion Jewellery & Accessories Fair, 2004, Hong Kong Jewellery & Watch Fair and the 12th Hong Kong International Jewelry Manufacturers Exhibition.

- 3.13 Practitioners point out that the reason for popularity of Hong Kong jewelry brands in the Mainland is that the Mainland consumers feel that there is a large range of fashionable jewelry choices they can make. Other major considerations include reasonable pricing, many brand choices and guaranteed quality. According to the HKTDC survey on consumption of jewelry in major cities in Mainland China in 2003, the four most popular brands are all from Hong Kong, namely Chow Sang Sang, Chow Tai Fook, Tse Sui Lung (TSL) and Luk Fook. Customers from the Mainland give first priority to Hong Kong brands when purchasing mid- to high-class jewelry, while they would consider brands from the Mainland when looking for jewelry of lower classes. Industry representatives added that this kind of buying pattern is very similar to that of visitors to Hong Kong under the individual visitor scheme, as both types of visitors purchase jewelry priced from HK\$3,000 to \$5,000.
- 3.14 Facing the merge of markets with the PRD and individual markets in the Mainland, Hong Kong jewelry merchants adopt the marketing strategy of “Created in Hong Kong, produced in the PRD, and distributed throughout the world”. Practitioners express that the foundation of jewelry industry in Hong Kong is strong especially in terms of jewelry design. The board perspectives and international experiences of merchants bring local jewelry designs to an international level. On the contrary, there is very little exposition in the Mainland limiting the chances for practitioners to exchange ideas and cooperate with foreign buyers, and also their international outlook. Therefore the strategy of “Created in Hong Kong” is still widely used throughout the industry. In terms of production, most of the procedures are now being carried out in the PRD, except for some large-scale and more sophisticated products.
- 3.15 Other than the above reasons, successful brand building in the Mainland is also a key factor for Hong Kong jewelry industry to remain at the leading position in the Pearl River Delta region. Practitioners point out that branding effect is very important to luxury products such as jewelry. Reputation is an important factor to attract customers other than product design and materials. They believe customers are very conscious about whether the gold accessories they purchase contain adequate amount of gold as labelled, and this is how trust is built up between consumers and brands. In conclusion, good reputation equals to a guarantee of product quality, and this gives the reason why brands from Hong Kong are much more popular than those from the PRD.
- 3.16 Other than paying attention to the product quality, industry representatives believe that merchants from Hong Kong must consider design style in order to develop the sector in the PRD. The launch of individual visitor scheme by the Hong Kong Government in 2003 allows citizens from the Pearl River Delta and the Mainland to purchase jewelry in Hong Kong. The scheme greatly affects the positioning of local jewelry design and pricing. Yet the overall marketing goal is to project a product image and style that would be totally different from products from the Mainland. This is done by adopting a more European, American and Japanese style to consolidate the “Hong Kong style” and to differentiate the products sold in the PRD and Hong Kong. The uniqueness of this marketing strategy is to accommodate the different tastes between locals and visitors and to absorb consumers of different levels, which enable merchants

from Hong Kong to balance the business development in the Mainland and Hong Kong.

- 3.17 Although the Hong Kong jewelry industry seems to be developing well in different cities in the Mainland, industry representatives express that the edge of Hong Kong merchants is not that obvious in the Mainland due to the different tax systems. Informants point out that merchants from Hong Kong have to pay 17% value added tax and 10% sales tax in order to sell Hong Kong jewelry products in the Mainland. However merchants from the Mainland receive a lot of preferences in terms of fees and taxes, and are even exempt from some tax items that would lower their product costs. Besides, they have better contacts and networks. Informants also say that there are only a limited number of successful cases for Hong Kong merchants going north. The key to success depends on whether the merchant has a long-term vision or is just a short-term opportunist. It is believed that a long term vision and plan would be helpful to the development of brands and business in the Mainland.
- 3.18 In previous years, the biggest problem that Hong Kong jewelry industry faces are unfamiliarity with the Mainland market. Informants point out that in the mid-80s, different buying habits between different cities, unfamiliarity with the laws regarding jewelry industry, confusing legal system and inconsistent practice between the central and local government gave merchants from Hong Kong a lot of headache. They further point out that these problems still exist, but have already been improved. The most urgent problem that needs to be resolved now is the insufficiency of specialists in the Mainland and Hong Kong. The tertiary industry in the Mainland has developed rapidly in recent years and led to a growing demand of talents in the service industry, particularly skilled sales and managerial staff who tend to join international brands. There is not enough service oriented staff to accommodate the fast growing jewelry business.
- 3.19 As mentioned earlier, Hong Kong is responsible for creation in the cooperation with the PRD in jewelry industry, yet informants point out that there is a very limited supply of creative and design talents in Hong Kong. Although the Hong Kong Polytechnic University used to provide relevant courses in the past, at present only the Hong Kong Institute of Vocational Education offers a few part-time courses that are insufficient to nurture talents in this area. On the contrary, though the creative and design standards in the PRD are still developing, several large scale professional institutions in jewelry have been established in Panyu, the base which accounts for one fourth of the total jewelry export in China. Furthermore, practitioners from the Mainland are gaining more and more knowledge in jewelry from different sources including the internet, industry magazines and business trips. Informants from Hong Kong worry that Hong Kong's position in jewelry creation will be taken over by the up-coming talents from the Mainland in 2 to 3 years time.

Art and crafts

- 3.20 There has been little interaction between Hong Kong and the PRD or other cities in the Mainland in terms of art and crafts industry. The only relationship between the two places is to import artifacts and antiques from the Mainland to sell in Hong Kong, which has been a practice for a long time. Informants

express that the major difference between the crafts market in Hong Kong and China is that the market in Hong Kong is a mix of Chinese and Western artifacts. The uniqueness of the Hong Kong market is due to its colonial background. Furthermore, as the unique mix of East and West remains unchanged, Hong Kong's jewelry market has a different position compared to the markets in the Mainland and other Asian regions.

- 3.21 When the Mainland market was still unopened, Hong Kong was basically the most important Chinese crafts and antiques market in China and therefore attracted many overseas buyers. Although the Mainland market gradually opens in recent years and some collectors would purchase directly from it, informants express that this has not created serious effect to the market in Hong Kong since Hong Kong Government's free trade policy still attracts foreign industry to do business in Hong Kong. Therefore Hong Kong still retains the edge from the past and remains in an advantageous position as compared to the PRD.
- 3.22 Informants express that crafts merchants from Hong Kong seldom open branches in the Mainland and the PRD due to intense competition in the Mainland market. However, they would cooperate with galleries from the Mainland as industry and business exchange, but usually with Shanghai and Beijing and not the PRD. Indeed, the art market in the western world is composed of three elements: the gallery or exhibition venue, artist and the critic, and the close connection among the three forms a typical investment market. This model of operation is rather mature in overseas markets, but has yet to be developed in the Pearl River Delta which is still quite disorderly and not conducive to development of the relevant industries.
- 3.23 Auction is the major channel to sell antiques and crafts, and therefore international auction companies such as Sotheby's and Christie's establish their Asia Pacific headquarters in Hong Kong. Merchants from Hong Kong and with foreign investment have little participation in the industry in the Pearl River Delta since the auction industry in the Mainland is state-owned and is not open to foreign companies. In early 2004, there were 318 auction companies, 3500 practitioners and 600 practising auctioneers in Guangdong.¹⁵ However, as compared to a few of the large auction companies in Beijing and Shanghai which have already taken up 80% of the whole national market, the share taken up by Guangdong is relatively small.
- 3.24 Informants believe that a cultural atmosphere is essential to artifact collection, but the atmosphere in the Lingnan region is weak compared to Beijing and the Jiangsu and Zhejiang region. In addition, the low entry requirement to the auction business in the Mainland in the past, the low professional requirements of auction practitioners, and the lack of strong and effective agencies have weakened the confidence of customers in the Mainland market. A few international auction companies also express that unfamiliarity with the Mainland legal system and the challenges posed by the local auction companies with stronger contacts and network have deterred them from entering the Mainland market at this stage. They believe that Hong Kong will remain an international auction city for Chinese art and crafts for some time.

¹⁵ *Guangdong Statistic Yearbook 2005*, p. 281.

- 3.25 In terms of human resources, since the sectors in Hong Kong and the Mainland seldom exchanged, their needs are also different in this regard. The crafts and antiques market in the PRD is now entering a stage of stable development for collection. Informants believe that the edge of Hong Kong facing this rapid development in the Mainland is to develop training of human resources based on accumulated experiences.
- 3.26 However, practitioners from the local crafts and auction sectors express that there is a serious shortage in talents in relevant businesses which is problematic to the future development of the industry. The problem is not too acute at present yet they worry that the new generation may not be able to sustain this human resource supply in art valuation and appreciation. They believe that local citizens have great interest in art and artifacts. However the Government has not elevated art and culture into the mainstream curriculum and therefore the art market remains under-developed.

Regulations, CEPA, WTO and Industry

- 3.27 Regulations in CEPA affect the mobility of jade and gem stones in the art, antiques and crafts industry. Before CEPA was launched, informants already expressed that CEPA and cooperation in the Pan-PRD would bring new opportunities to the jewelry industry in Hong Kong. 90% of the jewelry merchants have already set up factories in the Mainland to combine the advantages of skills, styles with the low labor cost.
- 3.28 When CEPA was launched in early 2004, industry representatives expected a significant increase in jewelry export from the Mainland to Hong Kong. However there was only 6% increase compared to the first half year in 2003, according to the export figures of precious jewelry from Hong Kong by the Hong Kong Trade Development Council. By the end of July 31 in 2004, the Trade and Industry Department only received ten applications regarding the original place of production under CEPA, which accounted for only 0.64% of all applications.¹⁶
- 3.29 According to the "Summary of Tariff Free Hong Kong Origin Goods" and Clause 148 to 160 related to production of jewelry, the main production procedures in precious metal is the base for consideration. However, if assembly is involved in the procedure, the assembly must also be done in Hong Kong for the product to enjoy tariff free status. Industry representatives point out that the reason why CEPA does not encourage the mobility of jewelry products is that 90% of Hong Kong merchants have already carried out some of the production procedures in the PRD region which allows them to sell their products directly in the Mainland. Since the production cost in Hong Kong is high, there will even be an increase in the operational cost if the production procedures are carried out in Hong Kong instead of Mainland in order to receive the free-tariff offer by CEPA.
- 3.30 Furthermore, Hong Kong merchants will have to pay a 17% value-added tax and

¹⁶ [Introduction of the precious jewelry industry in Hong Kong] Jewelry Business Directory, HK Jewelry Manufacturers' Association, www.jobs.jewelry.org.hk/frontground/yearbook/2005/TC/HKPJIO.asp.

a 10% sales tax in order to sell their products in the Mainland, while part of the value-added tax can be waived if the products are produced in the Mainland. On top of that, Hong Kong merchants prefer to keep their production line in the PRD region as they can sell their products, made of gold or diamond purchased in the Mainland, without any value-added tax for import as long as they apply for an individual operation license since the beginning of 2004.

- 3.31 For China entering the World Trade Organization, industry representatives generally think that there are more good than harm for the sector. They point out that many foreign investment enterprises and internationally known brands have already entered the market in Beijing and Shanghai. However these companies face problems in administration and management due to cultural difference, which makes it difficult for them to position firmly in the Chinese market. Informants express that Hong Kong merchant's edge over foreign companies is their similar background with the Mainland, which makes them easier to understand the demand in the Mainland market. Besides, as Hong Kong merchants develop mainly mid-class while foreign companies develop high-class brands, there is basically no conflict between the two. Furthermore, informants believe that with more foreign enterprises entering the Mainland market, creativity and standards of the market will rise and will even develop in a faster pace which will benefit the local and Hong Kong companies.
- 3.32 Practitioners express that CEPA does not offer much assistance to the crafts and antique industry, which already has little relationship with the market in the Pearl River Delta and the Mainland. At present customers of related industry are usually foreigners, with little customers from local and the Mainland. Therefore mobility of people is beneficial to the industry in terms of business or arts exchange. They believe what the Hong Kong Government has to do is only to continue the free trade policy and the limit-free entry policy. Practitioners from the suction industry also believes that Hong Kong Government's policy of non-intervention and zero transit duty are the keys for Hong Kong to become a important city for Chinese crafts auction within Asia. They believe buyers and practitioners from all over the world will consider Hong Kong as an important exchange platform as long as Hong Kong continues with her character.
- 3.33 Although the revised version of the Heritage Protection Law of the PRC passed by the 9th National People's Congress in October 2002 does not allow any foreign company to enter the Chinese art auction market, this restriction will be cancelled starting from December 11 this year as China entered the World Trade Organization. Informants believe that since the auction sector in China is 200 years behind the West and cannot compete either in scale or experience, local companies will be wiped out by international auction companies such as Sotheby's and Christie's once the market is open.
- 3.34 As for the protection of intellectual property rights, this will have more long lasting effects on the jewelry industry. Informants express that piracy has existed for a while in the sector and is unavoidable due to the numerous products which makes it difficult for companies to buy all the rights. Therefore, they believe brand effects are ever more important since it is not just products that are sold but also brands – quality, experience and service must all be considered and renewed continuously at the forefront of the industry to make

the brand known to the market. This will be a more effective way to resolve the problem of piracy.

Summary

- 3.35 Although the local jewelry market has flourished under the “Individual Visitor Scheme” and economic recovery, the jewelry industry in Hong Kong is facing a serious challenge as the US Government offers duty free to jewelry products manufactured in India and Thailand. Fortunately, the sector in Hong Kong still retains several advantages: 1) duty free for gold import which lowers the cost and offers a competitive price, 2) the jewelry design and production is of international standard, 3) good reputation on the quality of jewelry products, 4) low labour and production costs provided by the Pearl River Delta, 5) the opening of the Mainland market and the consumption potential of individual visitors from the Mainland.
- 3.36 Residents from the PRD and the Mainland like the jewelry brands from Hong Kong due to fashionable styles and reasonable prices, great varieties of brands and quality guarantee. Merchants from Hong Kong can ride on the reputation built up in the past in the Mainland and the tariff-free policy offered by CEPA to promote the sector in two places and put into action the strategy of “Created in Hong Kong, produced in Pearl River Delta and distributed throughout the world.”
- 3.37 The antiques and crafts industry in the Pearl River Delta has entered into a stage of steady development. As traditional crafts are declining, they will be replaced by newly developed products. Although the antiques and crafts markets in the PRD and Hong Kong operate independently, informants point out that this is the best time for collection in the PRD market. Added with China’s entry to the World Trade Organization which will attract overseas buyers directly to the Mainland, this ultimately will threaten Hong Kong as a trading city in Chinese art and antiques.
- 3.38 Faced with uncertainties of the industry, some informants suggest increasing interaction and cooperation with art organizations in the Mainland to pull the two markets closer together. Being close to the supply of art and artifacts from the PRD and the Mainland as well as this large market and the fast developing pace brought by China’s entry into WTO, and at the same time by nurturing a new generation of experts in art appreciation and valuation, Hong Kong will continue to function as an international market in Chinese and Western art and will contribute to the development in the PRD and Southern China.
- 3.39 The following is a summary of the comments made by the art, antiques and crafts sector regarding the industry development in Hong Kong and the PRD, and their recommendations:
- i. In terms of policy, the sector believes that Hong Kong Government should continue the policy of active non-intervention and free port since these are the important factors for the industry’s success in the past. The launch of “Individual Visitor Scheme” has already benefited the industry. More government intervention may affect the free development of the sector.
 - ii. In terms of education, practitioners believe that Hong Kong has potential to

become an important centre in Asia in art, antiques and crafts with its higher living standards compared to other Asian regions and hence a higher demand for art. The industry will be able to sustain and develop under such a good environment. Therefore practitioners urge the government to strengthen art education in school to nurture the younger generation's artistic ability for the future of the industry.

- iii. In terms of infrastructural development, the sector believes that the West Kowloon Cultural District Development will greatly benefit the future development of the industry. They believe the project can allow the public more opportunities to understand art and culture. More creative and innovative ideas can also be generated by clustering of talents and artists. Furthermore, the project will provide a platform for artists to gather and express themselves, which will have important influence to the future development of art and culture in Hong Kong.
- iv. Since the jewelry industry produces the largest economic output within the sector, the rapid increase in the jewelry business drives the demand for talents and relevant information. Therefore the sector suggests the government to establish a jewelry design and information centre for the training of talents as well as to provide information and channels for exchange for overseas buyers and merchants, which will be important for the long term development of the sector.
- v. The government or the sector could cooperate with the Mainland to organize antique exhibitions and activities, e.g. by relaying such programmes from the CCTV or introduce antique shows from different countries for citizens' viewing and appreciation. This will not only increase local people's general interest but also attract others from the world, which will help promote the sector in Hong Kong.
- vi. The antique market in the Mainland is developing with illegal traders reaping their profits with fakes and replicas. Therefore antique experts are in high demand. Since the Hong Kong sector has established a good reputation, the government could encourage collaboration between the sector and the tertiary institutions to set up courses in this area and to train qualified antique experts to fulfill the market demand and to develop Hong Kong as an antique centre in Asia.

4 Design

Design Industries in Hong Kong and the PRD: Socio-Cultural Linkages

- 4.1 The uniqueness of Hong Kong's design sector lies in its blending of Chinese traditional elements with western approaches. This is particularly the case in the graphic design sub-sector, which first prospered in the 1920s and 1930s. At that time, large numbers of designers migrated from Mainland China to Hong Kong, where they developed their profession. The most well-known examples of such designers are the father-and-son designer team of Kwan Chuk-lam (alias Lam Gua) and Kwan Wai-nung, with the latter popularly known as "The King of Calendar Posters."¹
- 4.2 Beginning in the 1950s, a number of Hong Kong designers began to give up the traditional Chinese design approach and adopted the Western method. At that time, the design of certain products, which aimed at catering to the American market, became Americanized. Moreover, after 1949, with Shanghainese entrepreneurs coming to Hong Kong to start their businesses, Shanghainese fashion was brought to Hong Kong. At about the same time, young people in Hong Kong also began to study fashion design abroad.
- 4.3 In order to meet the demand for design education that came from the rising population, education programmes in design began to increase in number during the 1960s and 1970s, producing a number of locally-trained designers by the 1980s. With increasing economic activities between Hong Kong and Mainland China and the relocation of a large number of Hong Kong-based factories to Mainland China since the 1980s, interaction between designers in Hong Kong and Mainland China intensified. In the 1990s, quite a number of fashion designers in Hong Kong began searching for design concepts that reflected the local culture, resulting in large numbers of fashion items that were designed around traditional Chinese themes.
- 4.4 For those Hong Kong designers who entered the Mainland Chinese market in the 1980s, it was a pioneering time. Many of them stumbled into obstacles as they were not entirely familiar with the business culture and legal environment that affected business operation on Mainland China. Despite the abundance of business opportunities at the time, in order for businesses to succeed, these designers had to be multi-talented and be able to provide cross-disciplinary services.
- 4.5 Between 1990 and 2000, numerous Hong Kong-based design companies began to flourish in Mainland China, with some even establishing strong footholds in such major cities as Shanghai and Shenzhen. While these companies had begun as joint-ventures, with the introduction of CEPA, a number of Hong Kong-based companies in Mainland China now operate in the form of sole

¹ Kwok Siu-tong, "The origin and transformation of Hong Kong and Mainland's Cultural and Creative Industries", (In Chinese) in the *Critical Review of China's Cultural Industries*, (Zhonghua Wenhua Chanye Pinglun) Shanghai: Shanghai People's Publication House.

proprietorship.

- 4.6 Shenzhen's graphic design sub-sector began to develop during the 1990s under the influence of Hong Kong, and a graphic design professional association in Shenzhen was established at that time. Unfortunately, lacking the necessary administrative support from local government at the time, the development of Shenzhen's design sector remained relatively amateurish.

Design Sector in the PRD: Its Economic Viability

Economic Environment

- 4.7 In 2001, the Hong Kong Trade Development Council conducted a survey of Hong Kong's graphic design, interior design and product design sub-sectors. Results of the survey found that in the perception of Mainland Chinese clients, Hong Kong design fees were high, and Hong Kong design services were only suitable for high-end or multinational corporations. Moreover, in the mid- to low-end design service market segment, with the exception of the product design sub-sector, Hong Kong's design services were not considered competitive to those on Mainland China.
- 4.8 The above report found that 83% of companies surveyed in the South China region² "only hired Mainland Chinese graphic design services." While 86% of the surveyed companies "only hired Mainland Chinese interior design services" and "only hired Mainland Chinese product design services." Of these three design services, the amount spent on interior design services in Mainland China is the highest, amounting to RMB 2,714,000 (US\$ 327,000) each year.
- 4.9 The report also found that state-owned enterprises and government units were the biggest clients for the design sector. The average amount spent on interior design amounted to RMB 6,000,000 (US\$ 708,000) each year, which was nine times more than that spent by foreign-invested or joint-venture enterprises. Of these, the average annual spending on interior design by Beijing enterprises was over RMB 11,000,000 (US\$ 1,300,000), which was 25 times more than the amount spent on the same service in the entire South China Region.³
- 4.10 Furthermore, a study showed that in 2002, the per capita expenditure on design services by residents in the Guangdong Province was RMB 986.40, which was a 19.2% increase from that in 1997. The amount spent on interior design and renovation increased by 68.5% from that in 1997. Of the families that carried out home renovations, the amount spent on the most recent home renovation averaged at RMB 30,800.

² The South China region includes the major cities of Guangzhou, Shenzhen, Zhongshan, Zhuhai, Panyu, Shunde and Dongguan.

³ Designed by Hong Kong – Interior Design (2001), Hong Kong: Hong Kong Trade Development Council, p. 11.

Design Industry Environment in the PRD and Mainland China

- 4.11 On Mainland China, there are five professional associations in the design sector: China Packaging Federation; China Industrial Design Association; China Artists Association; China Packaging Design Committee, and China Graphic Arts Design Committee.
- 4.12 The early opening-up of the Guangdong Province led to the rise of a group of competent designers in the South China region. They included Wang Yuefei, Chen Zhaohua, Chang Dali, Han Jiaying, etc. With the development of the market economy in Shenzhen and the flourishing of the printing industry in the 1980s, many of those involved in the arts on Mainland China moved to Shenzhen, facilitating the rapid development of the graphic design sub-sector there. Over these years, Shenzhen designers have been recipients of numerous awards from international design competitions and exhibitions. Moreover, the Shenzhen Municipal Government has been keen on developing the city into a "Design Capital."⁴
- 4.13 In the product design sub-sector, Midea Corporation, based in Shunde, has already developed into an Original Brand Manufacturer (OBM), employing local Mainland Chinese designers. Also found in Shunde are factories of such enterprises as TCL, SHINCO and SKYWORTH, which have established their own in-house design departments.
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Role of Hong Kong's Design Industry in the PRD

- 4.15 From the perspective of Hong Kong designers, there are three major benefits of developing their businesses in the PRD. One of these is geographic proximity, which allows designers to conduct one-day business trips to the Mainland. The second major benefit is common language and similar culture base. Finally, many of the manufacturing bases in the PRD are owned by Hong Kong investors, who show a higher degree of preference for Hong Kong design services.
- 4.16 Moreover, certain PRD cities, such as Shenzhen, which operate on a streamlined approach, allow large transactions to be conducted relatively easily, thus attracting Hong Kong designers.

⁴ "The Current Situation of Shenzhen's Design Sector" (In Chinese), in Shenzhen Cultural Research Reference (Shenzhen Wenhua Yanjiu Cankao), Shenzhen: Shenzhen Cultural Research Centre, Vol 2. 2004.

⁵ "Hong Kong Companies Have Good Prospect in PRD Design Market", in Business Alert – China Inside PRD, Sept 2003.

- 4.17 According to the opinion of professionals in the graphic design sub-sector, services by Hong Kong-based graphic design businesses are not concentrated in the PRD region, but are spread among the coastal cities and other major cities including Shanghai, Beijing, Changdu and Chongqing. These cities have attracted companies that are motivated to build-up their own brand, as they believe that branding design is beneficial to the growth of their companies.
- 4.18 Most Hong Kong design firms (with the exception of those in the graphic design sub-sector), in addition to their core design services, also provide other design services including shop front design, advertising and promotion design and product design. Furthermore, many Hong Kong designers have become design consultants for Mainland Chinese enterprises in product and corporate branding, assisting these enterprises to advance from Original Equipment Manufacturers (OEM) to Original Design Manufacturers (OBM).
- 4.19 With many Mainland Chinese enterprises planning on expansion, some of them will seek services from Hong Kong design firms for the re-design of their brands in the aim of better catering to an international market. These enterprises believe that design firms in Mainland China cannot meet their needs, and hiring foreign design firms is too expensive. They believe that seeking services from Hong Kong design firms is the best option because the latter bring in an international perspective and fees are reasonable. As such, opportunities for Hong Kong design firms on Mainland China are abundant.

Difficulties Faced by Hong Kong's Design Sector in the PRD

- 4.20 Intellectual property right has been an important issue in the product design sector since the late 1990s. In this sector, it is quite common for product designs to be pirate-copied when the design is handed to factories for production. In the architecture and interior design sectors, violation of intellectual property rights is not as serious of an issue.
- 4.21 Although the Chinese Government has already began education on the protection of intellectual property rights, and amended laws on patents and registered marks, the enforcement of such laws is still problematic in the PRD.
- 4.22 Hong Kong designers have not had many opportunities to provide services to large corporations⁶ in Mainland China. One of the reasons for this is the inadequate understanding about Hong Kong designs on the part of Mainland Chinese clients. The other reason is that Mainland Chinese clients consider it inconvenient to conduct business with Hong Kong designers because not being based in the Mainland, Hong Kong designers cannot build and strengthen networking relationships with their clients. If Hong Kong design firms want to provide long-term services to Mainland Chinese clients, they will need to arrange for their senior staff to be stationed on the Mainland, but this will greatly increase their operation costs.
- 4.23 Hong Kong designers face a certain level of communication difficulties with

⁶ "Large corporations" in Mainland China are defined as those companies that have an annual income above several billion RMB and with over 1,000 branch offices.

Mainland Chinese clients as there are substantial differences between them and the latter in language, culture and management practices.

- 4.24 In general, Mainland Chinese clients do not have sufficient knowledge on the spirit of contracts, as they often request Hong Kong designers to provide consultation services free of charge. Moreover, many companies are still reluctant to give payment in advance. Worse still, it is frequently the case that written contracts are unilaterally declared null and void by Mainland companies, to the detriment of Hong Kong design firms.
- 4.25 Given that there are differences between Hong Kong's and Mainland China's taxation system and foreign currency regulations, Hong Kong designers frequently encounter technical problems in conducting transactions with Mainland Chinese clients. It is the suggestion of Hong Kong designers that the Hong Kong Government should take initiative in working with Mainland Chinese Government to resolve these administrative problems faced by Hong Kong companies when conducting business in the Mainland.
- 4.26 Of all the sectors in the design sector, the product design sub-sector is the one that should be promoted the most, but unfortunately, its development is not as good as it should be. Moreover, most products produced in the Mainland are exported to overseas markets. Unless the design quality of those products is so high that it could develop into a brand; otherwise, it is not possible to assume that local product designs can stimulate a higher degree of appreciation for the importance of product design.

Comparative Advantages of Hong Kong's Design Profession in the PRD

- 4.27 Hong Kong is a city where Eastern and Western cultures have come together. Because Hong Kong designers have a full grasp of international information on product trends and market research, compared with their counterparts in Mainland China, they possess a broader international vision. The development of Hong Kong's design industry is comprehensive, especially in terms of the passing on of knowledge from the older to the younger generations of designers. Moreover, Hong Kong designers possess a relatively higher degree of awareness of world trends in interior design, giving them an edge over Mainland Chinese designers in design concept formulation and programme development.
- 4.28 According to some industry insiders' opinion, compared to Mainland design staff, Hong Kong design staff are more willing to remain in one working position. As such, the turnover rate of design staff in Hong Kong firms is far lower than that in the Mainland.
- 4.29 Facing the development potential of PRD, HKTDC has planned to assist the 60,000 Hong Kong companies that have opened up businesses on the Mainland.
- 4.30 Hong Kong's professional design associations have been in operation for a long time, providing support for the sector and facilitating the development of the sector. On the Mainland, similar associations have been founded, providing a similar kind of support to the local design sector. Some of activities that they have organized include the National Design Competition held in Shenzhen and the Chinese National Design Competition held in Beijing, both of which are

strongly influenced by the Hong Kong Design Biennial.

- 4.31 Compared with the design sector on the Mainland, Hong Kong's design sector enjoys a higher degree of autonomy with relatively low levels of direct intervention from the government. This is beneficial to the development of creative industry in Hong Kong.

Comparative Advantages of Mainland China's Design Sector

- 4.32 The bond between designers on the Mainland is tighter than that between designers in Hong Kong. On the Mainland, at any given social or professional gathering, there are more designers participating.
- 4.33 Mainland design companies are generally larger in scale than Hong Kong design companies. On the Mainland, small design companies have, on average, 10 staff members, while larger design companies have 20 to 30 staff members. Compared to the small design companies in Hong Kong which generally have 2 to 3 staff members, the larger scale of Mainland design companies gives them a competitive advantage over Hong Kong design companies.
- 4.34 In the multi-media and animation sub-sectors, the skills of Mainland designers are better than that of Hong Kong designers, and the company atmosphere on the Mainland provides better support for their staff to keep learning than that in Hong Kong firms.
- 4.35 With the Internet popularized, Mainland designers are now better in touch with global trends, which means that in terms of international scope, Mainland designers are quickly catching up to their Hong Kong counterparts.
- 4.36 Design exhibitions on the Mainland are not only increasing in number, but also in quality. In the long run, the design sector on the Mainland (and especially that in Shenzhen) should develop in a stable and healthy manner.
- 4.37 In 2005, the third annual iF Award CHINA organized by International Forum Design was awarded to the designs of two mp3 players of Heyun-Z500 and Huoying-Z320 by TOGO Design Ltd. The iF Award CHINA, which is considered the "Oscar" of all design awards in China, was awarded to these two product designs in recognition of their advanced industrial design and technology.⁷ Together with the already well-known Guangdong graphic designers, the Chinese design sector should gradually gain an important place in the international scene.

⁷ China Design Centre (2005) "'iF' Design Award CHINA 2005' announced" (in Chinese), <http://www.designac.com/Html/Pmdt/20050513091911513.html>, 29 Jun 2005.

Analysis of the Regulatory Frameworks Governing Hong Kong's and PRD's Design Sectors

CEPA

4.38 With the implementation of CEPA, Hong Kong companies were permitted to establish sole proprietorships on the Mainland. For Hong Kong companies, this scheme accelerated their adaptation to the mode of business operation on the Mainland, and assisted the development of their business on the Mainland.

The Guangzhou “Design Port” Scheme

4.39 In 2004, the Guangzhou Liwan District Government developed the “Design Port” scheme, which aimed at attracting Hong Kong design companies to set up their businesses there by providing land and rental incentives. Representatives were sent to Hong Kong to promote this scheme, and Mr. Henry Lui of Hong Kong has already set up his design company there.

Design Sector in the PRD: Its Labour Force and Training

Design Education and Training in Mainland China

4.40 According to a research study entitled “China’s Design Industry” conducted by Japan Design Foundation between July 2003 and March 2004, there were over 400 universities in China that had design departments, producing over 100,000 design graduates annually. With such a big number of design professionals entering the labour force every year, competition within the sector has increased, resulting in a general decrease in design fees. Coupled with this are the increasing number of repatriates and the increasing number of foreign design firms entering the Mainland market.⁸

4.41 At present, there are over 300 institutions and programmes that provide formal professional training in design in Mainland China. However, the number of design professionals produced by these institutions still falls short of the demand for such expertise in light of the rapidly growing design sector on the Mainland.

4.42 There is a mismatch in the demand and supply of designers in certain design sub-sectors. In the advertising design sub-sector, there is an over supply. There is an under supply of product and industrial designers, however, since the Mainland China market now has a heavy manufacturing focus. Moreover, some designers, especially fashion designers, have been criticized for copying

⁸ “Japan Economic News: Today’s China Design” (2004), (In Chinese)
<http://www.china.org.cn/chinese/HIAW/655122.htm>, 29 Jun 2005.

other people's ideas and lacking creativity.

- 4.43 Ten years ago, there were approximately 50 educational institutions specializing in design on the Mainland. By 2004, there were already over 500 such institutions.
- 4.44 Hong Kong designers have been participating in design education on the Mainland. One example is The School of Art and Design that was recently founded by Shantou University, which recruited highly qualified designers and arts administrators from Hong Kong to manage and develop the school.

Design Education and Training in Hong Kong

- 4.45 In Hong Kong's design education and training system, more effort needs to be expended in teaching the soft skills that are fundamental to the training of design professionals, including communication and presentation skills, cultural awareness and a broad scope of view. Moreover, part of the training should involve equipping design graduates with strong business planning skills and a clear vision of their career paths.
- 4.46 The Hong Kong Government should invest more resources into the fostering of local designers by providing support that encourages originality and creativity. One possible measure is to relax the regulations governing certain commercial spaces and old buildings, thereby providing more choices of suitable work spaces for design professionals.

5 Digital Entertainment

5.1 According to the *Baseline Study on Hong Kong's Creative Industries* and the *Report on the Working Group on Digital Entertainment*, the definition of digital entertainment industry includes the domains of computer animation, games, educational entertainment software, digital image and visual effect.¹ As for the industry classification in China, there is no corresponding definition; however, software games, animated cartoon and web-media are regarded as the most innovative industry with cultural connotation and high economic value, and the web-media in Mainland even covers the domains of network industry, online broadcasting industry, data image and information service industry, game industry and related software industry. Because of the two places' different understanding and overlapping of the industry boundary related to 'digital entertainment', a single definition is unable to encompass them all, let alone their industrial structures and marketing environment.² To have a better understanding toward the marketing environment and structures of the digital entertainment in Hong Kong and the Mainland, this chapter deals with the following sectors of digital entertainment industry – computer game, online game, mobile phone game (game industry for short of the three) and animation industry – to explore the market development in Hong Kong and its relationship with the China market.

Overview of the Local Market

5.2 The local digital entertainment is an infant industry. Available information related to its market structure and operating status is sketchy. In 2004, the Office of the Government Chief Information Officer of the HKSAR together with Hong Kong Productivity Council carried out a research, collecting the basic data of the local digital entertainment industry. Based on an industry survey of 208 samples, the research showed that there are about 38.5% enterprises engaging in computer animation business, 36% game development, and the rest 25.5% operating digital effect.³ Nearly half of the Hong Kong digital entertainment enterprises (45.6%) were set up in the past three years; two third of the respondent companies were small and medium enterprises with employment less than 10 people; nearly 40% (38.2%) of the enterprises started their business with less than HK\$1 million as capital. Besides, 77.5% of the enterprises were with their profit gain less than HK\$3 million in 2003; and 82.5% of the enterprises took the local market as their primary market.

5.3 By and large, the local animation industry started in 1980s. In the mid 1990s, local production of 2D and 3D products gradually caught the audience's

¹ *Report on the Working Group on Digital Entertainment*, 2003, 15.

² Recently, the emerging form of digital art has shared a lot of common features with the digital entertainment in China.

³ Information related to local industry is supplied by Office of the Government Chief Information Officer.

attention, offering a variety of popular products from animated films, cartoon TV series to cartoon series in VCD / DVD. But in general, home made animated films were still at its beginning stage with few productions and few successful cases in both local and oversea markets. For example, box office of the animated film *A Chinese Ghost Story* (小倩), with TSUI Hak (徐克) and Chan Wai-man (陳偉文) as producer and director respectively, recorded HK\$8 million in 1997. Subsequently in 2001, *Master Q 2001* (老夫子) with TSUI Hak as producer and YAU Lai-tao (邱禮濤) as director and *McDull Story* (麥兜故事) produced by Bliss Concepts Limited recorded HK\$20 million and HK\$15 million respectively in local box office. These productions of local made animated film can be regarded as the representative works in the past 10 years.⁴ Although local animated films have been continually produced and put into the market, such as *Master Q movie: Naughty Detective* in 2003, *McDull: Prince butter-bun* (菠蘿油王子) in 2004 and a 3D animation film named *Dragon Blade* in 2005, *Master Q* and *McDull* have recorded HK\$1.24 million and HK\$4.69 million in the local box office respectively, their economic returns are far from unsatisfactory.

- 5.4 Hong Kong is not lacking the enterprises which possess the ability to exploit animation market both overseas and in the Mainland. Some of them aim at the local market while other will set up production bases in the Mainland, engaging in outsourcing or producing their own products for overseas and the Mainland markets.⁵ In the past, the enterprises of cartoon movie have shifted to the Mainland for their productions, mostly agglomerating in Shenzhen for their operation. Recently, however, due to the rapid development of the coastal

⁴ Besides, 'Dayaowang (打妖王)' manufactured by Next Media Ltd. ended with unsatisfactory result; Jade Animation Production, a subsidiary Co. of TVB, was also a market participant with early production of 'Idiom Animation Gallery' and 'Magical Eagle & Chivarous Partner' (神鵬俠侶) in 2002, these works were considered to be the relatively famous animation series.

⁵ Asia Animation Limited, Colorland, Agogo Corporation and Universal Digital Creative Holding Co. Ltd. are the market participants. Asia Animation Ltd. positively promotes local creation, focusing on TV animation and compact disc; Asia Animation has consecutively obtained the copyrights of 'Master Q', 'Ka Yin Mama' (家燕媽媽) and Choi Chi-chung's 'Five sons one zen' (五子一禪), and positively cooperates with the local Cartoonists to produce many short cartoon series, including Wong Yuk-long's works '5th Generation of Dragon & Tiger' (龍虎五世), Ma Wing-sing's works 'Storm Rider' (風急雲怒). Asia Animation is also ready to promote the sale of Ma Wing-sing's new work 'Fengyun Jue' (風雲決) in the local and Mainland markets in 2006. Colorland has already undertaken outsourcing business from USA and Europe markets, and developed its own DVD products to put on sale in USA market, 'In Search of Santa' being one of its representative works. As for the AGOGO Corporation, it is also mainly undertaking the USA and Europe outsourcing business. However, it also develops its own products or makes co-production. Two sets of works, 'Jack & Marcel' and 'Tomato Twins', are the comparatively popular productions of the AGOGO. As for Universal Digital, it becomes the listed company in the Hong Kong stock market. Its core business supplies the system to digital cinemas and engages some activities in computer imaging and creative productions. In addition, it also supplies animation training in Shenzhen and Shanghai. The company puts into market a first 3D movie in 2004, 'Thru the Moebius Strip', targeting the USA market. Lessons can be learnt from the cases of Colorland, AGOGO Corporation and Universal Digital. With their headquarters based in Hong Kong, these companies set up production lines in the Mainland, aiming mainly at the Mainland and overseas markets. Besides, their operating mode changes from traditional outsourcing to proprietary works as well. As for another local company DCDC (HK) Ltd. (特思), its primary market aims specifically at the USA and Europe markets, with 3D movie 'Butt Ugly Martians' being one of the typical works and showing in the USA & Europe TV stations. Its recent production is the 'Dragon Blade'.

cities in China and the favorable policies for animation industry at the provincial and city level, individual companies have extended their connection to Guangzhou, Shanghai, Hangzhou, Nanjing and other places.

- 5.5 In respect of game market, Hong Kong enterprises develop “massively multiplayer online role-playing games” (MMORPGs); compared with big scale online games of USA, China, Japan and Korea, capital investment of local game companies is relatively low, but with the edge of shorter production cycle and the products more dependent on local users in the market. However, some individual game products are also getting popular in overseas market. The scale of development on mobile game is even smaller. Some enterprises in this sector are run by a personal or small team partnership in its operation. Its works will be sold to manufacturers of mobile phones, or telecommunication network operators will act as agents for sale. With the diversification of network platforms, 3G phones and broadband network become more popular; medium-and-small enterprises have emerged in the market, offering a variety of entertainment products from ring-tones, images, short messages, internet drama, cartoon, short video film to leisure games.
- 5.6 Besides, some enterprises in the market offer such services as software development, animated special effect and multi-media production, including the professional services on game characters design, audio effect or image processing. Their services are well integrated with movie productions, TV advertisement, music video and even web-page design or publishing with multi-media contents.

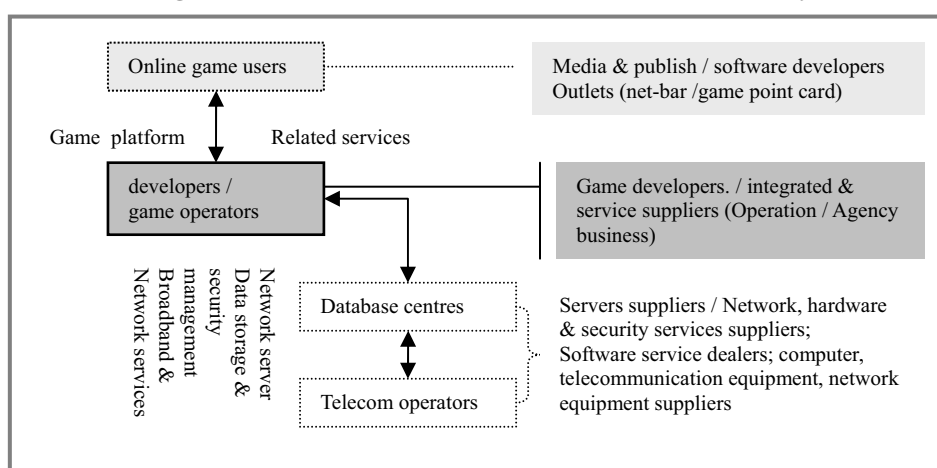
The Development of Game Market in China

- 5.7 The Mainland game market started in the mid 1990s. Apart from USA capital, Taiwan enterprises are main participants. Game developers like Soft-World International Corp. (智冠) and Softstar Entertainment Inc (大宇) had introduced a number of productions in the mid 1990s. *Legend of swordsman* (仙劍奇俠傳) developed by Softstar is one of the typical pieces. However, following the speedy growth in the Mainland market, local and oversea game companies take part in the race. Coupled with the drastic change of the game market structure, the Mainland online game is increasingly overwhelmed by Korean firms while the famous brand-named games of USA, Europe and Japan also gain substantial share of the pie. The game products of Taiwan now only occupy the marginal position. As for Hong Kong locally made productions, they are not yet popular and unable to build up relatively larger user groups either.
- 5.8 Online games have been leading the China market. PC games (particularly personal computer game) are the earliest main product available in the Mainland game market. But troubled with piracy, the market obviously shows sign of shrinkage. In 2001, Mainland China still puts into the game market 313 productions of PC game of locally developed and imported games. In 2002, the productions increase to 397 designs. However, a drop to 194 productions is seen in 2003, showing the drastic decline of the PC game market. In the past few years, the sale of 2001 amounted to RMB280 million; it drops to RMB230 million in 2002. A further drop of sale at more than 50% with only RMB100

million was recorded in 2003.⁶

- 5.9 In the same period, online games prevail, replacing the PC game to become the most popular digital entertainment in the Mainland. Not only the number of online game users increases, but the scale of local and foreign capital investment into the market expands extensively upon this “rising industry” of the new economy, making a bunch of speedily rising enterprises in the Mainland. The structure of China online game market can be analyzed in terms of the below value-chain – the upper stream of the industry is game development, game software agency & service operators; the middle stream comprises data-base centres or hardware dealers, service suppliers; besides, the down stream includes the outlet channels and retailers. The whole industry structure builds on telecommunication and broadband network as well as the development of internet technologies (see figure 1):

Figure 1: The Value Chain of China’s Game Industry



- 5.10 In 2003, internet users in China reached 68.3 million people; up-to-date figure is over 100 million. The speedy development of telecommunication has laid a sound foundation for the growth of online games. While the number of game users is about 8.4 million in 2002, it increased to 13.8 million in 2003, with percentage growth of 63.8%. In 2004, users increased to 20 million, and it is expected that online game users will reach 41.8 million in 2007.⁷
- 5.11 The speedy growth of user groups brings huge profit to the market. In 2000, the game market sale was RMB30 million; sale in 2001 reckoned at RMB310 million. In 2002, the sale accounted for RMB910 million, with a growth of 213.8%. The year 2003 saw a sluggish sale of RMB1.32 billion with a growth of 45.8%, and in 2004, a sale of further increase of RMB2.47 billion was recorded. According to one estimate, there will be rapid growth in the China online game market in the coming years, and RMB10.96 billion will be

⁶ ‘2003 niandu zhongguo youxi chanye fazhan baogao yaodian jingdu’, *Zhongguo Dianzi yu Wangluo Chubao*, issue 2, 2004, 30.

⁷ *The People Daily*, 25th July 2005; ‘2003 niandu zhongguo youxi chanye fazhan baogao’, 28-29.

expected in the year 2009.⁸

5.12 The development and operation of online game chiefly concentrate in Beijing, Eastern and Southwestern regions of China. Beijing and Shanghai, for instance, have already nurtured many local developers and prominent game developers. In Eastern China, Zhejiang and Jiangsu Provinces are the main operational and developing locations where Korean and Taiwanese game companies are mostly present. Geographically speaking, game users spread from Zhejiang, Jiangsu, Shanghai and Beijing, Guangdong, Hubei, Shandong, Liaoning to Hunan and Fujian provinces. Guangdong province, in particular, ranks the top 3 of locations where user groups have concentrated (see table 1).

Table 1: Survey of the Geographic Distribution of Game Users

Province	User number	Percentage
Jiangsu	11,337	8.5%
Zhejiang	11,007	8.2%
Guangdong*	9,918	7.4%
Sichuan	8,395	6.3%
Hubei	7,946	5.9%
Shandong	7,395	5.5%
Liaoning	6,631	4.9%
Shanghai	6,234	4.6%
Hunan	5,998	4.5%
Beijing	5,963	4.4%
Fujian	5,649	4.2%
Sample Total	133,003	100%

Source: '2003 niandu zhongguo youxi chanye fazhan baogao', 33.

Note* Pearl River Delta

5.13 Chinese game users usually enjoy the game at home and at net cafes. Game users can be divided into three groups – low consumption groups who spend less than RMB50 a month amounts to 24.6%; medium groups spending RMB51-120 to 25.9%; high consumption groups spending RMB121-300 to 38.9%.⁹ The finding shows a relatively stable distribution among the three groups of game consumer, and that factor is supportive for the growth of the industry. Besides, game outlets are growing rapidly, of which the number of internet cafes increased to 636,422 in the period 2002 and 2003, with employment of 190,000 people and operational income of RMB6.1 billion.¹⁰

5.14 In fact, competition in the China game market is fierce. In recent years, only

⁸ '2003 niandu zhongguo youxi chanye fazhan baogao', 28; Qi Shuyu compiled, *Zhongguo wenhua chanye guoji jingzhengli baogao*, 289; *Jingji ribao*, 25th July, 2005.

⁹ Data obtained from the following sources: Yao Hao and Liu Qing, 'Woguo Wangluo youxi chanye di fazhan xianzhuang jiqi yingxiao fangshi fenshi', *Diannao Zhishi yu Jishu*, no. 20, 2004; '2003 niandu zhongguo youxi chanye fazhan baogao'. 28; Chen Zewei, 'Wangluo chanye: liaochu yingli wanchu quimo', *Outlook weekly*, 28th July, 2003.

¹⁰ Wenhua bu jihua caiwusi compiled, *Zhongguo wenhua wenwu tongji nianjian*, Beijing: Beijing tushuguan chubanshe, 2003.

those who are supported by large capital can join the competition. Early operators in the market acted as agencies for overseas game products as a start. In the period of 1999-2000, 80% of the online game market was dominated by Taiwan companies, including Wayi International Digital Entertainment Co. Ltd. (華義) to become the agent for the Japanese game company JSS's *Stone Age*, and Soft-World International Corp.'s (智冠) *The legend of Kam Yung* (金庸) *Swordsmen*. Later, Shanghai Shanda (盛大) introduced the Korean Online game *Legend* into the market and made a record of subscribing 100,000 game users within 6 months; Sina.com in 2002 introduced the Korean game *Lineage* and in the same year; The9 Computer Technology introduced another Korean game *Miracle* into the heated market. And in that process, the Mainland companies gradually regained its lost territories.

- 5.15 According to industry sources, game products mostly come from Korea in the past years. This kind of agency operation is not without risk because the Mainland agents need to pay high royalty fees and share profits with the overseas developers. In 2003, Aomeisoft.com (奧美) broke down with the Korean game developer on the imported game *Konjak King* (孔雀王), and the Korean proprietor held up the copyright of the game; Gaojia Technology Ltd. (高嘉) also in the same year announced to terminate the operation of the Korean game *Angel*. In another case, the co-operation of Shanda (盛大) and the Korean Actoz broke up at the same time.¹¹ The industry sector also realizes that agency business will not sustain local development of China's game industry. Therefore, a number of industry players now adopt the strategy mixing the agency business and the development of proprietorship of its own products together so as to promote the local development of online games.
- 5.16 From the following table (Table 2) of the top 10 online games in 2003, it shows that the Mainland online game industry has entered a new phase, with the increasing profile of locally developed games, and the developed products of local companies being popular. Although the Japanese and Korean games still shared a substantial proportion of the market, the local game companies have already occupied half of the market in recent 2 years. The local products such as *Voyage Century*, *Dahua Xiyou* and *Swordsmen* have made an impact and became popular.

¹¹ 'Shanda ruhe dizao xinzhuanji', *Dianzi Shangwu*, no.7, 2004; 'Zhuanji zhi fu yanzhong di Zhongguo wangyou', *Ruanjian Shijie*, no.7, 2004; '2003 niandu zhongguo youxi chanye fazhan baogao', 32-33.

Table 2: Top 10 Online Games in China, 2003

Ranking	Game Title	Game Developer (Operator)
1	<i>Legend</i>	Korean Wemade (Shanghai Shanda)
2	<i>Legend 3</i>	Korean Wemade (Guangzhou Optisp)
3	<i>Miracle</i>	Korea Imazic (The9 Computer Technology)
4	<i>Legend World</i>	Shanghai Shanda (Shanghai Shanda)
5	<i>Bubble Bubble</i>	Shanghai Shanda (Shanghai Shanda)
6	<i>Magical Baby</i>	Japan ENIX (Joypark Weststar)
7	<i>Love Affairs of a Swordsman</i>	Kingsoft (Kingsoft)
8	<i>Dahua Xiyou Online2</i>	Net Ease (Net Ease)
9	<i>Ourgame</i>	Ourgame Technology (Ourgame Technology)
10	<i>Fairyland Legend</i>	Korean Gravity (Gameflieger Tech. (Beijing) Co. Ltd. / Soft-World International Corp.)

Source: 'Wangluo youxi: qianli judai de xinxing dianzi shangwu yingyong', *Dianzi Shangwu*, no. 10, 2004.

The Inland Policy of Online Game Promotion

- 5.17 Nowadays, online game developers in the Mainland market are increasingly research-oriented and willing to develop their own proprietary products. Companies adopting this approach include the relatively famous enterprises such as Guangtong Communications (光通訊), Shanghai Shanda, Beijing Federal Software Co.Ltd, Kingsoft, Shanghai Everstar Online Entertainment Co. Ltd. (上海潤星) and Junnet (駿網) Groups etc.¹² Many of these enterprises are located in Southern China – like Guangtong, Net Ease in Guangzhou, Wangyu Computer Network Co. Ltd. (網域) in Shenzhen – are heading to the direction of independent research and proprietary development.¹³
- 5.18 The Mainland government highly concerns the development of game industry and takes it as the key industry of development in the service sector. At the latter period of 2003, National Science & Technology Department approved 2 projects – “Development of Online game engine” and “the Application of human intelligence on interactive network” for the National 863 Projects, and invested 5 million RMB in order to boost up game research and development. In addition, since the announcement of “Chuban guanli tiaoli” (出版管理條例) and “Dianzi chubanwu guanli zhangquiding” (電子出版物管理暫行規定) in 1996, together with “Hulianwang xinxi fuwu guanli banfa” in 2000, the regulatory environment for the game market has been improved.
- 5.19 In August 2004, the General Administration of Press and Publication of the PRC (hereafter the General Administration) announced the ‘Guanyu shishi “Guangguo minzu wanglu youxi chuban gongcheng” de tongzhi’, with the purpose to strengthen the Chinese national game industry and to enhance the

¹² ‘2004 nian youxi ruanjian changye touzi xinliangdian’, *Shidai Maoyi*, no.4, 2004.

¹³ Net Ease’s own product, ‘*A Chinese Odyssey Online*’ and Shenzhen Wangyu’s ‘*Huaxia Online*’ are the games that combine the entertaining features of Chinese traditional stories with fairy tales. The former one recorded 340,000 users in 2004 while the latter recorded 400,000 registered users at the beginning of 2004; *Nanfang dushi bao*, 18th November, 2004, A37; ‘Huaxia Online zai Shen mianshi’, *Shenzhen Shangbao*, 21st January, 2005.

competitiveness of the industry to provide more productions with Chinese cultural characteristics and healthy contents for teenagers. The implementation period started from 2004 to 2008. During a five-year term, hundred types of locally developed and massive national online games will be published. Those games which are selected for the “Project of Chinese National Online Games” will receive supports from the General Administration and other relevant Departments to ensure their completion. At this stage, there are 16 online game developers selected for the Project, whose works encompass the themes from Chinese history, classical literature, fairytales, legends to educational entertainment, with total investment over RMB300 million (Annex 1).

- 5.20 In the beginning of 2005, the General Administration announced the “Zhongguo wangluo youxi dongman chanye fazhan quihua” (中國網絡遊戲動漫產業發展規劃), a plan that develops supportive measures to promote the national game industry by setting up a number of production bases nationwide for the game and animation industries. According to relevant statistics, the online game and animation industries in Shanghai, Guangdong, Beijing and Sichuan are developed comparatively fast (see table 3). The Administration then suggests setting up 4 national production bases for online game and animation in these provinces or cities, and these production bases are expected to foster 10 to 20 local online game companies in the next three years.

Table 3

Development of Online Game and Animation Industries in 4 Provinces/Cities, 2004

Region	Shanghai	Guangdong	Beijing	Sichuan
Scale (Billion RMB)	18.1	7.0	1.5	0.3
Share of game users' in the Mainland (%)	7.4%	10.5%	5.7%	5.2%
Number of game companies	26	7	27	13

Source: *Guang Ming Ribao*, 25th May 2005.

Overview of the Animation Market in China

- 5.21 “Animation” in China includes a variety of animated films, TV series and comic books. Since there is no comprehensive survey of the industry, there are different estimates on the market scale. Some analysts suggest that the market may account for about RMB20 billion. When combining the related industries, the estimated market can be valued about RMB160 billion.¹⁴ At present, 80% of animation products in China are imported. Audio/video products (CD) are broadcasted through China TV Stations. According to statistics from China Animation Association, locally made animation accounts for 28,000 minutes in 2004. Adding up the 30,000 minutes processed locally for other countries, the total productions of animation will amount to 60,000 minutes. In addition, there are many children channels in local TV stations, together with the requirement from the State Administration of Radio, Film and Television (hereafter the State Administration) has required that the ratio for broadcasting

¹⁴ *Wen Hui Bao*, 20th November, 2004, A27; *Xin Bao*, 5th November, 2004, P24; a more optimistic estimate points out that, in 2004, the value of Mainland’s animation industry is over 300 billion RMB, with an expectation of 700 billion in 2005; *Zhongguo Shichang*, 21st July, 2005.

locally made animation and imported animation cannot be less than 6:4, industry sources will claim that, in the coming few years, the total productions time may reach about 250,000 to 280,000 minutes annually.¹⁵ Therefore, the current supply of about less than 30,000 minutes cannot satisfy the growing demand for animation productions. As for the sale of comic books, there are no reliable data too; but it is estimated that local comic market is dominated by Japanese products which share about 60%, 29% of European/USA and less than 11% of Chinese comic, including the products of Hong Kong and Taiwan.

- 5.22 The rapid growth of animation and comic markets gives birth to sizeable numbers of animation companies which are widely dispersed in different regions. Shenzhen is one of the earliest animation production bases in China for overseas markets, where individual Hong Kong animation companies choose to take residence. The early Jade Animation and Colorland, comic enterprises such as the Jade Dynasty and the recent Asia Animation Ltd. also set up their production bases in Shenzhen, due to its geographic proximity to Hong Kong. In rough estimate, there are over 100 companies that are capable to produce animation films, with some of them engaging in outsourcing business, original productions and 3D productions. Besides, Hunan, Dalian, Shanghai, Suzhou and Hangzhou are also growing places for animation production.

The Policies to Promote Animation Industry in China

- 5.23 The Chinese authority pays much attention to promote local productions, and the industry is regarded as one of the key industries that should be stressed upon. In April 2004, the State Administration issued “Guanyu fazhan woguo yingshi donghua changye de ruogan yijian” (the “Yijian” for short), which points out clearly the direction of promoting the animation industry. The “Yijian” agrees to increase the broadcasting ratio of locally produced animation to imported films (the ratio of 6:4 quoted in the above paragraph), to lower the entry barriers to the market, to encourage private investment and to promote co-productions with foreign animation companies. In past two years, the Mainland government has consecutively approved a list of animation production bases (Annex 2) and actively pursued the goals set by the “Yijian”.
- 5.24 Animation production bases will benefit from various tax breaks and other preferential policies. According to an announcement in March 2005 by the Ministry of Finance, the Chinese Custom Office and the State Administration of Taxation - “Guanyu wenhua tizhi shidianzhong zhechi wenhua changye fazhan ruogan shuishou zhengce wenti de tongzhi” – enterprises engaging in animation, comic production, publishing and animated film production and distribution can enjoy tax exemption in export, income tax and various other tax benefits.¹⁶ Besides, the State Administration decides, from January 2005, to recommend a number of outstanding locally-made animated films for broadcasting. Priority will be given to these local films when being broadcasted in all television

¹⁵ *Renmin Ribao*, 19th July, 2005; *Beijing Wanbao*, 5th July, 2005.

¹⁶ That document lists 18 types of cultural enterprise; relevant policies will also be applied to online game enterprises and online contents production companies. Trials will be practiced in Beijing city, Shanghai city, Chongqing city, Guangdong Province, Zhejiang Province, Shenzhen, Shenyang city, Xian city and Lijiang city, and the policy starts from 1st January, 2004 to 31st December, 2008.

nationwide channels.¹⁷

Interactions of the HK Digital Entertainment Industry and the Mainland Market

- 5.25 Game market in the Mainland is now in the stage of drastic change. On the one hand, online game becomes the dominant form of entertainment in the market while future development of the market is heading to local proprietary production which replaces the previous mode of agency business for foreign branded games. On the other, however, the market requires demands greater scale of investment. For most of online game developers and operators, they face the same issues of greater demands for R&D input and development cost, quality personnel and the cost for brand making. These factors now become the basic requirement to meet when a company tries to penetrate the market. Under these circumstances, the infant game industry of Hong Kong needs to be upgraded so that Hong Kong game companies can effectively compete in the Mainland market. There is no lack of creative people in the game industry of Hong Kong. However, many local game products just repeat the successful model that is already established in the market, and game genres lack diversification. The Hong Kong game industry needs to offer more innovative and diversified products so as to gain a stronghold in the Mainland market. The “Project of Chinese National Online Games” is one of the important platforms where Hong Kong’s game industry can collaborate with counterparts in China to develop game products which are embedded with Chinese cultural elements and receptive in both the Hong Kong and the Mainland market. With the qualities of agility, creativity and adaptability, Hong Kong’s game companies can also collaborate with mainland companies to develop products for overseas markets.
- 5.26 In Hong Kong, the Innovation and Technology Fund (ITF) and the SME Development Fund currently provide financial assistance to encourage innovation and overseas promotion and marketing activities. Due to the growing demand for capital investment in future, the ITF shall give robust support to the game industry. The upper ceiling of matching fund can be raised to attract applications of game enterprises who intend to strengthen their innovative capabilities. Specific funding shall be available for overseas marketing and for promotion activities in the Mainland market. This measure will help local game industry to take part in overseas and Mainland game shows, and to promote local game production. Another potential of the local game

¹⁷ The latest group of recommended animation films (July 2005) includes CCTV Animation Department’s ‘*Stories about Tang Poem*’ ‘1 to 26 episodes, 8.5 minutes per episode’; Beijing TV’s ‘*Times of Naughty Boy*’ ‘1-52 episodes, 11 minutes per episode’; Shanghai Arts & Movie Production, Shanghai Wen Guang News Media Group’s ‘*Di Qing, the Hero*’ ‘1-52 episodes, 22 minutes per episode’ and ‘*Big Ears Tu Tu*’ ‘1-26 episodes, 12 minutes per episode’; Hangzhou Dongfang Longying Movie/TV Animation Co. Ltd. ‘*Golden Money’s Dreams of Su Shen Kingdom*’ ‘1-52 episodes, 10 minutes per episode’; Hunan Sanchen Cartoon Group Co. Ltd. ‘*Naughty Blue Cat’s 3000 Questions about Sport*’ ‘1-196 episodes, 8 minutes per episode’, ‘*Naughty Blue Cat’s 3000 Questions about Aviation*’, ‘1-36 episodes, 8 minutes per episode’; Guangdong Creativity Cultural Communication Co. Ltd. ‘*Baby Daughter Good Mama*’ ‘1-40 episodes, 15 minutes per episode’; Guangdong Ai Wei Cultural Development Co. Ltd. ‘*Detective Wei Wei Cat: Part 3*’ ‘1-72 episodes, 15 minutes per episode’ and Guangdong Yongsheng Records Co. Ltd ‘*Learning ABC in 10 days*’ (1-10 episodes, 35 minutes per episode’.

market is to diversify game products other than online games; particularly, markets of console game and mobile game phone are not yet exploited. Since online game is prevalent in the Mainland market, other game products are relatively underdeveloped. However, the console game such as Xbox and 3G games have great potential in overseas markets.

- 5.27 The Hong Kong Cyberport now offers a variety of institutional supports – Digital Media Centre, Resources Centre, Hong Kong Wireless Development Centre, Digital Entertainment Industry Support Centre, Xbox Incubation Programme, 3G Cyber Port and Incubation Training Centre Digital Entertainment – to support the local digital entertainment industries and to nurture new talent for the industry. Directions of these measures are generally accepted. If those training programs succeed and nurture a pool of talent who can join the exchange program in overseas and the Mainland market, local game practitioners can learn different skill sets in game development, and their enriched experience will be the vital asset to enhance the innovative ability of the game industry. Local universities and research institutes shall also take part in the research of game technologies and skills and technologies related to animation and cartoon industries. For instance, the development of local game engine has achieved certain fruitful result, and it is expected that part of the achievement can be shared freely by the industry. However, the core technology of animation production, 3D software, is largely acquired from overseas market. To upgrade the technology level of the industry, the government shall encourage collaboration between research institutes, universities and industry to develop specific software for the animation industry. The government and the local industry can also draw collaborative research efforts from the Mainland counterparts to exploit relevant skill and game technologies.
- 5.28 In respect of animated film production, Hong Kong industry has accumulated certain experience. However, the local animation market is too small to sustain large-scale productions, and there are only a few enterprises that have the ability to exploit regional or overseas market and to gain access to finance at the preliminary stage of production. Generally speaking, animation films which are exported and popular in overseas markets are quality films, but more importantly, they are successful hybrid of local cultural elements and international film language. As such, there is still room for improvement in Hong Kong animation films. On the contrary, the animated TV films (or in VCD/DVD) made by the local industry has certain advantages. Since production companies absorbs the skills from local movie or TV production as well as the experience in directing and script writing, some of their productions are of high quality of visual expression. On the other hand, the production cycle of animated TV series takes less time, and recouping can be more profitable through a variety of means, including television channels, sale of CDs, broadband network and the information platforms of new media.
- 5.29 To promote the local animation industry, one of the effective means is to encourage more production of short films. Besides, animation producers shall be given exposure in oversea film shows. Insufficient local channel for animation screening is the main obstacle to development. While commercial television channels will buy animation series because of their commercial value, public broadcasters can effectively serve a role to promote local animation for

the reason of promoting cultural diversification. Currently, the Radio Television of Hong Kong (RTHK) lacks an independent channel. Despite its presence in terrestrial television, the limited air time allocated to the RTHK is unable to cater for local animated films, thus offering less chance of screening local productions. The industry therefore expects the government redefine the role of public broadcasting in a way that it can take up the responsibility to promote local animated productions. In the long run, the RTHK shall be given an independent channel so that the public broadcaster can commission local animation or cartoon producers to supply quality films and animated productions of local cultural characteristics.

- 5.30 Introducing local animation productions into the Mainland market also meets certain difficulties. Apart from a few brands of animation production relatively famous in the Mainland market, Chinese consumers generally have little knowledge about Hong Kong's animation. Neither is publishing Hong Kong's animation films in China easy; the application for publishing has to be approved by the General Administration of Press and Publication, and censorship is another issue that could be a barrier to market. For all these reasons, Hong Kong animation companies hesitate to explore the Mainland market.¹⁸ To support Hong Kong's animation industry to explore the Mainland market, the Hong Kong government shall keep close contact with the Central government, provincial and city governments to set up an information system to disseminate relevant policy documents, decrees and regulations related to the digital entertainment industry in China. The Hong Kong government shall also play the intermediary role to promote collaboration between the industries in both Hong Kong and the Mainland. Since there is growing demand for animation and cartoon products in China, which are suitable for the youth or conducive to the promotion of Chinese culture and educational value, these areas will be the meeting point where the collaboration between the Hong Kong and Mainland animation companies begins. Besides, the Hong Kong government shall discuss with the local authorities in China, asking for deregulation of the publishing and distribution channels in the above areas so that the Hong Kong's animation industry can gain access to a particular market.
- 5.31 Furthermore, there is a need to foster local talents for the animation and cartoon industry in Hong Kong in order to address the brain drain problem. The animation and cartoon industry is labor intensive, requiring substantial investment in nurturing employees' creativity, patience and practical skills. For the reason that animation production bases have been moving across the border, new openings would be largely filled by the Mainland workers. Local talent who would like to develop their career in the animation and cartoon industry may face a problem that opportunity for local practice and for learning the integrated knowledge in the industry may be lacking, unless they are willing to work in the Mainland market. Currently, there are many training courses on

¹⁸ In 2004, the State Council makes an announcement, "zhonggong zhongyang guowuyuan guanyu jinyibu jiaqiang he gajin weichengnian ren sixiang daode jianshe de ruogan yijian", requiring all levels of public authorities to address the pressing issue that the quality of moral standards of the youth shall be further enhanced. The document also highlights the major areas where the purification campaign will be enforced, in particular, publishing, animation channels and production as well as online contents.

digital entertainment offered by local institutions. However, the limited quantity of local productions that may constrain the available opportunity for on-the-job training. Therefore, if there are more chances for practice in the industry, these training programmes will be more useful to nurture the next generation of talents.

Annex 1: List of Selected Project of Chinese National Online Games, 2004

Serial No.	Game Name	Copyright Owner	Developer
1	<i>Aoshi Online</i>	Objective Software (Beijing)	Objective Software (Beijing)
2	<i>Tianjiao 2</i>	Objective Software (Beijing)	Objective Software (Beijing)
3	<i>Voyage Century</i>	SnailGame Co. Ltd. (Suzhou)	SnailGame Co. Ltd. (Suzhou)
4	<i>Tianxia</i>	Ease Net (Guangzhou)	Ease Net (Guangzhou)
5	<i>Daitang</i>	Ease Net (Guangzhou)	Ease Net (Guangzhou)
6	<i>Swordsmen Love Online 2</i>	Kingsoft (Beijing)	Kingsoft (Beijing)
7	<i>Fengshen Bang</i>	Kingsoft (Beijing)	Kingsoft (Beijing)
8	<i>Daojian</i>	Sohu Now Era Technology (Beijing)	Sohu Now Era Technology (Beijing)
9	<i>Kuaile Xiyou</i>	The 9 Computer Technology (Shanghai)	The 9 Computer Technology (Shanghai)
10	<i>Xuanyuan II</i>	Soft Star (Beijing) Co. Ltd.	Soft Star (Beijing) Co. Ltd.
11	<i>Gong Fu Online</i>	Teng Wu Digi-Tech Co. Ltd. (Shanghai)	Teng Wu Digi-Tech Co. Ltd. (Shanghai)
12	<i>Fantasy Kingdom</i>	Shan Qu (Shanghai)	Shanda (Shanghai)
13	<i>Yingxiong Niandai</i>	Shan Pin (Shanghai)	Shanda (Shanghai)
14	<i>Sanguo Haoxia Zhuan</i>	Shan Qu (Shanghai)	Shanda (Shanghai)
15	<i>Tiandi Online</i>	Asia Interactive Science (Beijing)	Asia Interactive Science (Beijing)
16	<i>Huaxia Online</i>	Wangyu Computer Network Co. Ltd. (Shenzhen)	Wangyu Computer Network Co. Ltd. (Shenzhen)
17	<i>Bixue Qingtian Online</i>	Chuangyi Yingxiang Technology Ltd. (Beijing)	Chuangyi Yingxiang Technology Ltd. (Beijing)
18	<i>Shuixu Q Zhuan</i>	Firestone Studio (Guangzhou)	Guangtong Communications (Guangzhou)
19	<i>Xianlu Qiyuan</i>	Youxi Dianfeng (Beijing)	Youxi Dianfeng (Beijing)
20	<i>Shimian Maifu</i>	Woncore Communications Co. Ltd.	Woncore Communications Co. Ltd.
21	<i>Sanguo Qunying Zhuan Online</i>	Odin Soft Co. Ltd.	Soft-World Electronic (Beijing)

Annex 2: The 1st and 2nd Groups of National Animation/Cartoon Production Bases & Education/Research Centres

The 1st Group of National Animation/Cartoon Production Bases & Research Centres

Shanghai Animation Film Studio

Head Office of Chinese International Television, CCTV

Sunchime Cartoon Group

China Movie Group Ltd.

Hunan Golden Eagle Cartoon Group

Animation Cluster in the Hi-Tech Development Zone of Hangzhou

Changzhou Media & Animation Co. Ltd.

Shanghai Xuan Dong Cartoon Satellite & Media Entertainment Co. Ltd.

Nan Fang United Production Centre of Animation Programmes*

Communication University of China (Education / Research Centre)

Beijing Film Academy (Education / Research Centre)

School of Animation, Jilin College of the Arts (Education / Research Centre)

China Academy of Art (Education / Research Centre)

Second Group of National Animation/Cartoon Production Bases & Research Centres

Shenzhen City Animation Production Centre*

Animation Cluster in the Hi-Tech Industry District of Dalian

Animation & Cartoon Cluster in Suzhou Industrial District

Digital Animation & Media Cluster in Wuxi, Taihu

Chiangying Group Co. Ltd.

Jiangtong Animation Co. Ltd.

* Pearl Delta River Region

6 Film and Video

6.1 This chapter reviews the local film market in 2003-04 and analyses the development and mode of operation of the local film industry as well as development strategies for the Mainland market. It will examine the status of Hong Kong's film industry from the perspective of regional development. Market integration between Hong Kong and the Mainland is not only confined to Guangdong Province or the Pearl River Delta, but involves multilateral collaboration among various regions in China, with emphatic development in a number of primary Mainland markets. The value chains of the film industries in the Mainland and Hong Kong also have different levels of integration. Therefore, analyses of this chapter will be placed in the context of a nationwide development of the film market; meanwhile, the notion of geographic economy of the Pearl River Delta will be introduced in examining the Hong Kong film industry's interactions with the region.

Overview of the Hong Kong Film Market

6.2 The local film industry remains in low ebb. Though the industry contributed HK\$1.1 billion in 2001, and its gross value increased to HK\$1.41 billion in 2003, statistics on film export and total quantity of production show that the local film business has not rebounded from the protracted recession. In 2003, total export value of local films, including laser disc and other compact disc products, amounted to HK\$4.3 billion. Compared with the value of HK\$5.8 billion in 2002, there was a decrease of 24.9%. In the same year, local box office declined from HK\$1 billion in 2001 to HK\$890 million. The quantity of local film production even dropped from 131 films in 2000 to 116 films in 2001. In 2002 and 2003, there saw a drastic drop to 51 and 41 films respectively. Due to poor performance in local box office, film investors withdrew from investment, thus will likely lead to further decline in local production in 2004 and 2005.

Table 1: Overview of Hong Kong's Film Industry, 1996-2003

	1996	1997	1998	1999	2000	2001	2002	2003
Business income	5,118	4,972	4,483	4,433	5,732	5,173	5,056	-
Increased value	1,458	1,320	1,109	963	1648	1,111	1,367	1410*
Box office income	1,222	1,156	1,088	916	964	1,034	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	346.6	551	577	831
* Estimated numerical value								
Source: Census & Statistic Department; HK Film Oscar Award Association data								

- 6.3 There are many reasons for the decline of the Hong Kong film industry. It faces fiercer competition in the global film economy, including the challenges from Mainland China, Korean and Thailand's quality productions. Coupled with the declining demand for Hong Kong films in Southeast Asia, all these are unfavorable factors to the export of Hong Kong films. Local production is also weak in content, with some excessively repeating the old formula of success. Given the environment that emerging media constantly draw the audience's attention away from film, local films become less attractive, and there are more difficulties to attract movie goers. Furthermore, piracy activities such as illegal downloading and pirated movies under-cut the revenue streams of the local film industry. Facing intense competition and the rapidly changing regional film economies as well as the changing entertainment consumption, Hong Kong industry needs to readjust itself not only in terms of the scale of capital investment and production, but also the quality of production and the method and channel for the distribution of film products.
- 6.4 Nevertheless, the film sector is not lacking outstanding script-writers, directors, actors/actresses, experienced movie enterprises and investors. Film workers are professional, with ample experience, management skills and know-how of the operation of international film markets; these factors help to upkeep the competitive edge of the industry. In addition, local investors such as the "Shaws", the "old brand" film company, or the Cable TV and Star TV, have indicated their plan to invest in local film production. While new investment has been made, this may become the locomotive of growth for revitalizing the depressed film market. In short, vitality of the film sector remains strong, and it continues to look for new ways of transformation and in response to the challenges of overseas market.
- 6.5 The Hong Kong film sector also expects increasing deregulation of the Mainland market, which may offer prospective development for the local industry. It also expects that the openness of the Mainland market may benefit the development of film industries in both the Mainland and Hong Kong and of the Chinese film in regional and international markets as well. Taking the perspective of value chain – from film production and investment, distribution and exhibiting – this chapter analyses the ever increasing interactions between the film markets in Hong Kong and the Mainland. In spite of the concerned issues on censorship, restrictions of foreign investment, piracy and under-developed market structure which become the main barriers to the Mainland market, the industry environment is increasingly open. While the regulatory regime of film industry and market environment are transforming, the value chain of the Mainland film industry is gradually formed. Such new parameters of the Mainland may offer a prosperous future.

Overview of the Mainland Film Market

- 6.6 In contrast to the downturn of Hong Kong's film market, the Mainland market is booming and transforming. Although the survival of Chinese national films in the increasingly commercialized market is the issue at stake, the Mainland market is rising not only as shown in the increasing number of production but also in the growing value of economic returns. With the support of film policies, the film industry in the Mainland transforms itself into a more flexible

structure with robust growth.

- 6.7 In the past, there are about 100 films annually produced in the Mainland; in 2003, annual production grew to 140 films and increases to 212 films in 2004, breaking the historical record of 170 films in 1992.¹ In 2004, box office in the Mainland broke the record and accounted for RMB1.5 billion, representing an increase of more than 50% in comparison with RMB950 million in 2003. Besides, many films by Mainland directors are ranked among the top 10 films screened in China.² Tong Gang (童剛), Chief of Film Bureau of the State Administration of Radio, Film and Television, in his concluding remark for the film industry in 2004, highlighted the significant development during the year. His statement not only qualifies the outstanding performance of the industry in producing more films as well as in the increasing economic returns of the market, but more importantly, praising the transformation and revitalization of the film industry as a result of the reform of the regulatory regime. Private enterprises and foreign investors are the most active players in the film market in 2004. In that year, there were 212 film produced, of which only 30 were by state-run studios and the rest 80% were made with private and/or foreign investment. This completely upsets the status of state-run studios which have dominated film production in China.
- 6.8 From individual cases, one can obtain a view that the increasingly open market unleashes robust investment in film productions and distribution businesses, with a variety of partnership such as co-production and joint-ventures. In 2004, the film *House of Flying Daggers* (十面埋伏) made a record RMB150 million. Another film, *A world without thieves* (天下無賊) by Huayi Brothers Taihe (華誼兄弟太合), would likely attain about RMB100 million in box office.³ The following movies – *New Police Story* jointly produced by China Movie Group & Emperor Group (Hong Kong), *2046* jointly produced by Shanghai Movie Group & Zedong Film Co. Ltd. and *Kung Fu Hustle* jointly produced by China Movie Group & Huayi Brothers – also made good reputation and high sales in box office.
- 6.9 Indeed, the booming film market in the Mainland creates a great demand for movie entertainment. To certain extent, Hong Kong plays an important role in supplying film products for the Mainland market, which are still a brand label of attraction. In 2003, among those movies that ranked top in the box office, many were co-productions between Hong Kong film companies and the Mainland studios (Annex 1). Some film analysts are worried that the inroad of Hong Kong film will seriously undermine the competitiveness of the fragile film industry in the Mainland. Before the head-on competition with foreign movies, the Mainland and Hong Kong film industries would have been exhausted in a “civil war”.⁴ But there is a different view. With the rapid increase of the

¹ In 2004, there were 202 filmed movies and 10 digital movies; in terms of film categories, there were 10 documentaries, 4 animated films, 30 educational films and 110 television movies.

² In 2003-2004 the relatively successful films included *Cell*, *House of Flying Daggers*, *A world without thieves*, *Kekexili: Mountain Patrol*, *Warriors of Heaven and Earth* etc, *Nafang Zhoumo*, 30th December, 2004, TMP 14; *Xinmin Wanbao*, 31st December, 2004, 12.

³ Until December 26, 2004, the movie recorded RMB93 million sales.

⁴ Ye Lang, *Zhongguo wenhua chanye ninadu fazhan baogao, 2004*, Hunan: Hunan renmen chubanshe,

Mainland film productions and investment of foreign capital (including Hong Kong, US and Korean capital), the professionalism of the Mainland script-writers, directors, actors/actresses and production crews will be nurtured, thus enhancing the overall quality of the Mainland film industry in the long run and giving impetus to the industry to enter regional and international film markets.

Changes in the Regulatory Regime of the Mainland Film Market

- 6.10 The growing vitality of the Mainland film market owes much to the favorable policies for promoting the film industry. At the end of the 1990s, there saw a drastic reform in film policy. Before that, state-run studios annually produced a number of movies according to the state plan, and film distribution was centralized by the China Movies Company (later reorganized to become the China Movies Distribution Company); each province, city and autonomous region would be allocated film copies for screening according to a quota system. This vertically integrated system of production and distribution has been gradually deregulated in the mid 1990s.⁵ Reform of the recent ten years saw a great transformation of the industry structure in various aspects of the value chain including production, distribution, cinema operation and channels of finance. This transformation also creates many business opportunities to benefit the private enterprises, Hong Kong investors and foreign enterprises.
- 6.11 In 1994, the Film Bureau of the State Administration of Radio, Film and Television issued the notice “Jinyibu shenhua dianying hangye jizhi gaige di tongzhi”, allowing film copyrights owners to directly sell or distribute their rights to 21 provincial and city exhibition units in Beijing. Although imported films from foreign countries are still monopolized by the China Movie Company, the distribution system of the Mainland film market has started to change, thus giving incentives to film production units. Next year, another regulation “Guanyu gaige gushi yingpian shezhi guanli gongzuo di guiding” will be formally implemented. Apart from state-run studio that can produce films, some studios not recognized previously also gained the right to production. Between 1996 and 1997, there were even individual enterprises taking part in film production although their official status was ambiguous. With that change, the monopoly of state-run studios dominating the production market was finally broken.
- 6.12 During the early stages of reform, new players kept emerging in the film market. The Beijing Forbidden City Film Co. and the Guangdong Greatstar Film Co. Ltd. were the most prominent ones. Local media has once described the two companies by a proverb of “the Forbidden City in the North and the Greatstar in the South”. The Greatstar is a television and film production company, and it made a lot of investment in film and invited Hong Kong directors and movie stars to participate in its productions. Later on, many Mainland production units followed suit to engage filmmakers from Hong Kong as their co-production partners. In 2002, a new film ordinance (“Dianying guanli

2004, 128.

⁵ As for the recent changes in the Mainland film policy, see Qi Shuyu, *Zhongguo wenhua chanye guoji jingzhengli baogao*, Beijing: shehui kexue wenxian chubanshe, 2004, 137-140.

tiaoli”) took effect, which allowed private investment in film production, thus generating a new wave of investment for the Mainland film industry. The active players now in the market, such as Huayi Brothers, Beidai Huayi,⁶ Zhongbo and Hairun,⁷ all developed from the deregulated market.

- 6.13 As the film production market is increasingly open, the distribution market is relaxed too. Roughly during 1996 and 1997, individual production companies were allowed to publish a film once and for all and distribute it to various exhibition units. This arrangement encourages exhibition units to invest in film production. In 1996, the Shenzhen Nanguo Cinema Alliance bought the copyright of *Joint Assault* (聯合出擊), a co-production by the Yunnan Film Studio and a Hong Kong Company, trying to expand its business from exhibition to film production. It is also a good example to show exhibition unit can gain the distribution right of a single film. The reform in the distribution market has brought about positive impacts by 2003. Apart from conventional distribution channels, there are new market players emerging, including the Beijing Poly Group Corporation. In addition, Hong Kong film companies attempt to explore the distribution market by setting up distribution firms in China. Creative Star Co. Ltd., a subsidiary of China Star Entertainment Co. Ltd., and the Celestial Pictures, a subsidiary of Shaw’s, are some of the new players. The regulation “Dianying qiye jingying zige zhunru zhang guiding” which became effective on May 8, 2005, has further extended the reform in distribution market, allowing Hong Kong and Macau service suppliers to set up distribution companies in the Mainland.⁸
- 6.14 The reform of the Mainland film market also touches on the exhibition industry. The key policy measures have been laid out in the document “Guanyu jinyibu shenhua dianyingye gaige de ruogan yijian” released in 2000 by the State Administration of Radio, Film and Television and the Ministry of Culture. The document emphasizes the reform of state-run studios and film enterprises, the introduction of share companies in the film market, reforming the downstream industry by consolidating the system of cinema-lines as well as readjustment in the policy for regulating imported movies.⁹ As early as the latter part of the mid-1990s with the opening up of the distribution market, several cinema-lines based on share companies were formed. Reform document in 2000 officially endorsed this general direction, and re-engineering of cinema-lines has taken place in massive scale. At the end of 2002, 34 cinema-lines were approved and established. The number was later increased to 36, with 1,158 cinemas and

⁶ Beidai Huayi was set up in 1996. The company has engaged in the production of *Crouching Tiger, Hidden Dragon*, *Green Tea*, *Springtime in a Small Town*, *The Barber*, etc. In December 2003, Beidai Huayi merged with Poly Culture and Arts Co. Ltd., a subsidiary of the China Poly Group Corporation, and now becomes the Poly Huayi Culture and Media Co. Ltd.

⁷ Zhongbo and Hairun were not filmmakers. Both companies are specialized in television production. However, these examples can illustrate that television industry will also benefit from the reform in the film market.

⁸ According to the regulation, registered capital for distribution company shall not be less than RMB1 million; “Dianying qiye jingying zige zhunru zhang guiding”, the State Administration of Radio, Film and Television, Order No. 50 of the Ministry of Commerce, State Council.

⁹ Ye Lang, *Zhongguo wenhua chanye ninadu fazhan baogao, 2004*, Hunan: Hunan renmen chubanshe, 2004, 113-14.

2,289 screens in total (Annex 2).

- 6.15 The cinemas are distributed in the coastal cities and concentrated in Beijing, Shanghai and Guangdong. Recently, more cinemas have been constructed in Sichuan, Liaoning, Hebei and Hunan. Many newly built cinemas are joint-investment by foreign and the Mainland enterprises. Previously, foreign investors cannot hold more than 49% shares in a Mainland cinema. However the latest regulation “Dianying qiye jingying zige zhunru zhang guiding (2005)” permits foreign investors to hold 51% and up to 75% shares in seven pilot cities.¹⁰ This new measure attracts many foreign investors such as Times Warner Brothers Co. and the Korean Orion Group to invest heavily in the exhibition market. Hong Kong film investors also take this opportunity to invest in cinemas in the coastal cities; though their amount of investment is not known, Hong Kong investment is apparent in the screening market of Shanghai, Beijing, Guangzhou and Shenzhen.

Interactions between the Hong Kong and the Mainland Film Industries

- 6.16 Hong Kong filmmakers are experienced in developing oversea markets, and with the gradual opening of the Mainland market, they are getting familiar with this growing market. Therefore, the industry could play the intermediary role to explore oversea markets for Chinese movies on the one hand, and to establish multi-tiered relationships with the Mainland counterparts on the other, to facilitate development of the Mainland film market. The relationships between Hong Kong and the Mainland film market can be examined in the following aspects.

The HK film industry can serve as intermediary in access to finance for Mainland films

- 6.17 Co-production is the most common form of partnership for Hong Kong filmmakers in the Mainland market. There are many variations in co-production: some of them are largely Hong Kong investment, partnered with local studio and private enterprises while others are funded by foreign capital via Hong Kong partners. Whatever the mode, Hong Kong filmmakers in the past have played an active role in film financing. With the growing scale of investment and co-production in the Mainland, there is a strong demand on professional services for film finance and management. The professional skills of Hong Kong filmmakers and film companies in these areas are truly invaluable, and their competitive edge in terms of film investment, experience in financial and production management remains strong in Asia. This advantage will continue to be a positive factor, benefiting the industry not only in attracting foreign capital but also to consolidate the film finance market in the Mainland. This may also strengthen Hong Kong’s position as one of the leading production

¹⁰ Foreign investors need to obtain “certificate” and “operating license” from the provincial department of industry and commerce. Besides, they also need to apply for “exhibition license”; see “Tentative Regulations on Foreign Investors in Cinemas (2003)”, Order No. 21, the State Administration of Radio, Film and Television, Ministry of Commerce and Ministry of Culture of the PRC.

centres of Chinese films.

- 6.18 In recent years, during the Hong Kong Entertainment Expo, the film sector organized the Asia Film Financing Forum as a platform of exchange and investment for filmmakers and investors.¹¹ This platform is not only built for financing Hong Kong films, but also for consolidating Hong Kong's role as a centre of film finance. The project is worthy of continuous support. However, participation of filmmakers from the PRD in the Forum was relatively low. Therefore, there is still room for co-operation between Hong Kong and the PRD Region in film financing. Besides, the Guangdong Provincial Government just announced the Guide to Social Capital Investment in Culture Industries in 2004 which highlighted film production, distribution and exhibition as key categories for investment. Policies in favor of private investment in these areas will be expected. Under such circumstances, the film sector in Hong Kong expects that the HKSAR Government to expand the scope of collaboration with the PRD, particularly in the Film Financing Forum and in any collaboration that may encourage media production companies in the PRD to make good use of the Forum for financing. However, the Forum is currently held once a year, and has to be equipped with organizational support and dedicated resources for promoting film finance and developing marketing networks until it can effectively play its role.

Developing a Media and Cultural Zone for South China

- 6.19 Because of geographic proximity and historical linkages, the language and living cultures of Hong Kong are connected to the Pearl River Delta, and therefore, it is not surprising that movies and television programmes made in Hong Kong are well accepted by the PRD audience. These cultural linkages should foster a large and integrated cultural market; however, such imagination has not yet been realized. Since the Mainland film market is governed by a regulatory regime which offers little room for regional variations, filmmakers from Hong Kong as well as the PRD would find great difficulties to fully exploit the profound traditions and cultural elements for their work and to create local contents by producing Cantonese films for the region. There is no dispute that globalization of the film economies will accelerate the process of global consumption of film entertainment and division of film production, which is characterized by international distribution of products and by collaborative efforts of film workers coming from different places and backgrounds; however, local content will be the competitive edge in the global film market. Local characteristics and cultural elements in film products will undoubtedly become the fascinating elements that captivate the audience. Whether or not the film culture of South China can take root and thrive depends very much on the effort of the industry sectors in both Hong Kong and the PRD and the collaboration between the governments.
- 6.20 In January 2004, the State Administration of Radio, Film and Television released the document "Guanyu jiakuai dianying chanye fazhan de ruogan

¹¹ In 2005, the committee of the Film Financing Forum selected 28 projects for financing, of which 10 projects came from Hong Kong and 7 projects from the Mainland; see <http://www.haf.eexpohk.com/html/media/media050324.htm>.

yixian” which clearly maps out the future direction of the reform of the film industry and the censorship system. The document suggests that apart from films that are related to the themes of revolution and major historical events, documentaries, traits of historical figures and characters, or films subsidized by state funding and co-productions, there will be decentralization of the power of film censorship to local authorities where the film productions are made. Instead of submitting application of film titles and scripts to the State Administration as before, the new arrangement requires an outline of the script to be submitted to local film authority. The original purpose of this is to allow local authority to scrutinize local production so that its criteria for censorship will be closer to the local conditions. This proposed system, however, can give some flexibility for local filmmakers to promote local culture. The Hong Kong film sector expects the HKSAR as well as the PRD government to promote the idea of a “Media and cultural zone of South China” which would facilitate cultural exchange of the film industries, disseminate market and policy information, widen the access to film finance and even create a more flexible framework for the operation of the existing film censorship system.

- 6.21 As a form of mass entertainment, it is understandable that Hong Kong movies have to consider the market return. However, overwhelmed by market calculation, there have been few ambitious, risk-taking products in the local film market recently. On the contrary, although the Mainland market is increasingly commercialized, there is still room for experimental, art and different types of film genres. The Hong Kong Government should encourage and support local filmmakers to partake in the Mainland market in the diversification of film production so as to enrich the Chinese film culture. Currently, there is no specific fund to encourage new creation with the purpose to develop new genres of film, let alone the different film culture of digital production, animation film and documentaries etc. The Hong Kong Government has set up a Film Guarantee Fund Scheme which is only one tool to facilitate film finance, but not for promotion of film culture or diversification. Therefore, they could follow the example of overseas countries to set up designated funds for supporting film culture and content diversification.

Keep up with the regulatory changes of the Mainland market

- 6.22 In recent decades, the Mainland film market opens up the production, distribution and exhibition markets in an orderly manner; meanwhile, film policies are designed to absorb social capital and foreign investment in the film market and to put forward the reform of state-run film enterprises in order to enhance the overall competitiveness of the film industry. In the near future, the introduction of film classification system, drafting of a new film ordinance and favorable policies for promoting digital film will turn into an entirely new environment for the Mainland film industry. In particular, the implementation of film classification system is believed to have long term impacts on the industry. On the one hand, the system may create the necessary condition for the development of stratified audience market for film industry. On the other hand, it lays the rules for content censorship. The Hong Kong film sector is expecting the implementation of the classification system and meanwhile, expects the Hong Kong Government and the Mainland regulatory body can

provide a platform where the industry may obtain vital information in relation to these policy changes. In fact, there is no lack of contact and communication among relevant departments of the Hong Kong Government, industry representatives and the Mainland regulatory body. However, the industry expects that the exchange of information can be conducted through a more systematic and institutional way, particularly with foci placed on policy information, market intelligence and feedback channels that will be helpful to enhance the level of communication.

Annex 1

Box Office of Selected Chinese Films and Imported Films in 2003

Ranking	Title of Film	Box Office RMB100 Million	Remarks	Import Foreign Film	Box Office RMB100 Million
1	<i>Cell</i>	5300		Harry Potter II	5200
2	<i>Warriors of Heaven & Earth</i>	3800	Co-production	The Matrix Reloaded II	4200
3	<i>Internal Affairs III</i>	3650	Co-production	The Matrix Revolution 3	4166
4	<i>Cat & Mouse</i>	2200	Co-production	Finding Nemo	3300
5	<i>Zhou Yu de Huo Che</i>	1900	Co-production	Terminator 3, Rise of The Machine	2817
6	<i>Nuan Chun</i>	1400		The Medallion	2500
7	<i>Heroic Duo</i>	1150	Co-production	The Curse of The Black Pearl, Privates of Carribean	2250
8	<i>Deng Xiao Ping</i>	1100		The Lord of the Ring	2100
9	<i>Love for all Seasons</i>	1000	Co-production	The Recruit	1700
10	<i>Sound of Colors</i>	950	Co-production	Charlie's Angels Full Throttle	1300
11	<i>Jing Tao Hai Lang</i>	900			
12	<i>Jade Goddess of Mercy</i>	900	Co-production		
13	<i>Love Undercover II</i>	850	Co-production		
14	<i>Running on Karma</i>	800	Co-production		
15	<i>The Death Curse</i>	680	Co-production		
16	<i>Cala, My Dog!</i>	650			
17	<i>Green Tea</i>	650			
18	<i>My Dream Girs</i>	650	Co-production		
19	<i>Zou Jin Mao Zedong</i>	500			
20	<i>Good Times, Bed Times</i>	450	Co-production		

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

Annex 2

Total Number of Cinemas and Screens in China, 2004

	No. of Cinemas	No. of Screens	No. of Cinemas with Computerized Ticket-sale System
Heilong Jiang (黑龍江) Swan Movie Cinema-line Co Ltd.	14	16	8
Heilong Jiang (黑龍江) Silver Capital Cinema-line Co. Ltd.	20	20	10
Jilin Chang Ying (吉林長影)Cinema-line	17	25	13
Liaoning (遼寧) Northern Movie Cinema-line	57	126	38
Beijing New Movie Union (北京新影聯) Cinema-line	72	144	67
Beijing China Movie Xing Mei (北京中影星美) Cinema-line	54	122	50
Tianjing Yin Guang (天津銀光) Movie Cinema-line	33	56	21
Hebei China Movie Lian Ying Ye (河北中影聯影業) Cinema-line	41	61	34
Shandong (山東) New Century Cinema-line	36	53	29
Shandong Tsing Dao Ying Xing (山東青島銀星) Cinema-line	19	27	10
Jiangsu (江蘇) Oriental Film Industry Cinema-line	12	38	12
Jiangsu Yang Zi (江蘇揚子) Movie Cinema-line	21	47	16
Jiangsu Sheng Shi (江蘇盛世) Asia Cinema-line	30	48	22
Shanghai Lian He (上海聯和) Movie Cinema-line	75	193	69
Beijing (北京) Century Universal Movie Cinema-line	25	61	21
Shanghai Da Guang Ming (上海大光明) Cinema-line	20	32	17
Zhejiang (浙江) Times Movie Great World	66	149	55
Zhejiang Sing Guang (浙江星光) Movie Cinema-line	14	24	11
Wenzhou Yan Dang (溫州雁蕩) Movie Cinema-line	24	47	24
Fujian Zhong Zing (福建中興) Movie Cinema-line	51	65	44
Anhui Zhong An (安徽中安) Movie Cinema-line	22	27	13
Henan Oscar (河南) Cinema-line	28	64	24
Hubei Yin Xin (湖北銀興) Cinema-line	44	96	31
Wuhan Tien He (武漢天河) Cinema-line	25	59	14
Hunan Zhu Xiang (湖南楚湘) Movie Industry Cinema-line	18	45	18
Hunan Siu Xiang (湖南蕭湘) Movie TV Broadcast Cinema-line	18	31	12
Guangdong Hua Yin (廣東華影) Southern Movie Cinema-line	84	106	49
Guangdong Zhu ZJiang (廣東珠江) Cinema-line	35	77	32
Shenzhen Shen Ying (深圳深影) Cinema-line	13	19	12
Hainan Lan Hai (海南藍海) movie Cinema-line	22	27	4
Zhong Ying Southern New Line (中影南方新幹線) Cinema-line	21	38	18
Sichuan (四川) Pacific Movie Cinema-line	45	126	28
Sichuan E Mei (四川峨眉) Movie Cinema-line	31	107	21
Zhongxing Wan He (重慶萬和) Movie Industry Cinema-line	14	49	12
Xian (西安) Movie Chang An (長安) Cinema-line	16	25	11
Hua Xia Sin Hua Da Di (華夏新華大地) Movie Cinema-line	21	39	11
Total	1158	2289	881

7 Music

- 7.1 Beginning in the 1960s, popular music in Hong Kong grew rapidly. With rising record sales and burgeoning number of singers, the music industry grew more mature by the day. Until recently, the Hong Kong music industry mainly targets the local market. Most of its products cater to local tastes, with lyrics mainly in Cantonese, mixed with musical elements from China, the West and Japan, resulting in a unique Canto Pop style. The 1980s saw the peak of Canto Pop. Productions from Hong Kong captured the imagination of people in the Mainland and other overseas Chinese communities. The big international record companies all have (or had) their Asian regional headquarters located in Hong Kong.
- 7.2 However as the *Baseline study on Hong Kong's Creative Industries* remarks, starting from the 1990s, due to a variety of reasons (including piracy, dearth of talents and competition from other media), the music industry in Hong Kong declined. Its income dropped from HK\$3.5 billion in 1989 to HK\$700 million in 2004. This also has an adverse impact on related performing and entertainment businesses, as well as the overall vitality of Hong Kong's popular culture. In view of this, many Hong Kong-based record companies hold high hopes for the vast market for music products in the Mainland, in terms of both earnings and creative stimulation. This chapter will explore the strengths, opportunities, difficulties and prospect of Hong Kong's music industry in the Pearl River Delta and the Mainland as a whole.

Strengths

- 7.3 Due to its peculiar history, Hong Kong popular music is now a brand name in the Mainland, and has developed certain special attraction in terms of musical sensibilities and star charisma. The cultural and geographical proximity between the two places, together with the wide circulation of Hong Kong entertainment news, makes Hong Kong singers particularly popular in the Pearl River Delta. In the past few years, the sales of Hong Kong records and the number of concerts held by Hong Kong singers in the Mainland have been rising. The figures in 2004 showed a 2.5 times rise in the number of said concerts, and 1.5 times in record sales compared with those in 2003, to a point where "almost every month there will be one or two local singers doing concerts in Beijing." In 2005, the economies in the Mainland and Hong Kong continue to grow, resulting in a relatively thriving market compared with that of the past few years. In the past six months in particular, Hong Kong singers followed each other into the Mainland to do concerts, participate in television shows, award ceremonies and advertising production. The more outstanding examples are:
- i. Hacken Lee performed the *Left Lun Right Lee* concert in several cities from 2004 to 2005, and is planning to release a Mandarin feature album in 2005.
 - ii. Kelly Chan gave her personal concert in Shanghai in May 2005, with the

Shanghai Grand Stage's 10,000 seats all fully booked.

- iii. Joey Yung gave her personal concerts in Guangzhou and Shenzhen in April 2005.
 - iv. Miriam Yeung embarked on her concert tour in several cities in the Mainland (including Guangzhou, Taishan, Panyu and Chaozhou) in January 2005, announcing at the same time she will double the time she spends in the Mainland market in the coming year.
 - v. Twins had a sold-out concert in Guangzhou in 2004, and are very popular in different places of the Mainland. In 2005 the *Group* participated in a program produced by Shanghai Television, and plan to release two Mandarin feature albums in 2005.
- 7.4 In fact, during the same period, almost all the famous local singers have participated in various kinds of performance activities, appeared in concerts of various scales, and obtained many awards, reflecting their high popularity in the Mainland. The above examples also show they perform more and get more rapturous response in the Pearl River Delta area.

Opportunities

- 7.5 Under these circumstances, the Hong Kong music industry is paying close attention to the opportunities made available by the opening up of the Mainland market, at the same time devising new strategies and maximizing their existing strengths. After the enactment of CEPA, the Mainland has further opened up the operation of the performing and entertainment businesses. For example, the State Council announced in July and put in action on September 1, 2005 the amendments to the “Acts Relating to the Management of Performance Businesses.” It allows Mainland and foreign joint-venture companies to operate performance agencies and sites. It also abolishes the original regulation that states “any performance relating to Hong Kong, Macau and Taiwan businesses will have to be run by economic units that specialize in external transactions.” This provides protection for foreign capital moving into the Mainland market, and simplifies the application procedures for mounting performances. In the past few years, quite a few record companies are making use of opportunities like these to strike up various kinds of collaboration plans with Mainland record companies and audio-visual products companies for opening up the market. Other performance and entertainment businesses relating to the music industry also use their own ways to achieve this.
- 7.6 Starting from year 2000, the music industry has in fact suggested several possible ways to develop the Mainland market. They are:
- i. Record companies set up liaison offices in the Mainland, promoting the works of Hong Kong performers to penetrate the Mainland market.
 - ii. Hong Kong companies use their well-worked means to package new performers from the Mainland, sell their works in the Mainland market, initiating a so-called “localization of popular music” process, to gradually break the hegemonic role of the Hong Kong and Taiwan markets.

- iii. Hong Kong companies nurture Mainland singers, then make use of the former's systematic packaging, promotion and public relation skills to present the singers to Hong Kong, Taiwan, Southeast Asia and the entire Chinese speaking market.
 - iv. Hong Kong entertainment companies set up offices in the Mainland, which are responsible for co-coordinating, running and producing all kinds of music-related performances, providing help in equipment renting at the same time.
- 7.7 The above ways are not mutually exclusive. Companies of different scale and orientation are exploring ways most suitable for them. For example, in mid 2003 a famous Hong Kong music company *Gold Label* formed a strategic alliance with *21 East Record Company* in the Mainland to work for regional business integration and develop the Mainland and overseas markets. This plan highlights a win-win situation between Hong Kong and Mainland companies. Singers with substance from the Mainland can rely on the management and sales experience of Hong Kong companies in international entertainment business to penetrate Hong Kong, Taiwan and overseas markets. At the same time, performers of Hong Kong companies can penetrate the Mainland market through the work of Mainland companies.
- 7.8 This move expands on the point raised in the 2003 *Baseline Study on Hong Kong's Creative Industries* about the strength of Hong Kong music industry in the shape of its "management experience", "modern touch" and "star making ability." Established local singers can, through larger-scale collaboration plans between the two places, more effectively mount performances and sell musical products in the Mainland. Hong Kong companies, by utilizing their business and management experiences to spot and cultivate talents in the Mainland and promote their works outside, can also unite their respective strengths, nullify the weaknesses and hence expand the capability of both places. The more outstanding examples in this kind of collaborating plans include Luo Dayou setting up *The Music Factory* in Beijing, Jonathan Li Zongsheng planning on a music workshop in Shanghai, *Music Nation Group* signing up Mainland singer Wang Rong, and promoting their own singer Edwin Siu into the Mainland market. Furthermore, among the 'big fours' *EMI* and *Sony Music* in the Mainland are increasing their activities in the Mainland. *Universal Records Company* is working hard to bring Mainland performers like Dao Lang and The Twelve Girls Band to the Hong Kong and overseas markets. Local famous singer Alan Tam also uses Dao Lang's works and injects the related musical elements in his new album, aiming to further integrate the two markets.
- 7.9 Furthermore, the entertainment companies closely related to the music industry are keenly aware of the increasing demand for performances by Mainland units in recent years and work hard to develop their businesses. This development is especially obvious in the Pearl River Delta area. It is reported that over twenty Hong Kong entertainment companies have directly worked in or set up representative offices in Dongguan, Shenzhen, Foshan, Shunde and Zhongshan. Their scale varies; business opportunities are abundant in all areas from comprehensive production to intermediating work.

Difficulties

- 7.10 Judging from the above, the general view within the music industry is that the Mainland market holds great potentials (one estimate puts the annual production value at HK\$15-20 billion); this together with the relaxation of regulations on cultural industries under CEPA, should benefit the development of Hong Kong's music industry in the long run. The residents of the PRD have high consumption power, and have close contact with the performing culture of Hong Kong. The two places also share great similarities in their patterns of city development, as well as language and culture; this makes the region a particularly promising point of collaboration in the Mainland market.
- 7.11 At the same time, people in the industry believe it is premature to talk about general achievements and long-term blueprints. There are various kinds of obstacles relating to legal decrees, system and personnel, which remain to be overcome:
- i. The problem of piracy and illegal download is still serious. Although the accurate figures still await confirmation, people in the industry remark that the situation of "high circulation, low reward" among famous singers of Hong Kong and the Mainland has seen no major improvement.
 - ii. The copyrights laws of the Mainland still require clarification in places. In the past two years, a number of litigation cases concerning the infringement of music copyrights have not been settled, thus failing to provide clear guidelines for the industry. In addition, certain regulations such as television and radio broadcast of music is not required to pay copyrights fees, have made the music industry lose an important source of income.
 - iii. Even though the relevant decrees exist, local units sometimes do not pay enough efforts to obtain copyright fees, hence are ineffective to retrieve the industry's fair share of income.
 - iv. In their dealings with Mainland units, the Hong Kong music industry sector still needs to explore matters of direction, personnel and organization. People in the industry begin to realize the successful experience of Hong Kong cannot be directly transferred. They in general are confident about the business operation in the so-called 'downstream' of music production, i.e. packaging and promotion, but are still at a stage of exploration with regard to creating products that are innovative, unique and imbued with 'localized style'. Currently when promoting new Mainland singers, the Hong Kong music industry tends generally to use a "tortuous path" of "produced in the Mainland, coated in Hong Kong and Taiwan, and brought back to development in the Mainland." The strategy has not met with big success in the face of the uncertain market factors outlined above.

Prospects

- 7.12 In the past ten years, the Hong Kong music industry has experienced complex changes. As the *Baseline Report on Hong Kong's Creative Industries* in 2003 pointed out, “purely music” products have entered a tight corner in the new millennium and the relevant players have to seek changes. Therefore even if the Mainland market factor is not considered, the Hong Kong music industry has already started certain reforms. With the opportunities brought by the Mainland market, these kinds of internal reforms have generated even bigger and more pluralistic developments.
- 7.13 As seen in mid 2005, the goals and plans of the music companies entering the Mainland have become clearer than before. They are steadily making progress by pursuing one or more of the following paths:

A strategy that relies on developing the music business – the Big Four

- 7.14 The Big Four, including *Universal*, *Sony* (now amalgamated with *BMG*), *Warner* and *EMI*, have a lengthy history and substantial capability, with business operation in different regions, musical types and media. In the past few years, they have tried to use different means to expand their markets and develop music products on top of the conventional business of licensing. These means include investing in joint-venture companies for producing music products, opening up national and regional sales and distribution networks, promoting local singers into the Mainland, and identifying and cultivating Mainland new singers.
- 7.15 One example is *Universal*. It announced in September 2004 its collaboration with the major Mainland audio-visual company *Guangzhou Impact Audio-video Ind. Co. Ltd.*, with the latter acting as the agent for the two classical labels under *Universal*, making full use of the latter’s national sales and distribution networks. In February of the same year, *Universal* and *Shanghai Media Group* jointly set up *SUM Entertainment (Universal holding 49% share)*, which is responsible for cultivating Mainland performers and engaging in agency business. Furthermore, *Universal* collaborated with *Shanda Entertainment* in producing music for Internet games, partaking in this thriving new market.
- 7.16 Similarly, *Sony* had set up its joint-venture company *Sony in China* as early as 2001, with a main emphasis on nurturing Mainland singers. *Warner*, through purchasing *Rye Field Music*, established its own distribution networks, and took in a host of Mainland new singers at the same time. *EMI* set up its rights licensing limited company in Beijing in 2005, and stress on identifying Mainland lyrics writers to cater for the demand of the Mainland and larger Chinese market for mandarin songs.
- 7.17 The Big Four have some distinct advantages in entering the Mainland market, but they are doing this in a constantly changing music market, and have still to endure a period of adaptation in operation.

A strategy that relies on crossing media and crossing entertainment fields – the

Emperor Entertainment Group

- 7.18 In the past few years, The *EEG* has housed the bulk of the important local singers, and their strategy to a certain extent determines the trend of Hong Kong's music industry in the PRD as well as the whole Mainland market. In 2004 the net profit of record production and distribution business of the *EEG* rose by 188% to HK\$18.55 million. The *EEG* maintains a diversified operation, and there is often mutual supplement among the different branches. In music production, the *EEG* has from early on expanded the "purely music" record sales business to become multimedia audiovisual production (including download products), at the same time emphasizing performances across entertainment fields. They develop their singers into all-round performers, and record production becomes part of a larger entertainment business schema.
- 7.19 People in the industry point out this kind of cross-media, cross-entertainment-fields strategy adopted by the *EEG* endows the *Group* with tremendous star-making ability, enabling them to effectively promote performers into the Mainland as well as other markets. In the past year, performers of the *EEG* gathered many awards in the Music Award Shows in the Mainland, especially in the PRD, and their concerts enjoyed extremely high attendance rate. The *EEG* indeed has plans to re-position their main development target to the Mainland, investing into record companies and performance institutes, and signing a memorandum with Guangzhou Yuexiu District Government to set up a sole-owned company as the Headquarters of the *Group* in the South China region. This will help to form a "Guangzhou + Hong Kong" kind of market and operation model to promote the *Group's* businesses like watches, jewellery, entertainment, finance, real estate, food and beverage, media, fashion and furniture into the Mainland. Furthermore, the *Group* is investing HK\$2 billion dollars to set up in Shanghai an *EEG Star City* which combines entertainment, consumption and information about stars in one complex, as a window showcasing the *Group's* activities to the Mainland market. In mid April this year, the *China Record Corporation EEG (Beijing)* was established, with a view to investing heavily in singing and film businesses.

New media, new opportunities

- 7.20 The burgeoning of new media has provided new market opportunities for the music industry. In the beginning of this year, two websites for legal music download were established in Hong Kong, in an attempt to avert the damages that illegal download has caused the industry. Currently the impact of the two websites is unclear, but if we take the situations in America and Europe as examples, the sites can have development potentials in a market that covers a large population (such as the Mainland). In addition, mobile communication tools have become increasingly popular in the Mainland. At the end of 2004, there were over 36 million computers having access to Internet services, and over 90 million net users in China. All kinds of associated services for related products, e.g. downloadable ring tones, will provide a vast new market for the music industry.
- 7.21 Recently the media in China began discussions on the coming of a new network of digital multimedia broadcast (DMB), which has the capacity to transmit

sound, images and data signals simultaneously. The biggest market here would be mobile phone television. Korea and several European countries will experiment with DMB soon. In the Mainland, The *PRD DAB* (for digital audio broadcast) *Pioneering Net* has since 1999 collaborated with European states on experimenting with DMB. Digital broadcasting is now at the execution stage; the market potential of it is tremendous and music products will find a new life here.

Further improving the legal environment

- 7.21 Currently there are still many restrictions on foreign investors (including Hong Kong investors) entering the cultural sphere in the Mainland. The recently announced “Several Opinions on Bringing Foreign Investment into the Cultural Sphere” by the Ministry of Culture has reduced the threshold for entry for certain cultural industries, but at the same time the “Opinions” has also explicitly stated the various areas that require stringent regulation, e.g. forbidding foreign businesses investing in the publication, production, general distribution and import services of audiovisual products and electronic publications, as well as the use of information networks to set up viewing and listening program services, news websites or Internet publishing. The “Opinions” also forbids foreign investors operating business in film import and video broadcast companies. Nowadays the music industry is closely related to the publishing, Internet, broadcasting, video production and distribution businesses. The industry needs to face these restrictions and further hope to be able to make long-term plans in a more open market environment.
- 7.22 People in the industry also hope the Mainland authorities can amend its copyrights laws, allowing concerned parties to obtain fees from music broadcast on television and radio, as well as seriously enforcing existing laws. In addition, they are trying hard to seek improvements to regulations concerning piracy, infringement of rights and illegal downloading, and to ensure the regulations are properly enforced. They are paying particular attention to the progress in Mainland law enforcement agencies’ acts to “attack fakery in audiovisual products”. For example, the *Cultural Communication Company* of Dongguan has since August 2003 diligently carried out the “attack fakery, protect rights” movement by displaying a list of people and organizations to be litigated. Similar developments are seen in Guangzhou, Foshan, and Jiangmen. Here there are legal disputes surrounding literary and distribution rights, and the verdicts of many cases are still hanging in the air. The court’s judgment on individual cases will greatly affect the future scenario.
- 7.23 Besides this, in view of the serious situation of illegal trial singing in karaoke, companies such as the *EEG* plan to demand fees for “public performance rights in karaoke” directly from karaoke sites in Hong Kong. Similar plans will be carried out in the Mainland. The *EEG* is discussing with agents in the Mainland on using karaoke on demand as a way to collect fees for public performance rights, the target being the 100,000 to 200,000 karaoke suites in the Mainland. If this can be done, it will retrieve a sizeable amount of income for the *Group*.

The concentrated development and transformation of singers and products

- 7.24 People in the industry are keenly aware that the Mainland market has great potentials, yet is at the same time full of changes (including legal regulations, market environment, trends and tastes) and competition (from Singapore, Taiwan and Korea); Hong Kong singers and producers have to develop their own advantages and transform themselves where appropriate.
- 7.25 As mentioned above, there are intimate relations between the PRD and Hong Kong; Canto pop also has a subtler and more far reaching impact on the former than on other Chinese regions. As a result of the prolonged exposure of singers, the sense of novelty has declined, and the existing advantages of Canto pop are difficult to sustain in the long run. People in the industry remark that the fees paid to most Hong Kong singers to perform in the Mainland have declined 40 to 50% compared with those of two years ago. For record sales, because of the failure in attacking piracy, there is still no stable source of income in sight.
- 7.26 Some industry people believe the special role played by Canto pop in Chinese communities will gradually decline. In the market of the future, consumers in the Mainland will probably look for a pluralistic scene where Canto pop, Mandarin pop and Asian pop co-exist, and Canto pop is but one choice among others. Currently the way in which record companies enter the Mainland market apparently also confirms this direction. Even though they continue to produce Canto pop songs, local singers' new productions have turned more to Mandarin songs, with themes that depart from purely Hong Kong's local tastes.
- 7.27 Furthermore, in recent years critics and industry people have frequently criticized the music genres and techniques of local singers; they point out 'star charisma' cannot sustain the long-term future of Hong Kong's music and popular culture industry. Even rising stars like Dao Lang was criticized by fans for his lack of innovation and over-contrivance in his second album, resulting in a loss of the spark when he first emerged onto the scene. The music tastes of the Mainland are more diversified than those in Hong Kong (for example, Steve Wong Ka Keung of *Beyond* revealed that he will concentrate his future development in the Mainland, because all the fans mail he obtained in the past few years have been from the Mainland), and change frequently because of the continuous opening up of the country. Local singers need to understand the need to explore their positioning and raise their performance quality in order to face the challenges. This development will probably set off a trend which sees Hong Kong's music industry begin to transcend a vision fixed on the PRD, and work to raise the quality and deepen the cultural meaning of the music business.

Recommendations

- 7.28 The Mainland music market is undergoing a process of transformation. Most of the work still awaits diligent exploration by commercial companies. Meanwhile people in the industry believe the government can help to improve the overall operation environment in the following aspects:
- i. Set up an information exchange platform, supplying the newest information on legal regulations, law enforcement mechanisms, related

litigation cases and investment environment. The platform can also be a basis for regular meetings among representatives of the industry to deliberate on common problems faced by the industry as a whole.

- ii. Collaborate with relevant units in the Mainland to attack piracy, infringement of rights and illegal download through legal regulations and proper law enforcement. Also to periodically review the policy on parallel import of audiovisual products, to prevent the further shrinking of the local market, which may render the music companies unable to try out sustained and longer-term explorations.
- iii. Persuade Mainland authorities to further relax the restrictions on Hong Kong investors' entry into the cultural sphere.
- iv. Actively cultivate local music talents and encourage the development of plural music tastes, so that Hong Kong can adapt to the ever-changing and ever-rising demands of the Mainland music market.¹

¹ For concrete suggestions, please refer to the *Baseline Study on Hong Kong's Creative Industries* published in 2003.

8 Performing Arts

Highlights of Hong Kong's Performing Arts

- 8.1 Performing arts can be divided into four sub-sections, namely dance, drama, orchestra and xiqu (Cantonese Opera). At present, most of the performing arts groups in Hong Kong receive government subsidies. The Arts Development Council (ADC), under its Three-Year Grant scheme, supports six performing arts groups, while another 28 groups receive ADC's One-Year Grant.¹ Major performing venues are planned and managed by the Leisure and Cultural Services Department (LCSD), which is also responsible for the promotion and presentation of territory-wide cultural and entertainment programmes, as well as the operation of URB TIX and the Music Office. The LCSD currently manages 15 performing venues²; non-LCSD venues include those in the Hong Kong Arts Centre, the Hong Kong Academy for Performing Arts, the Jockey Club Auditorium, the Fringe Club and others.
- 8.2 The LCSD has a managerial staff of 200 to cover its performing arts section, according to LCSD's statistical data in 2002 and the "Annual Digest of Statistics 2002" published by Census and Statistics Department in 2003. In 2001-2002, the arts organizations subsidized by the LCSD and the ADC employed 579 personnel, excluding part-time employees, self-employed workers, contractors and freelancers.
- 8.3 The statistical data provided by the LCSD indicates that it presented about 4,094 performing programmes in 2004, with the number of attendance (man-visits) reaching 2,202,705. Between 2003 and 2004, the total public expenditure on culture and arts was HK\$2.461 billion, representing 1.03% of the government's General Revenue Account. Between 2000 and 2004, the average public expenditure on culture and arts was HK\$2.452 billion per annum. (see Table 1 and 2)

Table 1

	2000	2001	2002	2003	2004 #
Performances by LCSD	4,066	4,007	4,618	3,990	4,094
No. of audience (man-visits)	2,315,443	2,319,527	3,688,991	2,437,328	2,202,705

(Source : LCSD) # estimated figures

¹ Source from Arts Development Council website: <http://www.hkadc.org.hk/en/grantsinfo/grants/3year>; <http://www.hkadc.org.hk/en/grantsinfo/grants/1year>.

² Source from Leisure and Cultural Services Department website: http://www.lcsd.gov.hk/en/cs_pa_venue.php.

Table 2

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
Total Public Expenditure on Culture and Arts (HK\$ million)	829	2,311	2,543	2,493	2,461
Share of Culture and Arts Expenditure to General Revenue Account	0.42%	1.16%	1.21%	1.18%	1.03%

(Source : Home Affairs Bureau)

Overview of the Performing Arts Sector in the Mainland and the Pearl River Delta

- 8.4 The performing arts market in the Mainland mainly consists of performing arts groups, performing venues and “performance companies/agents”. The statistical data of the past few years shows that the system and types of performance groups is changing gradually. According to *China Statistical Yearbook 2004*, there are 2,618 performance arts groups in the country in 2003, with 137,059 personnel engaged in the industry. The total number of performances throughout the Mainland in 2004 was 385,000, including 259,000 shows ran by state-owned arts groups, and 122,000 shows produced by collective-run groups. A total of 391,630,000 visits were made to these shows, in which the audience for state-owned groups accounted for 280,867,000, while that of collective-run groups was 105,606,000. It shows that even though state-owned groups are currently the major performing groups in China, the emergence of collective, personal and other forms of groups should not be neglected.
- 8.5 Performances based on traditions have gradually changed to profit-making performances. The government basically leads the performing market in the Mainland, and acts as the management to approve and screen performance programmes. By looking at the statistics from the Ministry of Culture as of 2003, Beijing, as the political and cultural centre in China, has 20 performing arts groups and 24 performing venues³ as of September 2004, Beijing possessed about 67 performing establishments, and almost 100 performing agencies.⁴
- 8.6 According to the *Report on Development of China's Cultural Industry 2004* and data from the Guangdong Province Statistics Bureau as of 2002, there were 141 performing arts groups, 6,161 personnel, 16,000 performances and 2,471,000 visits to arts performances in the Guangdong Province. That year, there were a total of more than 20,000 shows of all varieties of performances. The performance revenue of the eight province-owned performing groups was RMB24.192 million. As of 2004, there were 71 professional performing arts groups and 22 performing agencies.⁵

³ 《2004 年中國統計年鑑》 *China Statistical Yearbook 2004*, p. 840.

⁴ 《演出經營與管理》 *Yan chu Jing yin Yu Guan li*, p. 33.

⁵ 「廣東演出市場三分趨勢引發的思考」, 《2004 年中國文化產業發展報告》 *Report on Development of China's Cultural Industries 2004*, p. 246.

- 8.7 Compared to the Mainland, the size of Hong Kong's performing arts market is relatively small; the Mainland market, however, can bring a massive audience to Hong Kong's performing arts sector. Although the performing arts market in the Mainland seems to be flourishing, there are many obstacles that need to be tackled. The Ministry of Culture's *Report on the Development of China's cultural market 2003* states that existing problems include: performances fall short of the market demand; lack of blockbuster products; performance groups lack market sense and business knowledge; uneven demands lead to an oversupply of performances in the city and conversely a lack of quality performances in the countryside; and lastly the reform on the performance market system is yet to be completed.
- 8.8 Hong Kong's competitive edge lies in its knowledge of the market mechanism. Thus the performing arts sector in Hong Kong can help promote the art groups, development and dynamics of the performance market of Hong Kong and the PRD, by participating in the performances and productions of the Mainland groups as well as investing in performance projects, in order to create a win-win situation.

The Development and Obstacles faced by Hong Kong's Performing Arts Sector in the PRD market

Drama

- 8.9 The Hong Kong Repertory Theatre, along with some other commercial theatre companies such as the Spring-Time group, are the more active performing groups in the Mainland. The main reason for this is due to high operation cost/expense. Furthermore, since the local market has not been fully cultivated, practitioners think that drama audience is still a minority and many groups still see Hong Kong as the main market. Most groups prefer collaboration with actors/actresses from the Mainland and directors from Hong Kong to cut down the cost of this type of cultural exchange.
- 8.10 Venues for cultural exchanges are mainly located in big cities, which are not limited to the Pearl River Delta region. Shanghai and Beijing are cities with longer histories on performance exchange, while the PRD is one of the more popular destinations in recent years, in addition to Hangzhou, Chengdu, Shaanxi and the Northeast region. In September 2004, the Hong Kong Repertory Theatre and Hong Kong Dance Company presented in Putonghua and Cantonese their first jointly produced original musical "Sweet and Sour Hong Kong" in Hangzhou and Shanghai. Their performance in Hangzhou was invited by the 7th China Arts Festival as a special performance. Since the performing arts sector in the Mainland is keen on developing musicals with distinctive Chinese characteristics, the performance attracted the local media and received an overwhelming response. After the performance, a discussion session was held to exchange viewpoints with experts from the Mainland.
- 8.11 Spring-Time Group, the largest commercial drama group in Hong Kong, presented the Putonghua version of "Butterflies are free" (a musical adapted from the Broadway drama of the same name) in three regions: Shanghai in 2000 (20 shows in total), Southwest region of China in 2001 (29 shows in total) and

the Guangdong Province in 2001 (19 shows in total). Following the Shanghai performance in 2000, the Group collaborated with the Shanghai Dramatic Arts Centre again and went on a tour, giving a total of 34 shows in Shanghai, Beijing, Baoding, Shenyang, Wuhan, Changsha, Nanchang, Fuzhou, Ningbo, Hefei and Haikou, with audience reaching 51,000. The number of audience in Guangdong alone was 27,550. From the above examples, it can be seen that Hong Kong's art groups and musicals have great development potential in the Mainland.⁶

- 8.12 Professionals from the industry reflect that language is the main problem in exchanging and communicating with art groups from the Mainland. An instructor of the Hong Kong Academy for Performing Arts (HKAPA) pointed out that although the Academy now offers Putonghua lessons, there is still a long way to go before students can perform in Putonghua. However, helping its students to develop their career in the Mainland is not one of the Academy's main priorities. Instead, the school is more interested in attracting Mainland students to participate in its study programmes. Indeed the Academy has started its planning in this area.

Dance and Orchestra

- 8.13 Practitioners in Hong Kong's dance industry have engaged in different types of cultural exchange in the Mainland since the 1980s. These include performing in the Mainland, giving dance workshops, helping to set up new dance courses and programmes at dance schools, as well as taking up artistic directorship and management of the dance groups. The main locations for cultural exchange are the big cities such as Guangzhou, Beijing and Shanghai. As for orchestra, they perform in the cities by invitation. For instance, the Hong Kong Chinese Orchestra strives to promote Chinese music with Hong Kong characteristics in the Mainland and other countries, as well as arranging joint performances with Mainland musicians.
- 8.14 Unlike the drama sector, dance and orchestra performers do not experience the language problem. Dance companies and orchestras recruit openly, thus they also hire practitioners from the Mainland. Take the Hong Kong Dance Company for instance, since it specializes in Chinese dance, it often attracts many applications by dancers from Guangzhou; the Company also hires guest choreographers from the Mainland.
- 8.15 Talents from the Mainland working in Hong Kong believe that they have more room and freedom of creation, better equipment and facilities as well as more systematic and professional in art administration and stage management. Besides, there are more performances and performing opportunities, and more diversified audience in Hong Kong than in the Mainland. In terms of salary, insurance and benefits, there is no discrimination either between practitioners from Hong Kong and the Mainland. At present, art groups face little problem in applying for Mainland talents to come to Hong Kong except those from the remote areas.

⁶ Please refer to Spring-Time Group's website:
http://www.spring-time.com.hk/chi_version/12butterfly_romance.htm.

- 8.16 Professionals from the industry express that lack of understanding towards the ticketing and distribution system in the Mainland is the main reason for some local groups to focus on expanding the Hong Kong market instead of entering the Mainland market. They are worried about censorship and not being able to receive the performance fee. These groups would not deliberately develop the Mainland market unless they are invited, with transportation and accommodation expenses paid by the organizer.

Cantonese Opera

- 8.17 The general development of Cantonese opera at present is much better compared to 40 years ago. In recent years, Cantonese opera has received greater recognition from society. Professionals point out that the general public views Cantonese Opera as a local culture of Hong Kong instead of an art form of the past. This allows Cantonese opera to be more integrated culturally to the daily life of the public and hence enhancing its impact.
- 8.18 According to the tutors from the HKAPA, there are only 3 male students in the Cantonese opera course since it was started 5 years ago. Other than the imbalance ratio of male and female students, most of the students do not consider developing Cantonese opera as their career. Given that the natural conditions in Hong Kong would not be able to keep the local talents, the tutors believe recruiting students from the Mainland and the PRD would be a solution to the problem of insufficient enrollment, in order to continue the tradition of Cantonese opera. In addition, the standard of Cantonese opera in Hong Kong should be raised to a higher level, with more capital invested and candidates devoted to the sector should be trained to transform it into a traditional performing art that is as well accepted by the youngsters.
- 8.19 Compared to the development of the Cantonese opera market, the VCD market of Cantonese opera is unhealthy as the famous actors are only willing to produce Karaoke VCD but not performance VCD. It leads to an abnormal development in the Cantonese opera market. Moreover, the script copyright also affects the direction of the market. The Cantonese opera market must break away from the box office ticketing system of the past and inject additional values towards commercialized stage performances. The market distribution at present mainly depends on box office, yet professionals believe Cantonese opera should be associated with performing arts, food and dining industry and tourism. For example, in the Mainland, actors from Cantonese opera could take part in the shooting of TV drama. The sector now focuses on the development of the *xiqu* educational market which is a limited and therefore, interactions between Cantonese opera and other industries should be strengthened to facilitate the growth of Cantonese opera. To conclude, professionals emphasize detaching from the traditional management of ticketing system and establish cooperation with other business sectors as the ways to add values to Cantonese opera and to enhance its popularity among the general public.
- 8.20 Due to elevation of the cultural status of Cantonese opera, a new group of audience has been developed from the younger generation. Professionals cite the example of Macau as a place where local industries fail to develop and the economy is totally dependent on foreign capital and tourism. Therefore, the

survival of Macau's Cantonese Opera can only rely on Hong Kong and Guangdong. As for the Guangdong Province, the national policy on industry has penetrated into the cultural and art groups and hence the Cantonese opera groups in Guangdong would face at least ten years of destruction and re-organization. They need to reposition themselves from this process and therefore Hong Kong will be able to retain its leading position in the development of Cantonese opera for the next 20 to 30 years.

Common problems faced by the Hong Kong performing arts sector

Management of performing venues in the Mainland fails to fulfill the needs of performing groups

8.21 It is understood that performing groups face problems from the arrangement of stage design, rehearsal, to performance and rest rooms when they perform in the Mainland. Management of the venue often fails to respond and adjust to their requirements. This shows that there is plenty of room for the performing arts market in the Mainland to develop and improve before it is mature enough to achieve international standards.

Insufficient performing venues in Hong Kong

8.22 Many industry representatives reflect that insufficient performing venues in Hong Kong hinder long-term performance in the same venue. The dismantling and transportation fees increase the production cost and raise the ticket price which in turn affects the popularization of art.

Lack of cultural exchange agency and organization

8.23 The current channel for exchange with performing arts group in the Mainland includes participating in festivals organized in Hong Kong and the Mainland, such as Little Asia Theatre Exchange Network established by the Hong Kong Arts Centre, International Experimental Theatre Festival in Shanghai, National Puppet Festival and Shanghai International Arts Festival. Performing arts groups can contact the collaborating organizations directly for cooperation after participating in the festivals. A lot of performing arts groups point out that Hong Kong lacks performing arts industry, information centre on art and culture, or agencies that offer assistance on programmes trading, networking, cultural exchange and legal consultation.

Insufficient regular cultural exchange programmes

8.24 Most of the cultural exchange activities in Hong Kong, including performances and exhibitions, are single and one-off events and lack regular cultural exchange programmes. Little Asia Arts Festival is one of the few permanent exchange programme, yet whether it can be continued in the future is based on the policy of the government since its budget is subsidized by the Hong Kong Arts Development Council. Professionals believe that cultural exchange should

become permanent and regular to offer a healthy development to the culture and art scene.

Neglecting the research and development on cultural exchange and archive

8.25 Professionals from the industry think Hong Kong should establish a cultural exchange organization, which Hong Kong lacks at present, to train specialists, to accumulate and to pass on experiences. Apart from activities organized by the Hong Kong Economic and Trade Offices in overseas countries and promotion events by the Hong Kong Tourism Board, there is an absence of Hong Kong organisation based in foreign countries to assist art groups. For this reason professionals are evaluating the needs to establish libraries, external relations offices and information centres, and utilize the resources to promote local artists. In addition, the government could assist organizations to develop cultural department, for promoting culture and arts in Hong Kong and formulating policies to equally allocate resources on various aspects like art education in the hope of establishing better communication and closer cooperation with the Mainland.

Advice from professionals on performing arts

8.26 Hong Kong's strengths come from its freedom of artistic creation, legal protection and respect to contracts and agreements. Moreover, the unique historical background of a British colony allows a more diversified and international exposure to different cultural aspects. Years of exchange with the outside world breeds the unique character of East meets West in Hong Kong's performing arts. On the contrary, even with marketization, the cultural programmes in the Mainland are not as diversified as in Hong Kong.

Develop a contemporary performing arts centre

8.27 Compared to the Mainland, the traditional Chinese culture in Hong Kong is relatively weak. In order to position Hong Kong within the Pearl River Delta region and even the whole of China, one way to retain our edge is to develop a more modern approach to interpret the traditional work, or by injecting unique Hong Kong elements in the performance. Professionals suggest developing Hong Kong into a contemporary performing arts centre to gather and introduce the most avant-garde arts to the Mainland. Specific proposals include utilizing the talents of Hong Kong to organize a large-scale international conference on performing arts and to invite performing groups from all over the Mainland to participate and to exchange with international art groups. The New Vision Art Festival organized by the LCSd in September 2004 is an example that has potential to become such a programme.⁷

To enter the Mainland market and to introduce performing arts programmes with Hong Kong characteristics

⁷ <http://www.lcsd.gov.hk/CE/CulturalService/FestivalOffice/newvision/chi/new/new1.html>.

- 8.28 Hong Kong culture still appeals to audiences in the Mainland. Therefore performing art with characteristics and popular culture of Hong Kong is an edge for the Hong Kong art groups to enter the Mainland market. Professionals point out that audience from Hong Kong and Mainland prefer programmes that are entertaining. The types of programmes in the Mainland are limited: those from Beijing are more artistic and those from Shanghai are more diversified. But the choices are largest and most advanced in Hong Kong.
- 8.29 At present, audience from the Mainland are more interested in programmes that are modern and contain features of Hong Kong and the West. Therefore professionals believe programmes with Hong Kong characteristics and creative elements such as musical, which are lacking in the Mainland, could become popular among the Mainland audience. Moreover, Hong Kong brands, production and packaging are also appealing to the Mainland; performing groups should grasp this opportunity to cooperate with other brands and business to develop the Mainland market. The Hong Kong Arts Development Council has also invited Mainland artists to take part in Hong Kong production. Some of these works were toured internationally. Events and programmes like these should be encouraged and supported.
- 8.30 Hong Kong could collaborate with the PRD in promoting Cantonese opera and to organize touring performances in the region.

Teaching art administration and management - a new path in future development

- 8.31 Hong Kong has more experience in art administration and management compared to the Mainland and has accumulated more professional experience, which allows Hong Kong to meet the international standards. The reasons that talents from the Mainland prefer to work and develop in Hong Kong include freedom and flexibility in creation, sufficient facilities, professional art administration and stage management, and greater opportunities of performance in Hong Kong. At present, the import of experience on art administration to the Mainland is mainly through the mobility of talents while little activities are held to facilitate the exchange. Professionals believe the mobility of talents, together with their professional experience, will be more effective and will bring greater influences to the Mainland than mere collaborative activities. The HKAPA should be able to offer courses for this kind of training.
- 8.32 Professionals point out that the Mainland at present is actively promoting reform on cultural system⁸ and creates a great demand for experience in art administration and management. The government even sends executives and translators from the cultural departments overseas for research and study. In Hong Kong, apart from the government, the Hong Kong Arts Centre, the Hong Kong Fringe Club, the Hong Kong Academy for Performing Arts and the Jockey Club Auditorium also possess experience in managing performing venues. If Hong Kong could take advantage of its strengths in this area to introduce art management experience to the Mainland while opening up the government venues for the non-government sector to manage, develop and improve, this would become a new path of development for the performing arts sector in

⁸ Report from the 16th Party Congress of the PRC:
<http://www.people.com.cn/GB/shizheng/16/20021117/868421.html>.

Hong Kong

Reform on educational system and promotion of art education

- 8.33 Professionals in the sector think that the current educational system does not pay enough attention to cultivate student's appreciation and interests to participate in cultural activities. Therefore art education should be a starting point to nurture the audience-to-be. Professionals further recommend popularizing tertiary education to raise the quality of citizenship and the social structure, and hence transform Hong Kong into a knowledge-based society.

Programme content to include all 3 aspects of culture, art, and entertainment

- 8.34 According to practical experience of the sector representatives, a successful performance must include all three aspects of culture, art and entertainment. At present, a lot of art groups have invited popular singer, movie and television stars to participate in drama and musicals, which has proved to be a successful method to attract audience of different backgrounds and age groups. In terms of performing language within the Pearl River Delta region, Putonghua is used mainly in Shenzhen and Zhuhai, while Cantonese is used mainly in Foshan, Zhongshan and Shaoguan. Therefore art groups should remain flexible in terms of the performing language to accommodate different audience and regions.

Multi-media productions with children content

- 8.35 Professionals point out that there is a great demand on children dramas in the Mainland. For example the "National Puppet Festival" in 2004 is the largest international puppet festival in twenty years and has attracted 20,000 audience. Held in the summer, this art festival lasted for a month with puppet groups from nine countries and regions, including Hong Kong and Taiwan, to perform more than 80 shows. Mainland parents have become very concerned about their children's education under the "one child" policy. The central government pays special attention to children drama since they have a strong and influential impact on children growth. Therefore, professionals in the sector suggest Hong Kong should develop children drama, to develop multi-media collaboration among performing arts, television and digital entertainment to produce television drama for children. They believe there is a great potential in this area since Hong Kong can make better use of its talents, create more employment with more creative opportunities, and even new business.

Cross-sector and cross-industry cooperation

- 8.36 Cross-sector cooperation can be a strategy used in expanding the scope of audience in the Pearl River Delta region or the whole Mainland. For example, the musical "Sweet and Sour Hong Kong" by the Hong Kong Dance Company and the Hong Kong Repertory Theatre, which makes use of Western performing style with Hong Kong characteristics in the theme, is very popular among Mainland audience.

- 8.37 With the economic bloom in the Mainland and the implementation of Individual Visitor Scheme, professionals expect that regular performance in a fixed venue would appeal to visitors from the Mainland. To adapt to the travel itinerary, for example, performance can be arranged as part of the tour to promote the performing arts industry as well as the hotel, food and retail industry.

Subsidized art groups to take on experimental role in marketization

- 8.38 At the moment, the room for development for small art groups in Hong Kong is quite limited. Since the market is small, their production cost in proportion to the number of audience will become very high. Worse still, their subsidy from the LCSD cannot be used to finance their performance outside Hong Kong. Hence they cannot make use of the PRD market to help them transform from being subsidized to independence. If the subsidy policy could be more flexible, these groups may very well take on the experimental role for marketization of the performing arts sector. The performing arts business of London's West End was exactly developed from this model.

Performing arts in tourism promotion

- 8.39 The art groups from Hong Kong and the PRD are not that well known outside their regions. Hence it would be difficult for them to attract tourists as audience. The government and the HK Tourism Board could consider promoting the local performing arts sector and programmes in their promotional efforts outside Hong Kong. The present rich art and cultural activities in Hong Kong should be able to attract residents from the PRD as regular audience and once this layer of Mainland audience is established, it would become easier for the local art groups to make their performance tours in the region more successful and attractive.

To develop with the PRD a South China cultural performing and training market

- 8.40 The performance markets in the PRD including Guangzhou and Shenzhen is comparatively less advanced than those in the northern regions such as Beijing and Shanghai. There is yet to be organized a large scale international performing art event. Hong Kong and the PRD could jointly develop a cultural performing market in South China.
- 8.41 The Hong Kong businesses in the PRD should also take up a more proactive role as sponsors in art and culture. They could use performing art events to promote their brands and business, which is a win-win situation.
- 8.42 According to a survey, 70% of Hong Kong parents believe that extra-curricular art education is important to the growth of their children. They invest annually HK\$2 billion alone in extra-curricular training in music.⁹ It is believed that there should be a similar market need in the PRD, to develop extra-curricular art education.

⁹ Consultation Paper by the Culture and Heritage Commission, 2002:
http://www.hab.gov.hk/file_manager/en/documents/policy_responsibilities/CHC-ConsultationPaper2002_E.pdf, p. 7/22.

9 Publishing

9.1 As a creative industry, publishing involves several distinct kinds of products, including books, newspapers, magazines and comics. Their respective market situation, modes of operation and related legal regulations in the PRD are slightly different. Among these products, newspapers and magazines are subject to more stringent legal regulations because of their close relations with news communication. On the contrary, books and comics publication faces a relatively more open environment, and there are more activities and achievements as a result. This chapter will concentrate on books and comics publishing, with newspaper and magazine publishing briefly mentioned. Same as in the 2003 report on *Baseline Study on Hong Kong's Creative Industries*, we shall distinguish the publishing and the printing industry, and will not deal with the latter in this report.

Book publishing

Current situation

- 9.2 People in the industry point out a concept of “Greater China publishing” had been formed for some time. Hong Kong’s book market is small, and there was no special peak era for book products like those in local movies, television and popular music, which give the latter a special degree of influence in Chinese communities. In the past few years, local books face stiff competition in sales from books from the Mainland and Taiwan. A lot of publishing enterprises have from early on sought to expand their market, and developed a framework that aims to “use Hong Kong as base, publish for Greater China.”
- 9.3 The actual development of this “Greater China” concept has always been cautious. Book publishing belongs to the cultural industries in the Mainland, and is subject to stringent regulation in investment and content production. The situation has changed in the past few years. The book publishing industry in the Mainland has experienced changes in market, organization and legal regulation, affecting its overall operating environment.
- 9.4 Firstly, in legal regulation, in 2004 the Chinese government put in action a policy of opening up the retail book market to the world, allowing foreign businesses direct entry to the books distribution market in Chin. We thus see the entry and increased investment of publishing giants like *John Wiley*, *Bertelsmann* and many others into the Chinese book market.
- 9.5 Secondly, as a step to further rationalize the loopholes in the regulatory mechanism and make better use of market dynamism, the Mainland publishing industry has seen great changes in terms of the separation of bureaus and industries, politics and enterprises, supervision and operation.
- 9.6 Thirdly, state-owned publishers have increased the speed of reform, ushering in

- a phenomenon of conglomeration, and increased reliance on enterprises and joint-stock holdings. These have resulted in a number cross-region, cross-media publishing and distribution corporations which have substantial capability.
- 9.7 Fourthly, non-state-owned book distribution and retail enterprises have developed rapidly, their scale and number now on a par with those for their state-owned counterparts. They set up associations, participate in multiple ways in publishing and have fast become a force to reckon with.
- 9.8 People in the industry remark that 2004 to 2006 will be a critical stage of adjustment for the Greater China book industry. The Hong Kong book industry entering the market at this point, trying to deepen its “Greater China publishing’ framework, will naturally face the series of changes outlined above, as well as the accompanying risks, chaos and fluid circumstances.

Forms and experiments in entering the Mainland publishing market

- 9.9 The 2003 report on *Baseline Study on Hong Kong’s Creative Industries* has pointed out the four possible ways in which Hong Kong book publishers can enter the Mainland:
- i. the Mainland as a market for books produced in Hong Kong;
 - ii. the Mainland provides low cost or high quality production support;
 - iii. the Mainland provides writing and editing talents;
 - iv. Hong Kong and Mainland publishing enterprises collaborate in investment, distribution and retail businesses.
- 9.10 The PRD region does provide opportunities for the local book industry on the above points. For example, Hong Kong businesses have set up numerous printing factories in the PRD, supporting book publishing and also acting as an important source of income for certain publication groups which also deal in printing. Currently there are over 1,000 Hong Kong owned enterprises engaging in printing in the PRD. The region, along with the Beijing- and Shanghai-led printing bases, occupies an important place in the Mainland printing industry. In addition, some book publishers have relied on Mainland talents to support the enterprises’ editing work (e.g. *Sino United Publishing* has already set up a supporting editing office in Shenzhen for several years.) However as a whole the industry holds a cautious view towards the opportunities found in the PRD.
- 9.11 First of all, seen from the country as whole, there are many restrictions faced by Hong Kong book publishers in entering the Mainland. The Mainland publishing industry has enjoyed high output (producing 190,000 new books annually) and low book price; as an industry representative said, “it is impractical for Hong Kong businesses to hope to go north to sell books in big number.” Publishers also need to be especially careful not to touch the ideologically sensitive spots, and try to model on Taiwan publishers’ ways of “starting from books that are not likely to arouse controversy.”

- 9.12 Furthermore, industry people point out the PRD is actually not the main base for book publishing in the Mainland. In comparison with districts like Beijing, Shanghai, Jiangsu, and Zhejiang, Guangdong is only a mid-end player in the publishing industry. Its book sales figure is high, but publishing figure lags behind. Hong Kong book publishers entering the Mainland should look to the bigger picture and travel through north and south.
- 9.13 Finally, The Mainland publishing industry is still taking a policy that only partially opens to the outside. Hong Kong businesses can only operate in the so-called ‘downstream’ of publishing like distribution, retail and advertising agency work. For example, the *Hong Kong Economic Times Group* plans to invest HK\$50 million to develop advertising agency work in the Mainland, and has worked out a collaboration agreement with a major Mainland supplier of finance and economic information *Qian Long High Tech (Shanghai) Limited Company* to produce a price announcing system for Hong Kong stocks, but has remained cautious in its publishing plans.
- 9.14 Because of this, in the past few years, the more outstanding examples of Hong Kong publishers’ investment in the Mainland have centered on book distribution. For example, *Sino United Publishing* has set up a *Guangdong Distribution Company*, which became the first sole-foreign-owned book distribution company approved by the state. Besides this, *Global China Media* has also worked with Mainland companies to form a *Greater China Media Service Limited Liability Company*. *TOM Group* has partnered with *Beijing Joint Publishing* and *Xinhua Bookstore* in the distribution, export and advertising agency work of books and periodicals. The *South China Morning Post Group* has also participated in the distribution and advertising agency work of foreign language books.
- 9.15 Now some the above-mentioned activities focus on the PRD, e.g. *Sino United Publishing* invested HK\$30 million in the *Guangdong Distribution Company*, explicitly targeting the Pan PRD “9 + 2” market. Others are taking the whole country as a market, e.g. *Oxford University Press*’s book licensing plans have Jiangsu as the main collaborator, same as its other distribution businesses.
- 9.16 Currently most of the investment activities in book distribution in the Mainland by Hong Kong publishers are pioneering work; their economic benefits still unclear. In the context that the ‘upstream work’ of publishing – content development and production – is still not open to the outside, plus the many-fold changes in the Mainland book market we mentioned in the beginning of the chapter, foreign book publishers (including Hong Kong’s) can only work in an exploratory manner, trying out the possibilities of collaboration with Mainland bodies. Industry people have discussed the following ways:
- Directly go into the retail market, establish large-scale bookstores in big cities;
 - Set up strong distribution companies; use their good service and timely payment to establish reputation and initiate wholesale work;
 - Start large-scale book licensing work;
 - Invest in non state-owned bookstores, to collaborate in distribution;
 - Use licensed audio-visual products as attraction to partner with publishers to produce books;

- Set up advertising agents, use advertising resources as lead to get into non-state owned periodicals publication, and then through this to publishing at large.
- 9.17 The large-scale, more substantial publishers are in a better position to explore the above ways of collaboration. For example, *Sino United Publishing* makes use of its advantage in capital scale and brand name to initiate plans in publishing, participate in distribution, subcontract production and printing businesses, so as to flexibly exploit the emerging market opportunities. These include the setting up of the general distribution company at Guangdong mentioned above, bookstores in Beijing, Shanghai and Kwangtung, as well as printing businesses worth over HK\$1 billion each year.
- 9.18 Besides this, *TOM Group*, which puts a major emphasis on developing the Greater China publishing platform, has plans to invest HK\$3 billion in the Mainland in the distribution of publishing works and outdoor advertising. The special feature of *TOM* is its ability to use the scale of its *Group* to engage in cross-district and cross-industry operation. For example, five years ago it invested in *Cite Publishing Group*, which cornered 25% of the Taiwan book market at that time, gradually increasing its share of the former to 83%, and now holding over 60 magazines and 40 publishers under its wings. *TOM* employs modern corporate management methods, enabling *Cite Publishing* to rapidly expand its types of publication and quantity of products. It also makes good use of its own Internet capabilities, outdoor media, sports businesses, and television and entertainment businesses to provide mutual support with its publishing work.
- 9.19 *Cite Publishing* is now actively finding partners in the Mainland, which have networks throughout the nation, to form jointly-owned companies to publish magazines, including the comics *Cool* and the trendy digital products magazines under *PC Home*. Furthermore, *TOM* announced in 2004 that it is negotiating collaboration plans with the *Xinhua Bookstores* in several provinces, including the development of real estate businesses related to the *Bookstores*. In June 2004, *TOM* announced a 31% rise in business revenue to HK\$1.198 billion over the past three years. Within this, the biggest proportions of revenue were brought by publishing and the Internet (obtaining 37% and 38% respectively), with outdoor media (13%), and sports business (11%) following behind. 62% of the *Group's* revenue came from the Mainland, 34% from Taiwan, and 4% from Hong Kong, reflecting its Greater China orientation. With the further maturing of the Mainland market, *TOM* will continue to invest in the Internet and publishing businesses, and the relative share of income from the Mainland will continue to grow.
- 9.20 Furthermore, people in the industry believe the smaller-scaled publishers have their own opportunities in the Mainland market. For example, certain established writers, in their capacity as consultants, are working with Mainland units to develop books and periodicals publication. There are also “certain individual, anonymous young people or publishers who went to Shenzhen, Guilin, and Shanghai to try their luck.” Some small-scale publishers continue to work with book licensing (such as *Bliss Publishing Company* responsible for producing the series of *McMug* publications) to gradually move into the Mainland market. Other publishers are actively restructuring to seek a unique

market niche for themselves. For example *Hong Kong Xinhua Book City* is adapting to the Mainland market by working with *Guangdong Flower City Publishing* to produce books for Mainland cross-border visitors under the ‘individual visitor’ scheme.’

- 9.21 Meanwhile the long established *Universal Publishing*, since taking in investment share by *Culturecom Holdings Limited* a few years ago, has moved from its previous major focus on fiction publication to a new preference for “technologized” and “diversified” publication. The former refers to the development of the electronic books market, utilizing the advantage of Hong Kong’s location at the window of South China, to allow Mainland writers to radiate to other places in addition to maintaining their Mainland market. The latter refers to the change in the types of books published, developing a series of ‘interests books’ in addition to fiction, in order to maintain a uniqueness in the fiercely competitive market. This trend of branching out horizontally can also be seen in the printing industry, traditionally a more ‘hardware-oriented’ industry. There are new attempts in the industry to integrate printing with packaging design, art collection and brand concept marketing into a “one-stop” service.

Prospects

- 9.22 “Greater China publishing” is now a steadfast concept among local publishers, but within the context of a stage of adjustment in books publication and business operation of the industry in the Mainland, they can only explore various ways of investment and collaboration with caution. This in turn allows for a scene of plural development for enterprises of varying scales.
- 9.23 Here people in the industry hold a multi-layered view to the relations between local publishing and the PRD. Firstly the language and culture of the two places are intimately tied, and Hong Kong style popular culture has a great influence in the PRD; this makes the latter a prime market for Hong Kong’s creative industries (including books). Thus certain modes of publishing and sales can take the PRD as a self-sufficient target, using Cantonese vernaculars and Hong Kong culture as the leading attraction for developing related products.
- 9.24 On top of this, some in the industry remark that Hong Kong and the PRD as a whole has certain special advantages in the larger scheme of the Mainland market. These are manifested in the relative openness of Hong Kong and the South China region, their better experience in management and operation in overseas market, and a more plural and progressive cultural sensitivity compared with other Mainland cities. Together they give Hong Kong and the PRD a uniquely stimulating presence in publishing as well as the cultural and creative industries in the Mainland. In contrast to the above views, some in the industry believe in terms of publishing, the PRD has no obvious advantages, and the industry should ultimately place its effort in the whole Mainland market.
- 9.25 At the end of 2004, in order to strengthen co-operation within the district, units of the Pan-PRD held the first “Pan-PRD Publishing Forum” in Guangzhou. The attending parties signed a “Framework Agreement on Co-operation in Publishing in the PRD”, which agrees to start wholesale collaboration among

the districts in the nine areas of content production, printing reproduction, publication market, exchange of talents, sharing of information, administration and law enforcement, the establishment of credit system, collaboration in finance pooling, and promotion and propagation. Recently, the *National News Publication Bureau* stated its intention to give priority to open up books and newspaper publication, CD-Rom production and activities relating to audio-visual products to Hong Kong and Macau companies. These developments will benefit the strengthening of the co-operation between Hong Kong and the PRD, making them an advanced region in publishing in the Mainland and exert their influence.

Comics

Opportunities

9.26 The development of the comics industry in the Mainland is more optimistic than that for books and magazines. Recently the two major representatives of the local comics industry, Jades Dynasty and Jonesky, simultaneously remarked that the Mainland market is bringing vast and tangible earnings for the local industry. This is caused by the following positive factors:

- i. There are 380 million youngsters under 18 years of age in the Mainland; the audience for animation films and TV programmes number over 100 million.
- ii. The Mainland government strongly promotes the animation industry in recent years, encouraging TV stations to set up animation channels as well as promoting native production. For example in 2004, *The State Administration of Radio Film and Television* sent out a document “Some Comments regarding the Development of Television and Film Animation Industry in Our Country”, explicitly stating its support “for provincial level televisions to set up animation channels.” It also stipulates that the proportion of imported foreign animation features and native-produced animation features should be “one-to-one”, meaning that for example for any hour of Japanese animation broadcasted, there should be one hour of China produced animation broadcasted; moreover the stations have to broadcast native-produced animations during prime time.
- iii. The comics market in the Mainland has great potentials, but is found lacking in terms capability and experience in creation, distribution and sales. People in the industry reveal there are now over 100 animation production companies in the Mainland, but the majority of them are engaging in secondary production work for companies from Japan, Korea and America. Only three companies, namely *Central Television Animation Studio*, *Shanghai Animation Film Studio* and *Hunan Sanchen* can independently create truly native-produced animations. The number of native animations cannot catch up with the level of broadcast demand. Statistics show that in 2003 the total production of native animation films in terms of broadcast time was 29,000 minutes, giving an estimated gap of

20,000 minutes.

- 9.27 People in the Hong Kong comics industry are well aware of the limited scale of the local market, and that there will be difficulties for the industry's long-term development. They have been quick to enter the Mainland market in search of opportunities. Because of the various changes in recent years, they have confidence to double up their effort and move into this comics and animation market estimated to be worth HK\$100 to 150 billion in total value. Within this context, the two representative companies of the industry are using various ways to develop their business.
- 9.28 *Jade Dynasty* is using its substantial capability to exploit business opportunities in the chain "comics + animation + ancillary products." *Group Chair Wong Chun Lung* remarked that selling his "brand comics" is only a 'starting point.' "In the long run, turning the popular comics into animation, and broadcasting them on the television networks of the entire country will yield sizable licensing fees. This together with the sale of ancillary products like stationary and food, will make a very promising earnings scenario.
- 9.29 In 2004 *Jade Dynasty* collaborated with a film and television production company in Shanghai to produce an animation feature *Magical Weapon*, at the same time making it into a 52 episode television animation serial *The Invisible Armour*. A collaboration agreement has been signed with *China Central Television* for the latter, and the serial will be broadcasted soon. The *Group* is also negotiating with other units on the production and sales rights of ancillary products. Its co-produced animation feature with *Shanghai Media and Entertainment Group*, *Monkey King*, is at the stage of planning. It will be aired in 2007, with a television feature and DVD distributed at the same time.
- 9.30 Similarly *Jonesky* under Ma Wing Shing believes the Mainland comics market is in great shape in recent years. It has invested in comics production in the Mainland as early as year 2000, but has up to now been at a 'laying low' stage. In the past two years as the policy on publishing has relaxed, *Jonesky* can sign contracts with the large Mainland publishers, and through them enter into the first-tier distribution channels. After the publication of *Wind and Cloud*, the *Group* will gradually distribute its other published works in Hong Kong to the Mainland. In October 2004, it collaborated with Shanghai's *Wen Xin Group* to publish the entire set of *Wind and Cloud* fiction. It also works with *Shanghai Juvenile and Children's Publishing House* to publish a comics magazine *Animation and Comics World*, and also signed a contract with Beijing's *Century Hero* on a collaboration plan to produce a *Wind and Cloud* television serial.
- 9.31 Furthermore, *Jonesky* has set up a production company in Shenzhen four years ago, recruited and trained talents in the Guangdong district, with the creative nucleus stationed in Hong Kong, and practiced collaborative production between Hong Kong and Guangdong. This gradually evolves into a mode in which the comics are created in Hong Kong, co-produced in Guangdong and Hong Kong, and distributed by Shanghai to the whole Mainland market. Currently there are about 80 employees in Shenzhen's production company, and 70% of *Jonesky's* comics publications in Hong Kong undergo final production in the Mainland.

- 9.32 Finally, *Jonesky* is further shifting its publication strategy, targeting the needs of different market segments. Besides the original finely packaged edition, it also sells inexpensive small-sized edition, and explores collaboration plans with various Mainland organizations in animation creation, changing comics into television serials and film production and so on.
- 9.33 Other less well-sized comics publishers still mainly rely on licensing work, but are at the same time exploring a unique market position for themselves and integrating comics drawing with other lifestyle products such as note books, memo pads and mouse pads, in order to expand their attraction.

Prospects

- 9.34 This is an opportune time for Hong Kong comics companies to enter the Mainland. At the same time, different cities and units in the Mainland are also putting great efforts into developing their own comics and animation production capabilities, resulting in a tantalizing, simultaneously collaborative *and* competitive scenario. In 2004, different districts in the Mainland have held over 10 large-scale animation and comics conventions. Beijing, Shanghai and Hunan have obtained the permission from the National Broadcast Bureau to set up animation channels on television, which will surely stimulate related production activities. Districts like Zhejiang and Shanghai are actively working to build a new commercial base for Chinese animation on television and in films.
- 9.35 For example in June 2005, the “First China International Animation Festival and Exposition” was held in Hangzhou, reputed to be the largest animation expo in the Mainland so far. The Hangzhou City Government announced it plans to earmark a 500 mu (approximately 33 hectares) piece of land at the Kao Xin District as an animation industry park. The news has brought more than 10 animation production companies into Zhejiang in the past few months; certain established enterprises have started to invest in animation film production and in setting up animation and cartoon cities. These market moves are also supported by over 10 tertiary institutions including the China Academy of Art, Zhejiang University and Zhejiang University of Media and Communication, which set up professional courses on digital media and animation to train the requisite talents. The Zhejiang Government has listed animation products as the province’s project for “excellent cultural products”, reserving RMB1 million each year as foundation money for nurturing animation brands for Zhejiang. At the same time it plans to put in RMB50 million as a foundation for cultivating animation and comics works, making Hangzhou into a “capital for animation and comics in China.”
- 9.36 Faced with this tantalizing scenario, comics industry people in Hong Kong have on the one hand started all kinds of collaborative work with the Mainland units and explored the early opportunities for promoting the industry in districts all over the nation; on the other hand, they still believe the comics and animation industry in Hong Kong and the PRD has certain advantages. Ma Wing Shing points out the strength of Hong Kong’s comics industry lies in its unique drawing style (particularly good at the wu xia genre, and fast paced), and a

stable and mature business mode. The latter includes the tried and trusted assembly line mode of production, a strict system of division of labour, ensuring the comics products have a stable quality. He said techniques of drawing and story construction are relatively easy to change and improve, but the ability of the comic artists to face and to create flexibly for the market is more important. Hong Kong's comics industry is mature, it has established certain cultural influence and production capacity in the Guangdong district, and the comics production talents pool in Guangdong is also bigger than other places in the Mainland. Hence using "Hong Kong + PRD" as a base to collaborate with units in the Yangtze River Delta district is a viable way for the future.

Recommendations

- 9.37 For the local publishing industry as a whole, the Mainland market is now an indispensable, even life-and-death reality. People in the industry have made the following recommendations for the government to support the industry:
- i. Establish a platform for information exchange, allowing the industry to have a comprehensive grasp of the multifarious changing regulations and market situations. The platform can also be a basis for regular meetings among representatives of the industry to discuss common problems faced by the industry as a whole.
 - ii. Persuade the Mainland authorities to further relax the restrictions on the import of publications and regulations on investment in publishing in the Mainland.
 - iii. With reference to the ways Mainland cities are lending support to their comics and animation industry, actively train Hong Kong's comic artists and related business and management talents, and provide concessionary terms for the talents to set up and run new comics and animation production companies.
 - iv. Actively nurture local writing talents and reading habits, hence providing a firm foundation for local publishing and creative work.

10 Software and Computing

10.1 This chapter will explore the recent development of Hong Kong software industry and briefly report the status of the local market and its growing integration with the Mainland market. Software industry is the core information industry in China. During the past 10 years, the structure and policies of the Mainland software industry have undergone drastic changes while the national market has grown rapidly and expanded continuously. Against this background, Hong Kong software industry is now making effort to have a share in the Mainland market which is increasingly open and rapidly developing. This chapter tries to outline the Mainland software market and its recent development so that the dynamic relationships between the Hong Kong and Mainland software industry may be revealed, particularly from the perspective of further integration with the PRD regional market. This chapter will also explore the development modes and strategies of Hong Kong's software industry in the Mainland.

Status of the local market

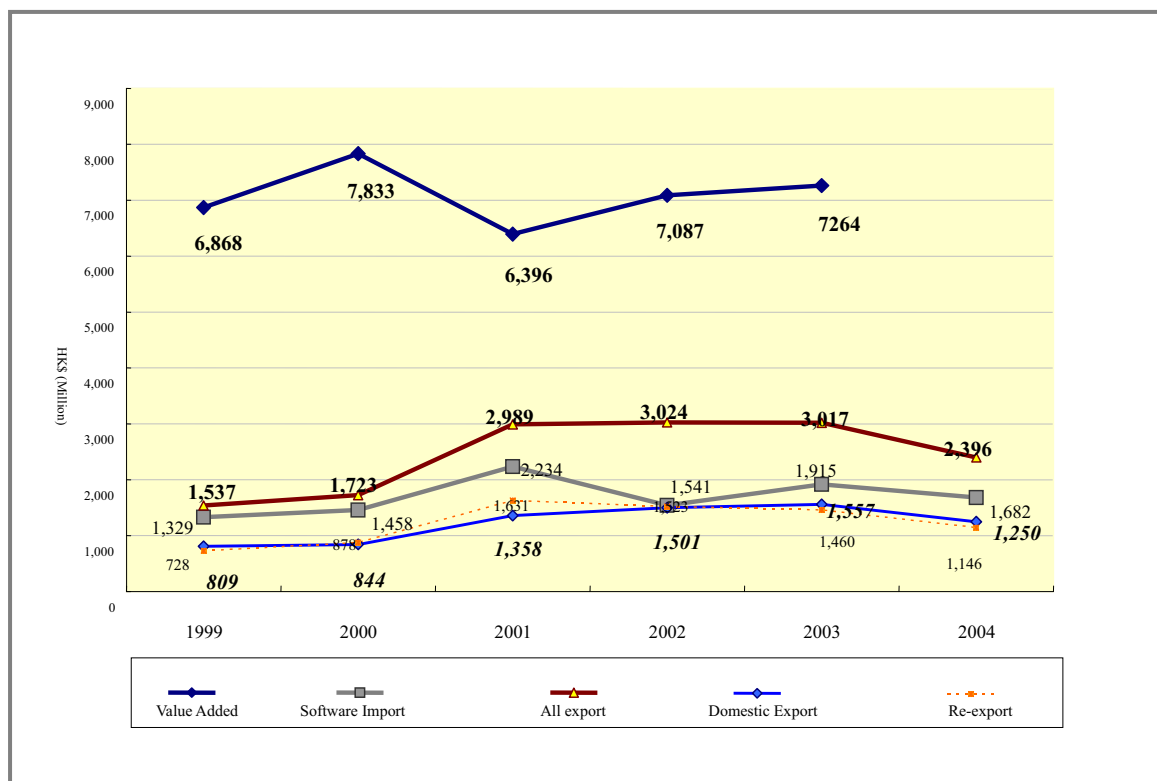
10.2 Hong Kong's software industry has recovered gradually from the dot-com bubble and from the low ebb of investment market for information and technology industries. Compared with 2001, the gross and export value of the local software market has increased in recent years. The fundamentals favorable for the growth of software industry remain strong, which include, for instance, the continuous investment in information equipment and incremental growth of professional knowledge. These factors have not changed much despite economic recession in the past few years.

10.3 In 2000, the economic growth of local information & technology and related services (IT and Related Services) recorded HKD\$7.83 billion.¹ Since the global receding of IT investment, the industry could only contribute HK\$6.39 billion in 2001, with a drop of 18.3% compared to 2000. Recent statistics have shown that the economic value of the IT industry seems to rise again. Between 2002 and 2003, the industry rose from the bottom, making economic contribution of HK\$7.08 billion and HK\$7.26 billion respectively. Though the industry did not return to the level of 2000, its economic performance has improved drastically. However, the local software industry still showed sign of weakness. In 2002 and 2003, export value of the software industry accounted for about HK\$3 billion and domestic export shared about HK\$1.5 and HK\$1.55 billion respectively. Since 2004, the gross export and even the domestic export of locally made software have shown sign of decline. The local software industry has not sustained itself with robust growth in export,

¹ According to Census & Statistics Department, IT & Related Services includes 'software development and maintenance services', 'data processing and tabulating services' and 'information technology related services'; *Baseline Study on Hong Kong's Creative Industries* (2003). This chapter adopts the definition of the C&SD.

and the market prospects remain uncertain (Figure 1).

Figure 1: Economic Value and Export Value of Hong Kong's Information & Technology and Related Services Industry in Recent Years



Source : C&SD, *Statistical Digest of the Services Industries*, 2005

- 10.4 The structure of Hong Kong's software industry did not undergo significant changes in the past few years. Generally speaking, software industry serves both the manufacturing and service industries. As a product, software industry possesses a prominent similarity with manufacturing products. It fulfills the needs of client industries where specific demands for a particular kind of service can be met by the use and exploitation of software. The major economic activities in Hong Kong including finance, accounting, commercial business, trading and logistics, have been the key drivers for software products, which gave impetus to the development of the industry. Therefore, local enterprises have accumulated rich experience in developing software products and services tailor-made for these markets. Since the mid-1990s, the government has speeded up the process of departmental computerization, pushing forward the idea of electronic government and smart identity cards as well as continuous investment in information technology for the public sector. All these developments help promote the development of IT industry.
- 10.5 From a macro perspective, these favorable factors mentioned above remain positive in future, and they do lead to such tangible benefits such as continuous investment from the public sectors in IT equipment and the growing knowledge and professionalism of the industry. In 1999, Hong

Kong's gross expense in IT was about HK\$16 billion and increased to HK\$22.6 billion in 2003, by 41.2%.² Following the local economic recovery, it is estimated that expenses will increase in the coming years, hopefully benefiting the local software market. The industry has accumulated comparatively strong edges in software design and techniques and possessed rich experience in quality control, particularly in the fields related to finance, exchange system, accounting, enterprise resource plan (ERP), customer relationship management (CRM), information security and network solution consulting services etc. The products and services of individual companies have won recognition from customers in Asia, Europe and the US. Moreover, the industry has developed effective overseas networks and players are able to compete in the regional and global software markets.³

- 10.6 Nevertheless, as previous research points out, local software vendors are mainly small-and-medium enterprises; in 2003 there were about 700 independent software vendors (ISVs) with an average employment of not more than 20 people.⁴ Restricted with limited scale, the capital structure of ISVs has not changed significantly in recent years. Due to the scale problem, local software vendors will have difficulty gaining certified recognition in the Mainland market although many of them are equipped with rich experience in software development, design, quality control, outsourcing business, and with no lack of skilled labour and experts from overseas with international exposure.
- 10.7 Although Hong Kong's software industry depends on the local market, the industry export shows obvious tendency towards the Mainland market.⁵ In 2003, software products and services exported to the Mainland recorded HK\$1.43 billion, sharing 47.6% of the total export and gaining 8.6% in comparison with 39% share in gross export in 2001. Besides, there are 43.3% independent software vendors who have set up branch offices in the Mainland, of which 52.5% employed less than 10 staff in the Mainland while companies having 50 Mainland employees accounted for 22%.⁶

² IDC, various years.

³ There are many excellent and competitive software enterprises in Hong Kong; see Office of the Government Chief Information Officer, *Excellence of Hong Kong Software Enterprises 2004*, Vol. 1. Hong Kong: Hong Kong Productivity Council, 2004.

⁴ The definition of ISVs includes those companies specialized in software development, sales of software products and providing value added services, system integrators, ASPs or software suppliers and solution consulting services; see Hong Kong Productivity Council, *Hong Kong Software Industry Survey 2003*.

⁵ According to the Productivity Council's survey in 2003, 77.6% software vendors regarded Hong Kong as their primary market.

⁶ Hong Kong Productivity Council, *Hong Kong Software Industry Survey 2003*.

Table 1: Major Export Markets of Hong Kong's Software Industry

Main export market	Export Value (HKD in million)					
	2001	(%)	2002	(%)	2003	(%)
Mainland China	1,166	39	1,327	43.9	1,435	47.6
USA	658	22	692	22.9	659	21.8
Japan	259	8.6	479	15.8	456	15.1
Taiwan	621	20.8	156	5.2	187	6.2

Source: Hong Kong Census and Statistics Department

The Industry Structure and Policies of Mainland's Software Industry

- 10.8 In Mainland China, the definition of 'information industry' is broad enough to cover a variety of industries from electronics, communications, computer products, integrated circuit, components and parts as well as information service etc. Software industry is generally included in the segment of information service according to the Mainland framework of national statistics.
- 10.9 Since the 1990s, Mainland's software and information services industry has undergone rapid growth and its rate of growth was even higher than that of Mainland's GDP. Between 1994 and 2002, the sales of software and information services grew from RMB10.7 billion to RMB110 billion in 2002 with average annual growth of about 32.4%. The speedy growth invariably shows that extensive and intensive structural changes of the Mainland software and information services industry have taken place in the recent 10 years (Table 2).

Table 2: Growth of Mainland China's Software Information Industry and its GDP

	GDP (in RMB100million)	Growth Rate	Software & Inf. Service sale (in RMB100 million)	Growth Rate	Percentage share of GDP
1990	18,548	-	-	-	-
1991	21,618	16.6	-	-	-
1992	26,638	23.2	43.6		0.16
1993	34,634	30	89.1	104.2	0.25
1994	46,759	35	107	20	0.2
1995	58,478	25.1	145	35.5	0.2
1996	67,885	16.1	205	41.4	0.3
1997	74,463	9.7	260	26.8	0.3
1998	78,345	5.2	325	25	0.4
1999	81,911	4.6	414.5	27.5	0.5
2000	89,404	9.1	550	32.7	0.6
2001	95,933	7.3	750	36.4	0.8
2002	102,398	8	1,100	46.5	1.1
2003	116,694	9.1	1,600	45.5	1.4
2004	136,515	9.5	2,200	37.5	1.6

Source: *China Statistics Annual Report*; website of Ministry of Information Industry; National Bureau of Statistics of China.

10.10 In 2002, there were 4,700 software enterprises in Mainland China, employing more than 157,000 personnel in software development and programming, and according to one estimate, the industry as a whole employed 590,000 personnel.⁷ Till the end of 2003, recognized software enterprises increased to 9,301 with estimate of 600,000 personnel employed in the industry. The industry sale in the same year reached RMB160 billion while software export amounted to about US\$2 billion, and software industry shared 8.5% of the economic value of information services industry in the Mainland.⁸ With continuous growth of the industry, the number of software enterprises increased to 10,607 in 2004; there were about 23,076 registered software products, and the software industry obtained RMB220 billion of sale and shared about 10% of the economic value of information services industry. The total export has now increased to US\$3 billion.⁹

10.11 The Mainland's software products are generally divided into 3 categories – application software is the leading product occupying 60-70% of the market while platform software or software tool occupies another 30%. The variety of middle software (or supportive software), however, only shares less than 1% of the market. As for platform software, foreign brand products enjoy predominant advantage in the markets of desktop, server, operating system

⁷ Rui Mingjie and Tao Zhigang et al. *Zhongguo chanye jingzhengli baogao*, Shanghai: Shanghai renmin chubanshe, 2004, 123 and 128.

⁸ 〈中國軟件產業的現狀與對策分析〉‘Zhongguo ruanjian ye de xianzhuang yu duice fenxi’, *Xin Jingji daokan*, 14th June 2006.

⁹ Dong Yunting, 〈2003-2004 年中國電子資訊產業回顧與展望〉‘2003-2004 Zhongguo dianzi zixun chanye huigu yu zhanwang’, *Dianzi chanpin shijie*, no. 1, 2004, 12 and 16.

and database software. In 2002, 95% of these markets are dominated by foreign brand names. However, in respect of application software, locally made software has gained increasing share of the market, particularly in the products related to finance, management, antivirus software, Chinese information processing and some other areas such as security system, etc. Some local brands such as UFIDA (用友), Digital China (神州數碼), Gold Abacus (東軟) and Boke (博科) are now leading companies in the Mainland market.

- 10.12 Recently, the Ministry of Information Industry Department of the PRC and the National Bureau of Statistics of China have regularly announced the top 100 software enterprises in the Mainland. Although the ranking methodology is debatable, and its findings may not truly reflect the comprehensive picture, the ranking does shed light on the regional geography of Mainland's software industry.¹⁰ In the 2004 ranking, large scale software enterprises are mostly concentrated in culturally and economically developed areas such as Beijing, Shanghai, Shenzhen, Shenyang and etc. In recent years, there has been a trend of growth in the following places including Xian, Dalian, Chengdu, Kunming and Fujian.¹¹ Yet, in terms of economic scale, large software companies used to agglomerate in Beijing, Shenzhen, Guangdong and Shanghai (see table 2).

Table 2: 5 provinces/cities with top ranking of income from the software industry, 2004

Ranking	Area	Software Income (in 100 million RMB)	Remarks
1	Beijing	500	
2	Shenzhen	419	
3	Guandong	315.4	Shenzhen not included
4	Shanghai	302.8	
5	Shandong	228.9	Qingdao not included

Source: '2004 Ruanjian chanye fazhan gaikuang ji 2005 nian fazhan cushi', *Xinxi Jishu yu Xinxihua*, no 2, 2005.

- 10.13 Geographical distribution of the software industry is shaped by national software industry policies and the development plans of software industry parks in the Mainland. Since the early 1980s, the Chinese government has initiated a series of plans in promoting information technology. Afterwards, state policies aimed at re-structuring the software industry and promoting a number of leading companies. In 1983, software industry was included in the national plan for promoting scientific technology. In 1986, the Ministry of Electronic Industry submitted a report to the State Council, namely the "Guanyu jianli he fazhan Zhongguo ruanjian chanye de baogao" which was

¹⁰ For instance, two companies - Haier (海爾) and Mindray Co. Ltd. (邁瑞) – rank fourth and fifty-second in the 2004 Report. However, their core business is not software products; Mindray is a manufacturer of bio-medical electronics; see '2004 Zhongguo ruanjian chanye guimo qian 100 dai qiye xiangxi paiming', *E-Net Xigu Dongli*, June 3, 2004.

¹¹ Digital China Co. Ltd. and Kingdee (China) Co. Ltd. were listed companies in Hong Kong's stock market. The latter is located in Shenzhen. Other companies such as China National Software and Service Company Limited, Founder (北大方正), Tsinghua Tongfang (清華同方), UFIDA (用友) are located in Beijing while Dong Yuan Group (東遠) is located in Shenyang and Dalian.

seen as an official endorsement for promoting China's software industry; in June 2000, the State Council announced the "Guanyu guli ruanjian chanye he jicheng dianlu chanye de ruogan yejian" (or Policy Document No. 18 for short). This document articulated a strategic aim to catch up with the research and development as well as productivity of leading software industries in the world by 2010.

- 10.14 Since Policy Document No. 18, the State Council announced the "Zhenxing ruanjian chanye de xingdong gangyao" in 2002 which set the target that the sale of software industry shall account for RMB250 billion in 2005 while local software enterprises in China will gain 60% of the domestic market and the value of software export at US\$5 billion. In addition, the policy aims to groom certain backbone enterprises and increase employment of the software industry to 800,000 persons.¹² To implement Policy Document No. 18, the Ministry of Information Industry has convened a series of ministerial meetings and set up an office dedicated to implementation of the policy. In short, the essence of Policy Document No. 18 aims at enhancing the management of the industry and promoting innovation, giving support to software companies, promoting national brands of software products and increasing the export value of the industry. Since then, supportive policies in favor of software industry have been implemented; for instance, the policy to promote industry standard and regulatory framework were some of the follow-up measures.
- 10.15 In 2003, the Ministry of Science announced the plan to promote Chinese software to the European and US markets. The plan encouraged local software companies to be oriented to these overseas markets by engaging in software outsourcing business. Besides, the Ministry selected a group of software companies to take part in the plan, which include Hangzhou Software Park, Dalian Software Park, Guangzhou Software Park, Shanghai Software Park, Shenzhen Software Park and Suzhou Software Park.¹³
- 10.16 The export value of Mainland's software industry is indeed growing. In 1999, export value of the industry was only RMB2.1 billion; in 2001, it increased to RMB6 billion (or US\$720 million). In 2002, the export value accounted for RMB12.4 billion (or US\$1.5 billion) and RMB16.5 billion (or US\$2 billion) in 2003. In 2004, the gross value of software export even reached RMB24.8 billion (or US\$3 billion).¹⁴ Shanghai, Beijing, Shenzhen and Dalian became the leading places of software export. In addition, Dalian and Xian were also included in the national plan for promoting export. As for export markets, the Mainland's software products were exported to Japan, US, Europe and Southeast Asia.

¹² 《振興軟件產業的行動綱要 2002 年至 2005 年》“Zhenxing ruanjian chanye de xingdong gangyao 2002-2005.”

¹³ A full list of these companies can be found at http://www.ctp.gov.cn/tzgg/tzgg_tongzhi_info_78.aspx; most of them are doing outsourcing business for overseas clients but there are some companies dedicated to develop proprietary software.

¹⁴ 〈中國軟件產業的現狀與對策分析〉‘Zhongguo ruanjian ye de xianzhuang yu duice fenxi’, *Xin Jingji daokan*, 14th June 2006.

National projects and software parks

- 10.17 The Chinese Government is propelling the software industry through various policy measures, including setting the development direction through implementation of the plan of national projects (promoting Chinese software to the European and US markets is one of them). Besides, there are other initiatives to promote the high-tech and software industries. Among these, the ‘863 Project’ and ‘Torch Project’ have significant impacts on the development of Mainland’s software industry.
- 10.18 The ‘863 Project’ was initiated in early 1986 by a group of renown scientists in China; in the same year, the central government organized a group of experts to work out a national plan for promoting high-technology (later known as “863 Project”). Responding to the strategic development for the 21st century, the project aimed at developing high-end technologies, and technological development was regarded as a strategic aim and part of the overall development plan of the state. Information technology, in particular, was proposed as one of the key areas which include photoelectric equipment and microelectronics, photoelectron system, information processing technologies and communication technologies. Most of these areas belong to basic research, and the government expects the Mainland research institutes to collaborate with their foreign counterparts in research, exploration and development of new technologies. The overall aim of the plan was to make China prosperous with science and technologies.
- 10.19 The establishment of software parks was another important measure to promote the industry. To hasten its development, the Ministry of Science has endorsed a plan to develop the “Software Industry Production Base of the National Torch Project” since 1995. The plan purposes to agglomerate groups of software enterprises in different localities and construct a better industry environment to encourage innovation, promote product development, incubate new companies, train software personnel and maximize the export potential for the industry. 29 parks have since been established in Dongda, Qilu, Xibu, Changsha, Beijing, Tienjing Huayuan, Hubei, Hangzhou, Fuzhou, Jinlu, Xian, Dalian, Guangzhou, Shanghai, Nanjing, Changchun, Xiamen, Hefei and Nanruan etc. These production bases now become the driving force in the industry. A list of the software parks is enclosed in Annex 1.

Planning of the software parks in South China

- 10.20 Under the Torch Project, the Guangzhou and Shenzhen Software Park are two key areas for software development in the Pearl River Delta. Guangdong’s software industry contributed RMB17.190 billion in 2001 and RMB24.3 billion in 2002. The provincial government regards software industry as one of the most important industries, expecting its further growth to about RMB37.5 billion in 2005. By 2010, the industry is expected to become the leading force in R&D and in the domestic market. The government aims to

make Guangdong a prominent province of software industry.¹⁵ Against this background, the planning and development of the Guangzhou and Shenzhen Software Park will be the key to make this policy a success.

- 10.21 The Guangzhou Software Park was officially launched at the end of 1999. It comprises three zones - the Tianhe Software Park, Guangdong Software Park and Nansha Software Park. The Tianhe Software Park is situated in the eastern suburbs of Guangzhou where there is an industry park already in operation. Planning for the Guangdong and Nansha Software Park has been completed and part of the construction work has already begun. According to one estimate, there will be over 800 enterprises in the park of which 10% comes from Hong Kong. Mainland software enterprises such as Zhongwang Co. Ltd., Guangzhou Suntek Technology Co., Tianhe Xi Ma, FEnet Software, Jing Hua Computer & Network Co. Ltd. and Bonson Technology Co. are now components in the park. At the end of 2003, the value of software products and services from the park amounted to RMB11.2 billion, about 80% of the value of software industry in Guangzhou.¹⁶
- 10.22 The development of Shenzhen's high-tech industry is prominent among the cities of the Pearl River Delta.¹⁷ In 2002, Shenzhen's high-tech industry contributed RMB171 billion and ranked second among all cities in China, just behind Shanghai but far above the other PRD cities such as Guangzhou, Foshan, Huizhou, Zhongshan and Zhuhai. The electronic and information industry of Shenzhen in particular is the most outstanding sector. Its economic value accounted for RMB155.14 billion in 2002, sharing 90.7% of the total output of high-tech industry in Shenzhen. The city government puts emphasis on the software industry and makes it one of the strategic industries of the city. Since the announcement of the "Shenzhen shi gaoxin jishu chanye yuanchu fazhan guihua gangyao" in 1997, a series of policies in favor of the software industry have been implemented by the Shenzhen city government. For instance, the Shenzhen Software Park was officially set up in December 2001, marking a new phase of development of the software industry. The park is located in a well-planned zone which comprises four zones - the Nanshan Software Park, Futian Software Park, Luohu Software Park and Shekou Torch Creative District. In 2003, the Shenzhen Software Park was recognized by the National Development & Reform Committee, the Ministry of Information Industry and the Ministry of Commerce as one of the national software production bases.
- 10.23 At present, there are more than 400 foreign and local enterprises in the Shenzhen Software Park of which 9 Mainland companies have been recognized by the central government as backbone enterprises in the industry.¹⁸ According to incomplete statistics, software sales of the park in

¹⁵ Tan Dajun and Zhang Ya, 〈廣東軟件人才資源建設的現狀與對策分析〉 'Guangdong ruanjian rencai ziyuan jianshe de xianzhuang yu duice fenxi', *Guangdong Keji*, no. 11, 2003, 54.

¹⁶ 'Guangdong ruanjianyuan jinshen guojiadui', 8th August 2001, Renminwang, <http://www.sina.com.cn>; 'Suigang gongxiang ziyuan ruanjian zhongxin', Hong Kong Economic Times, 19th December, 2003.

¹⁷ Statistical data of Shenzhen's software industry is not yet available. High-industry of the city includes not only electronic industry, but also the rising sector of bio-technologies.

¹⁸ For instance, Achievo Co. Ltd, Excel Technology International Holdings Ltd., Univessence Digital Studios Inc. etc. were selected in the second group of software enterprises recognized by the National

2002 exceeded RMB20 billion, and its export value accounted for US\$500 million.

Interactions between the Hong Kong and the Mainland software markets

10.24 The general picture of the software market in the Mainland has been given in the above paragraphs. It also reveals the development of software industry in a regional and national perspective. Against this background, local software enterprises that would like to gain access to the Mainland shall enhance their knowledge about the Mainland market, and more importantly, to reposition themselves and highlight their competitive edges. The Hong Kong Government and industry sector can collaborate to promote the interaction and integration of the software market in the Pearl River Delta.

Establishing an information platform to reduce the information cost of market entry

10.25 In comparison with other industries such as media and contents industry, market barriers to the software market in the Mainland are relatively low. It is a general practice for local software companies to set up agency offices and to form joint-ventures or independent companies in the Mainland. Hong Kong software companies, for example, set up companies in Shenzhen or Guangzhou as spearheads to explore the market in South China. Some of them have tried to extend their business in Beijing, Shanghai and other places in the eastern and northern parts of China. In general, location choice of software business and strategy for making partnership depends very much on the market position of the individual companies and their networks. Moreover, rules and regulations have been established for opening business in the Mainland, and there is no need for public intervention in this area. However, Hong Kong's software companies have tremendous demand for market intelligence and particularly in the following areas: market dynamics, market survey, changing rules and procedures in relation to business registration, tax and policy developments, information directories of competitors and industry players, procedures for applying patents as well as legal information and lawsuit cases relevant to the industry. At the moment, Hong Kong software companies gain knowledge of the Mainland market by buying consultancy services from Mainland companies or their own information channels, or by employing intermediary organizations such as the Productivity Council to collect market information. All these activities reflect the ever growing demand of market information. If there is a portal which offers a range of vital information for the industry, it will help reduce the information cost for access to the Mainland market. Provincial and city governments in the Pan-PRD region set up an information portal in July 2005 to offer similar services to satisfy the needs of various industry sectors. There are different levels of information available in the portal, including organizational information about government bodies in the region, industry information, specific news about ten areas of collaboration and expert

opinions and research materials.

Serving Hong Kong enterprises in the PRD and developing specific products for the regional market

- 10.26 Local software companies that have entered the Mainland market have rich experience in localizing imported products and developing proprietary products such as finance and banking software, resource management software, e-commerce solutions and logistics software. The Hong Kong service industry is well developed, and there is a growing trend of Hong Kong enterprises relocating part of their business in South China and the eastern and northern parts of China. Besides, there is substantial demand for software services among more than 60,000 Hong Kong manufacturers and import or export companies in the Pearl River Delta.¹⁹ This creates a favorable condition for local software industry to expand their business in the Mainland. In fact, some Hong Kong software companies have capitalized the linkages of Hong Kong companies in the region by selling tailor-made software to manufacturers and trading companies. This business model is proven with success. Generally speaking, there will be a great demand for information technology services among Hong Kong companies in the PRD, and this is the market potential that can be fully realized in future.
- 10.27 Industrial environment, production chains and mode of operation of Hong Kong companies in the PRD vary from one location to another, thus generating a need of tailor-made or specific software for the various operating environment of Hong Kong companies in the region. For example, resource management software needs to satisfy both the requirements of manufacturing production in the PRD and requirements of the headquarters in Hong Kong; logistics software, for example, shall need to comply with the import and export regulations set by Customs in both places. Due to increasing integration and division of labour between the Hong Kong and the PRD manufacturing, transportation and logistics industries, Hong Kong's software industry has to offer specific products and services for a target market, or for the production system and process of a particular kind of enterprise. The industry's competitive edge lies on product quality and uniqueness instead of low-cost products that are abundantly supplied by the Mainland players. Hong Kong manufacturers in the PRD, with sizeable number of small-and-medium enterprises, have encountered tremendous pressure on raising their own competitiveness and on rapidly changing the mode of production. Therefore, the demand for information technologies is great. The Hong Kong government and industry organizations can effectively play a role of match making under this circumstance. On the one hand, road shows and exhibitions of software products can be targeted at Hong Kong manufacturers in the PRD so as to generate their demand for IT products and services. On the other hand, the government shall encourage and assist the software industry to develop innovative software products that fulfill the needs of the manufacturing and service industries in the PRD. This policy goal can

¹⁹ Federation of Hong Kong Industries, *Made in PRD: The Changing Face of HK Manufacturers*, Hong Kong: Federation of Hong Kong Industries, 2003, 20-21.

be turned into schemes that allocate additional resources to intermediary or industry organizations and enable them to conduct market research, to identify the needs of Hong Kong companies in the PRD, and to facilitate the exchange of information between service providers in Hong Kong and clients in the region. Resources can also be invested in the existing channels such as the Innovation Technology Fund, to encourage collaboration between the software and manufacturing and service industries in the PRD to develop new products.

Brand-making for Hong Kong software industry

- 10.28 The Mainland software market values brand and outstanding achievements. Though there are many prominent software enterprises in Hong Kong, few can establish their brands in the Mainland, and therefore, local software companies are subject to disadvantageous position in competing with the Mainland and foreign software enterprises. Intermediary organizations such as the Productivity Council and the public bodies that run the SME Development Funds have attempted to promote local brands by means of organizing market events for the industry, or by encouraging local software companies to take part in marketing events and exhibitions in the Mainland. In addition, there is attempt to compile industry directory of local software companies, which is an effective means to promote local brands.²⁰ In fact, strategic information about industry players is particularly valuable in both the local and the Mainland markets. Whenever there is a local tender call for IT services in Hong Kong or services for the government bodies in the Mainland, there is always a need to identify relevant bidders. If the Hong Kong government and intermediary or industry organizations can compile a list of local software enterprises and convince the Mainland clients to take it as reference, it will benefit local players to build networks and to explore the Mainland market. The Productivity Council has set up the Software Industry Information Centre (SIIC), delivering supportive services for the local industry. The Council also collaborates with Hong Kong Information Technology Federation to compile an “IT Solution Directory.” This directory is developed and managed by the Productivity Council but is financially supported by the SME Fund under the Department of Trade and Industry. It offers information about local software products and services as well as the latest industry information, facilitating the Mainland clients to form partnership with Hong Kong companies. Besides, the SIIC conducts regular surveys of industry trend and the development of local software industry; it also conducts case studies and highlights the best practices of local companies. A range of supportive measures such as IT awards, financial aids to enable local companies to attain qualification in “Capability maturity model for software” (CMM) as well as a variety of promotion materials provided by the SIIC can help promote the image of the Hong Kong software industry.
- 10.29 The above suggestions address the key issue to reduce the cost of market information, to foster networking between the local software industry and the Pearl River Delta and to promote the brand and image of local enterprises.

²⁰ Office of the Government Chief Information Officer, *Hong Kong Software Enterprise 2004*, Vol. 1, Hong Kong: Hong Kong Productivity Council, 2004.

However, these analyses are not penetrative to review the industry structure and the policy framework of Hong Kong's software industry. Such a review is far from adequate, and there is urgent need to examine how Hong Kong's software industry can play a role in the national research plan of IT and software industries.²¹ Besides, there is knowledge gap in building an intellectual property transaction market for local universities and the government to commercialize the outcomes of research and development. Whether it is possible to capitalize the well developed financial infrastructure of Hong Kong and turn the city into a centre which attracts software companies from the PRD and becomes a place for innovation and IP transaction is a topic worth further study.²² All these topics need thorough assessment, together with a review of the future direction of the industry, and their findings shall become the integral component of an overall policy for the local software industry.

²¹ The central government has made substantial investment in promoting the Mainland software industry. For instance, according to the 10th Five-year-plan, an amount of not less than RMB4 billion has been allocated from the national budget for promoting software industry. Supportive measures include a dedicated fund to support electronic and information industries, "863" special projects fund, special fund for national science projects, industry technologies and development fund, high-tech SME and innovation fund and so on. A number of these funds are dedicated to promote R&D and innovation in software industry. It is possible for Hong Kong software companies that would like to explore the Mainland market to develop collaborative research with local universities and research institutes in China. They can benefit from this collaboration by keeping track of the latest technological development and market dynamics in the Mainland.

²² On technology transfer, there are many overseas models for reference. For instance, the US government promulgated a series of legislations on science and technology, encouraging commercialization of the outcomes of scientific and technology research. The US government encouraged local universities, research institutes and SMEs to commercialize intellectual property rights. Some of the IP rights are held by the government. However, to facilitate the process, the government will maintain its right to use but provide developers and R&D personnel with funding not less than 15% of the project. Operational details of relevant schemes vary from one to another; yet the usual practice includes research foundations (i.e. Wisconsin Alumni Research Foundation, WART for short), technology management companies (such as the Research Corporation, RC for short, set up by Professor Frederick Cottrell at the University of California, Berkeley) and Technology Licensing Office, TLO for short, and so on. Japan, Germany and Taiwan have already developed similar institutions.

Annex 1

A List of “Torch Project Software Production Bases”

1. Dongda (東大) Software Park
2. Qilu (齊魯) Software Park
3. Software Park in Western Part of China
4. Changsha (長沙) Software Park
5. Beijing (北京) Software Production Base
6. Tienjing Huayuan (天津華園) Software Park
7. Hubei (湖北) Software Park
8. Hangzhou (杭州) Software Park
9. Fushou (福州) Software Park
10. Jiangxi Jinlu (江西金廬) Software Park
11. Xian (西安) Software Park
12. Dalian (大連) Software Park
13. Guangzhou (廣州) Software Park *
14. Shanghai (上海) Software Park
15. Nanjing (南京) Software Park
16. Changchun (長春) Software Park
17. Xiamen (廈門) Software Park
18. Hefei (合肥) Software Park
19. Yunnan (雲南) Software Park
20. Shenzhen (深圳) Software Park*
21. Lanzhou (蘭州) Software Park
22. Qingdao (青島) Software Park
23. Jilin (吉林) Software Park
24. Software Park in Central Part of China
25. Wuyang (無錫) Software Park
26. Suzhou (蘇州) Software Park
27. Changzhou (常州) Software Park
28. Ningbo (寧波) International Software Park
29. Hebei (河北) Provincial Software Production Base (Shijiazhuang 石家莊)

NB: * Pearl River Delta

11 Television and Radio

11.1 Thanks to its cultural and geographical proximity with the Pearl River Delta (PRD), Hong Kong's television and radio broadcast has acquired a stable and established audience in PRD over time. As Mainland China gradually liberalizes regulations on foreign or non-Mainland involvement in the broadcast industry, Hong Kong's television and radio industry has developed multi-level relationships with the PRD in recent years through production to sales and distribution. This chapter focuses on describing the current status of Hong Kong's broadcast industry in relation to the PRD and suggesting some future prospects of the industry in the region, including the development of the PRD market, cooperation with mainland counterparts, mainland regulations in broadcasting and commerce, and digital television.

Background and current state of affairs

The long presence of Hong Kong television in PRD

11.2 For more than one decade, the spill-over signals of Hong Kong's terrestrial television has not only been *de facto* broadcasting in the PRD, but also become the most popular television contents in the region.¹ Hong Kong's free television broadcasters (Television Broadcasts Limited, or TVB, and Asia Television Limited, or ATV) have simultaneously been suffering from channel piracy² while benefiting by the growth of a potential audience ten times the size of Hong Kong.³ Besides, due to the fact that Hong Kong television has been broadcasting under a "grey area" within Mainland's regulation, the large audience in the PRD is not equivalent to a genuine broadcasting market. It is not until recently some signs of significant progress have surfaced — the two free television operators have formally been granted "landing rights".⁴ TVB expects that a small amount of genuine return can be generated from Guangdong beginning 2005. The broadcaster, however, maintains that such return is still too small to reflect the actual value of its television channels in the PRD area.

¹ TVB's "Jade Channel" and ATV's "HOME Channel" occupy the first and second rank in terms of ratings among major cities in the Guangdong Province (including Guangzhou, Shenzhen, Zhuhai, Zhongshan, Foshan and Shaoguan). Source: CVSC-SOFRES MEDIA.

² While redistributing the spillover signals of Hong Kong's terrestrial television among their networks, the PRD cable operators have also been generating revenue by replacing and reselling the advertisement spots of Hong Kong's channels. On the other hand, Hong Kong TV broadcasters, who invested in programme production and channel operation, did not receive any revenue.

³ Informants from the industry estimated that Hong Kong television programmes are accessible to as many as 80 million people in the Guangdong Province.

⁴ ATV and TVB have obtained the right to legally distribute TV channels in Guangdong during August 2002 and September 2004 respectively.

Traditional avenues to enter the Mainland market: programme licensing, advertisement sales and satellite television

- 11.3 Programme licensing is one of the earliest avenues of developing the Mainland television market. Since the 1990s, there had been a significant number of Hong Kong television programmes sold to Mainland television stations and broadcast in prime time; this was banned however, in 1999 with revision of the Chinese national broadcast regulations forbidding the showing of imported television programmes during prime time. Nevertheless, Hong Kong television companies still continue to sell their programmes to major stations around the PRD such as the provincial Guangdong Television, the municipal Guangzhou Television and Shenzhen Television.⁵ °
- 11.4 As regards sales of advertisement, although TV commercials carried by domestic Hong Kong television channels cannot actually be viewed by the PRD audience (due to the practice of splicing and replacing commercial slots by the Mainland stations), Mainland advertising clients can still get exposure of their products by different means such as programme sponsorship. According to informants from the industry, this kind of exposures is known to be effective in promoting the branding of the relevant goods and products and sometimes consumers' confidence towards them. As a result, advertising on Hong Kong television remains an attractive option for mainland clients. For the Hong Kong TV broadcasters, advertising sale is still a relatively practical source of income from the Mainland market. ATV has even set up marketing and sales offices in a number of Mainland cities (including Guangzhou and Shenzhen located in the PRD).⁶ °
- 11.5 Satellite television is the earliest legitimate operation of a non-Mainland television channel in Mainland China. Since 1996, Phoenix Television has been broadcasting in many cities and provinces in the Mainland, with the Phoenix Chinese Channel having the longest history and being the most popular among the audience. The reception of non-Mainland Satellite TV channels, however, is still highly restricted in the Mainland under regulations by the central government.⁷ Besides Phoenix Television, TVB and Pacific Century Cyberworks (PCCW) are also permitted to operate satellite channels in the Mainland.⁸ °

⁵ Games shows, drama series (especially crime stories, business strategies and *Wu Xia* classics) are among the more popular genres for the mainland TV market. On the other hand, since the majority TV audience from the PRD can nowadays receive Hong Kong channels from one way or another, the programme licensing market in the PRD is mainly for trading re-run shows.

⁶ ATV has set up offices in Guangzhou, Shenzhen, Shantou, Beijing, Changchun and Hangzhou.

⁷ According to regulations promulgated by the State Council of PRC in 1993, three types of entities or venues may apply for the reception of TV channels from outside the Mainland territories: first, major education or research institutes, news, finance or trade entities; second, three star and higher hotels for foreign guests; and third, places specifically for foreigners and people from Hong Kong, Macau or Taiwan to work and residential quarters for these people to live in.

⁸ The following Hong Kong satellite channels are approved by SHAFT to legitimately broadcast in Mainland China: Phoenix Chinese Channel, Phoenix Movies Channel, Sun Satellite Television Channel, Star Sports Channel, Channel V, TVB 8 Channel, and NOW Channel.

Cooperating with Mainland entities

- 11.6 Beginning from the end of 1990s, Hong Kong television industry has begun to co-produce drama series with Mainland production units. Since 2001, the China Central Television (CCTV) has also been involved in co-productions. In general, mainland TV stations are more interested in this aspect of the Hong Kong industry as its established experience in management, commercial operation strategies and overseas distribution network over the years, are believed to be developing areas for Mainland stations. Therefore, Mainland stations have been keen to exchange ideas and experience with Hong Kong broadcasters and are enthusiastic in exploring and discussing possibilities of collaboration with their Hong Kong counterparts.
- 11.7 Traditionally, Hong Kong radio broadcasting has had a distinctive local orientation, with an emphasis on local culture and focuses primarily on the local market. Nevertheless, commercial radio broadcasters have been active in opening up the Mainland market in recent years with more notable progress including agreements with Mainland radio stations on co-broadcasting of individual programmes and during certain time slots.

Setting up training and production departments in the Mainland

- 11.8 TVB set up its “Jade Animation” department in Shenzhen mainly for the supplementary and finishing process of animation production. But the company also plans to co-produce animations in the Mainland in the long run because of a large Mainland animation market. On the other hand, ATV has set up a training school for television performers and technicians in Guangdong.⁹ However, informants from the industry indicate that admission of television talents and professionals from the Mainland have been difficult under Hong Kong immigration policy and regulations. Therefore, setting up training units in the Mainland cannot fulfill its function to supply talents for the Hong Kong industry sector. As a result, Hong Kong TV broadcasters are currently planning other means of utilizing Mainland’s human resources, such as establishing a network of performing talents in the Mainland for co-productions in the Mainland.

Opportunities and limitations brought by Mainland regulations

- 11.9 The broadcasting industry is a unique cultural and creative industry. On the one hand, it operates within the limits of government regulations. On the other, it has to be responsive to rapid social and technological changes. As a result, in the peculiar HK-PRD region, the development of the broadcasting industry has been driven by activities of the operators. Once broadcasting activities became *de facto* practices, provincial and national regulations would then come into place. A classic example would be the spill-over signals of Hong Kong television which were first infiltrated among the PRD cities and then incorporated by the Propaganda Department of Guangdong in the early 1990s within the regulated cable networks.

⁹ ATV has established the “ATV School” in Dongguan in 2000.

- 11.10 Broadcast regulations, however, are not always effective on the operational level, even when they are favorable to Hong Kong television broadcasters. For example, although CEPA 2 and the State Administration of Radio, Film and Television (SARFT) permit Hong Kong TV operators to conduct TV production activities in the Mainland,¹⁰ informants from the industry find these regulations complicated and have low compatibility with the industry's actual production process and flow. Besides, the broadcast authority's "macro-considerations" (such as having a certain number of programmes per year for a particular type or genre of TV programmes) in the content approval process are unpredictable for TV producers and hence making the risk for television business high.
- 11.11 Despite both free television broadcasters in Hong Kong have obtained "landing rights" for legally operating their channels in the Guangdong Province, the complexity of Mainland's TV broadcast system is an obstacle to the actual implementation of legitimate broadcasting of Hong Kong channels in the region. The Mainland cable TV system consists of many different levels (such as provinces, cities, counties and townships), government officials' executive orders cannot always reach all TV stations of different levels. Even the practices of replacing and reselling commercial spots are not centrally coordinated and have been up to the decision of individual TV stations. As a result, Hong Kong TV broadcasters have to negotiate one by one with individual stations for cooperation and such a process is very complicated and time consuming.

A recent successful case of cooperation with the Mainland

Joint broadcast by Metro Radio and PRD radio stations

- 11.12 Beginning from August 2, 2004, Metro Radio has started co-broadcast with Radio Guangdong, on two main programming types¹¹ - finance and entertainment. The co-broadcast programmes are receivable by a potential audience of 35 million. According to the radio station, advertisers have become more interested in their radio channels after the introduction of the co-broadcast practice, and hence they are expecting more revenue from advertisement. Apart from producing radio programmes, event hosting has

¹⁰ According to CEPA2, television programmes co-produced with Mainland partners after being examined by the relevant Mainland authorities, are permitted to be broadcast and distributed in the same way as Mainland domestically-produced television programmes. For television programmes to be qualified as Mainland-Hong Kong co-production, one-third of the principal creative personnel (i.e. screenwriters, producers, directors, cinematographers and leading actors and actresses) should come from the Mainland. Besides, a SHAFT ruling in 2004 also permits joint-ventures of production companies consisting of Mainland and non-Mainland partners, but requires that not less than 51% shares of the production company should be owned by the Mainland party. On the other hand, joint ventures may produce such types of TV programmes as features, variety shows and animations, but not news. A joint-venture is also required to dedicate not less than two-thirds of its annual productions to "Chinese contents."

¹¹ Those already in broadcast service include 「粵港股市快訊」 [Stock news in Guangdong and Hong Kong] and 「生活好國度之頭條娛樂」 [Headline entertainment in kingdom of good living].

also been the strength of Hong Kong's radio industry. As a result, Metro Radio also co-organizes events such as forums and seminars with Radio Guangdong. Besides developing an audience in the PRD, Metro Radio has also been discussing with Radio Shanghai to co-broadcast a finance programme.

Prospects of Hong Kong's broadcasting industry in PRD

- 11.13 Hong Kong's major television stations and radio stations have been adopting the integrated production mode, which practically means production "all under the same roof" from programming to signal transmission. This industrial model results in large scale facilities, staff body and also high operating cost. In order to cover the massive costs, broadcasters had a diversified sales strategy from the very beginning, one that is based on serving the local audience and at the same time expanding its products to a "greater China" market. This operation mode is very unique when compared with their Mainland and overseas counterparts, where production units are usually separated from broadcast units. Hong Kong's broadcasting culture has a strong foothold in the PRD region, and broadcasters own prestigious brand names nationally. On the other hand, due to fundamental differences in terms of regulations and industry structure, Hong Kong's operation model is not suitable for the Mainland. The industry is still finding ways to convert its cultural advantages to commercial revenues. The appeal of Hong Kong contents for audience from South China (especially the Cantonese-speaking population) through the sense of familiarity and cultural proximity has also begun to be challenged by strong players in the Mainland media.¹² Therefore, some Hong Kong TV and radio programmes may adopt changes in style and content in order to cope with the challenges.
- 11.14 Until today, Hong Kong TV broadcasters' revenue from the Mainland is still not significantly large compared with the local or even overseas market. Therefore, apart from trying hard to materialize its commercial value in the PRD region, the broadcasters have been actively seeking new markets and business partners from various cities and provinces in the Mainland. According to informants from the industry, the PRD region is a major market in terms of TV channel businesses. However, in terms of programme licensing and distribution, Hong Kong television has long been using Mainland's distribution network to reach many provinces and cities. Owing to the rather small return from programme licensing and advertisement sales and with the gradual liberalization of Mainland's broadcast regulations, it is expected that Hong Kong's broadcasters will prefer to establish joint-ventures, strategic partnerships and co-broadcasting with their Mainland counterparts. Hong Kong's broadcast industry has also noted the business prospects of media convergence, and has therefore been actively developing other related content production activities such as publishing and web portals.

¹² Informants mentioned the Shenzhen Television and the Southern Media Corporation.

Supplementary information: a note on digital television

- 11.15 According to the Hong Kong government's current time table of developing digital TV, the terrestrial television broadcasters are required to introduce digital broadcasting service in 2007. Informants from the industry opined that because of the massive television audience in Mainland China, Hong Kong's digital television should adopt a specification compatible with the Mainland system in order to enjoy the "economy of scale". However, since the Mainland has not announced its digital TV standard, Hong Kong broadcasters have agreed that if it is still unknown by the end of 2006, they will adopt a European standard for digital TV service.

Chapter 8: Possibility and strategies of integrated development between HK's CCIs and the PRD

1 Favorable conditions for HK to take part in the integrated development of CCIs with the PRD

The general background for the integrated development of CCIs in Hong Kong and the PRD

1.1 Hong Kong and the Mainland are linked both physically and familiarly. Because of historical reasons, the systems are different in both places, which result in different structures of the CCIs and their degree of connection with the international market. Since opening up and reform of the Mainland, her integrative potential has been increasing with a US\$25.5 billion trade surplus in 2003 and national foreign reserve of US\$403.3 billion, US\$116.8 billion more than the end of 2002.¹ The signing of CEPA in June 2003 has developed a new economic collaborative framework for Hong Kong and Mainland China. If Hong Kong and the PRD could further develop this collaboration, it will greatly increase the room for development of CCIs from both sides.

Comparison of the scale of economy among HK, Macau and Taiwan (2002 statistics)

Region	Land area (10,000 sq km)	Population (10,000)	Total GDP	GDP per capita	Total import and export
HK	0.1101	678.7	HK\$1,259.8 billion (approx. US\$161.5 billion)	HK\$185,615 (approx. US\$23,800)	HK\$3,179.936 billion (approx. US\$407.68 billion)
Taiwan	3.6	2,252.1	NT\$9,988.9 billion (approx. US\$288.9 billion)	NT\$446,094 (approx. US\$12,900)	NT\$8,401.2 billion (approx. US\$243.1 billion)
Macau	0.0268	43.9	MOP54.07 billion (approx. US\$6.73 billion)	MOP123,354 (approx. US\$15,355)	MOP39.25 billion (approx. US\$4.89 billion)

2

1.2 As an economic entity, Hong Kong has strength in international trade, financial services, international travel and freedom of market, possessing a large number of talents in finance, insurance, commerce and trade, consultancy, design and law, who are well versed in both English and Chinese and well exposed internationally. According to the *Baseline Study on Hong Kong's Creative*

¹ National Bureau of Statistics,《中華人民共和國 2003 年國民經濟和社會發展統計公報》[Report on the national economic and social development statistics, PRC, 2003]

² Quoted from *China Statistics Yearbook 2003*, China Statistic Press, September 1, 2003.

Industries, the CCIs are an important component in the economy of Hong Kong and have already formed a relatively complete cluster with value added in 2001 at HK\$46.1 billion, or 3.8% of the total GDP.³

- 1.3 As an economy highly oriented externally and chiefly composed of service industries, the CCIs in Hong Kong are easily susceptible to changes in the international market. At the same time, the CCIs in Hong Kong are also well connected with the overall economy, contributing much of the value added of culture and creativity to other industry sectors and benefit in turn from them. Since the land and labour cost in Hong Kong is very high, the service industries (including of course the CCIs) have to concentrate on the high end of the value chain, and distribute the lower ends of production and sales to other regions. The PRD is the closest location for this purpose both physically and culturally, as well as most convenient economically to Hong Kong.

The collaborative trend of CCIs for Hong Kong and the PRD

- 1.4 There is at present a gradual strengthening of the “two territories one city” phenomenon among Hong Kong, Shenzhen and other PRD cities (this means, though Hong Kong and Shenzhen or other PRD cities are separate territories, they are developing towards a cross-border mega-city with similar economic and social structure because of increasing connection economically and socially).
- 1.5 Take Shenzhen for instance, the arrival and departure figures in 2002 reached 130 million people and 15.56 million vehicles. 50% of the foreign investment in Shenzhen came from Hong Kong and 35% of its export was to Hong Kong. In 2002, the export sale to Hong Kong was US\$13.419 billion while import from Hong Kong was US\$1.665 billion, topping all import and export trade between Shenzhen and all other countries and regions. Among the 4,493,500 overnight international visitors to Shenzhen in 2002, 3,198,700 were from Hong Kong. The figure for non-overnight visitors from Hong Kong was even greater.⁴
- 1.6 Since the average consumption level in the PRD cities is lower than Hong Kong, large number of Hong Kong residents and enterprises consume CCI products and services such as books, magazines, AV products, performing arts, entertainment, printing, design and software in the PRD, which is becoming frequent and regular. Meanwhile, the CCIs of the PRD are also infiltrating to Hong Kong, e.g. books, publications and AV products are pouring into the Hong Kong market; the famous entertainment establishment in Shenzhen “Golden Times” has already achieved branding effect in Hong Kong.
- 1.7 Under this context of “two territories one city”, the various kinds of CCIs in Hong Kong may undergo a market integration with the rich resources in the PRD. For instance, the printing and publishing centre in Hong Kong is large with a relatively freer environment of international perspective, effective management, mature copyright trade, good protection of intellectual property

³ Commissioned by the Central Policy Unit of the HKSAR Government and published in 2003.

⁴ Cf. 《2003 年深圳統計年鑒》 [2003 Shenzhen Statistics Yearbook], China Statistics Press, 2003.

rights, access to new technology and international branding and reputation. This has made Hong Kong an important centre in global Chinese publishing. The Hong Kong Book Fair is one of the largest fairs of its kind in the world.

- 1.8 However, since the latter part of the 1990s, because of economic recession in Hong Kong, severe competition among advertisers, increase of printing and paper costs, the Hong Kong printing and publishing sector was badly hit with lay-offs, salary reduction and etc. One of the important way out for the sector was to take advantage of the opening up of the Mainland and Taiwan, and their relatively cheaper production costs and abundance of talents to help re-integrating the Hong Kong industries. The vast population and area of the Mainland provides a big and stable market for the Hong Kong sector to resist impact from drastic changes. The 'one country two systems' policy also helps Hong Kong to become a cultural link across the strait as well as a global expansion centre for Chinese publishing.
- 1.9 Take another example: the viewing rate of Hong Kong TV programmes in the PRD is very high, especially the soap dramas. All cities in the PRD take advantage of this to insert their local advertising in the HK programmes to make a fortune. And this kind of mixing TV broadcast has become a norm in the cultural consumption of the PRD region.
- 1.10 For a long time, the major obstacle in the collaboration of CCIs between Hong Kong and the Mainland is the customs tax and barriers of non-customs tax. The signing of the CEPA agreement in Hong Kong on June 29, 2003 has created room of development in this regard. The overall aim of CEPA is to gradually reduce or eliminate the customs tax and barriers of non-customs tax and all kinds of discriminatory policies in trading and to gradually transform into free trade service to promote investment of trade.
- 1.11 According to CEPA, from January 1, 2004, the Mainland will not levy any customs tax on 273 kinds of products originated from Hong Kong, and will extend this to other Hong Kong products no later than January 1, 2006. Included in the list is the elimination of quota on Hong Kong films, which permits Hong Kong investment to participate in film production in the Mainland. CEPA virtually allows what China agrees with ASEAN on free trade by 2010 to happen earlier between the Mainland and Hong Kong, including of course the gradual elimination of customs tax and barriers of non-customs tax for Hong Kong CCIs to enter the Mainland market.

2 Emphases of integrated development between HK's CCIs and the PRD

- 2.1 “One country two system” entails the context of difference between Hong Kong and the PRD. Cultural and creative industries are important not only commercially, but also politically in some of their products and services, which might reinforce this difference between the two places in ethics, morality, social, management and degree of internationalization. The integrated development of the CCIs of Hong Kong and the PRD should therefore be in stages, with emphases and phases of progress which must be flexible and interactive. We propose the following five areas of collaboration in CCIs between Hong Kong and the PRD:

Based on the advanced and comprehensive legal system in Hong Kong to develop the PRD into an international CCI market, while winning more room for development for Hong Kong

- 2.2 The major problem of development for CCIs in the PRD is the backwardness of the system, which is far from the legal and international standards. For instance, the Shenzhen SEZ since its establishment has made over 200 ordinances and laws, but less than 5 are about the CCIs or the cultural market. There is a huge blank or grey area in terms of openness of information, monitoring of finance, checking of quality, protection of intellectual property rights, classification of video and film, entry to the market, diversification of investment, fairness of competition, establishing cleanliness of management etc. The collaboration with Hong Kong will introduce gradually its legal experience to promote linking of CCIs of the two places and to shape a good market for Hong Kong.
- 2.3 The CCIs of the PRD seriously lack funding because the legal system for finance and investment is not healthy. The mode of cultural investment was formed mainly under the planned economy with the following characteristics: (1) The power of the officials in charge of the projects is highly concentrated, which affects the consultancy, project assessment, project decision, financial operation, investment information, etc.; (2) Decisions are made according to wills of the officials and not market information, leading to a high degree of monopoly in the CCIs. According to information from the National Bureau of Statistics, by the end of 2001, state capital still dominates the industries of high monopoly – 59.93% in education, culture, art, radio, film and television, which is lower than finance and insurance (74.85%) and transport, storage and electronic communication (70.91%), but higher than electricity, gas and water (57.08%), scientific research, integrated technical services (40.85%) and manufacturing (28.29%).⁵ For those industries with higher state capital such as press, radio and television, the input and output obviously is not as efficient as those with higher private capital such as printing and entertainment. And yet the main body of the printing sector in the Mainland consists of a large number of private

⁵ Cf. 《國家資本在各個行業的分佈情況》 [Distribution of national capital on individual industries] , 《上海工業資訊》 [Shanghai Industry Information] Vol. 64, 2003.

and joint-venture enterprises. The investment management of CCIs in the PRD therefore is urgently in need of reform as follows:

- 2.4 To raise the efficiency of cultural investment by government so as to gain the most benefit in directing investment, guiding development direction and serving society; and to give clear guidelines on the proportion and direction of input in cultural services and industries on the provincial, municipal, district and various levels of government. Investment in industries in particular should be about foundational, pioneering, and research services, and not competition with the people;
- 2.5 To diversify the main body and method of investment and finance, making share holding as the chief form of public ownership, in order to achieve open, fair and just market competition;
- 2.6 To establish legal and international market in cultural investment and finance and utilize the market mechanism in the aspects of cultural investment, finance, withdrawal, construction, operation, and management, in order to realize market allocation of all social resources to be strictly monitored and regulated by laws.
- 2.7 Hong Kong is internationally known of having a good legal environment, which would become a good model for establishing the legal system for CCIs in the PRD, including the setting up of monitoring mechanism through collaboration of the two places, especially against illegal operations in the SMEs such as non-compliance with the contract for payment, piracy of ideas and concepts, using pirated software, assisting off-shore prosecution to protect their business rights, etc.
- 2.8 In addition, this monitoring mechanism could also be used as assessment system for the credit of capitalists. Based on the assessed credit level, there could be a macro-control on the finance ability of the capitalist to form a tripartite division among investment, capital and credit decisions on cultural construction. The mechanism could clarify enterprise system, improve financing environment of the SMEs to establish a low cost, informative and efficient cultural investment environment, to allow more CCI organizations in the PRD to come to Hong Kong for finance and to allow more Hong Kong investors to find their suitable projects.

Using Hong Kong's international environment to allow the CCIs in Hong Kong as important link between the PRD and the international market

- 2.9 According to the spirit of the 16th Party Congress, the CCIs of the Mainland are to be exported and to turn around as soon as possible the trade deficit in cultural products and services. Hong Kong as a free port with high degree of internationalization of economics and finance, convenience of import and export trade, abundance of talents knowledgeable in international market, is naturally the best place to facilitate internationalization of the CCIs of the Mainland through invigorated services.
- 2.10 For instance, Hong Kong is now an important centre for international exhibitions since the 1980s and holds annually 70 large, regular and professional international exhibitions, 14 of which have been recognized by the UFI, the

largest number in Asia, attracting over 30,000 exhibitors and buyers from all over the world. Among these, seven exhibitions held by the Hong Kong Trade Development Council are already the largest international exhibitions in Asia.

- 2.11 There are eight areas of strength for Hong Kong as a “Capital for Exhibition and Convention”:
- (1) Hong Kong is right next to the “World Factory” of the PRD with all kinds of industries, which puts great pressure in the need of exhibition and convention;
 - (2) Transportation is convenient to and from Hong Kong, which is within a distance of 4.5 hours of flight to most important cities in the region. Hong Kong is the busiest cargo container port and the logistics centre in Asia and the Pacific;
 - (3) Hong Kong is an international financial and trade service centre with no restriction on foreign reserve;
 - (4) Hong Kong is an international free port with no custom tax for import and export goods nor value added tax;
 - (5) Hong Kong has good tourism facilities, easy to enter and exit, and has high quality hotel service network;
 - (6) Hong Kong has a sound legal and IPR protection system, which provides a safeguard for both the exhibitors and buyers;
 - (7) Hong Kong has free flow of information with a well developed media industry. Exhibition is the best platform for exhibitors and buyers to obtain information on all kinds of industry and products;
 - (8) Hong Kong has good human resources in convention and exhibition – e.g. only 5 full-time employees could manage a large exhibition such as the Aerospace Expo.⁶
- 2.12 In 2002, Hong Kong exhibition industry had a revenue of HK\$1.88 billion and indirect consumption profit of HK\$5.4 billion, which means for every dollar the exhibition industry earns, other industries will earn HK\$2.8. This has not counted the value of orders by the exhibitors. The integrated advantages of Hong Kong cannot be matched yet by the PRD. Therefore, Hong Kong can act as a link and accelerator for the import and export of CCIs to regulate the flow and direction of cultural products and services between the Mainland and the international market.

Through acquisition and merger, to unite the CCIs of Hong Kong and the PRD as a base to develop the Mainland market

- 2.13 The transaction market for industry rights in CCIs is an important component of the CCI market. To develop the transaction of rights is a necessary means to increase investment efficiency. Since 2002, most foreign investors adopted the strategy of acquiring and merging with the original enterprises in the Mainland in order to fully exploit their existing assets, brands and business network. Although most state-owned cultural organizations in film and video, publishing, distribution, network services, performing art, dealership and AV products that are not operating well have not yet entered the industry rights transaction market, this nevertheless would be the trend. The buying and merging of outdoor media in the Mainland by the Hong Kong listed company TOM.COM is a classic example.

⁶ Analysis from a speech by the then Deputy Executive Director Mr Fred Lam of the Hong Kong Trade Development Council “香港會展業的發展及作用”[The development and function of the Hong Kong convention industry], November 25, 2003.

- 2.14 According to survey by Zenith Optimedia, the outdoor advertising market in the Mainland has increased from US\$665 million in 2001 to US\$1 billion in 2004 with gradual expansion of scale. The outdoor media market in the Mainland was extremely diverse with 38,000 operators possessing 1.2 million outdoor media facilities and most operators take less than 1% share of the market.
- 2.15 Before 2001, the outdoor media business of TOM.COM was concentrated in two companies – Shanghai Cultural Communications Limited and Kunming Fengchi Star Information Industry (Group) Co. Ltd. After acquiring and merging, TOM.COM first extended coverage of outdoor media in seven provinces and cities: Beijing, Shanghai, Guangdong, Shandong, Sichuan, Yunnan and Henan; later by reforming these companies, TOM established the largest outdoor media network all over the Mainland with absolute edge in scale of asset, business volume and profitability. With a total advertising area of over 150,000 sq m, it has laid down a firm foundation for expanding its business all over the country. Forecast of income from outdoor media in 2005 by TOM is well over HK\$500 million. This is an example worthy of study and reference. The CCIs in Hong Kong should quickly prepare themselves to enter the Mainland through various forms of acquisition, merging and share control to open up new investment and acquiring new market.

To speed up radiation to the Mainland hinterland, especially the mid-south and southwest regions based on the economic cooperation of the Pan-PRD (9+2)

- 2.16 As the regional economic unification and cooperation develops, the Central Party Politburo member and the Party Secretary of Guangdong Zhang Dejiang proposed the concept of Pan-PRD cooperation in July of 2003, which created widespread response and resonance. The First Pan-PRD Regional Cooperation and Development Forum was organized in June 2004 in Hong Kong, Macau and Guangzhou with the Pan-PRD Cooperation Framework Agreement signaled the full initiation of regional cooperation in the Pan-PRD.
- 2.17 The Pan-PRD includes 9 provinces – Fujian, Jiangxi, Hunan, Guangdong, Guangxi, Hainan, Sichuan, Guizhou, Yunnan - plus Hong Kong and Macau SAR, in short, “9+2”. The total area of the 9 provinces occupies about 1/5 of the country and 1/3 of total population. The GDP in 2003 of the total region was RMB5,214.5 billion (US\$630 billion).
- 2.18 The proposal of the Pan-PRD concept fulfills the demand of release of the economic energy contained in the Guangdong-Hong Kong-Macau area and reflects the strong desire of the peripheral provinces to have this economic radiation. Cooperation in the Pan-PRD includes the following ten areas: infrastructure building, industry and investment, commerce and trade, tourism, agriculture, labour, science, education and culture, IT construction, environmental protection, health and disease control. The widespread cooperation in the Pan-PRD is an important strategy in China to promote economic interaction among the east, middle and western parts to complement and supplement each other in total development. It not only raises the level of opening up of the relevant provinces and districts to increase the total competitiveness of the region but also strengthens the unique positions of Hong

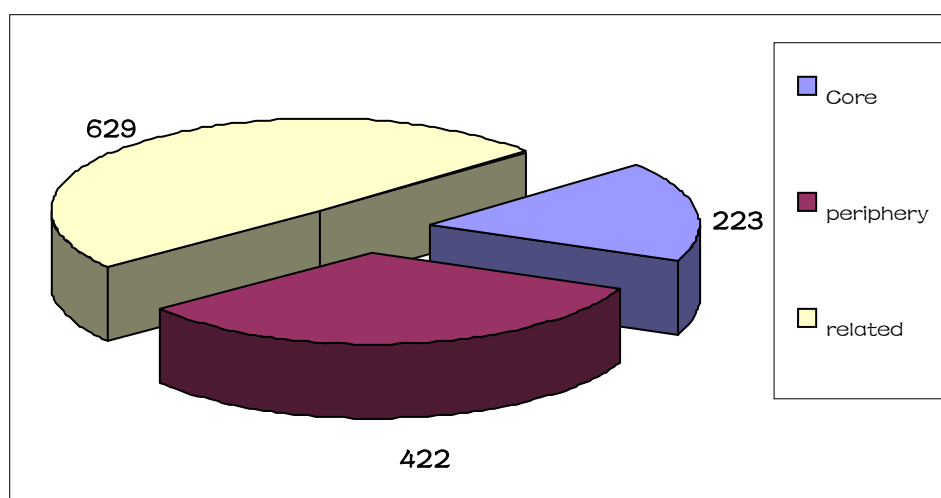
- Kong and Macau in the national development strategy, to sustain their long-term prosperity and to increase economic radiation to the ASEAN regions.
- 2.19 Hong Kong, Guangdong and Macau undoubtedly are in the forefront of the CCIs in the region. Take Guangdong for instance, the value added of its CCIs in 2000 was RMB67.26 billion, RMB73.78 billion in 2001, RMB82.02 billion in 2002 and RMB95.46 billion in 2003. The contribution of CCIs to the GDP was about 7-8%, to the growth of GDP by 1.1%. The per capita value added of employees in the cultural and related industries was RMB30,300, which is higher than the per capita average of the primary industry (RMB6,900).
 - 2.20 As regards the CCIs of the total Pan-PRD region, especially for Fujian, Jiangxi, Hunan, Guangxi, Hainan, Sichuan, Guizhou and Yunnan, their industry development is relatively weak. These provinces have rich natural and human resources and multiplicity of ethnic cultural traditions and heritage but lack funding, technology, and talents in management and the CCIs. There is at present no CCI enterprise of national standing or branding in some provinces such as Guizhou. In summary, there is yet to be reform of cultural system and adjustment of creative industry structure; finance and investment channel in CCIs is to be widened; regional advantage is to be demonstrated and the innovative ability of creative products is to be improved.
 - 2.21 Now, with the Pan-PRD economic cooperation, a unified regional market economy will be formed. The cooperation of CCIs in Hong Kong and the Pan-PRD (9+2) will integrate regional economic resources under this market economic system and framework to increase the total regional competitiveness. This kind of cooperation will also perfect the development of CCIs in the PRD.
 - 2.22 The Pan-PRD provides a big market for the CCIs in Hong Kong: we should actively promote the linking of cultural market and cultural trade and further unify the market regulations with the eight provinces/districts to create a fair, open, competitive and orderly market environment into a common barrier-free market, and to promote freer circulation of cultural goods and closer cooperation of regional trade. Based on a unified market of nine provinces/districts, the Pan-PRD should develop both the Mainland and foreign markets, especially that of the ASEAN countries.
 - 2.23 To develop broad cultural tourism resources: the Pan-PRD region possesses rich tourism resources and is a relatively advanced tourism region. The total tourism foreign revenue of the nine provinces/districts was US\$7.686 billion in 2002, which was 37.7% of the total tourism foreign revenue of the whole country. The major tourism economic indicators were nearly 40% of the national total, including total tourism income, tourism foreign revenue and reception of overnight visitors, etc. The overall standard of tourism development was higher than the national average. Taking Hong Kong and Macau into consideration, the tourism industry in the Pan-PRD is even more outstanding.
 - 2.24 To form a big regional market for CCIs: since the Pan-PRD region covers a vast territory, it should establish a "maximum/ultimate growth" concept to break down administrative barriers through market connection of the different cities. It should aim to establish a common market with an efficient, well serviced and widely covered urban logistical network to construct a diverse mega-flow of

resources among cities. The Hong Kong CCIs will benefit from this mingling of the central cities in the region to establish a new market.

- 2.25 以 2003 年爲例，其中：To fully exploit the potential of capital, industry and technology advantage in Hong Kong and the advantages of resources, market and labour in the other eight provinces/territories for developing the core products and services of CCIs. From a national perspective, the three levels of the cultural and related industries have different weighting. For instance in 2003, the
- i. "Core level" (traditionally referring to cultural industries including press, publishing, distribution and copyright, film and radio, cultural and art services etc.), with 223,000 workers and RMB88.4 billion value added;
 - ii. "Peripheral level" (the new cultural industries since the opening up and reform including network cultural services, leisure entertainment services, and other cultural services etc.), with 422,000 workers and RMB83.5 value added;
 - iii. "Related level" (mainly with manufacturing and retailing of cultural goods, equipment and other related products), with 629,000 workers and RMB185.8 billion value added.

Internal structure of workers in cultural industries in China (2003)

(Unit: 10,000 people)



7

- 2.26 The biggest slice of this "cake", i.e. the "related level" (manufacturing and retailing of cultural goods, equipment and other related products), is formed mainly by a group of brands, core technology, core specialty and manufacturing of sales network. It shows that: for Hong Kong CCIs to sustain its growth with large volume and high value added to enter into the Mainland and international market, it must enter into the manufacturing and retailing of cultural goods, and

⁷ Cf. Cultural Industries Statistical Research Team: [Statistics of cultural and related industries in China, 2004]

to have its own core products and core specialty. Hong Kong should build upon its strengths on information flow and brands to speed up the research and development of its core products and specialties by uniting with the strengths of the 9 provinces/territories.

Hong Kong CCIs could obtain richer resources, labour and opportunities in a wider regional market by tapping into the free trade zone established between China and ASEAN

The historical background of China and the ASEAN Free Trade Zone

- 2.27 The integration of CCIs between Hong Kong and the PRD will demonstrate how the vibrancy and potential of Hong Kong CCIs could develop ethnic and regional cultural resources. How to cultivate this foundation and to reach out into a wider global territory becomes therefore another important topic for the development of the CCIs in Hong Kong.
- 2.28 As early as November 4, 2002, the then Chinese Premier Zhu Rongji attended the meeting with 10 ASEAN leaders and signed the Full Economic Cooperation Framework Agreement between China and ASEAN, which stipulates the establishment of the China-ASEAN Free Trade Zone by 2010 and signifies the beginning of this process.
- 2.29 ASEAN (Association of Southeast Asian Nations) is a regional international organization consisting of 10 nations – Indonesia, Malaysia, Philippines, Singapore, Thailand, Laos, Myanmar, Brunei Darussalam, Vietnam and Cambodia. The bloc has a total population of 500 million and a territory of 4.3 million sq km, with over US\$100 billion foreign reserve. The GDP in 2002 was US\$630 billion with US\$500 billion foreign trade, about 8% of the world total.
- 2.30 China shares the border with most of the ASEAN nations with cultural exchange from ancient times. The top leadership communicated frequently in the last 10 years with apparent increase in mutual trust and continual development of economic cooperation and trade. The major decision of setting up a free trade zone between China and ASEAN is a fulfillment of the wishes of the leaders to cultivate neighbourhood and the natural result of the insistent development of economic cooperation. This alliance allows complementing of strengths and unification to jointly develop new markets as well as risk resistance from the global economy. It is also significant in reinforcing the role of Asia in international economic and trade affairs.
- 2.31 In November, 2004, China signed the Full Economic Cooperation Framework Agreement with 10 ASEAN nations, which means the products and services of China and ASEAN could enter each other's market under zero tariffs, quota free and improvement of other market admission criteria. This will obviously help expand the export of enterprises, diversify the international market and diffuse market risks; it will also help lower the cost of import of raw materials, parts and equipment, which ultimately will help the expansion and extension of each other's enterprise markets, attraction of foreign capitals and transfer of international industries.

Opportunities of cooperation in the China-ASEAN Free Trade Zone

2.32 The trade volume between China and ASEAN exceeded the US\$100 billion mark for the first time in 2004, at US\$105.88 billion, which is 35.3% more than the previous year and 9.2% of all foreign trade in China. The economic cooperation between China and ASEAN has reached new heights and is entering into a new stage of deep development:

Bilateral trade of continuous and rapid growth has brought great business opportunities to enterprises

2.33 According to figures from Chinese Customs, the trade volume between China and ASEAN in 2004 was US\$105.88 billion, 2.7 times of 2000 and with average growth rate at 27.9% in four years. This rapid development has created huge business opportunities to enterprises from both sides.

New business opportunities through lowering of customs and non-custom barriers

2.34 The expert panel of the China-ASEAN economic cooperation has analysed by static modeling that China will increase its export to ASEAN by US\$10.6 billion at 55.1% growth rate. A dynamic model will give an even greater figure. By 2010, the GDP of China-ASEAN Free Trade Zone will reach US\$3,000 billion with regional population at about 2 billion. This will provide a big market for both sides and the scale effects by this expansion of market will also lower the cost for export enterprises, hence bringing in even more business opportunities.

The complementarity of the structure of import and export goods between China and ASEAN will create more business opportunities

2.35 The complementarity in formation of resources, industry structure and industrial and agricultural products between China and ASEAN is strong. For example, China is strong in textiles, apparels, shoes, food, cereals and construction materials, and has potential in mechanical and electronic equipment, precise instruments, clocks and watches, automobiles, metal products and chemical products; while ASEAN is strong in raw wood, petroleum, natural gas, coal and natural rubber. Hence with growth in bilateral trade, more business opportunities will be created for enterprises from both sides.

Emphasis of development in CCIs for Hong Kong in the China-ASEAN Free Trade Zone

2.36 The Pan-PRD is a core region in the China-ASEAN Free Trade Zone and also the pivotal link in culture and CCI market. In spring of 2004, a 2,000 m long China-ASEAN commerce avenue was created in Nanning, the capital city of Guangxi. It was a major project in anticipation of the First China-ASEAN Expo and Nanning International Folk Song Art Festival in November of 2004. The Expo is an important sector of the CCIs.

2.37 The China-ASEAN Expo (also known as Nan Expo) follows closely the Full Economic Cooperation Framework Agreement. Based on the principle of mutual benefit, the economic and trade cooperation as emphasis, and at the same time opening up to the global business sector, the Expo aims to integrate import and export, investment and inducement of capital, sales promotion with topical

- forum, business and trade activities with cultural exchange, to strengthen complementarity, deepen economic cooperation and manifest a common prosperity in the region.
- 2.38 The commerce avenue was created with the concept of “10+1” (i.e. China with ten ASEAN nations) at a cost of RMB400 million and will depend on the annual China-Expo in Nanning to become a fashionable consumption district with Chinese and Southeast Asian characters integrating commerce, business, leisure, entertainment, culture, restaurant, logistics and tourism. It will have a trendy and leisure shopping district, a Southeast Asian tourism and shopping district, special sales districts in fashion and apparels, leather goods and shoes etc. There will also be an ASEAN products display area, ASEAN food products and ASEAN food street. The many China-ASEAN CCI products and services including entertainment, performing art, video and film, games, multi-media, AV products etc. will also be the highlights on the avenue.
- 2.39 According to Vietnamese officials, the Chinese TV soap drama *Desire* was very popular in Vietnam a few years back, with record-breaking viewing rate. The song “Good man will have life-long safety” was resonated all over the country. This demonstrates that Chinese cultural products have a great potential in the Southeast Asian market.
- 2.40 Hong Kong CCIs should use their Pan-PRD advantage, the connection with the southwest provinces in the Mainland, the proximity and links between Pan-PRD and ASEAN in history, race, culture and customs, to quickly enter this vast cultural consumption market.
- 2.41 Take Guangxi for instance, it is the third largest province/city with overseas Chinese. A large number of overseas Chinese in ASEAN has familial links with Guangxi, which forms a vast network for the development of CCIs for the region. Many ethnic groups in Guangxi are related to peoples in the ASEAN, for example, the minority tribes such as Buyi tribe, Dong tribe, Sui tribe, Chilu tribe, Maonan tribe, Li tribe, Dai tribe and Hui tribe have long historical blood relationship with the various tribes in ASEAN. They can communicate easily with their cultural goods and services.
- 2.42 The ethnic and folk cultural resources such as folk song, bronze drum, decorative wear, xiqu and etc. have a vast audience in ASEAN countries. Guangxi was the cradle for the culture of bronze drum which was later popularized in Southeast Asia. It is geographically close to the ASEAN. Its CCIs and in particular the manufacturing of art, sports, entertainment and AV products is low in cost, high in volume and fast in transport. It also has natural privileges in tourism and should be an important entry point for the investment and development of CCIs in Hong Kong.⁸

⁸ Cf. [Guangxi and China – development of the ASEAN Free Trade Zone, 2003], High level forum edition.

3 Incision point of integrated development between HK's CCIs and the PRD

To improve product manufacturing with advantage in capital and technology

- 3.1 Hong Kong CCIs could take advantage in capital, technology and talents to push the CCIs in PRD for upgrade and regional division of labour, particularly in the manufacturing industries such as printing, packaging, jewelry, art and crafts and architecture. These CCIs in the PRD are mostly at the initial and mid-level stages of manufacturing processing, which could be improved to become the high-end services for the international market.
- 3.2 Take processing of jewelry and decorations for instance, in 1982, there were only 38 such enterprises in the Mainland with annual revenue of RMB79.11 million, the Mainland market sale not yet reaching RMB100 million. However, in 2003, China has already become the six largest economic entity with total GDP at RMB12,000 billion. Jewelry sales increased to RMB115.5 billion and export US\$3.295 billion. China topped the world market in the consumption of gold, obtained third place in platinum and fifth in diamond.
- 3.3 With market competition, most of the processing of jewelry in Mainland China has moved to the PRD and the YRD concentrated on the development of design. Faced with this challenge from the YRD, the CCIs in Hong Kong could combine its strength in capital and technology with the labour and land resources of the PRD to gain higher grounds in the design and manufacturing of jewelry and at the same time expand its own economic scale.

To develop the advantage of “combining factory and shop” with internationalization

- 3.4 In terms of content creation, Hong Kong CCIs understand the rules of international market operation and could combine the functions of shop and factory with the PRD – either as “shop in the front and factory at the back”, vice versa or both at the same time – to target both the Mainland and international markets. For example, Hong Kong could promote the concept of “through train” for the performing art market in both places, allowing the numerous foreign performing art groups coming to Hong Kong annually to enter the PRD market directly, instead of the present limitation of staging only two shows in Shenzhen.
- 3.5 Hong Kong then could ride on the Pan-PRD policy of “one universal card” to enter a much wider market for the performing and entertainment industries. This may include project approval from only one province/district and copied to other provinces/districts within the mutually recognized region, which will reduce large amount of work and time in bureaucracy and allowing better arrangement for the performances. It will also integrate resources in the unified market and solve the long standing problem of including costs on stage, lighting and sound provisions etc. for the performing groups from Hong Kong and Taiwan, and will effectively lower the cost and ticket price for the growth of the CCIs in Hong Kong.

To increase radiation both internally and externally with its pivotal position in trade

- 3.6 In terms of trading cultural goods and services, Hong Kong could radiate its influence to the Mainland and other markets through the PRD. From 1995 to 2002, the annual growth of total export in Hong Kong was only 1.8%, but that of the related export between Hong Kong and the PRD (including export of Hong Kong products transported to the PRD, re-export services, re-export goods, re-export of goods from PRD and other PRD goods exporting to other markets) was 7.3%. That is to say, the growth rate of export from Hong Kong to the PRD was much greater than the average growth rate to the international market.
- 3.7 Comparison of these figures shows the huge difference in service industries between the nine provinces/districts of Pan-PRD and Hong Kong. Whereas service industry only occupies 39.7% of the Pan-PRD economy of the nine provinces/districts (even for Guangdong this is only 41%), within which hotel and restaurant occupies the majority share with very little professional and cultural services, the service industries occupies 87.5% of the Hong Kong economy. This demonstrates there is still a vast space to fill in the PRD service industry market, which is the best hinterland for Hong Kong products and services, and also an important base of raw materials and labour for Hong Kong CCIs.⁹

To expand the scope of services with related markets

- 3.8 In the related markets of cultural industries such as the markets for capital, information and services, Hong Kong could use its advantage in being a centre in finance, trade, information and flight transport to transform the cultural enterprises of the PRD for serving the finance, logistics, sales and convention and exhibition industries in Hong Kong. For example, Hong Kong can help the CCIs of the PRD to get financing.
- 3.9 Since the first Mainland enterprise was listed in the Hong Kong Stock Exchange in 1993 as H-shares, for the subsequent 10 years, Mainland enterprises have already obtained HK\$753 billion capital, occupying 51% of the current Hong Kong market. By the end of October 2003, there were 247 Mainland private enterprises listed in Hong Kong with H-shares or Red Chips, having a total market worth of HK\$1,439.8 billion and 28% of the total worth of the Hong Kong stock market, and in active trading.¹⁰
- 3.10 During an interview by the CCTV on September 25, 2004, the Hong Kong Financial Secretary Henry Tang pointed out that the Mainland enterprises had raised almost HK\$900 billion in Hong Kong, which was over 50% of the total

⁹ 《文化創意無限 滬海津梁 集力開天拓土與港一統大市場》[Unlimited culture and creativity; combined strengths with Hong Kong to unify the big market] *Yangcheng Wenbao*, May 31, 2004.

¹⁰ 《內地企業香港上市十年融資 7530 億》[Mainland enterprises raised HK\$753 billion in ten years], www.people.com.cn.

amount of the current Hong Kong market. With rise of the CCIs in the Mainland, the need of these enterprises for finance and capital will also increase. The capital and service market in Hong Kong will contribute significantly to the finance, loans, investment, credit guarantee and transaction of industry rights for the CCIs in the PRD.

To develop human resources with training resources

- 3.11 As regards the training of human resources in CCIs, Hong Kong can build upon its strengths in the international education environment, especially with two languages and three tongues (two languages – Chinese and English; three tongues – Putonghua, Cantonese and English) to establish systematic teaching materials, tools and curriculum, and become a base outside the Mainland for the training of professionals in the CCIs of the PRD.¹¹ By the end of 2002, the population in Hong Kong was 6.816 million, of which 495,000 were foreigners, over 7% of the total. The proportion is much lower in the PRD, Shenzhen, for example has 5.04 million regular residents in 2002, but only 6,000 foreigners (including those from Hong Kong, Macau and Taiwan), only 0.1% of the total.
- 3.12 There are 565,000 people in Shenzhen with tertiary degrees and holding mid-level job titles, which is about 10% of the regular residents. However, the proportion is over 50% in Hong Kong, a big difference from the perspective of multi-culturalism and human resources. Many cities in the PRD are keen to narrow this difference. Shenzhen, for example, has proposed a human resource strategy for the first 20 years in the 21st century, which aims for the first major increase by 2005 for 700,700 people with tertiary degrees and the foreign regular residents to reach 0.5% of the population.¹²

To increase intangible assets by developing international brands of CCIs

- 3.13 To possess a group of international brands is the signal of maturity for an industry, which is also the development aim of the CCIs in the Mainland and the PRD. A good brand is not only the mark of market trust, but also an asset with increasing worth, the magnitude of which might be difficult to measure. In an overview, the CCIs in the Mainland have only made a first step in its long march towards branding.
- 3.14 Between February 20 and March 29, 2004, the US *Fortune* Magazine adopted an international practice of opinion survey to find out the most valuable brands in China. Among the 300 brands on the survey list, there were both local and international brands. They have to attain certain standards of sale and advertising in order to be listed – they must be included in either of the four following ranking: *Fortune* “World 500”, *Fortune* (Chinese edition) “100 listed

¹¹ 《文化創意無限商海津梁 集力開天拓土與港一統大市場》 [Unlimited culture and creativity; combined strengths with Hong Kong to unify the big market] *Yangcheng Wenbao*, May 31, 2004.

¹² Cf. Ye and Liu, [Human resources development strategy for Shenzhen towards internationalization],

companies in China”, “500 foreign invested enterprises in China” according to the Ministry of Commerce, “500 Chinese enterprises” according to the China Enterprise Confederation.

- 3.15 Advertising amount refers to the total adspend of the product in all national media. This survey did not include service brands. 5,000 readers who are all senior management personnel were sent the survey questionnaire to opine on the quality, market performance, influence, stability and development potential of the integrated products. The results are as follows:

Survey on the most valuable brands in China by *Fortune* Magazine (2004)

Ranking	Brand names	Total score
1	寶馬 BMW	3595
2	可口可樂 Coca-Cola	3525
3	波音 Boeing	3444
4	微軟 Microsoft	3427
5	海爾 Haier	3417
6	梅塞德斯-賓士 Mercedes-Benz	3413
7	IBM	3400
8	勞力士 Rolex	3398
9	豐田 Toyada	3330
10	勞斯萊斯 Rolls Royce	3320
11	諾基亞(Nokia)	3313
12	貴州茅台 Kweichow Moutai	3263
13	索尼 Sony	3261
14	奧迪 Audi	3250
15	柯達 Kodak	3246
16	摩托羅拉 Motorola	3229
17	百事可樂 Pepsi	3214
18	飛利浦 Philips	3169
19	法拉利 Ferrari	3166
20	肯德基 KFC	3164
21	大眾 Volkswagen	3132
22	通用汽車 General Motor	3131
23	本田 Honda	3126
24	麥當勞 McDonald's	3119
25	歐米茄 Omega	3105

13

- 3.16 From this survey, it could be seen that among the most valuable 25 brands in China, only 2 are from the local enterprises, i.e. Haier and Kweichow Moutai,¹⁴ and that is it. It shows that even for local enterprises in the Chinese market, there is a big gap with international brands. What is more intriguing is that none of the local CCIs from China can make it on the list, demonstrating the fact that they have a pressing need as well as a long journey to establish a strong brand within the local consumption market.

¹³ 《中國最有價值的品牌》[The most valuable brands in China], *Fortune*, June, 2004.

¹⁴ The former is the largest domestic appliance enterprise in China, the latter is an excellent food and drink enterprise of hundred years old.

- 3.17 Many provincial and municipal governments in the Mainland are now taking on the mission to establish brands for the ethnic cultural and creative industries but lack funding, international experience and talent. Hong Kong as a famous international city and possessing a large number of professional talents should be able to promote the branding strategies for CCIs in the Mainland:
- 3.18 On the first level, to use Hong Kong capital, technology and talents to participate in the branding of CCIs in the Mainland. This must be done on the whole, to extract the Chinese uniqueness and regional characteristics for the creation of “Chinese style” under the new historical conditions. The construction of brands for CCIs is to serve the core products and services of local CCIs in the Mainland, to extend the market share and to create a group of quality assets for the Hong Kong CCIs.
- 3.19 On the second level, the first step in brand strategy is to establish the brand architecture, or the logical relationship between the main brand and other subsidiary brands. The best composition of brands should increase the vitality of the brands and each brand in the architecture should mutually support and promote each other. The emphasis of the brand architecture is towards the top end, i.e. to make world brands for Chinese CCIs.
- 3.20 On the third level, to promote extension of brand strategy. Strategy extension could be divided into horizontal and vertical. Horizontal extension is to use the original brand industry as the base to integrate other industries horizontally for the extension of the brand coverage and shares in the integrative market. Vertical extension is to establish a product supply chain directed by the brand, which is based on the demand chain of the consumption market. Vertical extension is to perfect the industry chain and to lower the enterprising cost. Hong Kong CCIs in participating in this branding of Mainland CCIs should promote cross-industry and cross-regional development. It should also pay attention to the formation of industry value chain with both vertical and horizontal integration to raise its integrative competitiveness.

To build on the strengths of “two languages and three tongues”

- 3.21 As pointed out in various parts of this report, Hong Kong has a close relationship both historically and geographically with the PRD, especially in the use of Cantonese as common language in cultural exchange. In the past decades, for Hong Kong CCIs and in particular, the popular media products and performing arts, Cantonese has always been the major medium. During this period, this kind of Cantonese or “Hong Kong literary style” (a kind of mixture and integration between ordinary spoken Chinese and Canton tongue) became prominent in Canto Pop, Hong Kong movies, television and radio shows, press and magazines, books and publications as well as performing arts.
- 3.22 This trend has become a unique mark among Chinese all over the world. It even becomes prominent brands in some sectors. However, this situation will certainly change with the opening up of the Mainland market and transformations in the cultural production and consumption of the PRD with other regions. What will be the prospects of Cantonese CCI products and performing arts?

- i. The industry sector is very concerned about this. Discussions in recent years have identified three related reasons that contributed to the “Hong Kong advantage”, which will be challenged with different degrees in future: the interchangeability of language between Hong Kong and the PRD and the direct sale and performance of Cantonese/Hong Kong style literary products is not an obstacle but a feature of user-friendliness. Therefore, the south China region has always been receptive and remained an important consuming market for Hong Kong films and literary creation.
 - ii. The fact that Hong Kong cultural goods have been popular among Chinese communities in the world for quite a while reflects that Cantonese or Hong Kong literary style sometimes might not be a disadvantage. Those who do not understand Cantonese yet like Hong Kong productions are taken by the unique “Hong Kong sensation” behind the language and literary style (a kind of Hong Kong life feeling integrated with long exposure to the world culture which may be described as “exquisite”, “avant-garde” or “glamorous”). Many Hong Kong cultural productions have a quick pace, new plot, a strong sensitivity to the times, and the expression of Cantonese/Hong Kong literary style is well unified with this sensation. Mainland audiences like Hong Kong Canto pop not because they fully understand the meaning of the lyrics but the whole aura of the music and totality of atmosphere.
 - iii. Because of the currency of language between Hong Kong and the PRD and the history of exchange, when the Mainland market was first opened, South China was the first partner with Hong Kong on various investment and business. The development of CCIs from Hong Kong usually used Guangdong as the jumping board to set up printing factory, back-up base for comics and animation productions, training school for television actors and actresses or advertising agency etc. Other CCIs which do not have a strong language connection such as architecture will leave the PRD sooner. Hence the advantage of Hong Kong CCIs in operation and management sometimes will empower those industries in the Cantonese speaking PRD to form a “Hong Kong + Guangdong” advantage.
- 3.23 Representatives of the sectors believe that these three factors may change in future. Since this change is slow and contains many unknown factors, the following will be some possible trends. First, the cultural consumption in the PRD is strong and therefore it is still a considerable market. Hong Kong cultural products could still be important in this big market by maintaining its language characteristics, e.g. Hong Kong radio and television programmes will still be primarily Cantonese. Hong Kong singers will still sing Cantonese songs when performing in the PRD.
- 3.24 If the industry sectors in Hong Kong consider the whole Mainland market as a target, then they will have to face a choice in language. Since the main tongue in the Mainland is Putonghua, the Hong Kong dialect has limitation and it is necessarily a trend to supplement Hong Kong productions with Putonghua. For example, Metro Radio HK is now producing Putonghua programmes in joint broadcast to Mainland audiences. Singers will also sing more Putonghua songs in their Mainland performances. On the other hand, Hong Kong style literary publications have no edge at all in the huge publication market in the

Mainland.

- 3.25 However, this does not mean that all Cantonese/Hong Kong literary style productions will or should be displaced. As mentioned above, the linguistic medium of a product sometimes cannot be separated with its authenticity and cultural style. The attraction of Hong Kong productions to Mainland audience is their unique aura. By the same reasoning, Mainland singers still require the processing by Hong Kong professionals to acquire a global star quality. Meanwhile, Mainland cultural industries are also debating: will productions with a strong regional style be equally acceptable in other regions?
- 3.26 Would a TV comic production with northern dialect and regional characteristics of fun and humour attain a high viewing rating in the south? The TV sector has encountered rather contradictory experience – many productions with strong regional flavour cannot really cross the regional boundary to become popular in other regions, but individual productions such as the 80 episodes of comic series “Northeast Family” broadcast since April 2005 by the Guangdong Satellite Television was highly successful and popular with southern audiences. This kind of “melodrama with dialect” has been trendy in the past few years and has made the critics believe that “dialect is no longer formal, it is part of content; and once the medium of dialect is lost, the cultural content will become unrecognizable and difficult to be understood and accepted by outsiders.” (*Nanfeng Daily*, May 5, 2005) According to this view point, voiced over drama and Putonghua version of south China productions will never work since the regional characteristics are diluted.
- 3.27 For Hong Kong producers, this is an observation that still needs to be proved. Local singers once confessed that they did lack the repertoire of Putonghua songs when they performed in the north. The Hong Kong TV sector also admits that Cantonese broadcast cannot cultivate a large audience in the north. Many sectors are now preparing on two fronts: on one hand retaining creation with local dialect, on the other hand exploring new opportunities in the whole Mainland market while preserving their edge.¹⁵ Although local singers are facing challenges from the Putonghua singers from Singapore and Taiwan in recent years, they still have certain attraction in the Mainland. Again they have to prepare on two fronts – how to preserve their Hong Kong characters while expanding their audience.
- 3.28 The same could be observed in film, radio, and publishing. The film sector has already gone into producing different versions by slightly amending the content for the Mainland market because of taboos and regulations, and of course in Cantonese versus Putonghua (e.g. *Seven Swords*). The peripheral products (like novels, online games and gifts) can also adapt to or override the language barrier. In publishing, the cartoon *McDull* has been known with outstanding regional flavour and yet without amending its contents and language, it successfully launched four special editions in the Mainland.

¹⁵ For example the singer Hacken Lee produced an album of all Putonghua songs in 2005 for the Mainland market, half of which were created by the Mainland composer Xiao Gang for the Mainland taste, and the rest were simply new Putonghua lyrics of Lee’s classic songs such as “Red Sun”. The latter was done to capitalize on his accumulated brands over the years for the Mainland. At the end of the same year, Lee would produce more Cantonese album to add to his branding edge. Similar strategies also apply to other singers.

- 3.29 In operation, management and investment, the development network of Hong Kong CCIs with the PRD under the advantage of a common language still has an edge. For instance, the comics sector has proposed the concept of “created in Hong Kong – produced by Guangdong and Hong Kong – published and distributed in Shanghai”. The printing industry is also considering how to complement and compete with the YRD by Guangdong-Hong Kong collaboration based in the PRD.
- 3.30 In some industries, however, this historical factor of a common language does not give them any special advantage. These usually consider from the business point of view and will skip Guangdong to collaborate with stronger business partners in the north, in order to radiate their influence to the whole country. For instance, TOM has invested in Sichuan; the Emperor Group set up training programme for performers in Beijing and collaborated with organizations in Shanghai; for the film sector, collaborating organizations outside the PRD perhaps have more edge. Hence on the operation level, the local industry sectors have transcended the historical connection with the PRD and the vision of the language region to develop the northern market. Under this delicate situation, Cantonese/Hong Kong literary style creation should still have room for growth.

4 Recommendations of overall development for HK's CCIs

An Integrated Development Platform for Hong Kong's CCIs

- 4.1 How to develop the Hong Kong CCIs and in particular, recommendations for individual sectors, have been given in the last chapter. There is no need to repeat them here. What this chapter aims to explore, is recommendations for developing the whole concept of CCIs. There is no division in short, medium or long term strategies because the question of pace and priority may be affected by objective conditions. Theoretically, every suggestion here could be implemented immediately.
- 4.2 Cultural and creative industries could not be developed just by one single department; rather, it needs a hand-in-hand cooperation and interaction across different sectors where practitioners would engage in exploration, the business sector would provide supports, the academia would conduct researches and the government would assist in the process. To fulfill this diversified combination and generate the promotional force, the government must work with the non-governmental sector in many ways to build up an integrated development platform.
- 4.3 This concept of platform aims at regarding cultural and creative industries as a driving force for the development of society, economy and culture. Therefore, its operation and outcome would not be limited within the growth of a specific sector or just related to cultural & creative industries alone, but to reach further to enhance individual's originality and actualization of potential through cross-sectoral and cross-departmental interactions which will consequently bring about a civil society.
- 4.4 This study suggests the participants and stakeholders in building up this platform should include the organizations and the individuals from the government, the practitioners, the business, the academia and the Third-Sector. They should initiate the work under four purposes: (1) to formulate relevant policies; (2) build a network of information and communication; (3) assist in internal restructuring of each sector; and (4) promote the interaction among different sectors.
- 4.5 This integrated platform for the development of cultural and creative industries could start with an organization consisted of representatives from the respective sectors. We might call this the "Cultural & Creative Industries Commission/Task Force" (hereinafter referred to as the Taskforce), which could be presided by the Chief Executive himself or by the Chief Secretary. The work scope of this Task Force includes:

Policy making and implementation

- 4.6 The Task Force should put the development of cultural industries into a macro agenda and take advantage of the diversified background of its members to formulate policies and measures conducive to CCIs, including:
 - Social, economic and cultural policies

- Cross-departmental/cross-sectoral industry policies
 - Urban renewal and development policies
 - Education and training policies
 - Human resources and immigration policies
- 4.7 The Task Force is to consolidate the existing policies and measures and support the respective sectors and industries more effectively and vigorously. At present, some government departments or non-government organizations such as the Trade Development Council, the Hong Kong Productivity Council and the General Chamber of Commerce may have formulated such policies and measures into their work agenda which could benefit the CCIs; e.g. the Innovation and Technology Fund set up by the Innovation and Technology Commission and the SME Funding Schemes by the Trade and Industry Department. However, these measures might be dispersed, overlapped or repeated that requires re-examination and re-organization or to develop new measures.

Establish Networks of Information and Communication

- 4.8 The Taskforce can put extensive information in a dedicated website, such as industrial introduction, policies, measures, business opportunities, fund application, industry demand, investment & job opportunities, research, and channels for local and overseas communication. Moreover, one or several physical information or networking offices should also be set up to promote the CCIs. The Taskforce could employ a set of tools such as community education, exhibition, industry-based large-scale events, television & radio shows, special columns in newspaper and TVC to promote awareness among the citizens.
- 4.9 Working with relevant sectors, the Taskforce can act as a bridge to international organizations. At present some departments are developing this kind of link, the Home Affairs Bureau, for instance, has developed a Creativity Index and plans to collaborate with other cities/countries in the region to further elaborate a common method suitable for all participating cities/countries. This scheme is now supported by UNESCO, which will give Hong Kong an edge to become a research centre of cultural and creative industries in the Asia and Pacific region.¹⁶
- 4.10 This cross-regional relationship could not only connect Hong Kong with its peers in the Mainland, like Hebei-Tianjin-Beijing Zone, the Yangtze River Delta, the Canton-Hong Kong-Macau Zone or the Pearl River Delta, it can also stretch to South-East Asia through ASEAN or to even further networks of a broad and global connection.

Gear up Internal Restructuring of each Sector

- 4.11 The development of CCIs must necessarily induce internal restructuring of the

¹⁶ Guangdong, Macau and Singapore have expressed interest to participate in this collaboration on Creativity Index. The Senior Expert Meeting by UNESCO held in Jodhpur, India in February 2005 outlined a ten-year plan for research on CCIs including developing a Creativity Index for Asia and the Pacific.

- respective sectors. For the government sector, there is at present no unified organization or structure in this regard, the CCI sectors identified by this report are distributed among two to three policy bureaux, e.g. design, digital entertainment, software, film and television belong to the Commerce, Industry and Technology Bureau; art, antiques and crafts, performing arts belong to Home Affairs Bureau, architecture belongs to Housing, Planning and Lands Bureau. This compartmentalization does not allow the sectors to interact and develop new ideas through cross-sectoral activities.
- 4.12 In order to recombine social resources effectively to allow a more effective development of the local CCIs, it is recommended that the government should set up a specific cross-departmental group to implement policies and measures proposed by the CCIs Task Force. This organization ideally should be a brand new structure and independent policy bureau or restructured from the existing government hierarchy, e.g. by designating one bureau as the lead bureau to coordinate other bureaux in the collaboration of CCIs.
- 4.13 In the practitioners' sector, though there are many industry associations or institutes, seldom do they collaborate. A "Federation/Alliance of Cultural & Creative Industries" would facilitate coordination and interactions among the existing organizations to advocate the reciprocal development. The Federation could also arrange communication programmes and training courses to help industries understand and support each other and to grow.
- 4.14 For the business sector, we advise the bank and finance sector to study actively the financing plans regarding CCIs in order to tackle the problems of investment and improve the success rate of loan application and the process of bank approval. Besides, by working with the government, the practitioners, and other non-government or quasi-governmental organizations, the business sector could use its funds to establish a foundation or trust for the development of CCIs to invest or support companies excellent in innovation or having demonstrated a potential to grow. The foundation or trust or the loan could be non-industry specific, which will help generate the cross-sector business opportunity and encourage research and creativity. The business sector could also establish a chamber of commerce for CCIs.
- 4.15 For academia, there are only a few research organizations at present specializing in CCIs and no college or tertiary institutions providing full and systematic curricula in the subject. We advise to review the existing relevant curricula dispersed in different institutions and discuss how we could form a complete infrastructure of education and training; or as some countries, establish an independent school or faculty of cultural and creative industries with supporting research and technological centres.¹⁷
- 4.16 To ensure continuity of supply in human resources, academia and practitioners could work together to develop specialty training or professional education; and by collaboration with the schools or the education departments, they could compile textbooks or develop unique secondary or post-secondary education for

¹⁷ The Faculty of Creative Industries and Creative Industries Research and Applications Centre, CIRAC, of Queensland University of Technology in Brisbane, Australia is a good example. <http://www.courses.qut.edu.au/cgi-bin/WebObjects/Courses.woa/wa/selectFacultyFromMain?faculty=C>
I °

cultural industries.

- 4.17 The Third-Sector is also subject to internal restructuring. There is currently no specialized organization in this sector in Hong Kong though we do find there are some related activities held by NGOs or NPOs. The Third-Sector should partner with other sectors of the society to form an organization for the promotion of creativity and the industries. This organization could also be supported by the foundation or trust mentioned above. In addition, the government could assist the third sector in setting up a CCI's think tank, to undertake policy research for the various departments.

Promote Interaction among Different Sectors

- 4.18 Through internal restructuring of the above sectors, the government, practitioners, business and academia should cooperate closely and assist each other to ensure policies and measures can benefit the majority. Cultural and creative industries by no means should exist only for their own sake; their more important role, though often neglected, is to add value to other industry sectors, such as manufacturing and service industries, and to have impact positively on the whole society like improving the living quality and the city image.
- 4.19 Interactions among different sectors of CCIs are essential for them to achieve breakthrough of innovation. Without this kind of communication and stimulation, cultural and creative industries will not live up to their nature. In this sense, it is necessary to set up a framework to help the practitioners exchange and share ideas and problems or even look for business partners through a relaxing social environment. The Club, an organization founded by the Institute of Contemporary Arts (ICA) of London, UK in 2000 for the entrepreneurs in creative industries, is a good example.¹⁸ Such an Entrepreneurs' Club would best be set up with the participation of both the business and cultural sectors to promote cross-sectoral activities – for instance, between the Hong Kong General Chamber of Commerce and the Hong Kong Art Development Council.
- 4.20 Competitions and awards are incentives for cultural industries to have regular exchange. In addition, organization of large events like business week or exposition of CCIs, seminars and symposia, investment briefing or summit will help Hong Kong to grow its own cultural brand and benefit its tourism, exhibition and convention industries. The Asian Cultural Cooperation Forum (ACCF) organized annually by the Home Affairs Bureau and the Business of Design Week (BODW) organized by the Hong Kong Design Centre and Designers' Association are all held in November. If these could be coordinated to become a big brand project for Hong Kong such as "Creative November", it should have an even bigger impact on the tourism and convention industries.

¹⁸ Please refer to <http://www.ica.org.uk/index.cfm?articleid=221>. Other founders of this organization include Arts Council of England, Cap Gemini Ernst & Young, Channel 4, ICA, London Arts, National Endowment for Science, Technology and the Arts, and the Royal College of Art. In 2004, they even established Club2.

Policy on human resources in Hong Kong CCIs

- 4.21 There are 11 sectors in the CCIs. The talents, skills and knowledge needed by each sector would be quite different. Hence to propose a unified set of policies in human resources for this diverse economic domain is not easy. However, considering that CCIs emphasize creativity, innovative spirit and ability, there can be common goals for such a policy. Besides, the talents in CCIs also share some characteristics that might not necessarily be unique to only certain sectors. Talents in advertising, film, music, television, digital entertainment and publishing have high degree of mobility and cross-sector background and experience. And this kind of mix and match is usually the source for creative inspirations. Hence the priority principle in the training of creative talents should aim at raising their vision to develop their diverse potentials.
- 4.22 The tertiary institutions in Hong Kong mostly follow the comprehensive model which emphasizes a generalist education. Students are required for cross-disciplinary training apart from learning their specific subject. This trend in some degree answers the requirement of training in CCIs. However, the subjects that relate to CCIs now offered by these institutions are distributed all over different faculties or departments, or provided by specific academies. For example, the media related subjects are generally provided by journalism and media studies departments; digital media or film studies are provided by schools of communication and media; performing arts, culture and art, architecture and design related disciplines are catered by specific institutions such as the Hong Kong Academy for Performing Arts, or by architecture department, design schools or art departments in the universities. This diversified and compartmentalized system of training might not be the best in the training of talents in CCIs, and it is not easy to maintain a balance between creative education and professional training.
- 4.23 This is the same dilemma faced by countries keen on developing CCIs – on one hand industry development requires professional training; on the other hand, the cross-sector nature of CCIs requires people with a broader vision to understand and grasp the trends in other sectors. Hence many traditional and categorical disciplines such as communication, design and art are all integrating or crossing over each other. Individual institutions even reform disciplines and departments or establish a separate faculty on cultural and creative industries.¹⁹ The Hong Kong tertiary institutions enjoy a high degree of autonomy to reform their own departments and subjects and should decide if they need to do so for the demands of CCIs according to their own situation.²⁰ The role of the government should speed up this process of reform of knowledge by conducting study and research on the supply and demand of talents in the major sectors of

¹⁹ Examples include: integration of design and engineering in Stanford University, <http://www.stanford.edu/group/dschool/index.html>; new Faculty of Creative Industries in Queensland University of Technology, <http://www.creativeindustries.qut.com/>; University of Leeds, <http://www.leeds.ac.uk/paci/index.htm>; School of Media, Arts and Design, University of Westminster, <http://www.wmin.ac.uk/mad/page-130>.

²⁰ Individual institutions in Hong Kong are also offering related training to CCIs, e.g. the School of Creative Media in the City University of Hong Kong and the Multimedia Innovation Centre of the Hong Kong Polytechnic University.

the CCIs, and to review and accredit the subjects and skills related to the industries as foundational work for the knowledge reform of individual institution.²¹

- 4.24 The human resource policy for the Hong Kong CCIs should also take into consideration the development of CCIs in the Mainland since the training of talents is not only to fill the local market needs, but also for their entry into the Mainland market. The cross-border working population in Hong Kong is increasing and as the economic cooperation between Hong Kong and the Mainland becomes closer, the local talents in advertising, architecture, design, software and media will have more career opportunities in the Mainland. Individual industries such as product design, software and media enterprises would have complementary relationship with manufacturing, service and cultural environment in the PRD because of geographical reasons.
- 4.25 Therefore, the human resource training in Hong Kong should introduce more content about the Mainland on the production environment, cultural development, industry status, market regulations etc. as well as opportunities to exchange and practise. The institutions in Hong Kong could decide for themselves how and which of these Mainland related contents should be included in their curriculum to establish a closer talent exchange programme. The government could allocate resources through existing resource allocation mechanism for tertiary institutions to apply for these project funds, as means to promote policy on human resources in CCIs and to respond as quickly as possible the transformation in the content of knowledge training.
- 4.26 As regards immigration policy, Hong Kong could relax regulations for talent and investors in CCIs to work and reside here. The living environment of Hong Kong under the organic integration of business, culture and leisure is the priority condition to attract talents and capital. Richard Florida expounds his novel idea in the social construction of creative talents in his book *The Rise of the Creative Class* where the livability of communities outweighs the investment of high-tech enterprises in the attraction of talents to cluster, which in turn stimulates the community's economic growth. Seen from this perspective, Hong Kong has an apparent edge within the region in livability, which should be advantageous to develop the CCIs.

²¹ The government has never conducted a comprehensive review of the supply and demand in terms of human resources of the different CCIs. Although the Vocational Training Council (VTC) regularly surveys the human resources in the communication, IT, printing and publishing sectors, these cannot reflect the whole picture for all CCIs. The scope of the survey does not cover evaluation of the different disciplines in tertiary institutions either. As regards knowledge management in the courses related to CCIs in the tertiary institutions, the Digital 21 Strategy Advisory Committee has done some preliminary stock taking about the courses and curriculum on digital and media related subjects in Hong Kong in its report of 2003. This initial work provides the foundation for the review of the knowledge structure on CCIs in the tertiary institutions.

5 Conclusions

Development strategy in CCIs by positioning on the industry chain

- 5.1 Compared with the Mainland, Hong Kong is only a very small place. Despite how good our talents could be and how resourceful we might be, we would only have an edge within a certain limit. This point is particularly worthy of consideration in terms of development strategies for CCIs, for in the long run, competition of CCIs will not be confined only to a regional scale. The globalization of trade and information network will force this competition to be a global one. CCIs with only regional advantages, no matter whether they are services or brands, will soon be superseded by those with global advantages.
- 5.2 Therefore, Hong Kong should focus on the global market including the induction of talents, capital and technology when developing cultural and creative industries. With its business acumen and strengths in drawing foreign investments, trading and service industries, Hong Kong could choose specific segments of the industry value chain to position itself, from creation to production to distribution. Because for certain sectors, Hong Kong may not have the creative talents, or the manufacturing or production capacity; however, if through Hong Kong's management and packaging, creativity can be turned into business, then this practice in itself is also a cultural and creative industry.²² And this is also Hong Kong's ultimate goal of developing itself into a platform for cultural and creative industries worldwide.
- 5.3 Some may ask, "Is this type of cultural and creative industry the same as what we have been discussing, that they 'have their origin in individual creativity, skill and talent, which have a potential for wealth and job creation through the generation and exploitation of intellectual property?'" The answer is yes, if this creative transformation involves generation and exploitation of intellectual property, e.g. patent of a new brand.²³ We may call this CCI of the second order, which differs from the CCIs of the first order that make use of primary creation.
- 5.4 Under such a strategy, Hong Kong and the PRD as one entity is only one of the many strategic partnerships among all global regions. This relationship has its own historical, human and geographical logic. However, for Hong Kong to really consider developing CCIs, whether they be of the first or second order, we should not be looking only at the PRD as an inevitable partner, but should integrate Hong Kong with the PRD and the neighboring regions to cast and

²² Some industries in Hong Kong are now going toward this direction. A company named Inno Vech set up by the Hong Kong Polytechnic University has collaborated with a famous Italian designer Giorgetto Giugiaro and launched the project MYCAR, a micro car product catering for the European market. In this case, Inno Vech is neither the creator nor the manufacturer, but an intermediary management. Thus a triangle: the product is designed by Italy, manufactured by mainland (the parts of the car are mainly made in the Pearl River Delta), and managed, financed and marketed by Hong Kong. MYCAR is to first develop the European market and then set its foot in mainland China. *Hong Kong Economic Journal*, Hong Kong, p04, August 16, 2005.

²³ Take MYCAR for instance, the intellectual property of original design should be owned by the designer; however, since the designer has agreed the car could use "Giugiaro Design" as a brand on its body, Inno Vech and the shareholders will obtain the patent of the registered trademark.

project their combined competitiveness worldwide. Only by this means could the full potential of cultural & creative industries be realized, and to become the pillar industries of Hong Kong. The ASEAN is a region that shares similar advantages as the PRD and could be another strategic partner with Hong Kong in CCIs. How to cultivate this partnership is another worthy subject of research. We anticipate that under the leadership of the Commission on Strategic Development, we would work together for the future of Hong Kong's CCIs. [END]

Appendix 1: Major development planning, regulations and policies related to CCIs recently implemented in the PRD¹

1.1 Development planning and regulations related to CCIs recently implemented in the PRD

1 Guangzhou

Development planning:

- i. 廣州市文化產業發展十五計劃。
- ii. 廣州市文化發展十五計劃。

Related regulations:

- i. 廣州市地方性法規《廣州市文物保護管理規定》[1994年12月24日廣州市人大常委會公佈實施]。
- ii. 廣州市地方性法規《廣州市私營企業權益保護條例》[1997年10月8日廣州市人大常委會公佈實施]。
- iii. 廣州市地方性法規《廣州歷史文化名城保護條例》[1998年11月27日廣東省人大常委會批准1999年3月1日起實施]。

2 Shenzhen

Development planning:

- i. 《深圳市文化事業發展（1998--2000）三年規劃及2010年遠景目標》[1998年3月2日中共深圳市委、市政府深發[1998]4號文]。

Related regulations:

- i. 深圳市地方性法規《深圳經濟特區文化市場管理條例》[1993年9月10日深圳市人大常委會通過，1993年12月1日起施行]。
- ii. 深圳市地方性法規《深圳經濟特區公共圖書館條例》（試行）[1997年7月15日深圳市人大常委會公佈實施]。
- iii. 深圳市地方性法規《深圳經濟特區實施〈印刷業管理條例〉若干規定》[1999年8月24日深圳市人大常委會通過實施，2004年6月25日修訂]。
- iv. 深圳市地方性行政規章《〈深圳經濟特區文化市場管理條例〉實施細則》[1995年3月17日深圳市人民政府常務會議通過，1995年6月8日發佈實施]。

¹ The development planning and regulations generally refer to those passed with legal effects by the regional people's congress. The regional regulations must be set up by the regional legislative body such as the people's congress of Shenzhen. Policies and measures generally refer to those put forward by government departments which have administrative, directive, supervisory and managerial functions.

- v. 《深圳經濟特區文化市場管理條例(修訂稿)》已被深圳市政府法制辦列入重點立法計劃。
- vi. 《深圳市文化產業促進條例(草案)》已被深圳市政府法制辦列入重點立法計劃。

3 Zuhai

Development planning:

- i. 《珠海市建設文化盛市規劃綱要(2003年—2010年)》。
- ii. 《關於建設文化盛市的決定》。
- iii. 《關於建設文化盛市的若干配套經濟政策》。

4 Foshan

Development planning:

- i. 《佛山市建設文化名城規劃綱要(2003年—2010年)》。
- ii. 《佛山市廣播電視發展規劃》。
- iii. 《佛山市服務業發展規劃綱要》[2003年4月17日佛山市人民政府佛府[2003]43號文]。
- iv. 《佛山市工業發展規劃綱要》[2003年4月17日佛山市人民政府佛府[2003]43號文]。
- v. 佛山市人民政府《關於加快文化名城建設的若干政策》[2004年佛山市人民政府佛府辦[2004]第323號]。

5 Huizhou

Development planning:

- i. 《惠州市文化發展“十五”計劃》。

6 Dongguan

Development planning:

- i. 《東莞市文化發展“十五”計劃》。

7 Zhongshan

Development planning:

- i. 《中山市文化發展“十五”計劃》。

8 Jiangmen

Development planning:

- i. 《江門市“十五”發展規劃》。

9 Zhaoqing

Development planning:

- i. 《肇慶市國民經濟和社會發展“十五”計劃綱要》。
- ii. 《肇慶市現代物流業“十五”規劃》[2003年4月10日肇慶市人民政府辦公室肇府辦[2003]12號文]。
- iii. 《肇慶旅遊發展總體規劃綱要》。

1.2 Policies and Measures to promote CCIs implemented in the PRD

1 Guangzhou

- i. 《關於廣州市加快文化事業發展若干政策的意見》[2003年2月28日廣州市人民政府穗府[2003]12號文]。
- ii. 《關於加快廣州文化基礎設施建設的意見》[2004年3月14日廣州市人民政府辦公廳穗府辦[2004]18號文]。
- iii. 《關於進一步做好投資工作促進廣州市經濟社會可持續發展的意見》[2004年4月27日廣州市人民政府穗府函[2004]42號文]。
- iv. 《廣州市扶持企業發展專項資金管理暫行辦法》[2004年11月15日廣州市人民政府辦公廳穗府辦[2004]58號文]。

2 Shenzhen

- i. 《關於加快民營經濟發展的意見》[2003年5月16日中共深圳市委、深圳市人民政府深發[2003]5號文]。
- ii. 《深圳市文化資訊化建設管理暫行規定》[2003年6月6日深圳市文化局印發]。
- iii. 《深圳市建設“圖書館之城”(2003--2005)三年實施方案》[2003年9月11日深圳市文化局印發]。
- iv. 《關於貫徹落實〈中共廣東省委廣東省人民政府關於加快建設科技強省的決定〉的實施意見》[2004年4月27日中共深圳市委、深圳市人民政府深發[2004]7號文]。
- v. 《深圳市中小企業上市培育工程實施方案》[2004年9月28日深圳市人民政府辦公廳深府辦[2004]179號文]。
- vi. 《深圳市民營及中小企業發展專項資金管理暫行辦法》[2004年11月25日

深圳市人民政府辦公廳深府辦[2004]211 號文]。

The Cultural Department of Shenzhen has made a preliminary decision to allocate portion of the resources from the publicity and cultural fund for the special development projects in CCIs, mainly for SMEs, especially as seed money and low interest loan for CCI start-up enterprises. This realizes further the principle of diverse investment and finance for CCIs according to the four levels of museum network of city, district, town and village.

3 Zhuhai

- i. 《關於珠海市建設文化盛市若干配套經濟政策》[2004 年 5 月 8 日珠海市人民政府珠府[2004]42 號文]。

4 Foshan

- i. 佛山市人民政府《關於加快建設文化名城的決定》。
- ii. 《佛山市外商投資企業優惠政策》。
- iii. 《關於進一步優化佛山投資環境增強招商引資競爭力的若干意見》[2003 年 1 月 29 日佛山市人民政府佛府[2003]11 號文]。
- iv. 《關於進一步轉變政府職能，加快培育和發展產業性行業協會、商會的意見》[2004 年 5 月 30 日佛山市人民政府佛府[2004]83 號文]。
- v. 《佛山市陶瓷產業整合提升工作方案》。

5 Huizhou

- i. 《惠州市改善外商投資環境若干規定》[2000 年 3 月 2 日惠州市人民政府惠府[2000]48 號文發佈，2003 年 2 月 26 日惠州市人民政府修訂，2003 年 3 月 10 日起施行]。
- ii. 《關於加快個體私營經濟發展的若干意見》[2001 年中共惠州市委、惠州市人民政府惠市委發[2001]31 號文發佈，2003 年改由惠州市人民政府重新印發]。
- iii. 《關於鼓勵外商投資的若干規定》[2001 年中共惠州市委、惠州市人民政府惠市委發[2001]33 號文發佈，2003 年改由惠州市人民政府重新印發]。

6 Dongguan

- i. 《東莞市發展現代物流業的實施意見》[2004 年 2 月 6 日東莞市人民政府辦公室東府辦[2004]16 號文]。
- ii. 《東莞市文化體制改革試點工作方案》[2004 年 5 月 21 日中共東莞市委辦公室、東莞市人民政府辦公室東委辦發[2004]4 號文]。
- iii. 《東莞市科學技術博物館捐贈辦法實施細則》。

7 Zhongshan

Some regulations to encourage foreign investment and implementation of preferential policies on investment:

- i. 《中山市中小企業發展專項資金管理暫行辦法》[2003年6月8日中山市人民政府辦公室中府辦[2003]53號文]。
- ii. 《關於大力發展利用資本市場的意見》[2004年8月24日中山市人民政府中府[2004]90號文]。

8 Jiangmen

- i. 《關於加快民營經濟發展的若干意見》[2003年中共江門市委、江門市人民政府江發[2003]7號文]。
- ii. 《關於進一步改善和優化投資環境加快吸引外資民資投資發展的決定》[2001年8月16日中共江門市委、江門市人民政府江發[2001]23號文]。
- iii. 《關於鼓勵外資民資投資發展的規定》[2001年8月29日中共江門市委、江門市人民政府印發]。
- iv. 《關於加快發展現代流通業的意見》[2002年江門市人民政府江府[2002]20號文]。
- v. 《江門市民營經濟專項扶持資金實施細則》[2003年江門市人民政府江發[2003]10號文]。
- vi. 《江門市區招商引資獎勵暫行辦法》[2003年江門市人民政府江府[2003]49號文]。
- vii. 《江門市區招商引資獎勵暫行辦法實施細則》。
- viii. 《關於外商投資企業增資擴產若干問題的暫行規定》[2004年11月15日江門市人民政府江府[2004]49號文]。

Appendix 2: Comparison between the “Cultural and related industries classification” and the industry classification in the *Baseline Study on HK’s Creative Industries*

Categories of Chinese Cultural Industries		National SIC Codes	HK Industry Classification according to the <i>Baseline Study</i>	HSIC 4 Digits	HSIC 6 Digits
Part I - Cultural Services					
News & Press Services					
News & Press Services -	News and Press Industry	8810	<i>Not included as Creative Industry</i>	-	-
Publishing, Distribution & Copyright Services					
1. Book, newspaper & periodical publishing					
(1) Book, newspaper & periodical publishing	Book publishing	8821			
	Newspaper publishing	8822	Printing & publishing of newspaper	3421	342100
	Periodical publishing	8823			
	Other publishing	8829			
(2) Production of book, newspaper & periodical	Book, newspaper & periodical printing	2311	Production of printing plate (except design of plate)	3429	342903
			Printing	3422	342200
			Printing agency	8339	833906
	Binding and other printing activities	2320	Book binding	3429	342901
			typesetting	3429	342904
	Design packaging and other printing	2319	Other printing, publishing and related industry	3429	342999
			Printing of relief pattern	3429	342905
(3) Distribution of book, newspaper & periodical	Wholesale of book	6343	Wholesale of book and periodical	6115	611504
	Retail of book	6543	Retail of book, newspaper and stationery	6215	621504
	Wholesale of newspaper	6344			
	Retail of periodical	6544			
2. Publishing and distribution of AV and electronic publication					
Publishing of AV products		8824	<i>No related data</i>	-	-
Production of AV products		8940	Production company of video tape	9403	940302
Publishing of electronic publication -	Publishing of electronic publication	8825	<i>No related data</i>	-	-
	Production of electronic publication				
Duplication of recorded media -	Duplication of AV products	2330	<i>Not included as Creative Industry</i>	-	-
	Duplication of electronic publication				
Wholesale of AV and electronic publication		6345	<i>Not included as Creative Industry</i>	-	-
Retail of AV and electronic publication		6545	<i>Not included as Creative Industry</i>	-	-
Other publishing		8829	Greeting card and decoration	3429	342902
3. Copyright services					
Intellectual property right services -	Copyright services	7450	<i>No related data</i>	-	-
Radio, Television and Film Services					
1. Radio and Film Services					
Radio -	Radio station	8910	Radio station, television station and recording studio	9411	941100
	Other radio services				
Television -	Television station	8920			
	Other television services		Film procession services	9401	940100
2. Transmission of radio and television					
Cable radio & television transmission services -	Cable radio & television transmission network services	6031	<i>Not included as Creative Industry</i>	-	-
	Cable radio & television reception				
Wireless radio & television transmission services -	Wireless radio & television transmission and relaying station	6032	<i>Not included as Creative Industry</i>	-	-
	Wireless radio & television reception				
Satellite transmission services		6040	<i>Not included as Creative Industry</i>	-	-
3. Film services					
Film production and distribution -	Film studio services	8931	Film studio	9402	940200

	Film production		Film production company	9403	940301
	Cinema line distribution		Film distribution & film rental services	9407	940700
	Other film distribution				
Film showing -	Film house and cinema	8932	Cinema	9406	940600
	Other film showing				
Arts and Cultural Services					
1. Arts and cultural creation, performance and performing venue					
Arts and cultural creation and performance -	Arts and cultural creation services	9010	Stage production & entertainment services	9412	941200
	Arts and cultural performance services				
	Other arts and cultural services				
Performing venue		9020	<i>Not included as Creative Industry</i>	-	-
2. Cultural conservation and cultural facility services					
Heritage and cultural conservation -	Heritage conservation services	9040	<i>Not included as Creative Industry</i>	-	-
	Ethnic folk cultural heritage conservation services				
Museum		9050	Museum	9422	942200
Memorial hall & graveyard		9060	<i>Not included as Creative Industry</i>	-	-
Library		9031	Library, art gallery & cultural services	9421	942100
Archive		9032			
3. Mass cultural services					
Mass cultural activity -	Mass cultural venue	9070	<i>Not included as Creative Industry</i>	-	-
	Other mass cultural activity				
4. Cultural research and cultural organisation services					
Social sciences and humanities research		7550	<i>Not included as Creative Industry</i>	-	-
Professional social organisation -	Cultural social organization	9621	<i>Not included as Creative Industry</i>	-	-
5. Other arts and cultural services					
Other arts and cultural services		9090			
Network Cultural Services					
Internet information service	Internet news services	6020			
	Internet publishing services				
	Internet notice board services				
	Other internet services		Internet connection services	7329	732902
Cultural Leisure and Entertainment Services					
1. Tourism cultural services					
Travel agency		7480	<i>Not included as Creative Industry</i>	-	-
Scenic spot management		8131	<i>Not included as Creative Industry</i>	-	-
Park management		8132	<i>Not included as Creative Industry</i>	-	-
Protection of wildlife and vegetation -	Animal viewing services	8012	<i>Not included as Creative Industry</i>	-	-
	Plant viewing services				
Other scenic area management		8139	<i>Not included as Creative Industry</i>	-	-
2. Entertainment cultural services					
Indoor entertainment		9210	<i>Not included as Creative Industry</i>	-	-
Amusement park		9220	Amusement park	9499	949901
Leisure exercise and entertainment activity		9230	<i>Not included as Creative Industry</i>	-	-
Other computer services -	Internet café services	6190	Electronic games centre	9497	949700
Other entertainment		9290			
Other Cultural Services					
1. Arts and cultural business agency services					
Arts and cultural agency		9080	<i>No related data</i>	-	-
Other unidentified commercial services -	Modeling services	7499	<i>No related data</i>	-	-
	Actor, artist agency services				
	Organization and curating services of cultural activity				

2. Rental and auction services for cultural products					
Rental of book and AV products		7321	Distribution, rental & sale services of video tapes	9413	941300
Trade agency -	Auction services for artifacts and collectibles	6380	<i>No related data</i>	-	-
3. Cultural services for advertising and convention					
Advertising		7440	Advertising & related services	8336	833601
			Public relation services	8336	833602
			Market research services	8336	833603
			Other advertising services	8336	833699
			Manufacture of commercial advertising signs	3919	391918
Convention & exhibition services		7491			
Software					
Public software services	Basic software services	6211	Development and maintenance services of software	8333	833301(b)
	Applied software services	6212	Processing of information and tabulation services	8333	833302(b)
Other software services		6290	Other information technology & related services	8333	833399(b)
Wholesale of computer, software & accessories		6375	Wholesale of computer, peripheral accessories & package software	6118	611824
Retail of computer, software & accessories		6572	Retail of computer, peripheral accessories & package software	6217	621724
Architecture					
Other building professions	Project preliminaries	5010	Architectural design services	8334	833401
	Other unidentified architectural activity	5090	Architectural design & structural engineering services	8334	833406
			Integrated services in architectural, surveying and engineering services related to construction & real estate activities	8334	833407
			Internal renovation, decoration & repair of buildings	5311	531100
			Internal renovation, decoration & other integrated works of buildings	5318	531800
			Furnishing of decoration	5913	591300
Management of cityscape		8021	<i>No related data</i>	-	-
Management of greening of city		812	<i>No related data</i>	-	-
Design					
Other professional technical services		7690	Design services	8339	833904
Promotion of technical services		7710			
Part 2 - Related Cultural Services					
Production of Cultural Goods, Equipment & Related Products					
1. Production of cultural goods					
Production of cultural		241	<i>Not included as Creative Industry</i>	-	-
Production of musical instrument		243	<i>Not included as Creative Industry</i>	-	-
Production of toy		2440	<i>Not included as Creative Industry</i>	-	-
Production of game and entertainment goods		245	<i>Not included as Creative Industry</i>	-	-
Production of machine paper and paper board		2221	<i>Not included as Creative Industry</i>	-	-
Production of craft paper		2222	<i>Not included as Creative Industry</i>	-	-
Production of information chemical		2665	<i>Not included as Creative Industry</i>	-	-
Production of camera & photographic equipment		4153	<i>Not included as Creative Industry</i>	-	-
2. Production of cultural equipment					
Production of special printing equipment		3642	<i>Not included as Creative Industry</i>	-	-
Production of radio and television equipment		403	<i>Not included as Creative Industry</i>	-	-
Film machine production		4151	<i>Not included as Creative Industry</i>	-	-

Production of domestic AV equipment		407	<i>Not included as Creative Industry</i>	-	-
Production of copying and off-set printing equipment		4154	<i>Not included as Creative Industry</i>	-	-
Production of other cultural and office machine		4159	<i>Not included as Creative Industry</i>	-	-
3. Production of related cultural products					
Production of art and craft		421			
	Production of sculpture craft	4211	<i>Not included as Creative Industry</i>	-	-
	Production of metal craft	4212	<i>Not included as Creative Industry</i>	-	-
	Production of lacquer craft	4213	<i>Not included as Creative Industry</i>	-	-
	Production of foral picture craft	4214	Painting	3919	391904
	Production of natural fibre weaving	4215	<i>Not included as Creative Industry</i>	-	-
	Production of lace & embroidery craft	4216	<i>Not included as Creative Industry</i>	-	-
	Production of carpet & wall carpet	4217	<i>Not included as Creative Industry</i>	-	-
	Production of jewelry & related	4218	Cutting & setting of precious	3902	390201
			Gold & silver plating	3902	390202
			Production of jewelry	3902	390203
	Other production of craft	4219			
Photograph and copying services		8280	Photographic services (including commerical photography)	9592	959200
			Photographic developing & printing services	9593	959300
Other professional technical services		7690			
Sale of Cultural Goods, Equipment & Related Cultural Products					
1. Sale of cultural goods					
Wholesale of stationery		6341	<i>Not included as Creative Industry</i>	-	-
Retail of stationery		6541	<i>Not included as Creative Industry</i>	-	-
Other wholesale of stationery		6349	<i>Not included as Creative Industry</i>	-	-
Other retail of stationery		6549	<i>Not included as Creative Industry</i>	-	-
2. Sale of cultural equipment					
Wholesale of communication, radio and television equipment		6376	<i>Not included as Creative Industry</i>	-	-
Retail of photographic equipment		6548	<i>Not included as Creative Industry</i>	-	-
Wholesale of domestic electronic equipment		6374	<i>Not included as Creative Industry</i>	-	-
Retail of domestic electronic equipment		6571	<i>Not included as Creative Industry</i>	-	-
3. Sale of related cultural products					
Wholesale of jewelry, craft and collectible		6346	Wholesale of jewelry	6115	611514
			Wholesale of relic & craft	6115	611501
Retail of art, craft and collectible		6547	Retail of jewelry	6215	621522
			Retail of relic & craft	6215	621501

Appendix 3: Selected measures on the assistance and promotion of Cultural and Creative Industries provided by Government and Non-Governmental Organizations in Hong Kong at present

Government

<i>Department</i>	<i>Title of Policy & Measure</i>	<i>Website</i>
Home Affairs Bureau	Culture and Heritage Commission & <i>Policy Recommendation Report</i>	http://www.hab.gov.hk/en/publications_and_press_releases/t_index.htm
	Hong Kong Cultural and Creativity Index Research	http://www.hab.gov.hk/file_manager/en/documents/policy_responsibilities/arts_culture_recreation_and_sport/HKCI-InteriReport-printed.pdf
	Asia Cultural Co-operation Forum	http://www.accf2004.org/
	Greater Pearl River Delta Cultural Summit	http://www.hab.gov.hk/en/publications_and_press_releases/press_releases_speeches/arts_and_culture/111802cul.htm
	To establish three cultural committees to help the Government provide performing arts, public libraries and museums services	http://www.hab.gov.hk/file_manager/en/documents/publications_and_press_releases/20041112COM_eng.pdf
	Hong Kong signs MOU with Korea on cultural co-operation	http://www.hab.gov.hk/file_manager/en/documents/publications_and_press_releases/20040824korea_e.pdf
	Advisory committee set up to promote Cantonese Opera	http://www.hab.gov.hk/file_manager/en/documents/publications_and_press_releases/050504opera_e.pdf
	Joint statement on MOU between HK and Singapore	http://www.hab.gov.hk/file_manager/en/documents/publications_and_press_releases/010404Mou_e.pdf
	“Hong Kong Week” co-organized by Hong Kong Tourism Board & Hong Kong Economic and Trade Office Tokyo in Tokyo	http://www.hab.gov.hk/en/publications_and_press_releases/press_releases_speeches/arts_and_culture/271103tokyo.htm
	Joint statement on MOU signed between HK and the Philippines	http://www.hab.gov.hk/en/publications_and_press_releases/press_releases_speeches/arts_and_culture/021403mou.htm
	West Kowloon Cultural District	http://www.hplb.gov.hk/wkcd/eng/public_consultation/intro.htm
	Establish Leisure and Cultural Services Department	http://www.lcsd.gov.hk
	Pearl River Delta Cultural Information Net	http://www.prdculture.net/
	Grants for the Arts (3-year Grant; 1-year Grant, Developed Grant, Project Grant)	http://www.hkadc.org.hk/en/grantsinfo/grants
Commerce, Industry and Technology Bureau	Film, Television and Recording Industries’ Symposium on the Concern of Copyright Issues, 2005	http://www.citb.gov.hk/chi/speech/pr23012005a.htm (Chinese only) http://www.hkatv.com/popup/copyright_issue/e_index.html
	Guangdong – Hong Kong Technology Exchange Delegation 2005	http://www.citb.gov.hk/chi/speech/pr20052005.htm (Chinese only)
	Professional Services Development Assistant Scheme	http://www.info.gov.hk/bspu/psdas/content/content.htm

	Mainland and Hong Kong Closer Economic Partnership Arrangement	http://www.tid.gov.hk/english/cepa/index.html
	IT and Broadcast policy in the Policy Address 2004	http://www.citb.gov.hk/chi/news/index.htm (REMOVED)
	Agreement on the Establishment of the Mainland and Hong Kong Science and Technology Committee 2004	http://www.citb.gov.hk/chi/speech/pr17052004.htm (Chinese only)
	The construction of the AsiaWorld Expo	http://www.info.gov.hk/gia/general/200407/07/0707262.htm http://www.info.gov.hk/gia/general/200512/21/P200512210283.htm
	The Establishment of The Expert Group on Co-operation in Innovation and Technology	http://www.citb.gov.hk/speech/pr04082004.htm
	Pan-PRD Mayors' Forum 2004	http://www.citb.gov.hk/chi/speech/pr26052005.htm (Chinese only)
Innovation and Technology Commission	Innovation and Technology Fund	http://www.itc.gov.hk/en/funding/itf.htm
	Applied Research Fund	http://www.itc.gov.hk/en/funding/itf.htm
	Patent Application Grant	http://www.itc.gov.hk/en/funding/itf.htm
	New Technology Training Scheme	http://www.itc.gov.hk/en/funding/itf.htm
	DesignSmart Initiative	http://www.designsmart.gov.hk/l-eng/about.asp
Office of the Government Chief Information Officer	Digital 21 Strategy 2004	http://www.ogcio.gov.hk/eng/digital/digital.htm
Trade and Industry Department	SME Loan Guarantee Scheme (was called the SME	http://www.smefund.tid.gov.hk/eng/sgs.html
	SME Export Marketing Fund	http://www.smefund.tid.gov.hk/eng/emf.html
	SME Development Fund	http://www.smefund.tid.gov.hk/eng/sdf.html
	OSH Enhancement Scheme for SME's	http://www.sme.gcn.gov.hk/smeop/english/oshc_smescheme_e.cfm
	SME Training Fund	http://www.smefund.tid.gov.hk/eng/stf.html
Intellectual Property Department	Pan-PRD Intellectual Property Cooperation Agreement 2005	http://www.ipd.gov.hk/eng/pub_press/press_releases/press_release_pan_prd_agreement.pdf
	The 4th meeting of Guangdong/HK Expert Group on the Protection of IPRs 2005	http://www.ipd.gov.hk/eng/pub_press/press_releases/press_release_4th_meeting.pdf
	Regional symposium on brand building and intellectual property rights 2005	http://www.ipd.gov.hk/eng/pub_press/press_releases/press_release_27012005_e.pdf

	The 3rd meeting of Guangdong/HK Expert Group on the Protection of IPRs	http://www.ipd.gov.hk/eng/whats_new/news/third_meeting.pdf
	Intellectual property seminars staged in Shaoguan and Shunde 2004	http://www.ipd.gov.hk/eng/promotion_edu/seminars/20041129/Press_release_Eng_%20ISD_Final.pdf
	2nd Meeting of Guangdong/HK Expert Group on the Protection of IPR 2004	http://www.ipd.gov.hk/eng/pub_press/press_releases/PR_20040629.pdf
	2004 Dongguan Seminar on Intellectual Property and Development of SMEs "IP As a Tool in Expanding Business"	http://www.ipd.gov.hk/eng/pub_press/press_releases/press_release_25052004_e.pdf
	Intellectual Property Database for Guangdong, Hong Kong and Macao	http://www.ip-prd.net/main_e.htm
The Film Services Office, Television and Entertainment Licensing Authority	Film Development Fund	http://www.fso-tela.gov.hk/fdf/index.cfm
	Film Guarantee Fund	http://www.fso-tela.gov.hk/fgf/index.cfm

Hong Kong Trade Development Council

<i>Title of Policy & Measure</i>	<i>Briefings</i>	<i>Website</i>
Extract from Guide to Doing Business in China	Content include: Foreign Investment Management; Import and Export Administration; Entry-Exit Inspection and Quarantine System; Tax Administration; Foreign Exchange Control; Financial and Accounting Systems; Staff Recruitment; and Intellectual Property Rights.	http://www.tdctrade.com/chinaguide/index.htm
Extract from Guide to Employment and Living in China	Provided by HKTDC	http://www.tdctrade.com/lwguide/index_c.htm (Chinese only)
Intellectual Property	To provide newspaper clippings related to Intellectual Property	http://www.tdctrade.com/intpro/china/index.htm
Business Alert - China	Updated information on Policy and Law; Local Policy; Industrial Policy; service sector etc.	http://www.tdctrade.com/alert/ch0512index.htm
China Law	To provide newspaper clippings related to China law	http://my.tdctrade.com/airlaws/index.asp (Chinese only)
Intellectual Property	To provide newspaper clippings related to intellectual property	http://www.tdctrade.com/intpro/china/index.htm
SME News Flash	SME News Flash is a special trade news service for small and medium enterprises provided by the Hong Kong Trade Development Council through e-mail and the Internet. It aims at updating enterprises with changes in trade regulations of Hong Kong's major trading partners that may have significant implication to company's operations. HKTDC will alert registered clients through e-mail and	http://www.tdctrade.com/sme/newsflash/index.htm

	will post all news on its web site.	
A Brief Introduction to Mainland Criminal Proceedings	Differences between the laws in Mainland and Hong Kong encouraged the HKSAR government to invite assistance from the Supreme People's Procuratorate in the Mainland to edit this brief introduction for people's reference. Content are based on the current criminal laws in the Mainland	http://www.tdctrade.com/chinatrademain/criminal_c.htm (Chinese only)
China Import Regulations	To provide information relevant to China import regulations	http://sme.tdctrade.com/ir/sme_irchina.htm (English only)
Online China Advisory Service	An open forum for SMEs entrepreneurs. Experts from the Faculty of Economics of Shenzhen University and specialist advisors from TDC can provide face-to-face help.	http://www.tdctrade.com/smeforum/china/ (English only)
Tender Notices of Mainland Projects	Chinese mainland has reformed the procurement policy of its public sector and increased the transparency of its tendering and procurement procedures. On July 1, 2000, the State Development Planning Commission, under the authorization of the State Council, designated www.chinabidding.com.cn as the sole Internet platform for posting China's public tendering notices. Hong Kong Trade Development Council has co-operated with chinabidding.com.cn in providing the latter's contents and services on tdctrade.com .	http://my.tdctrade.com/chinabidding/cb2.asp
Chinese Mainland	This link to the latest news on China's intellectual property rights.	http://www.tdctrade.com/intpro/china/index.htm
Innovation and Design Expo	Innovation & Design Expo (IDE) is a world-class exposition of innovations, presenting the latest practical technologies and design solutions to help trading, manufacturing and service sectors to enhance their capacity to supply world markets. With Hong Kong's well-developed infrastructure and legal system in the protection of intellectual property rights, the Expo will stand as a renowned trading platform for business-focused technologies and design services. (HKTDC)	http://innodesignexpo.com/about/about.htm
World SME Expo	The Hong Kong Trade Development Council (TDC) organizes an annual exhibition to help SMEs explore international market opportunities - World SME Expo. The event is a platform for SME service providers to showcase their services and business solutions for the unique needs of SMEs. It is also an international SME marketplace for networking, business matching, and exchange of ideas and inspiration.	http://www.worldsmeexpo.com/about/about.htm

	Both private enterprises and public bodies are invited to exhibit at the event. A broad range will be present, including overseas and mainland private enterprises, trade promotion organizations, consulates, trade commissions, international chambers and world trade organizations. (HKTDC)	
Logistics Cooperation and Development Conference Amongst China's Mainland, Hong Kong, Macao and Taiwan 2005	In line with the enormous potential and rate of development of logistics in Asia, the "2005 Logistics Cooperation and Development Conference - Amongst China's Mainland, Hong Kong, Macao and Taiwan" will be jointly hosted by the Hong Kong Logistics Association, China Federation of Logistics and Purchasing, Taiwan Association of Logistics Management and International Logistics and Forwarding Association of Macao on August 11 (Thursday) and 12 (Friday) 2005. This includes the ability to combine a wide logistics infrastructure with virtual/contract manufacturing facilities and value-added services, such as re-packing, re-labeling and bar-coding, to leverage rapid response time in meeting shifting consumer demands at cost effective prices. Asia is the ideal center to leverage this new model. (Hong Kong Logistics Association)	http://www.apacint.com/HKLA/Overview.htm?wt_ContentID=Events&wt_PageID=SMECentre&wt_CatID=SME (English only)
營商創富新動力研討會 [Symposium on business and initiative on wealth creation]	The Seminar investigated how SMEs explore the Mainland market opportunities via the introduction of the policy of Zero Customs Tax product and the mechanism of CEPA introduction centre.	http://www.hsda.org.hk/seminar21.html (Chinese only)
2005 Hong Kong Computer and IT Festival 2005	One of the biggest computer exhibitions in Hong Kong, the Hong Kong Computer and IT Festival 2005 was held between 19 – 22 AUG at the Hong Kong Convention Centre Exhibition Gallery 1, which collects the most updated computer and IT products.	http://www.chkci.org.hk/HK/?wt_ContentID=Events&wt_PageID=SMECentre&wt_CatID=SME (Chinese only)
Workshops in Chinese Customs Practice	This workshop is designed for SMEs who are doing business in China and those who are interested in exploring the China Market. Through the 1-day workshop, participant will be equipped with practical knowledge and know-how in handling China customs procedures. (HKTDC)	http://sme.tdctrade.com/factsheet.asp?lang=en&eventCode=20060224
The Value and Skills of Marketing towards Successful Brand Building Workshop	The workshop is designed for companies with a commitment to own and increase the value of their brand. Participants will be exposed to the process of developing and managing a	http://sme.tdctrade.com/factsheet.asp?lang=en&eventCode=20050831

	brand. It is delivered in an interactive approach to maximize the learning and application of the participants.	
SME Marketing Strategy workshop	The workshop is specially designed for SMEs, aiming at assisting enterprises to evaluate their current operation strategies, to establish new directions in order to discover more business opportunities. The workshop focuses the difficulties an OEM face, leads them to build new development plans for sustainable development in a fast changing market. The workshop operates in an interactive mode, where students can share their experiences via various case studies. After the end of the course, students are expected to: 1. develop new enterprise strategy for the company; 2. evaluate and explore new sales channels and market; 3. evaluate the development process of a product to speed up the business; 4. evaluate the pros and cons of the marketing strategy and 5. establish resources foundation to cope with the needs that is brought by future market expansion.	http://sme.tdctrade.com/factsheet.asp?lang=en&eventCode=20050907 (Both websites could not be accessed)
Capability Building of Manufacturing & Industrial Engineers in Response to CEPA Initiative	In order to grab the opportunities that CEPA provides; handle the new economic situation in Mainland as well as exploring the Mainland market, 2-day visit to Shenzhen and Guangzhou were organized. Detail understanding and discussion on “Retail”; “Wholesale”; “Chain Enterprise” and “Franchise” etc. were included. Through briefings and interactions from various organizations, it was expected that investment environment; business exploration and marketing were understood.	http://www.sme.gcn.gov.hk/smeop/form/evt/hkie_trip_cep_a_050729.pdf (Chinese only)
Capability Building of Manufacturing & Industrial Engineers in Response to CEPA Initiative	Silhouette of CEPA’s Outcome is more and more apparent since its implementation in 2004. The number of Certificate of Hong Kong Origin was accumulated to 5,194 on 31 May 2005, and the number of Certificate of Hong Kong Service Supplier was accumulated to 788 in the same period. SAR Government has indicated that the third stage of CEPA will be announced soon. This seminar will discuss the future development of CEPA, the meaning of Zero Customs Tax; the function of “Free Trade Zone”; “Professional services” operation model when entering the Mainland; the new opportunities of “Retail”, “Wholesale”, “Chain store” and “Franchise”. Furthermore, with a rapid	http://www.sme.gcn.gov.hk/smeop/form/evt/hkie_sem_cep_a_050722.pdf (Chinese only)

	change to the Mainland market, the regional development of “PRD”, “Greater PRD” and “Pan PRD” etc. formulated new settings and positioning in marketing strategies, thus creating many business opportunities.	
Style Hong Kong • Shanghai	1. To assist HK companies to develop the China domestic market, with specific emphasis to put HK companies in touch with potential franchisees/ licensees; 2. To promote HK brand names and product image; 3. To create a platform for HK companies to showcase the latest product collections to Chinese buyers. (HKTDC, Shanghai Municipal People's Government Economic Commission)	http://gbcode.tdctrade.com/han3/2/1/1/0/0/0/0/0/www.tdctrade.com/stylehongkong/stylehksh2004/fair_det/fair_det.htm http://www.tdctrade.com/stylehongkong/stylehksh2004/eng/fair_det/fair_det.htm
Business Fair for Guangdong/ Hong Kong Economic, Technology and Trade Cooperation 2004	To promote closer economic ties between Guangdong and Hong Kong, this business fair, organized by the People’s Government of Guangdong Province, will take place at the Hong Kong Convention and Exhibition Centre on 19 May 2004. Headed by Mr Tang Bingquan, Executive Vice Governor of the Guangdong Province, senior provincial and municipal government officials will participate in the event. About 150 new investment projects on information technology, infrastructure, agriculture, state-owned-enterprise reform, shares transfer and logistics will be launched on this occasion.	http://www.tdctrade.com/ad/businessfair.pdf (Chinese only)
CEPA: Opportunities and Implications for Recognition of Professional Qualifications	CEPA had been effective since 1 Jan 2004, various HK companies of professional services has entered the mainland market with less tight conditions than the WTO agreements. The seminar aimed at fosters the sectors’ understanding of mainland professional services, demand and institutions. These included the training and qualification accreditation; and development of mainland professional services etc., which provided holistic policy consultation to professionals and companies who wish to develop in the mainland.	http://www.tdctrade.com/cepa/img/cepa-seminar.pdf (Chinese only)
Style Hong Kong • Beijing	1. To assist HK companies to develop the China domestic market, with specific emphasis to help HK companies to seek for franchisee/licensee; 2. To promote HK brand names, maintain product image and announce new brands; 3. To create a platform for HK companies to showcase the latest product collections	http://gbcode.tdctrade.com/han3/2/1/1/0/0/0/0/0/www.tdctrade.com/stylehongkong/stylehk2004/index_c.htm http://www.tdctrade.com/stylehongkong/stylehk2004/eng/fair_det/fair_det.htm

	and establish this event as an annual buying programme for Chinese buyers of HK products	
Hong Kong Logistics Services, Guangzhou 2004	It has been the third time Hong Kong Trade Development Council (TDC) organizes the Expo. The Expo aims to promote the excellence of Hong Kong logistics services to mainland enterprises. In addition to a major exhibition, theme-specific seminars, open forums, business matching and networking activities will be held concurrently. The Economic and Trade Commission of Guangdong Province (GDETC) will continue to organize the 'Guangdong - Hong Kong Logistics Co-operation Symposium' with TDC for the second time. GDETC will also recruit locally bred logistics companies to form a Guangdong pavilion. (HKTDC)	http://www.tdctrade.com/logisticsexpo/introd/introd.htm
CEPA SME EXPO	In order to assist small and medium-sized enterprises (SMEs) in embracing the business opportunities offered by CEPA, the TDC is organizing the CEPA SME Expo, a major trade promotion event aimed at helping Hong Kong SMEs capture the opportunities presented by CEPA for exploring the mainland market together with mainland and overseas enterprises. (HKTDC)	http://www.tdctrade.com/cepaexpo/eng/abt_cepa/cepa.htm
Seminar on the Impact of CEPA on Hong Kong's Industries in the PRD	Strategically timed to coincide with the announcement of the implementation details of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) at the end of September, HKTDC and FHKI will hold a seminar to explore the implications of the Made in PRD Study in the light of CEPA. The Made in PRD Study investigated the scale and scope of Hong Kong manufacturers' operations in the PRD, and the division of labour between the two places. This seminar will explore the future direction of the region and assess the impact of CEPA on the various industries. After the brief introduction on the latest development of CEPA, the HKSAR Government officials and business leaders will further explain the implementation details of CEPA in two concurrent discussion sessions: (i) Trade in Services and (ii) Trade in Goods.	http://www.tdctrade.com/sme/CEPAseminar030923.pdf
Seminar: Exploring China's Domestic	With the signing of CEPA between HKSAR and Central Government,	http://www.tdctrade.com/sme/seminars030728_form.pdf (Chinese only)

Market: Implications of CEPA	TDC and the Trade Office of the Economic Affairs Department of the Liaison Office of the Central People's Government in HK specially organized a thematic seminar cum exhibition, to assist SMEs in HK to further understand the content of the agreement and its impact to explore China's inbound market.	
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Hong Kong Productivity Council

<i>Title of Policy & Measure</i>	<i>Briefing</i>	<i>Website</i>
HKPC Industry Groups		http://www.hkpc.org/html/tch/hkpc_industry_groups/hkpc_industry_groups.jsp
Watch & Clock, and Jewellery	Service Scope: Environmental Technologies and Management Advanced Manufacturing Technologies Information Technology and Logistics Design and Automation Watch Product Testing Enterprise and Resource Management	
Digital Entertainment	Service Scope: Industrial Product Design Human Resources Development and Research Intellectual Property Management and Branding Commercial Exploration and Marketing Animation and Digital Entertainment	
The Hong Kong Jewellery Industry Technology Centre	The objective of the HKJITC is to provide integrated support services to the local jewellery industry in order to increase its market competitiveness and to enhance its manufacturing capabilities. The HKJITC is located at the HKPC Building. It monitors technology trends, develops technologies for strategic needs and disseminates relevant information and technologies to the jewellery industry	http://www.hkpc.org/html/eng/centres_of_excellence/hkjit_centre/objectives/objectives.jsp
CEPA Business Development Centre	Service: CEPA Information; CEPA Alliance; CEPA Seminars, Training Courses & Study Missions' CEPA Strategic Partnership; CEPA Consultancy Services; CEPA Trustworthy Certificate	http://www.hkpc.org/html/eng/centres_of_excellence/cepabd_centre/index.jsp
Intellectual Property Services Centre	Services: Implementation Agency of the HKSAR's Patent Application Grant Scheme Intellectual Property Database Search Intellectual Property Consultancy Services Promotion of Intellectual Property	http://www.hkpc.org/html/eng/centres_of_excellence/ips_centre/index.jsp

	<p>Rights through training courses and seminars</p> <p>Monthly Publication – "Patents Update"</p> <p>Online Information Search through "Technology and Business Intelligence Centre"</p>	
Productivity Training Institute	<p>Advanced & Manufacturing Technology</p> <p>Environmental & Green Manufacturing</p> <p>Information & Communication Technology</p> <p>IP, Creativity & Design</p> <p>Logistics & Supply Chain Management</p> <p>Management, Business & Finance</p>	http://www.hkpc.org/text/eng/centres_of_excellence/pti/index.jsp
SME Centre	<ol style="list-style-type: none"> 1. Seminars - Staying abreast of market development 2. Solution Workshops - Identifying problems and solutions through in-depth analysis 3. Advisory Clinic - Face-to-face diagnosis of business strategies and operational issues 4. Expert Hotline - Ready access to professional advice 5. SME Enhancement Courses - A wide range of executive and professional development programmes 6. Consultancy Services - Customized solutions to operational and management problems 7. Study Missions - Exploring business opportunities 8. SME Operating Index - Reflecting SMEs' views on the operating environment four times a year. 	http://www.hkpc.org/html/eng/centres_of_excellence/sme_center/index.jsp
Enterprise Resources Planning Centre	<p>ERP Total Solution Service; ERP Needs Assessment Consultancy; ERP Software Evaluation Consultancy; ERP Project Management; Consultancy; ERP Quality Assurance Consultancy; ERP Implementation Consultancy; ERP Operations Review Consultancy; ERP Infrastructure Consultancy</p> <p>ERP Outsourcing Service; ERP Licensing Service; ERP Education and Training</p>	http://www.hkpc.org/html/eng/centres_of_excellence/erp_center/index.jsp
Granted Project	<p>Innovation and Technology Fund (1999/2000 – 2005/2006)</p> <p>Film Development Fund</p> <p>Professional Services Development Assistant Scheme</p> <p>Quality Education Fund</p>	
Business Opportunities	<p>HKPC aims to promote and facilitate the transfer of innovative products and technologies to benefit the industrial sector.</p> <p>In order that more industry players could benefit from HKPC's</p>	http://www.hkpc.org/html/eng/business_opportunities/business_opp.jsp

	development efforts, HKPC has established a wholly owned subsidiary, the HKPC Technology (Holdings) Co. Ltd. (HKPCT), as a vehicle for the commercialization of patents, technologies and project deliverables of HKPC that have market potential. Expressions of interest will be invited from time to time for business partnerships in the commercialization of HKPC's development efforts.	
Industry Surveys		http://www.hkpc.org/html/eng/industry_survey/indust_survey.jsp
Business Operating Environment Index for SMEs	A composite index approach to reflect the business operation situation among Hong Kong's SMEs	
2005 Survey on Application of Linux in Hong Kong	To understand user requirements on Linux software, such as the types of software tools required, difficulties and future plans in adopting Linux	
Study on Hong Kong Digital Entertainment Industry	To examine the local digital entertainment industry regarding its demographics, concerns difficulties and market opportunities	
Information Security Survey	To evaluate local companies' awareness of information security	
Web@Work Survey Hong Kong	To provide significant findings on employees' surfing habits and management perspective on key network problems encountered by companies	
Hong Kong Software Industry Survey	To assess the development of the local software industry	
Open Source Software Adoption in Hong Kong	To monitor the extent of Open Source software adoption by companies in Hong Kong	
Reference Cases of Adopting e-Commerce in Hong Kong	A total of 18 reference cases have been compiled, based on the experience of a group of significant industrial leaders in the development of e-commerce	
Benchmarking Studies: IT Self Assessment Ware	To provide an easy-to-use and objective self-assessment tool for Hong Kong's SMEs to benchmark their IT adoption level in their respective industries	
Employee Satisfaction Survey	To measure employee satisfaction level from different perspectives	
Client's Experience	Computer-aided Design Improves Jewellery Design Process and Cost Estimation	http://www.hkpc.org/html/eng/clients_experience/jewellery/jewellery.jsp

Hong Kong Arts Development Council

<i>Title of Policy & Measure</i>	<i>Briefing</i>	<i>Website</i>
Proactive Projects List (Artistic Creation and Others; Cultural Exchange; Promotion; Research, Archive and Criticism)		http://www.hkadc.org.hk/en/proactive/proactive_list

Hong Kong Vocational Training Council

<i>Title of Policy & Measure</i>	<i>Briefing</i>	<i>Website</i>
Business Start-up Centre		http://www.hkbsc.org/index_e.htm

Hong Kong Science & Technology Parks

<i>Title of Policy & Measure</i>	<i>Briefing</i>	<i>Website</i>
Incubation Programme for Technology & Design Start-ups		http://www.hkstp.org/english/incubation/inc_incutech/inc_incutech.html

Hong Kong Design Centre

<i>Title of Policy & Measure</i>	<i>Briefing</i>	<i>Website</i>
Business of Design Week	A celebration of design excellence in Hong Kong. It offers a rare opportunity for experts and decision makers from the Government, business and academic sectors to come together to recognize and address the role of design in the cultural and economic growth of Hong Kong.	http://www.hkdesigncentre.org

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