

Asia-Pacific Creative Communities: A Strategy for the 21st Century
Senior Expert Symposium
Jodhpur, India, 22-26 February 2005

SESSION THREE
Roundtable Two
24 February 2005

Finance and investment in creative industries in developing countries

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Abstract

This chapter examines financing and investment structures in the film, television, and music industries of the People's Republic of China and Latin America. In both regions governments aspire to nurture high-value export-oriented creative sectors. Likewise, creators, producers, and distributors are increasingly targeting lucrative international markets, particularly culturally and linguistically proximate communities. However, while government policies can assist in domestic growth and in facilitating exports, it is synergy between financial and creative inputs into production, distribution, and marketing that determines success or failure.

Introduction

This chapter examines creative industries in the People's Republic of China and Latin America. In both regions creators, producers and distributors aspire to succeed in lucrative international markets -- particularly culturally and linguistically proximate communities. However, while government policies can assist in domestic growth and in facilitating exports, it is synergy between financial and creative inputs into production, distribution, and marketing that determines success or failure.

The two regions that form the core of our study contain vast populations and large domestic markets (Latin America has an estimated population of 460 million, China claims 1.4 billion). Due to this 'power of large numbers' they have become middle-level players in the global cultural economy. This middle positioning is aided by rich heritage, globally dispersed populations, and enduring support from governments. Nevertheless, such apparent advantages conceal significant structural problems impacting upon value creation.

Because of the size of their domestic markets there has been no sustained program to target high-value international markets. In effect, *cultural development* and *cultural industry* strategies have prevailed and these have been mostly inward-looking. These preoccupations also reflect the fact that virtually all 'culture and the new economy' debate has been conducted within, and for OECD countries -- and arguably from within a mainly 'Anglo-spheric' and metropolitan centred coterie. This fact, however, does not indicate a

dual system ought necessarily to prevail in the global cultural economy, another iteration of the North-South divide. Our argument is that developing countries can best harness the economic potential of rich cultural resources and be competitive in the global cultural economy if thinking and policy frameworks extend beyond restrictive definitions of cultural industries, cultural development, and cultural policy to embrace industry and economic development with an emphasis on *enterprise dynamics*.

The concept of creative industries – now with some traction in developed countries – has been recently introduced into development agendas in both regions. The recent introduction of ‘creative industries’ into cultural economy debates provokes the question: how can cultural production in developing countries retain national specificity while accruing value in global markets? Furthermore, can cultural exports from these countries compete in the marketplace with the sophisticated products of the developed centres of production?

It is important therefore to address some of the structural impediments to global competitiveness. While the emphasis in this paper is on China and Latin America, we note countries that are important markets for the creative products and services of these regions. In the Latin America section the emphasis is on developments in Brazil. We begin our analysis with some general observations of commonalities between these two ‘cultural continents’. We then outline models of financing before turning to look at film and television industries in China, and film and music in Latin America. Where does value reside? What kinds of products and services vie for export? How are these financed? Are markets defined or restricted by cultural proximity? Finally we make some suggestions about how synergy between financial and creative inputs can better serve development agendas.

Tradition and uneven development

Comparisons of the creative sectors of China and Latin America are not common, at least in the literature on development. China’s resolutely stable socialist political system – often referred to within China as ‘socialism with Chinese characteristics’ – is far removed from the volatile political and economic realities of Latin American democracy. Nevertheless, both can be considered transitional economies, moving from an era of state intervention to acceptance of the tenets of neo-liberalism and the ‘Washington Consensus’. China’s acceptance of market rules coincides with entry into the World Trade Organisation in December 2001 and is about ensuring that its rapid economic development remains on track. A more tolerant, though still authoritarian regime pushes China to be the next superpower of the 21st century. Brazil has become a regional advocate for globalisation and greater regional integration, pursuing multi-lateral agreements such as the Free Trade Area of the Americas (FTAA) and general trade liberalisation (OECD 2001:2).

Both regions have enduring cultural legacies. Brazil is a modernising nation with a fully privatised media. China has emerged from a period of resolute state control over culture to a point where the media industries are still technically owned by the state but are adopting commercial strategies of branding, diversification of services, and agglomeration. To further complicate the argument about uneven development, the organisational context of production and distribution of creative industries in the East Asian and Latin American regions varies considerably across industry sectors. In China the national network China

Central Television (CCTV) operates 15 channels including three digital channels, reaches some 900 hundred million viewers, and harbours an ambition to one day challenge the likes of CNN in its international coverage. In Latin America we note highly developed and highly commercialised media systems such as Brazil's TV Globo or Mexico's Televisa, which have successfully exported programming to US, EU, and other international markets (including China). These profit-making mega-broadcasters exist alongside struggling national cinema industries desperately hoping to find distribution of their product on the global art-house circuit. Any policy debate must engage with the complexities and perplexities of power asymmetries within as much as exogenous to them.

In both Greater China and Latin America cultural value is frequently locked into national cultural and folkloric contexts. Long cultural histories mean that creation of products for the marketplace is both constrained and aided by tradition. A great number of cultural products fail to connect with contemporary markets, or remain as heritage items appealing to tourists and collectors. Tensions between culture and commodity persist. Commercialisation of traditional culture requires sensitivity to authenticity – as well as protection of IP – so that value is maximised and the marketplace is not inundated with cheap imitations, spin-offs, and fakes.

Commercialisation of tradition is not a new development and it does not necessarily entail the modern media. Heritage has long served as a vehicle for the generation of economic impacts. Value exists wherever there are flows of tourists willing to pay for mementos of their experience. What is new is the manner in which commercialisation occurs and the many forms it can take, from authentic craft replications of artefacts where value flows back to the creator through to cheap exploitative imitations that reduce the value of the marketplace by driving prices lower. Theme parks, cultural renovation, and the re-discovery of heritage are all ways of attracting capital.

Commercialisation of tradition is an economic development option in regions where economies have suffered the vicissitudes of modernisation. Regions are turning to culture as a resource due to downturns in local industries, changes in world commodity prices, and increases in tourism flows (Yúdice 2003). Tim Oakes has written about the proclivity of towns in rural China to exploit the theme park model as vindication of some historical cultural legacy (Oakes 1998). The contemporary Asian theme park buffet now ranges from authentic reconstruction and preservation to hyper-real imitation. The Dutch architect, Rem Koolhaas, has written that '... Asia has become a kind of immense theme park. Asians themselves have become tourists in Asia' (Koolhaas in Chung *et al.* p. 32). Nevertheless, there are some inherent problems. How many theme parks can a region offer before the cultural tourism experience is devalued?

The focus on creative industries evokes a more global set of concerns about the intangible value of culture and its protection as copyrightable assets. Indeed, the standard definition of creative industries emphasises such concerns:

those activities which have their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property (CITF 1998).

Much recent work, including reports emanating from OECD and The World Bank, has identified the cultural economy as a growth sector in the new economy (see OECD 1998;

Yusuf and Nabeshima 2003). The cultural economy according to Alan Scott is ‘an incoherent collection of activities’ that are bound by three features. First, these activities have some relationship to the creation of aesthetic and semiotic content; second, the cultural economy is subject to Engel’s Law, which means that as disposable incomes rise, so does consumption of cultural goods and services; and third, the production of these goods and services is typically found in specialised clusters or industrial districts (Scott 2003). Whereas US and Japanese clusters and industrial districts have provided the lead in entertainment and consumer electronics respectively, many elements of traditional culture in developing countries are now finding their way into video gaming, design, animation, and cinema.

Finance in creative industries

Financial support for the creative industries in China and Brazil can be grouped into three principal categories: ‘Public support’; ‘Private/Corporate investment’ and ‘Hybrid/Other’. These categories are not mutually exclusive; they demonstrate degrees of overlap as investment in the creative industries is heterogenous and fragmented: in many instances a mix of public, private, and reciprocal partnerships. Public support includes grants (e.g. from cultural and film funding agencies), tax breaks (including concessions and exemptions), and various levies to pool funds to finance local production. Private investment includes direct private investment, commercial sponsorship, advertising, patronage, and various forms of contracts based on revenue sharing including venture capital. The Hybrid/Other category includes philanthropic investment, co-productions or ventures such as where government or business provides seed funding or start-up capital. It also includes forms of investment where services are provided or bartered based on furthering relationships. For instance, a business may make an investment in a project that incurs a loss in order to develop goodwill or to introduce its brand into the locality.

The crucial question facing potential investors in the creative industries is return on investment. George Yúdice writes that if investment in culture ‘can be shown to produce the patterns of trust, cooperation, and social interaction that results in a more vigorous economy, more democratic and effective government, and fewer social problems, then Multi-lateral Development Banks (MDBs) will be likely to invest in future cultural development projects (Yúdice 2003: 14). The problem, however, is that banks have always had difficulty dealing with culture and the creative industries.

Despite the trend towards the commercialisation of tradition and privatisation of public cultural resources, there remains a strong role for governmental support mechanisms in sectors that are deemed to embody national or regional cultural value. For governments, investment from the private sector – whether through sponsorship, advertising, or venture capital – provides a mechanism to get new industries up and running, and to wean them off the public purse. In China the state invests in creative industries but encourages them to commercialise outputs and attract commercial investment including private sponsorship and advertising. The dividend that is returned to the state is increased taxation revenue. In Latin America on the other hand, the low levels of seed funding and capital investment has led to a rise in alternative models (grouped under Hybrid/ Other) that attempt to overcome barriers and compensate for the lack of public and private capital investment. Mixed forms of public/ private investment in

creative industries are more evident in developing than developed countries.

China: overabundance and fragmentation

China exemplifies a transitional environment (Curran and Park 2000) in which cultural institutions that were formerly funded directly from the public purse are adopting a mixed model of enterprise and subsidy; this is often typified by unusual (and sometimes irregular) forms of financial investment, while transparency, legality, and accountability are often conspicuously absent.

Despite impressive growth statistics and activity within the private sector, China's cultural consumption lags behind international benchmarks. Whereas cultural industries have become mainstay contributors to GDP in developed countries, the value of the (national) cultural economy in China in 1998 occupied just 0.26 per cent of GDP and 0.8 per cent of the services sector. By comparison the cultural economy of the USA contributes an estimated 7 per cent to GDP. In 1997 the consumption of culture and entertainment services per resident was 2.35 per cent of total consumption, far below the level of developed countries and less than other developing countries (Ministry of Culture 2003). While these figures tell a less than impressive picture it should be noted that the majority of China's population is classified as rural, despite recent trends suggesting massive urbanization. Moreover, if we look at mega-cities such as Beijing, Shanghai, Guangzhou, Chongqing, and Tianjin we find a strong level of cultural consumption. According to a recent report, the consumption of knowledge-based services by Beijing residents comprised more than 4 per cent of expenditure (Luo & Zhao 2003). It also needs to be noted that there is also a high degree of elasticity inherent in these figures taking into account the grey economy and the high incidence of pirated cultural goods. In other words, much cultural consumption is not registered as market sales.

Entry costs and barriers

The process of starting a creative business in China is not straightforward. Funding is just one of the impediments. Another significant hurdle to navigate is the intractability of the regulatory system that oversees particular creative industries sectors. In new and potentially profitable industries such as streaming content firms need to obtain multiple licenses. Over-bureaucratization is endemic to the cultural sector and works against implementation of long-term business models. In television drama production, licenses are provisionally given to new entrants for short-form productions (Yin 2002). Joint venture productions in the television and film industries are permitted on a case-by-case basis. The necessity of obtaining multiple permits to produce creative content, often from different industry regulators (Ministry of Culture, The State Administration of Industry and Commerce, The State Administration of Radio, Film, and Television, Ministry of Information Industry), can act as a deterrent to entry into creative industries. This entry barrier is further exacerbated by dependency on relationship maintenance as a means of achieving success. This leads to uncertainty and fosters a huge grey market where permits are not required. There are some notable start-up exceptions in the ICT sector such as Netease (Internet portal) and the Hunan Television consortium in southern China (see below) but in most cases these success stories have resulted from foreign investment or

early entry into the marketplace.

Other difficulties facing start-ups include the high transaction costs associated with shortage of working capital and skill sets. Problems facing investors include copyright protection and revenue sharing. Lack of copyright protection in film, television, and interactive software constrains potentially lucrative investment. A lack of certainty as to how to extract revenue from the sale of IP inhibits co-productions. Misunderstandings are rife. The necessity of conforming to governmentally prescribed forms and genres, the intractability of censorship regimes, and a lack of knowledge of branding and marketing are further complicated by distribution bottlenecks. A dual distribution system prevails whereby investors in media (copyright) industries see their profits dispersed via DVD pirates, or in the case of television their program ideas are copied without permission (Keane 2003). Revenue from rights management is yet to be systematically regulated although the Chinese government is making concerted efforts to rectify this area with a view to its honouring WTO commitments to international benchmarking and best practice.

These factors, in combination with existing conventions within the marketplace, notably a propensity to rely on relationships make it difficult for cultural enterprises to generate start-up capital. Product innovation is therefore more likely to be incremental and imitation is favoured over innovation. The focus on imitation has led to the success of Japanese and Korean creative industries. Whereas these countries have managed to move to the next stage (innovation), China remains locked into a cycle of dependency.

Dominant sectors, targeted markets, and export potential

‘Cultural industries’ are a recent development in China and there is still no absolute line on what is included (see Keane 2004). A tendency among researchers is to add more sectors, particularly with China now engaging with the concept of creative industries, favoured by policy makers in Hong Kong, Singapore, Taiwan, Korea, Australia and New Zealand. Probably the most useful attempt to correlate the cultural industries with creative industries comes from the Chinese Academy of Social Science, which designates *core* industries such as media (publishing, broadcasting and digital content) and *non-core* performing arts industries (Ye 2003). However, consensus among academics is that the broad cultural sector includes film, television, audiovisual, publishing, cultural arts, sport, and education. It is noteworthy that the cultural industries (as defined) in China do not as yet include architecture, advertising, design, and heritage (although these elements are indeed embedded within the current categories).

The following is a snapshot of business models, investment models, and export potential in the film and television industries with particular emphasis on new financing models. We have chosen these industries for closer analysis as they best illustrate flexibility of investment strategy and potential for rapid commercialisation while still embracing traditional themes.

Film

As evident in the credits of Chinese films, investment derives from multiple sources – including private loans and investments from small enterprises. Much of this finance, however, is fragmented and directed into films that have no real chance of achieving return

on investment. The principal financiers of the Chinese film industry are:

- *Government*: direct support for approved films as well as indirect support for co-productions via tax breaks and reductions of expensive red tape;
- *Foreign investors*: particular in co-productions and joint-venture arrangements;
- *Major business enterprises*: through revenue-sharing arrangements and product endorsements in film;
- *Advertising companies*: often through brokering of services such as post-production;
- *State-owned enterprises*: many of these such as the People's Liberation Army are in fact highly profitable enterprises with interests in communications.

The diversity of financing in the Chinese film industry is nevertheless a positive development. In 1995 the Chinese government promoted non-state investment by allowing investors (both individuals and non-state enterprises) whose outlay was more than 70 per cent of budget to be regarded as producers. The following year this was reduced to 30 per cent (Chu 2002: 46). However, the stipulation that studios produce a quota of approved 'mainstream melody' works (*zhuxuanli zuopin*) – that is, propagandistic films echoing China's reform – led exhibitors to prefer non-political overseas productions for box office revenue. In 2003, 80 per cent of revenue from box office receipts came from the 20 imported blockbusters (Hua 2004). According to official statistics copyright earnings on imported films were 10 times more than those received from domestic productions (Liu 2004).

The politicisation of film content, erratic censorship regimes, and the necessity of managing scripts to appease officials, impacts on production investment in two ways. First, it discourages domestic investors who are unwilling to sink their capital into scripts that are politically doctored; and second, it opens up a private investment market for the more adventurous producers. Since 1997 the partial privatisation of China's leading film studios (Beijing Forbidden City Film Corporation, Xian Film Corporation, Ermei Film Corporation, and Shanghai Film Corporation) has stimulated private investment and co-productions. Most of the capital investment has come from Hong Kong, Taiwan and Japan. While the majority of films in 2003 were still produced by the state-funded studios, there was a significant increase in the number of films (32) produced by privately invested companies. Some of the more notable independent production and investment houses are Beijing New Vista, Huayi Brothers and Taihe Film Investment Company, and Century Hero Audio-visual Investment Company (Yin 2004).

The success of China's film industry and the capacity to create exportable content is contingent on unleashing creativity as much as stimulating finance. In this sense it is not just a case of investment but equally important, of having a climate that encourages film makers to experiment with new ideas and themes. The film industry is currently underperforming in comparison to industries in Korea, Taiwan, and Hong Kong, despite the endorsement by Quentin Tarantino of China's creative talent base. Tarantino has undoubtedly been impressed by the willingness of Chinese to work enthusiastically for low salaries in contrast to the spiralling costs in other international locations. But creativity is often equated with fashion. Ten years ago China's fifth wave generation of film makers – such as Zhang Yimou, Chen Kaige and Tian Zhuangzhuang were acknowledged internationally (Berry 1991; 1998; Zhang 2004). The publicity generated by international

art-house successes such as *Raise the Red Lantern* and *Farewell My Concubine* promoted interest in investment in Chinese cinema. The main beneficiaries of foreign investment were Zhang Yimou and Chen Kaige. Recent years have seen a decline in success on international markets and stagnation domestically. Box office takings in 2003 were rmb 800 million yuan (USD 97 m.; 1 yuan rmb = 8USD), a little more than half of the rmb 1.5 billion yuan of the mid-1990s (Hua 2004: 120). Only ten Chinese movies achieved box office sales of more than rmb 5 million yuan (USD600,000) – a statistic that reflects the dependency relationship between the film makers and the state. Return on investment is also hindered by a lack of enforceable copyright regime that sees pirated copies widely readily available on city streets, although recent efforts have been made by filmmakers to negate the effects of pirating (see below).

As China's film fortunes wane the Korean film industry has achieved international recognition. With a population of more than 1.3 billion China's cinema box office revenue is just 25 per cent of that of Korea, whose population is 47,000,000 (Yin 2004: 147). Can China learn something from Korea where money has poured into the film making from a range of private investors? The success of the Korean new wave includes on-line film financing models that allow ordinary people to buy into the movie-business (Kim 2002). *Netizen funds* are a way by which (mostly) young Koreans invest in film projects for a return based on the movie's success after release.

In China international directors are likely to be seen as folk heroes bearing money, technology, and skills. International connections are important in order to break out of the cycle of dependency on state funding. In 2003 more than half of the 140 feature films made in China received substantial investment from government but less than half the number of films legitimately screened in Chinese cinemas in 2003 were profitable, and as mentioned above the heavy grossing films were international 'blockbusters'.

Despite an increase in overall numbers of films produced in China the average cost of production was only rmb 3 million yuan (USD362,000), or 0.5 per cent of the average cost of production in the US (Yin 2004). It is interesting to note that the most competitive offerings in the marketplace were privately funded -- films such as *Cellphone (shouji)*, *Green Tea (lücha)*, *Hero (yingxiong)*, *Heroes of Heaven and Earth (tiandi yingxiong)*, *Zhuohe's Train (Zhouhe de houche)*, and *Happy Together (Ni he wo zai yiqi)*.

Television

Television is an industry that employs an army of people in China. The flow of investment is more dynamic than cinema as the market is shaped by domestic consumption and broadly supported by advertising. In addition to 'above the line' adspend, the sources for investment in Chinese television production are:

- *Government funds*: for approved programming, mostly directed through China Central Television CCTV.
- *Below the line strategies*: product placement, advertorials, and use of SMS and phone tie-ins with telcos and affiliated web portals.
- *Investment from enterprises*: both state-owned and private (*minying*)

Television stations are still technically owned by the state but they are now allowed to

apply for licenses to operate as corporate entities responsible for their profits and losses. A stimulus to market competition is the growing ad spend as China's consumer market develops. The market for prime time television has acted as a barometer for assigning value to productions and pursuing a strategy of branding. During the 1980s and for most of the 1990s there was no effective media market due to the integration of production and broadcasting within television stations, that is, each station had its own drama production or documentary unit. The rights to broadcast programs were held by stations and more often than not programming was bartered at television markets, held in Sichuan, Shanghai and later, Beijing. Under this model the government allocated an amount of funds to stations to produce a designated number of programs, including a percentage of politically correct documentaries and dramas rehearsing the history of the nation or the virtues of reform.

The 1990s witnessed a period in which state funding diminished and producers began to seek funds from other sources, particularly in the genre of popular television drama. The competitive nature of television production, combined with a lack of government investment in content, has compelled production units to countenance a range of financing options. Often a producer or a 'middle man' who might be a cultural entrepreneur with connections in the corporate world is engaged to raise funds. The producer (or alternatively someone in the production company) might also approach an old school friend or army comrade of high rank and ask for financial favours. This is not straightforward philanthropy, however, but investment based on *guanxi* (reciprocal) relationships. Direct investments are also negotiated with profitable enterprises that stand to gain on their outlay or simply wish to have their name and/or product associated with the program or placed within the screenplay.

The advertising market in Chinese television has moved ahead in leaps and bounds, attracting more than 40 per cent of adspend in 2002 (ACNielsen 2002). In China cable television is ubiquitous but the business model remains low value because subscription to the 30 or so channels is underpriced. The mass audience for television – some 900 million – is shared among several hundred stations. The bulk of income for television stations, and for producers, now comes from advertising. To understand how advertising directly impacts production, we need to consider that for the past two decades Chinese media have sought to buy programs but have lacked the capital. One way of ensuring production finance is through the pre-sale of advertising packages. While this practice is not unique to China it has evolved along with product placement as perhaps the leading financial strategy in the post-subsidy China's media sector. A program is 'bought' by a broadcaster, not in hard cash but through the allocation of advertising time, usually one or two minutes, that the producer (or agent) of the programs can subsequently on-sell. This strategy emerged in the 1980s when foreign programs were first sighted on Chinese television. It was often adopted by Chinese producers as a means of guaranteeing a budget.

The consolidation of China's television broadcasters into mega-conglomerates (echoing the formation of film corporations) has seen the emergence of new business models, including increased outsourcing to new independent companies and the subsequent trading in programs rights in China's evolving multi-channel marketplace, which is enhanced by digital television roll out. Consolidation has also pushed up the value of advertising. The development of independent creative production, however, is constrained by the need to establish relationships with regulators in order to secure

licences.

Listing on the stock exchange is a means of investment that has become common in China's television. The most successful commercial venture to utilise the stock listing model of raising finance has been the Hunan Television Broadcast and Media Company (Hunan dianguang chuanmei) network in southern China. Hunan TV, a provincial station, controlled 75 per cent of in-province advertising revenue by the late-1990s and subsequently used this advertising base to set up a shell company and list on the Shenzhen Stock Exchange market. The company issued 50 million A shares before its float on March 25, 1999. It was the first Chinese media company to incorporate private capital from the stock exchange into its funding structure. The stock issue raised some Rmb459 million (Zhang and Fang 2004) In the context of financing, the listing was a successful move; it raised capital and also attracted attention to alternative models of financing.

Financing creative industries in Latin America

The creative industries are underdeveloped across all Latin American countries and barely register as contributors to GDP – less than 2 per cent of GDP in Argentina, Brazil, Chile, Peru, Uruguay and Venezuela and less than 1 per cent in Bolivia, Colombia, Ecuador and Mexico (Becerra & Mastrini 2004: 7). However, rich, deep-rooted cultural traditions and large emerging talent pools, suggest there is vast scope for development of domestic creative industries. In addition, with 650 million people who speak Spanish and Portuguese worldwide, there are large opportunities to strengthen existing export markets and develop new niches in global markets in sectors such as music, film and television where some Latin American countries have made significant inroads.

Independent producers in Latin America face serious financing constraints. The region's fragmentation (with the exception of large markets in Brazil and Mexico), provides incentives for entertainment *majors* in the region to focus on the distribution of imported products rather than on artistic development. Conversely, low per-capita earnings, political instability, market volatility, and high rates of piracy act as strong disincentives for investment in artistic development. In conjunction with the globalization of media outlets and promotional industries, this generates a sense of disconnection among local audiences towards Indigenous genres. This is acutely illustrated in Latin American music and film industries.

Excessive concentration of investment in large companies marginalizes local cultural entrepreneurs. In addition, the lack of scale of the capital markets – especially the equity markets – generates barriers to the entry of investment capital to support small and medium enterprises. It is not altogether surprising therefore that finance for creative production is concentrated in government agencies. Small seed capital sums provided by producers, are often invested in the production of cultural goods that generally do not reach significant distribution.

The Latin American music industry

Latin American countries, most notably Brazil and Mexico, lay claim to large domestic music industries. In 2000 Latin American music sales accounted for 5 per cent of total world music sales (Throsby 2002). However, following a period of strong growth in the

mid-1990s, Latin American music industries have experienced a decline in sales. Brazilian music reached a peak of US \$1.4 billion in international sales in this decade, only to drop to US \$540 million in 2001.

While there has been a decline in international sales, there is strong consumption of local product (Brazil, Mexico and Venezuela), of regional product (Colombia), and Portuguese product (Brazil) (Yúdice 1999). In 2000, 75 per cent of total Brazilian music consumption was local, showing a 10 per cent increase on 1999 figures (Throsby 2002). Considering the popularity of local and regional music throughout Latin America there is obviously potential to strengthen regional consumption and culturally proximate markets for 'Latin music'.

Music genres – such as World Music, New Age Music, and Latin Music – have opened up international opportunities for Latin American music production (Gauthier & Yúdice 2002: 10). Music is deeply rooted in local Latin American cultural traditions and there is an abundance of skilled local talent. Sequentially, artists begin with live performance for payments and move into broadcasting before embarking upon recording for the local market. Consequently, start-up barriers and capital requirements are low; many artists draw upon personal savings or loans to purchase equipment (Throsby 2002:14). Additional competitive advantages reside in established live music scenes, a local and national broadcasting system, a domestic recording industry, and in some instances access to international markets.

Despite these advantages, the primary barrier to development is the control of recording studios and national and international commercial distribution channels by the 'majors' (transnational music corporations). EMI, BMG, the Warner Music group, Sony Music Entertainment and Universal/PolyGram control 80 - 90 per cent of global music sales. Some countries in the region do possess strong independent production activity; especially in folkloric genres. Independents such as Latin World Records (Venezuela), Grupo Cisneros (Venezuela), Multivision Mexico, and the recording subsidiaries of Globo (Brazil) are emerging as strong players throughout Latin America with corporate strategies in local regional markets – and in some cases international markets (Mackay 2003: 5). The success of Latin World Records in leveraging private finance and developing innovative private partnerships is discussed further in the below case study. Nonetheless, majors are active in all Latin American countries and account for the lion's share of each local market:

Independent firms face major hurdles in developing greater market share and challenging the dominance of the majors. If a recording produced by an independent company is successful, for example, in the case of a newly discovered artist, large scale revenues rarely flow to the company. Rather, the artists are lured by the majors who offer lucrative contracts, or the products are pirated (Gauthier & Yúdice 2002: 10). Talent is effectively poached, companies lose control of product distribution, and economic returns are siphoned away from the country of origin. Throsby (2002) argues that *modus operandi* of independents suit the oligopolistic activities of the majors. By the very nature of their operation, independents develop music outside the mainstream and they attract new audiences. However, once this begins translating into significant economic success, and becomes a potential threat to the market dominance, independents are simply bought out or absorbed by the majors (10). The lack of capital for business expansion – including venture capital and weak equity markets – combined with market volatility is a disincentive for international and private investment. These impediments stunt the growth of local

companies and restrict capacity to compete against the majors.

Piracy is also a major obstacle to development. It dissuades investment and artist development. Piracy rates in Latin American countries are among the highest in world. In 2000, the International Federation of Phonographic Industries, the global piracy enforcement agency, estimated that piracy rates were 90 per cent in Paraguay, 75 per cent in Brazil, 60 per cent in Mexico; over 50 per cent in Peru and Ecuador and between 25-50 percent for Argentina, Columbia, Chile, Venezuela, Central America and Uruguay (International Federation of Phonographic Industries 2001, qtd in Gauthier & Yúdice 2002).

Latin World Records and the distribution of *Arepa 3000*

Latin World Records is a Venezuelan independent record label owned by Samuel Quiroz, a native Salvadorian and ex-investment banker. After more than twenty years in the finance world, Quiroz quit his job and with the support of his partners at Latin World Securities, founded Latin World Entertainment group. Since its inception the label has been characterized by an aggressive production schedule across a range of different genres including tropical, contemporary, pop and rock. The ability of LWR to sustain the scale of activity it has, is largely the result of resources Quiroz has been able to marshal from his linkages and experience in the Venezuelan business and investment community.

After one year of Quiroz heading LWR, Luaka Bop, an American independent record label began looking for a distributor for *Arepa 3000*, the second album of the Venezuelan fusion band, Amigos Invisibles. EMI had first option to contract although negotiations were not finalised. Learning of the proposed deal, Quiroz courted Luaka Bop and successfully obtained the distribution deal, despite the fact that LWR was at the time a small label focused primarily on production and with limited distribution capacity. This lack of distribution capacity was a major hurdle in obtaining the deal and only a firm commitment to purchase a large number of CD units would convince Luaka's executives of granting LWR an exclusive distribution deal for this record.

Quiroz became acquainted with the forthcoming launch of a new prepaid mobile telephone product by Movilnet, one of the largest mobile operators in Venezuela. Realising that this product targeted the same youth demographics as *Arepa 3000*, he conceived the idea of bundling the record with the pre-paid mobile in a packaged deal. This would be the only way to get a legal copy of the record. Movilnet was fast to catch up on the idea and bought 80, 000 units. This allowed Quiroz to secure the purchase of a number of copies quite in excess of Luaka's original sales estimates. A media campaign including TV and radio ads featuring the members of the band was then launched.

This case illustrates a small indie label utilising an innovative scheme to produce a 'big hit' in their first participation in the distribution business. This scheme illustrated innovation: flexibility in the understanding of what the product was (from selling a CD to using it to support the sale of a mobile phone), understanding that 80,000 records at a wholesale price would not represent a major investment for a mobile telephony company, and understanding that rather than selling your product to the retail market you can bring an additional intermediary (the mobile company) to the value chain to strengthen your marketing situation and magnify the distribution impact of your production. Replicating the scheme elsewhere is a matter of identifying when large corporates can use music

products (gifts, campaign launches, charity, image campaigns etc.) in their product strategy.

Latin American film

With most Latin American countries on the road to economic recovery after systemic economic crisis during the early to mid-1990s, the Latin American film industry has – in the words of A. O. Scott (2004) – ‘flowered from seeds of turmoil’ and entered a new era of vitality and productivity. The 1990s crisis saw virtually all forms of finance dry up, forcing many cash-strapped productions to halt mid or post production. Capital limitations stifled the distribution, marketing, and exhibition of films. Brazil and Mexico had experienced declines in production rates well before the early 1990s, but this period saw even more dramatic decline, bringing production to a virtual standstill. The Mexican film industry dipped from a peak of 1077 feature films between 1950-59 (an average of 119 features per annum) to 344 during the 1990s (an average of 38 films per annum) (Gurrola 2003). In Brazil feature film production numbers fell from 103 in 1980 to less than 10 in 1991, before rising to 40 in 1998. While the figures fail to give a clear indication of recent success of the industry due to a lag in comparable and reliable national film production rates, they clearly indicate a process of consolidation since 1995, particularly in Argentina and Brazil.

From analysis of industry and trade based sources, we can identify three primary characteristics of this new wave of industry vitality: the explosion of creativity, the emergence of new talent, and the [re]establishment of a presence on the international film festival circuit. Burgeoning creativity and the emergence of new talent is linked. Renowned Brazilian director, Walter Salles, (2004 director of the acclaimed *Motor Cycle Diaries*) argues that new generations of directors and films-makers are emerging who are more politically and socially conscious with stories to tell about identity and the transformation of Latin America. This is generating a plethora of new ideas, new films scripts, and new ways of approaching Latin American film-making. Salles also contends that Latin American countries are in a process of redefinition – a result of democratization and reform over the last decade – and that ‘this process creates extraordinary cinematic possibilities’ (Scott 2004). Creativity has reportedly resulted in the emergence of new cinematic styles. For example, the term ‘New Latin American film’ describes the emergence of new Latin American film-making, breaking with the distinctive national cinematic styles often associated with particular Latin American countries – ‘the oblique melancholy of Argentina, the violence and exuberance of Brazil and the fierce formal bravado of Mexico’ – to films that mix styles and cross national boundaries (Scott 2004).

The health of the Latin American film industry was evident at the 2004 Cannes Film Festival, a crucial international festival for generating international and national audiences, networking opportunities, as well as partnerships and financial deals. Latin films were reportedly ‘among the most eagerly awaited premiers’ and Latin productions appeared in all of the festivals categories. In addition, the 2004 Latin American Film Festival showcased in excess of 30 feature films and 17 short films, indicating burgeoning production activity. In 2003 the festival showcased 24 features and seven short films, an increase from 2002 when there were 16 features and four short films.

The principal financiers of the Latin American film industry are:

- *Government*: largely through indirect support such as tax breaks and concessions while there are low-levels of grants funding.
- *Private partnerships*: reciprocal partnerships that pool capital is an important emerging avenue for film financing in Latin America.
- *Major Business enterprises (Television stations)*: cuts in public funding and increasing production rates have driven increased private investment particularly in Argentina from local television stations Artear and Telefe ('Film Production and Distribution Trends: shift in Balance between US and rest of the world', *Screen Digest*, June 2000).

While production rates are rising and private investment has increased since the early 1990s, a lack of *finance* still remains a major impediment to sustainable development and indeed the development of export markets. Latin American governments have historically supported local productions through a range of the following policy measures: 'financing credits, low-interest loans, state-back productions, various subsidies, advances on distribution and co-productions between the state and private producers' (Johnson 1996: 138). Johnson's (1996) study of Latin American film policy in the mid-90s shows us that periods of success (and at times growth) have occurred during periods of public support. However, on the other hand inappropriate cultural policy frameworks and at times the 'authoritarian imposition' of policies on particular sectors (i.e. exhibition in Brazil) to benefit others (production), has effectively stymied development, created divisions between sectors, resulted in low quality productions, and generated (in some cases) cultural despondency towards local content.

At present, however, public support for the Latin American film industry is directed towards attracting foreign investment; at the same time domestic production receives low levels of funding – predominantly grants and seed-funding. Tax incentives and regulatory models are designed to lure and stimulate foreign investment. In Brazil tax shelters and concessions largely drove local film production during the 1990s. However a lack of capital still results in producers abandoning films mid-production (Sutter 2003). Tax incentives of various persuasions (concessions, breaks, off-sets, credits etc) are present in most Latin American countries and in many cases comprise the lion's share of support for the film industry. On the other hand, estimates show that throughout the 1990s local film companies received approximately 0.5 per cent per capita public assistance in comparison to approximately 1.8 per cent for the European industry and 5.5 per cent for the US local industry (CAB 2003a). The lack of investment also stymies experimental film-making (Johnson 1996:131). Yúdice writes that Latin films are marginalized in their own markets. In Blockbuster of Mexico stores US films are classified under the category of 'film', Mexican films are classified in a small 'national' section, while 'Latin American' or regional film is categorized in a 'foreign' section (Yúdice 2003: 227).

Wiedemann's analysis of policy support for creative industries in developing countries provides a valuable outline of the challenges facing independent producers from developing countries in penetrating the international cinema market. Since the 1990s film budgets and marketing costs have risen dramatically and Hollywood films, despite large domestic markets, seek to insure against potential losses through export markets. Only large studios with extensive world-wide distribution and exhibition networks can manage financial risks attached to international film releases. In the form of 'Globalized

Distribution Agreements', distributors sign exclusive deals with studios committing them to distribute studios' films in return for 25 per cent of the film's gross margin. In return, the studio guarantees to cover any losses made by distributors (Wiedemann 2004:8).

Wiedemann points out, however, that independent producers are generally paid an 'up front non-refundable fee' to cover marketing and printing costs, but in return sign away all film rights ('cinema exploitation, home video rental & retail and television distribution rights'). In effect, independent producers become *de facto* fee-for-service providers and like most fee-for-service providers in creative industries, forego intellectual property in return for a one-off payment. Subsequently, they struggle to make a profitable margin after production costs while distributors (or publishers in the case of games sectors) benefit from the economic rents generated from the intellectual property. As a result, economic returns fail to benefit the country of origin.

Opportunities for the future

The development of 'culturally proximate' markets, both geographical and linguistic in nature, are critical to creating value and generating new markets and audiences. The Latin American film industry reportedly accounts for 3 per cent of international film production, a figure that is low considering there are 650 million people who speak Spanish and Portuguese worldwide. As Straubhaar (2003) argues, local industries with naturally large domestic markets and large potential linguistic markets that extend beyond national boundaries (i.e. the English language market: Australia, Canada, United Kingdom, the US, etc) have a natural advantage over industries with small domestic markets. In television in particular there is evidence of strong export to 'culturally proximate' markets, both geographical and linguistic (with Brazilian novellas dubbed into Spanish for other Latin American countries and international markets). From an economic development perspective, a key could be branding and marketing Latin film in ways that resonate with local and regional audiences.

Numerous innovative partnerships are emerging, indicating industry-led strategies to overcome market barriers. A primary example of this is the emergence of a partnership between two Chilean companies: Chilefilms (owner of an exhibition chain and a post-productions house) and Santiago-headquartered distributor Phoenix World Investments (Sutter 2003). These firms have combined their expertise to finance local productions and to provide post-production, distribution, and marketing services. Developing public programs that facilitate similar innovative partnerships and developing an environment conducive to collaboration and innovation without distorting or aggravating the market could be a positive step forward in unlocking financial and other inputs that will benefit Latin American film industries.

In conclusion

We have canvassed a number of issues, but clearly there is more research required. The choice of China and Latin America was an attempt to compare the financing of creative industries in two cultural continents that aspire to be major players in the global cultural economy but which are very much developing countries in most respects. Nevertheless, it is important for the policy debate on creative industries in developing countries not to be

sequestered by an exclusive emphasis on places with small markets, or supervening and pervasive poverty, or no history of industrial-scale production and export. We found that there is a lack of synergy between creative inputs and financial inputs in both regions. While many problems are due to what some commentators insist is the pervasive influence of sophisticated media products from the developed centres of capitalism, we also identified institutional impediments that impact on the development and marketing of exportable creative products. People working in creative industries in these countries often need to find creative solutions to problems such as bureaucracy and censorship; the solutions are often pragmatic and exemplify low risk-taking. In turn, the reflexivity that is needed to ensure innovation and creativity, particularly in industries such as film, television, and music, which operate in an increasingly globalised environment, is affected by high rates of failure.

Both China and Latin America's cultural sectors reflect the problems of developing countries in targeting high value international markets – an emphasis on national cultural identity restricts export focus. Moreover, both regions have marketplaces where there are large domestic markets. These allow a multitude of small players to make small returns in cultural industries. While the proliferation of small enterprises is typical of the cultural economy, excessive fragmentation is an impediment to the growth of forms of national brand equity (eg Hollywood, Bollywood, the Hong Kong action film, Brazilian and Mexican television serials). Economies of scale are essential to nurture 'national champions' within the cultural economies of developing countries. Strong and well-resourced local media industries provide options for local producers and enterprises, who in their absence, are destined to be service providers for the 'international champions' – the transnational corporations. The shift from 'cultural industries' to 'creative industries' policy may be a way forward for governments and producers alike to think more about scale returns and adding value.

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