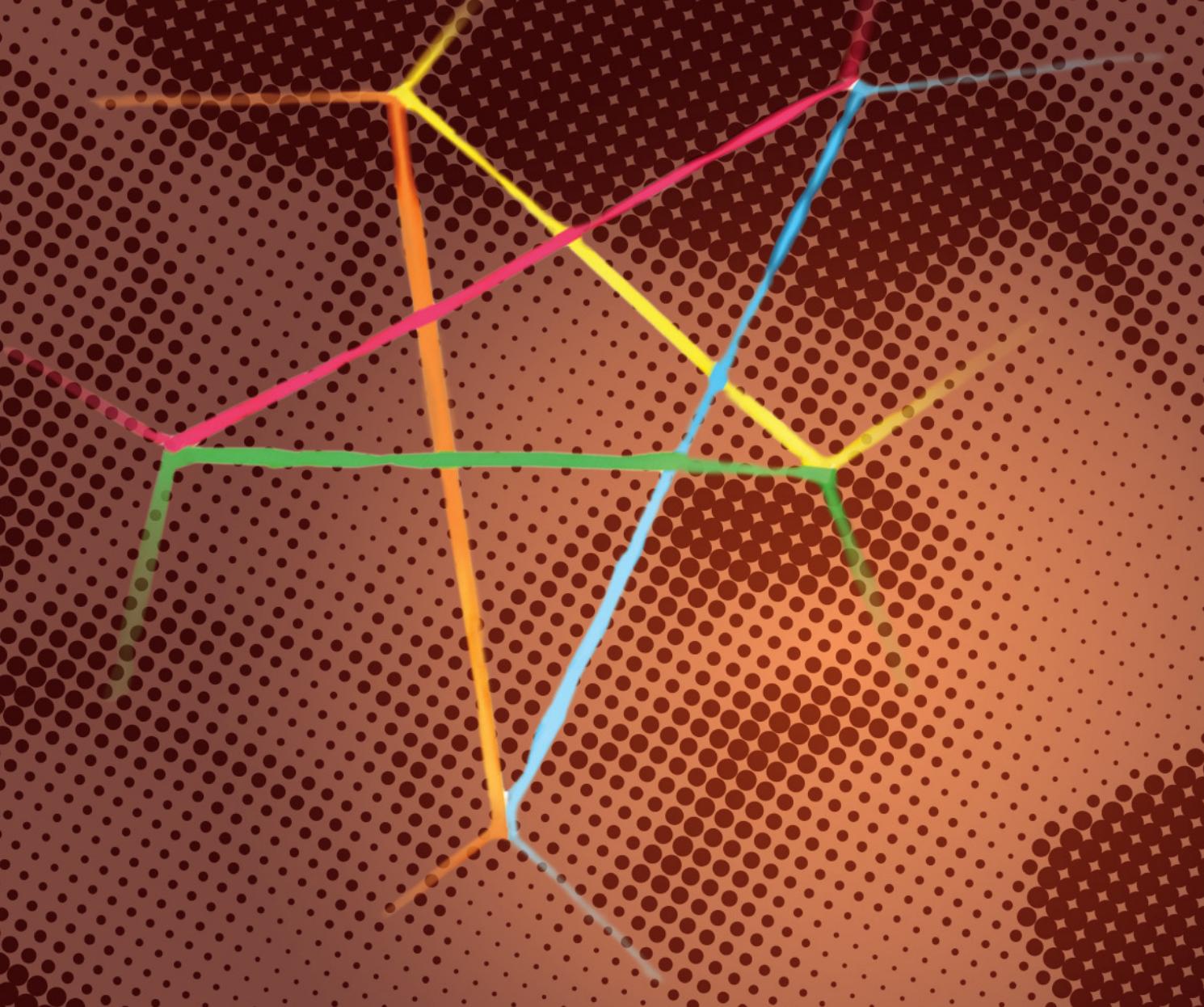


BASELINE STUDY ON HONG KONG'S CREATIVE INDUSTRIES

For the Central Policy Unit, HK Special Administrative Region Government



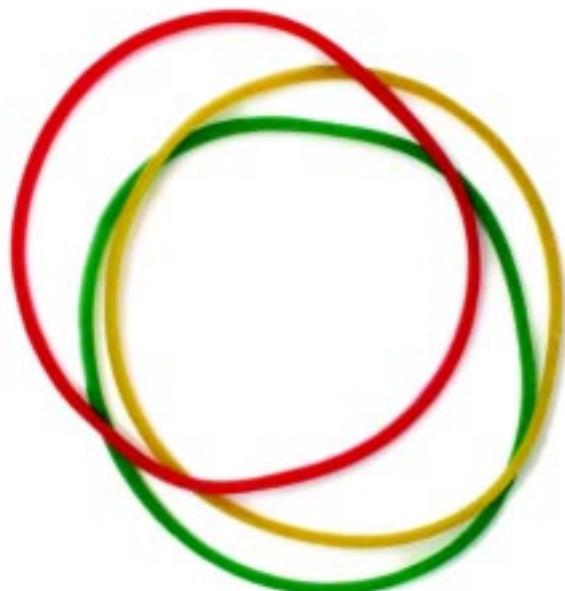
Centre for Cultural Policy Research
The University of Hong Kong
September 2003

Baseline Study on Hong Kong's Creative Industries

For
the Central Policy Unit
Hong Kong
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Architecture



Advertising



Art, Antiques and Crafts



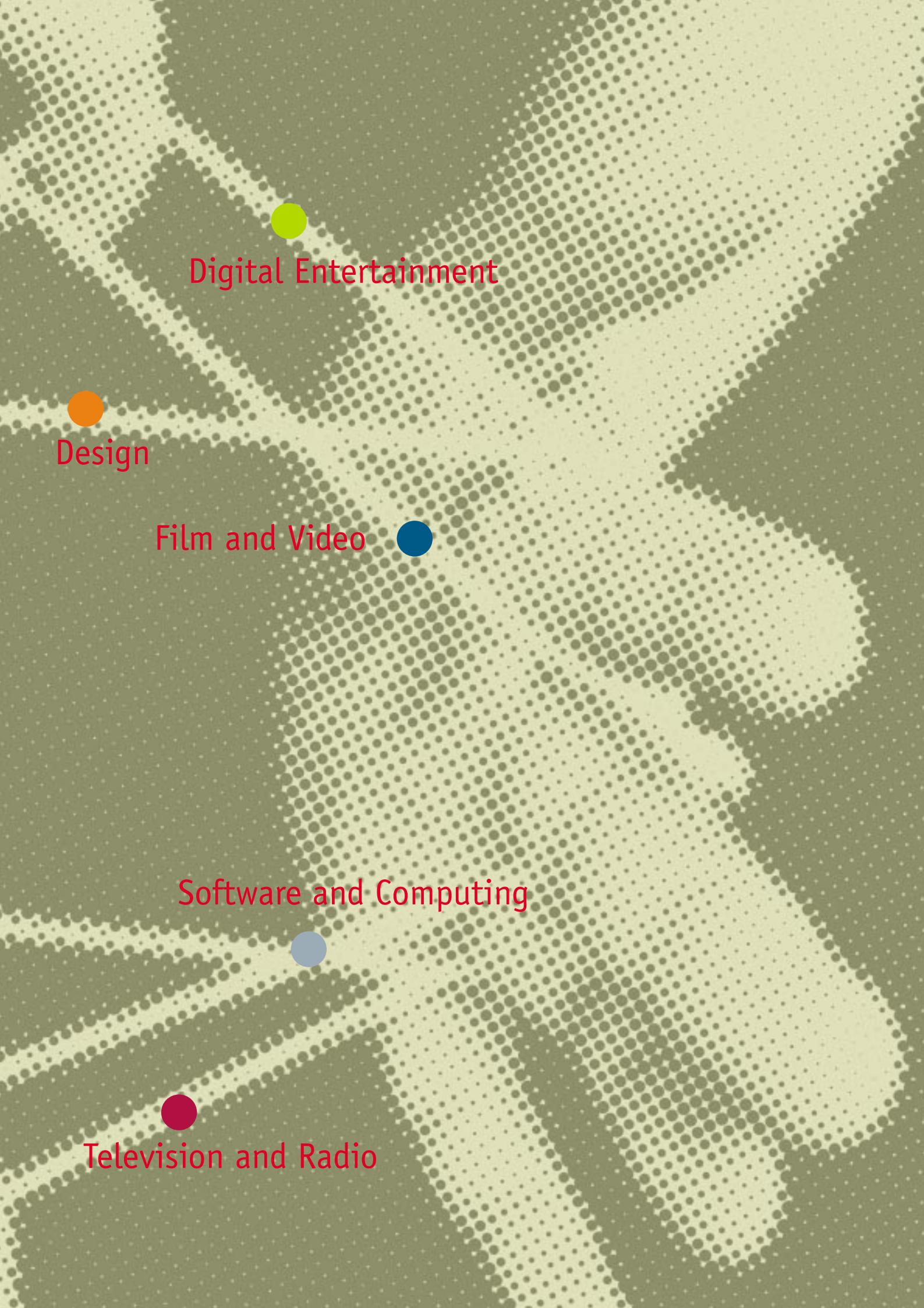
Publishing



Music



Performing Arts



Digital Entertainment

Design

Film and Video

Software and Computing

Television and Radio

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Executive Summary



The conception of creative industries is a variegated notion for describing a rising economic sector, the dynamics of industrial collaboration as well as the changing landscape of employment market. The rise of the creative sector concurrently underscores the deep-seated transformation of economic domain from manufacturing-based economy to consumption-based economy, by which culture is re-discovered as one of the most important resources for economic development.

This study limits its scope largely to



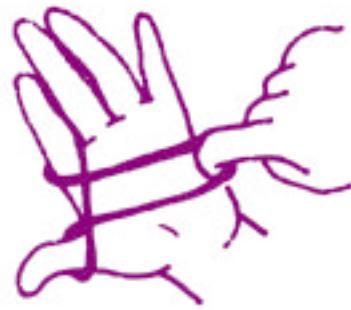
the economic aspects of the idea of creative industries (equivalent at times with ‘cultural industries’, ‘copyright’ or ‘content industries’), which is a new concept in policy-making and academic research, but has wider implications in interactions with the public sector and cultural configuration of society.

The usual means of measure for the economic value of the creative industry sector are the contribution to the GDP in terms of its growth as compared to the overall economic growth, as well as its potential of job creation in terms of employment share in the overall working population. However, the tool for

the measurement - industry classification - imposes limitations on the scope and

accuracy of statistical data collected. While North America has developed a new system of industry classification (NAICS) to reflect more accurately their industry contours only since last year, the majority countries in the world, including the UK and Hong Kong,

follow the UN system of International Standard Industrial Classification (SIC). In order to ensure consistency of data collected under this system and to reflect a more accurate division of economic activities in the 'value chain' of creative industries, the present study adopts the concept of "Creative Industries Production System" (CIPS) for tabulation and analyzing the sector.



The CIPS is a model first developed in the UK to encompass measurement of both the upstream and downstream activities related to the creative industries, which could be further subdivided into the following four segments: content origination, production, distribution and consumption. In the present study, because of difficulty in disaggregating data, the segment of distribution and consumption are grouped together. This adjustment could be justified in the increasing dissolution of boundaries between the two segments. The two UK mapping studies of 1998 and 2001, though not strictly following the CIPS method, exhibit certain tendency in including non-content related activities such as wholesale and retailing in their data.

The UK model has been emulated by many countries, including Australia, New Zealand and Singapore, which adopt the same term of “creative industries” in their economic policies. Other European countries, such as Finland, Spain and Germany, as well as certain Asian countries like South Korea, Japan and China, prefer the term “cultural industries” instead. Taiwan has interestingly coined a new term “cultural creative industries” by combining both, and in proposing new concepts of industry sectors like “creative living” (to include tea house, wedding photography etc.). South Korea defines “cultural industries” as those “service industries related to development, production, manufacturing, distribution and consumption of cultural contents.”



China's cultural industries are so broad as to include even gambling, education and sports as well as tourism and consultancy services. Notwithstanding the different definitions, typologies and classifications, available studies strongly claim that the creative sector is a growing economic domain with valuable contribution to local economy as well as potentials of job creation. The percentage share of GDP and growth rate of the creative industries in these different countries/economies vary from 2.8% (Singapore) to 7.9% (UK) and from 5.7% (Australia) to 16% (UK) respectively, while employment share varies from 3.4% (Singapore) to 5.9% (US) of the overall working population.

It is impossible to adopt a unified scheme of normative definition and assessment of creative industries for cross-country comparison based on the notion of “cultural industries”. The UK model, however, is product-oriented and industry-specific, highlighting the importance of intellectual property (IP) as an over-riding criterion in the definition and scope of the sector. As a mapping model for cross-comparison and future development, it is therefore adopted by the present study, in augmentation with the concept of the CIIPS and the notion of exchange and production of social and symbolic meanings. Our definition of creative industries hence becomes “a group of economic activities that exploit and deploy creativity, skill and intellectual property to produce and distribute products and services of social and cultural meaning - a production system through which the potentials of wealth generation and job creation are realized.”

The study identifies 11 creative industries as foci of analysis to include

{³*advertising, ²architecture, ⁴art, antiques and crafts, ⁵design, ⁶digital entertainment,*
⁷film and video, ⁸music, ⁹performing arts, ¹⁰publishing and printing, ¹¹software and computing and television and radio.}

Discounting some limitations imposed by the Hong Kong Standard Industrial Classification (HSIC), the creative industries in Hong Kong could be mapped as to contribute a total of HK\$46,101 million to the local economy in 2001, accounting for **3.8%** of the whole GDP. Of this, 32.1% belongs to *content production industries*, 26.8% to *production input industries* and 41% to *reproduction & distribution industries*. Between 1996 and **2001**,



the total value of the sector decreased from HK\$ 47,665 million in 1996 to 46,101 million in 2001, together with a declining share of GDP from 4.1% to 3.8% during the same period. The overall contraction of creative industries could be attributed to the economic downturn since 1997. The creative sector as a whole recorded an average annual growth of -0.7% while the average annual growth of the GDP during the same period maintained 1%. The average annual growth pattern of the sector was invariably due to the volatile nature of creative industries that demonstrate rapid rebound when the general economic condition was improved.

Only a few industries could demonstrate average annual growth during the period of 1996-2001. Software sector, media and entertainment industries as well as newspaper printing and publishing enjoyed positive growth of 7.5, 10.7, 4.2 and 2.4% respectively. Other industry segments' performance were less sanguine: architecture recorded annual average growth of -1.3%, advertising -5.6%; film -5.3% (though with a rebound of 71.1% in 2000), design -1.8%. For industries closely related to manufacturing production or *production input*, internet and telecommunication services recorded a growth of -1.6% and jewellery manufacturing -8.2%.

In terms of employment, there were 25,342 establishments engaging 153,190 persons in the sector in 1996. Adverse economic conditions since 1997 had entailed some job loss. Despite the intermittent decline, the sector as a whole demonstrated a gradual employment growth during the seven years between 1996 and 2002. Number of establishments increased to 30,838 with total employment reaching 170,011 in 2002. Generally speaking, the creative sector demonstrated consecutive growth on year base and rebounded from the lowest ebb of -5.8% in 1998. Throughout the period of our study, the creative sector demonstrated an average annual growth of 1.8% against an average 0.8% total employment growth in the same period. The creative sector's share of total employment is also growing: 5.3% in 2002 against 5% in 1996.



Introduction SECTION A

This chapter outlines the background and objectives of the study. It highlights various issues in positioning the creative sector between the dialectics of economy and culture.

1 Background of Study

- 1.1 The creative industries are playing an increasingly significant role in the Hong Kong economy and are important in projecting Hong Kong's image as a world city. A preliminary attempt by the Census and Statistics Department finds that in the year 2000, a total of 17 920 establishments were related to the creative industries, engaging 105 060 persons, representing 3.08% of the total work force. Their value added amounted to HK\$29 850 million, or 2.5% of GDP.
- 1.2 Noting that there has been no comprehensive study on the subject before, the Central Policy Unit of the Government of the HK Special Administrative Region (CPU) considers that there is an immediate need to map out the existing position of the creative industries in Hong Kong, which should provide the SAR Government with the necessary data to help develop appropriate strategies for facilitating development of creative industries, and to enhance their contributions to the economy and to HK's image as an important centre for creative industries in this part of the world.
- 1.3 In June 2002, CPU sent out a call of interest to undertake the study. After two rounds of selection, the Centre for Cultural Policy Research of the University of Hong Kong was commissioned to carry out the research project for nine months from September 1, 2002.

2 Objectives

- 2.1 Hong Kong has yet to define the scope of creative industries. While we see merits in adopting the definition used in a similar study in the UK, i.e. "those industries 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, this Study should not mechanically adopt the same thirteen-sector definition used in the UK study. It is necessary to adopt a new and meaningful framework for *defining the scope of creative industries*, taking into account the cultural, social, technological and economic characteristics of Hong Kong.
- 2.2 The study is to establish the present "*landscape*" of creative industries in Hong Kong, including industry structure, business turnover, employment size, inter- and intra-industry linkages, international acclaim, secondary economic impact, etc., as well as a comparison with regions nearby; and to *assess the potential of growth of creative industries* in Hong Kong, taking into account the strengths and weaknesses of the industries, as well as any barriers they may face inside and outside Hong Kong.
- 2.3 This study is only the first step of a continuous process of better understanding the potential of creative industries in contributing to the economy of Hong Kong as well as in enhancing Hong Kong's image as a world city.

3 Exploiting Creativity

- 3.1** All discussions on creative industries start off with the thorny problem of definition. The term “creative industries” is a new concept introduced to policy-making and academic research¹. In recent years, studies on “cultural industries”, “leisure industries”, “copyright industries”, or “content industries” abound. Although many of these exhibit common concern on the economic contribution or employment structure of the creative sector, there still lacks standard methodology or analytical tool in defining the term. Discussions on creative industries are sustainable with new research on the changing relationship between culture and economy and on topics such as the relationship between the creative sector to education, urban rejuvenation, national or city images, heritage and tourism.
- 3.2** The hybrid notion of creativity and its rhetorical overtones very often conjure elusiveness, which, in common sense, could be reduced to idea, activity or process characterized by originality, expressiveness and imagination. However, for analyzing the link between creativity and industry, it seems less fruitful to dwell on open-ended questions such as what is creative or not, for its qualification often varies according to different contexts and situations. What we are interested in is not quantification of creativity itself in terms of industrial or commercial values, but the process that transforms creative ideas to marketable deliverables. Therefore, from a methodological point of view, our starting point is *not to define or measure creativity*, but to *examine how creativity is exploited and transformed to tradable products or services*, and how that process of production, commercialization, distribution and consumption can be properly *evaluated within the same sector of economic activities*.
- 3.3** The present study limits its scope largely to the economic aspects of creative industries, but it is important to suggest a broader framework for the study so that research can link up with socio-economic or cultural studies in future. Some of these perspectives are outlined in the following sections. Put briefly, the term “creative industries” is better served as a *variegated notion* not only for describing the economic system of the creative sector, but at the same time for examining the cultural configuration in a society and its interactions with the public and socio-economic sector at large.

4 Creative Industries as Economic Sector

- 4.1** Creative industries are not newly invented. A number of component industries of the creative sector can be identified in the conventional typology of economic studies. Publishing industry, for example, used to be one subset in the manufacturing sector while film and video, television and software industries belong to commercial or entertainment services under a broader category of services sector. What distinguish creative industries as a sector are their emphatic capabilities in the employment and management of intellectual property, and the substantial input of skill, innovation and creative ideas. Moreover, the sector is an industrial system that transforms these intangible assets into production processes as well as distribution of goods or services of symbolic values and social meanings. For these reasons, the creative sector deserves attention on its own right.

¹ For a genealogy of the term and its invention in the UK, please refer to **Appendix 6**.

Advertising

山頭

222

高層三房兩廳
150尺售108萬
喜大廈
裝修華豪
1103尺售565萬
帝庭豪園

豪園
海邊
大廈
軍門
富道

四期
1370尺售550萬
高層
華豪
1498尺售88萬
光基
豪園

豪園
怡富
大廈
信嘉

高層
洋房
360尺售300萬
馬頭圍道
信嘉

恒景
偉昌
怡富
豪園
477尺售98萬
中層
裝修
告售
高層
洋房
320尺售65萬
全貌
高層
售

米樓
晨曦
大廈
富邦
豪園
洋房
399尺售
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售

馬頭圍道
800呎，兩房兩廳
售 70 萬
唐七樓

唐五樓
1200呎，三房兩廳
售 118 萬
裝修有售

美善公司
售



紅磡渡頭道北
650呎，地鋪
600呎，自由閣樓
售 240 萬
月
鋪

500
400
地
鋪

萬
售

售
口

售

售
鋪

土瓜灣道近啓祥
100尺，新光房，
金利華，600-
租

商業閣樓
月

馬頭圍道
1200呎，地鋪
1200 萬
現租
休天鋪
七
樓
售
王
售

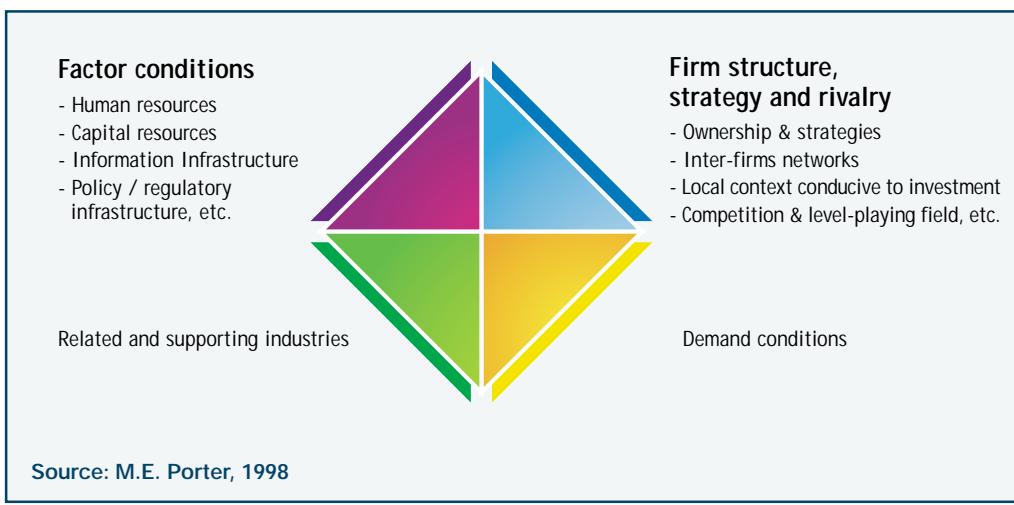
漆咸道北
680呎，地鋪
合租
租

北河街

- 4.2** Measuring the economic contribution of this rising sector is a challenging job for countries that have or have been undertaking similar research on creative industries. Regardless of the contestable definitions and typologies that might have been used, there are generally two approaches in measuring the economic value of the sector: the first is to evaluate the sector's contribution to the Gross Domestic Product (GDP) of the total economy as well as its growth in comparison with the annual growth of the economy as a whole; the second is to measure the job potential by both the absolute number of persons employed in the sector and its share of employment in the overall working population.
- 4.3** Without exception, our study adopts the above two approaches to describe the economic landscape of creative industries in Hong Kong. However, this is not without limitation in the measurement tool - industry classification. The methodology normally employed by studies on creative industries usually selects relevant codes from the international Standard Industrial Classification (SIC) and Standard Occupation Classification (SOC) for statistical calculation. Although the SIC is the most commonly adopted international standard for official statistics, there is nevertheless increasing concern on the accuracy of the classification system to reflect the dynamic structure of economic and industrial activities, and on its inclusiveness of occupational titles and status. We attempt to introduce the "Creative Industries Production System" (CIPS) as an auxiliary concept for industry classification and statistical tabulation and as a coherent framework for analyzing the sector.
- 4.4** A new system of industry classification has recently been devised in North America, where different methodologies are employed to map the equivalent sector of creative industries. Meanwhile, a variety of methodologies is also developed in Europe and Asia to deal with the same subject. All these offer invaluable insight to our study, and some of the lessons have already been incorporated in this report. A more extensive analysis on international experiences is provided in **Appendix 6**, which gives a comparative view of selected studies available in Europe, North America and the Asia-Pacific in investigating the research methodology as well as the policy models to promote the sector. As for the scope of creative industries in Hong Kong, the methodology for assessing their economic impacts, limitation of the classification system and its adaptation to our study will be thoroughly explained in Chapter II.
- 4.5** The sector of creative industries is a labour market of growth. Available reports usually support the proposition that the sector is a source of job creation, and its growth apparently outperforms the average growth of employment. The employment pattern of creative industries, however, is quite unique. It is characterized by "*atypical forms of employment*" constituting a new pattern as follows: job flexibility, multi-tasks and project-based, higher job mobility and insecurity, short-term or freelance contracts, part-time, voluntary, low-paid or self-employed activities. Relevant studies also suggest that the workforce of creative industries is apparently about skill labour or knowledge workers with higher educational qualifications, which has important implications for policy agenda on labour and education. In North America, Australia, and Continental Europe, research on workforces in the cultural sector or creative industries has a relatively long tradition. However, research on the same subject is relatively new in Asia. Our study would like to incorporate this subject by attempting to conduct a preliminary survey of the creative workforce in Hong Kong, which may well be a starting point for ongoing research on the labour market of creative industries. The methodology in conducting the labour survey as well as its major findings are covered in Chapter III.

5 Creative Industries as Cluster

- 5.1** A full-fledged picture about the complexity of creative industries should not be limited to the study of economic contribution and employment pattern. The creative sector comprises a great diversity of industries operating under different market structures, with different modes of capitalization and production, business operation as well as consumption markets. Despite the disparity, creative industries share a lot of attributes as a sector. A group of industries producing related products, having shared markets or in need of common resources and knowledge can be gathered into an industry cluster. The sector of creative industries apparently possesses these economic features and enjoys flexibility for collaboration within or outside the group. There are lots of overlapping domains where production of products and supply of services of one industry forms intra-linkages with other industries in the sector. The same holds true about products and services showing cross-over effects from one industry to another. To capture these dynamics and interactions, the concept of *cluster* is a useful analytical tool.
- 5.2** The concept of cluster as described by Michael E. Porter (1998) is a geographic concentration of firms producing a particular product or service. Geographic proximity may produce vigorous competition among firms on one hand but opportunity to share information, aggregate demand for particular input and reduce transaction costs on the other. Industry clusters also enable isolated firms to benefit from shared economies of scale and scope, and concurrently, encourage the presence of related and supporting industries that create conditions favourable to the development of industry. The essence of industry clusters, in Porter's depiction, is in the form of a "diamond" where factor conditions, demand conditions, related and supporting industries and firm strategy develop in mutually reinforcing ways as shown in the following diagram.



- 5.3** The cluster concept has already been modified and applied to a number of studies of creative industries. The major contributions of cluster analysis to our methodological framework are to elucidate how creative industries have been developing interaction with other industrial sectors and how dynamic linkages of industrial clusters can be formed. Besides, the analysis is extended to consider some enabling factors or drivers conducive to the development of creative industries. The present research is far from a cluster study of creative industries, but the analysis of individual industry conducted in Section B generally adopts the concept to examine the multi-dimensional relationships and interactions of creative industries with industries in the same sector or the economic, social and cultural sectors as a whole.
- 5.4** It is worth noting that industrial cluster as a concept is not unfamiliar to Hong Kong. The “Cyberport” and the “Science Park” are just two recent examples of industrial clusters yet to be realized. They are models of economic engineering projects in collaboration with the government. Some industries have long enjoyed geographic proximity and grown organically in an area. To take an example, publishing, advertising and media companies are relatively concentrated in the districts of Causeway Bay, Quarry Bay and North Point. While the cluster phenomenon has significant bearing on urban regeneration (and hence heritage and tourism), which will be dealt with in Section C, we would like to alert here to its broader context in terms of the inevitable merging between Hong Kong and the Pearl River Delta (PRD). The cluster analysis could well extend across the border.
- 5.5** Since the 1980s, the manufacturing sector of Hong Kong has already relocated its labour-intensive production parts to the PRD. The restructuring process is also taking place in the services sector. More and more media companies, printing firms, studios and software companies are now setting up branch offices in the PRD. In the foreseeable future, many of the component industries of creative sector will merge with the PRD in both economic and geographic terms to become a mega geo-economic zone. Nevertheless, the geographical distribution of these firms, their investment scale as well as economic integration with the PRD have never been studied. The full implication of the cluster effect of creative industries in the local economy as well as in the PRD is a subject of paramount importance. We shall attempt to further illuminate on this in the “Clustering and Urban Strategies” part of Section C.

6 Culturalizing the Market

- 6.1** “Creative industries” as an economic subject has recently been moved to the mainstream of policy agenda in many advanced economies. Beneath the political discourse comes along some general understanding of why creative industries matter: global economy is transformed from material production to “value-added” production. The term “symbolic economy” or “consumption-based economy” is sometimes used to describe the transformation by underlining the *culturalization of the market* now taking place at rapid speed and in wider extent in our economy.
- 6.2** In increasingly consumption-based economies in the era of globalization, in order to meet rapidly changing customer preferences and to retain a competitive edge, manufacturers and distributors of consumer products and providers of services are calling for greater amount of input based not only on technological innovation but intangible ele-

ments such as style, branding, design, and aesthetic or symbolic value. Rapid changes in the global and regional chains of economic production accelerate that process. Apparently, globalization leads to more flexibility in allocation of capital and labour resources in time and space thus rendering further segregation and specification of production. There is a general trend which most industrialized countries have undergone in relocating the labour intensive parts of product production and service supply to other low cost regions in their home country and/or abroad. Against the backdrop of economic re-structuring and its associated consequences, culture has been rediscovered by many governments and enterprises to be a core resource that could help foster the development of such subtle qualities as creativity and originality that are vital to the success of their business enterprises and societal/economic re-engineering projects.

- 6.3** Hong Kong has undergone a similar re-structuring in the past twenty years. The industry sector now constitutes less than 15% of Hong Kong's GDP, of which 3.3% is originated from "electricity, gas and water", 4.9% from construction industries but only 5.1% from manufacturing industries in 2001.² The labour-intensive part of the manufacturing sector has been relocated to the Pearl River Delta since the 1980s. In contrast, the service sector now consists of more than 85% of Hong Kong's GDP. A well received report *Made by Hong Kong* points out that the industrial and service sectors of Hong Kong should turn to "service-enhanced manufacturing" (SEM) for a sustainable economy in future.³ Though originated from a different concept, the SEM calls for the same emphasis as with creative industries on "intangible product attributes" to enhance the competitiveness of Hong Kong's products.
- 6.4** Despite operating under different economic structures, individual segment of the creative sector exhibits strong tendency of capitalizing cultural values/symbols into economic production. The chapters on the individual creative industries (Section B) highlight this outstanding feature and the competitive edge of those "*culturalized*" deliverables.

7 Marketing Culture

- 7.1** In recent decades, international communities have been looking for new paradigm of cultural policy. In 1998, the World Bank promulgated the "Culture and Sustainable Development: A Framework for Action", in which culture is highlighted to provide new economic opportunities for local development and to strengthen social capital and social cohesion. Heritage conservation is invariably one of the foci of World Bank's policies on culture.⁴ The United Nations Educational, Scientific and Cultural Organization (UNESCO) is another promoter of world cultural development. As earlier as in 1982, the UNESCO held the World Conference on Cultural Policies (MONDIACULT) in Mexico City to lay down the broad definition of culture that has guided the UNESCO in its endeavours ever since. The Conference also led to the *United Nations World Decade for Cultural Development* (1988-1997), a worldwide programme of reflection and action launched by UNESCO which unleashed many concrete projects across the world. In particular, the engagement of UNESCO results in a series of research on standardization of methodologies in collecting cultural statistics and in devising analytical framework for cultural policies.⁵
- 7.2** The European Commission responded to this global agenda on cultural policy with a preliminary assessment of cultural industries in EU's member states in 1998. Following

² According to the Economist Intelligence Unit's estimate, the manufacturing sector shares 5.7% of GDP in 2000; *Pocket Asia: Profiles, Facts and Figures about Asia Today*, The Economist Newspaper Ltd., 2001. The preliminary figure of 2001 given by the Census and Statistics Department only accounts for 5.1%; http://www.info.gov.hk/censtat/eng/hkstat/fas/nat_account/gdp/gdp6_index.html

³ Suzanne Berger & Richard K Lester (1997), *Made by Hong Kong*, HK: Oxford University Press. Cf. also Zhigang Tao & Y C Richard Wong (2002), "Hong Kong: From an Industrialized City to a Centre of Manufacturing-related Services," *Urban Studies*, Vol. 39, No. 12, 2345-2358.

⁴ World Bank just completed two reviews in 2001 and 2002 to evaluate their supports and policies on culture, in particular, the conservation projects of cultural heritage sites in different localities.

⁵ The best practice of these endeavors would be UNESCO's *World Culture Report* of 2000.

this initiative, there were two more substantial pieces of work on research of culture: “*Banking on Culture*” led by a number of international organizations and co-financed by the European Commission⁶ and “*Exploitation and Development of the Job Potential in the Cultural Sector in the Age of Digitalization*” by MKW GmbH, 2001. The former is an ongoing project which shortly published two research reports, one on employment and enterprise characteristics of the cultural sector in Europe and the other on new models for financial institutions to meet the needs of practitioners working in the cultural sector and cultural industries.⁷ The various endeavors shown in World Bank’s policies and UNESCO’s programmes are to recognize culture as one of the core elements for social and economic development, whereas the concern of EU focusses on generating new economic resources for the development of the cultural sector.

- 7.3** The cultural sector is conventionally regarded as a cost unit of the government. In most of the industrialized societies, culture is one of the destinations of state subvention where pursuit of market value is seldom considered and is not the benchmark for policy measurement. To a certain extent, this principle holds true for cultural policy to set its own objective for the benefit of equal access to cultural programmes, enhancement of cultural appreciation, promotion of arts education, heritage protection and freedom of expression. These underpinning principles are unlikely to be quantified only in terms of economic and market values.
- 7.4** One of the challenges for cultural policies in future (which may apply also to Hong Kong) is to strike a balance between the swelling fusion of creative activities in the cultural sector and economic production on one hand, and cultural cohesion in the community on the other without compromising the underpinning principles of cultural promotion at large. The recent policy document published by the Culture and Heritage Commission reinstates an array of directions for Hong Kong’s cultural policies, in which the promotion of creative industries is highlighted.⁸ Creative industries and cultural activities could indeed be mutually beneficial to each other. Equally true is the need to review the parameters and concerns of cultural policies so that they could be proactive and become the driving forces in promoting the creative sector. This general premise runs through the individual sectors of the creative industries as well as the concluding remarks in Section C.

8 Nurturing Creativity

- 8.1** The creative sector capitalizes on the favourable cultural environment for its sustainability. Creativity depends on intuitive and cognitive abilities which can be nurtured and the conducive conditions are freedom of information and expression, vitality of media industries and a vibrant cultural sector. We would like to emphasize several kinds of resources - “institutional practices”, “public and media education”, “informal, continuing and flexible learning”, and “exchange of professional experiences” - for rearing creativity, sharing of creative ideas, skills and experiences and exchange of information. These resources could be in the forms of institutional and vocational training as well as professional exchanges in terms of conferences, seminars, workshops, competitions, awards, festivals or expositions regularly held by industry practitioners and organizations. They are the domains where public bodies and industry organizations can act as initiator, enabler and facilitator to incubate the favourable environment for creativity. This will be further elaborated in “Education, Training and Research” of Section C.

⁶ They include North West Arts Board, International Association of Investors in the Social Economy, the Arts Council of England, Investors in Society and the Manufacturing Science and Finance Union.

⁷ The two studies are *The Employment and Enterprise Characteristics of the Cultural Sector in Europe* (2000) and *Third System Financial Instruments for the Cultural Sector* (2000).

⁸ Culture and Heritage Commission (2003), Policy Recommendation Report, Chapter 6.



SECTION A

Mapping the Economic Value of Creative Industries in HK

This chapter explores the analytical framework used in mapping the economic value of Hong Kong's creative industries with a preliminary mapping of 11 core industries.

1 Definition and Framework

Definition

- 1.1** We define Hong Kong's creative industries as a group of economic activities that exploit and deploy creativity, skill and intellectual property to produce and distribute products and services of social and cultural meaning - a production system through which the potentials of wealth generation and job creation are realized.

Blurred Boundaries

- 1.2** The boundary of creative industries is not easy to draw. Product innovation or enhancement in service could be derived from the "intangible" value of creation. At the same time, "transferability" allows product or service of one kind to be distributed and transacted by different means and in different markets. Take film, television, radio and music performance as an example, their consumption is no longer confined to theatres, broadcasting channels or specific audio-visual equipments. They are distributed and consumed nowadays in platforms of multi-technological nature like VCD, DVD, MP3, and subscription-based media such as subscription TV, video-on-demand, the Internet or even the mobile phone. In short, most products or services of content origination in the creative sector share the same characteristics and they are now changing with the economic structure where attributes of products/services change rapidly, and their production and distribution cut across different boundaries of industries.

Underpinning Concepts

- 1.3** Given the elusive nature of the sector, mapping of creative industries based on the typologies of the conventional industry classification would only provide a minimal spectacle about their activities. Our study regards the following underpinning concepts as the yardstick of defining and evaluating the creative sector, namely - *creativity, intellectual property, the production and exchange of social or symbolic meanings* and the idea of *creative industries production system* (CIPS).

Creativity and Intellectual Property

- 1.4** Creativity is the fundamental criterion for any creative work. Although it is difficult to give an exhaustive list of its attributes, it is generally agreed that the ability to display *originality, expressiveness* and *imagination* is vital for all economic and cultural activities. To contextualize this common understanding of creativity in this study, it is perhaps more relevant to regard the process of transforming creativity into tradable deliverables and services as the foci of our research. The linchpin in this transformation is the exploitation and deployment of intellectual property (IP), which comprises four groups of rights - *patent, copyright, trademark and industrial design*.¹

- 1.5** For most industries in the creative sector, their economic activities and value owe much to the generation, exploitation and protection of these rights. Yet a definition of creative industries based solely on this principle might not be totally sufficient or satisfactory. The antique market, for example, deals basically with the buying-and-selling of antiques; the transaction itself is not associated with IP. Operation of arts facilities, to take another example, has again nothing to do with IP, but their inclusion in the creative

¹ Cf. Howkins (2001).

sector without which performance could not take place, is justified. In these cases, the proximity to the distribution and consumption of cultural works within the creative sector overrides the consideration of intellectual property. In essence, the principle itself defines the proprietorship of intangible asset, and it helps define the legal framework for protection and exchange of original creation to distribution. We will examine these issues in more details in Section C.

Production of Cultural and Social Meanings

- 1.6** Creative industries earn their distinctive nature in society by generating or producing *cultural* and *social meanings* through the creation of text, image, sound or other multi-media forms. Equally important is the peculiar nature of the consumption of cultural products, which means at times more than behavior of economic exchange but conveyance and communication of meanings among users. The production and consumption of cultural meanings therefore entails greater impacts (social or cultural) than the restricted point where the products or services are created and delivered. For most creative industries of our concern, there could be stronger linkage with other sectors of both economic and non-economic nature, which intermittently provide creative input to production or serve as enabling factors for circulation of cultural meanings as well as idea communication. The end products of film, publishing, music, visual artworks or theatrical performance and design products are some exemplars for multi-layers of creation and consumption.

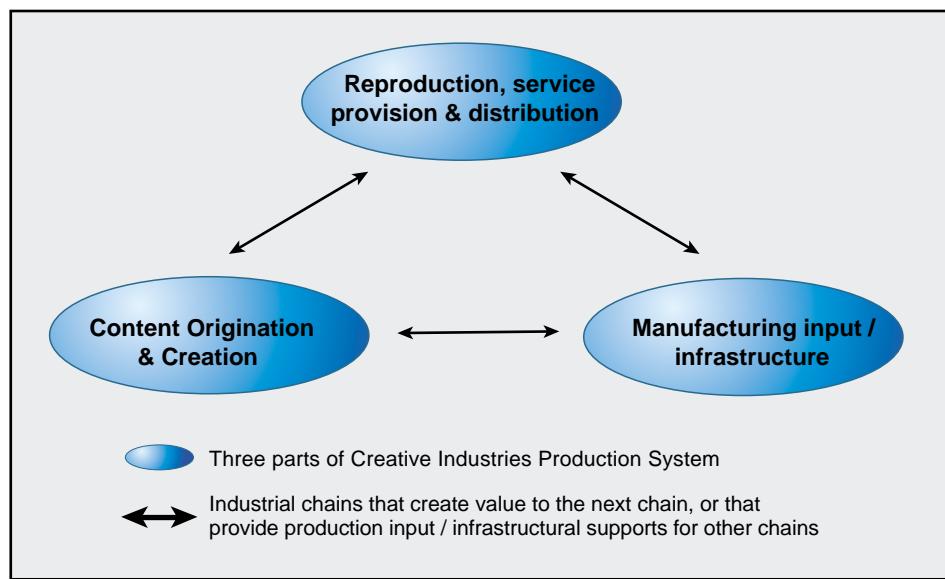
Creative Industries Production System

- 1.7** Discussion about creative industries usually focusses on content creation. Notwithstanding its utmost importance, our study views content creation as an aggregate part of a *production system*. A product or service of creative industries - take a music CD for example - is usually purchased at a vendor. There is no doubt that composing a piece of music is an act of content creation. However, the whole transaction of a music piece from the composition to the product delivered at the point of sale ranges with different parts of production, publishing and distribution, which invariably involve many practitioners: musicians, studio professionals, record-label publishers, commercial agents, marketing agents, vendor keepers and etc. The conception of a production chain allows us to comprehend the wider extent of creative industries and industry segments from content creation to reproduction, distribution and consumption.
- 1.8** The concept of CIPS follows basically the conventional conception of “value chain” to include those economic activities directly involved in the production of content, reproduction, distribution, and consumption of products or services of the creative industries.² Industries that provide necessary production input or infrastructural conditions for the creation of contents become another part of the chain.

- 1.9** For our study, we adjust the original CIPS concept to include only three groups of industries - *content production industries*, *industries that provide production input/infrastructural supports*, and *reproduction and distribution industries*. The adjustment is necessary for two reasons. First, sites of consumption could change anytime and anywhere, thus making the exchange of a creative product or service unlikely limited to a restricted point of sale. Second, sites of consumption in many cases are not too different from distribution channels and therefore it can be included in the distribution part of the value chain. An obvious example is newspaper consumption which is traditionally distributed via vendors; but being aggregated and distributed to other channels, news(paper) is now delivered through electronic database, mobile phone, and many forms of media to be consumed all at once.

 ² Our concept is derived from Andy Pratt's original idea of "cultural industries production system". Pratt (1997) defines the system into "original production", "production of the means of production", "reproduction and mass distribution" and "sites of exchange of rights to consume". Pratt's model has been applied to a number of studies on creative industries, for example, Dominic Power (2002), CURDS (2001) and COMEDIA (2001).

- 1.10** The three parts of the value chain of creative industries are now depicted in the following categories, and the following diagram makes a graphic presentation of the chain.



2

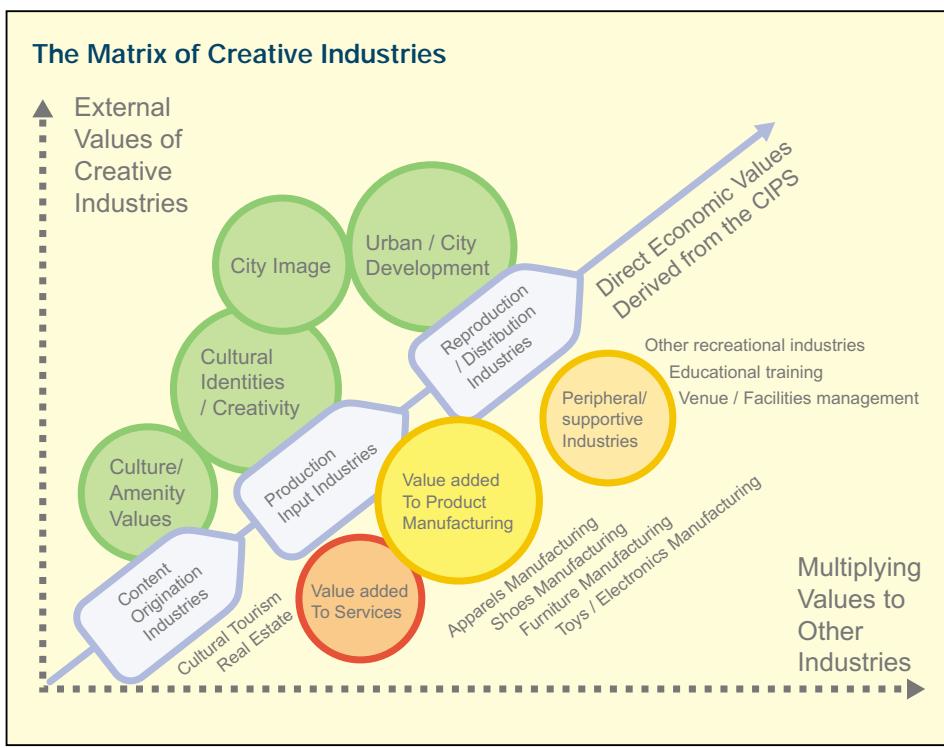
- i. **Content origination** refers to those activities *directly involved in the creation of contents* in all forms including digital, text, image or audio. When determining their nature, the employment of intellectual property and the generation of cultural meanings are the two underpinning concepts to be observed.
- ii. **Production input** are *those industries providing means of production or infrastructural supports to the production process* without which the creation would not take place in the same form as it is. An example is book binding, typesetting, or cutting and setting of precious stones. Without the direct input of these supportive industries, it is hard to imagine publishing industries or jewellery manufacturing could operate in their present mode. In some cases, production input is actually the core element in creating value for a particular group of industries. Internet and related telecommunication services would be the most relevant cases. The telecommunication network is formerly regarded as a passive "carrier" of information without a determining role in content. However, the whole sector, including Internet services providers, operators of mobile services and fixed-network telecommunications are increasingly bound with the supply of contents such as games and news delivery services.
- iii. **Reproduction and distribution** relate to those activities of reproducing original content for consumption, or activities directly enabling accessibility of products or services to market. The distribution of motion pictures or the publishing and retail of software packages, music records and computer games are the typical examples of the reproduction and distribution industries.

The Matrix of Creative Industries

- 1.11** The core of content creation might embrace segments of industries such as visual arts and crafts, performing arts, advertising, architectural design, design services (including graphic, jewellery, fashion, furniture, display and exhibit, toy and other industrial products), digital entertainment of animation, games, music, film and video, publishing, software, television and radio production.

1.12 The integral part of reproduction and distribution industries might include a huge range of activities that relate to trading and retailing of art works, architectural and surveying services, reproduction and distribution of games, music records, film and videos, printing services, theatrical production as well as the services provided by art venues, museums, game centres and vendors that supply the deliverables of creative industries. Other industry segments that provide Internet connection and services as well as manufacturing input to the creative processes of production could also be included.

1.13 The creative industries are not a self-sufficient production system. The sector interacts with other economic and cultural sectors, which invariably would result in an extended mapping of both tangible and intangible values brought to society and the economy at large. The following diagram portrays these multi dimensions of the creative sector with other economic and socio-cultural sectors.



3

1.14 The boundary of creative industries with other manufacturing and service sectors is increasingly blurred. The utmost importance of creative values in the process of manufacturing and the supply of services contribute to the pliable boundary. In theoretical terms, the more dependence of economic activities on design and symbolic resources for value added, the closer they could be drawn into the spectrum of the creative sector. A number of industries such as jewellery, toy, fashion and garment, furniture and electronics manufacturing are now increasingly integrated with the process of cultural creation - Sony and IKEA, for example, are well-known phenomena showing hybrid of creative design and manufacturing production.

1.15 Creative industries add values not only to manufacturing, but also to the service sector and the community as a whole. These *peripheral industries* either reinforce the value of

the sector or benefit from the presence of creative industries. The leisure and educational business of arts, for example, delivers elementary education and practice for a wide range of art forms encompassing pottery, painting, calligraphy, musical instruments and performing arts. These activities constitute a distinctive domain that closely relates to the creative sector but serves different markets (education and leisure) and audience (youth, parents and amateurs). Cultural tourism, on the other hand, capitalizes on creative industries to turn sites of cultural heritage into tourist attractions. With the employment of innovative design and multi-media technologies, the renovation, manipulation and presentation of heritage resources become conspicuously a key strategy in promoting local tourism. Reconstruction of cultural resources in space, image, tradition and text, to which creative workers could provide substantial contribution, has expanded conventional framework of heritage conservation from site specificity to a much wider framework of urban imagination and development so that the community and local economy could bank on the cultural resources.

- 1.16** The dynamic is indeed phenomenal when one refers to the relationship of creative industries clustered in a community and the development of urban space. The British Tate Gallery of Modern Art is housed in a disused power station and forms an integral part of urban planning to transform the wider area of South Bank in central London. Meanwhile, the overall strategy of the London Authority to develop more cultural facilities, commercial and amenity establishments in the vicinity effectively demonstrates the multiplying effects of the creative sector to urban development. The case of Tate Modern is not unique. Housing creative industries or a segment of industries in a geographic location for urban regeneration is happening in many places and cities. The community of artists and design groups as well as those supportive and entertainment services developed in Poblenou, a former industrial part of Barcelona, or the cluster of cartoon, animation, software and multimedia industries in Puchon of Seoul, are just two recent developments.
- 1.17** The multiplying values of the creative sector are not limited only to the areas mentioned above. The creative sector contributes to the configuration and reception of the cultural image of a city, which may owe partly to the success of the popular culture of film and media industries besides its historical uniqueness and commercial vitality. This accumulated intangible value is difficult if not impossible to measure; its evanescent nature could be sustained by the growth of creative industries to shape and transform our cultural identities and city image in the future.
- 1.18** The cross-sector dynamism of the matrix of the creative sector indeed defies conceptual boundary of a particular industry and is not easily reflected in the general economic picture. We will try to portray this qualitatively and as faithfully as possible in our industry analysis in Section B. It remains imperative for us to derive next a meaningful framework for evaluating the economic contribution of the sector.

2 Mapping the Industries

The Private Sector

- 2.1** The primary concern in our mapping exercise is about private corporations and their economic contributions to Hong Kong's economy. Although we recognize the significance of the government role in the constitution of the creative economy locally, our study follows the international benchmarking in focussing on the private sector. The public sector together with some missing gaps in the manufacturing sector and those due to methodological limitations of our mapping, will be dealt with separately in the next section 3.
- 2.2** Our study identifies 11 domains of creative industries as foci of analysis, which are shown in the following table:

Preliminary Mapping of Hong Kong's Creative Industries	
Industry Category	Sub-sector
Advertising	Advertising companies and agencies, public relation services, market research companies, advertising services, n.e.c.
Architecture	Architectural design, landscape design and structural engineering.
Art, antiques and crafts	Jewellery manufacturing, antiques, works of art and crafts, galleries, museums and visual arts (partial)
Design	Designing services, including fashion design, graphics, products, interior, and design services for furniture, shoes, toys and related articles
Digital entertainment	Interactive leisure software (games), animation, education and entertainment software
Film and video	Motion and video pictures companies, film studios, film processing, and cinemas and movie theatres, etc.
Music	Music recording and production, musical performance
Performing arts	Performing arts, live performance and theatrical entertainment
Publishing	Printing, publishing and allied industries (including comics and multimedia publishing)
Software & computing	Software consultancy, software services, data processing, web design & Internet applications, etc.
Television and radio	Television and radio production and related services

4

- 2.3** For media-dependent industries such as *publishing*, *music*, *film & video*, and *television & radio*, their economic activities involve creation and exchange of copyrights and generation of cultural meanings. Spin-off activities of these industries could result in different formats such as VCD, DVD, Internet deliverables and multimedia forms (CD-Rom or Internet contents) which are also copyright-based. Live performance and artist management are undoubtedly within the media industries; however, their activities are identified and tabulated by the current statistical system in a different category - "live and theatrical production" - which is also covered by our mapping.

Architecture





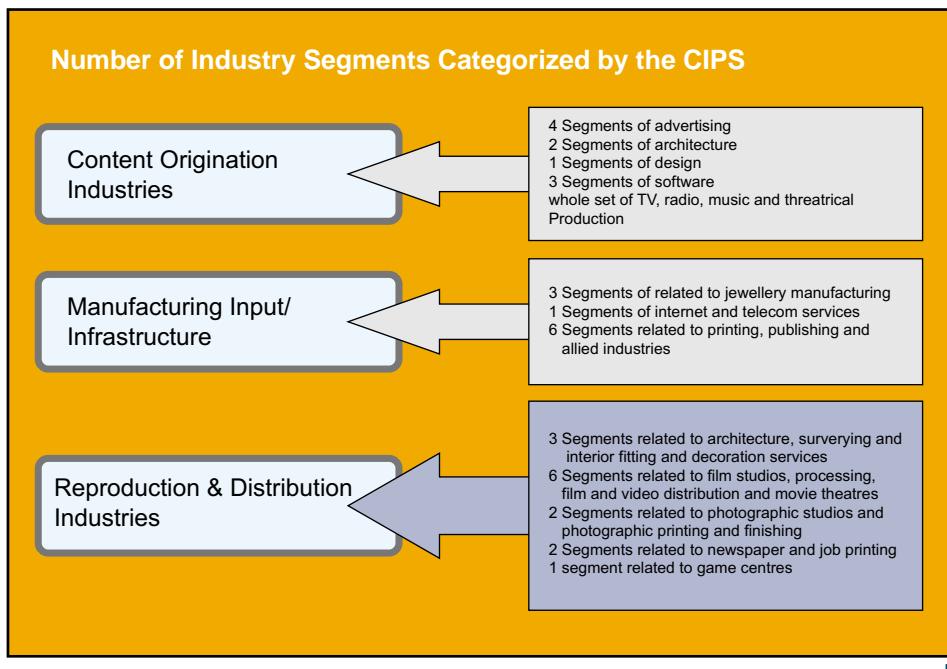
- 2.4** The core activities of *advertising* - both textual creation and visual presentation - are copyright-based. Market research houses hold copyrights of their deliverables too. However, media and miscellaneous advertising services deal with distribution and exchange of copyright materials (an advertising copy delivered to a media platform for example) while public relation services generate relational communication rather than intellectual property. Actual operation of these activities could be related more or less to copyrights and are included in our mapping because of their peculiar functions in the value chain of the advertising industries.
- 2.5** *Architectural design* is protected by copyright whereby architects demonstrate skills and creativity to provide quality services to different clients. The scope of the architectural field could be extended to cover not only architecture and interior design, but also landscape, urban design, physical planning, engineering and model making; and most of these activities are also copyright-based or protected by registration.
- 2.6** As for *art, crafts and antique markets*, individual artistic creation normally implies generation, exchange and distribution of copyrights. The sector encompasses a complex system of galleries, art and antique vendors as well as cultural institutions such as museums and providers of exhibition services. *Jewellery manufacturing* and in particular, *designer jewellery*, fall within this sector even though not all of their activities and economic contribution could be quantified because of data problem (to be explained below).
- 2.7** *Design industries* are protected by a system of registered design and trademark. Their scope encompasses graphic, fashion, interior and product design. The last is closely integrated with the process of manufacturing production which may include footwear, furniture, garment and textiles, toys, watches, electronic appliances and other consumables. While we recognize that the value added of these products is closely linked to the input of a good design, it is technically infeasible to include this derived economic value in the total output of the sector, which would otherwise inflate grossly the overall figure. This problem is to be examined in more details in the next section 3.
- 2.8** *Software* and *digital entertainment* constitute two distinctive segments for analysis although they have overlapping areas. Software industry is relatively defined. It is both product and service oriented and its deliverables are diversified. Digital entertainment cuts across the production and service sectors, which include animation, digital publishing, supply of computer-effect services, game design and production of digital music and multimedia formats etc.³ Both sectors are copyright-based and their deliverables (products or services) could be licensed and transacted in different formats and fields of application.

Distinctive Features of Mapping

- 2.9** Besides the industries of content creation and origination, our mapping incorporates the value chains of “production input” and “reproduction and distribution” closely related to content production, thus allowing the creative sector to include:
- supportive industries for the manufacturing of jewellery and related articles, and supportive industries for publishing and printing industries
 - Internet services and a part of telecommunication services that provide infrastructural support to other creative industries; and these segments increasingly converge to the newly defined economic position of content drivers and distributors;

³ For more elaboration on the categorization of digital entertainment, please refer to the section on “Data Sources” in this chapter and chapter 5 of Section B.

- supportive segments of the architecture industry (for example, architectural, surveying and project engineering or interior fitting);
- segments of photographic studios, photo-printing and finishing and electronic game centres - the former two items are supportive activities related to advertising and media industries while the last represents points/sites of distribution of computer game services.
- The inclusion of these segments and their categorization in the Creative Industries Production System (CIPS) is shown in the following diagram.



5

- 2.10** The industry boundary of the mapping list (2.2) is by no means fixed as the table suggests. Animation and digital game design, for example, are multi-sector activities that could relate to software, film and design industries while hand-held figures could be spin-offs from toy design, comics or publishing industries. The internal dynamics and intra-linkages between creative industries and other sectors are not reflected in the current standard classification of industries. We aim to present a more comprehensive rapport of these dynamics in a subsequent chapter of industry analysis.



4 Value added is a standard measurement employed in statistical counting to estimate the contribution of economic units to a local economy. Value added of an economic unit is derived as output less by intermediary consumption used in production (such as rent or purchase of materials/services). The value of labour, capital and return to entrepreneurship would then become components of value added.

Data Sources

- 2.11** Our method of measuring the economic value of the creative sector to the local economy is by assessing the creative sector's value added to the economy.⁴ The analysis is derived from statistical data from the Hong Kong Standard Industrial Classification (HSIC), an indexing system categorizing economic activities according to division of agricultural, manufacturing and servicing sectors, with each sub-divided into a wide range of industry groups. Data collected by annual surveys and from different industry categories then form the statistical source for counting the number of establishments, number of engaged labour, business turnover and value added to the GDP to give an overview of a particular economic sector and the Hong Kong economy as a whole. We solicit relevant codes of the HSIC for the creative sector and map their values using the concept of CIPS. Details of the codes selected in our mapping framework are enclosed in **Appendix 1**.

2.12 Our categories of creative industries (2.2) do *not tally perfectly with* the industry classification of the HSIC. This leads to either under- or over-estimation of figures. In summary, the limitations include:

- i. *Exclusion of groups of industries without a corresponding HSIC category:* apart from Internet café or on-line game centers, the nascent industry of digital entertainment does not tally with a corresponding category in the HSIC. We believe activities of this segment would quite likely be spread into different categories of the HSIC (e.g. computer games into IT or related services, animation films into motion pictures industries, or edutainment into electronic and publishing industries), but there is no way to ascertain their extent and amount. Ironically, where the HSIC does provide a category for things like museums and libraries, no figure at all is given.
- ii. *Exclusion of relevant segments of industries with HSIC codes whose values cannot be disaggregated from other unrelated industries:* a substantial number of relevant industries such as jewellery, antiques, crafts, galleries, computers and computer software, books and publications categorized in the wholesale and retail sections of the HSIC are now mixed with other wholesale and retail activities (e.g. Chinese medicine or general merchandise) with their values counted in bulk. Besides, activities involving self-employed persons such as composers, singers, artists, actors, entertainment performers or news agents are supposed to be included in the "amusement and recreational services" segment of the HSIC, but again with no separate available figures.
- iii. *Counting of relevant groups of industries whose values cannot be disaggregated leading to some limitations in their categorization under the CIPS:* different segments in the advertising industries, publishing and printing industries, and the media industries at the moment cannot be disaggregated. While this does not hamper the economic assessment of the respective economic group as a whole, it prohibits a more accurate categorization of the industry under the CIPS.

2.13 Our study anticipates that these methodological barriers would be minimized when the current practice of data collection and classification is improved. Continual improvement of the existing HSIC is undertaken by the Census and Statistics Department and it is worth mentioning that discussions among data collector (the C&SD), data users (academics, researchers and analysts) and data suppliers (corporations) are promoted by the Department from time to time.

Economic Contribution

2.14 Using the CIPS and discounting the limitations above, we could map the creative sector in Hong Kong as follows:

the Creative industries contributed a total HK\$ 46,101 million to the local economy in 2001, accounting for 3.8% GDP in the same period. Breakdown of each segment's value in 2001 is shown in the following table while the time series data and the percentage of change of creative industries are enclosed in **Appendix 2&3**.

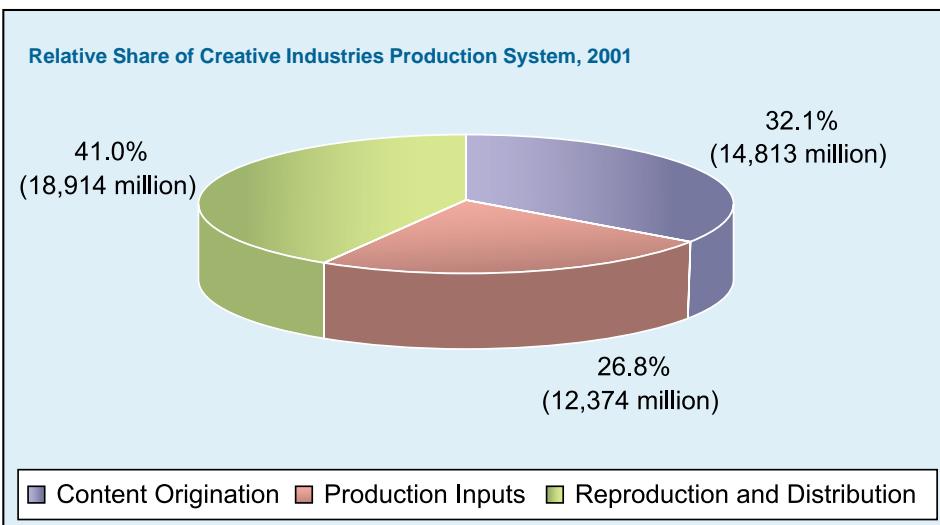
2.15 Our estimate of the value added of creative industries is slightly different from a previous study undertaken by the Trade Development Council in 2002, in which five industry groups (advertising, architecture, IT-related services and film industries) are estimated to contribute about 2% of Hong Kong's GDP.⁵

⁵ HKTDC (2002), "Creative Industries in Hong Kong", *Trade Watch*, September.

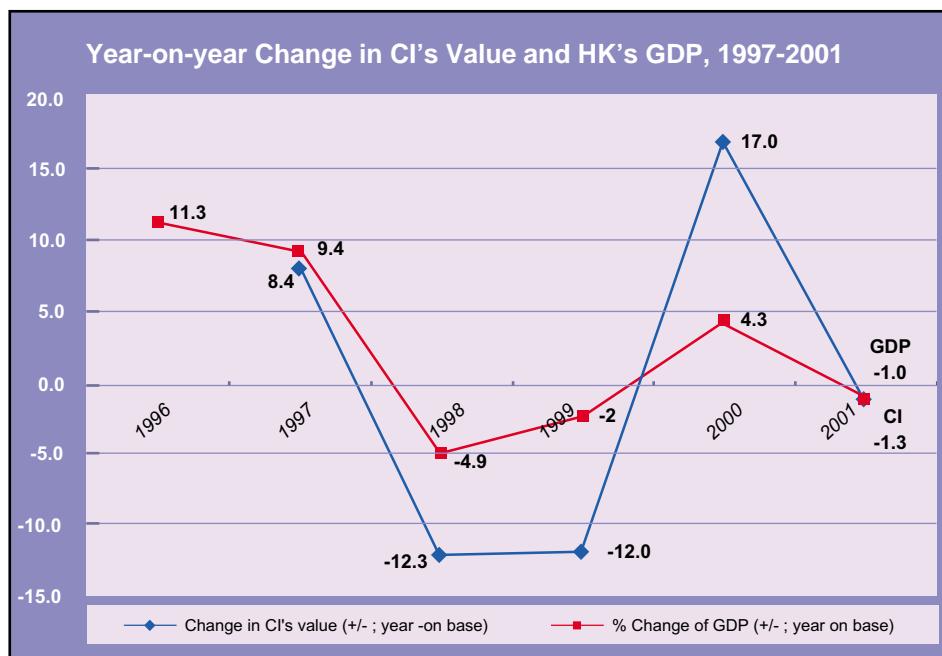
Value added of Creative Industries to Local Economy, 2001		
	2001 (HK\$ million)	% share of aggregate value
Jewellery and related articles, manufacturing (HSIC 3902)	2,199	2.6
Advertising & related services (HSIC 8336)	3,179	6.9
Architectural, survey and project engineering services related to construction and real estate services (HSIC 8334, 5311 and 5318)	9,568	20.8
Design services (HSIC 8339)	768	1.7
Motion picture and other entertainment services (HSIC 9401, 9402, 9403, 9406 and 9407)	1,111	2.4
IT and related services (including software development, data processing, and related services) (HSIC 8333)	4,433	9.6
Internet and telecommunications services (HSIC 7329)	7,854	17.0
Photographic studios (HSIC 9592 and 9593)	596	1.3
Printing, publishing and allied industries (HSIC 3421, 3422 and 3429)	12,309	26.7
Television, radio stations & studios, theatrical production and performance, and other recreational services (HSIC 941)	4,870	10.6
Electronic games centres (HSIC 9497)	214	0.5
Aggregate value of Creative Industries	46,101	100%
Share of GDP	3.8%	

Extract from Appendix 2

- 6 Regrouping of industries is required when the CIPS is applied. As for content production industries, we only include advertising, two segments of architectural services (architectural design and architectural design and structural engineering), design industry, the IT related services (software and data processing, etc.) and the bulk sector of television, radio, theatrical production and performance. Manufacturing of jewellery and related articles, Internet and telecommunications and part of the printing in industries are grouped into "production input industries". Finally the "reproduction and distribution industries" include the remaining parts of architectural services largely composed by interior fitting and surveying and project engineering, motion pictures, photographic studios, newspaper printing, job printing and electronic games centre.



- 2.17** In terms of percentage share of the GDP, the total value added of the creative sector decreased from HK\$ 47,715 million in 1996 to 46,101 million in 2001, with a similar decline in its share of the GDP from 4.1% to 3.8%.⁷ These figures reveal a contraction of economic value of the creative sector in the period. At the same time, it can be observed that the performance of the creative industries seems to exhibit a pattern of volatility: rocketing rebound when the general economic condition is promising but sliding plunge during economic downturn.



⁷ The year-on-year change in CI's value does not include the year 1996 because of inconsistency of data (in particular the IT sector in 1995).

⁸ This result contradicts the international trend of a generally higher growth rate of the creative industries over the average annual growth of GDP. Our survey base years unfortunately were among the worse economically in the recent past of Hong Kong. If the base years were to include the positive growth periods, e.g. the early 1990s, the picture might have been very different. It can be observed that the positive growth figures of creative industries as quoted by other countries are either taken during their economically better times or over a very long and extended period of say, 14 to 24 years (Cf. Appendix 8).

- 2.18** The same explanation could be applied to the year-on-year change in the value of different segments in the creative sector. As shown in the table of **Appendix 3**, only a number of segments in the creative sector demonstrated positive growth in 2001. *Jewellery manufacturing* (including cutting and setting of precious stones as well as goldsmithing) recorded a 9.9% increase while other segments with growth include: *architectural design and structural engineering* (44.19%), *combination of interior fitting and decoration* (37.81%), *designing services* (22.29%), *Internet access services* (25.52%), *photographic studios* (2.44%), *newspaper printing* (22.79%), *job printing* (0.08%) and the sector of *TV, radio and theatrical production* in a basket (20.96%). However, growth in individual segments in a single year would not offset the general contraction in the value of the creative industries.
- 2.19** Value added of most segments of creative industries decreased in comparison to the base year of 1996 (**Appendix 3**). In terms of average annual growth, only a few segments including software development and IT related services (7.5%), newspaper printing (4.2%), the aggregated segment of book binding, label embossing, printing and publishing and allied industries (2.4%) and the sector of TV, radio and theatrical production (10.7%) demonstrated positive growth between 1996 and 2001. The creative sector as a whole recorded an average annual growth of -0.7% while the average annual growth of the Gross Domestic Product (GDP) during the same period maintained 1%.⁸

3 Missing from the Mapping

3.1 Apart from the limitations of data sources cited in 2.12 which might render our mapping of Hong Kong's creative industries to some extent incomplete, there are also three major areas uncovered in this exercise which merit further research and accounting in order to present a more comprehensive view of the full extent and impact of the creative sector in Hong Kong: *the manufacturing sector, cultural tourism and the government*.

The Manufacturing Sector

3.2 Interaction between the creative sector and the manufacturing industries is inextricable. On one hand, creativity is crucial for product enhancement, differentiation and innovation. On the other hand, the creative sector also capitalizes from the manufacturing sector: e.g., film, computer games, comics, publishing and animation industries provide rich "contents" for the generation of by-products, which results in cross-sector synergy within the creative sector itself, and at the same time in licensing copyrights and trademarks for the manufacturers of toys, watches, figures, dolls as well as stationery.

3.3 Although the manufacturing sector now constitutes only 5.2% of Hong Kong's GDP in 2001, the economic returns of some manufacturing segments are still impressive. The *wearing apparel* group (exclusive of textiles and footwear) produced a gross output of \$26.5 billion in 2001 and generated \$4.6 billion value added to the local economy while the segments of *electrical appliances, house ware and electronic toys* recorded \$165 million in gross output and \$63 million in value added, *electronic watches and clocks* \$2.8 billion and \$981 million, and *rubber, plastic and metals toys* \$467 million and \$170 million respectively. In total, the manufacturing sector in 2001 contributed \$61.8 billion value added to the local economy, \$5.8 billion or 9.4% of which came from the aforementioned four segments.

3.4 To measure the economic relationship between the manufacturing and the creative sector is not easy. First of all, the creative process in some cases is internalized within a corporate structure, particularly those concerned with original brand-making where the value of creative input is not explicitly quantified (cross-sector production is of course a competitive advantage but it burdens industry research with ambiguous and always changing scope and boundary of the manufacturing industries). Secondly, a substantial part of manufacturing production in Hong Kong has already been relocated to the Mainland, thus rendering a regional economic perspective necessary for studies on integration of the creative sector with manufacturing industries. A mapping study in this regard in the PRD would be illuminating.

3.5 Our mapping of the economic contribution of creative industries does not include their "spill-over values" to the manufacturing sector, thus rendering a very conservative estimate of the CIPS. However, we do recognize that this indirect economic impact of creative industries should be seriously studied in future with detailed industry surveys on the ratio of expenditure in design and R&D for individual segment of the manufacturing sector so as to measure more accurately its input and output value. The C&SD has been collecting data related to R&D activities in the business sector since 1995, and the recent *Survey of Innovation Activities in the Business Sector* provides an overhaul about the distribution of resources to R&D among three industry clusters including "manufacturing", "wholesale, retail, import/export trade, restaurants and hotels", and

"financing, insurance, real estate and business services." According to the survey, total expenditure (current and capital expenditure) of in-house R&D activities accounted for \$2,083 million in 2001 (or 0.16% of GDP), the manufacturing sector shared 21.1% (or \$440 million). And 61.3% of current expenditure for R&D activities in the manufacturing

sector was invested in product development.⁹ This general picture would provide a base for further inquiry on the R&D investment in individual segments such as toys, textile and wearing apparel, electronic appliances or eyeglass industries where design and innovation inputs are relatively in strong demand.

Cultural Tourism

3.6 Tourism is one of the drivers of Hong Kong's economy. In 2001, Hong Kong attracted 13.7 million of incoming visitors, representing a growth of 4.5% over the 13.1 million in 2000 and 6.2% over the 12.9 million in 1996. According to the official estimate, business receipts from visitors recorded \$64.2 billion in 2001 while the average per capita spending of visitor arrivals in 2001 was \$4,532.¹⁰

3.7 A survey conducted by the Hong Kong Tourism Board in 2001 reveals the potential of tourism to capitalize from the cultural, entertainment and creative sector. Among the top eight places visited, theme/entertainment park, heritage and cultural sites and cultural markets occupy a substantial percentage; meanwhile, respondents showed keen interests in the appreciation of heritage sites, traditional Chinese festivals and art/cultural exhibits amidst gourmet dining and green tourism. The survey also points out that arrivals' expenditure on shopping totalled \$31.2 billion in 2001, of which \$7.3 billion was derived from jewellery and \$658 million from souvenirs and handicrafts.

Hong Kong's Top Attractions / Special Interest Activities in 2001				
Ranking	Places Visited	% of Visitors	Special Interest Activities	% of Visitors
1	Victoria Peak	41	Gourmet Dining	43
2	Ocean Park	25	Heritage	27
3	Repulse Bay	23	Traditional Chinese Festivals	26
4	Open Air Markets	18	Green Tourism	24
5	Wong Tai Sin Temple	18	Art / Cultural Exhibits	22
6	Convention Centre	16	-	-
7	Aberdeen	12	-	-
8	Stanley Market	10	-	-

Source: HK Tourism Board (2001), A Statistical Review of Hong Kong Tourism, pp. 8 and 22.

9

3.8 Leveraging on local culture, heritage resources, and leisure/entertainment services for tourism is known as *cultural tourism* - by which aesthetic and cultural experiences could be realized as site-specific, or consumed as deliverable services and products. Cultural/heritage resources include museum, festival events, temples and churches, historical places and architecture, and *theme parks* such as Ocean Park, Marine Centre and Disneyland, which could offer multi-functions of education, leisure and tourism. A good example of this clustering effect of urban heritage and tourism is Man Mo Temple in Sheung Wan, with an adjacent open market on Lascar Row and antique shops and galleries on Hollywood Road, demonstrating consumption of *heritage and cultural products* are well integrated with tourism and community economy.

⁹ The Census and Statistics Department, Report on 2001 Annual Survey of Innovation Activities in the Business Sector, 9 & 37-41.

¹⁰ The amount of \$64.2 billion includes \$2 billion derived from spending by servicemen, air-crew members and transit passengers.

3.9 The economic value of cultural tourism, however, is not easy to be measured, and before a clearer conceptual framework is developed, it is not included in our mapping. At present the business of theme park is covered under the category of “community and recreation services” by the C&SD; however, since the market has only one player so far, it is prejudicial to disclose the economic data under this circumstance. Economic activities of museum and heritage sites could be mapped in many ways as in other countries: as under “libraries, archives and museums” in Finland, or “historic heritage and amusement parks” in Spain, or “museums, historic site and other institutions” in the United States.¹¹

3.10 Another difficulty in including the cultural tourism sector in our mapping is lack of data, because museum service in Hong Kong is basically a public service with no record of receipts from admissions, food and beverage sale, merchandise sale and other receipt data for research. The consumption of cultural goods, such as the sale of antiques, artifacts, souvenirs, handcrafts and gifts theoretically could be tabulated if the total value of wholesale and retail sectors now reported in the annual survey by the C&SD could be further disaggregated to show the value of each individual segment. But even with this improvement on data collection, the difficulty remains in differentiating the value specifically derived from cultural tourism from the sum of general merchandize.

3.11 There is a more contestable issue about the estimate of “indirect” consumption derived from cultural tourism: besides hotel lodging, airfares and services of travel agents that benefit directly from tourism, there are a wide range of economic activities including travel expenses, utilities, food and beverage consumption, insurance, business services incurred, and miscellaneous merchandize of visitors to museums or cultural sites that could be counted as derived benefits or indirect value contributed to the local economy. So far, there has been no study to estimate the multiplying value of tourism, and similarly the multiplying effect of other creative sector on the economy, which we have not dealt with in this report. It is an area worthy of attention and we include a preliminary report collaborated with our consultants from Singapore on how this might be done (Appendix 9).¹²

The Government Sector

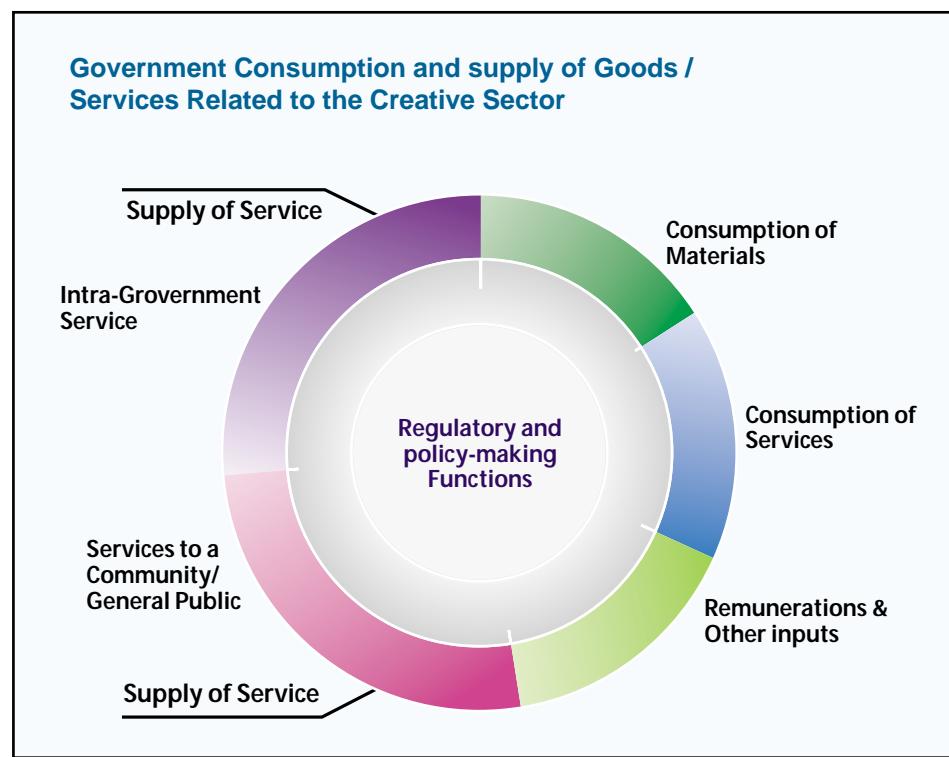
3.12 Statistical measure of national economy normally regards government and non-profit organizations as one of the producing units of an economy because they provide “services” such as education, social services and health services for communal consumption. Given this perspective, one may measure the relative shares of different economic units in the gross domestic product of the local economy. According to the latest figure, the share of public expenditure in Hong Kong has reached 21.5% of GDP in 2003.

3.13 To examine the relevance of the public sector to creative industries, one may begin with the expenses of government units for policy-making and supply of services, where research provided by third parties, and copyright materials like software licenses or audio-visual and printed materials are often required and consumed. In addition, professional services of various kinds including those from the creative sector are sometimes necessary to government operation. All these are indeed the *government demands* on the creative industries. On the other hand, some government units also provide intra-government services to other units or services to the community. These units are therefore *providers of services* (tangible deliverables, or as indirect providers to allocate funds and subvention). The Architectural Services Department, for one, is a provider of intra-

¹¹ Appendix 6 shows the mapping of Finland and Spain; for the United States, please refer to US Department of Commerce (1997), *Economic Census, Arts, Entertainment and Recreation*.

¹² The Singapore Tourism Board commissioned a study of the impact of the arts and entertainment industry on the economy of Singapore in 1997 and published a report *Dollars and Sensibilities* in which the multiplier for value added and employment were found to be 2.8 and 1.6 respectively (i.e. for every dollar spent on arts and entertainment, another 1.8 dollars income is generated elsewhere in a related industry; similarly for every job created in the arts, another 0.6 job is created indirectly).

government services to other departments; Radio Television Hong Kong (RTHK) and Leisure and Cultural Services Department (LCSD) are providers of services to the community at large. The following diagram shows this complex relationship within the government sector as both demander and supplier of deliverables akin to the creative sector.



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3.14 A number of government bureaux and departments relate closely to the creative sector. They either serve regulatory function and the role of policy-making for the sector, or provide and manage services akin to services provided by the creative sector. A preliminary selection of 11 units (bureaux, branches and departments) shown in the following table are relevant to our discussion, their estimate expenditure for the financial year of 2002/03 totalling \$9.1 billion, accounting for roughly 4.5% of the gross expenditure in the same fiscal year.

Estimates of Selected Government Bureaux/Departments, 2002-03 (in HK\$)					
Total Expenditure of HKSAR Government	204,658.1 m	Policy Domains Most Relevant to Cls	Estimates for Relevant Domain	Outsource & Hire of Services	Recurrent / Non-recurrent Expenses on Programs and Subventions
Commerce & Ind. Branch of CITB	117.9 m	- Regulatory and Policy-making (Economic Policies)	117.9 m	-	
IT & Broadcasting Branch of CITB	137.4 m	- Regulatory and Policy-making (Broadcasting & IT)	137.4 m	-	
Econ. Development Branch of EDLB	116.6 m	- Travel & Tourism (Regulatory and Policy-making)	43.8 m	-	
HAB	225.1 m	- Culture (Regulatory and Policy-making)	20.0 m	-	
TELA	96.2 m	- Regulatory functions (Broadcast monitoring, support services to film industries, film classification and entertainment licensing)	96.1 m	-	
Architectural Services Dept.	1,588.6 m	- Intra-government Services (facilities development)	607.3 m	33.6 m (/gross expenditure)	
Information Services Department	390.0 m	- Public Relations Outside	87.4 m		
-		- Local Public Relations and Public Information	160.8 m		
-		- Public Opinion	19.9 m		
-		- Civic Responsibility	34.0 m		
-		- Publishing	87.9 m		
-		- Brand HK (local & overseas project, 2002-03)	9.8 m		
Information Tech. Services Dept.	595.8 m	- Use of IT in Government / Community		86.0 m (/ gross expenditure)	
Leisure and Cultural Services	5,175.6 m	- Heritage & Museums (preserve heritage and provide museum services, incl. film archive)	577.2 m	-	
-		- Performing Arts (to manage civic centres, presenting & promoting cultural programs & subventing 4 arts groups and 1 Festival)	1,055.7 m	-	1) Cultural presentations, entertainment, activities & exhibition 2) Library materials & multi-media services 3) Artefacts & museum exhibitions 4) Leisure & culture subvention
-		- Public Libraries (to provide, manage and develop library services)	730.9 m	-	187.5 m 103.5 m 48.3 m
-		-		-	229.9 m
Printing Dept	201.9 m	- To produces a wide range of printed materials, including publications, government forms and paper stationery, etc.*	201.9 m	-	
RTHK	501.8 m	- Radio	211.7 m	-	
-		- Public Affairs TV	226.1 m	-	
-		- School Educational TV Production	48.9 m	-	
-		- New Media	15.1 m	-	
Subventions (Non-Dept. Public Bodies)		- HK Academy for Performing Arts	190.5 m	-	
		- HK Arts Development Council	108.7m	-	
Gross total of 11 Units	9,146.9 m	Sub-total of Expenses on Domains Relevant to Cls	4,789.2 m*		
		* Sub-division as follows:			
		Expense of Regulatory Units	415.3 m		
		Expense of Service-oriented Units	4,074.7 m		
		Expense of Subvented Units	299.2 m		

Source: Estimates 2004.

Note: CITB: Commerce, Industry and Technology Bureau; EDLB: Economic Development and Labour Bureau; HAB: Home Affairs Bureau; TELA: Television and Entertainment Licensing Authority



¹³ Programme of Special Finance Committee Meetings to examine the Estimates 2003-04: Administration's Replies to Members initial Written Questions, Legislative Council, HKSAR Government.

¹⁴ According to International Data Collection (2003), *Figures on IT Spending*, April, the total IT spending in Hong Kong was US\$2.52 billion (or HK\$19.66 billion) in 2002. (http://www.idc.com.sg/Press/2003/AP-PR-Spore_ITMkt_April2003.htm)

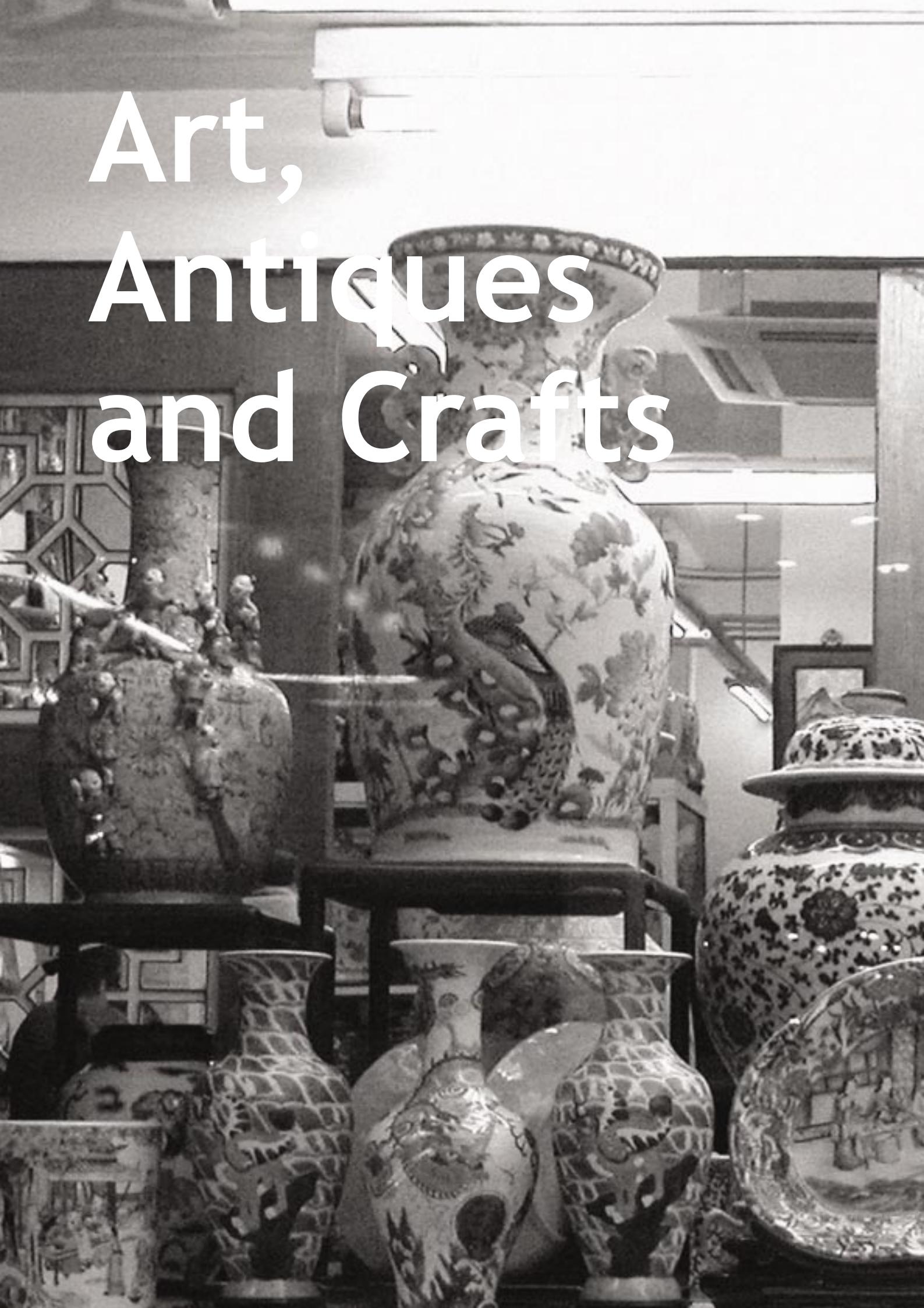
- 3.15** Expenditure relevant to the regulatory and policy domains of creative industries amounts to \$415.3 million. Although this has nothing to do with direct input to the production of creative industries, cost absorbed in their operation would occasionally incur services and materials provided by the sector. For example, the ITBB contracted \$56.9 million for a number of consultancy studies between 2001 and 2003 while the Economic Development Branch of EDB spent \$12.1 million on consultancy studies related to tourism and the Tourism Board.¹³ As for the Home Affairs Bureau, culture related studies were billed for \$5.9 million, of which the Information Services Department's "BrandHK" study alone cost \$3.7 million.
- 3.16** A sizeable number of consultancy and research studies are unlikely to be conducted by market research houses mapped within the creative industries but by professional organizations, accounting or legal firms, universities as well as qualified individuals. The value of these studies (about \$75 million in total) could create an effective demand for research business. Besides these service inputs to policy-making, one may also consider the copyright expenses of the government units. There is by far no publicly available account of copyright fees for software licenses, audio-visual and printed materials consumed within the government. Yet, copyright fees paid by the Information Services Department to news agencies and information aggregators are estimated to be more than HK\$1 million a year. All these are only tips of the iceberg, given that other government departments/units would acquire research services and copyrights on their own accounts, to demonstrate the potential market of research and copyright consumption that the government could enable.

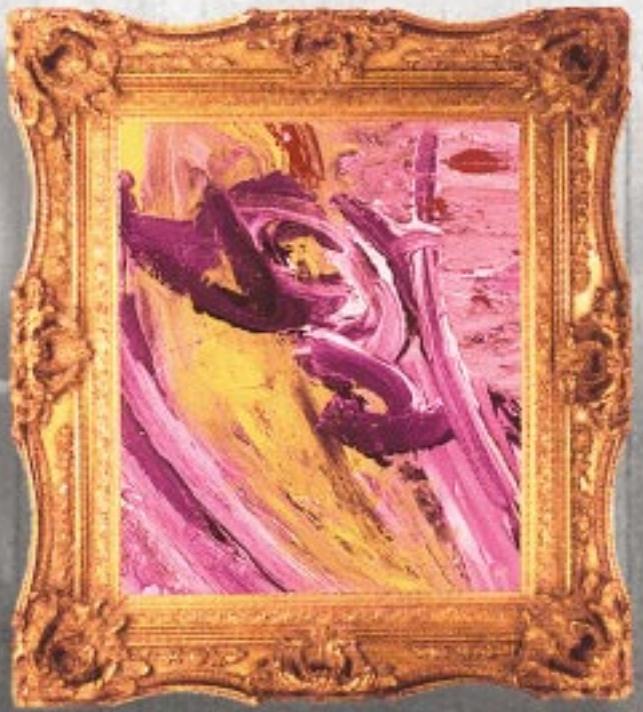
- 3.17** As regards supply of services, the role of the government sector is more dynamic and complex. The relevant domains of six government departments shown in the table (3.14) incurred \$4 billion of expenditure besides two subvention of \$299.2 million allocated to the Hong Kong Academy for Performing Arts (APA) and the Arts Development Council (ADC). In essence, expenditure on supply of services is not necessarily comparable to economic output of industries. However, certain areas might provide parallel analysis. The essential service of facilities development provided by the Architectural Services Department is one example. Estimate of the total expenditure of the department recorded \$1,588.6 million in 2002-03 while only \$33.6 million (or 2.1%) was through hire of services. The reasons for hiring outsource practice are of course many, but increase of ASD's services to be done alternatively by the market would undoubtedly be beneficial to the development of the private sector.

- 3.18** The Information Technology Services Department (ITSD), Printing Department and RTHK share similar situations as the ASD. The ITSD is one of the most important incubators for local software and IT industries. Hire of service already occupies 14.4% (or \$86 million) of its estimate of \$595.8 million in 2002-03. However, it should be pointed out that this figure is by no means the government's total expenditure on information technology.¹⁴ The PD has re-instated their willingness to increase portion of outsource services while the RTHK has been developing collaboration in programme production with market/cultural practitioners. All of these reinforce a view that service provision within the government sector could be further absorbed by the market and in particular, the creative sector.

- 3.19** The case is somewhat different with government services in arts and culture. Expenditure on museums, archives, performing arts and public libraries totalled \$1.8 billion in 2002-03. There is no accurate figure showing the “market demand” brought by the cultural units of the government sector but the round figure of one billion on acquisition of library materials and multi-media services and another 48 million on artifacts and museums exhibition indicate that part of the sum could be absorbed by the publishing, arts and multi-media markets. In addition to direct consumption of materials and services probably by the creative sector, sponsorship and subvention to cultural presentations and cultural organizations is a sizeable undertaking by practitioners and cultural organizations in quest of creative excellence and providing cultural services to the public. The nature of subvention to the cultural sector is seldom measurable in terms of economic return and profitability. However, it does not mean that the discussion on “outsource” or “hire of service” is irrelevant in this service domain. Management of cultural venues and curatorship of programmes, for example, could be provided by professional services or in collaboration with outside practices.
- 3.20** Given the sizeable amount of expenditure in areas related to the creative economy, the government sector is apparently an important *market incubator* and *driving force* to *nurture the growth and diversity* of the creative sector. Government’s demand on materials and services is one of the factors enabling the growth of creative industries. Given that the demand is quantified and its realization fully effective, it could become an economic thrust for the industries now providing services on advertising, architecture, design, R&D, copyrights materials, information technology and cultural services. The government sector is meanwhile an active *service provider* whose deliverables are somewhat proximate to those of the creative industries. This blurring role of the government and its competition with the private sector is a subject of dispute and a noticeable issue to be examined thoroughly: whether flexible arrangement could be devised so as to encourage greater extent of market operation and collaboration with the creative sector.

Art, Antiques and Crafts







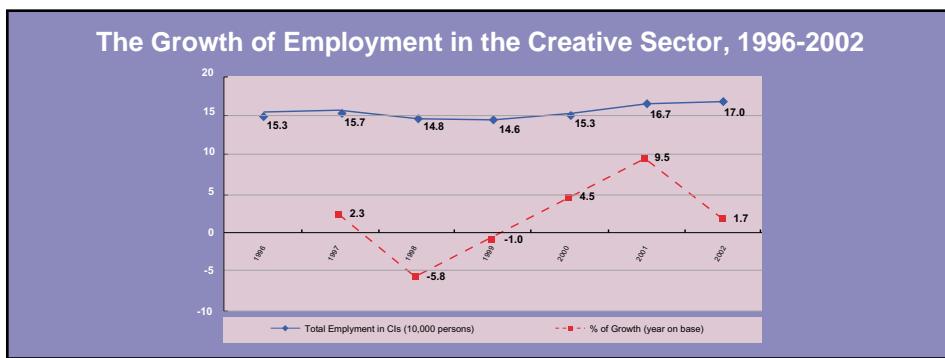
SECTION A

Mapping the Employment of Creative Industries in HK

This chapter outlines the parameters in mapping the employment of creative industries and analyses the characteristics of the creative workforce in Hong Kong.

1 The Creative Sector as a Growing Labour Market

- 1.1** Employment in the cultural field has long been a subject of neglect in public policy. Workers in arts and culture are seldom the focal concern of labour policy, nor are designers and architects, workforce of information technology and multi-media, writers, film and media workers as well as entertainment personnel analyzed within a co-essential framework that shares similar features of working conditions and employment relationship. It is only until the recent decade that the creative/cultural sector has been recognized as an economic and social force that promotes employment.
- 1.2** The rising importance of the creative sector as an employment market has been well documented. The cultural sector of the European Union, for example, was estimated to have employed about 3 million workers in 1995, demonstrating uneven but positive growth among the fifteenth EU member states. In the UK, employment in the creative sector had increased from 1.45 million in 1994 to 1.95 million in 2001. In the US, total employment of the copyright industries has more than doubled from 3 million in 1977 to about 8 million in 2001. Likewise in Singapore, employment in the copyright industries rose from 30,700 in 1986 to 72,200 in 2000, representing an average annual growth of 6.3%.
- 1.3** Hong Kong's creative industries have grown from the solid base of the service economy. The creative sector is now employing a sizeable workforce with prospective growth when both the manufacturing and service sectors are looking for new mode of service supply and value-added production.
- 1.4** Our study is based on the Census and Statistics Department's *Quarterly Survey of Employment and Vacancies* (hereinafter referred to as the *SEI*).¹ In 1996, there were 25,342 establishments engaging 153,190 persons in the sector. Adverse economic conditions since 1997 had entailed some job loss. Despite the intermittent decline, the sector as a whole demonstrated a gradual employment growth during the seven years between 1996 and 2002. As shown in the following table, the number of establishments increased to 30,838 with total employment reaching 170,011 in 2002. Generally speaking, the creative sector demonstrated consecutive growth on year base and rebounded from the lowest ebb of -5.8% in 1998. Throughout the period of our study, the creative sector demonstrated an average annual growth of 1.8% against an average 0.8% total employment growth in the same period. The creative sector's share of total employment is also growing: 5.3% in 2002 against 5% in 1996.



¹ The tabulation of employment statistics follows basically the categorization of our economic mapping. For a brief note on employment figures, please refer to **Appendix 4**.

1.5 Despite growth of the sector as a whole, not every segment of the creative industries enjoyed employment growth annually. Some segments suffered negative year-on growth as well as average annual growth in the year 2002 while others recorded positive growth in both. Employment in *Antiques, crafts and jewellery* segment, for example, suffered a year-on growth of -10.3% in 2002 while its average annual growth between 1996 and 2002 was at -4%. Other segments that recorded negative growth in both terms include *advertising and related services, architectural, surveying and related services, printing and publishing, and theatrical and entertainment services*. Employment in *motion pictures*, though exhibiting a year-on growth of 10.8% in 2002, had -0.3% average annual growth. *Television, radio stations and studios* registered similar pattern with their year-on growth at 41.6% in 2002 but average annual growth at -4.0%. *Designing services, software and IT related services, library and art galleries, and amusement parks and games centres* enjoyed both positive year-on growth and average annual growth in 2002.

The Employment Market of Individual Segment of Creative Industries

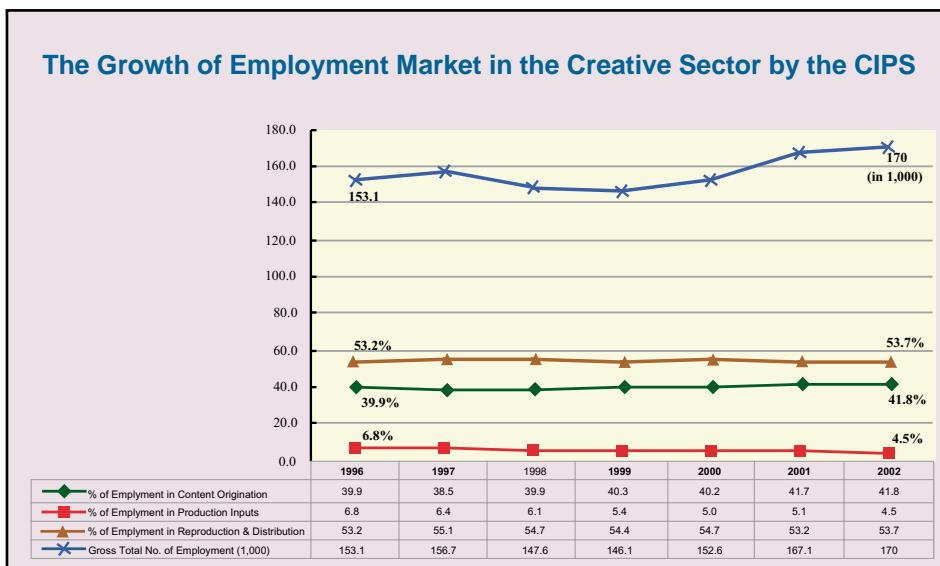
	1996	1997	1998	1999	2000	2001	2002	AAG (96-02)
Antiques, crafts, jewellery and related articles	26524	25877	21995	20818	22980	22648	20323	
% of Growth of Individual Sector on year base	-	-2.4	-15.0	-5.4	10.4	-1.4	-10.3	-4.3
Advertising & related services	20527	19158	19387	20931	20176	20908	20461	
% of Growth of Individual Sector on year base	-	-6.7	1.2	8.0	-3.6	3.6	-2.1	-0.1
Architectural, surveying and project engineering services	6981	8693	7160	6394	6658	6542	6257	
% of Growth of Individual Sector on year base	-	24.5	-17.6	-10.7	4.1	-1.7	-4.4	-1.8
Design Services	5634	5428	5020	5593	5062	5547	5659	
% of Growth of Individual Sector on year base	-	-3.7	-7.5	11.4	-9.5	9.6	2.0	0.1
Motion pictures and other entertainment services	8764	9143	7865	6048	7527	7783	8620	
% of Growth of Individual Sector on year base	-	4.3	-14.0	-23.1	24.5	3.4	10.8	-0.3
Software & IT related services	9450	9678	12464	13050	16878	32140	34953	
% of Growth of Individual Sector on year base	-	2.4	28.8	4.7	29.3	90.4	8.8	24.4
Libraries, art galleries & cultural services	334	290	282	503	322	388	389	
% of Growth of Individual Sector on year base	-	-13.2	-2.8	78.4	-36.0	20.5	0.3	2.6
Photographic studios	4653	6292	4851	4674	4930	5014	4649	
% of Growth of Individual Sector on year base	-	35.2	-22.9	-3.6	5.5	1.7	-7.3	0.0
Printing, publishing and allied industries	55347	57257	55514	55753	56087	55753	53472	
% of Growth of Individual Sector on year base	-	3.5	-3.0	0.4	0.6	-0.6	-4.1	-0.6
Theatrical production & entertainment services (Music & Performing Arts)	3959	4352	3357	3576	3644	3724	3410	
% of Growth of Individual Sector on year base	-	9.9	-22.9	6.5	1.9	2.2	-8.4	-2.5
TV & radio stations & studios	10272	9894	9098	7822	7434	5664	8021	
% of Growth of Individual Sector on year base	-	-3.7	-8.0	-14.0	-5.0	-23.8	41.6	-4.0
Other / Miscellaneous (Amusement parks and games centres)	745	689	676	973	985	1069	3797	
% of Growth of Individual Sector on year base	-	-7.5	-1.9	43.9	1.2	8.5	255.2	31.2
<i>Employment in CIs</i>	153190	156751	147669	146135	152683	167180	170011	
% of Growth of the Creative Sector on year base	-	2.3	-5.8	-1.0	4.5	9.5	1.7	1.8
<i>Total Employment in Hong Kong</i>	3079700	3169300	3127200	3116800	3211600	3256400	3235900	0.8
Share of CIs'Employment	-	4.9	4.7	4.7	4.8	5.1	5.3	-

Note: AAG. Average Annual Growth

1.6 It is important to note that growth in some segments could be attributed to revision in statistical tabulation. For example, figures on software development and maintenance services were reported collectively under “data processing and tabulating services”; and figures on wholesale and retail of “computers, peripherals and software packages” as well as on “Internet services” were not available before 2001. Therefore, the rapid growth of the *software and IT related services* since 2001 is likely due to the enlarged categorization and new job opportunities in that sector. The same reason could also be applied to the

figure on “electronic games centres” which is not available before 2002, thus leading to a rapid increase in the number of employment in this segment.

- 1.7** According to the conceptual framework of the Creative Industries Production System, the *content production* and *reproduction & distribution* chains of the creative industries are areas of growth. Even though the economic downturn since 1997 resulted in sporadic decrease of jobs in the sector, employment in content production remained about 53% of the total employment in the sector throughout the years while employment in *reproduction and distribution* actually increased from 39.9% in 1996 to 41.8% in 2002. The net loss of jobs was in the sectors related to *manufacturing inputs* and in particular, those activities of *jewellery manufacturing* including cutting and setting of precious stones, goldsmithing and silversmithing, activities of *advertising industries* such as manufacturing of signs and advertising displays, and segments of *printing* such as book binding, typesetting, label embossing, photo-engraving and manufacturing of ornamentation of cards, which have suffered enduring decline of employment since 1996. As shown in the following diagram, employment in the chain of *manufacturing inputs* dropped from 6.8% to 4.5% in the total working population of the creative sector.



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2 Characteristics of the Employment Market of Creative Industries

- 2.1** The employment market of creative industries deserves emphatic study in future since employment structure in the sector is relatively new and atypical. Relevant studies on the cultural sector point out that creative workers are relatively young with high education qualifications, who prefer irregular and compact pace of working with multi-tasks orientation and casualization of employment contracts. The sector is believed to be highly self-employed and working under flexible schedule and project-based commission.
- 2.2** These characteristics of the creative workforce are also imminent to other employment sectors of our economy. The changing nature of employment in the creative sector is indicative of the impending challenges to our conventional notion of permanent occupation and objectives of labour and educational policies that have long been taken for granted.

2.3 Existing statistics on employment are ill-suited to reflect the changing pattern of the employment market of the creative sector. The quarterly survey (*SEV*) of the Census and Statistics Department now provides us with a basic understanding of labour employment of different industry categories. The unit of survey is people engaged in an economic establishment and hence with no distinction between the *core workers*, or the creative workforce of the sector and the *non-creative labours*. The survey covers a wide range of occupational statuses from individual proprietors, managers, professional workers to clerical staff.

2.4 The data is no doubt invaluable for tabulating the total number of persons engaged in an industry segment, yet it is far from complete to estimate the gross total of a particular workforce based on job title or nature of work. For example, industry sources reveal more number of designers, software engineers or multi-media workers who are working in establishments outside the scope of our mapping.² Also, data of the *SEV* is less fruitful for investigating the working status and employment condition of the creative workforce.

2.5 As a result, we use findings from the *2001 Population Census* to derive preliminary observations on the employment pattern of the creative sector.³ The Census has the following merits: first, the occupation is classified according to the information declared by the respondent on job title, duties and qualification required; second, it makes no exclusion of civil servants and therefore relevant job titles in both the public and private sectors are counted; third, being a household survey, it is able to capture people not working in establishments (such as the self-employed or freelancers); and lastly, it provides data on the distribution of sex and age, education qualifications, economic status and income level for analysis.

Tabulating Employment Figures from the 2001 Population Census

2.6 We differentiate two broad groups of creative occupations when tabulating the employment figures from the *2001 Population Census*:

- **Occupation of Content/Creative Production (OCP)** includes persons whose labour and employment of skills are *directly or closely related to content/creative production in an industry*. Architects, journalists and computer programmers, multimedia workers, for example, belong to this category.
- **Associate Profession of Content/Creative Production (APCP)** relates to content/creative production which includes professionals with *functional roles* in creative production. For example, corporate managers, associate professionals, technical support associate professionals or assistants who are serving managerial and supportive functions.

2.7 Accordingly, there are 19 job titles relevant to the creative sector in the *2001 Population Census*.⁴ The occupations are then matched with 9 groups of industries, 7 of which have already been included in our definition of creative industries. The ultimate objective is to derive data related to creative occupations by groups of industries. The relevant codes of occupations and industry categories used in our employment mapping are listed in **Appendix 5** while the following matrix presents our methodology in brief.

² For discrepancy of official employment data based on the *SEV* and industry sources, please refer to individual chapters of Section B.

³ Only the 2001 *Population Census* could be used in this study because the occupational categories of the 1991 *Population Census* and 1996 *Population By-census* are not fully compatible.

⁴ There are some limitations on the occupational codes. Despite the list of *architectural services, computer software and multi-media, film & video, publishing, entertainment & performing services, cultural activities and radio & television*, not all creative job titles could be found in these sectors. Occupational titles such as 'creative director', 'art director', 'copywriter' or 'research staff' of advertising industries, 'craftsman and designer' of jewellery industries or 'design personnel' in general have no corresponding classification codes in the survey. This undoubtedly would lead to some under-representation.

		Occupational Codes of Census Population	
Code	9 Industry Group	Occupations of Creative / Content Product Occupational codes	Associate Professions Occupational codes
342	Printing/Publishing/& Allied Indust	Data set A 10 types of OCCP Relevant codes include: 214, 252, 253, 254, 256, 261, 262, 266, 353, 361	Data set B 9 types of AP Relevant codes include: 121, 122, 123, 314, 362, 363, 364, 431, 522
835	Arch., Surveying & Projects Engineering Services		
836	Advertising & Related Services		
837	Data Processing and Tabulating Services		
940	Motion Pictures & Other Entertainment Services		
942	Lib., Museums, Gardens & Cultural Services		
949	Misc. Amusement & Recreational Services		
838	Engineering & Technical Services		
839	Miscellaneous Business Services		
N	Other Industrial Categories	Data Set C Occupations of Creative / Content Product on in all other industries	---

Notes:
A + B = total number of creative labour (OCP & APCP) in 7 groups of creative industries
A + C = total number of creative workforce (OCP) in all sectors of the local economy

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- 2.8** The following two tables present the preliminary findings of the total creative workforce in 2001: 97,485 persons of which 56,199 belong to *occupations of creative production* (OCP), or the core creative labour, and 41,286 to *associate professionals of creative production* (APCP). It is important to note that there were 21,539 core creative labours working outside the creative industries, which implies that analysis of the creative workforce should go beyond the boundary of creative industries.

Number of Creative Workforce Tabulated from the 2001 Population Census			
Industry (code)	OCP	APCP	Gross Total
Printing & Publishing (342)	6,860	3,658	10,518
Architectural, Surveying, etc (835)	4,456	18,097	22,553
Advertising & Related Services (836)	347	3,316	3,663
Data Processing & Tabulating (837)	13,306	12,962	26,268
Motion Pictures & Other Entertainment Services (940)	6,147	2,194	8,341
Libraries, Museums, Gardens & Recreational Services (942)	565	163	728
Miscellaneous Amusement and Recreational Services (949)	2,979	896	3,875
Engineering & Technical Services (838)	583	-	583
Miscellaneous Business Services (839)	1,365	-	1,365
Other Industries	19,591	-	19,591
Gross total of Creative Workforce (OCP & APCP)	56,199	41,286	97,485

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- 2.9** As for the core creative labours, number of employees is presented in the following table. A single occupational group actually comprises more than one job title.

Occupational Group	(Code)	No. of labours
Architects, town / traffic planners & surveyors	(214)	6,598
Translators & interpreters	(252)	2,520
News editors & journalists	(253)	6,144
Writers and creative artists	(254)	5,732
Librarians & related professionals	(256)	1,391
Application system dev. professionals	(261)	19,574
Internet / multimedia contents dev. professionals	(262)	1,068
IT research and product dev. professionals	(266)	2,178
Performers, entertainment & sports	(353)	5,114
Internet / multimedia contents dev. associate professionals	(361)	5,880
Total No. of Occupations of Creative/Content Production		56,199

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- 2.10** Each occupational group consists of a variety of occupations. For example, code 214 includes architects, landscape architects, town and traffic planners and surveyors; code 253, news editors, journalists and reporters; code 254, authors and editors, film and stage directors and producers, sculptors, painters and related artists. Codes related to IT occupations (261, 262, 266, and 361) even have a broader range to include analyst/programmer, applicant consultant, IT systems auditor, software assurance specialist, multi-media design and production manager, web developer/designer, IT researcher and etc. Code 353 includes film, television and stage actors, singers, dancers, performing artists, radio and television announcers.

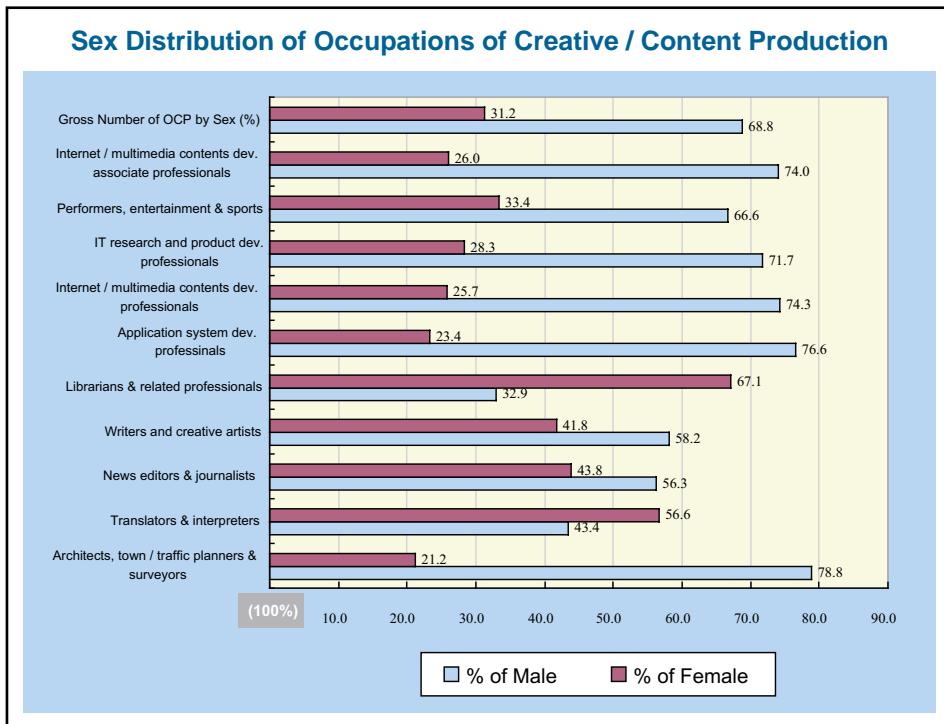
Characteristics of the Creative Workforce

- 2.11** Based on the findings of occupations of *creative/content production*, some preliminary observations could be derived from the core creative workforce in Hong Kong. They are neither homogenous in terms of attributes of the working population nor in terms of the structure of employment. The workforce indeed shares some common characteristics, but with diversity and discrepancy.

Sex Distribution

- 2.12** The majority gender of the workforce was male - 68.8%. Some occupations are male-dominated, in particular information technology, computing, architects and surveyors. Workers of libraries and museums such as librarians, curators, archivists, translators and interpreters, however, are female-dominated. The more balanced occupations in terms of sex are: "writers and creative artists" (41.8% female) and "news editors, journalists and reporters" (43.8% female). This finding perhaps supports the secular trend of *feminization* in some creative occupations. It may be surprising that "performers and entertainment personnel", a group generally believed to have more female workers, actually records much less female (33.4%) than male workers (66.6%).⁵

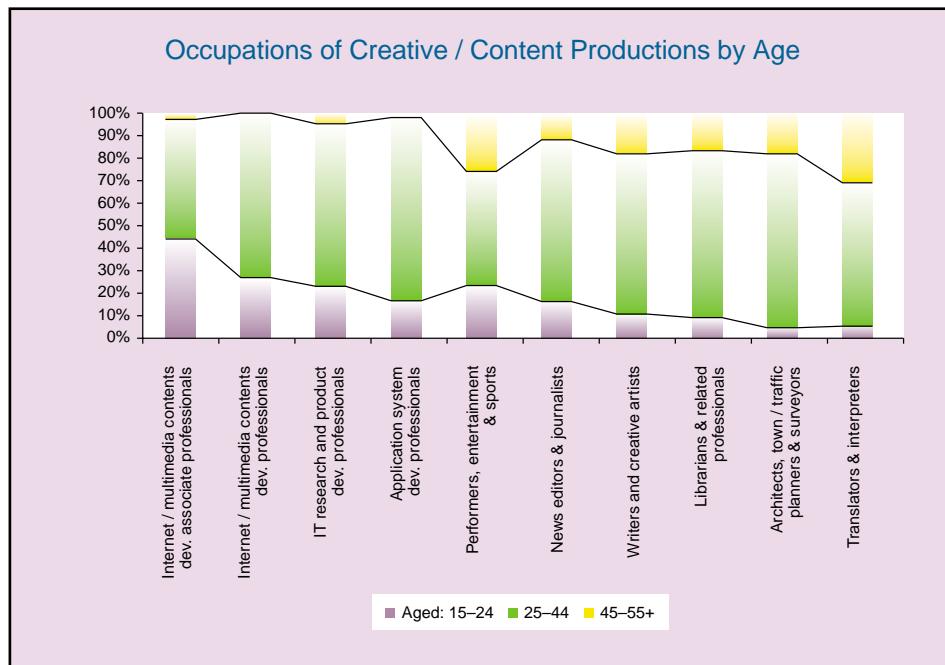
⁵ Since the category is mixed up with sports personnel (for example coaches and athletes), the finding may be too turbid to show the exact distribution of sex of this group.



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Age Distribution

- 2.13** The core creative workforce is generally young. Half is in the age range 25-34, 18% 15-24, 21.5% 35-44, 8.1% 45-54 and 2.5% at or above 55. As shown in the diagram, occupations related to Internet/multi-media contents development and other IT occupations record the largest population group (over 95% of workers) below 45. There are 44% of “Internet/multi-media content development associate professionals” between 15 and 24, representing the highest proportion of youngest workers among all occupations of the same age group. IT and software professionals are concentrated with the group of 25-44, of which 72.3% is “IT research and product development professionals” and 81.6% “application system development professionals”.
- 2.14** A few categories of occupations - “news editors and journalists” and “writers and creative artists”, “librarians and curators”, “architects and surveyors” - shared relatively similar pattern of age distribution. Most workers in these categories are 25-44. Variation does exist: there are 71.2% new editors and journalists aged 25-44, 49.9% 25-34 and 21.3% 35-44; the youngest group 15-24 accounts for 16.7%. “Writers and creative artists” concentrate in a similar age range: 71.5% 25-44, 45.9% 25-34 and 25.6% 35-44; the youngest group being 10.6%. “Librarians and archivists” mostly aged between 25 and 44 (or 73.6%); 38.5% and 35.1% are 25-34 and 35-44 respectively. There are 76.6% “architects and surveyors” aged 25-44; 42.8% and 33.8% are 25-34 and 35-44 respectively. The last two categories of occupations have a thin portion of the youngest group. While 9.5% of librarians, curators and archivists are 15-24, only 5.2% of architects and surveyors fall within this age group, probably due to prolonged training required of the profession.



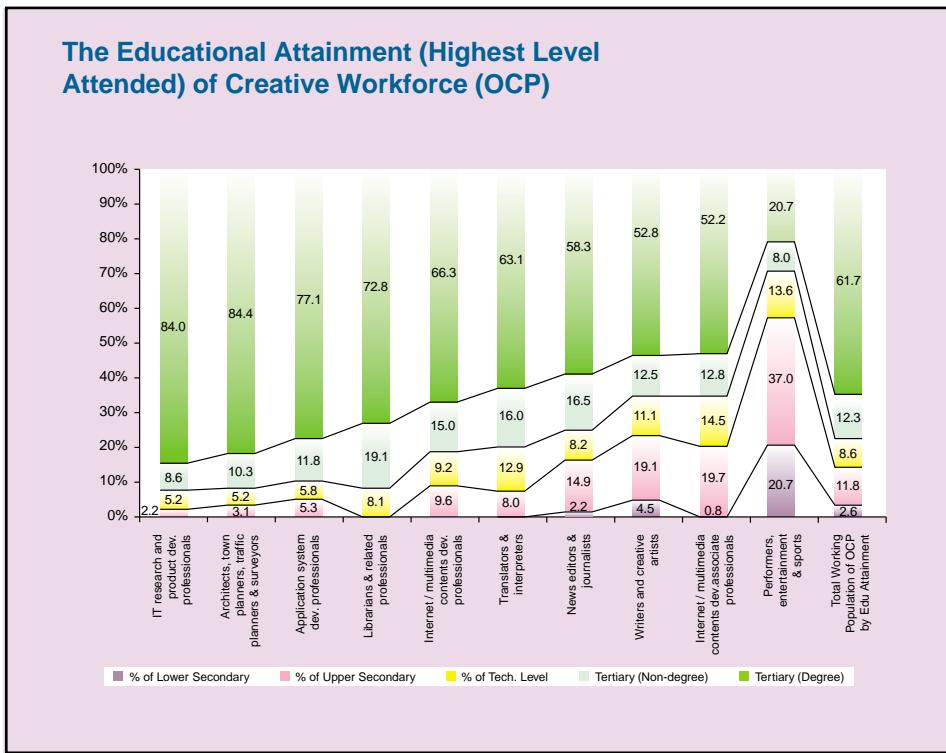
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Educational Attainment

- 2.15** The educational background of the creative workforce confirms the claim that the creative sector absorbs workers of high educational qualifications. A majority 64.7% possess tertiary degrees. Those with non-degree qualifications, including sub-degree or associate degree and distance-learning for example, account for about 12%. 8.6% have attained technical training in terms of diploma or certificate courses endorsed by universities and institute of vocational education. Workers with upper secondary (for example apprenticeship) occupy 11.8%, which is even larger than the group with technical training.
- 2.16** Among the OCP, IT research and development professionals, architects, town planners, surveyors, librarians & archivists, Internet/multi-media content development professionals, translators and interpreters require higher degrees while media workers follow the same trend. A relatively high portion of creative workers with technical/craft backgrounds are engaged in performing, entertainment, Internet/multi-media content development services, writing, artistic and cultural activities. Performers and entertainment personnel have the highest proportion of upper secondary training (37%) and lower secondary qualification (20.7%) among all occupations. Despite the general trend of high educational requirement, it seems that job opportunities in some of these fields are open to creative persons, craftsmen or cultural workers whose talents are not necessarily endorsed by educational qualifications.

Employment Status

- 2.17** In contrast to the general belief that many creative labours are self-employed, our study reveals that about 94% of creative labours are employees. Only 2.4% are employers and 3.7% self-employed. Among all occupations, “writers and creative artists” and “performers and entertainment personnel” have more self-employed workers. However, as shown in the table, self-employment in these two categories, despite being higher than other occupational groups, only share 12.6% and 10.1% respectively. Besides, second employment among creative labour is 5.3%, which is high when compared with the whole



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Employment Status of Creative Workforce (OCP)

Occupations	% of Employers	% of Employers	% of Self Employers
Architects, town / traffic planners & surveyors	2.5	3,658	10,518
Translators & interpreters	3.5	18,097	22,553
News editors & journalists	0.9	3,316	3,663
Writers and creative artists	5.4	12,962	26,268
Librarians & related professionals	-	2,194	8,341
Applications system dev. professionals	1.7	163	728
Internet / multimedia contents dev. professionals	4.5	896	3,875
IT research and product dev. professionals	2.7	-	583
Performers, entertainment & sports	2.5	-	1,365
Internet / multimedia contents dev. associate professionals	2.7	93.7	3.7
Sub-total of OCP by Economic Activity Status	2.4	93.9	3.7

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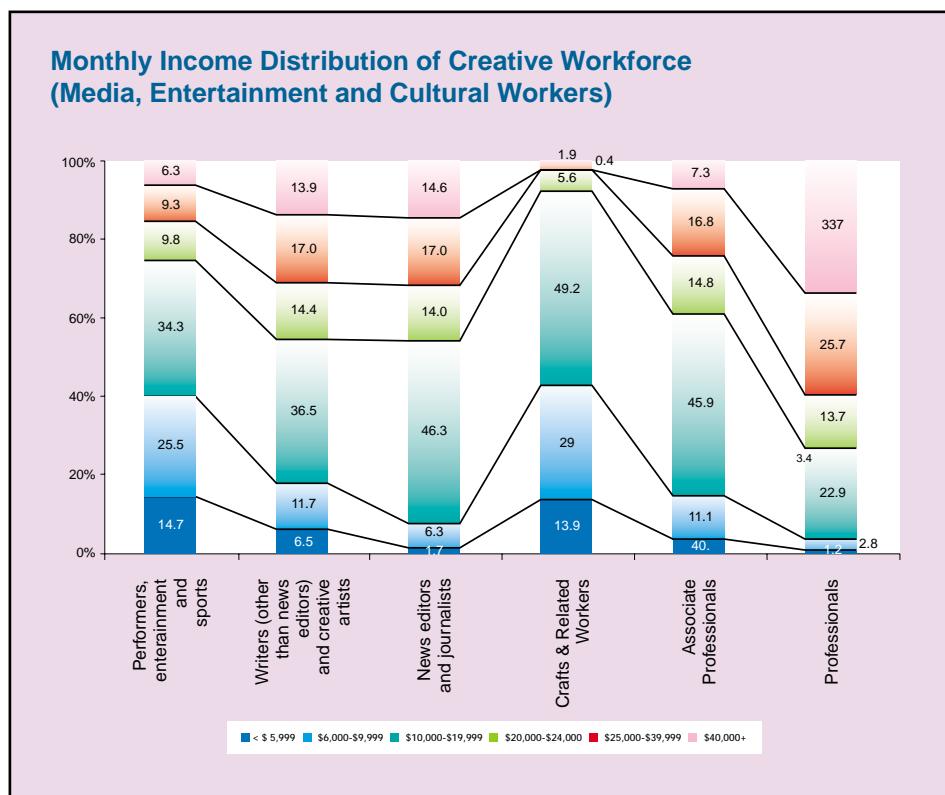
working population whose proportion of second employment is only 2.3%. Among all OCP, 11.5% "performers and entertainment personnel" report avocation, as do 9.3% of writers and creative artists while proportion of sideline employment for the rest of the occupations ranges between 2.3% to 8.1%.

Income Groups of the Creative Workforce

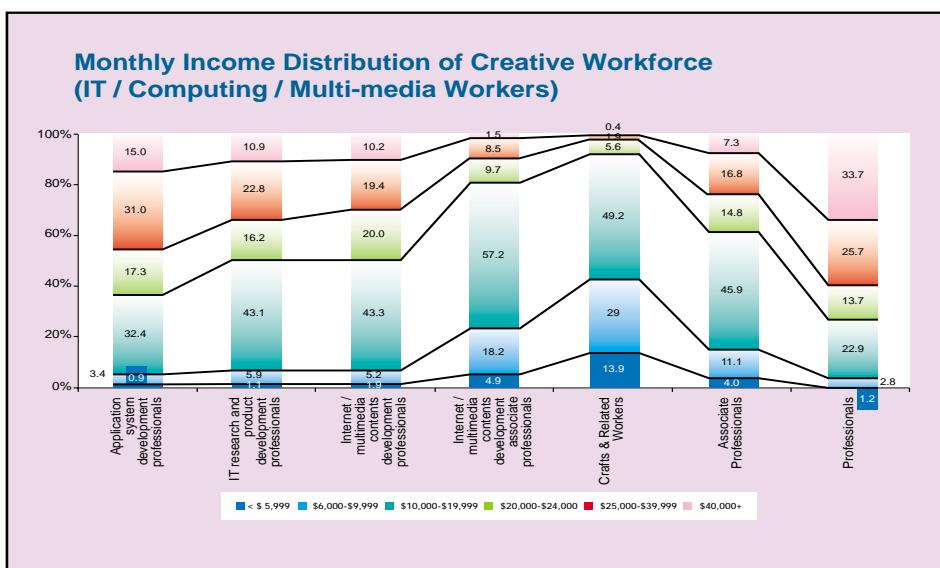
2.18 It is generally believed that cultural workers are underpaid. Hong Kong's median monthly income is HK\$10,000 according to the 2001 *Population Census*. With reference to this

standard, creative workers seem to be a well-paid group with only 11.7% of the 56,199 core creative labours earning less than this amount. However, the median income is not the most appropriate measurement of occupational income. A comparison of the income level of the creative workforce with three “generic groups” of occupations: *professionals*, *associate professionals* and *craft and related workers* - whose income levels are also reported in the 2001 *Population Census* - is perhaps more revealing. Data on the income of the creative workforce refer to monthly income from main employment and avocation, which is different from the three groups whose calculation is based on main employment only. However, as said in 2.17, since 94% creative labours report no second employment, this difference is negligible in our comparison.

- 2.19** We differentiate the occupational groupings of creative workforce further into three categories of “media, entertainment and creative artists”, “IT, computing and multi-media workers” and “other categories of creative labours”. Income level of these three categories of OCP is shown in the following diagrams, with each compared to the income level of the generic groups.
- 2.20** There is great discrepancy in monthly earnings among all occupations of the creative workforce, and some income groups of the OCP seem to be particularly worse off. The proportion of lower income stratum of Performers, entertainment and sports in the “media, entertainment and cultural workers” group with monthly earnings below HK\$10,000 is about 40%, a level nearly equivalent to that of craft workers. Although their upper income stratum (or above \$25,000) is 15.6%, this is still much lower than the equivalence of associate professionals (24.1%) and professionals (59.4%).



- 2.21** Income level of the two occupational groups, “writers/creative artists” and “news editors/journalists”, are also worse than the professionals. Proportion of their upper income strata are only 30.9% and 31.6% respectively, much lower than the 59.4% of professional group. However, proportion of two income groups of \$20,000-24,000 and \$25,000-39,000 follow closely that of the associate professionals.
- 2.22** Generally speaking, the income level of “application development professionals”, “IT research and development professionals” and “Internet/multi-media contents development professionals” are better off than associate professionals in different degrees. But none of the groups is close to the income pattern of professionals. The medium income stratum (\$10,000-19,999 and 2,000-24,000) of the first three are 49.7%, 59.3% and 63.3% respectively, and their proportions resemble only the equivalence of associate professionals (60.7%) but not the professionals (36.6%). There are variations of course. The upper income stratum of “application system development professionals” is 46% of the total, a rate much better than associate professionals (24.1%), but still lags behind the professionals (59.4%).
- 2.23** Income level of “Internet/multi-media contents development associate professionals” is much worse off than all other three. They are not even matching the pattern of associate professionals. The occupational group has a relatively high percentage of lower income stratum (23.1%) vis-à-vis the 15% of associate professionals, and 66.9% of medium income stratum, a percentage much higher than the 60.7% of associate professionals.



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- 2.24** The last three occupational groups - “translators”, “librarians” and “architects” - show similarity to the income distribution of professionals. Lower income stratum is small among these occupations, and medium income stratum share only about 40% of the total number of workers in the group. The three groups also enjoy higher proportion of upper income group in comparison to “IT, Computing, Multi-media Workers” and “Media, Entertainment and Cultural Workers.” In particular, the higher income group of architects and surveyors constitutes 71.3% of the group, and this percentage is even higher than the 59.4% of the professionals.

Design

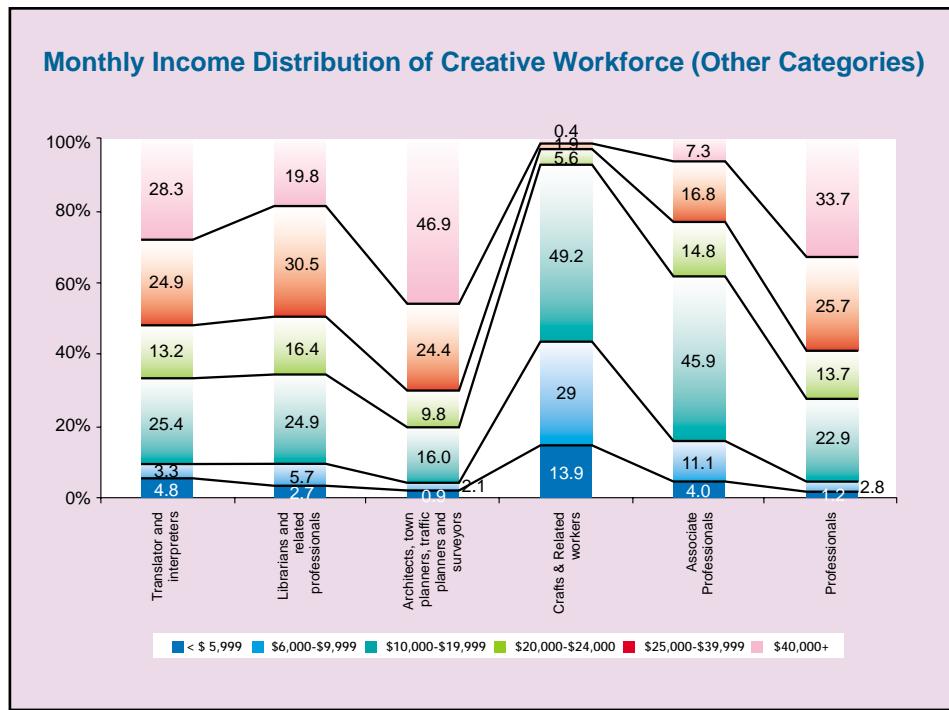
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2.25 To return to the question whether the creative workforce is well-paid or not, it is clear from our comparison that they are not as well-paid as the professionals, with perhaps a few exceptions of architects, translators & interpreters and librarians, archivists and related professionals. For creative and cultural workers, there might be other forms of reward than monetary remunerations, which would sustain a relatively high proportion of lower income workers among performers, entertainment personnel, writers, creative artists and Internet/multi-media contents development associate professionals.

3 Remarks and Issues

- 3.1** Employment in the creative sector will not grow unless the creative industries themselves enjoy sustainable prospect in future for the dynamic and proactive entrepreneurs to develop their interests in creative production. Our study has pointed out the overwhelming percentage of employees (94%) in the market, which is not too favourable for the development of an economic sector with strong demand in rapid rejuvenation of ideas, creativity and innovations. It is important therefore to nurture entrepreneurship to promote the growth of the sector. Commercialization of creative ideas is only one of the many dimensions of entrepreneurship in creative industries; access to finance, market research and information, business and management skills and the pursuit of state of the art are equally important for the building up of entrepreneurship.
- 3.2** The Creative workforce is a quality labour with high educational qualifications and professional training. But until now, there has been no serious study on the provision of formal and tertiary education as a necessary condition for creative work. While this is crucial and desirable for developing a comprehensive educational policy and infrastructure for creative industries, the high ratio of non-degree and upper secondary (craft level) training among writers, creative artists and multi-media workers has indicated

perhaps an equally important path/mode of knowledge building and diffusion where opportunities for exchange of creative ideas, skills and knowledge, cross-disciplinary interaction among industries, internship, vocational and occupational training for the potential and engaged labours of the creative sector might become an alternative and flexible platform for the education and training of the creative workforce.

- 3.3** There is a lot of emphasis on how creative ideas could be business-wise. However, one should not lose sight of a simple fact that not every stage of the creative process should/could be profit oriented. Motives for creation sometimes value the process, creative excellence and innovation more than the economic returns. Very often in the creative field, economic/market parameters come in long after non-market activities took the centre stage of creation. Being employed provides of course available means and opportunities for creation and for material remunerations. However, since the distinction between market and non-market activities is not necessarily clear in the creative field, one may anticipate that the flourishing of a "cultural sphere" may promote not only the diversity of creative ideas, but also the migration of creative works to tradable products and services.
- 3.4** Looking at the creative sector elsewhere, there are numerous non-market activities supported either by the public sector and industry organizations or, in some cases, international organizations. For example, Taiwan just completed the first international festival of animation in April 2003. The Film Commissions of South Korea and Canada have already established a number of subsidized programmes for young film/video makers, animators and students. Internationally, the UNESCO inaugurated the "Ten-Year Plan of Action (1990-1999) for the Development of Crafts in the World", with annual awards to creative craft-workers in different regions. Besides, one of its umbrella programmes was "Design 21", the first time with 50 laureates selected and a fashion show of their models organized by the UNESCO at the Carrousel du Louvre in 1996. These activities are not necessarily leading to business, but are enabling creators to participate in both local and international events as promotion of creative culture and the exchange of ideas and experiences.
- 3.5** Lastly, survey of Hong Kong's creative workforce is far from comprehensive in the light of the limitations we spelled out previously. We suggest that the Census & Statistic Department, perhaps in collaboration with academic institutions, to incorporate the studies on creative workforce as one of its regular surveys so that improvement in methodology and collection of data consistent with other labour surveys could be made. Studies on individual sector of employment are particularly in need so as to complement our understanding of the diversities of labours in individual segments of the creative industries. Preliminary attempts in this area of research have been taken up by intermediary agents, such as the survey on the design profession conducted by four industry associations in 1996, Arts Development Council's *Research Highlights: Statistics of Hong Kong's Cultural Occupations* in 2002, and the regular labour surveys on individual industries conducted by the Productivity Council or the Vocational Training Boards. The scope and profundity of these researches could be improved, but they undoubtedly provide the base for further inquiry on the economic, social and cultural status of Hong Kong's creative workers.



IV SECTION B

The Individual Sectors

1 Advertising

Industry Structure

Core Activities: Management of client marketing activity/communication plans, Media planning and buying, Market research, Creation of advertisements, Production of advertising materials, Promotions, PR campaigns.

Related Activities: Creative studios and freelancers, Editing facilities, Brochures/publications, Photography, Filming and digital recording, Digital content generation, Multimedia and Internet production, Marketing consultancy, Exhibitions and conventions,

Related Industries: Public relations, Direct marketing, Design, Television & radio, Film, Customer relation management.

- 1.1 The sector of advertising covers the synergies of advertising, media planning, market research and public relations as the core industry of brand-building. Hong Kong's advertising industry was imported in the late 1970s with the establishment of multinational agencies and thrived in the 1980s, accompanied by the local economy's rapid expansion and the development of a high-level consumer culture. Faced with the current poor economy, the sector now experiences lowering of revenue and intensified competition among practitioners.¹

Multinational versus Local Agencies

- 1.2 The process of globalization leads to merging and consolidation of multinational agencies, resulting in conglomeration under a few holdings. Being an interlocked component of the world market, the local advertising industry is also experiencing the polemic split between being big and small. With a composition of a few multinational companies and a large number of small-sized agencies, catering services in different spectra.² The 4As provide full-services with strong executive capability and transnational coverage, while small agencies present specialized services in lower cost and efficiency. The market share of 4As is decreasing, but as of 2001, the capitalized billings of top eighteen 4As alone still accounted for approximately 35% of the total advertising expenditure and 31% of employment.³

Transformations of Operation

- 1.3 Another industry trend that appeared in the past decade was the partition of the media department from full-service advertising agencies. Media planning and buying, which used to be in-house of 4As companies, has spun off as specialist companies. The separation of the media department from 4As on one hand mitigates the risks and operation cost of the agencies. But more significantly, the consolidation of media billings of advertisers enables multiplication of their buying volume and increases their bargaining power with the media for better offers.
- 1.4 In recent years, an increasing number of small-sized agencies have emerged to offer specialized services to niche markets, which explains the rising number of advertising companies in spite of the sluggish economic environment. The boutique agencies in most cases have secured their edge in terms of creativity and strategic positioning in brand building. This structural transformation of the industry in a way reflects the

¹ According to the survey, *Adspend Projection for 2003*, commissioned by the Hong Kong Advertisers Association and conducted by Marketing Decision Research (Pacific) Ltd, the major local advertisers expect an overall 4.8% cutting in their spending in advertising. The survey received samples of 195 local advertisers within the period of December 2, 2002 to January 10, 2003.

² The multinational advertising agencies in Hong Kong are all members of the Association of Accredited Advertising Agents of Hong Kong (HK4As) founded in 1957. 4As members are required to be a full-service agency and comply with other requirements set by the association. Currently HK4As has 17 full members and 7 associate members. <http://www.aaaa.com.hk>.

³ The top eighteen 4As' capitalized billings totalled HK\$10 billion and employed 2,285 persons in 2001, while the total adspend of the year was HK\$29 billion with 7,362 total employment. Source: HK4As. Zenith Optimedia. *Quarterly Survey of Employment and Vacancies*, Census and Statistics Department.

growing sophistication of the consumers in valuing creative advertising and marketing. Most of the specialist agencies are often operated with a labour force between 5 to 20 persons. Some of them are established by directorial staff previously served in 4As and have brought with them clients from their former offices.

- 1.5** According to informants, in view of the struggling economy, media companies have been offering enormous discounts to advertisers. Therefore, the consistently increasing index of Hong Kong's advertising expenditure is illusive over-estimation without reflecting the deducted sales. Moreover, in order to tackle uncertainties, the traditional fixed percentage commissioning is no longer a common practice but replaced by different fee-based compensation on a project or monthly basis.
- 1.6** There are two major industry associations in advertising: the Association of Accredited Advertising Agencies (4As) and the Hong Kong Independent Advertising Agents Association (HiA), representing the multinational and local-based agencies respectively. The Hong Kong Advertisers' Association (2As) works as the mouthpiece for clients. Related organizations like the Hong Kong Public Relations Professionals' Association and the Hong Kong Market Research Society function altogether as the prolocutor of the industry in communication with the government on issues of regulations and training. In addition, these representative groups organize regular fora, seminars and training courses to share and exchange experiences to promote excellence in the sector.

Strengths and Weaknesses

Asian Advertising Hub

- 1.7** Hong Kong has been an incubator of advertising talents in creativity, account serving, market research, media planning and strategy as well as marketing consultancy for the region. In the past decades, Hong Kong has exported managerial and creative talents to neighboring countries like Taiwan, Singapore and Mainland China to help build their local industries. Hong Kong remains the advertising hub of Asia with the presence of almost all multinational agencies' headquarters and enjoys the advantage of being the gateway to the briskly expanding Mainland market. The latter has recorded an average double-digit growth rate in advertising expenditure for the past 20 years and is the fastest growing market internationally.

Opportunities and Problems

- 1.8** Hong Kong's multinational agencies are among the earliest to have ventured into the Mainland market in the 1990s to serve their multinational clients. Mainland billings for Hong Kong 4As surpassed HK\$7 billion in 2001, accounting for over 40% of their consolidated billings.⁴ Overseas enterprises usually establish their business in the Mainland by setting up representative offices or joint-ventures with local corporations. The Mainland billings of Hong Kong agencies used to rely, *de facto*, heavily on their multinational

4 Source: HK4As. <http://www.aaaa.hk.com>. The amount of HK\$7 billion includes only seven 4As that submitted figures. These are Saatchi & Saatchi Great Wall, Ogilvy & Mather China, Leo Burnett – China, McCann-Erickson Guangming, Bates China, J.Walter Thompson China, Grey China, D'Arcy FCB China, DDB China and BBDO/CNUAC.



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clients. In recent years, however, Mainland local advertisers are becoming more aware of marketing and branding, resulting in their rocketed advertising spending. Although local advertising agencies' performance in the Mainland is not properly reflected with systematic measures, their share of the market is expected to grow. To capture revenues across the border, Hong Kong agencies must therefore extend their business and networking with Mainland advertisers and media corporations. Access to key media and being responsive to Mainland local advertisers is regarded primal to agencies' vitality in the market.

- 1.9** With the inflation of the Mainland and contraction of the Hong Kong market, some of the international as well as local agencies are reshuffling their resources to their Mainland offices. Informants also anticipate that more multinational corporations will have their Asian-Pacific development slanted in Mainland cities like Shanghai and Beijing after China's accession to the WTO. Accompanying the move of capitals is also a severe brain drain to the Mainland market. The withdrawal of foreign investments and local talents will force Hong Kong's advertising industry to articulate a new position in the Mainland as well as in the region, in particular as catalyst to the Pearl River Delta economy.
- 1.10** To earn their margins in competition with multinational and Mainland agencies, Hong Kong agencies are capable of providing high quality service and sophisticated market analysis with efficiency and reasonable price. Nevertheless, they are required to cope with the Mainland's complex tiers of regional regulations and consumer culture. In addition, no benchmark statistics of coverage and exposure is available to follow the tremendous number of media in the Mainland. The giant market has significant disparities in advertising practices and media-buying, which would need more in-depth research.

1.11 Another latent crisis of the industry is a vicious circle of intense competition and fee cutting between agencies and the media. The trend of direct marketing by media corporations, especially for players from the magazines sector, poses severe pressure on media agencies. This kind of vicious competition is negative to the growth of the industry.

Secondary Economic Impact

1.12 The strength of Hong Kong's advertising is also attributed to a strong infrastructure of ancillary industries including a selection of excellent graphic and photographic services, film/video production houses, translation, exhibition and convention and other designing services. Specialties in these areas indeed also account for a major export service to other Asian countries. Despite the moving of some production studios to the Mainland, many top players have kept their base in Hong Kong. In this connection, the prospects of local advertising industry also hinge on the sustaining support from these professionals.

1.13 Provision of Talents

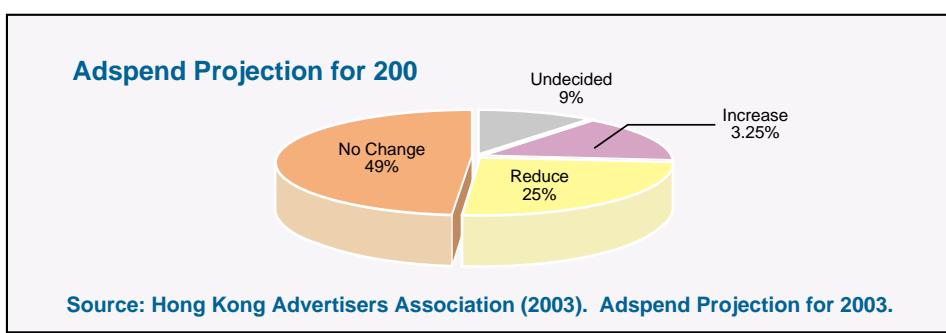
Local tertiary education for advertising emphasizes nurture of mindsets in marketing strategies and account management. Training in creative production is considered relatively insufficient and not meeting the needs of the industry. Even though the advertising sector suffers no shortage of manpower supply and has been adsorbing talents from various disciplines, professional training in the aspects of creative concepts and theories is regarded fundamental. Local institutions can enhance these attributes by providing courses or workshops that emphasize creative presentations and appreciations, or by offering students with internships in collaboration with industry players. The provision of fresh blood is crucial in view of the massive brain drain to the Mainland.

Prospects

1.14 Tightening of Advertising Spending

The advertising industry is forecasted to shrink because of the slowdown of domestic economy. According to a recent survey released by the Hong Kong Advertisers Association, major local advertisers expect a fall of 4.8% in the overall advertising expenditure in

2003.⁵ Among the 195 local advertisers polled in the survey, only 17% plan to increase their advertising expenditure this year, while 25% would cut their spend. Furthermore, economic uncertainty impels a majority of companies in Hong Kong to resort to short-term and below-the-line marketing tactics that are sales-driven, such as discounts, direct marketing and promotion events. In addition to the tightening budget, the increasing number of media options further diverts spending from above-the-line advertising.



⁵ Hong Kong Advertisers Association (2003). *Adspend Projection for 2003*.

- 1.15** In order to survive in the slumping economy, it is important for industry practitioners to be innovative in their business. Brand-building and marketing activities are expanding in media, campaigns, events and customer relation management. Confronted with the transformation of media choices and consumption culture, marketers and media planners to date are required accordingly to leverage proactively the synergism of the communication sector with an open mind. One way to foster business is to create affiliation with diversified ancillary counterparts.
- 1.16** The Mainland market will without doubt be the focus of many Hong Kong-based as well as multinational agencies in future. China's entry to WTO and Beijing's 2008 Olympics both present tremendous opportunities and fierce competition to the advertising sector. The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) of June 2003 allows Hong Kong companies to set up wholly-owned advertising business in the Mainland two years ahead of China's WTO commitment, which will give Hong Kong advertisers a "first-mover" advantage in anticipation of unprecedented flow of overseas capitals and intensified competition in the Mainland.

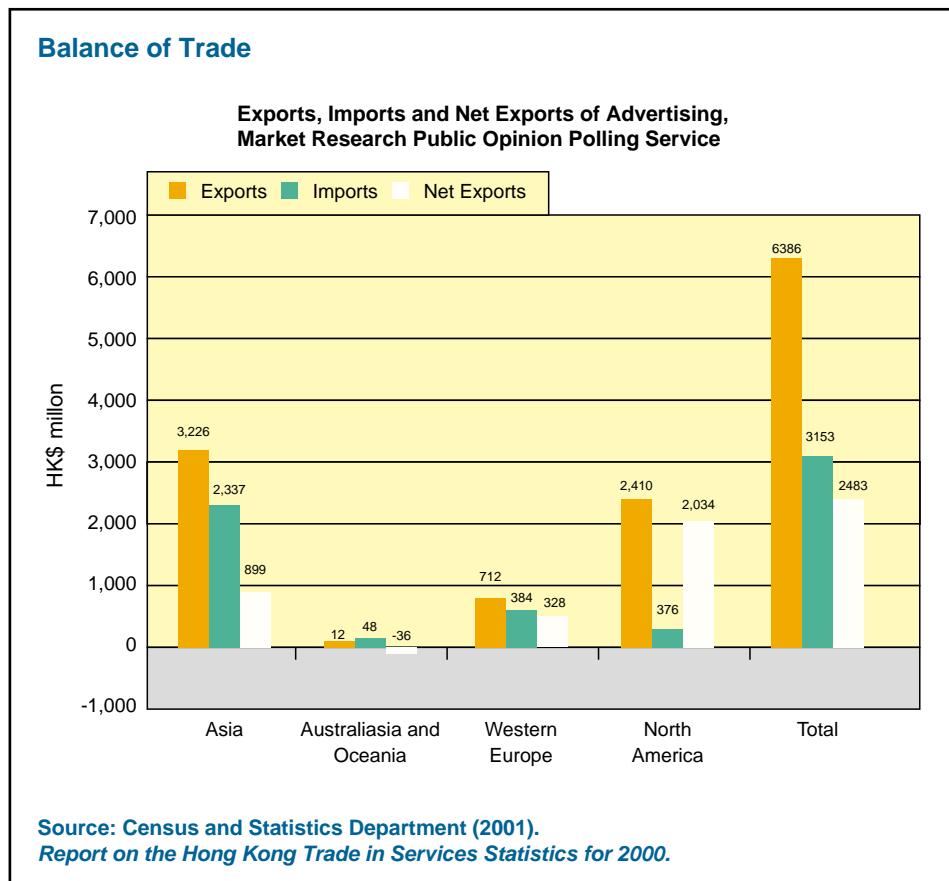
Foster Competitive Edges

- 1.17** Advertising as a service industry vastly counts on quality services of market analysis, strategic planning and creative talents. The sector therefore does not rely heavily on foreign capitals but requires large number of sophisticated experts and consultants in formulating strategic campaigns. Compared with the Mainland players, Hong Kong's multinational and local agencies still excel in market analysis and strategy design. Having this edge, they can rally with Mainland partners to reinforce their networking with local advertisers and media. With the advantage of early entry into the Mainland market, Hong Kong agencies have to accelerate their speed of network-building there before the crowd of multinational agencies arrives.
- 1.18** For agencies with a solid base in the Mainland, they can serve both their Mainland client's promotion and branding in Hong Kong as well as the advertisement of Hong Kong corporations in the Mainland. Hong Kong can also be the base for coordination of marketing concepts and campaigns for Pearl River Delta given homogeneity of the Cantonese language and media exposures, particularly with Television. Many Mainland corporations are still keen to brand their products through Hong Kong media. It is therefore important for local advertising practitioners to capitalize on this advantage before it vanishes.

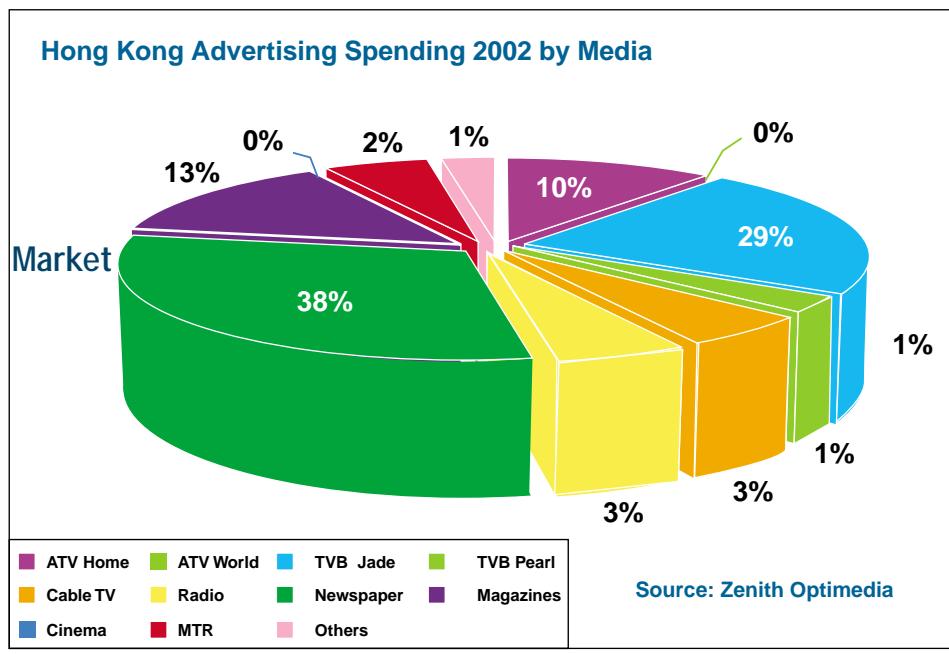
The Government Role

- 1.19** Last but not least, industry experts express also concerns of the government's regulations in procuring advertising services, which significantly reflect the stance adopted by the government towards the creative industries at large. The government's generally implemented rules like free-pitch and lowest-bid in a way impose constraints on the industry players and to some extent hurdles for creativity. The government itself is expected to uphold policies and specifications that would be incentives for creativity; which in turn will cultivate a conducive environment to creative industries. In addition, associations of the industry expect to establish more interactive collaborations with government departments on issues of professional education and industry promotion and regulations. To this end, effective mechanisms must be formulated to enable exchange of concerns between the practitioners and the public sector.

Key Statistics



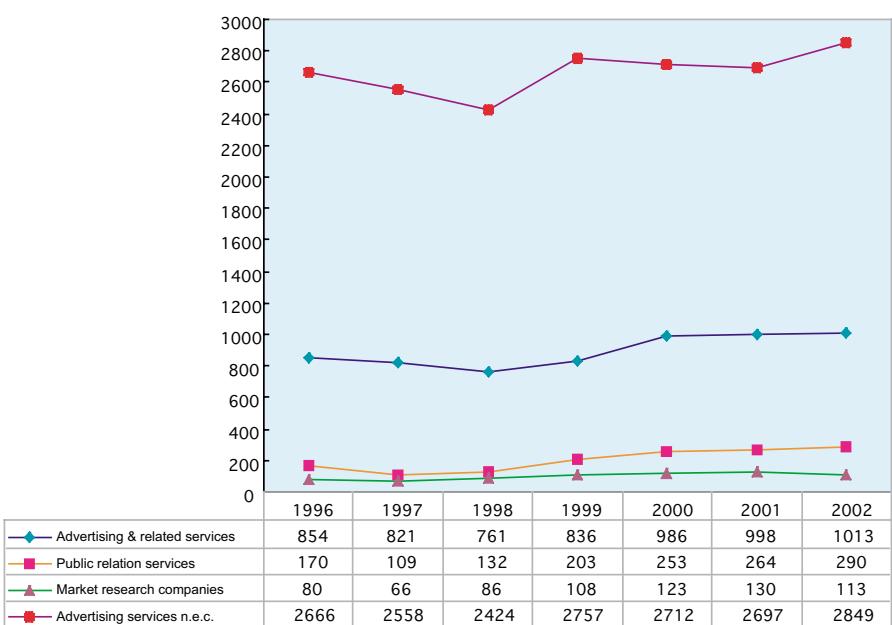
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Balance of Trade

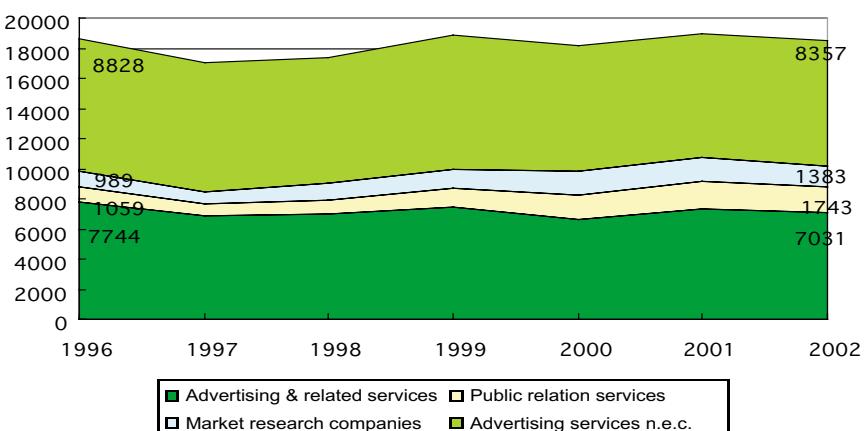
Number of Establishments of the Advertising Industry in 2002⁶



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Employment

Number of Employment of Advertising Industry⁷



30

- ⁶ According to the Hong Kong Standard Industrial Classification, the category "advertising and related services" includes advertising agency, advertising company, advertising project designing, cinema, newspaper, periodical and television advertising agency. "Public relation services" includes public relation consultant and service and publicity service. "Market research companies" includes market research service and companies. "Advertising services n.e.c." includes advertising consultant, advertising sample distribution services, advertising service n.e.c., commercial art production, commercial artist, graphic designing, handbill distribution service, mail advertising service, package designing, sign writer and window display.

- ⁷ These figures only include workforce in establishments of advertising and related services. They in a way underestimate the actual number of people engaged in the advertising and marketing industries since they exclude free-lancers as well as people working for in-house departments of advertising and marketing companies and media organizations.

2 Architecture

Industry Structure

Core activities: Building design, Planning approval, Production information

Related activities: Structural environmental, Landscape and other specialist design, Urban planning, Construction cost planning and control, Heritage building conservation, Brief writing, Feasibility studies, Project management, Appraisal of tender documentation, Construction monitoring, Internet/E-commerce, Illustration, Animation, Model making

Related industries: Construction, Structural engineering, Quantity surveying, Building services

2.1 The industry is regulated by two statutory bodies: the HK Institute of Architects and the Architects Registration Board. All practitioners who wish to use the title of "architect" have to register with the bodies. Most of the firms are locally owned. According to the HK TDC, about half of the business of the profession comes from the residential sector, with the other half comprising the commercial, institutional and industrial sectors. The majority of work comes from the property developers and the Government, including the Architectural Services Department, the Housing Authority, Housing Society, Hospital Authority, MTRC, KCRC and etc. A large portion of work is taken up by the government itself (the expenditure of ASD alone equals almost 80% of the total revenue from the private sector).¹

2.2 In 2002, 78% of practices have 4 or fewer architects (44% have less than 2 HKIA members). About 10% practices have more than 10 architects. Our survey in April 2003 reveals that the average make-up of the firm is as follows: 20% HKIA full members, 58% other core design and technical staff and 22% support staff. The types of services on average are as follows: 94% architectural projects of which 44% are residential, 20% commercial and 30% institutional. The scale of projects involved (which indicates the scale of fees earned) is as follows: 34% with GFA more than 5000 sq m, 22% between 5000 and 10,000 sq m, and 44% more than 10,000 sq m.²

2.3 With the decline in the property market in recent years, the work of architects has also been seriously affected. More firms are looking for opportunities in the Mainland and fresh graduates are turning to related fields for jobs. A growing number is involved in the IT industries (presentation, 3D modeling and web design) as well as environmental and heritage related projects.

Strengths & Weaknesses

Regional Dimensions

2.4 Despite the local economic downturn, there is nevertheless a strong demand for architectural services in the region – particularly the big cities such as Beijing (2008 Olympic) and Shanghai (2010 Expo), Guangzhou, Kuala Lumpur, Singapore, Seoul, Manila, Bangkok, Ho Chi Minh City etc.

¹ The mapping of the government sector as explained in Chapter 3 is not dealt with here.

² The survey was carried out by questionnaire with the help of HKIA to all member firms. Although the number of returned samples was only about 6%, it serves as an initial attempt to clarify some of the issues with the profession. The rate of sample return is similar to another survey of HKIA practices on global networking carried out about the same time.

- 2.5** The CEPA of June 2003 allows Hong Kong consultancy firms in construction professional services to set up wholly-owned enterprises in the Mainland three years ahead of China's WTO timetable and are exempted from the foreign investment restrictions when undertaking Chinese-foreign joint construction projects. This would bring more opportunities to Hong Kong architects to engage in construction projects in the Mainland.
- 2.6** At the moment, the majority of overseas projects for HK architects are assigned by HK-based companies overseas. HK architects still retain certain advantages in competing with the local professions by their international exposure, fluency in English, quality control and expertise in high-rise and high density design.
- 2.7** The government architects also have an edge in terms of their exclusive experience in undertaking many unique projects such as the naval base and other large scale infrastructural designs and cultural/institutional facilities such as museums and theatres not normally available to private practitioners. With the gradual privatizing of ASD, this expertise will become valuable in exporting our services (perhaps by government promotion) to other developing cities that would require similar constructions.

International Critical Acclaim

- 2.8** Hong Kong is a centre of expert in high-rise design, slope design, high-density design and compact design (renown in working with space constraints). With decades of development experience, architects in Hong Kong are also adept in maximizing financial returns with design.
- 2.9** Architectural students in Hong Kong are also gaining recognition in many international design competitions in recent years, putting the educational institutions in the forefront of architectural schools in the world. This international exposure has brought up a young generation of architects also gaining international recognition. Their work will help brand Hong Kong as an avant-garde city of culture and taste.

Secondary Economic Impact

- 2.10** The value added by architecture industry to the HK economy in 2001 was \$1315m. It is an important part of the construction industry which contributes to about 5% of the GDP and 30% of the economy's fixed investment.³ With the combination of structural engineering, surveying and other services related to construction and real estate services, interior decoration, ornamentation and fitting, the total GDP in 2001 occupies about 20% of the sum of the 11 creative industries.
- 2.11** Good architecture would also help generate revenue in the tourism sector, as internationally acclaimed structures such as the HK Bank Headquarters, the Chi Lin Temple and historic heritage buildings become tourist attractions. Architecture is indeed central in the deployment of creative industries for urban regeneration and development.
- 2.12** Demand from the profession of high-end presentation techniques provides job opportunities for model builders, visual and graphic artists/designers and computer animators. In Europe and America, many architects eventually become game and animation designers for film and the leisure software industries, besides turning to interior and product design.

³ Profiles of Hong Kong's Major Services Industries, HKTDC, July 1997: 21.



Digital Entertainment



Prospects

Potential for Growth

- 2.13** Despite the property slum in recent years, the future of the industry remains positive because of demographic and life style trends.⁴ The HK population is growing at an average rate of 1% annually. The number of domestic household is growing even faster at 2%. Both the one-person and one unextended nuclear family households increase at 16% and 15% respectively between 1996 and 2001. The average size of households is falling continuously from 3.4 in 1991 to 3.3 in 1996 to 3.1 in 2001. Meanwhile, household income grew by 76% for 91-96 and 7% for 96-01. Smaller households result in greater resources to spend on each person per household. Occupied quarters grew at 2.5% between 1996 and 2001. About half of the households do not own their accommodation. There is therefore room for tremendous growth of the industry should the economic climate become more clement.
- 2.14** Developments in information technology enabling more effective home-working environments will increasingly influence people's choice of jobs, home location and design. Urban redevelopment provides fantastic opportunities for architects to re-create city living for the new generation. The building of Disneyland and the government's commitment to develop Tamar as well as West Kowloon will sustain the local supply of work, while the Beijing Olympic in 2008 and the Shanghai Expo in 2010 will provide room for growth in the medium and long run.

Impact of E-commerce/Internet/Technology

- 2.15** The use of e-commerce and e-business by architects is at an early stage. However, procurement procedures are now possible through electronic submissions. Most architectural offices are now automated and production of drawings done by computer. It can be expected that as IT becomes more conventional in the related industries, the architecture profession will become more integrated with the participants of the construction projects – clients, contractors, professionals, tradesmen and suppliers. The Internet and new technologies will not replace the creative process but will lend better support in project management and will improve the productivity and efficiency of the design and construction processes. As IT would also entail considerable restructuring of support services such as drafting and production of drawings from cheaper labour markets, the profession must also position itself for a more competitive advantage in terms of value-added design creativity and management.

Growing the Sector – Points for Consideration

- 2.16** The industry is challenged by the increasing emphasis by clients on value for money, and hence the rise of the project manager and of "design & build", which might compromise the creative aspects of the service. There is need for both the public and private initiatives to educate clients and the general public in the importance and significance of excellent architecture, in particular, the benefits it brings to life of citizens and the image and branding of our city.

¹ The figures to follow come from the 2001 *Population Census Main Report – Volume 1 Summary: Key Statistics*.

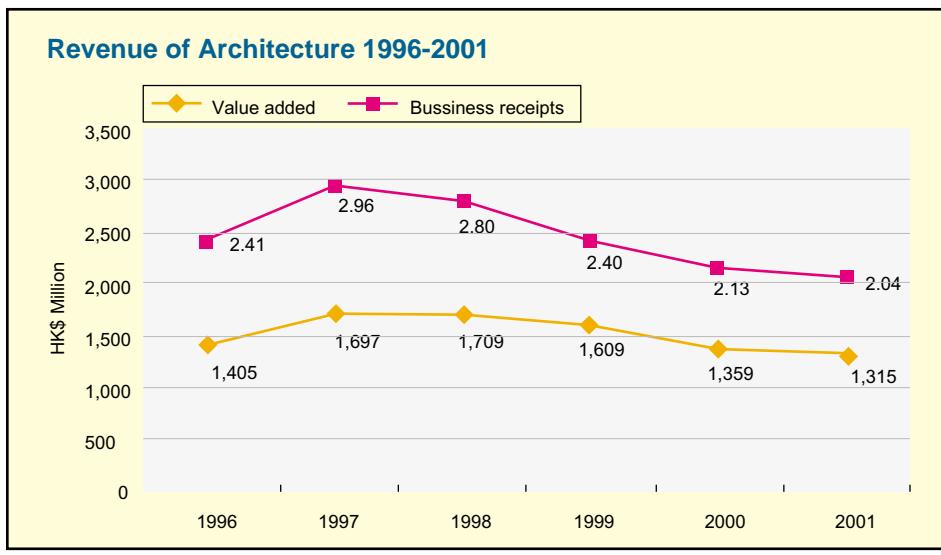
- 2.17** The increased concern for the environment requires architects to pay closer attention to the impact of buildings on the physical environment and landscape. New technologies – such as ICT, prefabrication, intelligent materials, energy-efficient ventilation, solar heat and power etc – as well as re-evaluation of existing techniques and traditions, will be crucial in the new era of sustainability. In areas of urban regeneration, more sensitive approach to existing fabric and heritage will be required.
- 2.18** Proactive development and promotion of expertise of HK professionals in the industry for overseas market are to be taken up both by the institutes and the government, to create job opportunities and export income for the local economy. Centre for excellence, for example, in high-rise, high-density, and slope design could be set up to register HK's strength and advantage in the international markets.

Key Statistics

- Revenue: HK\$2042 million (2001); record highest - HK\$2965 million (1997)⁵
- Exports: HK\$175 million (1999); HK\$183 million (2000) ⁶
- Employment: 3431 (2001); record highest – 4477 (1998) ⁷

Industry Revenues

- 2.19** Fee earnings from private practices totalled \$2042m in 2001 with value added in \$1315m, the fourth consecutive year of decrease since the peak in 1997. The rate of decrease for the billing amount is slowing down from 5.4% (97-98), 14% (98-99), 11% (99-00) to 4.5% (00-01); while the value added amount is dropping from 5.8% (98-99), 15.5% (99-00) to 3.2% (00-01).



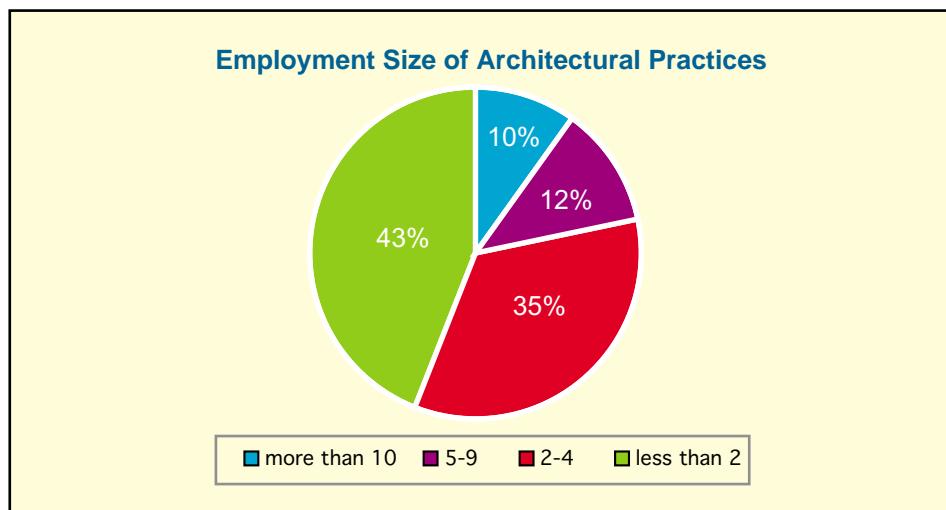
5 Annual economic surveys by the Census & Statistics Department – business receipts.

6 TDC - <http://stat.tdctrade.com/monthly/Xservice.htm>.

7 Annual economic surveys by the Census & Statistics Department – number of persons engaged.

Market Size

- 2.20** There are some 187 practices with 839 HKIA members.⁸ As can be seen from statistics since 1995, there is a general trend of contraction of establishments: 52% of the peak in 1996. The total number of registered architects is around 1800. Total number of HKIA full member amounts to 2000; other categories (student and associate members) at 600. Hence around 1800 (2600 minus 839) HKIA members are either employed by the government, by other organizations or on their own.
- 2.21** Of the 187 practices, 18 have more than 10 HKIA members, 22 have 5-9 members, 65 have 2-4 members, and 82 have less than two members. It can be seen that the profession has a majority of small sized companies but the majority market share is taken by the established big firms.⁹



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Balance of Trade

- 2.22** The value of export services in 1999 was \$175 million and in 2000, \$183 million, representing 0.1% share of all major service exports of Hong Kong.¹⁰ The percentage change was 4.6% increase. We do not know the value of import but noting that 42% of the UK exports of architectural services for the year 1995/6 (at £51m) is to Hong Kong¹¹ and approximately equals HK\$257m (local billing was HK\$2415m in 1996), it is very likely that there was a trade deficit for the period 1996 to 1999 (assuming that the export value in 1996 is roughly the same as in 1999 since the local billings for the two years are also roughly equal).
- 2.23** It is mostly large practices that are involved in international projects; some smaller firms also have offices in other countries. Procurement rules differ between Hong Kong, the Mainland and other neighbouring countries, which does not seem to favour establishment of full service outside HK. However, this does not hinder the conceptual and design development phase of work to be done separately as consultancy, and other forms of joint venture with local offices in the overseas markets. Our survey (April 2003) shows that 67% of the firms have export service with an average 24% of their work being done outside Hong Kong. One third of them have branch offices in Mainland China with 95% of their projects there, mostly in Beijing, Shanghai and Guangzhou. The majority of them are large projects with GFA over 10,000 sq m, half being residential and half commercial.

⁸ Figures from HKIA as of October 2002. The C&SD figure for 2001 is 244 with the record highest of 392 in 1996. It is worth noting that a drastic reduction occurred between 1999 and 2000 when the figure dropped from 359 to 259 (28%) while the number of persons engaged dropped from 4074 to 3524 (14%).

⁹ Our survey in April 2003 reveals that 90% of the big projects (GFA over 10,000 sqm) are taken up by the big firms.

¹⁰ TDC survey: <http://stat.tdctrade.com/monthly/Xservice.htm>

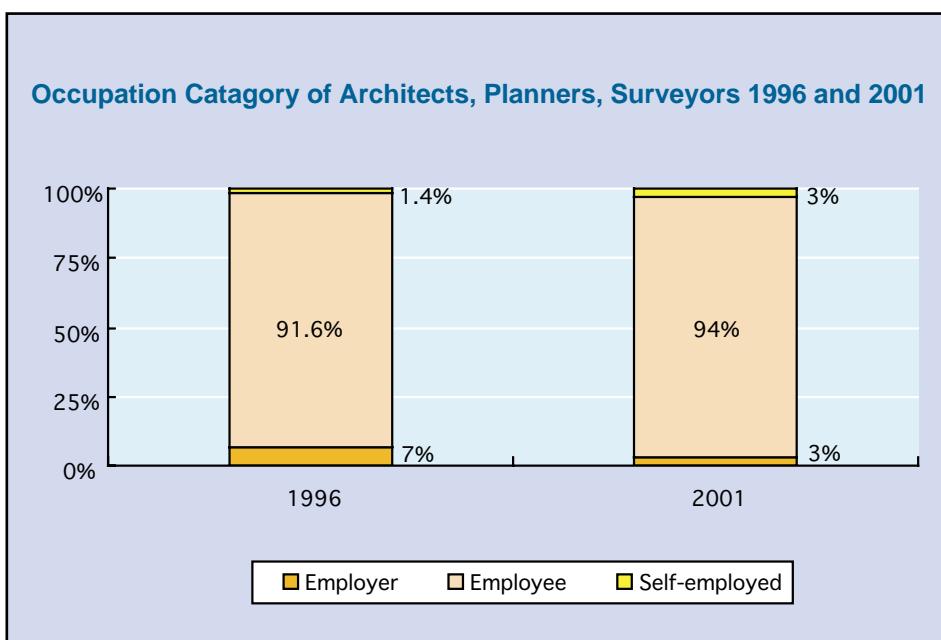
¹¹ UK 1998 *Creative Industries Mapping Document*: 20.

2.24 Significant international markets exist for Hong Kong architects in the Asia Pacific region, especially in the developing countries such as the Philippines, Vietnam, Cambodia, and the Indo-China. Some practices have jobs even in the Middle-East.

Employment

2.25 In 2001, there were 3431 persons engaged in architectural design, a 23% decrease from the record highest figure of 4477 in 1998.¹² However, the occupation category (code 214) which comprises architects, planners and surveyors from the Population Census records a continuous rise in number of workers from 1966 (1991), 3486 (1996) to 4253 M (2001) – a 22% increase in the last 5 years.¹³ Figure for unemployment is unknown.

2.26 The economic activity status for the occupation category (code 214) of architects, planners and surveyors for 2001 is as follows: 3% employers, 94% employees, and 3% self-employed (as compared to 7% employers, 91.6% employees, and 1.4% self-employed in 1996).¹⁴ Our survey in April 2003 shows that half of the firms employ free-lance workers who make up 6% of the total work force. The monthly income from main employment in 2001: 44% (\$40,000+), 24% (\$25,000-39,999), 3% (below \$10,000). 97% of the category does not have a secondary employment.

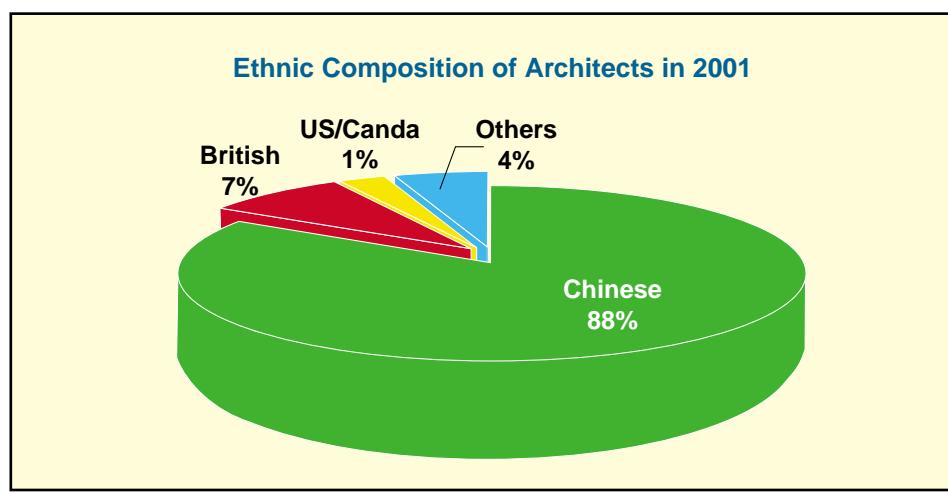


¹² Annual economic surveys by the C&SD.

¹³ This is only taken from the industry group code 835 – the core group comprising architecture, surveying and projects engineering services.

¹⁴ Compared with the extrapolation from the responses to a recent survey "Survey Results on Employment and Related Matters from 5 Professional Institutes: HKIA, HKIE, HKILA, HKIP, HKIS*: status of employment - 16% employer, 63% full-time employee, 7% self-employed, 11% contract, and 2% others; type of organization - 22% government, 50% private-sector consultancy, 14% semi-government, 2% contractor, and 12% others.

- 2.27** Like everywhere else, architecture is still a male dominated profession, with a ratio of male to female in 4 to 1 in 2001 (8.5 to 1 in 1991). However, with the increased number of female students admitted to architectural schools in recent years (even outnumbering male students in some years), the male to female ratio in the profession is expected to be more balanced in future.
- 2.28** Architecture is also made up of relatively young workers, with 45% between age 25 and 34 and 30% between 35 and 44. This ratio remains quite constant from 1991 to 2001. The majority of workers in terms of ethnic race in 2001 are Chinese (88%), followed by 7% British. There is a significant drop in the number of US/Canada proportion of the workforce from 5% in 1996 to just under 1% in 2001.



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- 2.29** The profession has 83% people with a tertiary degree education, with 80% in the field related to architecture, engineering and construction.
- 2.30** In terms of geographic location of the place of work, it is interesting to note that a significant number of people in the profession have moved from Hong Kong Island to Kowloon in recent years, from 71% (HK) & 17% (Kln) in 1996 to 53% (HK) & 26% (Kln) in 2001, reflecting perhaps a decentralization of the architectural offices to other parts of the city.

3 ART, ANTIQUES AND CRAFTS

Industry Structure

Core Activities: Wholesale and retailing of works of art, Antiques and jewellery products via auctions, Galleries, Creators, Specialist fairs, Shops, Department stores and the internet, Jewellery design, Cutting and setting of precious stones and gems, Goldsmithing and silversmithing.

Related Activities: Supply of materials, Distribution, Retail, Wholesale, Online retail, Packaging and display, Art and jewellery fairs, Magazines and books, Tools and machinery.

Related Industries: Fairs and exhibitions, Shipping, Restoration, Design, Printing and publishing, Photography, Packing and display, Insurance, Banking, Law, Tourism.

- 3.1** This category encompasses the market of art, antiques and precious jewellery products. In Hong Kong, artworks and antiques find their outlet mainly through diverse galleries and auction houses while the jewellery industry in Hong Kong comprises a wide range of shops, trading from high-end products to imitation jewellery. The tax-free system on products of art and jewellery is the leading factor contributing to Hong Kong's success in this sector.

Jewellery Industry

- 3.2** Hong Kong's precious jewellery industry has gradually been transformed from a manufacturing and skill-oriented to design and marketing-oriented industry. The labour-intensive manufacturing process has largely been moved to the Mainland because of lower labour and land cost. Meanwhile, only a small portion of high value-added production or those that require advanced handicraft and technology remain in Hong Kong. It is a commonplace practice for large jewellers and brands to subcontract work to small local factories or manufacturers with workshops in the Mainland. Revenue of the industry thus is increasingly dependent on re-exports. Hong Kong's precious jewellery mainly export to the USA, EU, UK and Japan.

- 3.3** The jewellery industry is composed of both large corporations and small manufacturers and retailers. There are several industry associations in the jewellery sector responsible for trade promotion, technology development and practice supervision.¹ Annual international jewellery trade fairs are organized by the Trade Development Council and industry associations to attract overseas buyers.² In order to improve the skill-sets and technological advancement, the Hong Kong Productivity Council and the Hong Kong Jewelry Manufacturers' Association established the Hong Kong Jewelry Industry Technology Centre to assure local manufacturers with updated high quality production and state-of-the-art equipment and software.³

¹ These associations include Hong Kong Jewelry Manufacturer's Association, Diamond Federation of Hong Kong, China Ltd., Hong Kong Gold & Silver Ornament Workers & Merchants General Union, Hong Kong Jeweller's & Goldsmiths' Association, Hong Kong Jewellery & Jade Manufacturers Association, The Kowloon Pearls, Precious Stones, Jade, Gold & Silver Ornament Merchants, Gemological Association of Hong Kong and World Gold Council.

² The local major trade fairs held annually are the Hong Kong International Jewellery Show (March), Hong Kong Jewellery & Watch Fair (June), Asia's Fashion Jewellery & Accessories Fair (June and September), Hong Kong International Jewelry Manufacturers Exhibition, etc.

³ The Hong Kong Jewellery Industry Technology Centre was established in 1995. The Centre performs its service and carries out research mainly in three areas: product design and development, process technology transfer and manufacturer support services and product testing for quality assurance.

- 3.4** The large jewellers are also expanding their number of outlets in the domestic market. Retail revenues rely on local residents and increasingly tourists, particularly visitors from Mainland China. According to statistics released by the Hong Kong Tourism Board, tourism receipts generated from jewellery items totalled HK\$7.3 billion in 2001, 5 billion of which were contributed by Chinese tourists.⁴

Visual Art and Antiques Market

- 3.5** The structure and revenue of the art and antiques market is even more difficult to gauge because of its diversity in distribution channels. The market contains auction houses and galleries both in mega and petite sizes. The big auction houses include the Asian-Pacific headquarters of the multinational auctioneers: Sotheby's and Christies'. Hong Kong's art and antiques market is skewed towards Chinese artifacts and works of art.
- 3.6** Apart from commercial galleries and auction houses, works of art are also purchased by museums, private corporations and individual collectors directly from the creators. Furthermore, commissioning of artists is also common among public and private institutes. Hence it is difficult to measure the exact size of the market.
- 3.7** The art galleries in Hong Kong can be broadly divided into two categories: commercial art galleries and publicly-funded exhibition spaces. The former includes sales of decorative and fine art, while the latter comprises government-run museums and galleries operated by non-profit making independent organizations. Commercial art galleries sell works of art on consignment by represented artists. Arrangement of consignment and rate of commission claimed by galleries vary with the respective relationship between the dealer and artist.
- 3.8** Local antique shops are predominantly operated as sole agents or family-based small enterprises. Authenticity of work is a crucial determining factor of their attractiveness to buyers and collectors. The Hong Kong Art Craft Merchants Association has set up an Authentication Committee to provide fellow traders and buyers authentication services by issuing a Certificate of Antiquity. The Association also set up the first Art and Antiques Festival to promote business.

Strengths and Weaknesses

International Acclaim of Local Jewellers

- 3.9** Hong Kong is the second largest exporter of precious jewellery in the world. The industry is supported by workers with competent handicrafts in gem-setting and other techniques such as stone-cutting, mould making, polishing, precision casting and electroplating. Gem-set jewellery is the most popular category among the wide spectrum of products. Hong Kong jewellers are also prominent in the production of pure gold items and jade jewellery. They outperform other Asian partners in terms of overall technological setup but are still behind world leaders like Japan and Italy.

⁴ Hong Kong Tourism Board (2002). *A Statistical Review of Hong Kong Tourism 2001*.

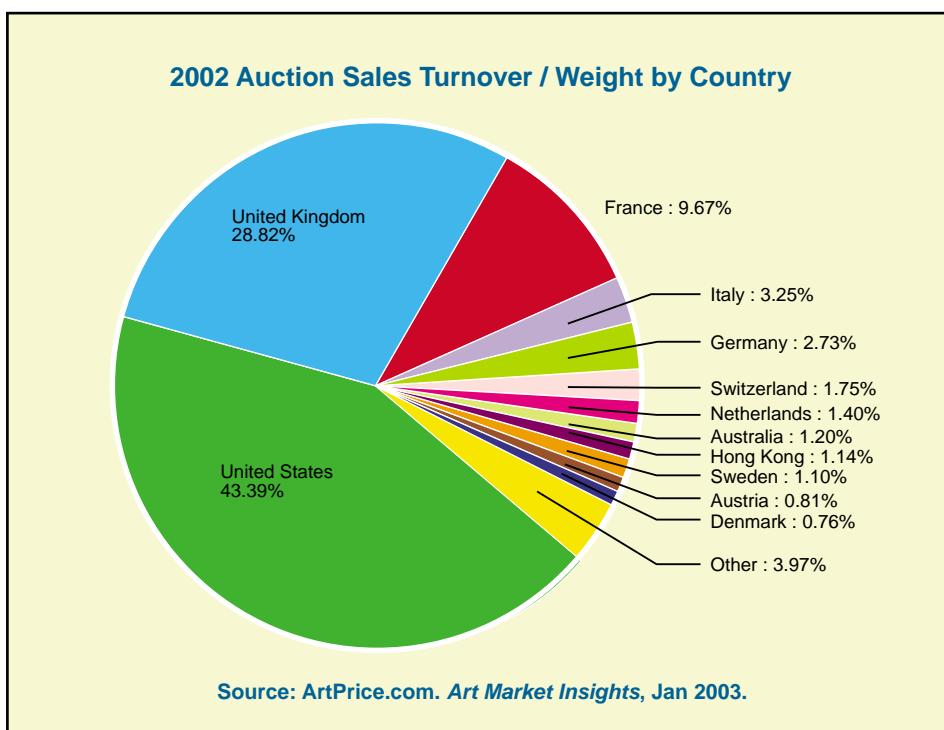
3.10 Hong Kong jewellers are famous for its sensitivity to fast-changing fashion trends and responsiveness to changing customer tastes. They are flexible to needs of export markets and provide high-end products at reasonable prices. The yearly held international jewellery trade fairs have been successful in attracting merchants and buyers from all over the world.⁵ In turn, the Hong Kong Pavilion also occupies a significant position in global jewellery exhibitions, for instance, the World Jewellery & Watch Fair Basel/Zurich and the International Jewellery Tokyo.⁶

3.11 In view of the flourishing Chinese consumer market, some Hong Kong jewellers have ventured to build their distribution network and franchise in major cities like Shanghai and Beijing. Hong Kong branded jewellery enjoys special popularity among Mainland consumers for their authenticity and high quality of craftsmanship and creative design.⁷

3.12 Hong Kong's jewellery design does not seem to match its business development. Recruitment of professional jewellery designers has always been difficult for local jewellers. Training programmes for the jewellery industry currently offered by the Vocational Training Council are handicraft-focused. The industry perceives supply of creative talents in jewellery design is necessary to improve their competitiveness.

The Mecca of Chinese Art

3.13 For the art market, Hong Kong provides a favorable environment for the distribution of antiques and artworks because there is no import or export tax. The majority of the revenues of the sector is due to Chinese antiques and works of art. Hong Kong is also an acclaimed mecca of Chinese artworks and antiques, although business receipts of traders, dealers and smaller auction houses could not be measured since their sale figures are not made public. Hong Kong shared 1.14% of the world's total auction sales turnover in 2002.⁸



⁵ With reference to the statistics of the Hong Kong International Jewellery Show 2003, 20,145 buyers attended the show - a rise of 19.2% comparing to last year. Among them 9,639 buyers were from overseas countries, with 5,979 from Asia, 1,402 from North America and 1,368 from Europe. Source: Hong Kong Trade Development Council.

⁶ Hong Kong jewellers have participated in the world's largest jewellery trade fair, the World Jewellery & Watch Fair Basel/Zurich, for 18 years. The Hong Kong Pavilion is the second largest in the show. Unfortunately due to Severe Acute Respiratory Syndrome (SARS) Disease, Hong Kong exhibitors were forced to withdraw from the fair by a Swiss government decree in April 2003.

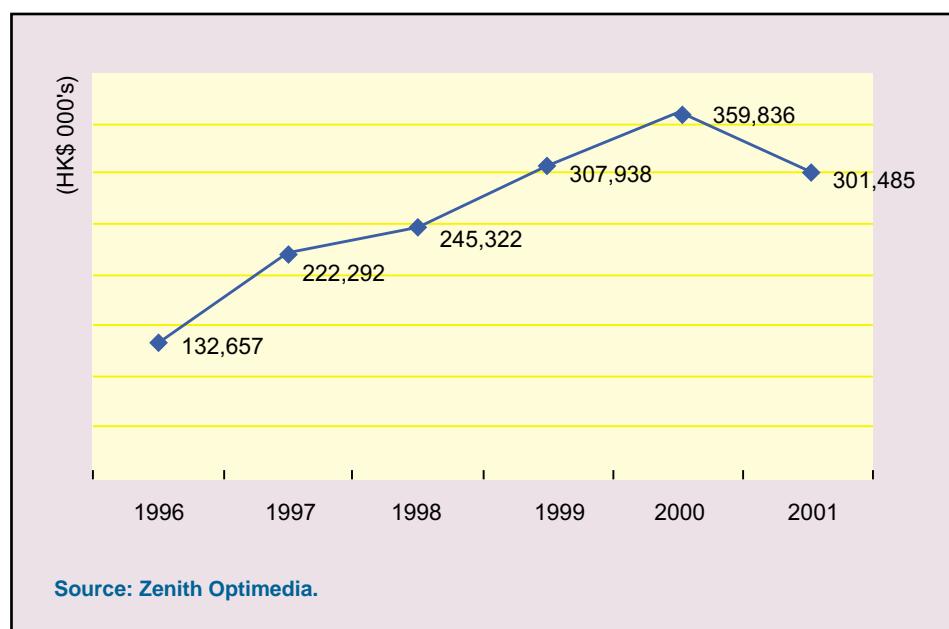
⁷ Hong Kong Trade Development Council (2002). *Survey on Jewellery Shoppers in Major Chinese Cities*. In the period June-July 2002, the survey interviewed 1,000 mainland customers who purchased jewellery products in five big cities of China. The survey reveals an average of 44.1% of interviewees favor Hong Kong jewellers for good design and credibility, while 37.9% prefer mainland brands.

- 3.14** However, contemporary artworks of Hong Kong artists fall behind their counterparts from the Mainland and other Asian regions in the international art market because they are supported only locally by a tiny domestic market and enjoy no international popularity. Added with their restrained exposure in international exhibitions and art fairs, their work therefore do not have a secondary market, hence devaluing their worth to dealers and collectors when compared to other Southeast-Asian and Chinese contemporary artworks.
- 3.15** In view of the fast growing Chinese economy, many multinational corporations are shifting their Asian-Pacific resources to other Mainland cities. The move drains not only financial capitals from Hong Kong, but also major collectors of works of art from the market. The evolution of new local collectors will be quintessential to the development of the domestic art market.

Prospects

Against the Sluggish Economy

- 3.16** The Hong Kong jewellery industry began shrinking since the Asian financial crisis in 1997. In response to this contraction, some jewellers have swayed to products of lower-end gems, stones and metals, for example, silver and less saturated gold and smaller diamond and color stones. This trend is expected to continue during a poor economy.
- 3.17** Other jewellers survive with proactive brand-building strategy targeting the younger customers and the female workforce. Evolution of the branded jewellers in recent years has proved a viable transition from a manufacturing-oriented to a marketing-oriented industry. The exponential rise of advertising spending by local jewellers in the face of a poor economy well explains the prospects of this industry trend.



8 "Market Changes in 2002" in *Art Market Insights*, Jan 2003. ArtPrice.com. <http://web.artprice.com>

- 3.18** Emerging brands usually commit to products of moderate to lower-end prices and emphasize trendy design tied up with costume fashions. Younger customers would regard Jewellery as wearable and fashionable costume more than as luxuries. As such, affiliation of brands of jewellery and clothing is another way to blend together the two products to attract new customers as well as to widen distribution channels.⁹ Hong Kong jeweller's flexibility in design and production will certainly help maintain its viability in the world market.
- 3.19** The Hong Kong Trade Development Council has been the major facilitator to promote local jeweller to overseas buyers. However, TDC's existing marketing strategies are regarded by practitioners as outdated. With transformation of the industry structure, TDC as an intermediary agency needs to help the small players in building brand image and marketing. They need to develop an overarching marketing policy to enable local jewellers' to penetrate more export markets. For the traditional manufacturers of the industry, the government could offer additional support in expensive machines and equipments for their technological reform in both design and manufacturing.
- 3.20** The CEPA has allowed zero import tariff for export of Hong Kong's jewellery, clocks and watches to the Mainland against China's WTO commitment. This will give Hong Kong advantage in anticipation of keen foreign competition in the Mainland market.

Mainland's Tariffs Reduction Schedule for Precious Jewellery Imports under the China-US WTO Agreement

HS Code	Description	Rate (%) at date of accession	Committed Rate (%) under WTO Agreement			
			2002	2003	2004	2005
7131100	Jewellery & parts thereof, of silver	33.3	30	26.7	23.3	20
7131910	Jewellery & parts thereof, of gold	33.3	30	26.7	23.3	20
7131990	Jewellery & parts thereof, of other precious metal	36.7	35	35	35	35
7132000	Jewellery & parts thereof, of base metal clad with precious metal	36.7	35	35	35	35
7141100	Slversmiths' wares & parts thereof	36.7	35	35	35	35
7141900	Goldsmiths' wares & parts thereof, of precious metal	36.7	35	35	35	35
7142000	Gold / sliversmiths' wares & parts thereof, of base metal clad with precious metal	36.7	35	35	35	35
7161000	Articles of natural or cultured pearls	42.5	38.75	35	35	35
7162000	Articles of precious or semi-precious stones	36.7	35	35	35	35

Source: Ministry of Foreign Trade & Economic Cooperation, China-US WTO Agreement.

⁹ An instance of such alliance of brands is the merchandising initiative of the jewellery company Just Gold and fashion brand Levi Strauss.

Giving gold jewellery a new character, they form an alliance with a line of denim and gold accessories in order to appeal to young consumers.

Art and Antiques

- 3.21** For the art and antiques market, Hong Kong is also confronted with rising competition from the surging antiques market in the Mainland. The Mainland government has been enhancing the development of its antiques and craft market by establishing themed centres of antiques in big cities including Beijing, Shanghai and Shenzhen. These antiques markets offer artifacts at comparatively low-prices and great varieties. Notwithstanding this strong competition, the antiques business in Hong Kong is capable to flourish as long as it maintains free regulations and tariffs on trading of works of art and antiques, in addition to offering high quality of services and credibility.
- 3.22** The clustering of antiques galleries in Hollywood Road in Central has been developed historically without design. Although the government has already put forward a project to enhance the pavement for the area, nevertheless, the work is generally regarded by shop-owners as ineffective to promote business and appeal of the district. A comprehensive development concept is demanded instead with ancillary facilities such as car-parks, visitor centres, exhibition museums and remarkable tablets and signage for the antique markets. Management and development of the area as a thematic antique shopping street could be outsourced to the private sector. Moreover, guided-tours on antiques and works of art could be organized to foster visitors' interests.
- 3.23** Hong Kong lacks a sophisticated art market for contemporary works of local art. Apart from a weak buyer-market, the gallery mechanism is also immature owing to the low-profile of local artists in the global art market. Hong Kong artists are not represented favorably by local galleries partly due to their under-developed sense of commitment with their agents, when contractual arrangement is sometimes not preferred by gallery owners. On the other hand, local museums and buyers in most cases approached artists directly regardless of their representative galleries. These practices also upset local galleries to represent Hong Kong artists.
- 3.24** More support perhaps could be allocated to local artists as well as local galleries. Public aid for example could be given for local artists represented in international and regional exhibitions. Initiatives should be established to encourage local galleries to feature Hong Kong artists in global art fairs much like Hong Kong films are highly promoted by Trade Development Council's booths in overseas exhibitions and conventions.

Key Statistics

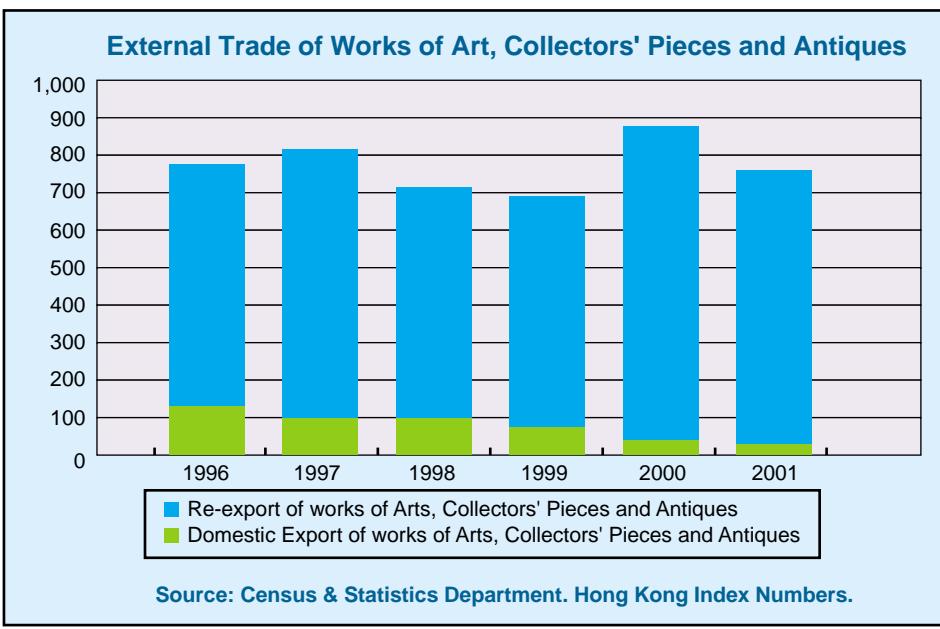
Trade Balance

Hong Kong Total Exports of Articles of Precious Jewellery of Metal, Pearls, Stones

	2001(HK\$ m)	2002 (HK\$ m)	Change %	Share %
Total	12,339	14,825	20	100.0
USA	6,588	8,586	30	57.9
EU	2,408	2,790	16	18.8
UK	845	1,015	20	6.8
Germany	553	681	23	4.6
France	465	388	-17	2.6
Others	545	706	30	4.8
Japan	904	845	-6	5.7
Switzerland	689	685	-1	4.6
Taiwan	334	313	-6	2.1
Singapore	317	308	-3	2.1
Others	1,099	1,298	18	8.8

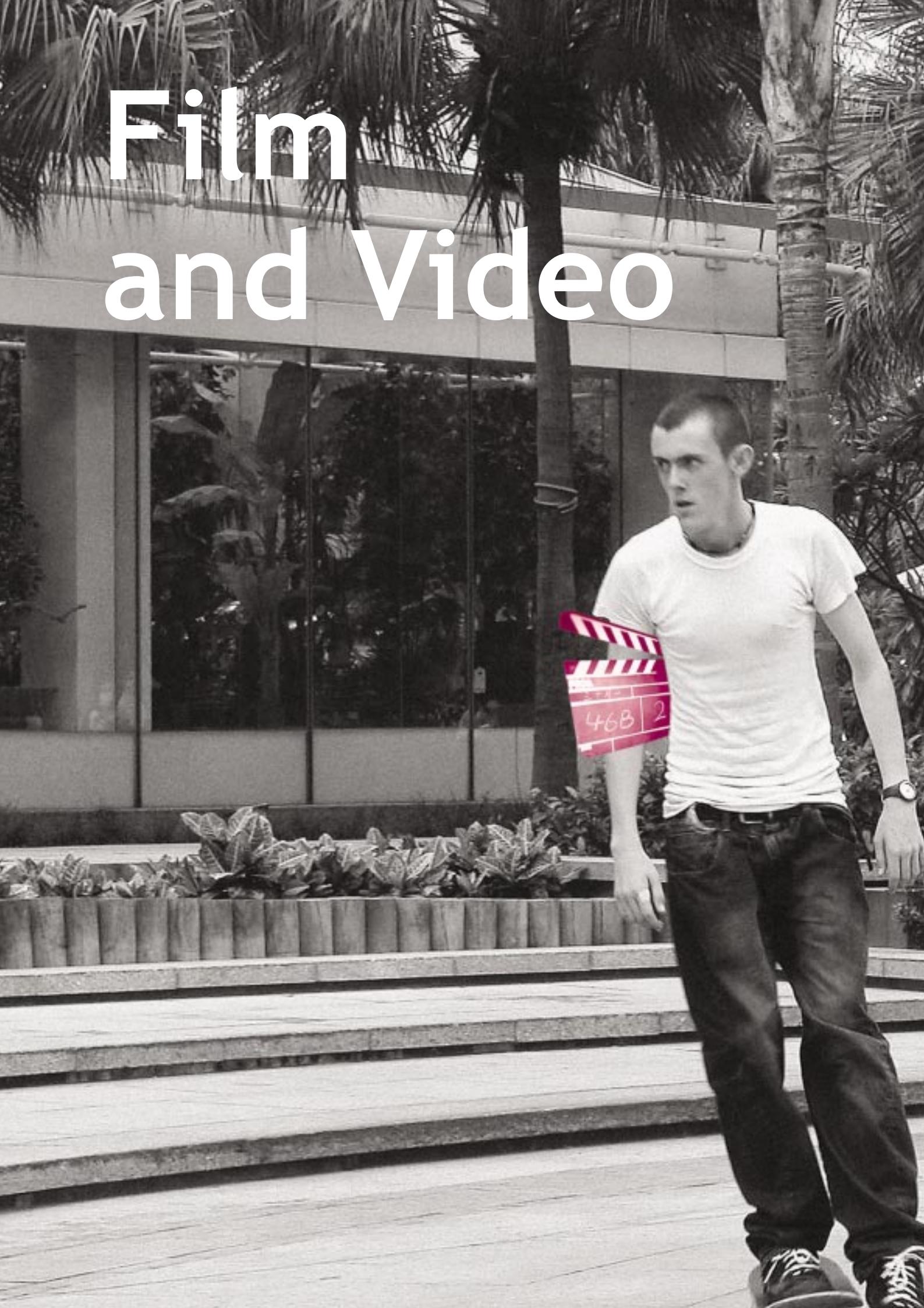
Source: Census & Statistics Department. Hong Kong Trade Statistics.

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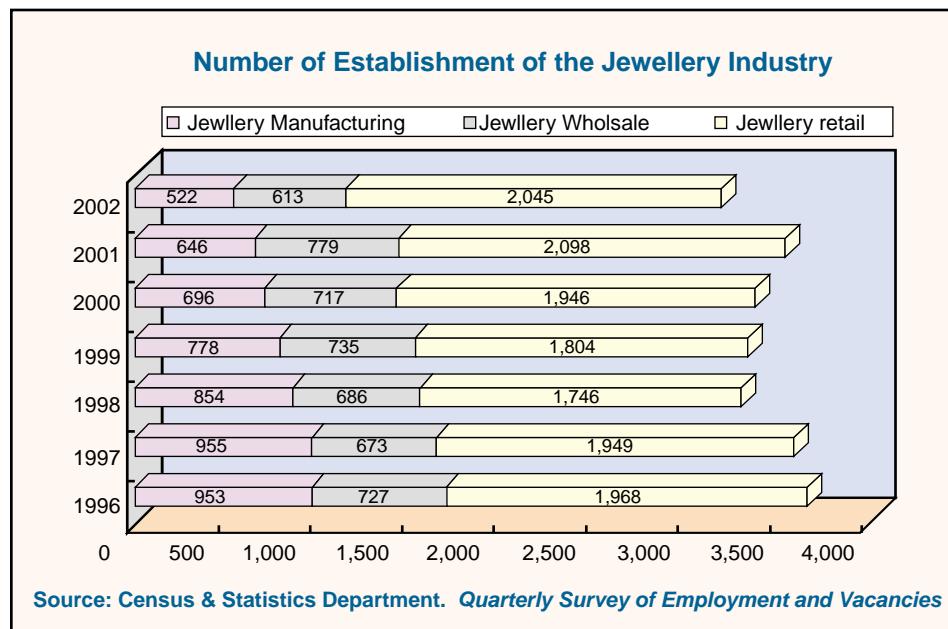


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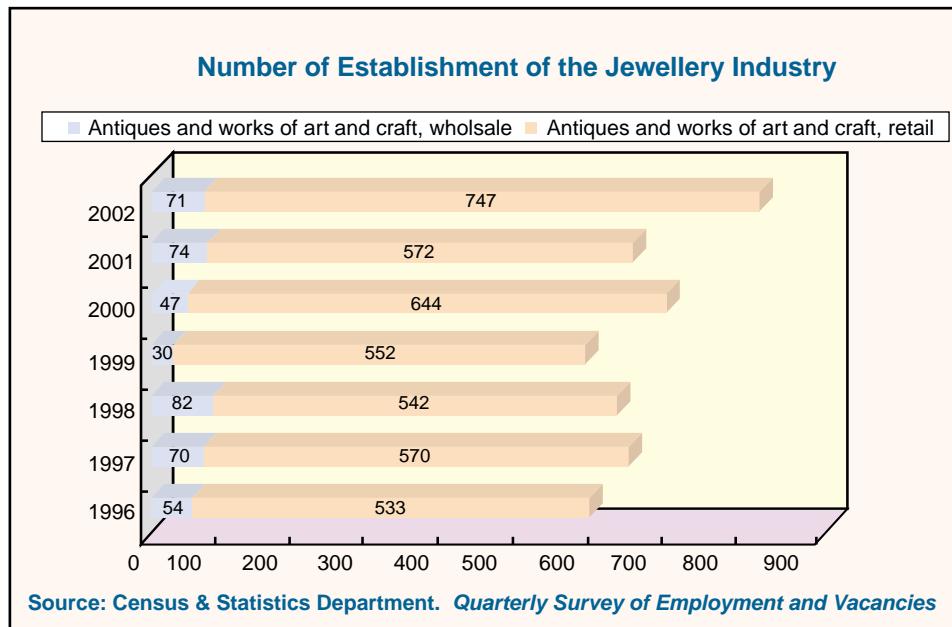
Film and Video



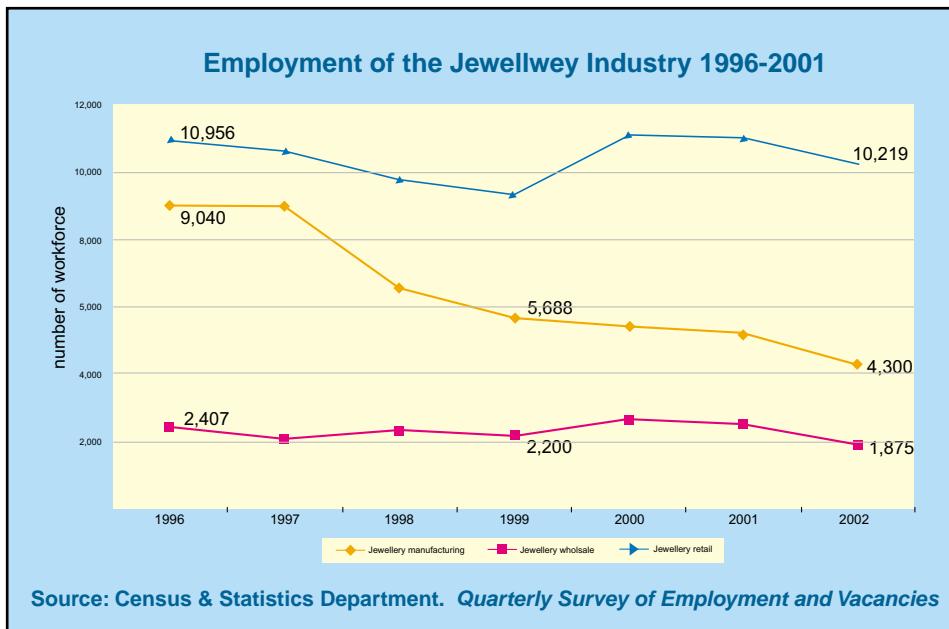




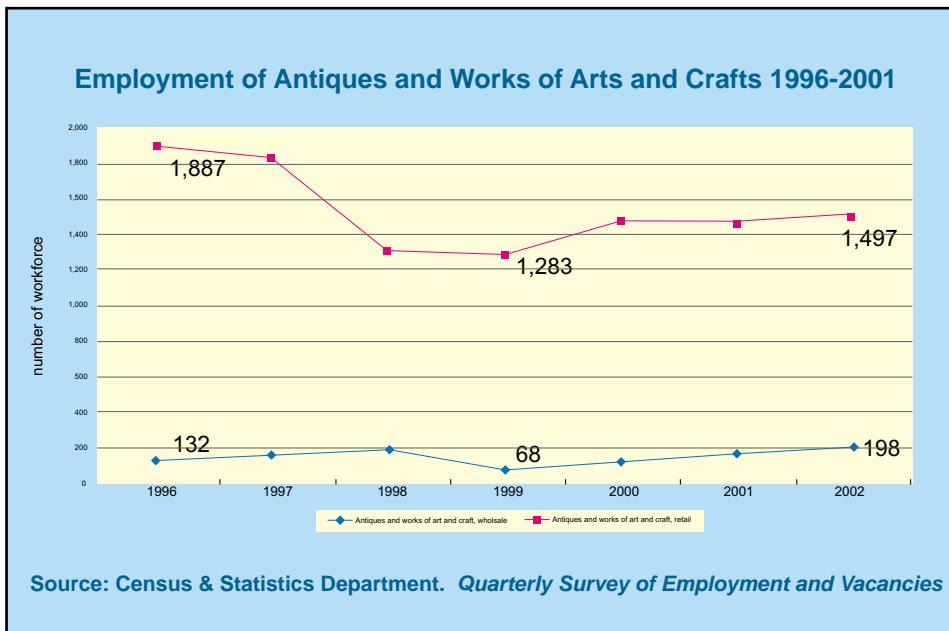
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4 Design

Industry Structure

Core activities: Fashion design, Graphic design, Interior design, Product design

Related activities: Industrial design, Packaging design, Corporate/brand identity consultancy

Related industries: Garment, Architecture, Exhibition, Construction, Building materials, Commercial/retail, Residential, Manufacturing, Consumer goods, Toys, Advertising, Printing and publishing.

- 4.1 There are four main core activities in the design sector; namely, fashion, graphic, interior, and product design.¹ These conventional categories have, however, gradually integrated some of their respective activities in response to the increasing need to provide dynamic, inter-disciplinary design services and solutions for their clients.
- 4.2 Relatively speaking, graphic designers are the most Hong Kong-oriented among their peers in terms of the nature of their products and services and, similar to their cousins in the interior design profession, have been well-received locally. Product designers, similar to their colleagues employed in the fashion design sector, have mostly been serving industrialists in a market dominated by Original Equipment Manufacturing (OEM). In the past decade, however, a small number of product designers and fashion designers have been able to develop their own brands and successfully switched into the mode of Original Brand Manufacturing (OBM).
- 4.3 Several major professional associations and a half dozen smaller associations, organized primarily but not exclusively along the lines of the core activities, have been established in the sector. The most prominent ones include the Hong Kong Designers Association, the Interior Design Association of Hong Kong, the Chartered Society of Designers Hong Kong, and the Hong Kong Fashion Designers Association.²
- 4.4 The actual number of professionals working in the design sector is, however, not fully reflected by the size of the membership of each of these professional associations. For example, according to one industry informant, it is very difficult to arrive at some precise figures on the number of people employed as fashion designers, given that more than 80 percent of fashion designers in Hong Kong are working as employees for large firms and the latter do not keep or report statistics on such personnel matters.³
- 4.5 In an effort to improve coordination of the activities and to promote the design profession, the four leading associations formed a coalition body known as the Hong Kong Federation of Designers Association in 2001. With support from the government and the Jockey Club, a Hong Kong Design Centre (HKDC) was established in September 2002.
- 4.6 The HKDC, housed in a colonial-style monument building, is a non-profit making organization that aims primarily at making a contribution to the sustainable competitiveness, prosperity and well being of Hong Kong through the creation of a world class centre of excellence for design in Asia. Several informants from the design sector comment that the establishment of the HKDC, at the local level, would help the profession to gain wider

1 Hong Kong is the world's largest toy exporter, with the toy industry exporting HK\$74 billion (US\$9.5 billion) in 2000. The Hong Kong Toys and Games Fair is the largest of its kind in Asia and could soon overtake New York to become the second largest in the world. Hong Kong's clothing exports are ranked second in the world, exporting HK\$174 billion (US\$22.3 billion) in 2000. Hong Kong Fashion Week Spring/Summer is one of the main events in the fashion industry around the world.

2 Other associations that are directly related to the design industry include the Industrial Designers Society of Hong Kong; the Hong Kong Design Maker Association; Association of Technical Officer Cultural Services; the Master of Design Alliance; the Hong Kong Poster League; and the Hong Kong PolyU School of Design Alumni Association. Other organizations that are indirectly linked to the design industry include the Hong Kong Society of Illustrators and the Hong Kong Institute of Professional Photographers.

recognition within Hong Kong's services and manufacturing sectors as a value adding business activity and hence be integrated into mainstream business processes. HKDC's major activities are thus designed to raise the awareness and understanding among the private sector that improved design is a powerful impetus that could yield tangible value-added services to their businesses. The HKDC also serves as an intermediary between designers, on the one hand, and industrialists, the business sector and the general public, on the other. Through activities such as exhibitions, seminars and lectures, it aims at establishing an interactive relationship with society-at-large to highlight the importance of design in enhancing the quality of life.

- 4.7** A 1997 survey reveals that the average design firm hired less than ten persons in 1995.⁴ The average size of design firms, according to industry informants, has declined since then, particularly after Hong Kong's economy was hard hit by the 1997 Asian financial crisis. Moreover, they caution that billing might be a more appropriate measure of the scale of a design company, as a small design firm—anchored by a "star" designer—can often secure projects of substantial proportion. Despite the fact that many foreign design companies—mostly interior design consultants and identity consultants—have opened up offices in Hong Kong, they only account for a small share of the design industry (at around 6%) in terms of the number of firms.⁵

Strengths and Weaknesses

4.8 Regional Dimensions

About two-thirds of Hong Kong design firms have reportedly exported their services to overseas market, with the majority of them (76%) exporting their services within the Asia-Pacific region where Mainland China commands the biggest share of the export business. Graphic designers are relatively domestic-oriented, with 10-20% of their billing coming from overseas sources, whereas product and interior design firms are relatively more export-oriented, earning, respectively, 31% and 22% of their revenues from overseas clients.^{7,8}

- 4.9** One of the major reasons for interior design firms to derive more than one-fifth of their earnings from overseas market relates to the fact that they rely heavily on Hong Kong-based property/hotel investors who are developing projects in overseas markets. In an effort to preserve a strong company image and a consistent style, property/hotel investors usually prefer to work with a familiar group of interior designers who command a better understanding of their needs through long-standing working relations with the former.

International Critical Acclaim

- 4.10** Within the core areas of design activities such as graphic design, product design, interior design and fashion design, Hong Kong designers have been regarded by Mainland Chinese clients as better than local competitors in terms of design output performance and creativity.⁹ Hong Kong designers are also considered to possess some competitive advantage over western designers because of their ability to integrate western style with Chinese cultural elements in their design works. When compared with other Asian designers (primarily those from Taiwan and Singapore), Hong Kong designers are also considered by Mainland Chinese users to be more professional and capable of producing higher quality of work.¹⁰ Some Hong Kong designers are, in fact, considered top practi-

³ For instance, according to one informant who has extensive experience in the fashion design industry, the actual number of professionals working as fashion designers could range from anywhere between 10,000 to 20,000, although the Hong Kong Fashion Designers Association has only admitted around 50 members at the moment. The estimated range, admittedly very broad, is derived by counting the total number of graduates completing fashion design programmes in tertiary educational institutions in Hong Kong as well as those in overseas locations in the past two decades, taking into consideration normal attrition rate in this sector.

⁴ *Designed by Hong Kong: an Overview*, Hong Kong Trade Development Council, 2001, p. 6.

⁵ Ibid..

⁶ Ibid., p. 7.

⁷ Ibid., p. 8.

tioners in the trade in the Asian region; and a few have been accorded top awards at the international level.

Secondary Economic Impact

- 4.11** Design is being increasingly recognized—and being actively used—as a major value-added tool in a wide-range of services and products such as architecture, residential, commercial and retailing projects, advertising, consumer goods, designer fashion, personal care products, furniture and furnishing, and food and drink. Design in product packaging plays an important marketing function—it enhances the appeal of the product by allowing consumers the opportunity to learn about its functionality and attributes. Moreover, the compressed time-frame in product and service development—driven mostly by technological advancements and increased market competition—has resulted in a mounting emphasis on the need to integrate the design element into the early stages of industrial and commercial processes.

Prospects

Potential for Growth

- 4.12** Leading industry specialists across all design disciplines have suggested that the major source of future growth of the design profession lies in Mainland China, where the design services market is still relatively young. The 2008 Beijing Olympic Games and the Shanghai Expo 2010 are both perceived to be a major source of demand for Hong Kong design service providers. Moreover, there is a confirmed, increasing propensity among Chinese firms to procure services from foreign designers (Hong Kong designers are officially categorized as “foreign” for administrative purposes in the Mainland).¹¹ This propensity to use external, higher-quality design services will be reinforced by China’s accession to WTO and the associated pressure of rising market competition and increasing need to comply with international standards. Meanwhile the CEPA has allowed Hong Kong advertising companies to set up wholly-owned enterprises in the Mainland, which will benefit designers working for these businesses.
- 4.13** Hong Kong design companies, at the moment, are enjoying an edge over other foreign firms and indigenous mainland designers in the Mainland market because they have established a strong presence in the foreign sector with their recognized professionalism, quality of work, creative design, value for money, and understanding of the Mainland market. For example, since the late 1990s, some leading Hong Kong fashion designers have started providing consulting services, on both long-term¹² and project basis, for Mainland’s emerging fashion industry. Recently the CEPA has allowed zero import tariff on textiles and clothing, which will help the branding of Hong Kong fashion products in the Mainland. China’s accession to WTO will, however, bring keener competition to all the products on the market. This requires Hong Kong design firms to reinforce their “first-mover” advantage and to re-think their marketing strategies to remain competitive and to thrill in the Mainland market. It also means that Hong Kong design professionals need to help corporations in the Mainland to upgrade their products by employing various design disciplines, including product design, graphic, interior and fashion design, to enhance the latter’s domestic market share and competitiveness in the international market as well.

8 Similar statistics are not available for the fashion design industry for a number of reasons. As pointed out by an industry informant, the magnitude of the export services value rendered by fashion designers depends to a great extent on how practitioners in the field of fashion design are classified by the government’s statistical system. At the moment, for instance, fashion designers working in the garment sector or retailing sector are counted as workers in the garment industry and the retailing sector respectively, not in the field of fashion design. Thus, with the value of their services included in the garment sector or the retailing sector, one might argue that the true value of the services provided by fashion designers is grossly underestimated by the current statistical reporting system. Given that designers have assumed an increasingly important role as the garment industry evolves from OEM to ODM and is increasingly engaged in product development-oriented services for their clients as well, there is a need to revise the current statistical reporting system to help identify and measure

Impact of E-commerce/Internet/Technology

- 4.14** The advancement in information technology and multi-media know-how allows design to be visualized and it therefore has helped the public and clients to understand and appreciate the importance of design. The rapid development of the Internet and design software packages has allowed designers to work more effectively and closely with their clients, local, regional and global. One of the major drawbacks of rapid advancement in design software for design firms—most of them being small operations—is the enormous amount of expenses needed to keep pace with the latest technology and to comply with stringent copyright regulations.

Growing the Sector—Points for Consideration

- 4.15** The design sector has been adversely affected by the post-1997 economic downturn in the local economy and by the increasing emphasis by clients on value for money. There is an urgent need to educate the private sector in particular and the public in general about the significant value-added impact and other benefits that design could help contribute to improving the bottom line performance of businesses and the quality of life of ordinary citizens. For instance, at the local level, garment factories, in an effort to retain and consolidate their comparative advantage, could hire fashion designers to help strengthen their product development activities in order to provide additional services to their clients. At the regional and global level, the government could conduct campaigns to help promote the image of Hong Kong as a “creative city.”

- 4.16** The recent establishment of the Hong Kong Design Centre is a major, positive step toward raising the awareness of the importance of design among the industrialists in particular, and the wider population and the public sector in general. Moreover, the government could play a central role in creating a forum to help facilitate the interchange and exchange of success stories among and between the design professionals as well as to foster inter-disciplinary integration and cooperation. Furthermore, additional opportunities should be made available for local design firms by the government—a major user of design services—in commissioning Hong Kong design firms for a wider range of publicly-funded projects. In particular, the government could consider the institution of a subsidy scheme that is targeted at young designers entering the trade to help them establish a foothold in the sector as well as the establishment of a permanent show room for small design firms to display their products, at a subsidized rate, that cater to both local and overseas buyers.

- 4.17** The potential of the Mainland market is marred by some real obstacles such as payment problems, intellectual property rights protection issues, and the strict requirements for establishing a branch office in the Mainland. These obstacles could be somewhat overcome if Hong Kong design companies could be assisted in finding reputable and reliable local partners in the Mainland to establish region-wide or nation-wide practices. Proactive and aggressive marketing of Hong Kong's design services in the Mainland on the part of the government could help the sector to overcome some of these obstacles. For instance, the government could consider the provision of a subsidy to Hong Kong-owned small and medium-sized enterprises (SMEs) operating in the Mainland to hire Hong Kong-based design professionals. Moreover, building upon and furthering the strengths of SMEs operating in the Mainland market, the government could help designate and provide permanent show rooms in key mainland Chinese cities to showcase their products



the true extent of the contribution of fashion designers to the garment industry in particular and Hong Kong's overall economy in general.

⁹ Ibid., p. 22. According to a survey from the TDC International Toy Fair held in Hong Kong in 2001, Mainland consumers regard toys from Hong Kong manufacturers as offering good safety standards, strong designs and high quality.

¹⁰ Ibid., p. 24.

¹¹ Ibid., p. 34.

¹² The word “long-term” here refers to the two major conventional seasons—summer and winter—that fashion designers operate within their profession.

and services. Furthermore, the Hong Kong Trade Development Council has co-organized road shows with the Hong Kong Designers Association and the Hong Kong Fashion Designers Association in different parts of the Mainland. Such activities have been well received by the various concerned design sub-sectors and such successful experiences could be replicated for other segments of the larger design sector.

- 4.18** Given the rapidly changing characteristics of the design industry since its inception in the early 1970s, the Hong Kong Polytechnic University has conducted a comprehensive review of design education and practice in Hong Kong by the “Design Task Force”—a group established in 2001 to examine the directions for the School of Design at the Polytechnic University and the design industry in future.¹³ The report suggests to reform the current design curricula to cater for the needs of business and technology and to take advantage of the unique position of Hong Kong not only in its transformation in de-industrialization but also its proximity to the strong manufacturing bases in the Pearl River Delta.

Key Statistics

Revenue

- 4.19** Business receipts from design practices totalled HK\$1,162 million in 2001, with value added totalling HK\$768 million, which represent, respectively, a considerable drop from a record high of HK\$1,520 million and HK\$843 million in 1996. The billing amount has shown a steady and gradual decline since 1995 to a record low of \$990 million in 2000. The amount of value added showed a similar pattern: it decreased gradually since 1995 to a record low of HK\$628 million in 2000. Both the billing amount and the value added amount registered a slight improvement in 2001, showing a year-on-year increase of 17.4% and 22.3% respectively.

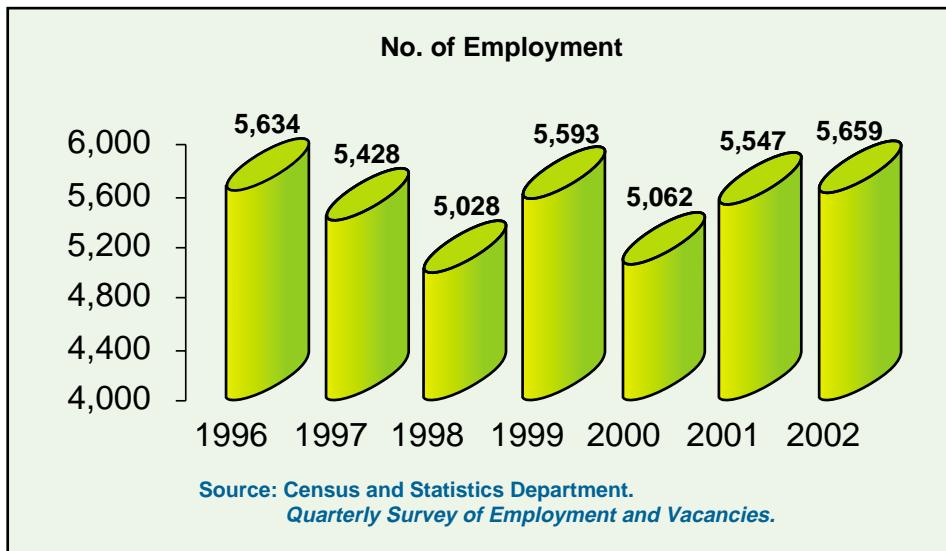
Employment

- 4.20** Due to a lack of clear and commonly agreed upon definition, the exact number of design practitioners working in the core and related design activities could not be determined by the current statistical reporting system. A 1995 survey on the “Status of the Hong Kong Design Profession,” which was jointly conducted by the Chartered Society of Designers, Hong Kong Designers Association, Hong Kong Fashion Designers Association, Hong Kong Polytechnic University, and the Hong Kong Interior Design Association, reported that the total number of design practitioners in that year was estimated at 18,000. Using its own survey methodology, however, the Census and Statistics Department (C&SD), through their *Quarterly Survey of Employment and Vacancies Statistics*, reported that 5659 persons were employed in the design services sector in March 2002. Authoritative informants from the design sector, nevertheless, point out that the actual number of designers working in various mainstream and related design disciplines would probably be much higher than the figures compiled by the C&SD because the unit of survey adopted by the C&SD was a registered firm specializing in a certain mainstream design activity and, given that many design practitioners are hired as in-house designers by various trades such as garment, toy making, real estate and retail firms, they are therefore not captured by the C&SD’s methodology. According to several such informants, there might be more

than 20,000 persons engaged in design services activities in 2002.¹⁴ This estimation seems to match the total number of graduates trained by the various design schools in the past two-and-a-half decades.

¹³ The report was released in July 2003: *Shaping the Future – Design for Hong Kong. A Strategic Review of Design Education and Practice*. The Design Task Force, Chief Author: John Heskett. School of Design, the HK Polytechnic University.

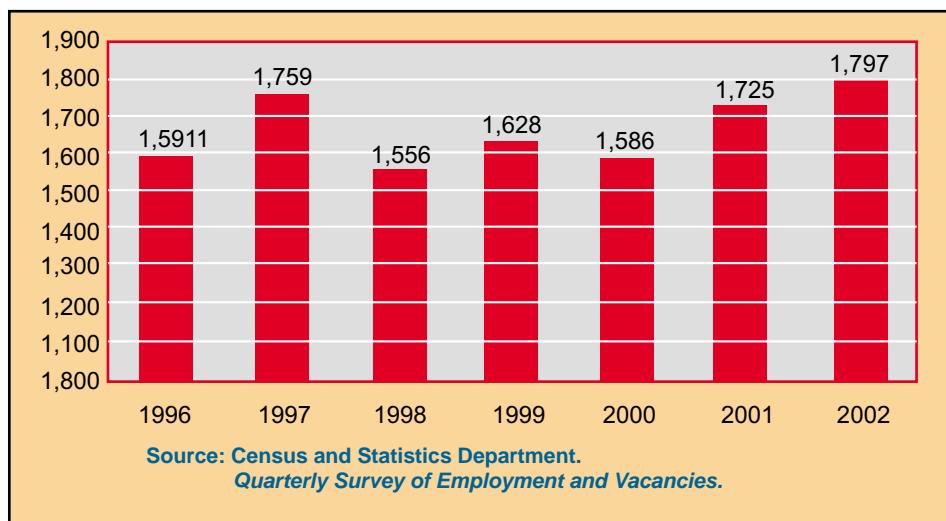
¹⁴ The Design Task Force Report from PolyU attributes one reason of this discrepancy to the overlap of the design workforce with that of the advertising sector. Ibid: 63.



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Market Size

- 4.21** There were 1797 design firms registered in 2002, which represent a slight expansion (by 12.9%) when compared with the 1996 figure (at 1591).¹⁵ This slight increase in the number of design firms, coupled with a very marginal addition of professionals employed in the sector, means that the profession has been gradually and increasingly populated by small-sized companies and freelanced individual designers.



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¹⁵ This set of figures were compiled by the Census and Statistics Department through their *Quarterly Survey of Employment and Vacancies Statistics*. Again, several formants have pointed out that the actual number of establishments operating in the various mainstream design disciplines would probably be much higher than the figures compiled by the Census and Statistics Department (C&SD) because the C&SD's survey methodology does not, for various reasons, include a substantial number small-sized firms and individual designers on its radar screen. The actual number of design establishments and design professionals working in the core and related fields could only be gained through a comprehensive, sector-wide survey that uses a methodology vastly different from that currently employed by the C&SD.

5 DIGITAL ENTERTAINMENT

Industry Structure

Core Activities: Publishing, Research and development of games, Production of animation, 2D/3D graphic production and Multi-media production

Related Activities: Middleware engineering, Data/server management, Operation of Internet café/games centre, Product merchandizing, Publishing, Broadcasting, Advertising and Media services

Related Industries: Internet and telecommunications, Games Centre, Theme Park, Music, Publishing, Advertising, Media services, Merchandising

5.1 Digital entertainment industry is a fangled industry segment in need of an operational definition. The term is a catchall to enlist all possible forms of digital content to be delivered over a variety of media. Theoretically, entertainment such as film, animation, games, music composition, publishing and media services could nearly be all digitalized. However, local conditions for growth vary from one sub-segment to another and therefore a list of all these potentials is too equivocal.

5.2 The ITBB has adopted a framework of digital entertainment in terms of “the use of digital graphics and visual effects in the production of films, videos and television programs,” “computer animation” and “games and edutainment software.”¹ This definition serves as a reasonable base of our analysis. In this chapter, we delimit our discussion to *animation, media services in deployment with digital effects* and *games* while the production of multi-media products related to education and digital publishing would only be marginal.²

5.3 There is by far no comprehensive survey on the number of establishments of digital entertainment. The multiple nature of business undertaken by the economic units would lead to difficulty in giving a precise classification of digital entertainment from one form to another. The database compiled by the Hong Kong Trade Development Council records 86 animation production companies, 502 in computer graphic design, 114, computer games and 917, digital effects for film, TV and advertising.³ Many of them are engaged with cross-sector activities, but they could be the reasonable base for collecting industry data and for a more comprehensive profiling of the industry in future. Due to the lack of quantitative data, focus of the following analysis is more on the *scope of business/activities* of industry players instead of a rigid demarcation of industry segment.

Animation

5.4 Only a few companies in the field have released animation films either for theatrical screening and television broadcasting or sale in compact disc. As early as in 1978, a cartoon based on the popular comic, “Master Q” was exhibited. It was a Taiwan investment but the directorship and part of the post-production process was undertaken by a Hong Kong crew. Until the late 1990s, two animation films were exhibited in 1997 and 2001 (“A Chinese Ghost Story” and “Master Q 2001”), which extensively deployed 2D and 3D technologies, and each recorded satisfactory receipts of about HK\$ 8.1 million and

¹ IIAC-WGDE (2002), Paper no.1, February.

² An array of services/products such as online newspaper, news delivery via electronic channels, virtual journals or auxiliary entertainment software are provided by local publishers, information aggregators and academic institutions respectively. However, they are more akin to conventional segment of publishing industries. The same is with production of digital music, which is made available by records companies. All these are potentials of digital entertainment but as independent industry segments, they are far from mature.

³ <http://www.tdchkdirectory.com/>

● million respectively.⁴ Similar attempt has been made by a publishing house, which, based on celebrated characters from the series of “McDull” and “McMug”, released an animation film entitled “My Life as McDull” in 2001, and the film recorded HK\$ 14.5 million in local box office.

- 5.5** Animation for television broadcasting is another key sub-segment. A few companies having been outsourcing partner in the global division of labour remain key players in the industry. One of these local companies employed about 50 persons in the Hong Kong office, of which about 10 were engaged in pre-production and quality control while its mainland branches in Nanjiang, Hangzhou, Shanghai and Guangzhou employed about one thousand labours. Animation for television broadcasting is normally destined to regional broadcasters from European, North American as well as Asian markets. However, given the fact that outsourcing business is increasingly relocated to low cost areas, the company has recently augmented investment in co-production with partners in Europe and Singapore so as to build its own library.
- 5.6** Some companies focus on local market. Enthusiasm in local animation is perhaps encouraged by the success of both local and international animation films in the late 1990s and a couple of new entrants do attain noticeable profile. For example, a new company incorporated in 2002 has prepared to embark on a series of animation. One of its offerings is the VCD series of “Master Q”, a product already available in local market, Mainland China, Taiwan, and Southeast Asian countries. Prospectively, animations based on martial arts fiction, love stories and comics are in production.
- 5.7** Animation industry is labour intensive. Workers in the field are required of substantial training in drafting, computer graphics, visualization, editing as well as graphic design. The number of labour varies from a dozen to more than a few hundred, depending on time of production as well as technicality involved. There is one estimate that an animation film of ninety minutes may require 300 labours. Companies in Hong Kong are small in setup. The publishing house mentioned above employed about 10 workers in producing “My Life as McDull,” perhaps an amazing case of recognized excellence with such limited number of labours. Normally, an animation company needs more staff; for example, the company that produced “Master Q” (VCD series) has 6 persons engaged in the creative process and the pre/post-production while its manufacturing involved about 90 workers in its Mainland office.
- 5.8** Both capital investment of animation and risk could be high, in particular for theatrical screening. Best-of-breed animation worldwide could take several years to complete, and investment is substantial. For example, the “Final Fantasy”, a 3D animation film, cost about US\$200 million but its box receipts flopped unfortunately. Production cycle of local animation films may be shortened but the time-frame is usually more than one year. Animation for broadcasting or in multi-media format (for example, VCD) needs shorter time, and therefore yields quicker return either by sale of copies or copyrights to broadcasters.

Media Services in Deployment with Digital Effects

- 5.9** The services are basically media-dependent, which means they are enabling other deliverables including films, videos, advertising copies, television programmes, programmes embedded in mobile phones and websites or multi-media products enriched with special effects such as animated graphics or visual effects. Generally speaking, “post-production house” is a generic term to cover all these business services. Advertising agencies usually demand a lot of animation services; and it is common that production houses offer a wide range of service from cutting-edge, film/video editing, visualization, graphic design to animation services of 2D or 3D quality. Film production acquires the services too. The well-known examples including “Shaolin Soccer” (2001), “The Legend of Zu” (2001) and “The Avenging Fist” (2001) have extensively deployed computer graphics in their works.
- 5.10** Some post-production houses work closely with other entertainment industries to create new products. A newspaper once initiated a comic series “Dayawang,” (1999) based on the storyline of a classic novel the “Journey to the West” engaged with modernized characters in 2D and 3D graphics. Although the comic series were a supplement to the newspaper, it was enclosed in VCD format and the whole exercise showed how comic creation, publishing and digital technology could be combined as an edge. Recent examples include a music piece with a virtual character modelling on a local pop singer and the Ocean Park simulation film at the Film Fantasia theatre.

Games Industry

- 5.11** Hong Kong does not possess a manufacturing base on hardware production of games as with the console and arcade hardware in Japan, Korea or the United States. Local games industry is more focussing on software development, in particular, *games for personal computer (PC games), online and mobile games*.
- 5.12** Industry source reports that there are about 5 major game developers and 10 smaller setups employing around 300.⁵ This figure perhaps refers roughly to PC and online games. With mobile games, there are a dozen of mini setups with one or two persons. Some leading players in PC/online game are said to be employing about 50-60 persons in Hong Kong, and branch offices have been set up in the Mainland for cheaper labour cost. Most companies focussed on PC games before. The prevalence of piracy, however, led to rapid decline of profit margins and there is a shift to online games for more stable income from subscription. Game cycle has also become shorter; most PC games would only last for several months but online games could sustain themselves by developing new/additional features to retain subscribers. Nevertheless, a few companies have kept PC games as their sole business to sell their products to neighbouring countries like Japan and Korea.
- 5.13** Developers of mobile games are of different business model. Due to keen competition, handset manufacturers prefer game genres preloaded in mobile handsets, and as a result, substantial demand for mobile games could be anticipated. The same is with mobile operators who regard value-added services such as games as a prospective stream of income. Developers therefore sell copyrights to handset manufacturers or telecommunication operators to derive their revenue from mobile subscribers on the pay-per-usage basis. Sideline business also develops from download of ring-tones and graphic images as well as corporate billing for mobile solution.

⁵ IIAC-WGDE (2002), Paper No.2. The actual number could be more; for example, the TDC's database records 114 game companies.

- 5.14** The production cycle and capital investment of PC/online games is relatively lengthy and high in comparison to mobile games. It is normal for Hong Kong game developers to take eight months to 1 year to develop a PC/online game with a budget of about HK\$0.4 to 0.5 million while the total budget of a game could be as high as one to a few million depending on the scale and complexity. Cost structure of a PC/online game includes engine, encoding, music, development and staff costs in addition to after-sale and administrative costs. Online games involve a slim structure despite the same cost items. Some companies would even build their own game engines so that labour inputs are less intensive. Investment cost for mobile games in general could be less than a quarter of PC/online games and the production cycle could be from three to six months.

Strengths and Weaknesses

Germinal Force of Creation

- 5.15** Hong Kong's animation films are not short of excellence either in terms of directorship, artistic and visual presentation, or technical standards.⁶ The games industry, in spite of the primary focus on local market, is also building its own fame in the region. Besides the PC game "Cupid Bistrol" which successfully entered into the markets of Japan, Korea, Taiwan and Mainland China, a renowned major company has been developing collaborative projects with Sony and Ubi Soft. These individual cases undoubtedly demonstrate the strength of a growing regional nexus.

- 5.16** However, the community of animation/games workers remains small; and labours in the field should be given more exposure and opportunities for practice, if not only for business. Institutional setups, in particular the universities, indeed nurture a generation of young entrepreneurs and professional workers in graphic design and computer animation. Yet, workers with different backgrounds cross over in their job path. Reports from interviews point out that the teenaged deprived of educational qualifications are often identified in Internet cafés and employed in games industry while video makers and television producers sometimes migrate to animation production. Local games workers are technically qualified where technological innovations and the relatively short production cycle render strong demand for adaptability and application of new technologies. In summary, exchange of industry knowledge, flexible modules of learning, on-the-job training and enduring learning opportunity would be important for the development of games workers.

Unsustained Local Demand and Thirst for Investment

- 5.17** A small market is always a problem. Constraint of economic scale or limited demand is barrier to finance. Investment of animation film is more likely subject to the economic rules of film industry and therefore access to finance depends very much on the prospect of box office and regional sale. Since the investment is usually high and risky, access to finance would remain one of the key barriers for the development of animation. Besides, a limited number of local broadcasters are used to acquiring Japanese and US animation programmes, resulting in leeward competition of local animation companies vis-a-vis the overwhelming import programmes. As regards the games industry, financiers in the field are far from developed. The industry now depends very much on individual entrepreneurs while games companies are normally self-financed with limited resources. Given these circumstances, how to attract local and overseas investment remains a major problem for the development of digital entertainment.

 **6** For example, "A Chinese Ghost Story" (1997) and "My Life as Mcdull" (2001) were honored the best animation film in the Asia-Pacific Film Festival and Golden Horse Awards respectively while "Shaolin Soccer" (2001), "The Legend of Zu" (2001), "A Man Called Hero" (1999) and "The Storm Riders" (1998) won the best visual effects in a regional film award. Work of a local company, such as "Maggie and the Ferocious Breast" won "Award of Excellence in Animation for 3 to 5 Years Old" in Montreal's Alliance for Children's Television Award Ceremonies.



Music



Local Culture in Search of Regional Markets

- 5.18** Animation films and games demonstrate vitality in capitalizing the cultural resources and images of Hong Kong popular culture. Many characters and storylines of animation films and games are actually derived from the Chinese classics (e.g. the series of "Chinese Philosophers"), martial arts fictions, music/movie stars and comics. Interaction with other entertainment industries is one area of strength for Hong Kong's digital entertainment sector. However, the product of strong local culture may be less competitive in a regional market where cross-over and normative elements are of a higher priority. Hong Kong's digital entertainment is still at an infant stage in search of business models; and meanwhile, diversification of products is required to feed the regional demand. Hong Kong's games industry is stuffed with role-play strategic games of martial arts genres, but the drive for diversification is still constrained by the size of the local market. Besides creative contents, both animation and games industries require more investment, technologies and larger economic scale as well as budget on overseas promotion so that their deliverables could be more competitive regionally.

Catching up with the Technological Trends

- 5.19** Taiwan has nurtured a decade of research, development and marketing experiences for the production of PC games and its games industry is currently shifting to online products. Other regional players such as South Korea's online games and Japan's console games have already established world-class status. In contrast to these developed models, Hong Kong games industry is relatively young, and so is its technological foundation. Indeed, Hong Kong is lagging behind in the basic research of 3D technologies, or application research such as modelling, games engine or middleware engineering. However, local universities are now catching up with the technologies to inaugurate relevant curricula to digital entertainment. Although basic research in 3D and modelling technologies may take years to bear fruits, the process of technological diffusion could be speeded up by developing collaborative projects and internship among local and overseas universities as well as industry players, or by offering training programmes with industry organizations and the public bodies.

Prospects

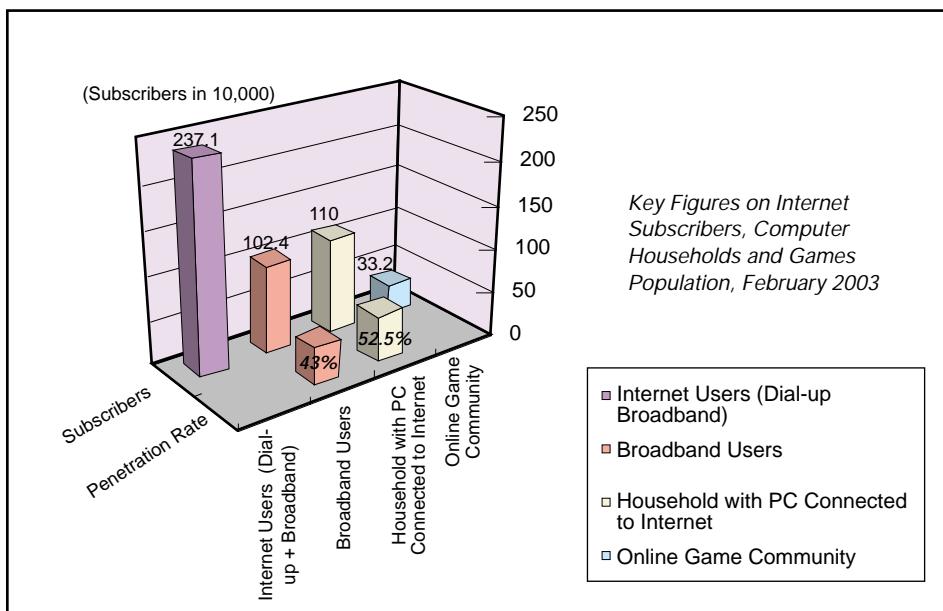
Potential of Local Market

- 5.20** Local market conditions are favorable for the growth of digital entertainment. The interoperability of telecommunication and broadcasting networks and the increased intelligence of reception media (like personal computer, PDA, console games or very soon 3G mobile phone) are undoubtedly the drivers of digital contents and services. Wireless applications and 3G mobile services will be available in perhaps one or two years, which will unleash a new torrent of entertainment services. Furthermore, the liberalization of local subscription television brings new players. In addition to Cable Television Limited, there have been 4 new players in the field of subscription TV since 2002.⁷ Import of programmes is indeed one of the strategies to fill these new channels; however, local animation programmes targeted at children or the general audience would be invaluable to meet the upcoming demand. In short, Hong Kong is not without the infrastructural conditions for growth. Sizeable markets of computer users, gamers, broadband and mo-

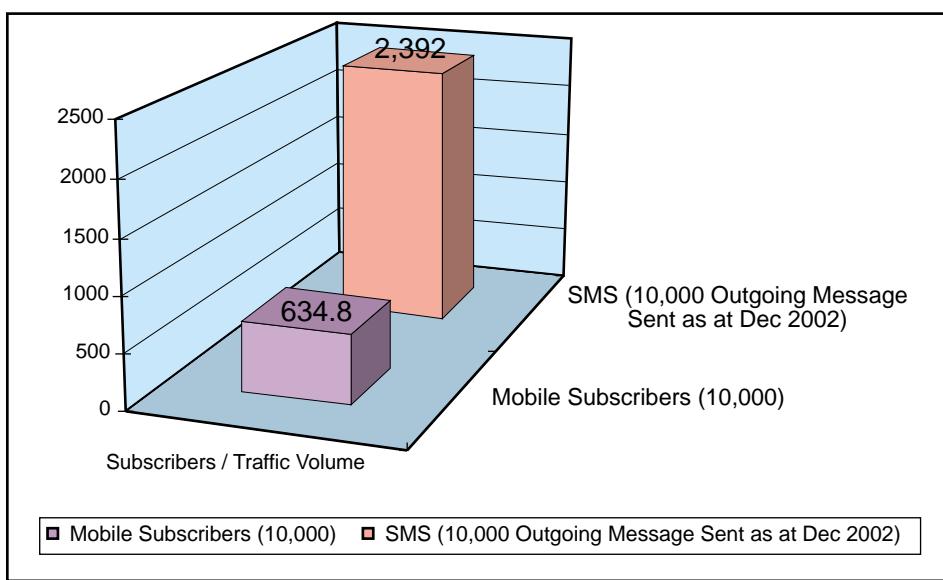
⁷ They include PCCW VOD Limited, Yes Television (Hong Kong) Limited, TV Plus (HK) Corp. Limited, Galaxy Satellite Broadcasting Limited while providers of multimedia services via the Internet are, but not limited to, City Telecoms, NOW.com or I-Cable. For more details on the television services, please refer to Section B.IV. 11 on "Television and Radio".

bile subscribers are available. The liberalization of the television market would likely drive new demand for digital entertainment. All these regulatory and infrastructural conditions will support Hong Kong's digital entertainment sector to explore business potentials in future.⁸

- 5.21** These potentials, however, are still threatened by piracy although price for multi-media deliverables has recently gone down to a level that makes disc products of animation films and PC games relatively competitive. Sweeping attacks against piracy should be maintained, otherwise the potential growth of local games companies and foreign capital will be endangered.



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⁸ The figures presented in the diagram are derived from different sources: OFTA (2003), "Key Telecommunications Statistics, February"; HKPC (2003), "Hong Kong IT Industry, February"; "Statistics of Customers of Licensed Internet Providers in Hong Kong," HKISPA; CNNIC (2003), *The Survey of Internet Development in China*. Unavoidably, different sources provide different estimate about the market. For example, according to a survey by Breakthrough, number of gamers in Hong Kong are as high as 40,000 as compared to a more conservative figure in "Thousands Addicted to Online Games," SCMP, January 17, 2003.

Cross-sector Interactions

5.22 Spin-off business of Digital Entertainment is a developing potential. Local comic characters are brought into animation films and games packages while celebrated characters in many cases are figures of handheld toys, electronic products, stationery, apparels or accessories. “Mcdull” and martial arts comic characters are proven cases of success in accessory sale markets. Given Hong Kong’s manufacturing industries are looking for ways of developing into original brands, graphic images and characters popular in digital entertainment could be the value added to other manufacturing products. The crux of the matter depends on strategies to enable cross-platform dialogue so that exchange of licensing characters/image-rights could take place. The merchandize exhibition of Trade Development Council indeed provides an anchor for licensing business. But its scope could be enlarged to provide programmes of support in addition to venue in order to foster the integration of manufacturing industries and relevant segments of digital entertainment.

Potential of Regional Markets

The regional market of digital entertainment is very promising. A recent estimate of growth in console software in 2003 accounts for more than US\$11 billion worldwide.⁹

Another research forecasts the growth of online game to reach US\$5.3 billion by 2005.¹⁰

In Asia, the total online game market is estimated to be US\$450 million in 2001 with most subscribers concentrated in South Korea, Taiwan and Japan. Mainland China is definitively a fast growing market of digital games. Internet population registered at 59.1 million in 2002, of which 6.6 million were broadband users while the number of online

gamers was estimated at 9.7 million by 2002 and 14.3 million by the end of 2003.¹¹ The mega-basis already drove lucrative sales of online games to RMB\$910 million in 2002, and the booming business is estimated to reach RMB\$ 8.34 billion by 2006.¹²

5.24 Demand for animation programmes in Asia is expected to rise in the foreseeable future. A crude estimate of Mainland China’s animation and comics markets is at RMB¥ 51 million in 2003.¹³ And about 0.3 billion young population below the age of 14 would be a potential market for animation, comics and other forms of entertainment services. The changing broadcasting landscape in the Mainland meanwhile offers a large territorial

market. By early 2003, 32 satellite channels already obtained landing rights there.¹⁴ With a number of them headquartered in Hong Kong, the city indeed serves not only as a hub for television production but also an emporium for the exchange of broadcasting programmes including the copyrights of animation.

5.25 All these potentials should not be taken for granted. Players in the Mainland market actually develop much faster than in Hong Kong. Equipped with relevant technologies and strong supply of quality labours, some of the Mainland’s leading software companies

have already been moving into games industry.¹⁵ Hong Kong’s games companies would be at no ease to join the development process where the fast growing games industry in the Mainland requires much higher capital investment than they could afford. For outsource business, foreign companies may prefer setting up their own offices in the Mainland for cheaper labour cost. Because of its infancy, not many local animation companies could fill the intermediary role for quality control and management of outsourcing service; and therefore Hong Kong may not be the best node of outsourcing business.

⁹ “Strong Players,” *Economist*, 14th December 2002.

¹⁰ “SINA and NCsoft Enter Definitive Agreement to Form Online Game Joint Venture in China,” *Business Wire*, 21st November 2002.

¹¹ CNNIC (2003), *The Survey of Internet Development in China*: “SINA and NCsoft Enter Definitive Agreement to Form Online Game Joint Venture in China,” *Business Wire*, 21st November 2002.

¹² “Sales Treble in Online Game Boom,” *The Standard*, 7 January 2003.

¹³ *Jingzhi Yibao*, 15th May 2003.

¹⁴ For news coverage on landing rights, please refer to 30th, 3rd, 2nd April, and 20th and 13th March 2003, *Hong Kong Economic Journal*.

Getting on the Track of Regional Business

- 5.26** Hong Kong as one of the financial and business cities in Asia continues to serve as a gateway to the Mainland. It remains a magnet of capital inflow and node of regional business. The presence of numerous foreign firms of entertainment industries is undoubtedly one of the drivers of Hong Kong's digital entertainment. Take online games industry as example, Hong Kong remains one of the top choices for games operators to set up their Asia-Pacific servers. Data management business is housed in the city due to its quality telecommunication infrastructure. Hong Kong's position as a data centre is without doubt an advantage, and it should be strengthened by wider penetration of broadband network as well as improved quality of services.
- 5.27** As for games production and distribution, the assembly of financiers who are interested in new technologies and entertainment business will constitute the sources of capital. Colossal games companies such as En-Tranz Entertainment (a US massive multiplayer online games company headquartered in Hong Kong), Sony and Ubi Soft have already enlisted local development teams or games companies for their production. Attempts should be made to encourage foreign investment to make Hong Kong a development base for the greater China market so that local companies could be involved in regional partnership as well as diffusion of games technology and nurture of expertise.
- 5.28** The CEPA allows Hong Kong companies to establish joint ventures in the Mainland with majority ownership (not exceeding 70%) to engage in distribution of audiovisual products – this covers products from digital entertainment and motion pictures which otherwise are not covered in China's WTO commitment.



¹⁵ Kingsoft, a word-processing, anti-virus and online dictionary software company in China, is planning to invest RMB\$20 million in online games. "Kingsoft to set up online game unit with USD2.4 million investment, to launch first game in summer," *China Business News*, February 25, 2003.

6 FILM AND VIDEO

Industry Structure

Core activities: Film production, Distribution and Exhibition

Related activities: Pre-production services (Film finance/insurance, Artist management, etc.), Post-production (laboratory services, editing, sound effects etc.), Stuntman training, Special effects, Script-writing, Music production, Photography, Lighting, Sound recording, Costume and set design, Computer games, Multimedia and digital media, Video distribution and rental, Internet, Video on demand and Web-casting

Related Industries: Television, TV film production, Music, Publishing, Advertising, Digital media, Performing Arts, Merchandising, Training

- 6.1** Hong Kong is renowned as one of the major film producing centres in Asia. Output in the early 1990s was prolific: the sector recorded the highest production of 242 films in 1993 and dropped thereafter significantly. Its output in 2000, however, was third in Asia, only after India and Japan.¹ According to the C&SD, there are 1,730 establishments in 2002, employing about 8,620 persons in the film sector.

Finance and Investment

- 6.2** Film production in Hong Kong is characterized by a few major companies and distributors. Some of them are listed in the stock market, which play crucial role in film financing and publishing. Satellite or independent film companies are numerous and they are very active in developing business alignments both with local majors as well as overseas investors. There is no available data on capital expenditure per film; however, according to industry sources from interviews, capital investment for small-and-medium production is normally below HK\$7 million. Leading players' "big budget" is sometimes reported to be HK\$10 to 30 million, and even higher when international investors are involved.
- 6.3** Traditionally, film production is financed by means of minimum guarantee or pre-sale of distribution rights and theatrical release rights. Additional recoup comes from theatrical screening and share of box office receipts, sale of video rights, and licensing rights sold to broadcasters or other media channels. Film producers are not necessarily video distributors but the latter are active investors of local films from time to time.

Market Dynamics

- 6.4** The industry underwent transformation in recent years with the changing pattern of the entertainment market. Transferability of film copies has been accelerating in recent decade due to convergence of media and the rise of multi-media market. For example, home video market is radically transformed due to the availability of new formats of film. VCD and DVD copies are now produced in cheaper rate to become the prevalent forms of home entertainment. Consumption of audio-visual goods is also changing to other forms including terrestrial and subscription television and multimedia such as Internet, leading to an anticipated decline of cinemagoers. A recent survey funded by the Film Develop-

¹ In 2000, Hong Kong released 150 feature films in comparison to 855 in India, 282 in Japan, 91 in Mainland China, 19 in Taiwan, 60 in South Korea, 18 in Thailand and 8 in Singapore. There were only 126 local films in 2001. Reference includes MPIA (2002), *Annual Report: Focus 2002: World Film Market Trends: 2001 Cinema Yearbook in Republic of China, 2002: Media*, September 2002.

ment Fund reported that 77.8% of respondents are film audience (including both cinema and video). However, among the survey respondents, those watched films in the cinema register 5.1 times per year, in comparison with 32.8 times through video, 41.2 times through terrestrial television, 29.2 times through subscription television.² The rise of home video market for film is indirectly reflected in the gradual decline of box office takings from HK\$1,552 million in 1992 to 1,034 million in 2001.

- 6.5** A few video distribution companies now develop strategies to maintain their edge in video manufacturing technology, and at the same time, to be film financiers to even expand into satellite television and Internet market for new distribution channels. On the other hand, some film and video production companies have attempted to develop different types of spin-offs to capitalize the rising markets in computer games and animation. These companies are not necessarily game developers or publishers, but are collaborating with multi-media companies or selling copyrights for developing new series of games.
- 6.6** The development of digital film poses challenge to the film industry in future. Digital film offers higher resolution of quality as well as inter-operability among digital media. The new form has been introduced in the field of art film and commercial production overseas, and the synergy has been shown in digital film and TV production in the United States and Canada. However, capital investment cost for digital film is still high in Hong Kong, and training for production of digital film is far from mature.

Strengths and Weaknesses

International Critical Acclaim

- 6.7** Hong Kong film workers won prestigious international awards such as the Oscars (Best Cinematography in 2001) and Cannes' Golden Palm (Best Actor and Cinematography in 2000).³ A few directors and movie stars are now developing their career in Hollywood. Hong Kong is renowned for producing genres films. Although there is criticism about the haste and scant quality of local films, films performed with creativity, artistic excellence and visual dynamics are well recognized in the Asian region as well as the international film markets. Action movies in particular are one of the strengths; so are drama and comic genres, of which the commercial and cultural image of Hong Kong, artistic direction, vitality, visual rhythm and popularity of media stars are core assets.

Local Demand

- 6.8** Despite the limited size of the film market, there is no lack of demand for films suitable for local culture. Hong Kong's film industry invariably performs well in the face of competition with Hollywood movies. A glance at the top ten movies in box office shows that local production generally shares four to five on the list. In 2001, local films share 43.9% of the total box office, despite the decline from 55.6% in 1996.⁴ This relatively high share of local films shows that there is always demand for local production that could meet the local interests of audience and represent the distinctive culture of Hong Kong's city life.

² HKPRI (2001), *Movie-going Habit Survey*, pp.10, 18, 35-36 and 40. In explaining the decreasing number of moviegoers, the Survey provides a number of reasons such as quality of local films, pattern of leisure behaviour and ticket price etc. However, the structural transformation of consumption for film products is so ubiquitous that the general availability of film in different reception media has already constrained the choice/incentive to cinema going.

³ Others include: Wong Kar Wai's "Happy Together" and "Mood of Love" were awarded in the Cannes Film Festival of 1998 and 2000; Ann Hui's "Ordinary Heroes" (1999) and Fruit Chan's "Durian, Durian" (2000) and "Hollywood Hong Kong" (2001) were awarded in the Golden Horse Awards.

⁴ MPIA, *Annual Report* (various years).

6.9 Our relatively small market, however, does impose constraints on the sector. Critics point out that there is a monotonous culture of Hong Kong film to keep replicating a successful genre until proven commercially unprofitable. Creativity incurs risk-taking and chance of failure. Given the small market and meager base of niche interests, film investors are understandably obliged with extreme prudence that may be unfavorable to the diversification of film genres. A further challenge to creativity is the dubious growth of fresh workforce. The downturn of film industry in the past few years provides less opportunities for the growth and training of new directors and producers, and the same problem occurs in the field of technical and supportive staff including acrobatic, action directors and lighting engineers.

Supporting Industries

6.10 Supporting industries of the film sector have experienced difficulty in recent years due to economic downturn, high land costs and lack of technological enhancement. During the 1980s and early 1990s, most of the jobs in film processing, printing, special effects and dubbing were localized: the post-production industry invariably benefited from the high outputs of the industry, which was also driven by a strong demand for services from regional film makers. Post-production services for regional market are now done in Australia, the famed centre in the Asia-Pacific. Recently, Thailand has joined the competition by delivering equivalent quality of service at lower cost. In promoting the sector, the SAR government has set aside two sites in Tseung Kwan O in 1998 and 2000 respectively for the construction of film studios. The film studios are expected to come into operation in 2004. The recent release of a series of classic films in DVD by a renowned local company sets an example of good practice in digital technology and quality services of post-production. These developments will help the post-production industries maintain their foothold in the local market and as bedrock in response to regional competition.

Access to Finance

6.11 The majority of Hong Kong's films are of small-and-medium budget. With increasing expectation for higher quality production and competition from other entertainment media as well as regional competition in film market, there will be increasing pressure for the transformation of film production to capital-intensive production with bigger budget. Besides, for more than a decade, film finance depends very much on corporate and individual investors and the widespread practice of pre-sale of distribution rights and theatrical release rights. The low ebb of film industry and the general economic downturn since 1997 invariably led to contraction of investment. However, the sector is now undergoing structural transformation with film finance increasingly institutionalized. A few majors have demonstrated their financial abilities in developing investment portfolios and regional or even international collaboration. Local filmmakers also secure capital from other countries (such as Singapore, Thailand and South Korea) in the form of co-production to facilitate access to a wider regional market. The real challenge is perhaps to independent movie makers who have difficulty in accessing the relatively closed circle of Hong Kong film financiers. The Government has recently established a Film Guarantee Fund (FGF) with the objective of setting up a local financing infrastructure for the film industry. Independent filmmakers will be able to benefit from this loan guarantee scheme to obtain loan from banks for film production with government guarantee. The FGF has already been in operation since 30 April 2003.

Export

6.12 Commercial success of a local film depends very much on the overseas markets. Taiwan, Singapore and the Southeast Asian markets are three of the major traditional revenue markets. Hong Kong films would go for theatrical release in these markets with video sales and copyrights for broadcasting to provide supplementary income. According to interview sources, film-makers would normally calculate local box office receipts in leverage of their production costs while the export or theatrical screenings overseas would provide more than half of the revenue of a feature film.⁵

6.13 To some extent, such business calculation remains valid because the Asian markets are under production, and the base of Chinese diasporas offers a ready market for Chinese films made in Hong Kong. The film industry in the past produced a large number of films not only for local residents but overseas Chinese. According to the Trade Development Council, Hong Kong was the largest foreign film supplier in Vietnam and the third in Indonesia.⁶ Taiwan has been an important market but box office receipts for Hong Kong films have declined dramatically in recent years. Film companies that are interested in the Taiwan market are now seeking a new formula of success. Between 1996 and 2000, there were 1,777 feature films released in Taiwan, of which only 87 films (or 4.9%) are locally produced. Among the gross total of released films (1995-2000), Hong Kong was the second largest supplier exporting 384 feature films to Taiwan, or 21.7% of the total in comparison to 44.2% from the United States, 17.7% altogether from France, Japan and Britain.

Regional Dimension

6.14 The gradual opening of Mainland's film market is indeed the future for Hong Kong. The film sector draws synergistic benefits from the television and music industries as well as Hong Kong's popular culture in general. Hong Kong movies are prevalent in South China. In particular, action movies, comic genres and affectational films are popular. However, the Mainland is a *slow growth* market due to the following barriers. First, despite its enormous population base, box office receipts in the Mainland plunged dramatically from about RMB¥ 5 billion in 1995 to 800 million in 2001. Discounting the exchange rate, the value of theatrical screenings is actually lower than Hong Kong. Second, pirated copies of audio-visual entertainment seriously undercut the revenue of the film industry. A recent estimate of trade loss due to pirated copies of motion pictures has accounted for

US\$160 million in 2001.⁷ Film companies have already developed different strategies to enter the Mainland market. The quota system and restrictions on co-production are going to be relaxed under the recent agreement of CEPA, and companies would expect further collaboration in form of co-production with China film studios in future (please refer to 6.21 below). Peripheral industries of the sector move even faster by setting up post-production houses or operating cinema business in Shenzhen and Shanghai. Nevertheless, as regards film production, there are still many film genres such as ghost, gangs, constabulary stories and other prohibited subjects yet to work through the stringent control. This is also the reason for the overwhelming production of costume pieces or comic movies, which have better chance of release in the Mainland.

6.15 Hong Kong is now challenged by other Asian players in the field. Korean film is renowned for much variety as well as quality of production lately, and their exports to the Mainland are competitive. Other regional markets meanwhile witness the trend of localization of

⁵ MIPA, *Annual Report* (various years).

⁶ TDC's website, 11th January 2002 (<http://www.tdctrade.com/main/si/spfilm.htm>)

⁷ International Intellectual Property Alliance (2002), *Country Report*.

film services. Thailand, Taiwan and Singapore, for example, have invested in local films of their own culture. Hong Kong film should enhance their common attributes so as to enter into different cultural markets. Attempts should also be made to improve production quality and overseas promotion to rejuvenate the overall label of Hong Kong film.

Prospects

Public Support

- 6.16** The local market of film industry needs to be strengthened for it is the source of creativity and branding. The recent establishment of the FGF, which is supported by the film industry and the banks, will facilitate collaboration between the industry and the financial sector.
- 6.17** Improving the quality of local film is the most important condition for drawing more audience to cinemas. The commercial players are invariably the driving force of the nurture of creative pieces. Nevertheless, we are convinced that the public sector could help in promoting the infrastructural condition for the diversity of creation. More investment in experimental or alternative films of artistic excellence would bring new blood to the sector. The current practice of the Arts Development Council in supporting arts film normally under the budget of HK\$500,000 is far from adequate as a mechanism to meet this policy objective. Besides, there is by far no support to audience building. Media education is in need for the younger generation who are to be prepared with analytical mindset for the appreciation of the art of film and other forms of popular culture.

Overseas Promotion

- 6.18** Although the trend of localization is imminent, local production in overseas markets (including Taiwan, Singapore and Southeast Asian markets) remains relatively low. When the economic situation in the region improves in future, there is likely to be a strong demand for imported films. The label of "Hong Kong film" is being corrupted and its distribution network in the region now experiences a lot of challenges. Despite all these limitations, the branding of Hong Kong film could be promoted by the wider participation in both local and overseas film festivals, re-investment in marketing networks and the general improvement in quality.
- 6.19** Films of good quality should be promoted in both local and overseas markets. Concurrently, local film companies who look for regional or international release are willing to invest in marketing networks. Meanwhile, the Film Festival of Hong Kong organized by the ADC, the film expos (FILMART) and delegations organized by the Trade Development Council to participate in overseas film related trade shows, in addition to Hong Kong film festivals in places outside Hong Kong organized by the Hong Kong Economic and Trade Offices (ETO) as well as sponsorship provided by the Film Development Fund for local filmmakers to participate in international film festivals, respectively offer a variety of channels for promoting local films in local and overseas markets. Consolidated efforts shall be made to orchestrate all these functions. Besides, the Hong Kong Film Festival is worth being an independent entity since it merits the potential to be a cultural icon for the exhibition of film and a platform for networking and collaboration in Asia. Moreover, the film industry expects further access to information about overseas markets as well as chances for developing business networks.

The Mainland Market

- 6.20** The Mainland is no doubt a major market for development in future. The popular culture of Hong Kong is prevalent in the Pearl River Delta, providing a cultural background for the appreciation of Hong Kong film in the mainland context. The rising income and the rapidly developing home entertainment markets in Shenzhen, Guangzhou and other major cities in the Delta are driving greater demand for entertainment services including film. Nevertheless, the Mainland's film market is still in infancy and needs more time to develop.
- 6.21** According to the CEPA, movies produced by Hong Kong film companies are no longer subject to the constraint of quota system while the former requirement of equal share of film workers in co-production is going to be reduced to one-third.⁸ These developments will undoubtedly promote the access of Hong Kong movies to the Mainland market. Film companies interested in the Mainland's film market are now looking for access to market news, records of box office receipts, updated regulations or practices in revenue-sharing arrangement and the like. The industry is required to develop some form of information channels so that local investors and practitioners are better informed of the developing market. There is also strong need of an established channel in communicating with the regulatory bodies in the Mainland in order to develop collaborative engagement or to articulate common issues from both sides. To address various critical issues, it might be a policy option to set up a film commission similar to the Korean or Canadian model. An alternative would be a coordinating office to promote film and other derivatives of Hong Kong's creative industries.⁹

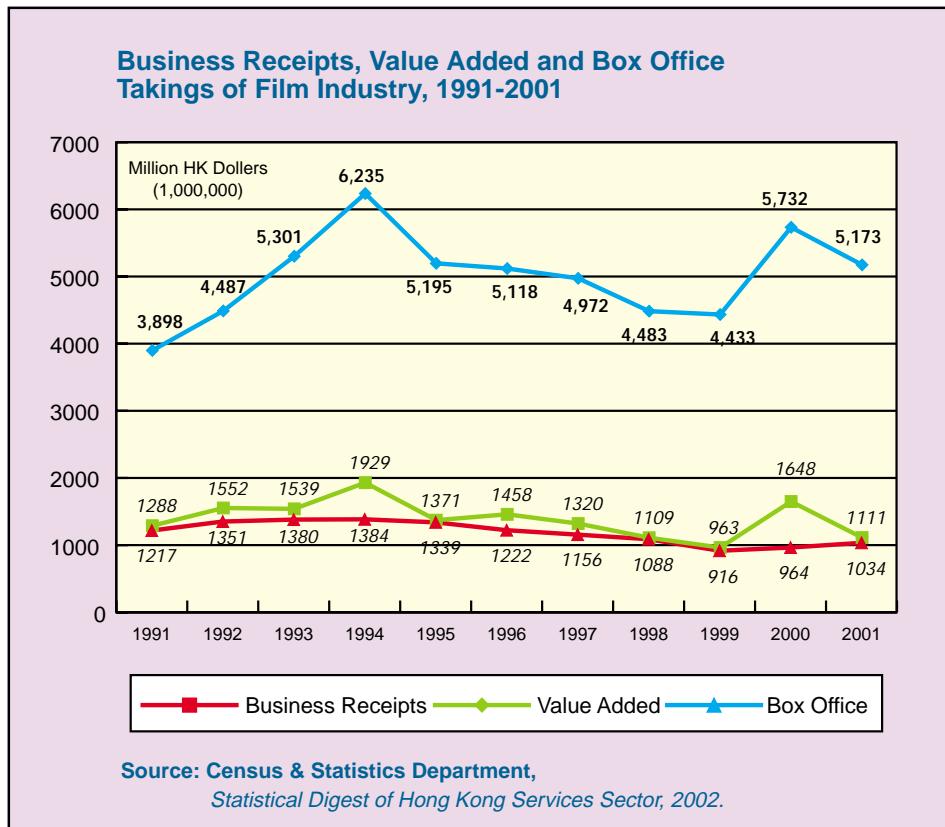
Key Statistics

- **Revenue:** HK\$5,173 million (2001)¹⁰
- **Exports:** HK\$1,441 million (2001)
- **Employment:** 8,620 (2002)

Industry Revenues

- 6.22** Business receipts of film and video industries accounted for HK\$5,173 million in 2001 with value added of over one billion contributed to the local GDP. The gross value witnessed substantial drop from the peak of HK\$6,235 million in 1994 to the lowest 4,433 million in 1999. In 2000, the industry rebounded with 71.1% growth than 1999.
- 6.23** Theatrical receipts are the major sources of revenue, but sales of video rights are increasingly important. According to one estimate, cinema admissions in Hong Kong accounted for about HK\$22 million in 2000.¹¹ Box office has shown gradual improvement over the previous two years: cinema receipts in 2001 amounted to about HK\$1 billion, representing an annual increase of 7.3%.

⁸ Other CEPA commitments include: Hong Kong companies are permitted to establish in the Mainland joint ventures with majority ownership (not exceeding 70%) to engage in the distribution of audiovisual products (including products on motion pictures which are not covered in China's WTO commitments; motion pictures co-produced with the Mainland will be treated as Mainland movies for distribution in the Mainland; the restriction that the story of the co-produced motion picture has to take place in the Mainland is removed, though the plots or leading characters must be related to the Mainland; Hong Kong companies are also permitted to construct and/or renovate cinema theatres on a majority joint venture or co-operation basis instead of minority investment as inscribed in China's WTO commitments.



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Balance of Trade

- 6.24** Data about the sale of copyrights such as digital/film copies or licensing rights to broadcasters and other media players is not available. The only measurement of export of films is limited to import and exports of video copies (videotapes, laser discs and other compact discs).

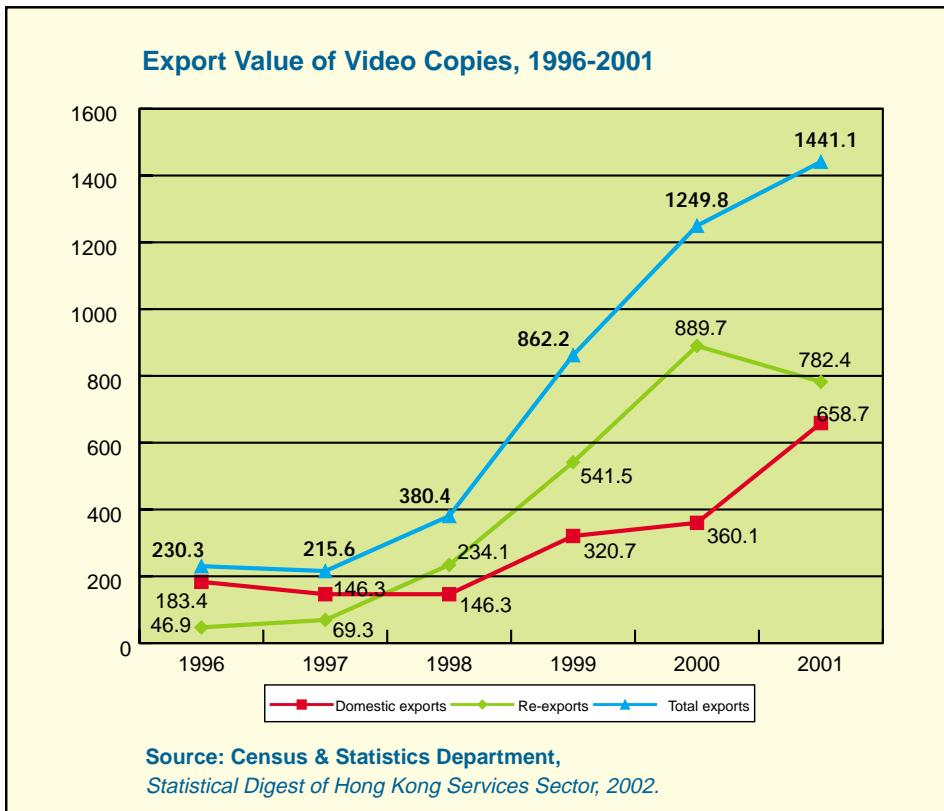


9 The Government has set up the Film Services Office (FSO) under the Television and Entertainment Licensing Authority (TEL). The FSO indeed provides necessary help for local and foreign filmmakers who seek location shooting and to provide vital information on local film industry. Its function, however, should not be equivalent to that of a film commission elsewhere.

- 6.25** In 1996, import value of video copies accounted for HK\$593 million while export value was only 230 million, resulting in a deficit trade of 363 million. However, the performance of export has been significantly improved since 1996. In 2001, import value accounted for HK\$551 million, but the total exports amounted to 1,441 million in 2001. The growth of export value in 2001 is impressive. It recorded a growth of 525.2% in comparison to 1996, and of 15.3% to the total export value of 1,249 million in 2000. As analyzed by type of export, there were HK\$782 million originated from domestic exports while 658 million were re-exports.

10 Figures provided by the Census & Statistics Department.

11 Focus 2002: World Film Market Trends, 2002.



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Employment

- 6.26** As regards the employment market in the film sector, the Federation of Hong Kong Film Workers conducted a survey of 694 samples in 2002, which reveals 25% of respondents are engaged in production, 18.7% as film director, 13.6% in photography and artistic creation, 12% in script writing, actors/actresses and music production, 12.2% in lighting, 11.6% in action/acrobatic activities, and 5.5% in post-production.
- 6.27** Television, music and film industry are the 'trinity' of entertainment market. Migration of movie stars, producers and professional workers from one market to another is not uncommon. The most relevant response to this cross-sector employment is the rise of "artist management" companies which negotiate with business collaborators on behalf of their artists.
- 6.28** A sizeable number of workers acquire their skills from on-the-job training or apprenticeship instead of institutional or academic training. There are some exceptional creators who had migrated from video arts to commercial film production in the 1980s. However,

Performing Arts





7 MUSIC

Industry Structure

Core activities: Production, Distribution and retailing of sound recordings, Administration of copyright in composition and recordings, Live performance (non-classical), Management, Representation and promotion, Song-writing and composition

Related activities: Music press, Multimedia content, Digital media, Retailing and distribution of digital music via Internet, Music for computer games, Art and creative studios, Production, Distribution and retailing of printed music, Production, Distribution and retailing of musical instruments, Jingle production (advertising), Photography, Education and training

Related industries: Internet/e-commerce, Publishing, Television & radio, Film & video, Advertising, Performance arts, Interactive leisure software, Software and computer services

- 7.1 Four sectors can be identified for the value-chain of the music industry, namely the core music industries, the partial core music industries, the distribution industries, and the music related industries. The first two, directly and centrally involved in the industry, are the focus of attention of this chapter. The core music industries include record companies, music publishing companies, artists, recording studios, video and karaoke production, record manufacturers, record wholesales and retailers, concert organizers, and trade organizations. The partial core music industries include the media (radio, television, press), entertainment venues (mainly karaoke operators) and other services and support such as advertising agencies and printers.
- 7.2 The music industry in Hong Kong is dominated by Canto pop in production and sales. It constitutes a major part of the entertainment business of the territory in terms of employment and contribution to GDP (see Key Statistics section below). It is also a major part of the popular cultural phenomenon of Hong Kong, which "has significant influence in the region and also a large market in every Chinese community overseas."¹
- 7.3 The market for the production, distribution and retailing of sound recordings has shrunk considerably in the past ten years. Informants comment that record publishing as such is no longer a highly profitable business. Employment in the core industries likewise suffers. The fact that record publishing has always been part of a larger chain of music and entertainment business means that the repercussions of such decline are felt tangibly in other related sectors as well.

Strengths & Weaknesses

A Strong Pool of Production Companies and Artists

- 7.4 Informants share the view that despite the downturn, the music industry in Hong Kong still has a strong base. Three sets of players are involved in terms of the core activities of music production, which together contribute to the creative and business vitality of the industry:

¹ SRH (1996): 3.

- i. All the “big five” of world record production (EMI, Warner, Sony, BMG and Universal) except one have their regional headquarters in Hong Kong.² These transnational companies generally have a depth of resources with regard to established and up-coming talents to enable them to overcome the current difficulties of the market.
- ii. Strong local companies (e.g. EEG and MusicNation under PCCW) have been very active in multiple aspects of the music and music-related industries, producing a sizeable range of music as well as related multi-media products.
- iii. A not insignificant number of independent labels work in their niches while maintaining various forms of link with the big companies. They ensure a diversity of outlet and encourage innovative ventures among local music producers.

An Efficient Legal System that Protects Copyright Products

- 7.5** Compared with many Asian countries, Hong Kong provides more effective legal protection of copyright products. Hong Kong adopts a range of internationally recognized copyright laws. Organizations like CASH and IFPI closely monitor the copyright situation and effectively collect returns for artists and regularly promote awareness of intellectual property rights to the population at large. Hong Kong itself (as distinct from the Mainland) ranks low in piracy level by international standard.

A Mature Market for Audio-visual Products

- 7.6** Hong Kong is an advanced city with a high rate of literacy, per capita income and concentration of population. It has great potential for further developments in media consumption, as seen in indicators like broadband penetration (30.1%), Internet Penetration (50%), and CD Player Penetration (220%).

Reliance on a Heavily Fluctuating Local Economy

- 7.7** Canto pop records are mainly for local consumption. Their fortune closely follows that of the local consumption market, which witnessed major fluctuations in the past few decades. At its high point in the 1980s, the industry saw double-digit growth annually. The 1990s witnessed an overall decline of market for the industry. Post-98 local consumption outlay on sound recording products has plummeted together with the declining economic fortune of the city. The music industry's heavy reliance on a relatively small and fluctuating local market demands serious consideration on how to preserve this market and expand into others.

Declining Quality of Musical Products

- 7.8** The profit squeeze in an increasingly competitive market plus the threat from piracy and Internet download (see below) does not encourage adventurous, diversified music types. Some informants suggest that the shorter horizon of investment of many companies plus the need for singers to be active across performing fields in order to cope with a declining record buying may have hampered the overall quality of the music produced. Hit songs tend to be rather short-lived. New talents find it hard to break into the industry. The relatively small number of composers and lyric writers are pressed for inspiration.

² The regional office of BMG was relocated away from Hong Kong around 1999-2000.

Piracy and Intellectual Property Rights (IPR) Protection

- 7.9** Pirating activities, parallel importation of copyright products and Internet downloads have attacked the local market. The piracy issue surfaced as early as 1992 when new CD dubbing technologies made pirating a highly profitable venture. The 1990s saw successive waves of piracy, and spread of piracy to other kinds of audio-visual and computer products. The loss for the industry because of piracy was estimated at 10-15% of sales during the first half of the 1990s.
- 7.10** Informants state that with unbalanced cost structure and market conditions between Mainland China and Hong Kong, parallel import is bound to create unfair contest in pricing. The issue of "free" Internet download and MP3 dubbing arose around year 2000. It was estimated that 800 million dollars of income was lost every year due to such acts.

Competition from Other Leisure Products

- 7.11** The growth of leisure attractions, especially other forms of multimedia entertainment have also cut into the records market. Record companies have to different degrees branched out into producing and marketing multi-media products themselves. These multi-media attractions have to fight for diminishing advertising budgets of businesses and a shrinking consumption appetite.

The Unfulfilled Potential of the Regional Market

- 7.12** The Taiwan market, which has been a promising one for local music products, has declined in the past decade. Mainland China was seen as a major hope by the industry at one time. However advancement proves to be much more limited than expected. A number of reasons for this have been adduced: piracy, existence of a gray market operating on the fringe of official channels of distribution, unbalanced pricing structure of music products between the two places, official quota imposed by the mainland government on imported music products, difficulty of obtaining copyright fees because of the inadequacy of related legislations or the enforcement of such legislations, and inability to set up production houses and operating branches in the Mainland because of official regulation on investment in the music business.

Prospects

Attack IPR Problems

- 7.13** All the informants are adamant that the protection of IPR and an attack on piracy and Internet download is crucial for the sustainability and growth of the sector. Informants suggest several means to curb the piracy problems. They include consolidation and strengthening of copyright laws, enhanced co-operation with regulating bodies (including international bodies) and massive and prolonged education campaigns. Both the issue of IPR and the situation in Mainland warrants special mention and will be discussed in Section C, Chapter V, 2. The government's roles in both regulation and education are important.

Preserving and Strengthening the Mix of Music Production Companies

- 7.14** The current mix of music producing companies allows each to have its respective edge. The big international companies have a reservoir of experience, talents and resources that can be put to good use. For example, one informant from a “Big 5” company spells out a three-pronged strategy to overcome the current market adversity, namely drawing on the vast established catalogue, investing in promising young, new singers and developing sub-labels that cater for strong niche markets.
- 7.15** The big local music companies excel in the degree of versatility in responding to and creating music trends. They are also less constrained than the big transnational companies to move into new markets and try out new multi-media ventures. In many ways, they have created many of the popular new stars of the past few years and sustained the glamour of the local entertainment business as a whole.
- 7.16** Informants also remark that local independent labels and artists are carving out their own niche. They are trying out various forms of partnership with the big companies and are attracting followers among the younger generation, often in non-mainstream media circuit such as the net community and campus performance.
- 7.17** It is essential that Hong Kong maintains and strengthens the above mix of music production companies. An upturn in the general economic situation is one pre-condition for that. Government’s help in opening up new markets, in the context of rising regional competition (e.g. Korean pop music) is also important.

Multi-media Venture – Symbiotic Relations with Related Industries and the Role of New Technology

- 7.18** Given the shrinking market of record publishing and producing, it is sensible that music products cross over into other fields of multimedia entertainment and consumption. This new symbiotic relation is made possible by the rise of new digital technology and a more united multi-media environment. Digital technology encourages new developments in music form, carriers of music products, platform for broadcasting and receiving music. Some companies are considering making Internet download a part of their music distribution and sales business. Other companies are producing visual as well as audio products from singers as part of their normal repertoire of products. We also see a trend of making music part of an integrated multi-media products making use of different broadcast and technological platforms, such as karaoke outlets, singers crossing over into film and television performance and advertising, partnership with web and broadband companies to deliver customized content products (e.g. web drama, games), co-operation with radio stations in producing new products like radio drama featuring singing artists, and catering to the new telecommunication market with downloadable products.

HK's Star-making Effects: the Hong Kong Brand

7.19 Informants have commented on the “star-making effect” of the music industry. They indicate that the Hong Kong music production still has a “fresh feeling”, a “modern touch”, i.e. a more glamorous, cosmopolitan and advanced outlook in music conception and packaging, that could also count in its favour in regional competition.

7.20 Informants suggest that the Hong Kong brand in music could initially be sustained in two mutually compatible ways. The first is to revive the well-regarded repertoire that the local music industry has built up since the 1970s and continue to mine the advances in music reproduction technology as well as meeting the needs of a new generation of listeners. The other way sees music making as part of a multi-media business and the singers nurtured as part of a star making process. The glamour associated with and carried by local stars, the “modern touch” in the production of music by local companies could continue to make the products uniquely attractive. Some informants observe that singing talents can be (and have been) recruited from across the region to add variety and quality to the talent pool. In that case Hong Kong can act as a hub for attracting and polishing talents, keeping the brand “made by Hong Kong”.

³ For example, the Music Board of Ireland was established in 2001 and operated on a basis of partnership between the government and industry. It is to act as a forum for the industry, and “to advise and actively promote strategic policies for the development of the music industry and the maximization of its contribution to the national economy.” It is charged with the responsibility to produce a 3-year rolling strategic development plan and to engage in extensive research for preparation. Besides identifying the needs and strengths of the industry as a domestic economic and cultural driver and encouraging relevant investment and sponsorship, the Board emphasizes the international potential of the Irish music scene and the need for concerted promotion. It also highlights the issue of music education and tackling copyright problems as the prerequisites for the growth of the industry. Source: <http://www.musicboardofireland.ie/index.html>.

Creating and Sustaining Local Talents

7.21 Informants remark that the long-term sustainability of the local music industry, in view of the global and regional competition, hinges on the development of a new generation of singers with musical substance and unique qualities. They also feel that it is imperative to raise the quality of music creation and appreciation among the public. This is a long-term issue involving general music and cultural exposure for potential singers, proper training, company investment decisions, efforts of promotion (not least by related media) and the development of a culture that appreciates the diversity and substance of music. Informants also point to the active role played by the government in other places in nurturing and promoting their indigenous creative musical talents, in conjunction with a larger plan to promote the music industry domestically and internationally.³

Developing the Mainland China Market

7.22 As regards the Mainland market, a number of issues have to be tackled, which include: strict regulations on investment, import quota, products content, the issue of unbalanced trade and parallel import as well as piracy and copyright issues. All these demand negotiation on a government level. Work has also been done along this line by relevant organizations. For example, CASH has helped develop a system for calculating and collecting rights income in the Mainland and expects to see more regular rights income coming from the Pearl River Delta region soon. They are also doing education and promotion works in different areas of the Mainland.

7.23 The CEPA of June 2003 has allowed Hong Kong companies to establish in the Mainland joint ventures with majority ownership (not exceeding 70%) to engage in distribution of audiovisual products. This signifies the beginning of a closer economic and trade relationship between the two places in the music industry.

The Government Role

7.24 Informants feel the government can have a role to play in a number of areas:

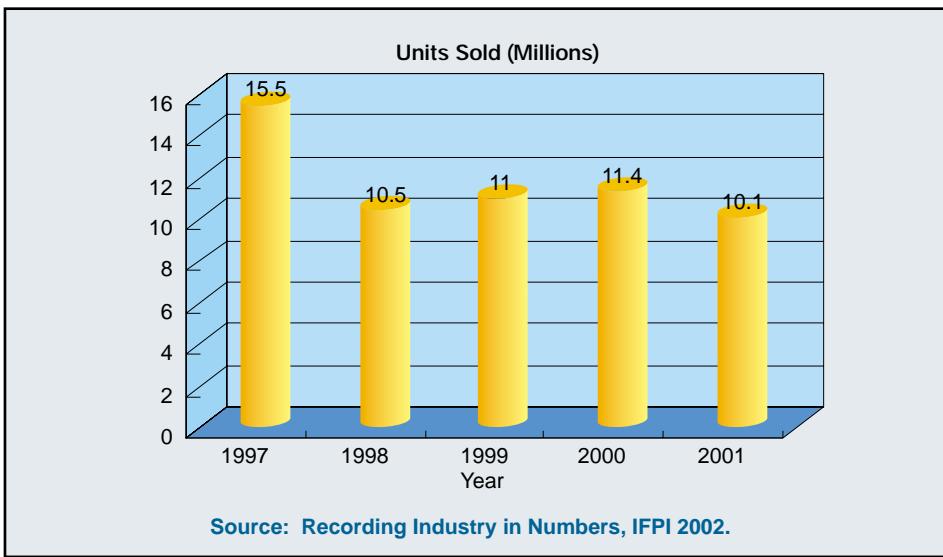
- i. Enforce copyright laws and attack piracy in the local market;
- ii. Place restrictions on parallel import;
- iii. Liaise with relevant organizations and bureaux in the mainland to attack the piracy problem and ensure a more balanced condition of trade between the two places;
- iv. Liaise with relevant organizations and bureaux in the Mainland to open up restrictions on investment by Hong Kong organizations;
- v. In line with the strategy of developing Hong Kong as the hub of Chinese language music talents, encourage relevant institutions to offer courses on popular music and music management;
- vi. Learn from the experience of regional competitors and devise ways to promote local music by nurturing independent, non-marketable music talents with some form of public support;
- vii. Promote general music appreciation by developing a cultural environment that exposes young people to diverse tastes and practices of music making in the world;
- viii. Set up a partnership body or mechanism between the government and the industry in the long run to harness and develop concerted efforts for promoting the music industry locally and abroad.

Key Statistics

General Music Market Data

	2000	2001
Per Capita Sales (units)	15.8	13.9
World Ranking	31	30
Piracy level (units)	25-50%	10-25%

Source: Recording Industry in Numbers, IFPI 2002.

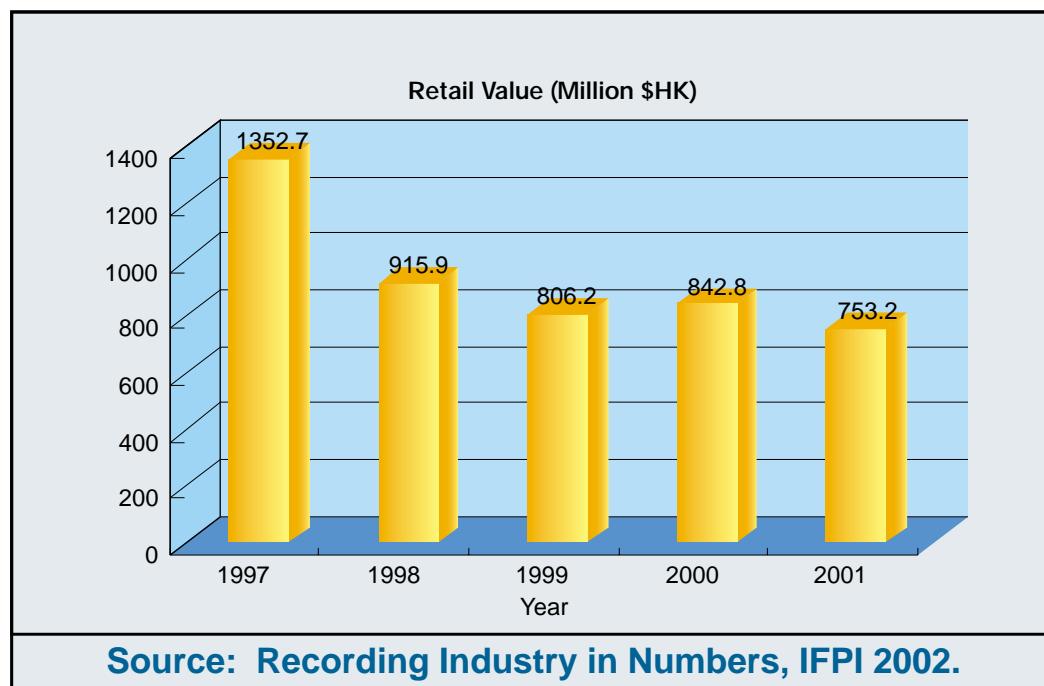


Recorded Music Sales

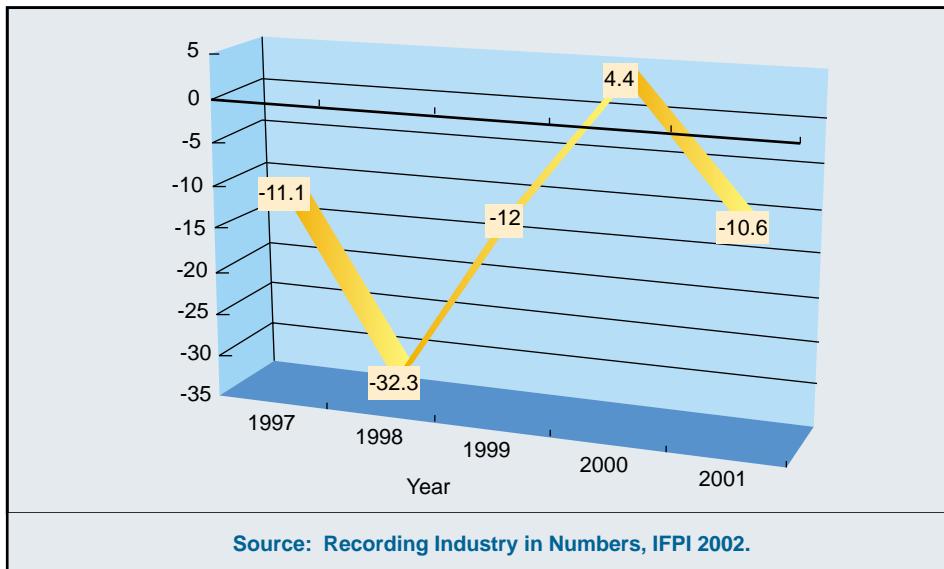
	1998	1999	2000	2001	2002
Average Price per Unit (\$HK)	87	76.7	72.6	72.4	67.0
Share of International Records	54.8%	50.1%	44.7%	41.9%	46.1%
Share of Chinese (Hong Kong) Records	39.2%	44.7%	46.8%	49.3%	44.3%
Share of Chinese (non-HK) Records	6.1%	5.2%	8.5%	8.9%	9.6%
Share of Cantonese Records (Within the Chinese Category)	NA	NA	77.5%	78.8%	77.0%
Share of Mandarin Records (Within the Chinese Category)	NA	NA	22.5%	21.2%	23.0%

Source: Hong Kong IFPI, 2003

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Copyright Management

CASH Membership	
Writers	2,106
Publishers	27
	Million \$HK
Royalty from Broadcasting	65
Royalty from Public Performance	47
Royalty from Overseas, Mechanical Rights and Others	5
Gross Royalty Revenue	117

Source: Composers Authors Society, Hong Kong Ltd. *Annual Report 2001*.

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8 PERFORMING ARTS

Industry Structure

Core Activities: Performance production, Live performance, Touring, Costume design and making, Lighting and stage designing, Sound and music composing and production,

Related Activities: Tourism, Pubs and restaurants, Business sponsorship, Festivals management, Management of venues, Education, Community music, Merchandising, Catering, Sound tracks, Programme publishing, Ticking services.

Related Industries: Music, Television & radio, Design, Film & video, Publishing, Advertising, Special effects

- 8.1** This sector deals with dance, drama, xiqu, orchestra, music theatre to various multi-media performances. The core activities include the production and presentation of performances in theatres territory-wide, by both local and overseas art groups. This industry comprises a compound amalgam of government subvented art companies, commercial theater companies, amateur groups, venue managers and intermediary agencies.

Government-driven Cultural Services

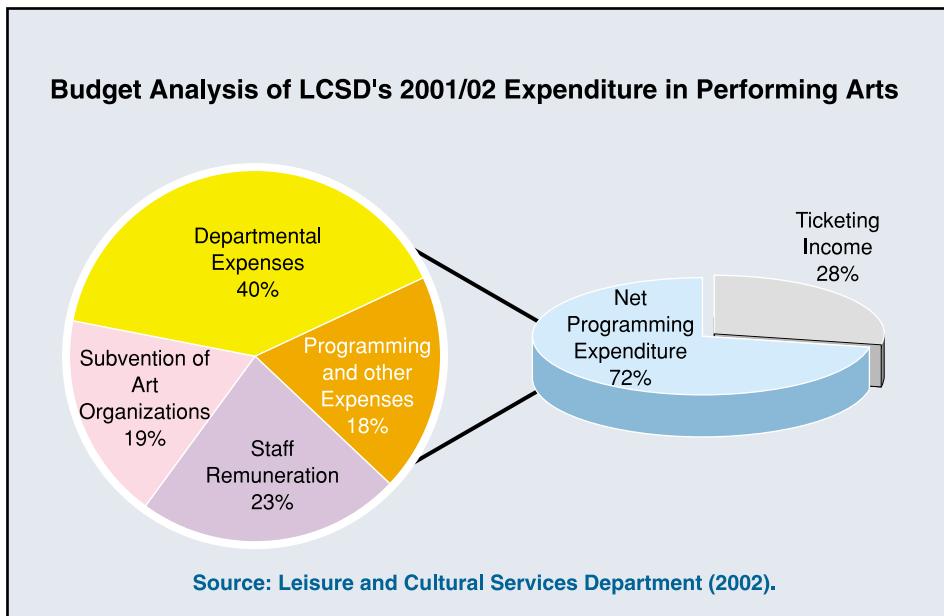
- 8.2** In Hong Kong, the performing arts sector is heavily subsidized by the government in terms of direct financial support as well as provision of facilities and presentation of programmes. The government plays the role of enabler, supplier and venue manager through the Leisure and Cultural Services Department (LCSD) under the Home Affairs Bureau (HAB) responsible for the promotion and provision of arts and cultural services in museums, libraries and other performing arts venues. In the fiscal year 2001/02, the total government expenditure on performing arts was about HK\$1,308 million, including budgets allocated to the LCSD, the Arts Development Council (ADC) and the Academy of Performing Arts (APA).¹ Among the LCSD's expenses in performing arts in 2001/02, 63% is supporting departmental operation and staff remuneration. Ticketing income, on the other hand, covers about one quarter of the total expenditure in programming.

	Budget 2001/02 (HK\$ million)
LCSD (Performing Arts)	1,018
APA	180
ADC ²	110
Grand Total	1,308

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¹ Culture and Heritage Commission (2003). *Policy Recommendation Report*.

² Among the total expenditure of ADC, 70% is allocated to performing arts while 20% is for visual and literary arts. Culture and Heritage Commission (2003): *Policy Recommendation Report*: 5.20.



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Subvented Flagship Performing Groups

- 8.3** In Hong Kong, professional performing arts companies are almost all receiving subvention from the public sector. Ten professional groups and a festival company received a total budget of HK\$234.3 million for 2001-2002 from the LCSD and ADC. The LCSD's four subvented flagship companies have derived their income from two major sources: an average of over 86% from the government, and an average of less than 10% from ticketing income for the period 1995-2002.³ Sponsorship from the private sector was insignificant at an average of less than 2% of their total income for 2001/02.⁴ Compared with other subvented companies, the Hong Kong Arts Festivals attract the highest amount of sponsorship and donation from the private sector, accounting for an average of 15.8% of its total income from 1995-2002.



Government Subvented Performing Art Companies (2001/02)		HK\$ million	%	Employment	5
LCSD Subvented Organization	Hong Kong Philharmonic Orchestra	56.5	24.1	118	
	Hong Kong Chinese Orchestra	54.7	23.3	104	
	Hong Kong Dance Company	30.9	13.2	59	
	Hong Kong Repertory Theatre	30.2	12.9	52	
	Hong Kong Arts Festival Society	15.8	6.7	16	
ADC 3-year Grantees	Hong Kong Ballet	15.1	6.4	77	
	Hong Kong Sinfonietta	12.1	5.2	67	
	City Contemporary Dance Company	9.4	4	43	
	Chung Ying Theatre	5.9	2.5	24	
	Zuni Icosahedron	2.1	0.9	10	
	Ming Ri Theatre Company	1.6	0.7	9	
	Total	234.3	99.9	579	

Leisure and Cultural Services Department and Hong Kong Arts Development Council (2002).

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³ Apart from subvention from the government, ticketing income and private sponsorships, performing arts groups are also supported by commissions from local and overseas presenters, sales of souvenirs and products like CDs, VCDs and DVDs. In particular, some groups, for instance the City Contemporary Dance Company, also earn their budget by launching dance classes to the community.

⁴ There is no available data for private sponsorship of the four LSCD subvented art companies before 2001/02.

⁵ The number of employment only counts full-time staff hired by the performing art companies, which includes artistic directors, artists, administrative and technical staff, etc.

Plurality of Practices

- 8.4** In Hong Kong, commercially supported professional performing arts companies are few – namely the Spring-time Group and several Cantonese xiqu troupes. Hong Kong Cantonese xiqu troupes survived over the past decades with frequent performances and continuous support of dedicated audiences. The recurrent number of Cantonese xiqu troupes is estimated at about ten, which are cyclically grouped and disassembled on a project-based operation to minimize expenses. This traditional artform, in spite of its broad audience base, is now facing crisis of sustainability and continuity with aging masters and lack of successors.
- 8.5** Apart from the ten flagship companies supported by the LCSD and ADC, there are another 14 performing arts companies receiving ADC's One-Year Grant in 2001/02. Nevertheless, the overall number of commercial and amateur companies is impossible to count since many of them operate on a project basis. The amateur sector is an interesting mixture of students, religious groups, professionally-trained artists, and social services workers. These groups are important to the vibrancy of the performing arts scene providing alternative and experimental creativity.
- 8.6** The LCSD also operates 15 local performing arts venues including cultural centers, city halls and civic centers. There are other theatres managed by intermediary agencies like the Hong Kong Arts Centre (HKAC), Academy for Performing Arts (APA) and the Hong Kong Fringe Club (HKFC).⁶ Although these venues are managed privately, their establishments and operations are partially supported by public funding. The Sunbeam Theatre, dedicated to xiqu in particular, is privately owned.

Strengths and Weaknesses

Worldwide Recognition and Exposure

- 8.7** Hong Kong is a global city for international arts. International celebrities and top-notched performances are frequently featured in local festivals like the Hong Kong Arts Festival, the Fringe Festival and events presented by the LCSD. Local performing artists have in turn been frequently showcased in international festivals and their artistic excellence has been widely recognized by international art critics. However, increasing exchanges in the cultural sector are almost totally driven by the art community and intermediary agencies, with financial aid coming from the public as well as private foundations.
- 8.8** Hong Kong has specifically intimate cultural exchanges with partners from Mainland China and the Asia-Pacific region. The Sunbeam Theatre, for example, showcased 57 performances from the Mainland in 2002, accounted for 20.5% of the total number.

The Inherited Treasure: Cantonese Opera

- 8.9** Hong Kong is the home to major Cantonese xiqu masters. Local troupes often tour in South-east Asia and North America. According to the HAB, the government will submit a request to UNESCO to designate Cantonese xiqu as an "Intangible Heritage" in cooperation with the Guangdong Province. This will be a critical step toward raising the profile of this industry to help expand its market size and facilitate further cultural exchanges. The Pearl River Delta could become a hub for Cantonese xiqu with strategic coordination and cooperation among the various troupes based in the region.



⁶ According to LCSD's recently released consultancy study on cultural and performing facilities, Hong Kong has 24 facilities housing 39 performing auditoria in total.

⁷ In Hong Kong, a dominant number of venue managers and programme presenters are working for public organizations. Managerial staff of the LCSD are provided with in-service training programme: for instance, a certificate course in art management is offered to assistant managers.

Concerns of Venue Facilitation

- 8.10** Hong Kong has venues and technical support of international standard and is among the leaders in performing arts in Asia. However, most of the publicly-run venues are designed for community-wide services and multi-function purposes. Their operation and servicing are therefore frequently criticized for being overly standardized. In addition, since priority is given to programmes of the LCSD and various restraints such as high rent, large auditorium and limited length of booking, commercial as well as small-scale performances are often denied access to these public venues. As a result, experimental theatres and commercial productions often choose privately-run theatres managed by the Hong Kong Arts Center, the Academy for Performing Arts and the Hong Kong Fringe Club.
- 8.11** Hong Kong's arts administrators, venue managers and programme presenters are relatively well advanced over other players in the Pearl River Delta region. Local arts managers have accumulated solid experiences in marketing and coordinating of performing arts events of international level.⁷ In terms of both experiences and financing, Hong Kong can facilitate as the central provider and trainer of arts management and presentation for cities from the region, contributing to trans-territorial tours of both local and foreign performances.

Secondary Economic Impacts

- 8.12** Performing arts add value indirectly to the revenues and employment of ticketing services, catering and restaurant business, printing and graphic design houses. The multiplying economic effects of the performing arts and other cultural activities have not been measured and surveyed by the government. Experiences in other Asian countries have demonstrated that performing arts, especially traditional art forms, could indeed serve to attract tourists as well as other forms of revenues.⁸
- 8.13** Contrary to the passivity of Hong Kong audiences in patronizing performing arts, local parents are in fact investing a huge amount to nurture their children with arts education. According to a poll commissioned by the Culture and Heritage Commission in 2002, the investments in music education alone amount to HK\$2 billion.⁹

Prospects

Enhancement of Initiatives from the Community

- 8.14** Hong Kong's performing arts sector is deficient of private investment and engagement. There is demand for the dominant role of the government as presenter and manager of performances and venues to be reviewed. Although one of objectives for public support of the performing arts is to guarantee diversity of programmes, it is important, however, that subsidy of experimental and alternative productions will not suffocate development in the commercial sector. To vitalize the industry, proper mechanisms of evaluation in fund allocation and venue operation as well as broadening sources of financing are of utmost importance.
- 8.15** The recent Culture and Heritage Commission report on cultural policy elucidates "community-driven" as the principal directive for development of local arts.¹⁰ It is therefore important that apart from inciting private initiatives to patronize the sector, relevant

⁸ The Singapore Tourism Board (STD), for instance, has begun since the 1980s to measure and highlight the economic significance of arts and entertainment for the tourism industry. The report *Dollars & Sensibilities: The Economic Impact of the Arts & Entertainment Industry on Singapore* (1998) released by the STD identified that the value-added multiplier of arts activities in Singapore was high at 2.8.

⁹ The poll was commissioned by the Culture and Heritage Commission and conducted by Lingnan University between 2001 and 2002. The poll received questionnaires of 2050 parents, 2120 teachers and phone-interviewed 1150 parents. The survey reveals that about 73% of students participate in various extracurricular arts activities. The average cost for a class of music and dance is HK\$721 and HK\$467 respectively. *HK Economic Journal* (2002), June 14.

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policies should take into consideration concerns of the community in a greater extent. This is particularly relevant in the domains of venue management and programming where the public and private sectors can proactively formulate partnerships.

Deployment of Artistic Directive in Venue Management and Programming

- 8.16** In order to add value to existing quality facilities and venues, it is essential for venue managers to adopt distinctive and visionary artistic direction in both programming and management. Rationalization of efficiency and utility of local venues could be achieved with extended involvement of professional groups in operation. By managing and taking residence of the venues, the professional performance companies can imbue venues with their own particularities and meanwhile, to make use of the venue as training and rehearsing base to excel professionalism. It has been well demonstrated by overseas examples that performing venues for training purposes are indispensable for artistic excellence in the long run, which is especially vital for the master-apprentice system of traditional artforms like xiqu.¹¹
- 8.17** The government could also consider outsourcing their programming and presentation of certain programmes to encourage a healthy participation of the private sector. Currently, LCSD's subsidy policy for its programmes renders severe pressure and competition on the ticket price of programmes presented by the private sector. Alternatively, public bodies can invite proposals from private corporations for collaboration in presentation of overseas as well as local productions.

Encouragement of International Exchanges

- 8.18** It is important for the government to have a flexible and supplementary policy to support overseas touring. Despite the HKADC's funding policy for cultural exchange programmes, the allocated resources are relatively ineffective. The LCSD deploys no agenda in this regard aside from their proclaimed stance of not subsidizing services to overseas audiences, which in other words, disapproves overseas touring of its subvented professional companies. Strategies to encourage international cultural exchanges will be the key to promote local groups' global recognition and visibility.

Cultural Cluster: West Kowloon Development

- 8.19** The proposed development of the West Kowloon Arts, Cultural and Entertainment District will be an enormous boost for the local arts scene.¹² The specialized venues will help polish the professionalism and reputation of the industry. The provision of designated theatrical venues and ancillary services in a clustered precinct will leverage wider participation from within the community and also overseas tourists.

Talents of Multi-media

- 8.20** There is a rising trend for the performing arts sector to import talents from other entertainment industries like pop singers, film and TV stars, composers, designers, writers, visual artists, etc. For instance The Spring-time Group strategizes to have their performances staged by celebrities to boost ticketing. The production company People Mountain People Sea, which was founded after a theatrical production with the same name, serves as an exemplar of amalgamation of multi-media artists. The sharing of talents among creative industries will benefit innovation of ideas and in the end, expansion of market when audiences are brought across disciplines.

¹⁰ Culture and Heritage Commission (2003). *Policy Recommendation Report*.

¹¹ The impending closedown of Sunbeam Theatre in 2003 signifies a severe challenge to the survival of this traditional art industry.

¹² Hong Kong government announced in March 2003 that the construction and management of the West Kowloon Arts, Cultural and Entertainment District would be outsourced to private developer.

¹³ Hong Kong Arts Development Council commissioned Alfacom Solutions Limited to conduct a study in exploring how the ticketing services can help promote arts activities. The report *Feasibility Study of Upgrading the Urbitix System with Added Values in Arts Promotions* was released in 2003.

8.21 Education is a promising means to assure high quality of performances and audiences as well as to raise the domestic market size. Audience building and outreach programmes have been the principle efforts of the arts community aiming to enhance accessibility and appreciation of the arts by the general public. In the long-run, performing arts has to be properly embedded in the education curriculum to nurture the local talents and audience base.

Value-added Performance of Ticketing System

8.22 Marketing and fund-raising is indispensable for the operation of performing arts companies. Local groups are not sophisticated in the area and have to elevate their capacity for vitality. The Internet has been a powerful platform for promotion of programmes as well as building customer relationship with the audiences. Moreover, the current ticketing system, the URBTIX and the Hong Kong Ticketing, should be reviewed for upgrade in their practices to add value in arts promotions.¹³

Taxation Incentives for Art Patronage

8.23 In general, Hong Kong has not been a favorable place for patronizing arts activities comparing its taxation and honorarium system to countries like Japan and South Korea.¹⁴ It is necessary for the government to adopt more proactive policies to lobby private sponsorship of art products and services apart from offering compensatory credits to expenses in the arts and enhancing the accessibility to and appreciation of arts on the part of the general public.

Key Statistics

Employment

8.24 The LCSD has a managerial staff of 200 for its performing arts section.¹⁵ The subvented arts organizations of the LCSD and ADC altogether employed 579 personnel in 2001/02, including artistic, administrative and operational staff. However, this number is largely underestimated due to its exclusion of part-timers, self-employees, contractors, freelancers, as well as voluntary workers. In order to limit the cost of operation, it is a commonplace practice for companies such as the Spring-time Group and Cantonese xiqu troupes to employ full-time performers and designers only on a project basis. The highly mobile workforce in the sector makes it very difficult to undertake any statistical measurement.

¹⁴ The Central Policy Unit (CPU) commissioned Golin/Harris Forrest to conduct a study of corporate philanthropy in Hong Kong in 2001: *The Role of Companies in the Development of a Vibrant Third Sector in Hong Kong*. A questionnaire was sent to a total of about 250 companies and a total of 66 companies responded to the questionnaire. The survey reveals that only 11% of the respondents give priority to support culture and sports, while 58% choose education.

¹⁵ The managerial grade staff includes chief manager, senior manager, manager, assistant manager and technical manager. These managers are responsible for programming as well as venue management. The 200 positions, however, do not include staff of in-house designers, technicians of lighting and sound, front house, ticketing and box office, backstage, house office, clerical and executive officers, (CPU) commissioned Golin/Harris Forrest to conduct a study of corporate philanthropy in Hong Kong.

Industry Revenues

① Urban Ticketing System (URBTIX)¹⁶

	1990/00	2000/01	2001/02
Tickets Sold ('000)	3,725	3,559	3,822
Total Sales (HK\$ Million)	457	484	563

Source: Leisure and Cultural Services Department (2002).

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¹⁷ Number of Performance and Attendance at LCSD Venues 2001/02						
LCSD Venues	Attendance ('000)	Total Performances	Concerts and recitals	Operas	Plays	Ballets and dances
City Hall (Concert Hall, Theatre, Recital Hall)	400	1,581	262	59	118	27
HK Cultural Centre (Concert Hall, Grand Theatre Studio Theatre)	727	893	259	1 ¹ 15	215	81
Ko Shan Theatre	174	316	66	132	1	35
Ngau Chi Wan Civic Theatre	73	265	--	--	--	--
Sai Wan Ho Civic Theatre	111	379	--	--	--	--
Sheung Wan Civic Theatre	69	339	--	--	--	--
Queen Elizabeth Stadium	383	242	--	--	--	--
HK Coliseum	1558	185	--	--	--	--
Tsuen Wan Town Hall (Auditorium, Cultural Activities Hall)	250	592	85	1	55	9
Tuen Mun Town Hall	208	465	45	47	36	17
Tai Po Civic Center	42	318	8	17	4	1
North District Town Hall	51	324	35	30	5	6
Sha Tin Town Hall (Auditorium, Cultural Activities Hall)	291	576	106	44	91	39
Kwai Tsing Theatre	149	279	16	76	53	26
Yuen Long Theatre	142	271	30	46	21	22
Total	3,070	6,840	912	567	599	263

Source: Leisure and Cultural Services Department (2002) and Census and Statistics Department (2003), Hong Kong Annual Digest of Statistics 2002.

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16 These statistics include all ticketing programmes sold through URBTIX, which covers entertainment and sport programmes.

17 i. Statistics of categorized artforms are not available for Ngau Chi Wan Civic Centre, Sai Wan Ho Civic Centre, Sheung Wan Civic Centre. ii. For Queen Elizabeth Stadium and HK Coliseum, there are respectively 42 and 5 cultural functions staged in 2001. These include activities of classical concerts, ballets, etc. iii. The number of categories of "concerts and recitals", "operas", "ballets and dances" and "plays" are extracted from the table of "Cultural, Entertainment and Sports Presentation at Selected Venues by Type of Event" of the *Hong Kong Annual Digest of Statistics*, 2002.

9 PUBLISHING

Industry Structure

Core Activities: Book publishing, Newspaper publishing, Magazine publishing, Digital content publishing.

Related Activities: Internet and digital media, Disc based media production, Electronic storage, Libraries and education, Market research, Management consulting, Academic research, Distribution, Printing, Paper and ink manufacture, Exhibitions and Conferences.

Related Industries: Advertising, Television & Radio, Music, Interactive Leisure Software, Software & Computer Services, Film & Video, Internet and digital media.

Delineation – the Value Chain and Types of Publishing

9.1

‘Publishing’ and ‘printing’ are used almost interchangeably in Hong Kong government’s documents. Printing is a crucial part in the value chain of publishing (involving printing – publishing- distribution – retail). However, printing also operates in a market beyond publishing. Indeed, the “printing” and “publishing” industries have rather different structures, market problems and growth potentials. In this chapter we shall focus on publishing, which involves the core of the relevant creative work, while printing is considered only in the context of its contribution to the value chain of publishing.

9.2

Within publishing itself there is a diversity of product types and modes of operation. In terms of product types, publishing is differentiated into book (including comics), newspaper, magazine, and digital content. In terms of modes of operation, there is a range of scale and market target in all four fields of publishing. We shall as far as possible attend to the unique features and issues of each (except digital content, which will be considered largely under the book category).

Printing and Publishing: a Large Industry

9.3

“Publishing” and “printing” together constitutes one of the largest creative industries in Hong Kong, contributing to a significant share of output and employment (see Key Statistics section below).

Books

9.4

There are more than 300 book publishers today, half of which are estimated to be in active operation. Prominent international publishers such as Oxford, Longman and Macmillan are active in Hong Kong. Local publishers vary tremendously in scale and product types. The most prominent establishment is Sino United Publishing, which has close to 30 composing bodies, straddling businesses in printing, publishing, digital content products, distribution, retail, newspaper, and real estate. Other book publishers are more modest in scale, ranging from the comprehensive Cosmos Books to the specialist Subculture, and Bliss (publisher of McMug).

Newspapers

9.5

For Newspapers, in the same period there were 55 newspapers including 25 Chinese-language dailies, five English dailies, four other Chinese and eight other English papers, six bilingual papers and seven other language papers. Most of them cater to the local market.¹

¹ The number cited from official sources may not be entirely accurate as many publishers of newspaper, for historical reason, actually register more than one title of a newspaper and only use one for publishing. The actual number of dailies is less than the quoted figure.

Magazines

- 9.6** For magazines, there were a total of 738 publications of which 441 were Chinese, 156 English, 125 bilingual and 16 in other languages in August 2000. These magazines cover a wide variety of subjects from public affairs/politics to technical matters and entertainment, and they operate under a variety of ownership, from personal to corporate.²

Strengths and Weaknesses

- 9.7** Hong Kong is a world-renowned centre of printing and publication. This is reflected in the large volume of output, export revenue and international agencies establishing their operations in Hong Kong. Hong Kong plays an important role in the Chinese language publications market because of its liberal environment, cosmopolitan outlook, effective management, mature copyright system, use of new technology and reputable brand name. Different fields of publishing have their unique combination of strengths as well as pressing issues.

Tightening Market

- 9.8** Since the late 1990s the industry has been hard hit by the deteriorating economy, increasing competition for a smaller advertising expenditure, rising costs of printing, e.g. in paper price, as well competition from other leisure products. For publishers that rely on advertising (such as magazine and newspaper), the declining general market and diminishing overall advertising spending translate into great business pressure, staff and pay cut and efforts to find new sources of income. For publishers that rely on sales (such as book), the tightening market is felt in diminishing return, pressure to narrow the publication repertoire, and threat of survival for those not operating in the popular books market.

Integration of Chinese Publications Market

- 9.9** The ideological opening up of Mainland China and Taiwan in recent decades brought about a rapid integration of publication market for Hong Kong, now the third base of Chinese language publication. This trend provides opportunities as well as challenges to the local publishing industry. There is the potential that by acting as a link or a catalyst Hong Kong can play a part in promoting the rise of a global Chinese readers market. Hong Kong can also benefit from the talent pool and relatively cheaper production costs provided by the Mainland. At the same time, local publishers also face severe competition in terms of variety, quality, and costs from publications of these two places.

Internationalization

- 9.10** Transnational corporations and world publishers have taken an active interest in Hong Kong and the region since the 1990s. They set up offices in Hong Kong, enter into the Chinese language publications arena and pose a new challenge in scale and resources to local publishers.³

Multi-media Publication

- 9.11** The production of digital content may not be the big business mover as predicted a few years ago. However, new digital technologies have become central in the operation and production of the publishing industry. Its effect can be seen in the use of digital technologies in printing, production management and sales (e.g. Business to business com-

² Quite a number of international magazines have a local edition, e.g. *Cosmopolitan* and *Elle*, reflecting the pivotal role of the Hong Kong and regional Chinese language market.

³ It should be noted that after 1997, some international magazines, e.g. *Asian Wall Street Journal* and *Time*, reduced their scale in Hong Kong and relocated their headquarters to Beijing. The "northward" move seems to be a continuing trend.

merce – as opposed to the traditional ‘business to client’ model). It is also shown in the proliferation of new carriers of publications ranging from electronic dictionary to CD-ROM, VCD and other online businesses. The bigger companies have moved fast in this sphere. These issues apply in different degrees to different types of publishing, but together they present challenges that local players have to respond to decisively.

Books

- 9.12** The industry faces a rapidly shrinking market with an estimate of 25-30% decline in sales in 2002, and no let up in 2003. One negative outcome of the integration of Chinese book market is the severe competition from Taiwan and the Mainland. Of the titles currently in circulation in Hong Kong, books published in the Mainland out-number those from Hong Kong by roughly more than 15 times. Discounted books from Taiwan also threaten to flood the local market.
- 9.13** One informant points out a problem with local publishing: a vicious cycle developed since the 1990s where market decline led to a non-adventurous attitude in book publishing and promotion which in turn stifled new writing talents and further narrowed the reading habits of the population. This is made worse by the system in book retail, which permits virtually no carrying of back catalogue on the shelf due to high rent in the local real estate market. The growth of book publishing in Taiwan and the Mainland also reflects the comparatively inadequate quality of many local publications.
- 9.14** Big companies survive better by consolidating their existing strengths (e.g. in publishing practical books and renowned special series, acquiring license of major publications) and developing into new markets, making use of, e.g. cheaper and better input from the Mainland, as well as developing multiple forms of co-operation with Mainland publishers. Informants from less well-endowed book companies feel unprecedented pressure in maintaining their less popular lines of publications. The Mainland market also proves elusive for them.
- 9.15** Actions have been taken by local book publishers to overcome the dire market situation. These include looking out for timely topics and swiftly producing related books; helping to develop self-funded publication plan that aims to nurture young writers locally and in the Mainland; co-operating with universities to produce quality journals and book series. Bigger companies look for value-added products like popular science books for secondary schools and learning language CD-ROMs etc. Electronic publication remains a venture with uncertain prospect.
- 9.16** Comic books publication shares some of the above features but stands apart in others. There are currently less than 20 major comic books publishers. The revenue from comic books sale is estimated to be 500 millions in 2002 and represents a steady overall sum for the industry as a whole in the past few years. Informants maintain a relatively optimistic outlook for the comic books market, remarking that the local market is big enough to support the current level of publication. Some publishers employ Mainland workers for parts of the production process to cut cost. However additional sources of income would need to be developed, most notably in multimedia products like games, animation for TV and cinema, as well as accessories and character goods. Some comic publishers are also diligently opening up the regional market for comic books and related products.⁴

 4 Here as elsewhere, the scale of operation counts. Smaller scale companies have less capacity to preserve and open up markets.

Newspapers

- 9.17** Since 1994 the newspaper industry entered into a period of fierce competition, paradoxically in a period that saw a tremendous rise in absolute advertising expenditure. (The advertising revenue for newspaper increased four-fold from over HK\$2000 million in 1991 to over 8600 million in 1999, and then 10,265 million in 2001.)⁵ While new popular newspapers emerged and took a stronghold on the market, a number of newspapers, including the long established Wah Kiu Yat Po, were closed down in the period. This was caused by factors like rising cost of production, especially paper costs (most notably during the First Gulf War), and heavy competition from other media, aggravated immensely by rising new media technologies. The resultant fierce internal competition brings about an uneven picture, favouring the most successful operators economically but bringing a pressurized situation for all. Thus readership now tends to be spread out among the top three major competitors (claiming close to 64% of the entire pool in 2002), with the rest facing a declining readership and severe pressure in maintaining advertising revenue.⁶ Even though the overall advertising revenues for the newspaper industry rose greatly in the 1990s (claiming 36% of the total advertising revenue for all the media in 1999), operators have to keep innovating in terms of production routines and content in order to stay in business.
- 9.18** One response of the newspaper industry to the situation was to invest in new technology. This led to computerization, automation, and direct input in production to speed up and simplify production, cut costs and redundancy. More companies have adopted modern financial planning methods. More staff with a business school background were recruited to the management ranks. Companies also cut some of their less profitable sections.
- 9.19** Commentators describe this as a more conscious market-oriented operation, both in content, production and distribution of the industry. As the newspaper industry is inherently local. The operators believe that the contracting market has to be dealt with by strengthening the papers' market position (by being more attractive to readers) and branch out into other value-added services. The attempt to be more commercially attractive leads to some conflicting consequences. Commentators praise the dynamic qualities of the modern local newspapers. Yet there were also regular outcries about the declining moral standard of leading newspapers. The search for new revenue-generating products prompted the emergence of other services like direct product sale (soon abandoned) and online subscription and advertising. These, however, remain only a minor source of income for the industry as whole.
- 9.20** Commentators also remark on the trend of conglomeration and diversification in the newspaper industry. The former refers to the simultaneous holding of a number of newspapers and magazines by one single corporation. The latter refers to the operators' diversified investment in a range of related businesses (such as printing) as well as unrelated businesses (such as furniture and real estate). Different operators have different degrees and forms of conglomeration and diversification. In principle, for the operators these practices will serve to enhance the economies of scale and let them reap the benefits of a diversified business operation (e.g. reducing market risks and cross-subsidies).

⁵ HK Adex, 1999; quoted in So, Chan and Lee (2000), 547.

⁶ The best-selling newspaper had a circulation of 600,000 copies in 1993 but went down to 400,000 in the late 1990s.

Magazines

- 9.21** The experience is more diverse for magazines. While the overall advertising revenue for magazines has greatly increased through the 1990s, there is the worry that the number of magazines published is simply too big to allow each to prosper or survive.⁷ Here different magazines are performing differently. The trend of conglomeration and diversified operation noted above applies to many of the magazines. That means some are better able to stake out their market within a larger business framework and with better financial support.
- 9.22** The experience of a currently top selling magazine reveals one such path. The strategy of the magazine, which offers a package of comprehensive current affairs and entertainment news, is to keep its leading position in circulation volume and hence maintain a strong level of advertising. To deal with increasing competition, the magazine deploys various means like organizing campaigns for advertisers (a "value-added" service), bundling magazines (offering two sister magazines together at a combined and reduced price), and to establish a culture of responsiveness to the market so as to maintain readership. This "culture" of production and style of the magazine has been exported successfully to Taiwan, establishing a leading position for the publication in a short time. The lesson here is that the style of magazines with a strong local character may also work in other regional markets.
- 9.23** Another local magazine catering for a much more specialised market tells another experience. This style magazine concentrates on the local market and is part of the relevant operator's range of business, which includes style magazines for other market segments as well as other publication and entertainment businesses. Its position is to establish a leading, unique label in "style" for the mature adults' market. It also develops a more flexible way of marketing the magazine to the advertisers. The informant highlights the use of "advertisorial" in recent years. In co-operation with the advertisers, creative teams of the magazine can infuse their thoughts into the advertisements, making them a rewarding read and hence more effective as advertisements. Although some Mainland agents occasionally buy contents from them, their main focus is the local market. Its relatively healthy market position shows that magazines with distinctive character and sound organizational and financial backup can flourish even with a predominantly local readership.

Prospects

Conditions for Success: Scale Matters

- 9.24** In the current harsh economic climate, players with better resources are in a better position to withstand the market setbacks and even exploit new market opportunities. The bigger companies not only maintain their income; some actually record new levels of profits and expand their operation. Sino United Publishing and Next Media are two outstanding examples. In view of the relatively limited growth potential of the local market, their success owes partly to their ability to move into other Chinese language communities (namely the Mainland and Taiwan). The corollary is that small-scale operators who have no major means of expanding regionally, and who have no bigger business umbrella to spread risk and diversify income will suffer.

⁷ The advertising revenue for magazines increased over four-fold from over HK\$964 million in 1991 to over 4000 million in 2001 (HK Adex, 1999; quoted in So, Chan and Lee (2000), 547).

The Mainland Factor

9.25

The Mainland market means differently to different players in the value chain as well as those with different scale and resources. Printing, as distinct from publishing, benefits more from the opening up of the Mainland to direct investment and joint-venture in terms of cheaper production and labour costs. Informants feel that the Mainland factor has injected new life into the printing industry in Hong Kong.

9.26

Publishing, on the contrary, faces more difficulties, not least in more stringent regulatory control in investment, distribution and sales as well content restrictions. Magazines and newspapers publishing, because of their particular emphasis on local interest and timeliness of reporting, benefit even less from the Mainland market. Book publishers find more space for developing the Mainland linkage, but here we see two contrasting scenarios. Generally the fact that most local publishers are of small and medium scale makes it difficult for them to adopt a more adventurous and systematic move to exploit the publishing opportunities in the Mainland. And given the absence of major distribution channels, only the most prominent examples of local writing are making headway in the Mainland market.⁸



9.27

However, for the large-scale local and international publishers like Sino United Publishing, Longman and Oxford University Press, the Mainland has become a most important market and input source. Sino United Publishing, for example, has already joined hands with Mainland publishers in producing textbooks and other general books on top of sale of publication rights. The return from the Mainland market is rising rapidly and has for some publishers superceded their proportion earned in Hong Kong. The contribution from the Mainland also comes in the form of providing input (such as staff, editors and printing facilities) for the publishers, reducing cost and in many cases raising quality. There are other promising developments. Informants remark that certain opening up in sales and distribution channels for local publications can be forecast for 2003, though direct retail outlets will not be a main growth area. Distribution is seen to be a more important avenue for growth in the Mainland. The prime consideration will be to develop certain solid distribution agents so that Hong Kong publications can gain a steady foothold in the Mainland market.

Hong Kong Edge

9.28

Informants believe that Hong Kong still has an edge in the publishing industry: freedom of information and expression, high economic level (despite the recession), quality human resources and willingness to adopt new ideas and technologies and good business reputation around the world. Hong Kong should maintain all these positive qualities while re-positioning itself as a hub in Chinese language publication. Informants point out that this has already been a trend in the past five years. Based on accumulated experience and reputation in quality publishing, Hong Kong can concentrate on providing management and brokering expertise, and produce innovative products and value-added service with a unique Hong Kong touch. The latter could come in various shapes of creative work in different fields of publishing, such as the passion and humour of McMug comics, the vibrancy of Next Magazine, and the unique modern urban feelings in some of the local literary works.

⁸ In this regard, one commentator remarks that Taiwan is in fact doing better than Hong Kong. Many Taiwan books are now directly produced in the Mainland with Mainland editions.

Supply of Talents and Expertise

- 9.29** Informants from different sectors agree that there are two areas that require a new injection of personnel. One is in publishing management and the other, new writing talents. Informants lament the dearth of newcomers who are willing to devote themselves to the industry. Newcomers with general management skills need to develop an intimate knowledge of different aspects of publishing, which demands efforts and systematic nurture. It is opined that the current tertiary institutions do not provide the requisite training, and the industry has been taking up that role in organizing courses through its individual companies, trade organizations and sometimes in association with continuing educational institutions. Informants feel that there is a need to systematize and support these industry efforts and for tertiary institutions to offer more formal training courses in the shape of, for example, a degree programme in printing and publishing. Similarly, there is need for more formal training for comics and animation artists (while acknowledging the relevant new courses offered by certain tertiary institutions).
- 9.30** The dearth of young writing talents pertain more to the book publishing sector and is a difficult issue to tackle.⁹ It is also connected with the general issue of cultural creativity and nurturing of a Hong Kong feel. Besides generating a cultural environment (in and beyond the school) where creative reading and writing are encouraged, there is the need to nurture fledgling talents through various supportive schemes by commercial publishers with vision and more importantly, government support.
- 9.31** Informants also raise the need for courses that integrate printing, publishing and other media to nurture students with knowledge and skills across a range of creative media and industries.
- The Government Role**
- 9.32** Some commentators believe that with a rise of crass commercialism and deteriorating journalistic standard, the government needs to pay attention to the development while maintaining the principle of non-interference in the content of publications and to uphold the liberal environment and cosmopolitan outlook of Hong Kong's publishing.
- 9.33** The government can help the numerous local SME publishers in tapping the Mainland market by offering market information, organizing trade fairs, negotiating for less restrictions on investment, distribution and content for local publications. With a more congenial environment (like dependable distribution and sales structures), even small-scale publishers will be able to find market niches with their creative products. The government may consider forming a macro cross-industry body to devise a more concerted strategy of enhancing Hong Kong' presence in the Mainland market.
- 9.34** The government can also encourage the development of educational courses, whether at the formal degree level or in association with the industry organizations to nurture the appropriate expertise in the publishing industry. The supply of writing talent is a crucial issue. In books, smaller publishers that aim to produce less marketable publications have suffered in the past few years. Even relatively better-endowed companies like Cosmos Books have experienced great pressure in trying to maintain its impressive catalogue of literary works publication. These publishers often carry an important mission of

 ⁹ Practitioners in the field acknowledge the existing training in journalism provided by local universities.

changing the reading habit, nurturing young writing talents and raising the cultural standard of the population as a whole. Informants stress that this is a mission too important to be left entirely to the whims of the fluctuating market. The government can, in the short run, review and expand its funding for supporting local writers, most notably through the Arts Development Council. Informants also wish to see a more active government stance in promoting local publications in books exhibitions and overseas fairs. In the long run, it should develop an educational and cultural environment that rewards exploration, diversity, literary creation and critical thinking.

- 9.35** The issue of media conglomeration and cross ownership mentioned above will become increasingly central. Conglomeration may promote multimedia ventures and is cost-efficient for operators. However it also raises the question of oligopolistic control, self-promotion, and unfair competition.¹⁰ These are intriguing questions for nurturing the creative industries in Hong Kong and should be examined more systematically.

Key Statistics

Newspaper Readership, 2002

	*'00	% (Aged 9+ population)
Oriental Daily News	2,029	33
Apple Daily	1,409	23
The Sun	521	8
Ming Pao	328	5
South China Morning Post	287	5
Sing Pao	182	3
Sing Tao Daily	142	2
Hong Kong Daily News	104	2
Hong Kong Economic Times	90	1
Hong Kong Economic Journal		*

* Less than 1.0%

Source: Hong Kong Media Index 2002. ACNielsen

Magazine Readership, 2002

	*'00	% (Aged 9+ population)
Sudden Weekly/ Eat & Travel Weekly	500	8
Next Magazine	457	7
Easy Finder	307	5
TVB Weekly	164	3
New Monday	180	3
Yes	146	2
East Touch	144	2
Express Weekly	132	2
Reader* Digest-Chinese	103	2
Ming Pao Weekly	84	1
Oriental Sunday	66	1

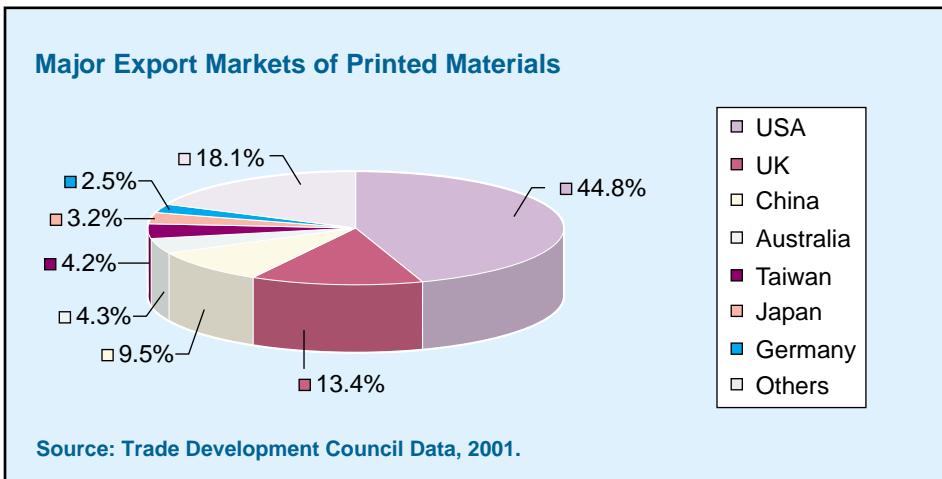
Not listed:
Milk, Cable Guide (Annual data in 2002 not available). City Children* Weekly, Sisters (Less than 1.0%).

Source: Hong Kong Index 2002. ACNielsen

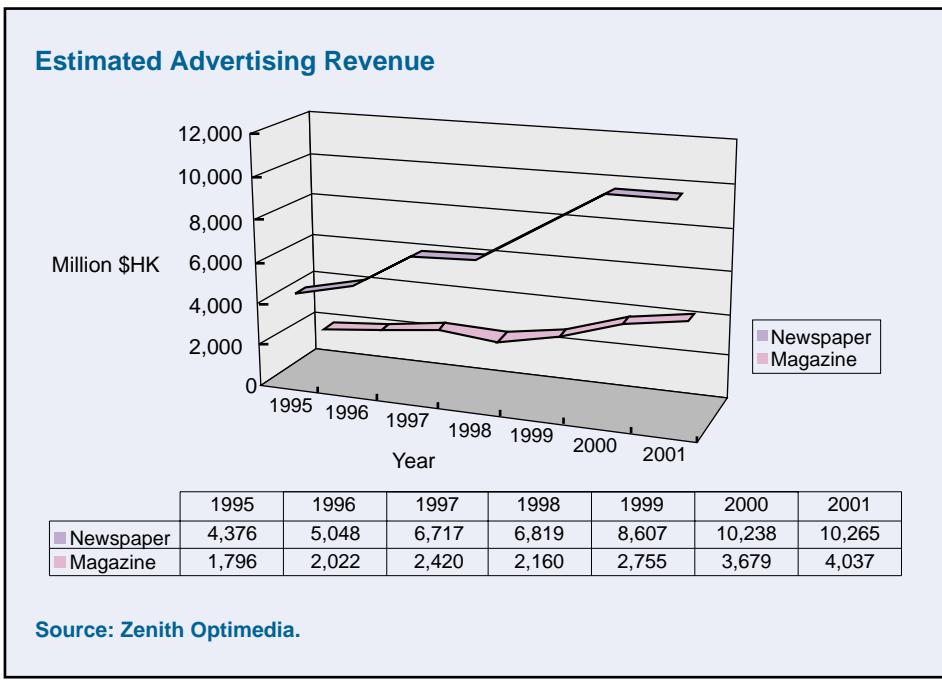
Number of book titles published in 2000 = 9773

Source: Trade Development Council

10 One informant remarks that many newspapers were changed to limited companies or even Intellectual Property Owners (IPO) in the 1980s, leading to more buying out acts. In the past, editorial policy and editing procedures remain stable for a relatively long period; now they keep changing because of the frequent changing of owners. This has negative impacts on the stability of the industry.



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Employment in the Publishing Industry

Branch	Job Level	Managerial	Supervisory	Technical Support	Total	Percentage of Total Number of Employees
Publishing and Allied Industries		1,008	2,268	2,265	5,541	75.1%
Wholesale of Books, Periodicals and Newspapers		44	71	291	406	5.5%
Import and Export of Books, Periodicals and Newspapers		219	218	545	982	13.3%
Selected Organizations		65	157	228	450	6.1%
Total		1,336	2,714	3,329	7,379	100%
Percentage of Total Number of Employees		18.1%	36.8%	45.1%	100%	

Source: 2002 Manpower Statistical Report of the Printing and Publishing Industries, Vocational Training Council

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Software and Computing

10 SOFTWARE AND COMPUTING

Industry Structure

Core Activities: Software design and architecture, Programming of system software or software products, Testing and quality assurance, System/information engineering, System integration, Packaging

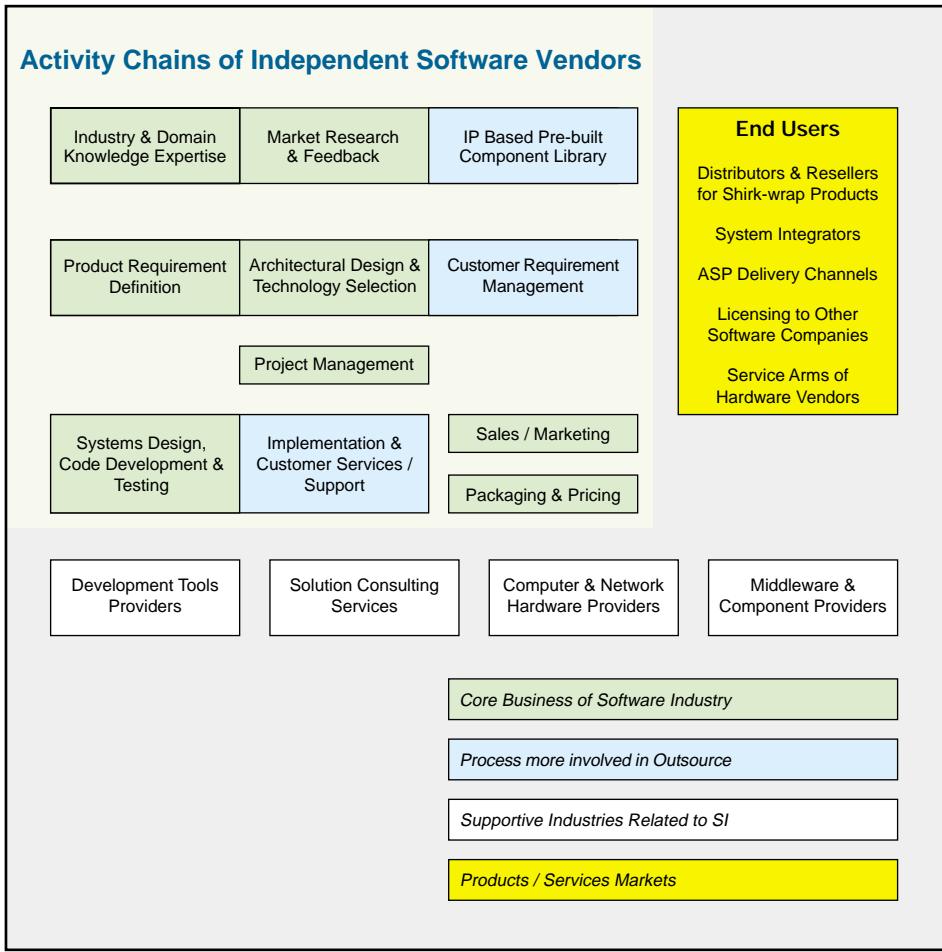
Related Activities: Hardware and middleware manufacturing, Consultancy, Training, Facilities management, Customer support, Wholesale and retail of packaged software

Related Industries: Information Content Providers (ICPs) and online industry, Digital entertainment, Data management centre

- 10.1 Software industry is regarded one of many subsets of the information technology industries (IT). The IT sector comprises a complex production and supply chain. As analyzed by type, the sector is broadly composed of four main industry chains – the *hardware and equipment manufacturing industries, network and content providers, software and programming (products/services), and distribution/marketing services of IT products.*
- 10.2 This chapter focuses only on software and computing industry. Software industry is now classified in the HSIC (code 833) to include “software development and maintenance services” and “information technology related services.”¹ The economic data presented in this chapter are mainly derived from this source while supplementary statistics are from other sources covering the same scope.
- 10.3 The activity chain of software industry, as shown in the following diagram, consists of complex components which include creation of intellectual property rights either of patents or copyrights, software architecture and programming, quality assurance, project management, customer support and marketing services and the like. Companies dedicated to software development are generally regarded as independent software vendors (ISVs), whose core business relies on sales of in-house-developed packaged software and tailor-made software, in addition to solution services, re-selling of third party's packaged software, system integration, software maintenance or other services related to Internet application. There are other players in the field, focusing on localization of third party's packages, outsourcing business, software consultancy, or as application service providers and in-house IT departments in addition to ISVs.

¹ Since the third quarter of 2001, the group “data processing and tabulating services” has been renamed information technology related services.

² Among the total expenditure of ADC, 70% is allocated to performing arts while 20% is for visual and literary arts. Culture and Heritage Commission (2003): *Policy Recommendation Report*: 5.20.

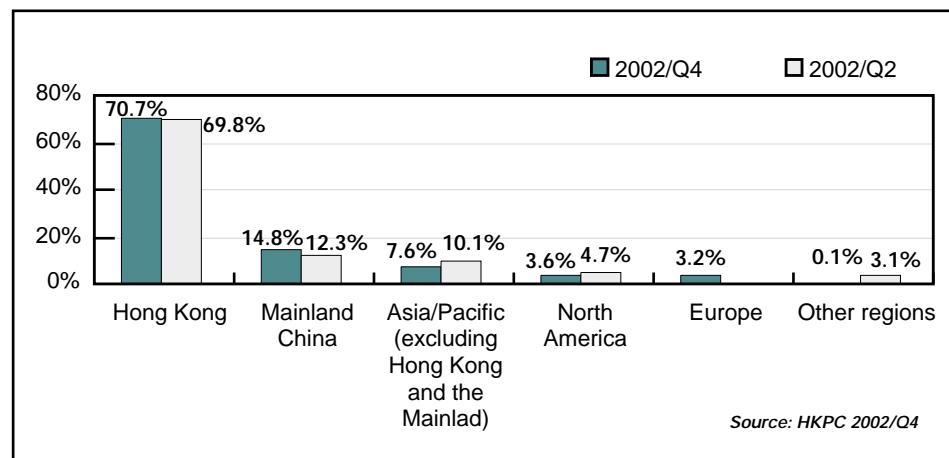
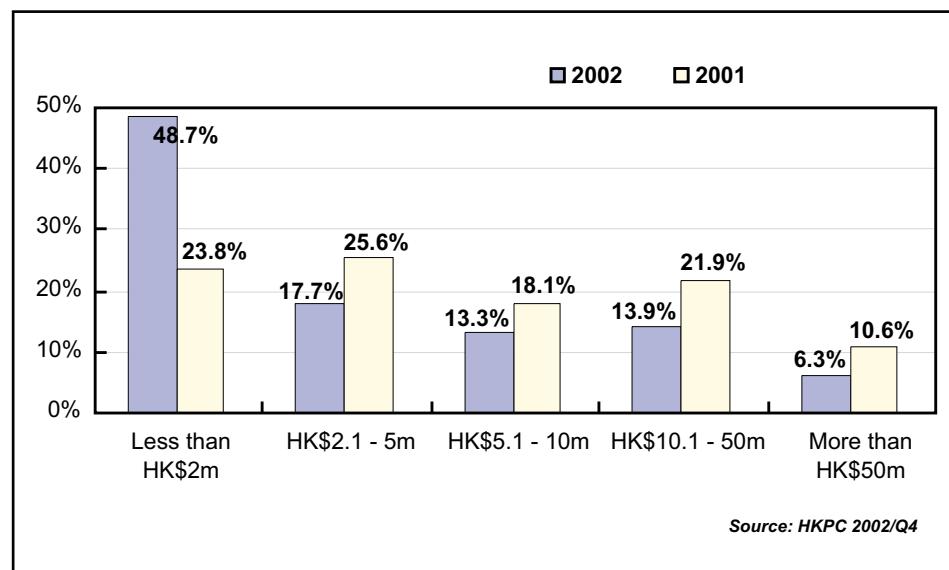


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- 10.4** Hong Kong's ISVs are local in origin, relatively small in capital and employment size and with business focus largely on the local market. According to HKPC's study, 77.7% ISVs are local companies, and less than a quarter belong to foreign firms. Companies with paid-up capital below HK\$1 million constitute more than a half (or 54.3%), with another 20.5% between 1.1 to 5 million; and there are only 25.1% with registered capital over HK\$5 million. Most local ISVs are small-and-medium companies in terms of employment size and turnover. For example, 51.8% of software houses employ 1-10 full-time staff, and only 16.1% employ more than 30 labors. Roughly half of the ISVs receive annual turnover below HK\$5 million. As analyzed by revenue market, about 70% of ISVs' principal market is in Hong Kong but the share of the China market is increasingly important.³

³ Hong Kong Productivity Council (2002), *Hong Kong Software Industry Survey 2002 (Q4)*.

Two Snapshots of Local ISVs, 2002 (Quarter 4)



65

- 10.5** Major types of software provided by ISVs are concentrated in Internet/intranet applications, finance and accounting, enterprise resources planning, customer relationship management, office automation in addition to applications related to security, network management, human resources or data mining. With all these products and services, the sector is serving a broad range of industries including banking and finance, manufacturing industries, business services, IT & telecommunications, Government utilities and community sectors (basically education and health care), trading, wholesale and retail markets as well as transportation and storage.⁴



⁴ HKPC's *Hong Kong Software Industry Survey 2002 (Q4)* ranks the top ten applications the software sector specializes in and the industry fields where software was most deployed.

- 10.6** A noticeable change in the industry in recent years is the enduring relocation and expansion of software companies to mainland China. Labor-intensive work, in particular software programming, is being relocated to China for cheaper cost. Software workers in

China have demonstrated equivalent ability and they usually have strong research support by high-ranked universities. Nowadays, software development could also be undertaken by the mainland branches of local ISVs. HKPC's survey shows that in 1997, only 22% of ISVs set up branch office in mainland China. The figure already climbed to 49.4% in the last quarter of 2002.⁵

Strengths and Weaknesses

10.7 Shrinking Local Demand

Software industry is a client servicing sector. The flourishing of Hong Kong's service industries in the past decade also benefited the software industry. The sector has amassed rich experiences in providing deliverables for the financial sector, telecommunications, trading, catering and hotel industries as well as business services in general. The home market, however, is relatively small; and the growth of internal demand for software services depends very much on the initiatives and innovations of commercial and industrial clients who would invest strategically in IT to enhance their competitive edge, which is also constrained of course by structural economic change and prospect. Corporate demand has to a certain extent been weakened by the relocation of their business operation to Mainland China, depriving local software houses of their outsourcing IT service business. The local market therefore is urgently seeking new business opportunities to sustain its growth.

10.8

In retrospect, the IT sector was fueled by consecutive growth in the telecommunications and Internet markets since the mid-1990s as well as by a strong demand for remedial services towards the millennium. Unfortunately, the Asian financial crisis and bursting of the Internet bubble led to contraction of the IT sector in general, worsened subsequently by the "911 Tragedy" and Atypical Pneumonia (SARS) recently. Slow growth or even further downturn is predicted for the sector in the immediate coming years.

Unfulfilled Market of Small-and-Medium Enterprises

10.9

The potential of small-and-medium enterprises has once been a high hope to become a substantial market. However, a recent study by HKPC reveals a rather slow penetration of application software in SME except in the field of word processing, Internet browser, communications and spreadsheet. Among the 3,492 companies covered in the survey, of which 88.6% employ less than 10 staff, PC penetration is only 49.7% while the deployment of database management software is at 44.4%, banking and accounting software 31.2%, purchasing/sales and order processing 19.2%, computer-aided design/manufacturing 9.2%, and human resources management software 3.4%.⁶ The adoption of e-commerce among SME is far from encouraging. Only 6% of the surveyed companies had ordered or purchased goods/services through electronic means, and 1.1% had sold goods/services via the same channel.⁷ Barriers for widespread adoption of information technologies among SME remain inadequate as with awareness of strategic investment in IT as well as the lack of incentives to adjust the conventional mode of business operation. The status quo of local SME is perhaps one of the thwarts for the realization of a larger market.



⁵ HKPC (2002), *Hong Kong Software Industry Survey 2002 (Q4)*.

⁶ Hong Kong Productivity Council (2002), "Soft Focus – IT Usage and Penetration in the Business Sector in 2001 (Part I)," *SII/C Journal*, Issue No.83, August.

⁷ Ibid (Part II)," *SII/C Journal*, Issue No.84, September 2002.

Capital, Skills and Quality

10.10 Despite the relatively small capitalization of local ISVs, Hong Kong seems to have no lack of financiers who are interested in information technologies and software business with venture capitalists and investors of local, Asian and North American origins. Nowadays, even traditional banks are willing to provide facilities.

10.11 Hong Kong's software is particularly strong on the application side. There are no lack of quality products showing maturity and excellence in design, application of technologies and customization. The same merit goes with quality assurance, project management and marketing strategies in promoting software products/services. Some of the innovations include multi-language search engine, voice recognition software, web-based system for banking services and financial exchange, electronic tendering system or logistic software for storage and tracking. The list is by no means exhaustive, and awards given to excellent innovations stand testimony to the edges of local software development.⁸

10.12 Dependence on the local market has rendered export ability of local ISVs relatively weak, which provides only a thin buffer against local economic recession. Given the limited market size and exposure, local software houses are still on the way to building brand-originality in the regional markets. Barriers in access to overseas market exist in information gaps, promotion and networking resources as well as in product/services offerings of high visibility. Some of the prospective markets in applications such as security, network management and information and data/management software (IDMS) are stuffed with international or regional competitors and local companies need to find their niche to expand overseas. The small setup of local ISVs may also constrain the enhancement of technology and quality standard. International standards such as ISO and Capability Maturity Model (CMM) are marks of value and reputation. Despite their count for long-term strategic investment, the attainment of these standards takes time and investment, and perhaps too demanding for local firms looking for shorter term of investment return.

Prospects

Consolidating the Local Market

10.13 The economic recession by no means exhausts chances for development. A number of infrastructural conditions remain favorable for the development of software industry. The network economy should not be equated only with the "dot.com" bubble. Network application, either of web-based or intranet applications is one of the prospective markets in the near future. The success will depend on the development of e-commerce. Despite the infancy, e-commerce seems to be increasingly adaptive to the operation of some industries, in particular finance, banking, logistics – the key areas of Hong Kong's strength. Wireless application is another area of growth given that further impetus will be derived from mobile services and the maturity of wireless networks.

10.14 Besides product markets, sectoral demand for software services could become substantial. Owing to the promotion of IT application in the public sector, projects related to e-government have nurtured a group of suppliers who provide infrastructure setups, software applications and content services. To name a few, the award-winning applications such as search engine and electronic tendering system, or the news aggregation and

⁸ A list of IT Excellence Awards, an event hosted by the Hong Kong Computer Society, is available on <http://www.hkcs.org.hk/itawards/awardhome.htm>; besides local awards, some of local software products such as the multi-media system of the Central Library and a catering management system have won awards in Asia-Pacific competitions.

delivery system are already incorporated in the e-government services. It is without doubt that the government sector could serve as an important incubator for local creation and software development. With the overall objective in devising a more flexible system corresponding to the need of IT services in the government sector, an emphatic review is timely to examine the public demand, the tendering processes and policy on government proprietorship of software deliverables devised by a third party. The demand of the public sector, if structured effectively and efficiently, could be an indirect investment in support of local software industry.

10.15 Potential in the unfulfilled market of SME should not be ignored.

Given the slow penetration of IT usage, structural incentives such as tax breaks or matching funds for technological enhancement should be considered besides banking facilities already available for equipment acquisition. The SME Funds currently provide handy support to activities of market promotion and training. Perhaps the next step would be a consolidated effort to support collaborative projects that deploy software/IT applications for enhancing competitiveness.

10.16 Another aspect worthy of attention is cross-sector promotion for the software industry.

The manufacturing production of toys, watches, eyeglasses as well as the service chains of creative industries would be an unlimited field of software application. A leading computer manufacturer is said to develop a collaborative project on Linux-based software needed for creating special effects in animation film. Besides this recent example, manufacturers focusing on product design have adopted design software; and tailor-made software is prevalent in publishing and video editing. Needs such as these could not be all filled by imported software and there is room for invention by joint-ventures among the local sectors. Industry organizations and intermediary bodies should cultivate cross-platform dialogue in terms of exchange of industry specifications and market needs.

10.17 Imports and localization of third-party software and software distribution operation to be based in Hong Kong provides another business direction for the local software industry.

Recent collaborations between local firms and international software developers confirm this prospect.⁹ A promotion campaign on the quality performance of Hong Kong's software industry is perhaps timely to attract overseas investment. Business matching programmes between local and regional partners could be undertaken by the proactive agencies either from the private or public sector.

Potential Markets in the Region

10.18 Mainland China represents the fastest-growing demand for software services in Asia.

Growth of the Mainland's packaged software market recorded US\$1.9 billion in 2002, but expected growth will be as high as 25.8%, reaching US\$6.2 billion by 2007.¹⁰ The findings of China Computerworld (CCW) Research presented in the following table provide perhaps a hint at the substantial growth of the market.

 ⁹ For example, Citrix Systems, the US application server software provider, has signed a distribution agreement with a local agent to extend its reach in Hong Kong's corporate market; NASDAQ-traded F5 Networks acquired shares of a local distributor who serves the sole distributor of F5's products to Hong Kong and Greater China. Last but not least, Openwave Systems has made Hong Kong the headquarters for the Asia-Pacific sale of IP-based communication infrastructure software.

¹⁰ "China's Packaged Software Market Rises 19.5% in 2002," *China Business News*, March 27, 2003.

Value of IT Market in China, 2000-2002			
(RMB billion)	2000	2001	2002 (estimate)
Total IT Market	217.9	253.3	294.5
% of Growth (Total)	-	15.8	16.7
Business Application Software (BAS)	5.3	6.5	8.5
% of Growth (BAS)	-	22.6	30.8
System Integration (SI)	23.7	28.1	34
% of Growth (SI)	-	18.6	21

Source: SIIC Journal, Issue No.81. June 2002.

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10.19 Local ISVs have already made strategic investment in the growing market, as shown in the relocation of development process or establishment of branch office in the Mainland. However, penetration into the Mainland market is somewhat different from relocation of part of the work process. Hong Kong's ISVs in general lacks substantial investment like Microsoft or Nokia in tying-up research collaboration and market development strategy. The small setup of local ISVs also constrains the timely exchange of market information, the logistic and marketing backup for developing new business or promotion of their own offerings.

10.20 Software Industry organizations have repetitively emphasized the consolidation of network recourse by means of regular exchange of market information, business matching activities, initiatives of collaborative projects in partnership with local universities/software houses in mainland China so that the managerial and marketing know-how already developed in Hong Kong could capitalize the quality labor and well-rounded research bases of the mainland IT industry.

Key Statistics

- **Revenue:** HK\$ 13,299 million (2001)¹¹
- **Exports:** HK\$ 2,989 million (2001)¹²
- **Employment:** 26,866 (2002, software development, maintenance and IT Related segments)¹³

Industry Revenues

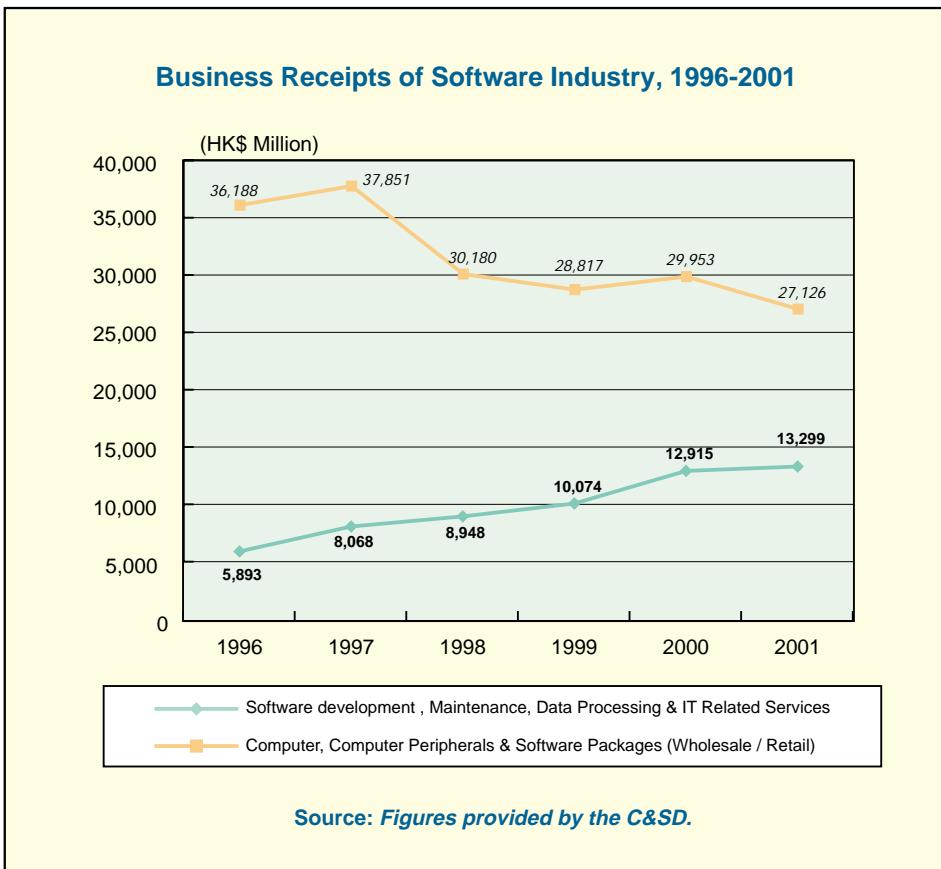
10.21 The business receipts of software industry recorded HK\$13,299 million in 2001, in addition to 27,126 million derived from the wholesale and retail segments. The core business of software industry maintains positive growth during the period 1996-2001; and the figure of 2001 demonstrates an annual growth of 3% despite the shrinking economy in general. The economic downturn did affect the wholesale and retail markets of packaged software, which recorded a negative growth of 9.4% in 2001.

¹¹ Census & Statistics Department, *Annual Economic Survey*, business receipts exclude figures on retail of computers, computer peripherals and software packages and receipts of Internet access services.

¹² C&SD, "Statistical Computer and Related Services," *Digest of Hong Kong Services Sector 2002*.

¹³ C&SD (2003), *Quarterly Survey of Employment and Vacancies*.

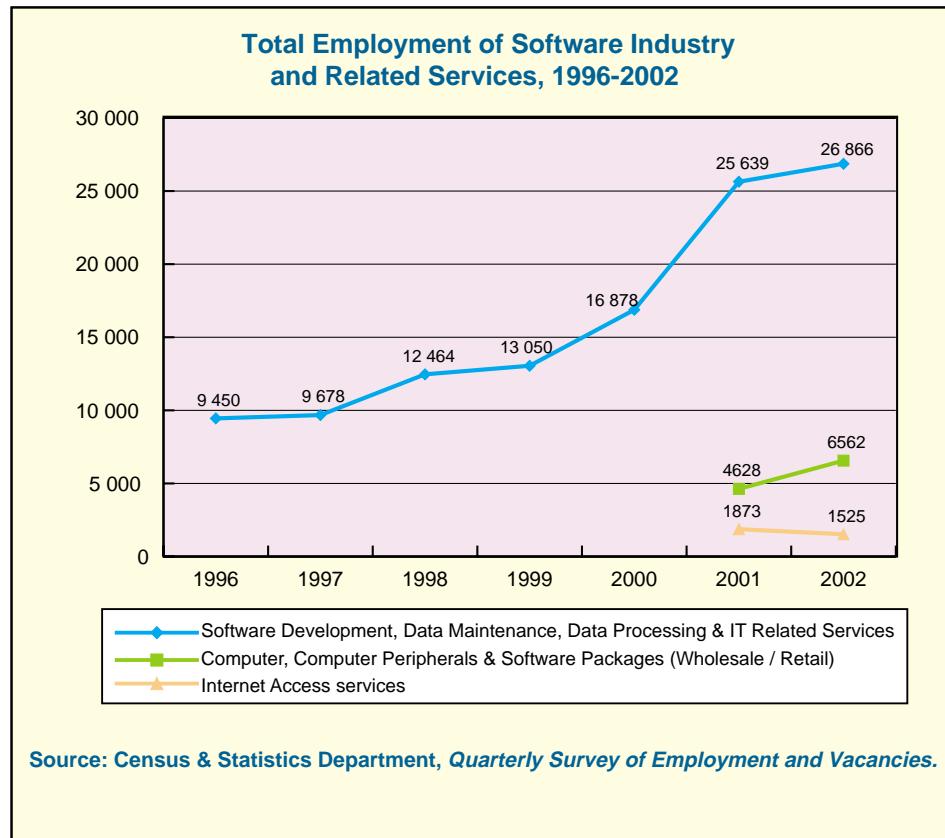
- 10.22** In terms of value-added contribution to local economy, the performance of software industry during the period showed some fluctuations. The sector contributed HK\$3,088 million (in terms of value-added) to the local economy in 1996, and the amount increased to HK\$4,433 million in 2001.



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Employment

- 10.23** According to the Census and Statistics Department, there were 5,442 establishments employing 34,593 labours in the following three segments of *software development, maintenance and data processing, wholesale and retail of packaged software and Internet access services*.



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10.24 However, study focussing only on ISVs reveals a downward trend of employment. Number of establishment decreased 8.75% while employment size was less at 20.5% in 2002. The drop in employment represents a net loss of permanent posts due to unfavorable economic outlook; but it is now usual for the sector to keep flexibility in employing labours on project/part-time basis.

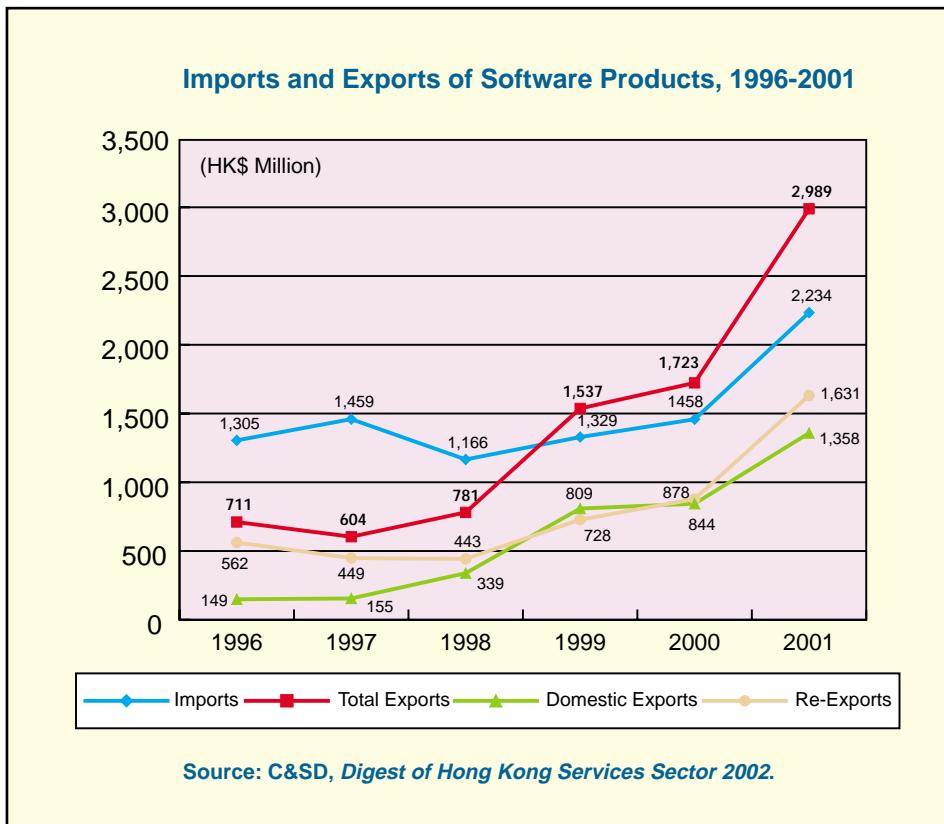
Number of ISVs and Employment Figures		
	2000	2002 (Q4)
Total No. of ISVs	800	730
Employment in ISVs	18,000	14,300
Average Staff Size / ISV	23	20

Source: HKPC, *Hong Kong Software Industry Survey 2002 (Q4)*.

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Balance of Trade

10.25 The software industry has demonstrated a robust increase in export value in recent years. Gross value of total exports in 2001 increased 73.5% in comparison to 2000, of which domestic exports represent a growth of 60.9%.



11 TELEVISION AND RADIO

Industry Structure

Core activities: Programme production, Acquisition, Licensing and distribution; channel packaging; Programme services (scheduling, airtime and/or channel marketing and sales) and transmission

Related activities: Internet radio, Computer games, Internet and multimedia, Personal video recorders, Video on demand, Art and creative studios, PR companies, TV commercials production, Photography, Manufacture of hardware, Sponsorship of performance events

Related industries: Advertising, Film and video, Performing arts, Software and computer services, Publishing (including music press), Interactive leisure software, Marketing and audience research, Merchandising, Tourism

- 11.1** The television and radio industry is populated by a relatively limited number of major players, each having a slightly different market position and frequently unique sets of pressing concerns. Television and radio operate in overlapping but also divergent technological and market conditions. The exposition below takes these overlapping and divergent issues into consideration.

Television

- 11.2** The main forms of television broadcast and transmission in Hong Kong consist of the following: Terrestrial TV, Satellite, Cable TV, Internet and multimedia packages. There are two domestic free television programme service broadcasters in 2003, TVB and ATV, each providing a Cantonese and an English service. There are five domestic pay-television programme service licensees. Cable TV is the largest operator, broadcasting since 1993. As of May 2003, the number of channels broadcast by Cable TV is about 60. Yes-TV and TV-Plus launched their services in February 2002. Galaxy Satellite Broadcasting Ltd. is expected to launch its service in the later part of 2003. PCCW-VOD, one of the domestic pay television licensees, has suspended its video-on-demand service since October 2002. As of May 2003, there are 12 non-domestic television programme service licensees. Together they broadcast about 60 satellite television channels, of which 25 are receivable in Hong Kong. There are also many operators providing multimedia packages over the Internet, such as now.com, One Channel and i-Cable.

- 11.3** Radio Television Hong Kong (RTHK) is a publicly funded, editorially independent broadcaster. It produces both public affairs and educational television programmes in the form of documentaries, drama, magazine and variety shows. The programmes are transmitted on local commercial television stations. It also produces educational television (ETV) for schools mainly for broadcast on ATV and TVB. RTHK also distributes their programmes to local free or pay channels and via programme sales/licensing to non-domestic channels and overseas markets.

Radio

- 11.4** There are currently 13 radio channels: seven operated by RTHK, three by Commercial Radio and three by Metro Broadcast. RTHK produces over 1,000 hours of programmes

each week. It provides FM and AM channels. With one exception, all channels of RTHK broadcast 24-hour live on the Internet since April 2000. Commercial Radio operates one AM and two FM channels, all around the clock. Metro Broadcast provides 24-hour broadcasting on one AM channel and two FM channels.

Current Situation: the Changing Market

- 11.5** Despite the economic downturn and the popular belief that "the industry is shrinking", the overall revenue of TV companies either remains relatively stable (TVB and ATV) or exhibits a strong growth since 1996 (i-Cable/Phoenix). The overall revenue was \$5,910 million dollars for TVB, i-Cable and Phoenix in 2001, a record amount since 1997.
- 11.6** Year 2002 and 2003 look to be particularly difficult years for the sector, but it appears that there is still room for the TV industry to grow. All of the TV companies have made heavy capital investments in the past few years. In terms of employment and value added, the television industry has a major economic presence in Hong Kong.
- 11.7** The radio industry has likewise been hit by the general market decline in recent years. This is seen in the decline of overall advertising revenue, pay cut in some cases and the industry branching out its activities into other service packages.

Strengths

Television

Experience and Expertise

- 11.8** The two domestic Terrestrial TV broadcasters have long-running experience in TV production and are outstanding in terms of technological setup, management expertise, production support, performance-related talents and marketing capability in the region. The long list of internationally acclaimed programmes testifies to that. The programmes of the two TV stations are well sought after in overseas Chinese communities. Their mode of operation and management style has been a reference for new television stations in parts of the Asian region.

Framework of Competition

- 11.9** Other forms of TV broadcast and transmission services have augmented free terrestrial TV broadcast in the past decade. Cable TV, after some initial probing of the market, has now developed into a leading, profit-earning player in domestic pay television programme service, with a settled core of programme packages. Other players continue to find space within a rapidly expanding technological and market framework, most notably in satellite TV and Internet content provision service. This framework of competition guarantees a diversity of programme and orientation among service providers.

The Chain Effect of TV on Other Related Industries

- 11.10** The secondary economic impact of the TV industry is vast. It is related intimately with advertising, and other image and sound broadcast and performance related industries such as radio, music, film and studios, Internet and multimedia services. The "star making" effect of TVB over the years in particular seems to have benefited other related industries. The TV industry has also impact on the tourism industry as the programmes showcase the sights, sounds and tastes of Hong Kong.

Television and Radio





Radio

Local Attraction

- 11.11** RTHK and CR have a long history of operation and Metro Radio also established a significant presence within a relatively short time. According to the Broadcasting Authority's Broadcasting Services Survey 2002, the general public aged 12 and above spent an average of 1.18 hours a day listening to radio.
- 11.12** Radio is an inherently more local-oriented industry, compared with, say film, publishing and even television industries. Besides being a major economic actor, the radio industry adds much to Hong Kong's culture and lifestyle. Its promotion of local music has been centrally important in the past two decades. Its current affairs and information programmes constantly add to the city's major topics of discussion.

Secondary Economic Impact

- 11.13** Radio has increasingly important links with other image and sound broadcast and performance related industries. As a cluster, these industries can be symbiotic partners whether in direct co-operative ventures or in sustaining a common focus of attractions among the population.

Weaknesses and Barriers for Growth

Television

Changing Market Environment – Tightening Local Market

- 11.14** Hong Kong is a small media market, with a total population of less than 7 million and slightly over 2.1 million households in 2003. It is generally agreed that the market for local terrestrial TV broadcasting in traditional programme delivery has peaked, as its penetration has already reached 99% and with increasing competition from other media and forms of leisure entertainment. One informant points out that the existing regulation and restrictions on ownership, programme and advertising contents also weaken the competitiveness of terrestrial broadcasters.¹ The economic depression brought by the Asian financial crisis was felt tangibly in both TV stations' operation, most notably in the decline of local advertising revenue.
- 11.15** Cable started service in pay-TV in the early 1990s and has to compete with the acknowledged quality service already provided by the free terrestrial TV stations. I-Cable began to earn profit since 1999. The main source of income is from subscription. Other forms of income like advertising and multi-media services are growing but remain secondary. A new round of competition is looming as new pay-TV operators start service in 2002-3. One pressing issue facing all pay-TV competitors is the unauthorized reception of programmes by commercial and domestic users using illegal reception devices.

Changing Technological Environment

- 11.16** The new digital broadcast technology promises to bring major potentials as well as challenges to the production, content and reception of TV broadcast. Several concerns have

¹ These include *inter alia*, the need to broadcast a quota of "positive" programmes such as public affairs programmes, and arts and culture programmes, and to carry, free of charge, government programmes (including ETV) produced by RTHK. The current advertising time limits of a maximum 10 minutes per clock hour from 5-11pm and no more than 18% of total broadcast hours are also seen as adverse factors.

been raised by informants: the technical support, not least in terms of personnel, needed for developing digital broadcast capability; the common standard of digital broadcast technology to be adopted; the timing of its introduction and the period of transition from analogue to digital broadcast.

Changing Regional and International Scenario

- 11.17** Non-Chinese-speaking market proves difficult to break into, despite the headway made in some Asian communities, e.g. India, Vietnam and Thailand. The difficulty of getting a good deal out of the many local taxation and regulatory procedures is a point demanding further work. Hong Kong's TV industry also encounters restrictive trade measures in certain countries, for example, ownership and personnel restrictions in Canada and Australia (TVBI investment in broadcasting). The competition and opportunities for co-operation offered by regional TV players (Korea, Japan, Taiwan, the Mainland and so on) is also on the agenda of TV companies.

The Elusive Mainland Market

- 11.18** Overall, the "Mainland market" potential remains to be defined and realized. Informants revealed a host of legal and regulatory barriers for developing this market.² The fact that households in the South China coastal region already have access to Hong Kong TV broadcast in some form also complicates the picture.³ Different players here have different degrees and kinds of success in developing the Mainland market.⁴ Advertising from Mainland companies is another source of revenue, but as a whole, TV players still need to explore ways to increase their influence (in programme sale, channel broadcast/landing rights, consultancy and investment) in this big market.

Supply of Creative and Technical Personnel

- 11.19** One informant emphasizes the need to ensure an adequate supply of the requisite technical personnel, in view of the upcoming transformation in broadcasting technology. Other informants also stress the difficulties of discovering and nurturing truly creative personnel and that the available on- and off- screen talents have been severely stretched with the recent expansion of pay TV, Internet and other media services. Ensuring a larger pool of creative talent is one big issue; and the need would be even more urgent when compression technology enables a new level of capacity for channels in the digital era.

Infringement of Copyrights

- 11.20** Pay-TV operators note a rising trend of unauthorized reception of pay-TV programmes. As pay-TV relies predominantly on subscription, unauthorized reception is a direct and severe hit on the operating companies. They deem the existing law on broadcasting, which does not make unauthorized reception by domestic users a criminal offence, inadequate to protect their interests here.

Radio

Limitations of the Local Market

- 11.21** Informants agree that Hong Kong is rather unique in its radio market. The population is big in number but relatively concentrated geographically and display similar cultural habits. The space for setting up commercially viable minority or niche channels is limited.

² These include issues on the protection of intellectual property rights; quota and restrictions, in terms of the number of programmes, episodes and programme hours for imported programmes; the broadcast time restrictions and quota placed on "non-local" production; the regulation of programme content, heavy taxation and custom duty; the inability to obtain high rights sales in dealing with major players in the Mainland, as well as the ways to realize tangible economic returns. There are also ownership, investment and personnel restrictions on co-productions and joint-ventures.

³ Signals of terrestrial TV channels, for example, are being pirated and broadcast by local cable stations with commercials replaced by such stations in the Pearl River Delta.

⁴ Phoenix TV and ATV, for example, have been granted limited right of broadcast, but the income to be gained is still being worked out.

The two commercial stations have to target a “mass” audience, and they are in severe competition with other media and entertainment products in this. It is increasingly difficult to earn profit by simply “selling air time” for advertising in the current highly competitive market. RTHK has the mission and leeway to cater to minority interests. However, it also has to demonstrate to the public and the government that it enjoys patronage from a wide spectrum of the community.

Supply of Creative Talents

- 11.22** The radio industry shares with TV and related industries and the performing arts the need for technical and creative skills. In particular, radio broadcast stresses very much on the unique and creative character of the hosts. In informants' words, they make or break programmes, yet in many ways these creative qualities cannot be formally coached. The need for nurturing a general ‘creative spark’ within Hong Kong culture is particularly emphasized.

Questions About Public Service Broadcast

- 11.23** Informants from both commercial stations criticize the public service role put on their stations as part of the licensing condition. For example one remarks that the AM channel is technologically flawed but they still have to operate one. They criticize the inflexibility and impracticality of language requirement. They also are not comfortable with the significant duplication in programming between RTHK and the commercial channels.

Prospects

Television

Preserving and Expanding the Local Market

- 11.24** Different players are relying on their market position to improve the quality of their service and expand the sources of revenue. For the two free terrestrial broadcast stations, informants stress the need to develop a more congenial business environment by relaxing the regulations and restrictions on the cross-media and foreign ownership, and programme requirements and advertising formats and time limit.⁵ An informant also suggests that terrestrial free TV's requirements of “positive” programmes, carriage of government programmes and the role of RTHK should also be re-examined.⁶

- 11.25** For pay TV, with more entrants to the field, each operator will need to work on how to strengthen the hold on subscribers and developing programme quality and diversity. I-Cable is working to consolidate its existing strength in sports, films and news programmes, while developing entertainment programmes and other acquired channels, plus the associated broadband service. New entrants like Yes-TV, TV-Plus and Galaxy will need to find their uniqueness in service, whether in newly produced programmes, acquired channel programmes or from archive of TV works.

- 11.26** The TV stations are cautious towards using the Internet as one outlet for promoting their programmes. Among the stations, I-Cable currently gets more out of the use of the new digital technology, in the shape of their vision of “one infrastructure, triple play” delivery of TV programme, Internet service and also Voice over Internet Protocol (VoIP) through one package.

⁵ One informant explains that in such a small market, the allowance for cross-media ownership would give free TV and related industries a better chance to grow with operating costs lowered and investments optimized, enabled by the bundling of services and sharing of resources. Relaxing the foreign ownership restrictions would attract more foreign investment benefiting the TV industry as well as Hong Kong's economy. Relaxing programme requirements and regulation on the time limit and frequency of advertising during programmes would also increase the competitiveness of terrestrial free TV.

⁶ It was opined that in view of the availability of different delivery modes for TV programmes, the responsibility to broadcast government programmes should not fall solely on terrestrial free TV. ETV programmes in particular could already be more efficiently broadcast via the Internet or other options of distribution. Especially with the launch of Digital Terrestrial TV, there would be room for a government channel to broadcast ETV and RTHK programmes.

Expanding into Regional and International Markets – the Mainland Factor

11.27 Different kinds of overseas expansion strategies have been attempted. They include selling programmes overseas, drawing up international co-operative contracts, joint venture with overseas TV companies, barter trade of products and management consultancy. Getting a good deal out of the many local taxation and regulatory procedures is a problem demanding further work. Informants express the need for more government initiative to negotiate for a better business environment as well as to promote HK TV production in the region and overseas.

11.28 The Mainland market is seen with most potential. Companies now face a number of barriers in such a move, but significant initiatives have been taken like establishing brand name and sales contact point in especially the Southern coast of the Mainland, and joint-production of programmes. There should be a platform for sharing information on and tackling these issues.⁷

HK Branding & the Centre of Excellence

11.29 Informants remark that the two local TV stations are brand names in the Pearl River Delta area. The edge of local TV lies in a combination of programme types, production value, casting and acting, and the special cosmopolitan feeling the programmes exhibit. Informants raise the possibility of seeing Hong Kong TV as a centre of excellence, where local and regional creative and technical talents would thrive under its direction and nurture. The promotion of this Hong Kong edge in overseas market requires concerted effort from both government and industry.⁸

Supply of Talents and Personnel

11.30 Informants raise the possibility of employing non-local talents in crucial positions of production and performance. They would welcome moves to relax the government labour immigration policy to permit technical and creative personnel from the region to be employed in the TV industry of Hong Kong.⁹ Informants also state the need to train local personnel to face the new challenge. There is a need for more formal training courses in broadcast technology. Existing courses in schools of journalism and performing art should work closer with the industry to design courses catering for the changing needs.

Regulation and Technological Infrastructure

11.31 Informants raise the need for an agreement on the new digital standard and providing the necessary regulatory and technical infrastructure for digital broadcast. There might be a need for a set of consistent regulations for a newly converging market based on similar technology of digital transmission. To harness the potentials offered by digital technology, a comprehensive economic study on Hong Kong's media and communications market and a review of policies, legislations and regulations governing different media services and other related services would be useful. The government might consider setting up a consultative body with the industry to coordinate these market and policy review efforts.

7 Informants raise three issues in particular:

i. Timing for entry into different forms of investment and production activities in the Mainland TV market is important in this rapidly changing technological field. It is especially so now that the ideological and business operating environment of the TV industry in the Mainland is also fast changing.

ii. Tackling the problems in censorship and regulation would require the government negotiating with the relevant agents in the Mainland to enable a more congenial business environment for TV broadcasting.

iii. The protection of intellectual property rights and granting more broadcast/landing rights to Hong Kong channels would also need more work and government assistance.

Infringement of Copyrights

11.32 Pay-TV operators stress the need to revise the law on broadcasting, especially on making it a criminal offence for domestic users to engage in unauthorized reception of pay-TV programmes. While operators are aware of the possible objections to such a change, namely the need to protect privacy and the difficulties of execution, they argue that many advanced countries have already made such legal provisions. Because of its distribution method, there is little room for dispute in criminalizing unauthorized pay-TV service reception as compared with, say, possession of illegal software. There are also well-tested and relatively unobtrusive technical means to detect illegal reception. Operators plea strongly for the government to urgently look into this matter.

Radio

Expanding the Sources of Revenue from Local Market

11.33 Informants point out that radio stations in Hong Kong are “Mega-stations”. They are in close competition with other media such as magazine and TV, and cannot survive by just “selling air-time”. Commercial stations are relying on innovations in their operation to find new income, making them in practice more multi-media and multi-events oriented. For example, both commercial stations have developed an “event based” approach for several years, like organizing campaigns and clubs, working with sponsors and providing so-called one-stop solution for advertisers. They also partake in producing other lines of media work like publication and stage performance. The proportion of earnings from these sources have become vital for the stations’ operation.

11.34 RTHK, being a public service broadcaster, is more sheltered from the adverse aspects of the economic downturn. However it also needs to streamline its operation and consolidate its programme quality, and is developing potential income earning ventures like showing classic programmes in commercial media, and providing contents to Internet companies.

Producing Quality Programmes

11.35 Informants from both commercial stations are adamant that programme quality is of paramount importance. While informants from the stations stress their mass audience target, they are also clear about their respective market positioning. Commercial Radio has a relatively longer presence and its two main channels have a solid reputation in their respective target fields in programme content and host appeal. Metro Radio, as a relative newcomer, tries to provide a slightly different treatment of the mass topics in the two main channels by a combination of creatively using existing celebrity appeal, promoting new talents and exploring new programme genres such as multimedia drama. RTHK continues to provide a broad spectrum of programmes, from mainstream to minority/niche ones.

11.36 Supply of Talents

Informants from both CR and Metro Radio consider programme hosts or DJs to be the most important elements for radio broadcast. However, a “systematic training” of such personalities is hardly possible. Informants criticize that the Hong Kong education system suffocates the development of creative talents. The stations need people with passion and creativity, and these qualities come from a cultural environment that provides genuine exposure and rewards innovation.

8 An informant suggests that Hong Kong should take advantage of the proliferation of more and more channels, enabled by digital technology, in other parts of the world and organize promotional delegations and other functions to assist the TV industry to break into overseas markets. Comprehensive promotion strategies could be developed in consultation with the TV and related industries including the tourism industry. Such joint promotions spearheaded by the government would benefit the TV and other industries as well as Hong Kong’s economy.

9 One informant, for example, recommends adding “TV profession” to the special talent import policy from the Mainland so that performance artists, mandarin-speaking programme hosts, broadcast production and technical personnel can be admitted.

The Cluster Perspective

11.37 Radio stations host and sponsor performance events and have joint deals with other media organizations. These are seen increasingly as a way for radio companies to diversify their activities and revenue source. That will have impact on other image and sound broadcast and performance related industries. In this context, radio can be seen as an integral part of "star-making" process for a cluster of HK's related industries. It is important for people in business as well as policy makers to work and plan ahead from this perspective.

Public Service Broadcasting

11.38 Despite criticisms from the commercial stations, some informants believe that the current "duplication" in programming makes the broadcasting environment more competitive. Public broadcasting service, according to one senior administrator, sometimes helps "set standards" for other broadcasters as well. The RTHK, for example, will continue to provide minority programming and explore new audience groups such as the elderly, and will pursue more long-term planning such as serving a media function in heritage preservation. It is also an area for further thoughts and debates how much a public broadcaster such as the RTHK should stay with, or beyond the "mainstream" of programming.

Key Statistics

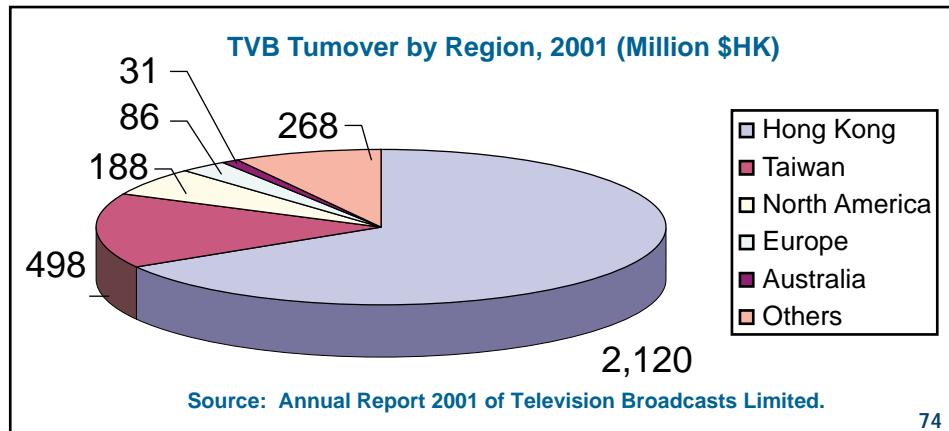
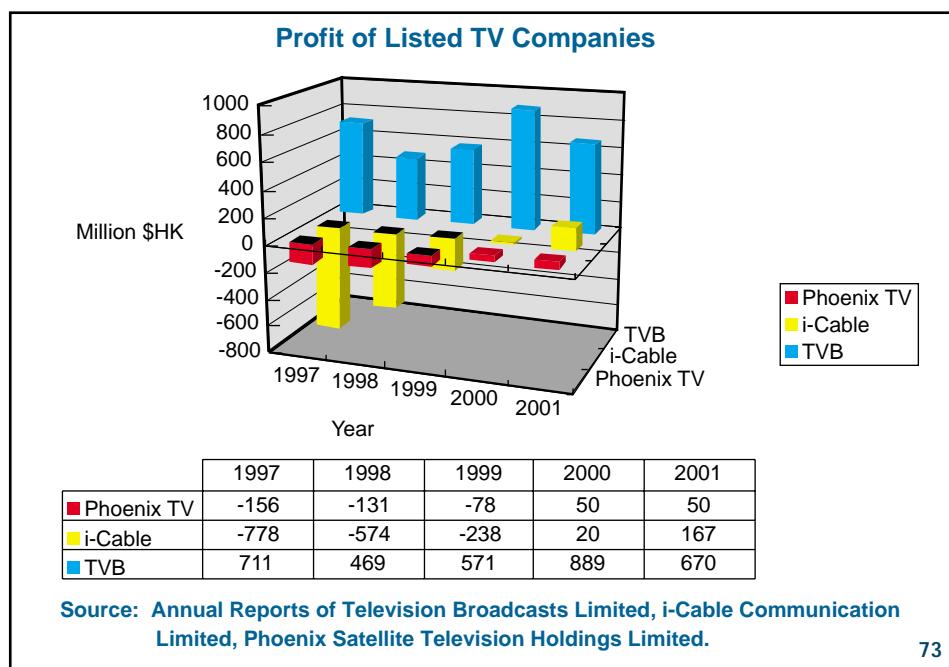
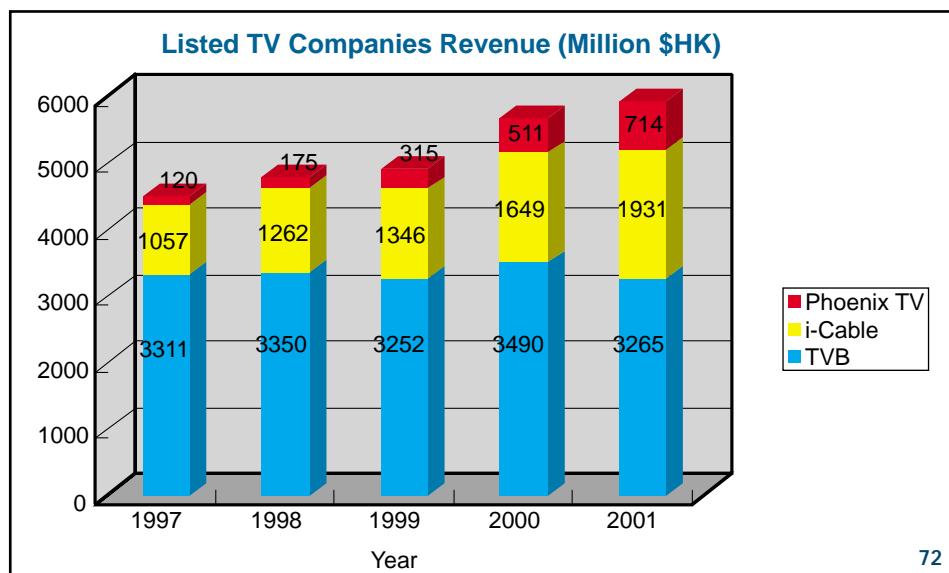
Market Size			
	People/million	Homes/million	% of total
Estimated Television	6.81	2.12	99
Homes connected to Cable TV	1.96 million		
Homes subscribed Cable TV	0.585 million		
Subscription Rate	33.5%		

Source: *Hong Kong: The Facts 2002*. Information Services Department, HKSAR.

Employment	
TV stations employees	About 9,400 (a)
Radio stations employees	About 700–800 (b)

(a) Total employment of TVB, ATV, i-Cable, Phoenix TV and RTHK (TV Programmes), the figure includes a small amount of overseas positions.

(b) Including Commercial Radio, Metro Broadcast and RTHK (Radio Programme).





V

Challenges SECTION C to Hong Kong's Creative Industries

This chapter outlines the challenges to HK's Creative Industries in five areas: Cross-sector issues, Intellectual Property, Education & Research, Clustering strategies and the International & Mainland Dimension. The discussion serves as preliminary exploration towards policy recommendations

◎ in developing HK's creative industries¹

1 Common Issues Across the Sectors

Dynamics of the Local Market

- 1.1** Throughout our study, it has been emphasized by all sectors that the limited size of the local market is a constraint for the development of creative industries in Hong Kong. However, it should be noted that individual industry in the creative sector demonstrates economic vitality and flexibility in defining its own primary market. There are sizeable industry segments whose footprints are well beyond the geographical limits of Hong Kong. Media-related industries such as printing, film and music production are now operating in regionally-scaled markets instead of focussing only on a singular local market. The jewellery industry, as another example, is basically export-oriented although its retail business depends much on tourism and local consumption. There are industries that are more locally focussed, in particular, the antique and crafts market as well as the infant industry of digital entertainment. With a sanguine view, technological innovation and changes in market conditions would render new potential or even prospective markets as have been pointed out in the individual chapter of the respective industries.
- 1.2** Creative entrepreneurship is invariably the driving force of market development, and they are the most energetic agents in response to the need and changes of the market. However, taking a broader perspective, the economy of creative industries is embedded in a larger context conditioned by the social and cultural environment while the public sector and economic agents are imbricated with one and the other. We are convinced that some of the conjunctions in this complex relation are the enabling factors favorable for the development of creative industries, which are outlined as follows.

Access to Finance

- 1.3** Every industry needs capital in different stages of development. In the case of the creative sector, business risk is relatively high posing obstacles for industry players to access capital markets because the business nature of creative industries is more volatile and vulnerable to the rapid changing pattern of cultural consumption. Market uncertainty and risks are hindrances to access to finance for sustainable growth. Entrepreneurs of the industries often rely on private finance or individual investors than conventional banking, institutional investors or the stock market.
- 1.4** The utterance that creativity is saleable and therefore young entrepreneurs or companies of mini setup would encounter few barriers in starting their business if their creative idea is commercially sound remains an optimism far from reality. The transformation of creative ideas to products/services is usually capital intensive as clearly demonstrated in most of the media-dependent industries with perhaps the exception of music production and publishing of literature. Neither could firms in advertising, design or digital entertainment industries survive on ideas alone; the logistics of media services and the cost of technological inputs or other professional services are significant business components of these industries. In short, access to finance remains one of the major hurdles to entrepreneurs looking for initial capital to realize their creative ideas.
- 1.5** There are indeed some financial infrastructures supported by the public sector to meet the general financial needs of individual economic sector. The four funding schemes

1 Although this chapter discusses issues that might lead to policy recommendations, it must be emphasized here that the objective of the study itself is not policy recommendations *per se*, and the recommendations contained in this chapter should not be taken literally as policy directives.

under the Trade and Industry Department (TID), the Export Credit Insurance provided by The Hong Kong Export Credit Insurance Corporation (ECIC), the five funding schemes of Innovation Technology Fund (ITF) and the Film Guarantee Fund (FGF) are some of the

notable means.² It is worth mentioning that these schemes are subject to different scopes and sanction criteria but not necessarily tailor made for the specific needs of creative industries in need of industrial finance, each having its own conditions and particularities. The production inputs for industries such as specific software for design, games and animation, for example, might be in more need of financial support than others.

1.6 The question of capital and finance for creative industries invariably oscillates between private investment and government support (which could also take the form of tax incentives). The following are some suggestions for consideration:

i. Capitals from the private sector are the most dynamic financial sources for creative industries. Hong Kong is a reputable financial centre with no lack of venture capitalists willing to invest in high-risk industries such as bio- or information technologies. It is likely that private/institutional investors would find the creative sector a new potential for investment. An assembly platform for investors and industry players would generate new development opportunities such as the HAF (the HK-Asia Film Financing Forum) by

the film industry in 2000, which also involved support from the public sector.³ Similar forms of financial platform could be extended to other segments or clusters of creative industries.

ii. Public funding to creative industries could take the form of matching fund of various nature. But there are at least two reasons for the scheme to be more than a financial means available to an industry. Matching fund can be an incentive system to encourage investment for the sake of promoting an industry or a cluster of industries. It is also an awarding system in honor of distinctive innovation in product/service that could be promoted and commercialized. The Innovative Product Development Assistance Scheme (IPDAS) provided by the ITF is one example to provide manufacturers of electronic products with matching grant in support of development of new and innovative products. This could be applied to the creative sector - the animation industries in South Korea and Canada, for example, have adopted similar schemes.

iii. The new mechanism of FGF enabled by the government provides alternative means to lubricate the financial infrastructure of creative industries in the form of a loan guarantee scheme. The mechanism is not providing direct facility to applicants, but some sort of guarantee to enable industry practitioners to access conventional financial support. Although the FGF is now only dedicated to the film industry, it is possible that similar mechanism could be installed for other segments of the creative sector.

iv. Given that the specific needs and conditions in access to finance vary from one segment of creative industries to another, it is not necessarily true that the various means to finance mentioned above could be applicable to every segment of the creative sector. Any attempt to address the financial barriers to creative industries should consider the relative scale of SME now prevalent in the sector as well as their specific needs for finance. There is an urgent need to review the various financial schemes and funding support applicable to the creative sector and how they could be modified or revised, or whether entire new schemes should be initiated.

² Interpretation based on these schemes should be cautioned since some of them under the TID are funds in support of export marketing, training and development of SMEs. For more details about the schemes, please visit: <http://www.smefund.tid.gov.hk/homepage.html> for TID; <http://www.info.gov.hk/itc> for ITF; <http://www.hkecic.com> for ECIC and http://www.fso-tela.gov.hk/film_guarantee_fund.cfm for FGF.

³ The Hong Kong-Asia Film Financing Forum (HAF) was set up in 2000 to facilitate financial collaboration among filmmakers, producers, distributors and bankers. The HAF is funded by the Film Development Fund; the 2003 HAF was originally scheduled in April, but has been postponed due to the outbreak of SARS.

Cross-sector Interaction

- 1.7** Creative industries enjoy a relatively strong tendency of economic interaction with segments of the creative sector or with other economic chains. We are convinced that given the keen competition in the region, Hong Kong's manufacturing industries would have greater incentives to transform their business structure formerly based on the OEM model to OBM or value-added production. This transformation is already taking place in some segments of the electronic industries including the production of watches and household electric appliances. And a similar on-going process is extending to the fashion and garment, toys and eye-wares industries. Not only is the manufacturing sector interacting with creative industries, but the servicing sectors are also moving in the same direction. Media-dependent industries are now demanding more inputs of design, digital technologies as well as software engineering. The synergy of all these critical elements from design to technologies is a ubiquitous phenomenon found in advertising, games, publishing, films or broadcasting industries, thus revealing the greater possibility and potential that convergence of deliverables and services of one sort to another could be realized.
- 1.8** Cross-sector activities are now driven by industry players, their initiatives subject to different conditions of an industry. At the same time, industry organizations and public bodies are also crucial in their promotion. The Hong Kong Productivity Council (HKPC) and the Trade Development Council (TDC) are apparently the main entities involved in cross-sector promotion. In addition, the Hong Kong Design Centre (HKDC) and the Federation of Hong Kong Industries (FHKI) demonstrate practitioners' vital interest for the same.⁴ Services provided or activities organized by these organizations vary. A thorough review of all these efforts is beyond the scope of this research but a general summary of their nature serves to provide clues to understanding how cross-sector integration is being promoted under different organizational structures.
- 1.9** The *trade fairs* organized by the TDC have long been the platform for the exchange among different industries. These regular events are unique occasions for local and overseas participants to develop business matching and maximize their business opportunities.⁵ The consultancy/supportive services provided by the HKPC are another kind of cross-sector promotion, an outstanding case being the omnibus programme "DigiHall 21". It offers consultancy services, industry advice, information services and show-cases covering roughly 24 areas including software, digital printing, wireless applications, internet applications or multi-media production.⁶ Similar services in terms of seminars or business advice to encourage the widespread adoption of new technologies or inputs of design are also available by industry organizations such as the HKDC and FHKI, although they are more educational and informative in nature.⁷
- 1.10** Two other kinds of cross-sector promotion are also worth mentioning. The Innovation Technology Fund (ITF) has recently set up the Innovative Product Development Assistance Scheme (IPDAS), which provides matching grants in support of product development, R&D and original design. Although the scheme only applies to manufacturers of electronic products, it demonstrates how an *incentive system* could promote the collaboration of designing services and manufacturing production. Lastly, *industry awards* are honors to endorse creative products/services. More often, they are organized by industry organizations in collaboration with respective government units.⁸

4 The Centre was established in 2002 with support from the Government and the Hong Kong Jockey Club. Its founding associations include Hong Kong Designers Association, the Chartered Society of Designers (Hong Kong), Hong Kong Interior Design Association and Hong Kong Fashion Designers Association

5 There are several trade fairs regularly organized by the TDC. The most relevant fairs to creative industries include the "Book Fair", "House-ware Fair" and "Gifts & Premium Fair." In 2003, a supplementary event, the "Hong Kong Licensing Show and Conference" – which brings together licensors, licensing agents, licensees advertising agents and legal advisors – will be included in the programme. Besides, the FILMART, one of the major events in promoting films, is an example of promotion activity dedicated to individual industry.

6 For details of the services, please refer to <http://www.dighall21.org/>.

7 Without prejudice, information services including market research, business news or seminars are also provided by the TDC and HKPC.

1.11 All these efforts highlight the key yardsticks - *cross-sector platform for exchange* (or exchange of intellectual property rights), *industry solutions* (consultancy services), *information services*, *incentive* and *award systems* - for policy formulation in support of cross-sector promotion. Given the different jurisdiction of existing organizations available in the public and industry sectors, consolidated efforts could be made to map out an overall strategy with clear scope and policy domain specifically devised for the creative industries. This does not imply receding responsibility of one organization or another in the public sector. Rather, it calls for collaborative engagement of available organizations to extend the services related to cross-sector promotion, as suggested below:

- i. An information platform for the depository of best practices of creative industries, together with other functions in providing information services and promoting the exchange of experiences related to the sector. This could be done by means of collaboration between public and private communities such as the "Creative Clusters" of Sheffield, UK, maintained by an independent company to organize an international platform for sharing updated information about creative industries and developing business networking; or the UK Government's DCMS official portal site as an omnibus coverage of information pertinent to regulatory issues, market, finance, education and other supportive services.⁹
- ii. Consolidated effort to facilitate exchange in creative industries such as film, animation and television programmes or combination of multi-media products (games, animation and computer graphics), toys or spin-off products. It is noted that government is now moving in the same direction.¹⁰

Branding and Creativity

1.12 Branding of Hong Kong's creative industries builds on the symbolic/aesthetic value, vitality of urban culture as well as the quality management of production. These attributes are the edge of an array of products/services available by the sector. The "Hong Kong Label" however cannot be sustained only by commercial success. Overlooking the contribution of non-economic activities or the cultural sector to creative industries would be negative to the nurture of creativity and diversity. Emphasis on the importance of the cultural environment to the development of creative industries has repeatedly been articulated in this report. Again, it is worth emphasizing that the distinction between commercial and artistic creation, if any, is increasingly blurred and quite often both could mutate. The rise of "game art" and "digital art," two prevalent art forms growing with the accelerating development of games industry, the internet and the penetration of computer technologies is a case in point.¹¹

1.13 Cultural institutions of Hong Kong are quite aware of the delicate relationship between creative industries and the nurture of creativity.¹² The Hong Kong Arts Development Council is a major public organization providing supporting services and funding to a variety of art forms encompassing certain segments of the creative industries - visual art (architecture, design, film, video and crafts), literary arts (publishing), and performing arts.

1.14 Although the boundary of creative industries and culture is fluid, the policy objectives of cultural institutions to promote creative industries might, and by nature, should be more culture oriented. While industry organizations and other public bodies may dedicate to commercialization and industrial development of creative industries, the focus by cul-

⁸ Industry awards relevant to creative industries are numerous. The IT Excellence Awards, Hong Kong Award for Industry (Consumer Product Design) and Hong Kong Digital Entertainment Excellence Awards are some examples.

⁹ For more details, please refer to <http://www.creativeclusters.co.uk/> and DCMS at http://www.culture.gov.uk/creative_industries/default.htm

¹⁰ A symposium on cross-media and cross-business development for the film industry will be held in the last quarter of 2003 to foster collaboration between film, digital entertainment and other industries.

¹¹ Dave Morris and Leo Hartas (2003), *Game Art: The Graphic Art of Computer Games*, Ilex Press Limited. Designing services offer another example: the case of a calculator designed by a local talent displayed in an overseas design museum provides another lively demonstration of the blurred boundary between industrial product and artwork.

¹² The recent Policy Recommendation Report

tural institutions on *aesthetic excellence, diversity and appreciation* of creative ideas are, if not more important, at least equally important to the enhancement of cultural quality and the nurture of creativity. The cultural field would be the best incubator for creative ideas and exploration to be developed by the industries.

-  1.15 Given these guiding principles, it is possible to formulate a cultural policy in resonance with the development of creative industries. As regards the scope of cultural fields, animation, film (documentary, digital, or experimental), games art, computer art/digital art, comics, figures art, experimental music and architectural design, to name a few, could be transformed into new forms of cultural expressions.¹³ The extension of the cultural domain brings not only a re-conceptualization of our cultural policies; it may invoke a series of review of existing funding schemes for the new art forms, or new initiatives for professional and aesthetic excellence, scholarship and international exchange as well as the re-defined roles and functions of museum and cultural facilities, and programmes of arts appreciation.

2 Protection of Intellectual Property

The Importance of Intellectual Property

- 2.1** Intellectual Property (IP) is a complex issue involving multiple dimensions such as protection of technological innovation, international cooperation, legislation, law enforcement and the free flow of information. The concept of IP is often accompanied by a set of rights that come with it. These rights, called “Intellectual Property Rights” (IPR) protect and encourage creativity. If IPR are not protected properly, the creators of ideas and information will not be fairly rewarded for their investment in the research and production process. This will become a strong disincentive for the continuous development of IP products in the creative industries. Therefore, the recognition and protection of IPR is essential for the sustainability and prosperity of creative industries. Taking the music recording industry in Hong Kong as an example, large-scale CD piracy enabled by cheap duplication technology once threatened the survival of the industry from early to mid 1990s. The situation came under control with the introduction of a new legislation regulating CD duplication coupled with an extensive law enforcement effort.¹⁴ The music recording industry, however, is not the only case. Piracy and other kinds of IPR infringement also caused damage to other industry sectors including “film and video”, “television and radio”, “publishing”, “software”, “design” and “branded goods”.

- 2.2** In view of the importance of protecting IP, international treaties defining agreed basic standards of protection such as the *Berne Convention for the Protection of Literary and Artistic Works* and the *Paris Convention for the Protection of Industrial Property* have been ratified by over one hundred countries. These main international treaties on IP all apply to Hong Kong.¹⁵ Hong Kong is a separate contracting party to the Trade Related Aspects of Intellectual Property Agreement (commonly known as “TRIPS”) under the World Trade Organization.

- 2.3** Hong Kong has a good international reputation in the protection of IPR. Hong Kong’s comprehensive legal framework provides protection for a number of IPR, *including trade marks, patents, designs, copyright, lay-out design of integrated circuits and plant varieties*.¹⁶ In

by the Culture and Heritage Commission (CHC) highlights the importance of creative industries to the configuration of Hong Kong as an international city: “the rise of cultural industries, cultural activities are now a possible means of giving momentum to economic development” and assigning “new meaning and importance to cultural development,” CHC (2003), Paras 6.15-6.20.

¹³ It should be noted that ADC has already established “independent film and video art” as one of the important art forms.

¹⁴ *Prevention of Copyright Piracy Ordinance*, Cap. 544 which came into force in 1998.

¹⁵ Intellectual property treaties applicable to Hong Kong: *Convention for the Protection of Industrial Property, Paris*, 20.3.1883, as revised in 1900, 1911, 1925, 1934, 1958 and 1967 and amended in 1979; *Convention for the Protection of Literary and Artistic Works, Berne*, 9.9.1886, as revised in 1908, 1928, 1948, 1967 and 1971 and amended in 1979; *Universal Copyright Convention, Geneva*, 6.9.1952, as revised in 1971

terms of IP related operations and regulations, the Commerce, Industry and Technology Bureau (CITB), the Intellectual Property Department (IPD), and the Customs and Excise Department (C&ED) are the relevant government agencies. CITB is responsible for policy formulation, including the proposal of new legislation, while the missions of IPD are to assist in the legislative process, maintain the protection of IPR to the highest international standards so that Hong Kong remains a place where creativity and talent can flourish, to provide high-quality and responsive registration services (in the areas of copyright licensing bodies, designs, patents and trademarks), and to promote awareness of IPR of individual and a respect of the rights of others. The C&ED is responsible for law enforcement such as investigation and enforcement action against pirated and counterfeit materials.

- 2.4** Despite the comprehensive legal framework and protection system, IP protection in Hong Kong is constantly susceptible to changing technological and market conditions. Based on daily operational experiences, our informants from the creative industries indicate that the challenges faced by the industries as set out below deserve closer scrutiny.

Registration of IPR

- 2.5** IPR gives the IP owner a monopoly power over the uses of his created product for a certain period of time. Certain kinds of IPR are required to be registered in order to enjoy protection. IPD is responsible for the registration of patents, designs and trademarks, while plant varieties should be registered with the Director of Agriculture, Fisheries and Conservation. Copyright works and integrated circuits, however, do not need to be registered.

- 2.6** Under the Copyright Ordinance of Hong Kong, copyright protection is not subject to registration. A copyrighted work is recognized and protected once the creation is recorded in some form (such as writing, sound recording, photographs and so on). This is

in line with the requirements in the relevant international treaties¹⁷ applicable to Hong Kong. These treaties require that the enjoyment and the exercise of copyrights shall not be subject to any formality. As such, at present, there is no registry for registering copyright works that is run by the government in Hong Kong.¹⁸ Informants suggest that a voluntary registration system for copyrighted works (such as film scripts) would provide better protection because an official certification could serve as *prima facie* legal evidence relating to the ownership and subsistence of copyright in copyright works. The establishment of an official registry is also believed to have deterrent effect on local and overseas IP infringement. From the government's perspective, official copyright registration involves cost-benefit consideration, especially when other methods of proving the ownership and subsistence of copyright are available (such as attaching a true copy of the copyrighted work to an affidavit in court proceedings).

- 2.7** Apart from maintaining the Designs Registry, the Patents Registry and the Trade Marks Registry, IPD also maintains a registry of copyright licensing bodies representing individual industries, authorized by specific legislations. At this time, there are three such organizations, namely, Composers and Authors Society of Hong Kong Limited, the Hong Kong Copyright Licensing Association Limited and the Hong Kong Reprographic Rights

Licensing Society Limited.¹⁹ It is believed that in order for a licensing body to be fully viable, there must be a significant amount of copyright fee transaction for the relevant industry.

and as supplemented by
Protocols #1 and #2 of
1971; *Patent Co-operation
Treaty*, Washington, 19.6.
1970, as amended in 1979
and modified in 1984;
*Convention for the
Protection of Producers of
Phonograms Against
Unauthorized Duplication
of Their Phonograms*,
Geneva, 29.10.1971.
Source: Department of
Justice, HKSAR
Government, 2003.

16 The relevant legislation is
the *Trade Marks
Ordinance*, *Patents
Ordinance*, *Registered
Designs Ordinance*,
Copyright Ordinance,
*Prevention of Copyright
Piracy Ordinance*, *Lay-out
Design of Integrated
Circuits Ordinance* and
*Plant Varieties Protection
Ordinance*. Source:
Intellectual Property
Department, HKSAR
Government, 2003. The
list, however, is not
exhaustive. Those not
covered include rights
relating to commercial
secrets and GIs.

17 The relevant treaties in this
case are the Berne
Convention and TRIPS.

18 This is to be distinguished
from the Registry of
Copyright Licensing Bodies
that is at present run by
the government.

Parallel-Importation

- 2.8** Currently, under the Copyright Ordinance, it is a criminal offence to import or sell parallel-import copyrighted products within 18 months of their first publication.²⁰ The parallel importation or subsequent sale of a copy of a work which has been published for more than 18 months will not attract any criminal liability but civil remedies (for example, injunction, delivery up and damages) are still available to the copyright owner. The government as well as some informants from the creative industries regard the lifting of the restriction on parallel-importation on the copyright side as potentially beneficial to consumer interest. However, some industries have expressed concern that such practice might cause significant damage to the creative industries in terms of price slump and unauthorized publication. Informants from the film and the music industry indicate that there is often a large price difference between products sold in Hong Kong and nearby regions (such as the Mainland). If film and music titles originated from Hong Kong and published in the Mainland were allowed to be imported back to Hong Kong by a third party, local sales could not maintain a competitive price and the whole business would become unprofitable. Besides, some industries consider that it is often difficult to distinguish between a legal/authorized parallel-imported publication and a pirated copy. This confusion may weaken the effectiveness of law enforcement by C&ED at the ports/border. Even if the copyright owner in Hong Kong could identify the infringing products, there are some who consider that the process of proving an overseas piracy can be prohibitively cumbersome, especially for SMEs that do not have the resources for seeking overseas evidence.

- 2.9** The government agencies, CITB and IPD constantly exchange views with the Industries about regulating parallel-import. They believe that the current restriction and the liberalization under the Copyright (Amendment) Bill 2001²¹ have struck an acceptable balance between encouragement of creativity and protection of IP on the one hand and enhancement of consumer interest through more liberal parallel importation on the other.

Piracy

- 2.10** Because of the low marginal cost of reproducing the carrier of a copyrighted work, piracy is a common kind of infringement of IPR. Hong Kong has been able to act readily on complaints on piracy, often filed by foreign entities and large corporations. The Prevention of Copyright Piracy Ordinance which was enacted in 1998, together with strong enforcement by the C&ED, is proven to be effective in some specific areas. For example, piracy level of records of the music industry dropped from 25-50% in 2000 to 10-25% in 2001.²² Hong Kong is said to be one of the first places in the world to implement a licensing policy for manufacturing optical discs that requires each disc be marked with the manufacturer's code.

- 2.11** Piracy problems are often complicated by issues such as liability (whether domestic users should be liable; whether criminal or civil sanctions should be applied, etc.), the effectiveness of law enforcement, piracy on Hong Kong products outside the jurisdiction of Hong Kong, and in markets not fully open to Hong Kong (see below). As mentioned earlier, SMEs often lack resources to trace the origin of pirated products, carry out investigation and collect evidence. The inability to react against IPR infringement has gradu-

¹⁹ Source: Intellectual Property Department, HKSAR Government, 2003.

²⁰ The Copyright (Amendment) Bill 2001 was passed by the Legislative Council on 2 July 2003. The Bill will commence on a date to be appointed by the Secretary for Commerce, Industry and Technology. The effect of the amendments is that there will be the removal of the civil and criminal liabilities under the Copyright Ordinance related to parallel importation of and dealings in articles which have embodied in them computer software products. But there will be some exclusion from the scope of liberalization. The exclusion mainly concerns those articles which have embodied in them a copy of a computer programme but their principal use is to be viewed or played as a movie, a television drama, a musical sound or visual recording, or an e-book.

²¹ See footnote 19.

²² Source: *Recording Industry in Numbers*, IFPI, 2002.

ally lowered their confidence in IPR protection and their incentive to seek official IPR recognitions such as the registration of design. Informants suggest that the government should take a more proactive role in protecting IPR and share some of the burdens of pre-legal and legal action in IPR cases with SMEs.

Liability of Infringement of IPR

2.12

In addition to criminal liability for fraudulent use of trademarks, it is also a criminal offence since 2001 to use pirated movies, TV dramas²³, music recordings and computer programmes in a business context. Introducing criminal sanction for domestic copyright infringement, however, remains an issue for debate. The dilemma is, on one hand, criminal liability seems to be a much stronger deterrent to copyright infringement than civil liability. Criminalizing domestic users of pirated materials could also decrease the demand for such products, so that the incentive for producing and selling pirated materials would also be reduced. On the other hand, consumers may or may not have the knowledge to distinguish legal copies from pirated ones. The process of investigating domestic suspects of IPR infringement could also be too intrusive, causing disturbance to citizens and compromising personal privacy. In addition, copyright legislations that are too strict could also hamper the circulation and distribution of information. Some amendments to the Copyright Ordinance were suspended in 2001 partly because of its disturbance to reasonable treatment of copyrighted materials.

2.13

At the time of writing this report, the government has proposed a legislation to criminalize unauthorized pay-TV reception for commercial purpose.²⁴ Fraudulent reception, however, carries only civil liability for domestic users. Since a large amount of unauthorized reception happens in the home, the pay-TV operators hold that criminal liability should also be imposed on domestic fraudulent receptions. They reason that such imposition is an accepted practice in many advanced countries such as UK and Canada. It is also technically possible nowadays to detect unauthorised reception with minimal intrusion on domestic users. The government, on the other hand, prefers to introduce end-user criminal liability only when unauthorized viewing cannot be stopped by technological means, i.e. digitization of pay-TV services (see chapter on TV and Radio for more details). Some have expressed the concern that this dilemma needs to be urgently addressed.

IP Ownership of Government Projects

2.14

Representatives from a number of industry sectors, including Architecture, Design and Software have questioned the practice that the IP ownership of all government projects belongs to the government only. They understand that some government projects are confidential in nature but disagree that IP ownership should be used as a means to preserve secrecy. Some informants opine that the IPR cannot be fully exploited in that way because products developed cannot be resold by developers, while the government as the IP owner would make no further use of it. The issue to address in this problem is cost-effectiveness which the government is reviewing for the IT sector.

2.15

The government enters into a contractual relationship with the private sector from time to time and when some of these contracts involve IP, the government considers that it is important to state clearly in these contracts as to the ownership of IP so as to avoid future disputes. According to the Intellectual Property Department, it is not an estab-

²³ Informants have pointed out that non-drama work is currently not protected under the Copyright Ordinance, which perhaps needs to be reviewed and the concept of protection clarified.

²⁴ The official wording is "criminal sanction and civil liability against the possession of unauthorized decoders for commercial purposes". The proposed legislation is the *Broadcasting (Amendment) Bill 2003* which was gazetted on 2 May 2003.

²⁵ Convention Establishing the World Intellectual Property Organization; Paris Convention for the Protection of Industrial Property; Madrid Agreement Concerning the International Registration of Marks; Berne Convention for the Protection of Literary and Artistic Works; Universal Copyright Convention; Geneva Phonograms Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonogram; Patent Cooperation Treaty; Nice Agreement for the Protection of Appellations of Origin and their International Registration;

lished government policy that all IP created under such contracts invariably belong to the government. The ownership of such IP may depend on, for example, the needs of the parties, other terms in the contract, and the terms in the tender if the contract is obtained through the tender route.

Hong Kong's IP: Local and Regional

- 2.16** Hong Kong's local market, with a population of less than seven million, is often regarded as too small for the creative industries to flourish, and many suppliers are targeting larger markets outside Hong Kong. In this sense, local legislations and law enforcement on IP can only provide limited benefits for Hong Kong's creative industries, which are partially export oriented. For example, it has been reported that counterfeit design products have been manufactured outside Hong Kong, imported back to Hong Kong and displayed in Hong Kong's trade shows. The inability to protect Hong Kong's IPR overseas sometimes contrasts sharply with effective local law enforcement in Hong Kong.

Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure; Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks; Locarno Agreement Establishing an International Classification of Industrial Designs; Strasbourg Agreement Concerning the International Patent Classification. Source: State Intellectual Property Office of Mainland China, 2003.

- 2.17** As mentioned earlier, some IP owners, especially the SMEs, lack the resources to conduct investigations and file a lawsuit overseas. The government position has been that the government would be prepared to take appropriate follow-up action on overseas infringement cases through proper channel if copyright owners can provide sufficient and concrete information about the cases. Although it is impossible to carry out enforcement action outside the jurisdiction of Hong Kong, the Hong Kong government has been asked to be more high profiled internationally in protecting Hong Kong's IP. Informants opine that IP issues should occupy a higher priority in external trade talks. Other suggestions include: blacklisting those territories where there have been occurrences of infringement of IPRs belonging to IP owners who come from Hong Kong, offering help on IP problems through the Economics and Trade Offices (ETO) of Hong Kong, requesting bilateral recognition of IP certifications with other governments, and helping Hong Kong IP owners to establish distinctive cases of overseas legal action against IP infringement.

Uncertain Protection of IPR for Uncertain Market in Mainland China

- 2.18** While international treaties protecting IP apply to the Mainland²⁵ and the Mainland has a comprehensive set of laws on protecting IP²⁶, the market contains many uncertainties for IP products. Currently tight restrictions on the direct import of copyrighted materials, such as records, publications, film and TV programmes have been placed by the Mainland government.²⁷ As a result, Hong Kong publishers are required to cooperate with their Mainland counterparts to obtain permits for publications and have their copyrighted materials published and distributed by the Mainland enterprises. Sometimes, publications are produced and distributed in the form of a "gray market", operating at the fringe of official permission. Such operations, being a possible way to get around some restrictions and increase the export of copyrighted materials from Mainland, also cause ambiguity in the legality of publications and hence increase the difficulty of claiming copyright protection. The case of TV reception is an outstanding issue. At present, signals of terrestrial TV channels are being pirated and broadcasted by local cable stations in the Pearl River Delta with commercials replaced by such stations. Hong Kong TV operators face difficulties and uncertainties in obtaining proper and comprehensive landing rights to reap the due benefits from this. Whether the WTO timetable for opening up the Mainland market could change this situation is a topic that deserves further research.

²⁶ 中國有關知識產權的法律法規：中華人民共和國著作權法實施條例；中華人民共和國商標法實施條例；奧林匹克標志保護條例；中華人民共和國合同法（節選）；中華人民共和國擔保法；中華人民共和國商標法；中華人民共和國著作權法；中華人民共和國植物新品种保護條例；中華人民共和國植物新品种保護條例實施細則（農業部分）；中華人民共和國植物新品种保護條例實施細則（林業部分）；中華人民共和國知識產權海關保護條例；中華人民共和國海關關於知識產權保護的實施辦法；計算機軟件保護條例。資料來源：中華人民共和國國家知識產權局，2003。

²⁷ For example, China National Publications Import and Export Corporation (CNPIEC) is

3 Education, Training and Research

Contextual Issues

- 3.1** The Creative economy is reliant on the qualitative application of innovative and value-added concepts in services and products. The cultivation and supply of human capitals has been the focus of discussion alongside the progression of service and knowledge-oriented businesses. Governments of different places have hence set out respective strategies on human resources and population policy in order to rear and tap talents for economic development. Accordingly education policy is increasingly linked with the growth of the economy and development in culture.
- 3.2** The creative workforce shares the global characteristics of being young, skilled, enterprising, and moving across traditional work and technology boundaries. According to our findings, half of the creative workforce in Hong Kong is in the age range of 25-34 (III.2.12), with  64.7% possessing tertiary degrees (III.2.15).²⁸ These highly educated workers would value education as a means of self-actualization and improvement, and be more susceptible to the idea of life-long learning and re-education because of movements across the different sectors. Meanwhile, UK figures show that only 5% of creative professionals receive job-related training, which is low compared with the average 14% for the population as a whole.²⁹ These statistics imply tremendous room and potential for development in education and training for the creative sector.
- 3.3** Development of the creative sector depends on not only the supply of manpower, entrepreneurs of creativity and a supportive environment, but also a pool of consumers in demand of value-added qualities. As such, an educational, training and research agenda aiming to foster the growth of creative industries must comprise professional and vocational training as well as cultural and arts education of the general populace in all levels. It is also essential that the education of creativity and humanities should not be confined to the context of formal schooling but embedded in daily social situations, which in turn is enabled by a favorable environment of freedom in expression and creation.

Institutional Practices

- 3.4** Institutional efforts are the basic keys to nurture the creative manpower. Education for the creative workforce can be devised into tiers of institutional implementation. Firstly, the content production of the creative sector requires professionals harnessed with specialties. Tertiary and vocational institutions are the major providers of formal education for respective industries. Bachelor degree programmes are offered mainly by the eight local tertiary institutions and the Academy for Performing Arts, while associate degrees, diploma and certificate courses are largely taken care of by the Vocational Training Council, Hong Kong Productivity Council and continuing education schools, to equip  students with expertise and professional qualifications.³⁰
- 3.5** Most of the workers in creative industries like architecture, advertising, digital entertainment, design, film, software and IT, television and radio, music, performing and visual arts, are equipped with tertiary degrees. Some sectors, like publishing and printing, however, do not have institutional programmes. Degree studies such as those provided by the London College of Printing and the Beijing Institute of Graphic Communication would be in demand for advancing and developing the sector.


the only authorized agency to import audio-visual publications into the Mainland; imported TV programmes could not be shown in prime time; a quota of about 20 per year is placed on imported film.

²⁸ This is even higher than the percentage in the UK which has 41% of creative professionals and 32 % of the whole sector educated to degree level. From *The Mayor's Draft Culture Strategy*. Para. 169. Greater London Authority, June 2003. <http://www.london.gov.uk>

²⁹ Ibid.: Para. 182.

³⁰ The eight major tertiary institutions are: Chinese University of Hong Kong, City University of Hong Kong, Hong Kong Academy for Performing Arts, Hong Kong Baptist University, Hong Kong Polytechnic University, Hong Kong University of Science & Technology, Lingnan University and University of Hong Kong. Some of these institutions also offer associate degree programmes. In addition to these institutions, the government is also considering setting up a Visual Arts Academy, studied first by the Hong Kong Arts Development Council with its

- 3.6** Similarly, local jewelers have expressed difficulty in recruiting trained jewellery designers and appeal to provision of respective programmes, considering there exist only restricted number of courses offered on a part-time basis. Designers specialized in jewellery and equipped with up-to-date computer graphic skills are in high demand by the industry to meet the fashion-oriented industrial trends.³¹
- 3.7** However, it should be pointed out that individual industries have disparate and distinctive requirements in methodology for the training of professionals as well as specific needs for particular job levels. It is therefore important to facilitate communication between industry and educational providers to identify occupational structures and trends of industries for devising responsive training programmes. On the other hand, educational institutes, especially the Hong Kong Institute of Vocational Education and community colleges could be more flexible in launching short-term courses to ensure supply of supportive and technical personnel relevant to industry demands. These programmes should be able to absorb and recognize workforce of diversified talents, especially the young generation from different levels, with their admission criteria not necessarily restricted to academic performances. For example the big demand of animators by local digital entertainment companies can be satisfied by recruiting talented youths outside in formal secondary education. Training in traditional art forms (apart from those offered in the Academy for Performing Arts), like Xiqu, would be through their preferred mode of apprenticeship system with long-term practices and presentations. To bridge gaps of institutional learning and occupational practicality, internships are a good way to forge fieldwork experiences of students as well as their future employment opportunity.
- 3.8** In addition to training of content creators, to cope with the inter-disciplinary demand of socio-economical and cultural development of the information society, it is also necessary to secure the support of visionary talents in managing cross-sector projects. The trends of crossover affiliation of the creative actors facilitate advanced exploitation of synergism among the industries. To this end, entrepreneurs increasingly need personnel capable of supervising cross-disciplinary projects. Management talents for creative industries should also be equipped with knowledge relating to issues of copyright and licensing besides marketing and financing. Instances of such programmes are rapidly emerging in overseas institutions in response to demands, such as the Master in Creative Media Enterprises offered by University of Westminster in the UK and the Bachelor of Creative Industries by Queensland University of Technology, comprising 13 majors covering arts and visual culture, design, media/communication, music and theatre studies, and etc. There is also a corresponding need to develop research areas and centres of excellence for the creative industries, ensuring the retention and development of skills and knowledge.
- 3.9** To foster the driving edge of creative business, arts and cultural education should play an emphatic role in pre-primary through tertiary curricula.³² Apart from vocational training, cultivation of humanities and the arts is of paramount importance to develop abilities of creativity, appreciation, communication and critical thinking of students. Resources therefore should be devoted to equip primary and secondary students with diversified arts education, as well as increased exposure to multi-media training.³³ One channel

consultancy report completed in August 2002 and the idea was included in the agenda of the Chief Executive's 2003 Policy Address.

³¹ The London Institute is a good example to show how art, design and communications programmes related to creative industries could be offered comprehensively.

Comprising St Martins, Chelsea and Camberwell Schools of Art and the London Schools of Fashion and Printing, the Institute attracts students from all over the world. There are currently 75,000 students taking courses in creative subjects and approximately 30,000 in vocation training in further education.

³² The role of education, in particular arts and language education, in developing Hong Kong as a cultural and creative city has been stressed repeatedly in reports by the Education Commission and Culture and Heritage Commission. We agree with the recommendations in this regard contained in the latter's *Policy Recommendation Report (2003)*.

already in place to enhance school education on arts and culture is the school education television (ETV) currently provided by the government and which may synchronize with the curriculum reform regarding arts and creativity. The higher educational institutions may also develop coherent curricula and research programmes for continuity.

- 3.10** Capacity of language application is another underpinning issue to be tackled in institutional education. Even though biliteracy and trilingualism have been accorded principal priority in the agenda of education reform, proficiency in Chinese and English is still a focus of concern for a lowering of language ability in the community as well as the student population. A Workforce with strong proficiency in English is crucial for retaining Hong Kong's position as a cosmopolitan city in the global economy. Moreover, the ability to speak Putonghua is fundamental for Hong Kong to continue its role as a gateway to the Mainland.

Public and Media Education

- 3.11** A creative society is composed of designers, artists and a population that enjoys equitable opportunities to participate in arts and cultural activities. The government is therefore obligated to provide citizens with a cultural and civic environment favourable to free thinking and expressions. Public involvement in cultural activities can be encouraged by crossover efforts and partnerships among various sectors of the society, i.e. the public, NGOs and commercial corporations.

- 3.12** The Media have great permeating impacts in contemporary societies. The government may lead and stimulate in collaboration with the industries to provide a supportive environment for qualitative cultural contents through media channels, as on the internet, through traditional broadcasting channels and publications. The Media are in the meantime the core component of creative industries and means of education. Currently, local

- Ⓐ media provide a very low proportion of programmes or coverage of cultural content.³⁴ While the option of establishing a television channel specializing in arts, culture and sports content might worth exploration (to be carefully weighed against cost-effectiveness) as well as means to induce media responsibility in producing more such programmes (to be tactfully pursued against the global trend of non-intervention and de-regulation), the government may consider collaboration with media in their production, or to offer them through internal production and outsourcing, and have them disseminated through a low-cost means, for example, showing them in the free time provided by the broadcasters
- Ⓑ as a requirement for granting the license.³⁵ Another possibility for disseminating arts and cultural education is through the internet, which would lessen the requirement on the amount and quality of content, and those who desire such materials can gain access anytime anywhere. Given the generally good household internet connection in Hong Kong, this might be a more cost-effective way to achieve the objectives.

- 3.13** The government can ally with organizations from the third sector, such as community centres, youth centres, arts companies and so on to promote life-long learning and cultivation of arts for the general public. Initiatives for collaboration at the community level allow maximum utilization of resources and enhancement of residents' participation in the districts. Life-long learning can best be accomplished with operation modes of diversity and flexibility.

³³ This is also an observation by the CHC in their recommendation to address educational reform regarding arts and culture (*ibid.*: para. 3.6 *et passim*). In this connection, it is worth mentioning that a senior secondary school devoted to the training of creativity and the arts, the Hong Kong School of Creativity, endorsed by the Education and Manpower Bureau, is in the planning and will open in 2004-2005.

³⁴ The four local television channels contribute only 4% of their airtime for cultural content programmes. Currently the payable channels of the Hong Kong Cable Television Limited have certain amount of arts and cultural contents. Among the thirteen radio channels, there is only one run by RTHK specifically dedicated to culture and arts. Culture and Heritage Commission (2003).

³⁵ A separate channel for the public and the community has been discussed with the licensing of Cable TV. This idea might be explored again with the future licensing of digital TV.

Informal, Continuing & Flexible Learning

3.14 Apart from adult education and other community courses, informal learning is also possible with the infra-structural networks of public libraries which provide a range of facilities including books, tapes, videos, access to IT and career guidance, which are key to the development of personal studies.

3.15 The creative sector is to some extent industry driven by the fast advancing knowledge and technologies. It is therefore crucial to facilitate in-service workers with training of up-to-date expertise and skill-sets. In order to design training courses aligned with industrial requirements, effective mechanisms must be envisaged to ascertain the specific and immediate needs of individual industries. Communication channels and committees between the government and the industrial bodies, i.e. professional institutes, trade unions, employers' associations and etc. may be established to enhance co-operation in aspects of vocational training and development. Also, regular manpower and business surveys and assessment studies should be conducted to help outline relevant policies and strategies.³⁶

3.16 In-service training courses can be provided by collaborative initiatives of industrial organizations with subsidies from the government.³⁷ Vocational training programmes should continue to be operated flexibly in diversified models with lecturing, internships, workshops, apprenticeships, etc. At present, most industries are launching in-service training of different scales to upgrade practitioners' competitiveness, especially in accommodating state-of-the-art technologies and equipment. The government may perhaps take up a more proactive position at the level of facilitating execution and bridging networks. Continuing professional education can be implemented by cooperating with the continuing education schools in local tertiary institutions or those from overseas.

Exchange of Professional Experiences

3.17 Intra-industrial communication and exchanges serve the purpose to develop actors' skills and professionalism.³⁸ Industrial activities such as conferences, seminars, workshops, fairs, and competitions enable the exchange of market information as well as promoting best practices of the industry. The government may develop coordinated efforts with industrial organizations to launch events enhancing professional standard. The Professional Services Development Assistance Scheme (PSDAS) and Mentorship Programme for SMEs are cited examples of public initiatives to promote industrial standards and practices.

3.18 Moreover, in view of rapid globalization of worldwide information, it is quintessential for local actors to perform exchanges with their counterparts in both regional and international levels. By coordinating cross-border and international seminars and conferences, local industrialists can draw on the Mainland and overseas experiences and up-to-date knowledge of the marketplaces.³⁹ The government can also provide incentives by supporting overseas investigation and study to endow local talents with international exposures and to nurture their global appeal.⁴⁰

³⁶ These duties are currently performed by the Vocational Training Council (VTC) and the Hong Kong Productivity Council (HKPC). The VTC encompasses 20 training boards and 5 general committees composed of advisors from the industries and academics. For example there is the Mass Communication Training Board, Printing and Publishing Training Board, Committee on Information Technology Training and Development. These organizations are responsible for analysis of manpower demand by industries, conduct statistical surveys and recommend policies respectively.

³⁷ These could be similar to the training programmes provided by the 4As in advertising, or the VTC programmes in quality pre-employment and in-service vocational training programmes (cf. <http://www.vtc.edu.hk/vtchome/main.jsp>).

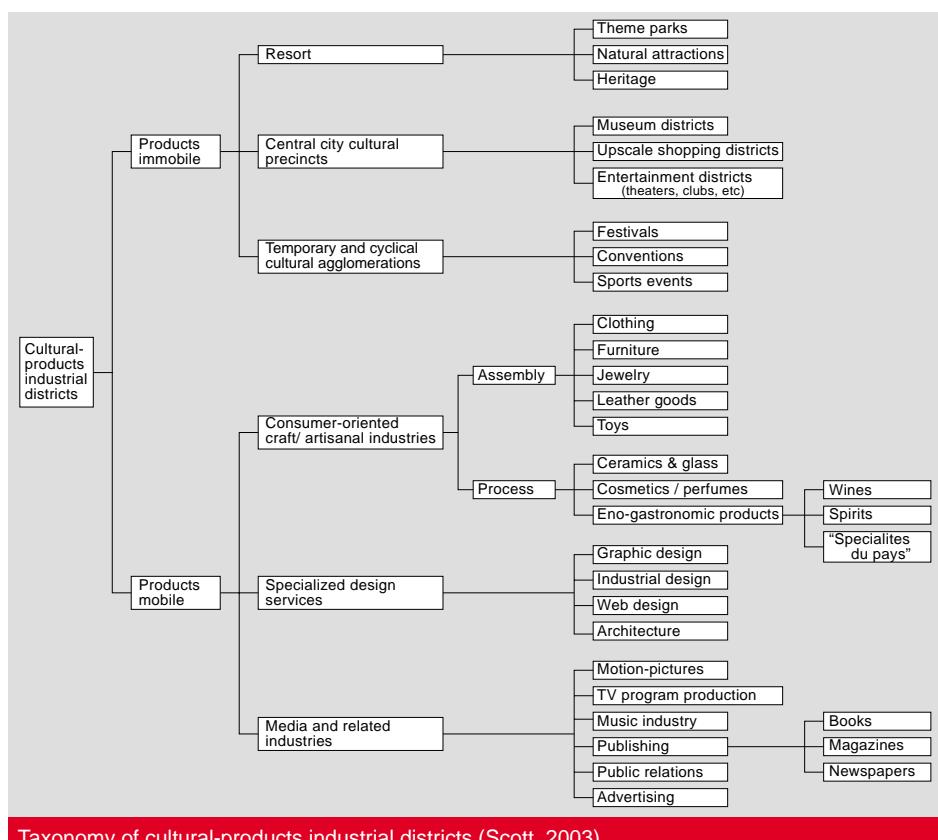
³⁸ The PSDAS is administered by the Business and Services Promotion Unit of the Commerce, Industry and Technology Bureau (CITB), which supports "projects that aim at increasing the competitiveness of Hong Kong's

- 3.19** To incubate interdisciplinary creativity, the public sector could facilitate building communication platforms among the creative industries. The inter-exchanges of different industries would make possible fusion of disparate technologies and innovative inspirations in content creation and production. The set up of initiatives like Arts & Business in America and Europe is a first step to induce cross-sectoral benefits to the creativity of arts and the business community.⁴¹

4 Clustering & Urban Strategies

Significance of the Clustering Concept

- 4.1** One of the important common features attributed to the collection of activities that characterize the cultural economy, according to Allen Scott, is that they are typically subject to locational pressures that encourage individual producers to agglomerate together in dense specialized clusters or industrial districts.⁴² Scott differentiates the mobility of cultural-product industries⁴³ as a second-generation policy vision in the broad context of this new economy as opposed to the immobile first-generation strategy of place- or city-marketing (see Figure 1 below). Mobile cultural-product industries aim at exporting local cultural products to markets all over the world. But the bearing of place on the production of cultural-products is that with a centripetal transactional and labour-market conditions, operation of these industries would be more effective when the individual establishments that make them up exhibit at least some degree of locational agglomeration.



professional service sector as a whole, or of individual sectors, in external markets including the Mainland market." For details: <http://www.info.gov.hk/bspu/pzdas/content/index.htm>.
The Mentoring Programmes for SMEs are run by the Small and Medium Enterprises Office of the Trade and Industry Department. For details: <http://www.sme.gcn.gov.hk/smeop/english/mentorship02.cfm>

39 Currently the Hong Kong Trade Development Council is the major body responsible for coordinating delegation of local entrepreneurs to overseas fairs and organizing exchange symposiums while the eleven overseas offices of the Commerce, Industry and Technology Bureau also regularly arranged seminars and visiting studies focused mainly on topics of investment environment and economic policies in relation to their host countries.

40 One example is the Japanese government (Agency for Cultural Affairs, ACA) in establishing programmes for Japanese artists to nurture their global appeal. Annual fellowships in

4.2 Scott goes on to explain that 'effectiveness' refers not only to economic efficiency but also to the innovation energies that are unleashed in industrial networks that transmit information, opinions, cultural sensibilities and so on. It is like what Molotch (2003) has argued for the agglomerations of design-intensive industries that they acquire place-specific competitive advantages by reason of local cultural symbologies that become congealed in their products, and which imbue them an authentic character. Successful agglomerations will become irresistible magnets of attraction to talented individuals, or what Richard Florida (2002) calls the "creative class" who would flock in from all corners in pursuit of professional fulfillment.⁴⁴

4.3 The tight interweaving of place and production system is one of the essential features of the new cultural economy of capitalism (Scott, 2001) which finds expressions in great world cities like New York, Los Angeles, Paris, London or Tokyo. Indeed the presence of an organic continuity between place-specific settings, social and cultural infrastructures and industrial vocations becomes almost a litmus of test for a city's "world-class-ness".

Clustering of Creative Industries in Hong Kong

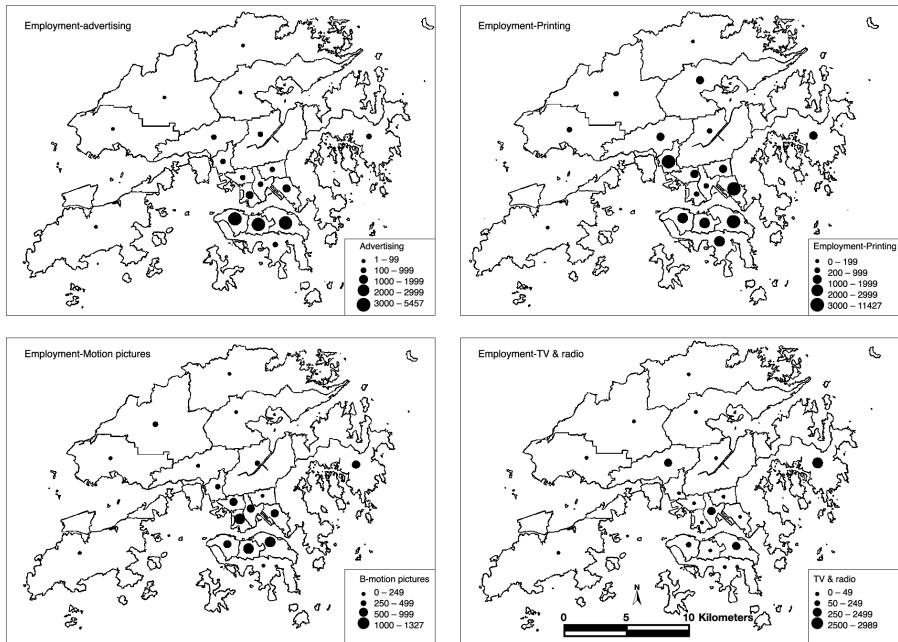
4.4 It would be interesting to apply Scott's criteria to see if such merging of the urban and social environment with the apparatus of production exists in Asian cities that aspire to become world cities of one kind or another. Given the limited size of both the economy and urban extent in Hong Kong, it might be premature to postulate the existence or formation of a spatial clustering of creative industries and hence a discussion on policy and development implications as a result. Nevertheless, the concept is crucial for understanding the synergism of the creative sector as a whole and its relevance in formulating any strategies both economically and urbanistically.

4.5 Our preliminary study reveals that jobs in several major sub-sectors of the design industry—such as advertising, architecture, motion pictures, and IT related services—are highly concentrated in the three major districts of Central/Western, Wanchai, and Eastern on Hong Kong island. In comparison, the distribution of employment in the sub-sectors of printing and TV/radio is far more dispersed from the three traditionally dominant districts on Hong Kong Island than the above-mentioned sub-sectors. A substantial proportion of the jobs in the two latter sub-sectors are found to be concentrated in the districts of Eastern, Sham Shui Po and Kwun Tong (for printing) and Sai Kung, Tsuen Wan and Kowloon City (for TV/radio) (Figure 2 and 3).

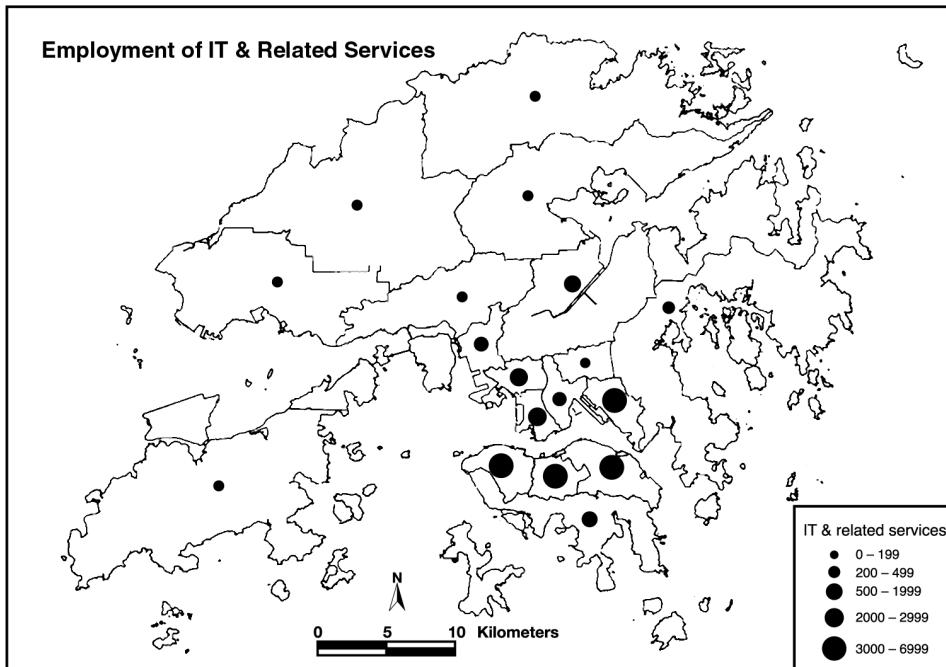
various arts and creative sectors have been awarded on an increasing basis for over a decade.

⁴¹ The Arts and Business in the UK helps arts and business organization to develop project partnerships in training, creative workshops, consultancy on corporate art collections and mentoring, etc. For more details: <http://www.aandb.org.uk>. The Arts and Business Council Inc. of the US also devoted to bridge collaboration between corporations and non-profit arts groups by sharing expertise and resources, <http://www.artandsbusiness.org>.

⁴² The other two common features are: "first, they are all concerned in one way or another with the creation of aesthetic and semiotic substance, and second, they are generally subject to the effects of Engel's Law, meaning that as disposable income rises, consumption of their outputs rises at a disproportionately higher rate (Beyers, 2002)." Allen Scott (2003), "Cultural-products industries and urban economic development: prospects for growth and market contestation in global context" (unpublished paper with research



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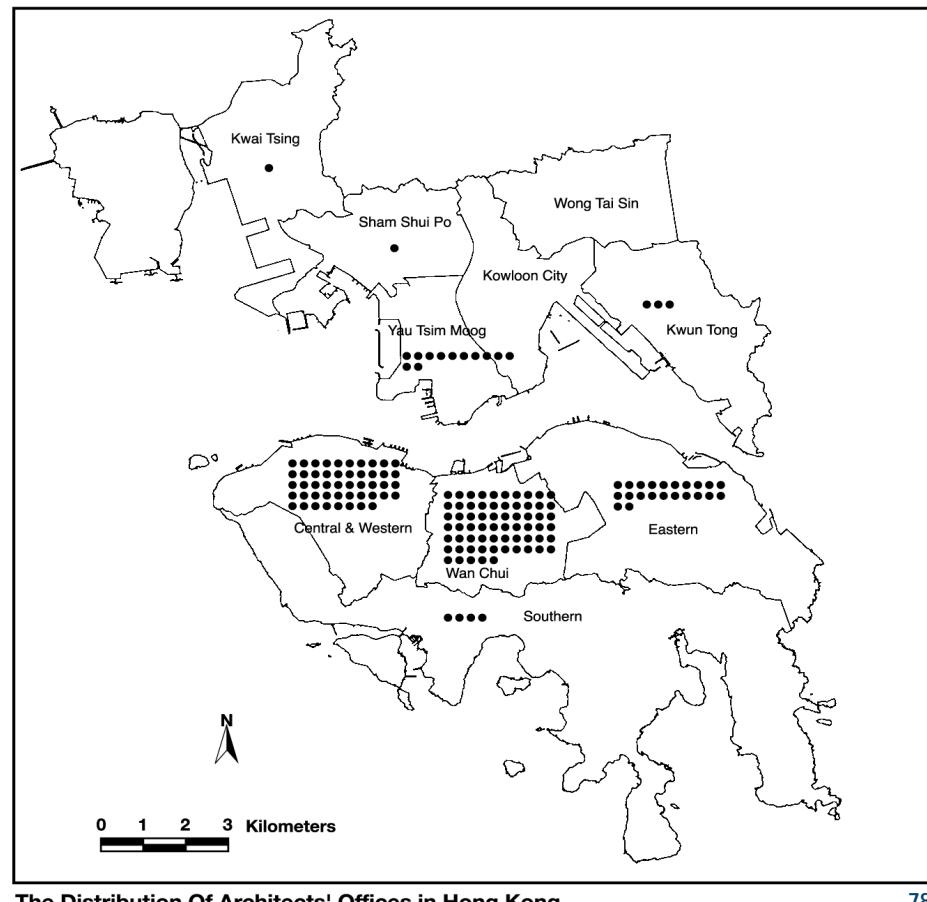
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supported by the National Science Foundation under grant number BCS-0091921).

43 Ibid: Scott defines 'cultural-product industries' as those sectors that produce goods and services whose subjective meaning, or, more narrowly, sign-value to the consumer, is high in comparison with their utilitarian purpose.

44 Florida distinguishes his theory as "creative capital theory" versus the "human capital theory". While the latter suggests people slavishly follow jobs to places, the former says that regional economic growth is driven by the location choices of creative people. Florida identifies some of the factors for locational choices: thick labour markets, lifestyle, social interaction, diversity, authenticity, identity and quality of place. Ibid.: 223-234.

4.6 A more detailed picture of the distribution of architectural firms in Hong Kong reveals that more than two-thirds of such establishments are located in Wanchai and Central/Western districts (Figure 4). This high degree of spatial clustering of architectural practices in the northern waterfront area of Hong Kong Island can be attributed to one major factor—proximity to public offices and private firms that architects need to maintain immediate physical contact with on a daily basis, given that such establishments are also highly concentrated in the same locations. These include government offices such as the Buildings Department for procurement activities, as well as private businesses such as sub-consulting companies on structural, electrical/mechanical engineering as well as model and printing shops which provide essential support services to architectural practices.



4.7 In order to carry out more detailed analysis and to arrive at more concrete proposals, it seems that a spatial mapping for the distribution of the individual sectors is necessary to provide further clues on how these industries would benefit each other with the cluster strategy, and to engender a multiplying effect with the synergy in both economics and urban development.

Creative Industries and Urban Regeneration

4.8 Creative Industries could play a significant role in terms of urban regeneration, as shown in various European and North American cities (Bianchini & Parkinson, 1993). This trend follows indeed a broader advocating strategy of a culture-led regeneration which relies not only on industries alone, but art and culture in general. Community and public art, for example, like many individual or corporate creative activities, could help brand the identity and feel of a place. The Public Art Strategy of Hackney Council in London (1995) articulates this idea succinctly: “A public art programme of quality generates civic pride, improves the quality of life of residents workers and visitors, develops community ownership, identification and a sense of place, reduces vandalism and provides opportunities to involve all sections of the population, particularly young people, in arts, environmental and ecological issues.”⁴⁵

4.9 Cultural activity can promote visitors in an area and create jobs. An extension of the idea of public art programme is beautification of the urban environment itself through good design of public and private buildings and spaces. The shaping and framework of public spaces are essential to the cohesion of urban neighbourhoods and communities in linking people and places together. Similarly, reclaiming degraded or underused spaces would attract creative businesses to the area. Where heritage and historic buildings are involved, they become points of interest and even centres of regeneration for the community concerned. In addition to cultural resources, parks are traditional symbols of civic success and pride, which are indispensable in an overall urban strategy formulated from the potentials of cultural and eco-tourism.

4.10 As regards strategies specifically based upon the industries themselves, the scope of regeneration could be classified in three categories as follows: 1) Clustering of industries for themed development, 2) Heritage/tourism related, 3) Flagship project.

Clustering of industries for themed development

Following from the preliminary spatial mapping of the creative industries, certain clustering effect could be identified in some of the creative sectors. For example, art and antiques shops have developed certain regional base with galleries; there is also affinity between architecture/interior design companies with the distribution of retailers and suppliers of building materials and products; certain publishers (newspapers and magazines) are in close proximity to concentrated areas of printers. Regeneration of these districts should therefore take into account the existence of these patterns of business activities as perhaps a theme for development. Where co-location has not happened spontaneously, it is worthwhile to study whether a clustering strategy would provide synergy for those industries, e.g. advertising, design and media related businesses, as in the concept of art or artist village, currently under study by HAB (Home Affairs Bureau) to develop such clusters in disused factory buildings in various districts.⁴⁶ References are the cultural creative industries park/hub being explored in Taiwan and Singapore, the Malaysian Multimedia Super Corridor in Kuala Lumpur and the cultural industries satellite centers such as Puchon in Seoul, South Korea.⁴⁷

Heritage/tourism related development

Heritage and historic buildings are cultural resources to be deployed in urban regeneration programmes. These will be indispensable in developing cultural tourism as affiliated creative industries and the multiplying effects to the whole economy cannot be

45 “Final Draft of the Hackney Cultural Strategy: Support for Creative and Cultural Industries” Para. 14.3.

46 In this connection, it is worth mentioning that an artist village did happen spontaneously in Oil Street, North Point in the late 1990s before the art groups were conscientiously moved to the present Cattle Depot. To avoid red tape and government intervention in the planning strategy, one possibility is to consider setting up an NGO to take over as landlord from the Government Property Agency.

47 Five Cultural Creative Industries Parks (including Whashang Beer Factory) are to be developed in Taiwan. In Singapore, the creation of One North and the Esplanade are two examples of creative industries clusters. The Malaysian Multimedia Super Corridor (<http://www.mdc.com.my/>) of 15x50 km garden corridor linking up key points of Kuala Lumpur is hailed as a multimedia utopia with world-class physical infrastructure. Puchon and four other satellite centers around Seoul will each feature a particular cluster of creative industries.

underestimated. The identification of these resources and their strategic combination with business development plans are currently in the portfolio of the Urban Renewal Authority which works closely with Lands and the Planning Department, in addition to the Tourism Board. More proposals such as the Marine Police Headquarters Redevelopment should be organized along this line of thinking to amalgamate planning development with tourism efforts.

Flagship project

The ultimate form of synergy between culture and urban development is perhaps manifested in flagship projects, which has since the late 1970s been a major strategy in the marketing and branding of cities. In Hong Kong, flagship developments are not unfamiliar to the citizens. The building of the Convention & Exhibition Centre Extension and the Chek Lap Kok International Airport are just two well-known flagship projects to be completed in time for the 1997 Handover of Hong Kong to the Mainland. The building of Disneyland and Cyberport are two recent examples yet to be completed. A flagship, according to Hedley Smyth (1994), may be defined as:

- a development in its own right, which may or may not be self-sustaining;
- a marshalling point for further investment;
- a marketing tool for an area or city.

4.11 In connection with culture and creative industries, flagship projects become symbols of cultural status, and have enormous appeal in branding and identity. The Guggenheim Museum in Bilbao of Spain, the Tate Modern Gallery in London and the Esplanade in Singapore are recent flagship developments that help market the cities as icons of contemporary culture. The West Kowloon Cultural Centre Development has the potential to be a major flagship project on the world stage.

4.12 However, the West Kowloon initiative is not without contenders in our neighbouring regions. The Mainland's Ministry of Culture, for example, is considering establishing a "New York Broadway" or "London West End" type of theatre district in Shenzhen, to capture the high-end spending tourists from Hong Kong and South East Asia.⁴⁸ The competition from Shenzhen, and indeed from the Pearl River Delta as a whole, is a reality that Hong Kong has to face. In creative industries, this rivalry may well be turned into partnership with the idea of clustering.

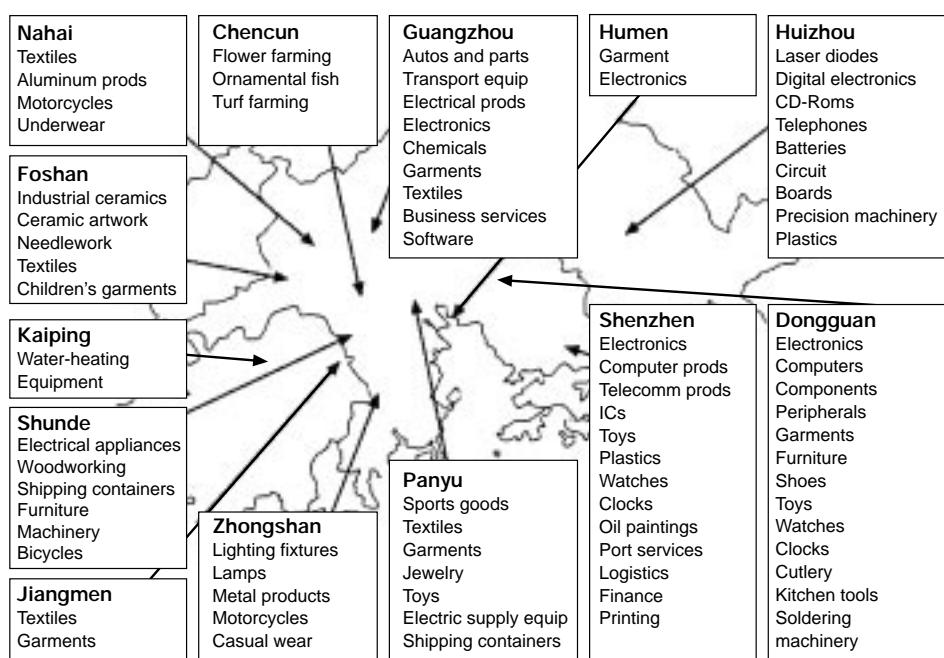
Clustering with the Pearl River Delta

4.13 The economies of Hong Kong and the Pearl River Delta region have become increasingly and inextricably intertwined since the early 1980s. Moreover, a complex division of labor had developed between Hong Kong and the Pearl River Delta region. Whereas the latter conducts a wide range of manufacturing-related activities, the former performs management, logistics, finance, as well as a range of high-level professional services for the region as a whole. And a substantial amount of such services—such as advertising, architecture, media, printing, and industrial design in light manufacturing—pertain to several important aspects of Hong Kong's Creative Industries.

4.14 The competitiveness of the regional economy of the Greater Pearl River Delta region has been, in part, reinforced by the spatial and structural clustering of a broad range of light-

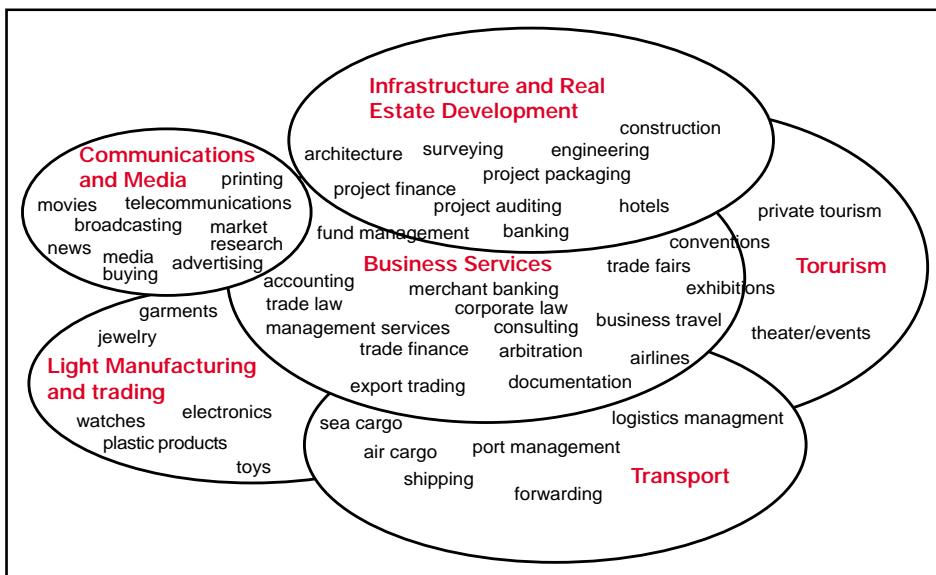
48 “演出市場新概念 - 訪文化部藝術司副司長于平”
(來自：光明日報) (“New Concept in Performing Arts Market: Interview with Yu Ping, Deputy Art Minister from the Ministry of Culture”, from *Guang Ming Daily*.] n.d.

manufactured goods (Enright et al., 2003). As shown in Figure 5, the last two decades of development in the Pearl River Delta have resulted in the emergence of a dozen or so industry clusters in different jurisdictions in the region. The production process of some of these light-industrial goods, such as garments, toys, watches, and jewelry, is closely linked to several sub-sectors of the Creative Industry in Hong Kong, in terms of sources of investment and raw materials as well as design and managerial expertise. Recent research has in fact demonstrated that major international buyers of such goods who are based in the Pearl River Delta region "are still relying on Hong Kong 'supply chain masters' to manage design and production activities in Hong Kong and the Pearl River Delta region, in sectors such as electronic and toys" (Enright et al., 2003: 88).



Source: Enright et al., 2003: 46

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Source: Enright et al., 2003: 46

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4.15 While the economies of Hong Kong and the Pearl River Delta region have been targeted by the Hong Kong SAR government for greater integration, researchers have argued that, to remain competitive, Hong Kong's economy needs to become even more specialized in providing high-value professional services such as managerial, financial, information, coordination activities. In the era after China joins the WTO, Hong Kong's Creative Industry could in fact play an even more significant role in promoting the economic growth of the Greater Pearl River Delta region. For instance, the latest research on economic interaction between Hong Kong and the Pearl River Delta region has shown that "specialty areas where Hong Kong firms will maintain an advantage [over their counterparts across the border] include film production, post-production services, and packaging design for export markets" (Enright et al., 2003: 164).

4.16 It is imperative, therefore, that under this impending merging of Hong Kong with the PRD region, creative industries in Hong Kong have to carefully position themselves in the macro-picture of clustering in the division of labour within the production system. This requires closer coordination between the public and private sector to formulate a long-term strategy as to identify and develop the right segment of industries for clustering so as to contribute to as well as benefit from the synergy with the Mainland.

5 The International and Mainland Dimension

Regional and World Markets

5.1 According to the UNESCO's statistics in 1998, Hong Kong was regarded one of the net consumers of cultural goods, recording a deficit of US\$14.4 billion. Updated figure is not yet available, nor the definition of "cultural goods" equivalent to the scope of creative industries covered in this study.⁴⁹ However, it could be a reference showing the balance of trade and Hong Kong's peculiar position as a dense consuming market of cultural goods in the world economy.

5.2 Among the industry segments of the creative sector, some (such as jewellery, printed, film and video materials) indeed show relative strength in export. Nevertheless, the slowdown of world economy in the past few years is unfavorable to the growth of creative industries. Hong Kong's major overseas markets - North America and the EU - have experienced declining growth of GDP while their growth of import volumes remains stagnant.⁵⁰ The Asian economies faced a similar slowdown. The real GDP growth of Taiwan declined from 5.9% to -2.2% in 2002, Singapore from 10.3% to 2.0% and Malaysia from 8.4% to 0.4%.⁵¹

5.3 The world economic downturn naturally affected the exports of creative industries. Although export figures for all segments are not available, the cases of Hong Kong's declining jewellery exports to Asian markets (Japan, Taiwan and Singapore) as well as software products to the Asia-Pacific markets dropping from 10.1% in the second quarter to 7.6% in the fourth quarter of 2002 would indicate well enough the difficulties experienced generally by industries in the creative sector. Despite the unfavorable economic conditions, there is still hope that creative industries could be a new export engine of Hong Kong's economy.

⁴⁹ As regards cultural goods, the UNESCO includes printed matter and literature, music products, visual arts, cinema and photography, radio and television (receivers), sport and games. UNESCO Institute for Statistics (2000), *International Flows of Selected Cultural Goods 1980-98: Executive Summary*, 5-6.

⁵⁰ The real GDP and the growth of import volumes (year-on percentage) of Canada, the United and the EU are in decline during the period 2000 and 2002. Canada underwent a decline of GDP from 4.5% to 3.4% while its percentage change of import volumes in 2002 is only 1.1 (9.5% for 2000). GDP of the United States dropped from 3.8% to 2.4% and the import figure is 3.9% (13.5 for 2000). EU exhibited a decline from 3.5% to 1.0%. Data on import figures for the EU as a whole is not available; but Germany's figure is -0.3% (9.9% for 2000) and UK 1.4% (11.8% for 2000). OECD (2002), *Economic Outlook 2002*.

⁵¹ APEC (2002), *Economic Outlook 2002*.

- 5.4** To strengthen the export ability of Hong Kong's creative industries, support from the public sector is imperative. Since small-and-medium firms are prevalent in the creative sector, players are more welcome to have resources invested in overseas promotion and marketing. Supports should be available to encourage local players in joining overseas trade fairs or major market events organized for individual industry.⁵²
- 5.5** Dedicated promotion for a cluster of creative industries would be equally important to demonstrate the quality products/services of the sector in overseas markets. Existing organizations including the Economic and Trade Offices (ETO), the HKPC and branch offices of the TDC are now providing different sorts of supports and these would be the available resources to be consolidated into proactive promotional efforts for creative industries. They could be the pipeline of market information and the enabling platform for industry players to maximize business opportunities overseas. However, concerted and consolidated efforts are the key for export strategy. Take the UK "Creative Exports Group" (CEG) established in April 2002 for example, it is led by industry leaders to identify export barriers and devise programmes and activities to enhance the export abilities of UK's creative industries.⁵³ The CEG is supported by the Department for Culture, Media and Sport (DCMS) to ensure collaborative engagement with government units (such as Department of Trade and Industry), public bodies (such as Film Council or British Council) and industry organizations.
- 5.6** Meanwhile, the competitive edge of Hong Kong's creative industries is challenged by other rising economies in the region. South Korea, Taiwan, Singapore and India are not only offering quality products of television programmes, films, games, music products or computing services to regional markets, but are also striving for a role in the global chain of production.⁵⁴ The overseas market for cultural goods or creative products becomes increasingly competitive, and Hong Kong's creative industries have to demonstrate their own edge in the global competition.

Access to the Mainland Market

- 5.7** Hong Kong exported HK\$41 billion worth of goods to the Mainland and re-exported HK\$571 billion in 2002. The creative sector, like all business sectors, is expecting the rapid growth of the Mainland into one of the most important markets in near future. The Mainland/Hong Kong Closer Economic Partnership Arrangement (CEPA) of June 2003 is indeed encouraging news to both manufacturing and servicing industries alike. The CEPA is believed to benefit creative industries too, including advertising and audiovisual services. Architecture, being closely tied to real estate and construction (the latter two are covered in the agreement), will also benefit from this indirectly. The zero tariff arrangement of Hong Kong's products is expected to bring back some of the manufacturing industries that are now seeking path to OBM and value-added production. The re-structuring of manufacturing industries would become another driving force for cross-sector integration with creative industries.
- 5.8** Despite this optimism, there are still many hurdles in accessing the Mainland market. For some segments of creative industries, barriers to the market are relatively low. Advertising companies (including market research houses and agencies), design companies, jewellery manufacturing, and software/games development companies could set up their

⁵² It is noted that funding support can be obtained from the SME Marketing Fund and SME Development Fund for participation in overseas marketing and promotion activities.

⁵³ For details, please refer to <http://www.creativeindustries.org.uk/home/> and DCMS's website at: http://www.culture.gov.uk/creative_industries/creative_industries_fact_file/ce_group.htm

⁵⁴ According to representative from the sector, the volume of software outsourcing in New Zealand and India have both increased last year.

- business in the Mainland in the form of independent legal entity or in joint-venture.⁵⁵ For others, such as arts vendors and galleries, cinema operator, distributors, retailers and vendors of audio-visual and software products, and wholesalers and retailers of printed materials (books, periodicals and newspapers), only joint-venture is allowed.⁵⁶

- 5.9** Media-dependent industries remain in close guard. Local television programmes and music production could only be allowed access in the form of co-production while arts organizations have to apply for individual permission for live performance, without mentioning that quota system for co-productions and censorship remains tight in force.⁵⁷ On-line games operators (and internet cafe) which have enjoyed relatively less regulatory control before are going to be more restricted in business and new license for games operator has been suspended.

- 5.10** The salient feature of this regulatory environment and the gradual opening of the Mainland market highlight the challenges that the creative industries may encounter. In view of the production chains of creative industries, it seems that the downstream industries in relation to distribution and retail are going to be increasingly liberalized. However, the creative core of content production pertinent to media industries in particular remains subject to stringent control. Concurrently, integration among local media industries in the Mainland has been consolidating in recent years. Film studios and production centres, publishers of music production and newspapers or leading software companies of larger scale could benefit from the regulated process of opening. Given these constraints, the Mainland market will be highly competitive and Hong Kong's creative industries would need to develop their strength to meet the challenges of this rapidly changing regulatory and competitive environment.

⁵⁵ One should note that there are other qualifications besides ownership requirement. For example, according to informed Mainland sources, registered capital for advertising company is required to be not less than US\$300,000 and average annual turnover not less than RMB¥20 million. That indeed is a barrier to many local agencies.

⁵⁶ The arrangement for wholesalers of printed materials will be effective from 1st December 2004.

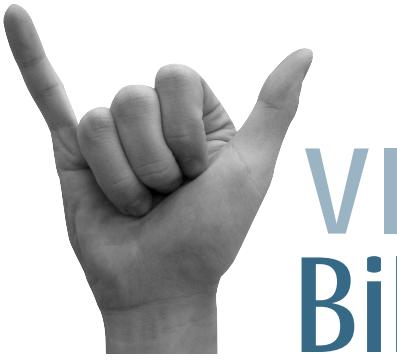
⁵⁷ The CEPA has eliminated the quota system on motion pictures produced in Hong Kong.

⁵⁸ Segal Quince Wicksteed (Asia) Ltd., GHK (HK) Ltd. and GLM Consulting Ltd. (April, 2002), *Consultancy Study to Review the Role, Management and Operation of the Hong Kong Productivity Council*, 21-26 and 67. The Guangdong Office of ETO and the TDC are two other bodies recently expanding their activities in the PRD. There have been a series of trade shows, seminars, promotion and marketing activities already held in the past few years or in planning in the near future.

- 5.11** The creative sector is looking for new direction in accessing the Mainland market. It is true that the sector is not without comparative advantage, both in terms of cultural proximity and quality deliverables. The sector would welcome close collaboration among industry organizations, the private and government sectors to explore the fast growing market. It is worth mentioning that a coherent policy framework with the dimension of a geographical focus would be necessary. Since the production base of creative industries are closely integrated with the manufacturing sector of the Pearl River Delta (PRD), the geographical economy where Hong Kong's culture is most prevalent, the close integration of creative industries with this regional market should have the priority of development.

- 5.12** A PRD dimension will definitely broaden the horizon about how Hong Kong's public policies and other government supports, which may affect creative industries, could be formulated. This subject is of course justified to have more detailed studies on their own right but individual effort aligned with similar reasoning has been noted. In a recent review of the HKPC, it is suggested that it shall enhance its presence in the PRD, and so with its supportive services available to Hong Kong's industrialists who have established their base in the region.⁵⁸ However, an incorporated PRD perspective could extend the parameters of public policies into a more profound framework to labour and population policies, industrial zoning, exchange of services, tax and investment, cultural infrastructure and cultural exchange as well as cross-border research that Hong Kong and its counterparts in the PRD should have room for further collaboration.

- 5.13** Practitioners of the sector would also anticipate different platforms for negotiating better regulatory environment for business, conflict resolution, business collaboration or exchange of market information, technologies and the cases of best practices. The current supports from the branches of the TDC and the HKPC in the region, despite providing supportive services and needy information to the sector, are delimited to matters related to industry development. It seems that a more consolidated structure by which the policy or regulatory issues would be quickly resolved should be in place.
- 5.14** The interface between Hong Kong and the PRD could have been less official. In recent years, there are a number of fora organized by NGOs, academic institutions or quasi-official units in the Mainland to discuss the development of cultural industries in China. They would provide the available information to the dynamics of the market and it is also possible that industry organizations of creative industries could initiate similar economic forum in collaboration with their mainland counterparts. This regular exchange either in form of seminars, exhibitions, trade fairs or delegation would build up the base for business collaborations and institutional channels for the exchange of information and experiences. Particular segments of creative industries are technology driven, software and digital entertainment industries being two examples. They could be fields for collaborative engagement with mainland NGOs and academic institutions. The result is not only beneficial to innovation and technological development but also to developing networking in the Mainland market.



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VII

Appendices

SECTION D

Appendix 1

Relevant HSIC Codes of Creative Industries

Industry Category	4 digits	6 digits
Jewellery and related articles, manufacturing		
Cutting and setting of precious stones	3902	390201
Goldsmithing and silversmithing	3902	390202
Jewellery, manufacturing	3902	390203
Advertising & related services		
Advertising & related services	8336	833601
Public relation services	8336	833602
Market research companies	8336	833603
Advertising services, n.e.c.	8336	833699
Architectural, surveying and project engineering services		
Architectural design	8334	833401
Architectural design and structural engineering	8334	833406
Combination of arch., surveying & project engineering services related to construction and real estates services	8334	833407
Interior fitting, decoration and repairs	5311	531100
Combination of interior fitting, decoration and others	5318	531800
Design Industry		
Designing services	8339	833904
Motion pictures and other entertainment services		
Motion picture film processing	9401	940100
Film studios	9402	940200
Motion pictures companies	9403	940301
Video pictures companies	9403	940302
Cinemas and movie theatres	9406	940600
Film distribution and/or hiring of motion pictures	9407	940700

IT & related services		
Software development and maintenance services	8333	833301
Data processing and tabulating services	8333	833302
IT & related services, n.e.c.	8333	833399
Internet access services	7329	732902
Photographic studios		
Photographic studios (incl. commercial photography)	9592	959200
Photo-printing and photo-finishing services	9593	959300
Printing, publishing and allied industries		
Newspaper printing	3421	342100
Job printing	3422	342200
Book binding	3429	342901
Ornamentation of cards, manufacturing	3429	342902
Photo-engraving (excl. design)	3429	342903
Typesetting	3429	342904
Label embossing	3429	342905
Printing, publishing and allied industries, n.e.c.	3429	342999
The Sector 941 includes TV and radio stations & studios, theatrical production and performance, other recreational services, but it cannot be disaggregated	941	
Electronic games centres	9497	949700

Relevant Codes of HSIC by Creative Industries Production System

Industry Category	4 digits	6 digits
<i>Content Origination</i>		
Advertising & related services		
Advertising & related services		
Public relation services		
Market research companies		
Advertising services, n.e.c.	8336	Bulk value cannot be disaggregated
Architectural, surveying and project engineering services		
Architectural design		
Architectural design and structural engineering	8334	833401
Design Industry	8334	833406
Designing services		
IT & related services	8339	833904
Software development and maintenance services		
Data processing and tabulating services		
IT & related services, n.e.c.	8333	Bulk value cannot be disaggregated
Sector 941 (TV and radio stations & studios, theatrical production and performance, other recreational services, video distributoin & retail)	941	Bulk value cannot be disaggregated
<i>Production Inputs / infrastructural supports</i>		
Jewellery and related articles, manufacturing		
Cutting and setting of precious stones		
Goldsmithing and silversmithing	3902	Bulk value cannot be disaggregated
Jewellery, manufacturing		
Internet & telecommunications		
Internet access services and other telecommunication services	7329	Bulk value cannot be disaggregated
Printing, publishing & allied industries		
Book binding		
Ornamentation of cards, manufacturing		
Photo-engraving (excl. design)		
Typesetting		
Label embossing		
Printing, publishing and allied industries, n.e.c.	3429	Bulk value cannot be disaggregated

<i>Reproduction & Distribution</i>		
Architectural, surveying and project engineering services		
Combination of arch., surveying & project engineering...	8334	833407
Interior fitting, decoration and repairs	5311	531100
Combination of interior fitting, decoration and others	5318	531800
Motion pictures and other entertainment services		
Motion picture film processing	9401	
Film studios	9402	
Motion pictures companies	9403	Bulk value cannot be disaggregated
Video pictures companies	9403	
Cinemas and movie theatres	9406	
Film distribution and/or hiring of motion pictures	9407	
Photographic studios		
Photographic studios (incl. commercial photography)	9592	959200
Photo-printing and photo-finishing services	9593	959300
Printing, publishing and allied industries		
Newspaper printing	3421	342100
Job printing	3422	342200
Other categories		
Electronic games centres	9497	949700

Appendix 2

Value Added of Creative Industries (HK\$ Million), 1996-2001[^]

Industry Categories	1995	1996	1997	1998	1999	2000	2001	% Share of Segment in CIS (2001)
Jewellery and related articles, manufacturing								/Sub-segment
Cutting and setting of precious stones								2.6
Goldsmithing and silversmithing								2.6
Jewellery, manufacturing	1727	1840	1626	1399	1263	1091	1199	
Advertising & related services								
Advertising & related services								
Public relation services								
Market research companies								
Advertising services, n.e.c.	4425	4236	4798	4030	3237	3762	3179	6.9
Architectural, surveying and project engineering services								
Architectural design	1267	1405	1697	1709	1609	1359	1315	2.9
Architectural design and structural engineering	531	520	593	325	218	172	248	0.5
Combination of arch., surveying & project engineering...	1705	2631	2552	2732	2327	2153	2038	4.4
Interior fitting, decoration and repairs	4952	6265	8135	7317	6935	6705	4921	10.7
Combination of interior fitting, decoration and others	1093	1493	967	1126	1368	759	1046	20.8
Design Industry								2.3
Designing services	1079	843	926	741	725	628	768	
Motion pictures and other entertainment services								
Motion picture film processing								
Film studios								
Motion pictures companies								
Video pictures companies								
Cinemas and movie theatres								
Film distribution and/or hiring of motion pictures	1371	1458	1320	1109	963	1648	1111	2.4
IT & related services								
Software development and maintenance services								
Data processing and tabulating services								
IT & related services, n.e.c.	2826	3088	3984	4052	5234	5382	4433	9.6
Internet access services	-	8521	6706	4823	675	6257	7854	26.6
Photographic studios								
Photographic studios (incl. commercial photography)	303	323	319	284	367	287	294	0.6
Photo-printing and photo-finishing services	503	487	457	348	342	370	302	1.3
Printing, publishing and allied industries								
Newspaper printing	2339	3003	3871	2994	2484	3010	3696	8.0
Job printing	4738	5499	5549	4830	4767	5288	5292	11.5
Book binding								
Ornamentation of cards, manufacturing								
Photo-engraving (excl. design)								
Typesetting								
Label embossing								
Printing, publishing and allied industries, n.e.c.	2903	2950	3978	3651	3497	3494	3321	26.7
Sector 941								
(TV and radio stations & studios, theatrical production and performance, other recreational services, video distribution & retail)								
Sector 941	2937	2936	3987	3543	3607	4026	4870	10.6
Miscellaneous								
Electronic games centres	240	217	235	330	299	310	214	0.5
Aggregate Value Added of CIS	34939	47715	51700	45343	39917	46701	46101	100%
Growth of CIS' value (+/- year-on base)	-	8.4	-12.3	-12.0	17.0	-1.3		
Gross Value of GDP (at current prices; \$ million)	1041072	1158963	1267489	1205349	1177796	1228897	1216374	
% Change of GDP (+/- year on base)	-	11.3	9.4	-4.9	-2.3	4.3	-1.0	
CI's share of GDP	3.4	4.1	4.1	3.8	3.4	3.8	3.8	

Notes

- ^ Figures on value added of CIS and GDP supplied by the C&SD.
- * Figures on internet access and related services are not available in 1995. In comparing the annual growth rate of the value added of CIS, figures in 1996 are used as the base.
- Figures of HSIC 941 are only available in aggregated values.
- Figures in grid box represent the segments of CIS but breakdown figures sometimes are not available.

Appendix 3

Year-on-year Change in Value Added of Creative Industries (HK\$ Million), 1996-2001

Industry Categories	1996	1997	1998	1999	2000	2001	AAG by Segment (96-01)
Jewellery and related articles, manufacturing							
Cutting and setting of precious stones							
Goldsmithing and silversmithing							
Jewellery, manufacturing	1840	1626	1399	1263	1091	1199	-8.2
% Change of value (Year-on-Year)	-	-11.63	-13.96	-9.72	-13.62	9.90	
Advertising & related services							
Advertising & related services							
Public relation services							
Market research companies							
Advertising services, n.e.c.	4236	4798	4030	3237	3762	3179	-5.6
% Change of value (Year-on-Year)	-	13.27	-16.01	-19.68	16.22	-15.50	
Architectural, surveying and project engineering services							
Architectural design	1405	1697	1709	1609	1359	1315	-1.3
% Change of value (Year-on-Year)	-	20.78	0.71	-5.85	-15.54	-3.24	
Architectural design and structural engineering	520	593	325	218	172	248	-13.8
% Change of value (Year-on-Year)	-	14.04	-45.19	-32.92	-21.10	44.19	
Combination of arch., surveying & project engineering...	2631	2552	2732	2327	2153	2038	-5.0
% Change of value (Year-on-Year)	-	-3.00	7.05	-14.82	-7.48	-5.34	
Interior fitting, decoration and repairs	6265	8135	7317	6935	6705	4921	-4.7
% Change of value (Year-on-Year)	-	29.85	-10.06	-5.22	-3.32	-26.61	
Combination of interior fitting, decoration and others	1493	967	1126	1368	759	1046	-6.9
% Change of value (Year-on-Year)	-	-35.23	16.44	21.49	-44.52	37.81	
Design Industry							
Designing services	843	926	741	725	628	768	-1.8
% Change of value (Year-on-Year)	-	9.85	-19.98	-2.16	-13.38	22.29	
Motion pictures and other entertainment services							
Motion picture film processing							
Film studios							
Motion pictures companies							
Video pictures companies							
Cinemas and movie theatres							
Film distribution and/or hiring of motion pictures	1458	1320	1109	963	1648	1111	-5.3
% Change of value (Year-on-Year)	-	-9.47	-15.98	-13.17	71.13	-32.58	
IT & related services							
Software development and maintenance services							
Data processing and tabulating services							
IT & related services, n.e.c.	3088	3984	4052	5234	5382	4433	7.5
% Change of value (Year-on-Year)	-	29.02	1.71	29.17	2.83	-17.63	
Internet access services	8521	6706	4823	675	6257	7854	-1.6
% Change of value (Year-on-Year)	-	-21.30	-28.08	-86.00	826.96	25.52	
Photographic studios							
Photographic studios (incl. commercial photography)	323	319	284	367	287	294	-1.9
% Change of value (Year-on-Year)	-	-1.24	-10.97	29.23	-21.80	2.44	
Photo-printing and photo-finishing services	487	457	348	342	370	302	-9.1
% Change of value (Year-on-Year)	-	-6.16	-23.85	-1.72	8.19	-18.38	
Printing, publishing and allied industries							
Newspaper printing	3003	3871	2994	2484	3010	3696	4.2
% Change of value (Year-on-Year)	-	28.90	-22.66	-17.03	21.18	22.79	
Job printing	5499	5549	4830	4767	5288	5292	-0.8
% Change of value (Year-on-Year)	-	0.91	-12.96	-1.30	10.93	0.08	
Book binding							
Ornamentation of cards, manufacturing							
Photo-engraving (excl. design)							
Typesetting							
Label embossing							
Printing, publishing and allied industries, n.e.c.	2950	3978	3651	3497	3494	3321	2.4
% Change of value (Year-on-Year)	-	34.85	-8.22	-4.22	-0.09	-4.95	
Sector 941(TV, radio stations, studios, theatrical production and performance, other recreational services, video distribution and retail)							
Sector 941	2936	3987	3543	3607	4026	4870	10.7
% Change of value (Year-on-Year)	-	35.80	-11.14	1.81	11.62	20.96	
Miscellaneous							
Electronic games centres	217	235	330	299	310	214	-0.3
% Change of value (Year-on-Year)	-	8.29	40.43	-9.39	3.68	-30.97	
Aggregate Value Added of CIS	47715	51700	45343	39917	46701	46101	-0.7
% Change of value (Year-on-year)	-	8.35	-12.30	-11.97	17.00	-1.28	
Gross Value of GDP (at current prices; \$ million)	1158963	1267489	1205349	1177796	1228897	1216374	1.0
% Change of value (Year-on-year)	-	9.36	-4.90	-2.29	4.34	-1.02	

Note: AAG, Average Annual Growth

Appendix 4

Coding List of Employment Data from the SEV

Industry Categories	Coding of HSIC		
	4 digits	6 digits	
Antiques, crafts, jewellery and related articles			
<i>Cutting and setting of precious stones</i>	3902	390201	
<i>Goldsmithing and silversmithing</i>	3902	390202	
<i>Jewellery, manufacturing</i>	3902	390203	
<i>Handing painting</i>	3919	391904	
<i>Antiques and works of art and craft, wholesale</i>	6115	611501	
<i>Jewellery wholesale</i>	6115	611514	
<i>Antiques and works of art and craft, retail</i>	6215	621501	
<i>Gifts, novelties and souvenirs, retail</i>	6215	621517	
<i>Jewellery, retail</i>	6215	621522	
Advertising & related services			
<i>Advertising & related services</i>	8336	833601	
<i>Public relation service</i>	8336	833602	
<i>Market research companies</i>	8336	833603	
<i>Advertising services, n.e.c.</i>	8336	833699	
<i>Signs and advertising displays, manufacturing</i>	3919	391918	
Architectural, surveying and project engineering services			
<i>Architectural design</i>	8334	833401	
<i>Architectural design and structural engineering</i>	8334	833406	
<i>Combination of architectural, surveying and project engineering services</i>	8334	833407	
<i>Interior fitting, decoration and repairs</i>	5311	531100	NA
<i>Combination of interior fitting, decoration and others</i>	5318	531800	NA
<i>Ornamentation fitting</i>	5913	591300	NA
Miscellaneous business services (Design)			
<i>Designing services</i>	8339	833904	
Motion pictures and other entertainment services			
<i>Motion picture film processing</i>	9401	940100	
<i>Film studios</i>	9402	940200	
<i>Motion pictures companies</i>	9403	940301(a)	
<i>Video pictures companies</i>	9403	940302(a)	NA
<i>Cinemas and movie theatres</i>	9406	940600	
<i>Film distribution and/or hiring of motion pictures</i>	9407	940700	
<i>Distribution of videotapes</i>	9413	941300	

Notes

- (a) Data is collectively reported;
- (b) Data is collectively reported and breakdown figures are only available after 2000;
- (c) Data is not available until 2002;

NA: Not Available

IT & related services			
Software development and maintenance services	8333	833301(b)	
Data processing and tabulating service	8333	833302(b)	
IT & related services, n.e.c.	8333	833399(b)	
Computers, peripherals & software packages, wholesale	6118	611824	NA
Computers, peripherals & software packages, retail	6217	621724	NA
Internet access services	7329	732902	NA
Libraries, art galleries & cultural services			
Libraries, art galleries & cultural services	9421	942100	
Museums	9422	942200	
Photographic studios			
Photographic studios (incl. commercial photography)	9592	959200	
Photo-printing and photo-finishing services	9593	959300	
Printing, publishing and allied industries			
Newspaper printing	3421	342100	
Job printing	3422	342200	
Book binding	3429	342901	
Ornamentation of cards, manufacturing	3429	342902	NA
Photo-engraving (excl. design)	3429	342903	
Typesetting	3429	342904	
Label embossing	3429	342905	
Printing, publishing and allied industries, n.e.c.	3429	342999	
Books, periodicals and newspapers, wholesale	6115	611504	
Books and stationery, retail	6215	621504	
Printing agents	8339	833906	
Theatrical production & entertainment services (Music & Performing Arts)			
Theatrical production & entertainment services	9412	941200	
TV & radio stations & studios			
Radio and television stations and studios	9411	941100	
Other / Miscellaneous			
Electronic games centre	9497	949700(c)	
Amusement parks	9499	949901	

Appendix 5

Occupational Codes of the Creative Work Force in Census and Population

“Occupation of Creative/Content Production”

Code	Description
214	Architects, town planners, traffic planners and surveyors
252	Translators and interpreters
253	News editors and journalists
254	Writers (other than news editors and journalists) and creative artists
256	Librarians and related professionals
261	Application system development professionals
262	Internet / multimedia contents development professionals
266	IT research and product development professionals
353	Performers, entertainment and sports personnel
361	Internet / multimedia contents development associate professionals

“Associate Professions”

Code	Description
121	Corporate managers: directors, presidents, general managers and chief executives of business undertakings, statutory bodies and voluntary agencies
122	Corporate managers: functional managers
123	IT / Computer managers
314	Architectural and engineering associate professionals
362	Technical support associate professionals
363	Hardware support associate professionals
364	Systems operation associate professionals
431	IT assistants
522	Fashion and other model

Industry Codes of Creative Industries in Population Census

342

Printing, Publishing and Allied Industries

- printing, publishing and allied industries such as printing, lithographing, publishing newspaper, periodicals, books and maps, commercial or job printing, manufacturing of printed cards and envelopes and stationery, book-binding and related services for the printing trade such as typesetting, making woodcuts, photo-engraving, electrotyping, stereotyping, engraving and etching steel and copper plates

835

Architectural, Surveying and Project Engineering Services related to Construction and Real Estate Activities

- architectural design services, architectural engineering, structural engineering, building services engineering, geological and prospecting services, civil engineering, geotechnical engineering, consulting engineering related to construction and construction project management
- surveying services related to construction such as geotechnical testing, land surveying and quantity surveying
- real estate: auction, surveying, valuation and consultancy.
- landscape design services, sewage treatment plant/system design and consultancy
- Including : architect's firm, real estate consultancy, building material testing laboratory

838

Engineering and Technical Services, not related to construction and Real Estate Activities

- inventor services
- computer hardware consultancy, computer and telecommunication products development
- boat surveying services
- chemical engineering, mechanical engineering, electronic engineering and industrial engineering
- engineering and other commercial research, development and testing services not elsewhere classified
- other engineering and technical services not elsewhere classified

836

Advertising and Related Services

- advertising and related services such as organisation and placing of advertising, preparing and presenting posters, painted and spectacular displays, aerial advertising, circular and handbill distribution, shopping news services, window dressing, writing of advertising copy, commercial art works, public relations services, market research companies and other advertising services

837

Data Processing and Tabulating Services

- data processing services such as data preparation, database development, computer programming, system analysis, computer system development and consultancy services
- internet application development, network system design, web-site design
- system maintenance and repair
- tabulating and charting services

839

Miscellaneous Business Services

- miscellaneous business services such as management and business consultants, statistical and economic services, employment agencies, security and investigation services, designing services, secretarial, typing and translation services, printing and publishing agents, credit rating agencies, adjustment and collection agencies, duplicating, blueprinting, photocopying, mailing list and stenographic services, news gathering and reporting agencies, bondsmen, finger print services, detective agencies, protective services and other business services not elsewhere classified

940

Motion Pictures and Other Entertainment Services

- motion picture film production and activities involved
- film studios
- motion and video pictures companies
- cinemas and movie theatres
- distribution and hiring of motion picture films and video tapes
- radio and television broadcasting stations and studios
- theatrical production and entertainment services such as concert hall operating, ballet show groups

942

Libraries, Museums, Gardens and Cultural Services

- libraries, art galleries and cultural services
- museums, including Space Museum
- botanical and zoological gardens
- other cultural services not elsewhere classified

949

Miscellaneous Amusement and Recreational Services

- athletic institutes including gymnasium and sports associations
- horse racing club, mahjong centres, tin kau centres, billiard centres, bowling centres, dance halls, electronic games centres, discos, amusement parks, Ocean Park
- renting of books, bicycles, canoes, sampans, horses
- amusement and recreational services not elsewhere classified
- independent (not employed by any establishments) authors, music composers, singers, performers and other independent artists not elsewhere classified

Appendix 6

Approaches & Methodologies – An International Perspective

This section traces the different typologies of “creative industries” and the mapping methodologies adopted in different countries. It aims to demonstrate the economic impact and contribution to job market brought by the rising sector of creative industries, and to summarize its development in those countries.

1 Typologies and Classification of Creative Industries

- 1.1 The recognition of creative industries as a vehicle of public policy owes much to Britain.¹ In 1997, the Labor Party, following victory in the general election, immediately initiated the first move towards a policy framework for a creative economy by setting up a Creative Industries Task Force to look at the potential of this sector. Its efforts cumulated in the publication of two mapping documents for the creative industries in 1998 and 2001. The UK's study defines creative industries as “*those industries 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.*”² Under this definition, the creative industries of Britain include 13 sectors, which comprise advertising, architecture, the art and antiques market, crafts, design, designer fashion, film and video, interactive leisure software, music, the performing arts, publishing, software and computer services, television and radio.
- 1.2 The UK's industry classification system does not permit a smooth operation of the above definition when it is applied to the economic reality of creative industries: problems in disaggregating data for the design sector (including fashion design) into an independent group, or the absence of relevant data fitting to antiques, crafts and interactive leisure software industries. In a recent paper by the London economists of the Department for Culture, Media and Sport (DCMS) who referred to the latest forecast for the UK's creative industries, the design sector, crafts and software and computer services sectors were altogether excluded due to difficulties encountered with data collection.³ The revised GDP share of the UK creative sector for 2000 is 4.6% with a predicted growth to 5.4% in 2010. These figures are significantly lower than the 7.9% presented earlier by the DCMS Mapping Document for 2000, which might alert us to interpret with caution comparable (or even bigger) magnitude of figures presented by some countries on the GDP share of their creative sector (see Appendix 8).
- 1.3 Notwithstanding this problem of data consistency, the UK's study remains by far a pioneering model for many countries to emulate. Since its publication, the study has inspired a number of similar studies on the creative economic sector by various regional governments and public bodies in Britain, and several countries have followed suit. New Zealand adopts the UK definition to conduct a study to cover the similar scope of industries, with its findings recently published in the report *Creative Industries in New Zealand: Economic Contribution* (March 2002). Australia and Singapore, likewise, deploy the term “creative industries” in their own endeavor, although their classification and methodologies are radically different from the UK.⁴
- 1.4 Other countries in the world, however, prefer the term “cultural industries” in their investigation of the creative economic sector. The term of course has its own intellectual origin in the critique of the Frankfurt School in the 1930s. In recent decades, it has been used to refer to economic organizations which are most directly involved in the production and exchange of social meaning. The word ‘cultural’ will inextricably include the media and entertainment industries as well as other arts and cultural activities, and is perhaps the key to understand the political agenda in countries that opt for its nomenclatural supremacy or obliteration in its relation to the economic sector.⁵
- 1.5 To give a few examples, the Ministry of Education of Finland set up a committee in 1997 and published the *Cultural Industry Committee: Final Report* in 1999. The cultural industries in Finland comprise architectural and industrial design and art, art facilities (such as theatre), libraries and museums, publishing and production of books, newspapers and periodicals, advertising, photography, radio and television, production and distribution of motion pictures and videos, music and sound recordings, and amusement parks, games and recreational services. Finland's definition of cultural industries to include amusement parks is not unusual. We find that the scope of Spain's culture and leisure industries is even broader to include sports, gambling, and cultural heritage. In the case of Germany, the country completed the first cultural industries report – *The Dynamics of the Culture Industries: North Rhine-Westphalia in Comparison* as early as 1992. Germany published the fourth report *Culture Industries within the Web of Business Sectors* in 2002, in which five markets – the audio-visual market (music records for example), book, literature and press market, the art and design market, film, radio and television market (audio-visual media) and the performing arts and entertainment – are the core of Germany's cultural industries.

¹ In this connection, we would like to point out two precedent studies that had some bearing on the UK's contribution: *The Arts as an Industry: Their Economic Importance to the New York-New Jersey Metropolitan Region*, The Port Authority of NY & NJ, Cultural Assistance Center, Inc., May 1983 and *Creative Nation: Common wealth Cultural Policy*, October 1994 (<http://www.nla.gov.au/creative.nation/contents.html>).

² DCMS (1998 & 2001), *The Creative Industries: Mapping Document*.

³ Caroline Brown, Stephen Creigh-Tyte and Christiane Radin (2002), “UK Creative Industries: Their Growth During the 1990s and Prospects for the 21st Century,” paper presented in ACEI 2002 Conference, Rotterdam, June 13-15.

⁴ Australia: *Creative Industries Cluster Study*, the National Office for the Information Economy (NOIE), 2001; Singapore: *Creative Industries Development Strategy, Propelling Singapore's Creative Economy*, Report of the ERC Services Subcommittee Workgroup on Creative Industries, September 2002. Prospects for the 21st Century,” paper presented in ACEI 2002 Conference, Rotterdam, June 13-15.

- 1.6** In Asia, the notion of “cultural industries” seems more popular. South Korea, Mainland China and Japan prefer this term to “creative industries” although the component industries in these countries substantially differ from one another and from the rest of the world. South Korea’s “cultural industries” are those “service industries related to development, production, manufacturing, distribution and consumption of cultural contents.” In 1994, South Korea set up a specialized unit, the Cultural Industry Bureau within the Ministry of Culture and Sports (which was renamed the Ministry of Culture and Tourism in 1998), to oversee development of the realms of publication and newspaper, broadcasting and advertising, film and video, interactive media and other cultural contents industries. These industries are regarded as activities and creativities oriented towards the utilization of “cultural technology” (CT).⁶ In China, cultural industries encompass an even wider spectrum of activities. Apart from the traditional markets of audio-visual products, antiques, performing arts, broadcasting, software and digital entertainment, they also include gambling, libraries, museums, conventions and exhibitions, cultural tourism, arts consultancy, education and sports facilities. Since the definition and mapping models of cultural industries vary to such a huge extent, it makes the articulation of a big picture based on the notion almost impossible.
- 1.7** There are few other classification models worth mentioning, of which the approach of “copyright-based industries” is an important one with wide prevalence. The term refers to those industries to “produce and distribute intellectual property rights” as copyright-based industries. As early as 1990, the International Intellectual Property Alliance (IIPA) of the United States had already employed this concept to estimate the economic contribution of certain industries to the US economy. The US copyright industries are divided into four sub-groups. First, the *core* industries include publishing industries (newspapers, periodicals and etc.), music publishing, radio, television broadcasting, cable television, motion pictures, theatrical productions, advertising and computer software and data processing. Second, the *partial copyright* industries comprise industries of which products are part of copyright materials, e.g. architecture. The third group includes industries that *distribute copyrighted materials* to the market. And finally, the fourth group are copyright-related industries, in particular those that produce and distribute products consumed “wholly or principally in conjunction with copyrighted materials” (such as computers, radio sets, and the like).
- 1.8** The US model is further consolidated when the country announced a new industry classification system (the North American Industry Classification System, or NAICS) in 1997. The new industry classification has been developed since the early 1990s to reflect the changing nature of the US economy. The NAICS is constructed based on a single economic concept. Economic units that use like processes to produce goods or services are grouped together, which seems to offer a better classification of service industries. According to the NAICS, there are two primary sectors – the information sector and arts, entertainment and recreation sector – most relevant to copyright-based industries. In particular, the information sector includes three types of establishments: those engaged in producing, those in manipulating and distributing information and cultural products, and those that provide the means to transmit or distribute these products, data or communications. Under this new classification, most industries of creative or information content are now included in the information sector, which include, for example, publishing, software publishing, motion pictures and sound recording, broadcasting and telecommunications as well as an array of information and data services such as libraries and archives. It is noted that the NAICS was accepted in 1995 by the statistical agencies of US, Canada and Mexico, and the US and Canada have been conducting their economic surveys based on the NAICS since 2002.⁷
- 1.9** The US definition is currently adapted to other countries for research on the creative sector. Take Australia as an example, by the time that the National Office for the Information Economy (NOIE) published a report *Creative Industries Cluster Study* in 2001, the Australian Copyright Council and Centre for Copyright Studies commissioned a study based on the US methodology to evaluate the economic contribution of Australia’s copyright industries. A close look at NOIE’s report would reveal that the scope of creative industries is limited to “digital content and application industries” and the component industries are mostly copyright-based. Another example is Singapore’s hybrid notion of “creative cluster” comprising three broad groups of industries – the arts and culture, design industries and media industries. According to the report *Creative Industries Development Strategy* published in 2002, Singapore follows Australia and the US in their assessment methodology for the economic impact of their copyright industries.
- 1.10** The Taiwan government first adopted the concept of “cultural industries” as a strategy to regenerate the diminishing rural craft industries. In its policy report – Challenge 2008: The Six-year National Development Plan 2002 – 2007” released in August 2002, the Executive Yuan coined the term “cultural creative industries” to cover three broad categories: cultural arts industry, design industry and peripheral industries. These in fact share a similar scope of industries with other countries. However, in a recent mapping exercise conducted by the Taiwan Institute of Economic Research (TIER) commissioned by the Council of Cultural Affairs, there appear some novel categorizations in the list of industries: for instance, “social education service” (museums, galleries, cultural facilities) and “creative living industries” (e.g. tea house and wedding photography, etc.). The TIER’s mapping was carried out based on the UNESCO’s concept and definition of “cultural goods and services.”⁸

- 1.11** We compile a summary table of the typologies of creative industries adopted in a number of countries and their component industries in **Appendix 7**. These by no means could provide a detailed picture about the countries' mapping of creative industries (few actually did undertake an official mapping exercise). Subject to available information, the table will include a list of the relevant codes of Standard Industry Classification (SIC) used in these countries.

2 An International Comparison on the Mapping of Creative Industries

- 2.1** One of the crucial factors affecting the economic measure would be the component industries of the creative sector which differ from country to country. The whole set of the US copyright industries includes a number of sub-sectors that manufacture products and equipments used in conjunction with copyrighted materials. Therefore, producers of computers, radios, television sets and recording devices are included in the copyright industries also. On another example, an extended definition of creative sector to wholesale and retailing of cultural products is accepted in Australia and Singapore. The different ways of classification therefore makes it impossible to draw a comparative base for the same industry sector. Besides, the methodology of industry classification reflects the diversity of formulating a conceptual map of creative industries. The model of copyright industries is based on a conception that similar "production system" of cultural goods and supply of information products and services belong to the same sector. In contrast, the UK model is basically product-oriented, regarding the creative value of products and services the most important attribute to be measured in the creative sector.
- 2.2** Beside the different approaches to creative industries, the organizational framework in support of the development of the creative sector differs from one place to another. In Britain, the Department for Culture, Media and Sport (DCMS) has established the Creative Industries Unit, representing 11 Departments across Whitehall, which played a role to ensure a coordinated response to the needs of the industry. A Creative Exports Group was established in April 2002 and regional strategies were implemented via collaborative engagement with other regional organizations, both operating within the over-haul framework of the DCMS. In the case of South Korea, although the Ministry of Culture and Tourism (MCT) was the centre of policy formulation, distinctive intermediary agents have been established to promote particular segment industries such as games and animation.

Britain

- 2.3** In Britain, the creative sector contributed £ 112.5 billion to the economy and employed some 1.3 million people in 1997/98. It also accounted for over 5% of the GDP. Output of the sector in the same period grew by 16%, compared to less than 6% for the economy as whole. Estimate of GDP in 2000 is however less remarkable. Originally the sector is estimated to account for around 8% of the GDP, but after discounting some sectors (design, crafts, and software) due to problems in data sources, the estimate is scaled down to only 4.6%. The latest estimate of 2001 however shows that employment in creative industries recorded 1.15 million. Adding 800,000 creative jobs outside the sector, there would be 1.95 million creative occupations in total.⁹
- 2.4** London is the centre of UK's creative industries, and its growth pattern shows an expansion economy of the creative sector in the city. According the Greater London Council, output of London's creative industries in 2000 constituted £ 21 billion, with an annual growth rate of 11.4%. By the same year, the creative sector represented London's third largest sector of employment, with 546,000 people working either in the creative industries or in creative occupations. The sector creates more jobs than others in London: with 123,000 jobs created between 1995 and 2000, making the sector second biggest source of job growth after business services and contributing roughly one in every five new jobs.

New Zealand

- 2.5** New Zealand follows UK's methodology in assessing the economic contribution of creative industries. Its value added grew from 2,529 million of NZ dollars in 1996/97 to 3,536 million dollars in 2000/01, which accounted for 3.1% of the GDP of the latter year. As for employment, New Zealand demonstrates a gradual growth of job creation in the sector. Number of employment grew from 39,281 in 1996/97 to 49,091 in 2000/01, and its share of total employment of 2000/01 accounted for 3.6%.

8 Please refer to: http://www.unesco.org/culture/industries/trade/html_eng/question2.shtml

9 Caroline Brown et al, Ibid.

The United States

- 2.6 The copyright industries of the United States constitute a distinctive sector in the national economy. The country has already investigated the economic contribution of copyright-based industries since 1990. The latest report published by the International Intellectual Property Alliance in 2002 provides us with a full dimension of the economic value brought about by different groups of copyright industries. According to the report, the "core copyright industries" contributed US\$535.1 billion to the U.S. economy, accounting for about 5.24% of GDP. Counting "partial-copyright industries", "distribution" and "copyright-related industries", the whole sector accounted for a value of US\$791.2 billion, or 7.75% of GDP in 2001. The sector also outperforms the economy as a whole. Over the 24 years between 1977 and 2001, the "core copyright industries" demonstrated an annual growth rate of 7% in comparison to the rest of the US economy at the rate of 3% only." The sector's growing importance is shown in foreign sales and exports. The "core copyright industries" alone produced at least US\$88.97 billion, and the largest sector of the country's exports in 2001. In terms of employment, the whole group of copyright industries now employs nearly 8 million workers in 2001, representing 5.9% of the national employment in the same year.

Australia

- 2.7 Australia's copyright industries are classified into three clusters – the core, partial and copyright distribution industries. Due to problems in disaggregating the sector associated with the manufacturing of computers, radios, televisions and consumer recording and listening devices, the "copyright-related industries" are excluded. In the year 1999-2000, the whole sector accounted for AU\$19.2 billion, or 3.3% of the GDP; and the relative value of the three copyright clusters shared AU\$9.7 billion (or 51%), 4.8 billion (or 25%) and 4.6 billion (24%) respectively. Over the years from 1995 to 2000, the annual growth rate of the Australian copyright industries outperforms marginally by 5.7% in comparison to 4.85% of the whole economy at large. Although the sector employed 345,000 workers and shared 3.8% of national employment by 2000, its employment growth rate is less remarkable. Over the period from 1995 to 2000, the copyright industries only increased at an average annual rate of 2.7% in comparison with the 2% average annual growth attained in the national economy as a whole.

Singapore

- 2.8 Following Australia's classification of copyright industries, Singapore estimated the creative cluster contributed S\$4.8 billion to the economy, or 2.8% of GDP in 2000. The "core copyright industries" largely composed of publishing, broadcasting media and computer services accounted for S\$2.6 billion, or 55.4% of the total value added while "the partial" (mainly advertising and architectural services) and "distribution industries" (mainly wholesale trade of photographic equipment, toys and sporting goods) shared 1.2 billion, or 24.4% and 1 billion, or 20.2% respectively. Although the sector is regarded at a nascent stage, its growth is impressive. The value-added of the total copyright industries expanded from S\$0.8 billion in 1986 to 4.8 billion, representing an annual growth of 13.4%, and that outperforms the economy's average annual increase of 10.6% over the same period. The promising result of the creative cluster is shown in the growth of employment. The sector employed 72,200 workers in 2000, representing an average annual increase of 6.3%.

Taiwan

- 2.9 The commission by the Council of Cultural Affairs to the Taiwan Institute of Economic Research is their first effort to map their “cultural creative industries.” According to their interim report in December 2002, the cultural creative industries in Taiwan reached a total value of TW\$570 billion, or 5.9% of GDP in 2000. The sector is experiencing a consistent growth in both its value and share of the GDP. Over the period from 1998-2000, it reported an average increase of 10.2%. The sector employs 337,456 workers and contributed to 6.46% and 2.60% of total employment in service industries and national employment respectively. The statistics also illustrate a rapid expansion in the number of people working in the sector, it was only 245,412 in 1998, another 92,044 employees moved into the sector within two years.

Mainland China

- 2.10 The Ministry of Culture regularly publishes statistics on its cultural industries' performance, which nevertheless is vague in terms of their mapping methodology and industry spectrum. According to the Ministry's yearbook of 2001 on cultural industries, the total value-added of the sector is ¥ 205.95 billion in 2000, which includes the categories of performing arts, libraries, community arts and cultural entertainments. The total number of establishment is 285,347 and has 1,471,658 people engaged in the industry, while 838,725 workers are employed in the business. The cultural market, including industries of entertainments, audio-visual, publishing wholesale and others, earned a total of ¥13,046 million with 224,790 business unit employing 952,427 people.

South Korea

- 2.11 In South Korea, no comprehensive exercise has been done on the assessment of its cultural industries' economic performances. Only fragmentary statistics is available on some of its core industries in the sector. The annual growth rate of South Korea's cultural industries is expected to be 10% by 2005. The four major cultural industry sectors including movie, music, broadcasting and game are even forecasted to grow at an average rate of 22.8%, exceedingly outperforming the annual economic growth rate of mere 6% as a whole. The animation industry, for instance, has a total value of US\$270 million and share 0.4% of the world market. Currently, there are 200 companies in the animation industry employing 15,000 workers. The character, game and music industry is estimated to have a market size of US\$3.8 billion, US\$3.2 billion and US\$340 million respectively.

Appendix 7

Typologies of Creative Industries and the SIC Codes in Different Countries

Britian

Creative Industries		
Component industries	SIC codes	Description
Advertising	74.4	Advertising
Architecture	74.20	Architectural and engineering activities & related technical consultancy
Art & antiques market	52.48 / 49	Retail sale in specialized stores n.e.c (proportion) / Retail sale of second / hand goods in stores (proportion)
Crafts		-
Design		-
Designer fashion	74.84	9 sub-sectors of clothing manufacture (proportion) Other business activities, n.e.c. (proportion)
Film & video	22.32 74.81 92.11 92.12 92.13	Reproduction of video recording Photographic activities (proportion) Motion pictures and video production Motion pictures and video distribution Motion picture projection
Interactive leisure software	-	-
Music	22.14	Publishing of sound recording
Performing arts	22.31 92.31 92.32 92.34 92.72	Reproduction of sound recording (proportion) Artistic & literary creation & interpretation Operation of arts facilities Other entertainment activities n.e.c. (proportion) Other recreational activities n.e.c. (proportion)
Publishing	22.11 22.12 22.13 22.15 92.4	Publishing of books Publishing of newspapers Publishing of journals & periodicals Other publishing (proportion) News agency activities
Software & computer services	22.33 72.2	Reproduction of computer media (proportion) Software consultancy & supply
Television & radio	92.2	Radio & television activities

Sources: : DCMS (1998 & 2001), *Mapping Document*.
DCMS (2002), *Creative Industries Fact File*, Annex A, April.

New Zealand

Creative Industries		
Component industries	ANZSIC codes	Description
Advertising	L783400	Advertising services
Architecture	L782100	Architectural services
Art & antiques market	G525200	Antique and used good retailing (part)
	P924200	Creative arts (part)
Crafts		
Design	L785200	Commercial art and display services
Designer fashion	L786900	Business services, n.e.c. (very small part)
Film & video	P911100	Film and video production
Interactive leisure software	L783400	Computer consultancy services (part)
Music	P924100	Music and theatre productions
	P925100	Sound recording studios
Performing arts	P924200	Creative arts (part)
	P925200	Performing arts venues
	P925900	Services to the arts n.e.c. (part)
Publishing	C242100	Newspaper printing or publishing
	C242200	Other periodical publishing
	C242300	Book and other publishing
	C243000	Recorded media manufacturing and publishing
Photography	P95230	Photographic studios
Software & computer services	L783400	Computer consultancy services (part)
Television & radio	P912200	Television services
	P912100	Radio services

Sources: : New Zealand Institute of Economic Research (2002), *Creative Industries in New Zealand: Economic Contribution, Report to Industry New Zealand*, March.

The United States

Copyright Industries / Creative Industries	
Component industries	NAICS codes
Core Copyright industries	Motion picture industry Recording industry Music publishing industry Book, journal and newspaper publishing industry Computer software industry Legitimate theatre Advertising Radio, television and cable broadcasting
Partial Copyright Industries	codes not available
Distribution industries	
Copyright-related industries	

Sources: Stephen E. Siwek (2002), *Copyright Industries in the U.S. Economy: The 2002 Report*, International Intellectual Property Alliance.

Australia

Copyright Industries / Creative Industries		
	Component industries	ANZSIC codes
Core Copyright industries	Newspaper printing or publishing Other periodical publishing Book & other periodical publishing Recorded media manufacturing & publishing Internet service providers Data processing services Commercial art and display services Film and television production Radio services Free to air television services Pay television Music and theatre productions Creative arts Sound recording studios Photographic studios	SIC codes not available
Partial Copyright Industries	Printing Services to printing Paper stationery manufacturing Toy and sporting goods manufacturing Architectural services Computer consultancy services Surveying services Advertising services	
Distribution industries	Photographic equipment wholesaling Toy and sporting good wholesaling Book and magazine wholesaling Paper product wholesaling Recorded music retailing Computer and software retailing Toy and game retailing Newspaper, book and stationery retailing Photographic equipment retailing Information storage and retrieval services Film and video distribution Motion picture exhibition Libraries Museums Performing arts venues Services to the arts Video hire outlets Photographic film processing	

Source: The Allen Consulting Group (2001), *The Economic Contribution of Australia's Copyright Industries*.

Singapore

Creative Industries (copyright-based industries)	
Component industries	SIC codes
Core Copyright industries	
Recorded media Printing & publishing of newspapers Printing of periodicals, books and magazines Publishing of books and periodicals Publishing of books, brochures, musical books and periodicals Free to air TV / Pay TV / Internet services Data processing services (IT consultancy, IT development and IT services) Television services Radio services Film and video production Music and theatre production Commercial art and display services Photographic studios	
Partial Copyright Industries	SIC codes not available
Printing of cards, stationery etc. Services to printing Architectural services Surveying services Advertising services Toy and sporting good manufacturing	
Distribution industries	
Newspaper, book and stationery retailing Paper product wholesaling Book and magazine wholesaling Computer and software retailing Photographic equipment wholesaling Photographic equipment retailing Toy and sporting good wholesaling Toy and game retailing Recorded music wholesaling Recorded music retailing Libraries Motion picture exhibition / distribution Photographic film processing Film and art venues / sound recording studio / services to the arts Museums / arts galleries Video hire outlets Information storage and retrieval systems (publishing of directories and database, incl. information providing services) New agency activities	

Sources: ERC services Subcommittee, Workgroup on Creative Industries (2002), *Creative Industries Development Strategy: Propelling Singapore's Creative Economy*, September.

Taiwan

Creative Industries		
Component industries	SIC codes	Description
Publishing	C191 C192 C193 C194 J833 J831 J832 C39992702 F52131601 F54131601 J839 F52131701 F54131301 F54131701 F54139901	<i>Books and Printing Materials</i> Printing Production of Plates incl. Book binding, etc Services industries related to printing Book publication <i>Magazine and news publishing</i> News publication Magazines publication <i>Audio publishing</i> Records video-cassette, audio-cassette, records, CD, DVD video-cassette, audio-cassette, records, CD, DVD Other publishing <i>Software publishing</i> Software package for entertainment utility Digital entertainment tools Software package for entertainment utility Other entertainment products
Film and Video (incl. local Comics and Animation Industries)	J841 J842 J843 J844 J85301305 J85301405 J85301515	Film production Film distribution Film screening Film industry Recorded programme production and distribution Videotapes and VCD Video-recording services
Crafts	F52991901 F55901901 F52992203 F55902201	Craft products and materials Craft products and materials Sculptures Sculptures
Antiques	F52992001 F52992101 F52992301 F55902001 F55902101	Stamps and coins collection Antique painting and calligraphy Mediaeval collections Stamps and coins collection Antique painting and calligraphy
Broadcasting	J851 J853 J85301205	Broadcasting industry (incl. J85101104 Radio stations) Provision of broadcasting television programmes Broadcasting television programme production and distribution
Television	J852	Television industry (incl. J85201104 wireless television stations, J85201204 Cable television stations, J85209904 Other television industries)
Performing Arts (Music, Drama, Dance, Dace, Traditional Performances and Circuses), Festivals	J861 J86101113 J86109913 J86101213 J86301213 J86301327 J86301427 J86301527 J862 J863	Performingi Industries Drama and dance companies Other performing companies Live music performances Management of concert halls Coordination of programmes and performance agents Music agents Agency of composition and lyric copyrights Literature and arts industries Arts services industries

Taiwan

Social Education Services (Museums, Galleries and Cultural Facilities)	-	-
. Advertising	I760	Advertising industry Advertising design and production Construction of advertising displays boards Other advertising
Design (commercial, furniture, fashion, landscape and interior, product and packaging, industrial)	I770 I77011128 I77011228 I77021128 I77031128 I77031228 I77031323	Design industries Product design Monopoly commercial logo design Packaging design Landscape design Interior design Garden design
Architecture (incl Design, Publication)	I720 I72001128 I72001228 I72001328	Architecture and engineer services industries Architectural design services Construction and structural engineering consultancy services Electrical circuit design
Software and Digital Games (Computer programming)	I750	Information services industries
Creative Living Industries — Wedding Photography	J89929915	Other photography

Source: Taiwan Institute of Economic Research (Dec, 2002), *Wenhua Chuangyi Chanye Chanzhi Diaocha yu Tuigu* (《文化創意產業產值調查與推估》).

Note: This mapping exercise is commissioned by the Council of Cultural Affairs of the Executive Yuan in 2002 and conducted by the Taiwan Institute of Economic Research (TIER).

Other Countries

Finland	Spain	Germany
Cultural Industries	Culture and Leisure Industry (culture / leisure)	Culture Industries
Advertising	Advertising	Advertising sector
Amusement parks, games and other entertainment and recreation	Historic Heritage <i>Amusement parks</i>	
Architectural and industrial design and art		Architecture sector
Art and antique shops and second-hand bookshops	Fine arts: painting and sculpture	Art and design market (product, communication and presentation designs)
Libraries, archives and museums	Libraries and Museums	
Photography	Fine arts: photography	
Production and distribution of books, newspapers and periodicals	Publishing and printing	Book, literature and press market
Production and distribution of motion pictures and videos	Film	Film market
Production and distribution of music and sound recordings		Audio-visual market
Radio and television	Television Performing arts and musical performing arts <i>Sports</i> <i>Bullfighting</i> <i>Shows and fairs</i> <i>Lotteries and gambling</i> <i>Toys</i>	Radio and television market Performing arts and entertainment

Sources: Arbeitsgemeinschaft Kulturwirtschaft NRW (2002), *Culture Industries in the Web of Business Sectors*, 4th Culture Industries Report NRW.

Maria Isabel García, Yolanda Fernández and José Luis Zofío (2003), "The Economic Dimension of the Culture and Leisure Industry in Spain: National, Sectoral and Regional Analysis," *Journal of Cultural Economics*, 27: 9-30.

Sari Karttunen (2001), *Cultural Employment in Finland 1970-1999*. Statistics Finland.

Appendix 8

The Economic Value of Creative Industries – An Overview of Selected Countries

Country / City	Concept	Year	Value Added	Share of GDP	Average Annual Growth % of CIs / % of overall economy (period for comparison)	Number of Employment (share of National Employment)
Britain	CIs	1997-98	£ 112.5 billion	<5%	16% / >6% (1997-1998)	1.3 million (4.6%)
Britain	CIs	2000/01	£ 76.6 billion	7.9%	9 % / 2.8% (1997-2001)	1.95 million#
London	CIs	2000	£ 21 billion	-	11.4% (1995-2000)	546,000
New Zealand	CIs	2000-01	NZ\$3,526 million	3.1%	-	49,091 (3.6%)
United States	CRs	2001	US\$ 791.2 billion	7.75%	7% / 3.2%* (1977-2001)	8 million (5.9%)
Australia	CRs	1999-2000	AU\$ 19.2	3.3%	5.7% / 4.85% (1995-2000)	345,000 (3.8%)
Singapore	CRs	2000	S\$4.8 billion	2.8%	13.4% / 10.6% (1986-2000)	72,200 (3.4%)
Taiwan	CCIs	2000	TW\$ 702 billion	5.90%	10.1% (1998-2000)	337,456 (3.56%)

Notes:

- * This figure only stands for the “core copyright industries”; CIs: Creative Industries; CRs: Copyright Industries; CCIs: Cultural Creative Industries
- ^ The UK figures in 2000 were based on the Office for National Statistics Annual Business Inquiry, which are different from those in the mapping documents. Hence figures of 97-98 and 2000 are not comparable.
- # This figure is of 2001.

Sources:

Britain

DCMS (2001), *Creative Industries Mapping Document*; DCMS (2002), *Creative Industries Fact File*, April
Greater London Authority (2002), *Creativity: London's Core Business*, October
http://www.london.gov.uk/approot/mayor/economic_unit/docs/create_inds_rep02.pdf

New Zealand

New Zealand Institute of Economic Research (INC.) (2002), *Creative Industries in New Zealand: Economic Contribution, Report to Industry New Zealand*, March

United States

Stephen E. Siwek (2002), *Copyright Industries in the U.S. Economy: The 2002 Report*, International Intellectual Property Alliance

Australia

The Allen Consulting Group (2001), *The Economic Contribution of Australia's Copyright Industries*

Singapore

ERC Services Subcommittee Workgroup on Creative Industries (2002), *Creative Industries Development Strategy: Propelling Singapore's Creative Economy*, September

Taiwan

Taiwan Institute of Economic Research (2002), *Cultural Creative Industries Mapping Study*, November

Appendix 9

A Quantitative Approach of the Economic Impacts of HK's Creative Industries

The method employed in this study is called the econometric method that is based on an econometric model and simulation techniques. The methodology has been adopted in many other economic impact studies including The Economic Impact Study of Singapore Changi Airport (see Arthur Andersen 1996) and The Economic Impact Study of the Singapore Arts and Entertainment Industry (see Singapore Tourism Promotion Board 1998).

In the proposed econometric approach, we must first construct a Quarterly Macroeconometric Model of Hong Kong (QMMHK) that is to be capable of producing shorter-term forecast of the Hong Kong economy and structured to perform policy simulations. The equivalent core structure of the proposed QMMHK is documented in Tan and Chen (1996), the basis in which the Quarterly Macroeconometric Model of Singapore (QMMS) was built and operating since 1994 which provides bi-annual forecasts for the economy and conducts policy simulations for government agencies. It suffices to mention here that the QMMHK should contain four major behavioral equations for gross domestic product (GDP), consumer price index (CPI), nominal wage rate (W) and nominal effective exchange rate (H), respectively. QMMHK, that is the core model, is then to be used as the driver to other parts of the model such as GDP by major sectors as officially classified by the Hong Kong Census and Statistics Department (HK C&SD) (which presumably is defined to include manufacturing, construction and real estates, commerce, transport/storage & communications, finance & insurance, business services, and other services), GDP by expenditures (consumption, investment, inventory changes, and net exports), aggregate employment, and external trade.

In order to study the economic impact of Hong Kong's creative industries, the QMMHK model can then be modified and a Creative Sector Sub-Model (CSSM) can then be built. The HK C&SD can extract and compile data specifically for the purpose of this proposed study according to the definition to be identified according to the term of reference set by the commissioned authority, say in this case, by the Central Policy Unit.

In constructing the CSSM, behavior equations can be specified for total receipts, value-added, employment, and remuneration. Since the creative sector belongs to the Other Services Sector, the price deflator of the sector's value added was used to construct constant price variables in the sub-model. The general equations can be in the following

forms:

$$\text{Log(totrecr)} = a + b \text{ Log(otherrecr)} \quad (1)$$

$$\text{Log(valaddr)} = c + d \text{ Log(totrecr)} \quad (2)$$

$$\text{Log(empane/valaddr)} = e + f \text{ Log(valaddr)} \quad (3)$$

$$\text{Log(remuner/empane)} = g + h \text{ Log(valaddr/empane)} \quad (4)$$

Where

totrecr = total receipts of the creative sector in constant prices;

otherrecr = other receipts of the creative sector in constant prices;

valaddr = value-added of the creative sector in constant prices;

empane = employment of the creative sector;

remuner = remuneration of the creative sector in constant prices;

a,b,c,d,e,f,g,h = parameters.

The equations can be estimated over a specified time period, the length is to be decided according to availability of the time series data, and a simultaneous equations system formed by these equations will be solved for the same time period in the historical simulation. Based on the sub-model, ex-post forecasts can be performed for post sample period based on different assumptions on the non-operating receipts. Finally, ex-ante forecasts can be carried out from further years ahead under different assumptions or scenario.

The use of the extended QMS model for the economic impact study involved a two-step process. Firstly, an historical simulation was performed to arrive at the base-line forecasts of economic variables such as GDP, and called it *GDP_HS*. Secondly, it was assumed that the creative sector did not exist, and the value-added and employment of the industry were taken out from the Other Services Sector. A counterfactual simulation of the QMMHK model will be run under these assumptions to generate forecasts of those economic variables again. This time, the value for GDP is stored in a variable labeled as *GDP_CFS*. Following the second step, *GDP_HS* – *GDP_CFS*, the difference between the values from the historical simulation and that from the counterfactual simulation, would then be used to provide an estimate of the total value-added impact of the creative sector.

The value-added multiplier, VAM, is defined as the ratio of the total value added impact over the value-added of the creative sector:

$$VAM = (\text{GDP_HS} - \text{GDP_CFS}) / \text{valaddr} \quad (5)$$

Similarly, the employment multiplier, EMPM, is defined as the ratio of the total employment impact over the employment of the arts and entertainment industry:

$$\text{EMPM} = (\text{EMP_HS} - \text{EMP_CFS}) / \text{empante} \quad (6)$$

where EMP_HS and EMP_CFS are supposed to be Hong Kong's total employment generated from the historical simulation and the counterfactual simulation, respectively.

The proposed methodology, that is the construction of a Quarterly Macroeconometric Model of Hong Kong (QMMHK) and the subsequent linking of the satellite Creative Sector Sub-Model (CSSM), requires detailed and intimate knowledge on the working of the Hong Kong economy and understanding the nature of the creative sector activities. What we have demonstrated in this paper is a prototype model for the Singapore study that must be modified if the broad principle framework is to be adopted and a close working relationship with the HK C&SD is absolutely essential as operation of QMMHK-CSSM is expected to involve unpublished statistical series and raw data creation.

When assessing the creative sector vis-a-vis the economic impact and the associating contributions by sectors, methodology wise, we found most international studies use a less vigorous approach of mapping, or the traditional input-output method which is not only cumbersome in application and costly in terms of data infrequency. The proposed econometric approach is based on the conventional econometric estimation technique, which is universally accepted and highly flexible as it allows policy simulations to be conducted under alternative scenarios whose magnitude of influence can be precisely and vigorously worked out. The quantitative econometric approach also plays an intimate role with the more qualitative survey approach as they reinforce each other and help to explain survey results that are difficult to interpret.

Baseline Study on Hong Kong's Creative Industries

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A hand holds a piece of aged, yellowed paper with various business names printed on it. The paper has torn edges and a textured surface.

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Design

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and Video

Music

Publishing

Performing Arts

Software and Computer

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