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China-Britain Business Council
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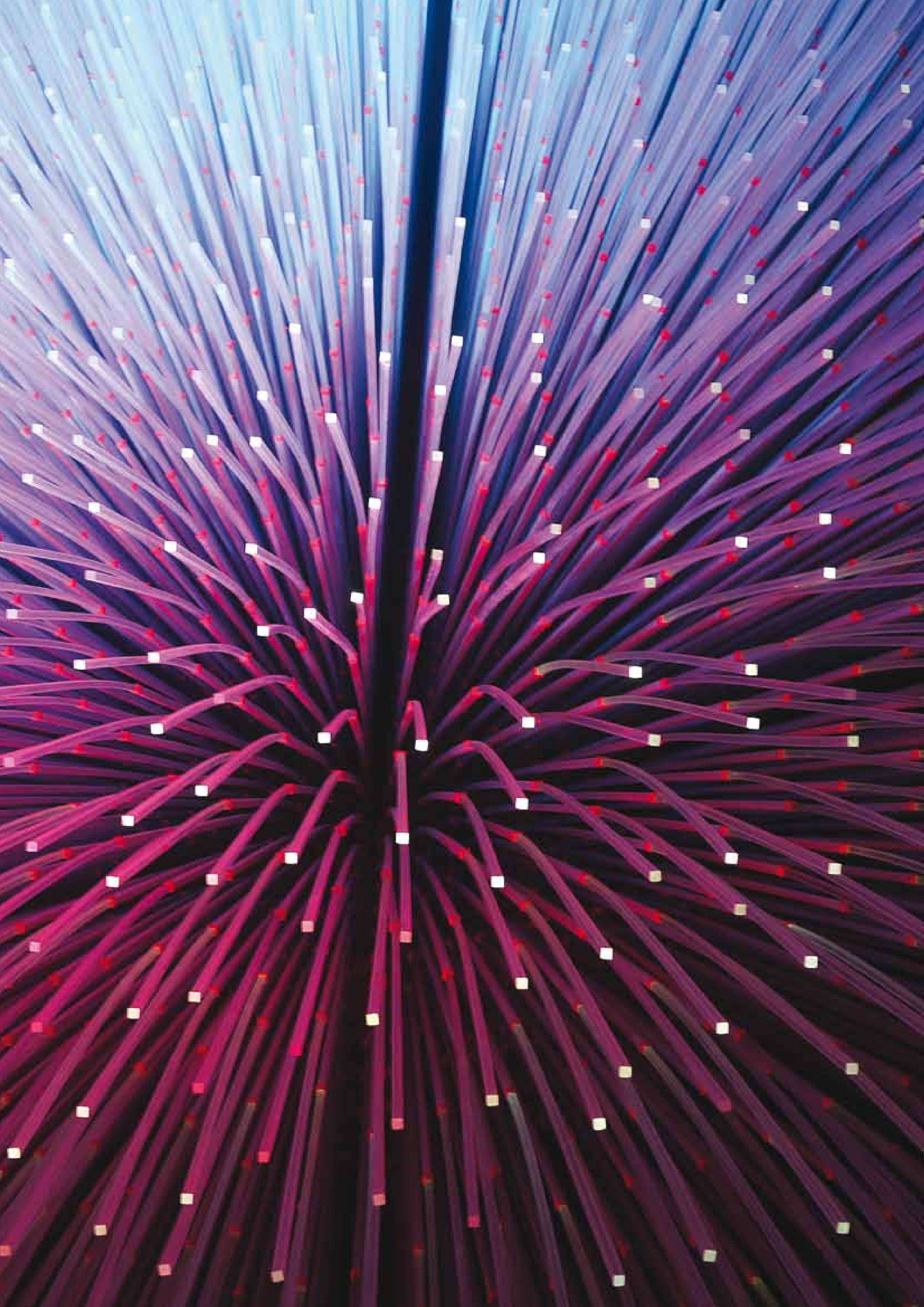
DEVELOPING YOUR INTERNATIONAL TRADE POTENTIAL

Creative Industries in China
Opportunities for business

LONDON DEVELOPMENT AGENCY



Traditionally, business interest from UK companies has generally focused on a small number of large established cities in China such as Beijing, Shanghai, Shenzhen and Guangzhou. However, these markets are becoming saturated, competition is intensifying and factor input costs are increasing. As a consequence companies are increasingly willing to consider venturing beyond these cities for business expansion and development.

In 2008 UK Trade & Investment and the China-Britain Business Council produced a report entitled "Opportunities for UK Businesses in China's Regional Cities". The aim of the research was to identify where, and how best, UK business can take advantage of the opportunities presented by the ongoing growth of China's regional cities.

The original research identified thirty five regional Chinese cities that offered the greatest potential to UK companies as business locations and also looked at the opportunities across seven priority sectors in these cities.

The "Creative Industries in China – Opportunities for Business" report aims to build upon the findings of the initial research by focusing on opportunities in two of the thirty five cities identified in the original report. Nanjing the capital of Jiangsu Province and Hangzhou the capital of Zhejiang Province, both located in the Yangtze River Delta region, which is one of the wealthiest regions of China.

The report focuses on opportunities in the specific sub sectors of broadcast and production, digital content, industrial design and architecture, all sectors where British companies have unique strengths.

> "Having largely relied on imports of foreign design and technology for many decades, China has woken up to the need to develop its own creative abilities. China's move from 'Made in China' to 'Designed in China' is creating many and diverse opportunities for British companies. Whether designing mobile phones or iconic new buildings, producing television documentaries or mobile applications, China's creative sector is a field where British companies, both small and large, can really do well."
>
> Sir David Brewer, Chairman of the China-Britain Business Council

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Fast track to the world UK

CHINA'S CREATIVE SECTOR

The past decade has seen dramatic development for creative industries in China. It was in 2000 during a central committee conference, that the Chinese central Government first declared cultural industries as a key strategic development area. At that time, the concept of "creative industries" did not exist in China.

In the creative industries, cultural industries were the first to flourish in the early stages of growth with the majority being state owned. In the following ten years, with transformation of economic models and post WTO entry opening up of the cultural industry sectors, Chinese cultural and creative industries have grown rapidly. Mr Zhang Xiaoming, the Deputy Director of the Culture Research Centre, China Academy of Social Science (CASS), was author of the first China Cultural Industry Blue Paper in 2001. In May 2010 the 9th Cultural Industry Development Blue Year Book was published by the Culture Research Centre of CASS in conjunction with the Ministry of Culture and the Cultural Industry Innovation and the Development Academy of Shanghai Jiao Tong University. Based on the statistics from the National Statistics Bureau, the report shows that in 2009 total expenditure on cultural products and services by urban and rural residents was RMB 607.6 billion and total cultural expenditure by government public sectors was RMB 109.6 billion. In total, the domestic market size for the Chinese cultural industry in 2009 was over RMB 700 billion. These figures do not cover the private sector.

According to the National Statistics Bureau, GDP of the cultural industry has increased 22 per cent each year from 2004 to 2008, which is higher than the national GDP growth for the same period. In 2009 cultural industry GDP reached RMB 840 billion, increasing 10 per cent from the previous year and accounting for 2.5 per cent of the total national GDP. In 2008 the total number of people working in cultural industries was 11.82 million, which is an increase of 19 per cent since 2004. China's total import and export values of cultural products and services in recent years are shown in the table below:

Unit: USD 10 million

	2006	YoY (%)	2007	YoY	2008	YoY
Products	1032	23.3	1292	26.6	1584	22.6
Services	265	—	372	39.9	481.6	29.5

(Source: Service Trade Division of the Ministry of Commerce)

22%

According to the National Statistics Bureau, GDP of the cultural industry has increased 22 per cent each year from 2004 to 2008.

According to statistics based on an industry survey conducted by the National Statistics Bureau in 2008, the most profitable sectors are advertising, IT services, tourism, indoor entertainment, cable TV service and publishing. These six sectors make up 66 per cent of profits within the cultural industries. The industrial output value of ten subsectors covering packaging and printing, newspaper publishing, TV and cable TV broadcasting, advertising, IT services, tourism, toy manufacturing and home audio and video equipment manufacturing has exceeded RMB 20 billion.

In terms of GDP per capita for cultural business entities in 2008 (ranging from RMB 130,000 to RMB 266,800), the top ten sectors were IPR services, publishing, audio and video production, satellite transmission service, audio and video publishing, wireless broadcasting TV transmission, recordable media reproduction, telecom and TV broadcasting equipment distribution, relevant material production and peripheral internet information service.

50,000+

So far there are over 50,000 cultural and creative enterprises of which 8,000 are state owned, and private enterprises with sales turnover of over RMB 5 million per annum.

The leading cities of cultural and creative industries by GDP are Beijing, Shanghai, Hangzhou, Shenzhen, Qingdao, Fuzhou, Chengdu, Ningbo, Kunming, Xiamen, Nanjing and Changsha. Beijing as number one, reached GDP of RMB 500 million for cultural and creative industries in 2009, accounting for 13 per cent of the industry total. Beijing has attracted over 1 million creative professionals.

So far there are over 50,000 cultural and creative enterprises of which 8,000 are state owned, and private enterprises with sales turnover of over RMB 5 million per annum. Since 2006, when special funds were set up for developing cultural and creative industries, the Beijing Municipal government has allocated RMB 2 billion to support 365 projects.

The cultural and creative industries have proven able to keep a robust growth even during the worst of the economic downturn. It is believed that the cultural and creative industries will help development of more traditional industries. The Chinese Government at all levels has established a priority for strategic development and made a number of policies and regulations to boost the development of cultural and creative industries. In July 2009 the state council passed the "Cultural Industry Revitalization Plan" with an aim to enhance commercialisation of cultural industries. The plan is set to focusing on the development of TV, film production, publishing and distribution, printing, advertising, entertainment, cultural exhibitions and digital content.

In April 2010 the People's Bank of China (PBC), together with the Publicity Department of the Communist Party of China (CPC) Central Committee, the Ministry of Finance (MOF), the Ministry of Culture (MOC), the State Administration of Radio, Film and Television (SARFT), General Administration of Press and Publication of PRC (GAPP), the China Banking Regulatory Commission (CBRC), China Securities Regulatory Commission (CSRC) and the China Insurance Regulatory Commission (CIRC) issued "Guidance for the Financial Industry to Support the Development of the Cultural Industry Revitalization".

The Guidance encourages financial institutes to develop new loan and trust products and increase their loans to cultural businesses, and for insurance institutions to develop new insurance products to provide guarantees for the export of cultural products and services. It also endorses setting up multilevel capital markets to finance cultural businesses. The Guidance also clearly stipulates that central and local governments can reserve special development funds to subsidise cultural businesses.

At the moment, the China Cultural Industry Investment Fund initiated by the Ministry of Finance has been launched and has called for engagement from leading state-owned enterprises and financial institutions to give special support to sectors including entertainment, animation and digital games, TV, film production and distribution, publishing, cultural exhibition and internet media.

Some local governments have already started work on developing regional industry funds.

Driven by preferential policies, the operation models of many state-owned cultural and creative industry players in China have been transformed and it is expected there will be more than 20 companies going public by the end of 2010. Industry experts expect that industry infrastructure will improve with the formation of more sector clusters. More large-scale corporations will appear. The overall industry environment will improve with transformation of government regulatory responsibilities and further establishment of financing channels. Business, together with educational institutes, will have more involvement to foster creative talents.

While the creative industries are currently booming in China, they still face a number of issues and challenges. The Government is still yet to have put in place a very clear statistical system to monitor the economic status of the industry. At its early stage of development, the creative industry was regarded as part of the cultural industry. The classifications of subsectors are controversial as well. In 2003, relevant government departments formed a cultural industry statistic research group and issued a Category of Cultural and Relevant Industrial Sectors in the name of the National Statistics Bureau. According to that category guidance, cultural industries are classified into three main sectors of: 1. Press, media and publishing, 2. TV, film and radio, 3. The arts.

There then follow peripheral sectors including the internet and information services and entertainment, and finally the relevant sectors including the manufacture and sale of cultural products and equipment. Local governments have developed their own classification systems based on the national guidance and taken into account their local sector strengths. For instance, Beijing has published the first local cultural and creative industry classifications and has defined the industry as covering areas of arts, press and publishing, radio, TV and film, software, internet and computer services, advertising and exhibitions, arts and crafts, design services, tourism and entertainment and other support services Animation is a notable exception in this definition. With no consistent definition, it is hard to see the development of Chinese cultural and creative sectors in a global market.

Government at all levels is still playing a key role in boosting creative industry development. Leading educational institutes have set up cultural and creative industry research centres and have been engaged in developing policies and plans for industry cluster mapping on behalf of the Government. Leading cities have each set up their own individual development plans but there are issues of overheating in some particular sectors. For instance, animation and digital games are hot topics and many local governments have developed industry parks with similar functions which have raised concerns of an imbalance of industry infrastructure and resources. It is believed the industry will only become market regulated once it has matured.

The recent increase in cultural export mainly relies upon the manufacture of cultural products, with creative content and brand awareness only accounting for a small part. Implementation of IPR protection is still to be improved. These issues are top of the agenda for Government and business as they are committed to bring the industry into a new phase of development. More large-scale enterprises will emerge and international co-operation and trade for creative industries needs to be enhanced.

The development of China’s cultural and creative industry calls for further co-operation with overseas companies that have strong expertise in this area. UK companies certainly have a lot to offer. Chinese enterprises and government at all levels welcome co-operation in this industry.

BROADCAST AND PRODUCTION

The size of the radio, TV and film broadcasting industry has developed over the past decades to become the largest in the world. Due to an opening up of the market over the past ten years, investment in TV and film production, distribution and programmes has diversified and the levels of commercialisation, production capability and quality have all been increased.

China now has the largest broadcasting coverage and uses multitechnology applications with wireless, cable TV, satellite and the internet. According to the statistics by the State Administration of Radio, Film and Television (SARFT), there are 257 radio stations and 277 TV stations broadcasting 2,069 TV channels, with radio and TV broadcast coverage reaching 96.3 per cent and 97.2 per cent of the national population respectively. Cable TV and cable HDTV subscriptions were 175 million and 62 million households respectively by the end of 2009. There are also over 1,500 large cinemas with 4,700 screens across China with 2 billion customers per year.

China's radio and TV production volume is high. The country has 2,436 radio broadcast programmes and 3,199 TV programmes in operation. In 2009, production of radio and TV programmes was 6.72 and 2.65 million hours respectively. Four hundred and fifty-six feature films, 27 animated films, 52 science films and 19 documentary films were produced in 2009. The 2009 revenue for radio and TV broadcasting programmes was RMB 185 billion (among which RMB 78 billion was generated from advertising and RMB 27 billion was generated from cable TV subscription). Film production generated RMB 11 billion in revenue during 2009.

One million hours of radio programmes and 4.7 million hours of TV programmes were traded in 2009. Over 30,000 hours of TV programmes were traded internationally in 2009, generating RMB 583 million in revenue. There are over 700,000 people working in the radio and TV broadcasting industry and 360,000 working in the film industry. There are 3,343 radio and TV production organisations (among which 132 have been granted TV series long-term production certificates) and over 300 film production companies.

2009 has witnessed a fast development in radio and TV broadcasting network and technologies. By the end of 2009, 229 cities were working on cable TV digital conversion. The key area for cable TV development in 2009 was focused on intercity network integration and two-way transmission network transformation. So far, 11 provinces have completed network integration and over 3,000 households have used two-way transmission networks. In 2009, trials began on Next Generation of Broadcasting (NGB) based on digital cable TV conversion, China Mobile Multi-media Broadcasting (CMMB) and 3TNet technology. It is estimated that by 2010 NGB subscriptions will reach 500,000 households.

97.2%

TV broadcast coverage reaches 97.2 per cent of the national population.

In August 2009 SARFT issued a directive on boosting the development of HDTV. China has ten HDTV channels. Thirty to 40 per cent of households in China's first-tier cities now have access to HDTV. The transmission channels for HDTV broadcasting are cable networks, terrestrial wireless, and satellite. More than one-third of TV programme production companies have started to produce HDTV programmes. However, the HDTV production capacity is not sufficient to support more HDTV channels. With more and more households equipped with HDTV or HDTV set-top boxes and an increase in the HDTV programme content production, development of the distribution network for HDTV will have to grow at a higher rate than current development.

Due to the numerous applications of digital and internet technologies, new media broadcasting has been growing with increasing profitability in areas including IPTV and mobile TV. There are 320 internet audio and video service websites, with over 200 million subscribers. All radio and TV stations in the leading cities have their own websites. Twenty-seven provincial radio and TV stations have opened internet broadcasting services, with 167 channels providing live broadcasts. On 28 December 2009 China Central Television Station (CCTV) launched its national internet broadcasting platform which has attracted privately owned content production companies and support subscribers to upload their own content. The website provides, on average, 750 hours of programmes per day to a wide range of terminals including mobile, IPTV, outdoor screens and mobile screens.

CMMB passed a crucial stage in 2009 with establishment of a standardised system and the network completed. Now over 217 cities across China have provided CMMB operations covering mobile, PDA, MP4, car GPS and other portable terminals. The industry infrastructure for CMMB has formed, with many manufacturers capable of producing CMMB wafers. Over 100 companies now manufacture CMMB terminals.

The "Cultural Industry Revitalizing Plan" issued in 2009 clearly highlighted the strategy for developing the radio, TV and film industries. The plan sets the priority areas as cable TV integration within regional networks, integration of cinema operations and newer digital cinemas, resource sharing and connectivity within broadcasting networks. Non-state-owned investment is encouraged for TV and film production.

Overseas TV and film production companies are encouraged to collaborate with local Chinese production companies. To implement the plan, SARFT has developed a scheme for separating TV and film production from the broader broadcast business. The goal of the reform is that within the coming years, radio and TV broadcasting will undergo further reform and lead to growth in commercialisation of TV programming. Cable TV network coverage will expand and there will be an operational integration of the three traditional networks of telecom, radio and TV broadcasting, with the internet forming the new part.

Early in 2010 the State Council issued the Directive on Boosting the Film Industry. The Directive endorses the establishment of professional film technical companies through private investment and the training of skills for post production by film academies. It also encourages international co-operation on film production technology exchange. The Directive also calls on financial institutes to support film production companies by providing loans and encouraging them to go for public listing. It also specifies increasing the film distribution revenue by new media channels including VOD, internet and mobile. The Directive sets out the target that by 2015 the film production industry shall have all businesses financially independent of the Government.

Due to the numerous applications of digital and internet technologies, new media broadcasting has been growing with increasing profitability in areas including IPTV and mobile TV.

Shanghai

The revenue of Shanghai radio, TV and film industry for the first half of 2010 was RMB 8.8 billion which shows an increase of 50 per cent compared to the same period in 2009. The majority of revenue comes from Shanghai Oriental Cable Network and Shanghai Media and Entertainment Group, together with some privately owned TV and film production companies. Advertising revenue for TV broadcasting within the same period was RMB 2.6 billion, an increase of 43 per cent year on year. The revenue of cable TV networks increased by 10 per cent. Revenues from other business activities (including cinemas, import and export, and TV sales) were RMB 5.3 billion, increasing by 63 per cent. During this time Shanghai imported RMB 20 million worth of TV programmes, with exports being only 1 per cent of this value at RMB 200,000.

In the Shanghai Service Industry Development Plan for 2009-2012, issued by the Shanghai Municipal Government in late 2009, TV and film production is one of the priority areas for development. Digital radio and the TV broadcasting network will be expanded with further integration of different broadcasting channels and platforms. Cross-sector business is encouraged.

Beijing

The richest radio, TV and film companies are based in Beijing. In 2009 the output for the radio, TV and film industry exceeded RMB 10 billion, accounting for 7 per cent of the total cultural and creative industry GDP in Beijing. There are over 1,000 production companies in Beijing including Huairou and Zhuozhou TV as well as other film production companies. In May 2010 the Beijing Film Academy signed an agreement with Changping District and moved its animation production facilities there. The plans are that the Changping area will be the largest animation, TV and film production cluster in northern China within two years.

There have been a lot of recent enterprise reforms. China TV Program Production Co Ltd was restructured in December 2009 and is now a wholly owned subsidiary of China Central TV (CCTV). The aim of the new corporation is to provide a wider range of content and cover more media platforms and terminals. It will also allow co-operation by different models with more industry players.

In May 2010 Beijing Radio and TV Broadcasting Station was set up as a merger of Beijing All-Media and Cultural Group, Beijing People's Radio Station and Beijing TV Station. The new company will cover radio and TV programme content, production, broadcast and transmission and new media development. It has been established as a pilot project for the whole of China, to realise cross-sector developments within integrated resources.

Hangzhou

Hangzhou is the capital of Zhejiang province. It lies 117 miles south west of Shanghai, covers a total area of 6408 sq. miles and has a population of 7.9 million. It has the third-largest GDP in the Yangtze River Delta, after Shanghai and Suzhou. Hangzhou is home to 47,300 RMB millionaires, more than any other Chinese city outside of Beijing, Shanghai and Guangzhou.

During 2009 the cultural and creative industry GDP in Hangzhou was RMB 64 billion, accounting for 13 per cent of the city's total GDP. This year Hangzhou is expecting its radio, TV and film industry GDP to hit RMB 5 billion. It has further improved broadcast coverage with a transmission network combining cable, satellite and wireless, with radio and TV coverage estimated to reach effectively 100 per cent of the population by the end of 2010. The annual average growth rate for radio, TV and the film industry is over 20 per cent. Hangzhou is also committed to becoming a national digital TV industry base and is aiming to be the first city to complete digital TV conversion in China.

RMB 64bn

During 2009 the cultural and creative industry GDP in Hangzhou was RMB 64 billion, accounting for 13 per cent of the city's total GDP.

Hangzhou is also proactively promoting the development of new media TV including mobile TV, IPTV and downloadable digital TV. It will also increase its investment in film and TV broadcasting infrastructure such as Hangzhou Radio TV Broadcasting Centre and Monitoring Centre. It will also give strong support to larger TV and film production companies by developing preferential policies and standards to regulate the market. There are 200 TV and film production companies in Hangzhou. Revenue generated from film distribution and broadcast is set to hit RMB 1 billion by the end of this year with at least ten digital cinemas.

Hangzhou Culture Radio Television Group (HCRT) is the major player in this sector. It is estimated to turn over RMB 1.5 billion by the end of this year. The Hangzhou government wants to develop HCRT into a leading national group by 2015.

The radio, TV and film industry in Hangzhou is administrated by Hangzhou Municipal Bureau of Culture, Radio, TV, Film, Press and Publication (www.hzwh.gov.cn).

Nanjing

Nanjing is the capital city of Jiangsu Province and one of the four great ancient capitals of China. With a population of 7.7 million, it lies 171 miles north west of Shanghai and covers 2541 sq. miles of the lower Yangtze River Delta. Nanjing has the third largest economy after Suzhou and Wuxi in Jiangsu province.

The value of Nanjing's cultural and creative industry for 2009 was RMB 14 billion, accounting for nearly 4 per cent of the city's GDP. With an annual increase of 20 per cent the cultural and creative industry has become one of the key industry sectors in Nanjing. It is believed it will account for 5 per cent of the city's GDP by 2012. Driven by the 2009-2011 Nanjing Cultural Industry stimulation policies, the industry is developing commercially and will undergo further business reform. Nanjing Cultural, Broadcasting and Press Bureau was set up in August 2009, through the merger of the former Cultural Bureau, Radio, TV Broadcasting and Film Bureau and the Press and Copyright Bureau. The new administration has integrated the functions of regulating the markets for culture, broadcasting, press, cultural heritage and copyright management. Fourteen state-owned cultural enterprises have been merged to set up the Nanjing State-Owned Cultural Investment Holdings (Group) Corporation. Private enterprises are very active in this sector. By the end of 2009 there were over 100 privately owned enterprises in Nanjing Cultural and Creative Industry Association out of a total of 130 members.

Nanjing Broadcasting Group and the Nanjing Radio and TV Broadcasting Station have separated their production business from their broadcasting business. They have also entered into co-operation with provincial level broadcasting stations to integrate their media resources. The long-term goal is to rival Shanghai-based and other groups as the largest broadcasting group in the Yangtze River Delta area.

Broadcast and Production Opportunities

The UK's creativity in TV and film production content is widely appreciated by the Chinese businesses we interviewed. The local TV and film production companies are developing quite fast – forced on by a huge market demand – but they often fall short of production talent to deliver projects. As SARFT has strict control over the content to be broadcast, co-production opportunities as identified are most likely at present to fall within tourism documentaries and TV commercials. There are also demands for TV entertainment and education programmes which are expected to be localised in China. UK production companies could license their programmes and sell their expertise in the form of consultancy.

Shanghai Television Station of Shanghai Media Group (SMG) (www.smg.cn)
SMG is looking for creative entertainment TV programmes to localise them to cater for a Chinese audience's taste. Their co-operation with foreign producers in joint productions of tourism documentaries has gone through a lot of difficulties because of strict control on content by SARFT. However, they cherish the co-operation opportunities and have learned a lot from each other. They are always on the lookout for joint production opportunities.

The Show Director of International Channel Shanghai (ICS) (www.icshanghai.com)
ICS believes UK producers have a special viewpoint when it comes to filming which he finds quite novel and totally different from Chinese companies. He would welcome co-operation with UK companies to co-produce documentaries with tourism topics such as programmes about UK and China village life or artistic centres in Beijing. He believes such topics are easier to be accepted and approved by domestic TV stations and SARFT.

Vivid Media (Shanghai) Co Ltd
Vivid Media (Shanghai) Co Ltd is actively producing video and online TV programmes and has been helping local government agencies create promotional campaigns. It has grown very fast in recent years and is in great need of production professionals. It believes there are opportunities for UK companies to work with local governments that want to launch campaigns to promote investment and to address socially responsible strategies such as sustainable development and clean technologies. It suggests UK companies should be more proactive, customer-oriented and flexible to match the requirements of target clients in China.

Jiangsu Broadcasting Corporation (JSBC Group) (www.jsbc.com)
JSBC is looking to expand overseas either by acquiring foreign distribution companies or by co-operating with overseas channel operators. JSBC has been co-operating with the BBC, ITV and FremantleMedia for some years in that it bought programmes and localised them. It is at the moment looking to import more talent show TV programmes and education, puzzle games, education programmes and quality animation features from abroad. With regard to TV dramas and documentaries it is seeking good scripts, as long TV dramas are difficult to import because of limits on content and import quotas. For film production and distribution, it is looking for eligible film distributors in overseas markets and expecting to import qualified films from them to distribute via their own channels.


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BBC WORLDWIDE

BBC Worldwide is one of the world's leading television distributors, selling over fifty thousand hours of programming to well over one hundred countries around the world.

BBC Worldwide has been working with China for nearly twenty five years. Pierre Cheung, the general manager of Greater China is overseeing BBC's business in mainland China and Hong Kong. In 2007, Pierre managed the launch of Wild China, a documentary series about China's natural landscape and wildlife produced jointly by the BBC's Natural History Unit and CCTV, China's state broadcaster. The launch was timed to coincide with the build-up to the 2008 Beijing Olympic Games and tap into the international appetite for China-themed programming. To date, Wild China has won three Emmy Awards and an Asian TV award, and been sold in sixty countries, with more deals in the pipeline.

Pierre attributes BBC Worldwide's success to content localisation, according to Pierre, ninety five per cent of Chinese television is locally made content. The five per cent foreign content is dominated by Hollywood movies with very limited space for television series, documentaries or cartoons. Therefore, if a UK broadcast company wants to succeed in China, they have to first understand what the Chinese people want to watch and then produce programmes tailored to their tastes. The ideal way is to co-produce with a Chinese partner, so the end programme has a home on both British and Chinese television.

Pierre makes the point that although the China market has huge potential in terms of the size of its consumer base and their rising spending capacity, it poses a number of market entry barriers that UK companies need to be aware of.

Regulatory issues come first on the list. From setting up a foreign media company, to paying tax and transferring foreign currency, there are many hoops you need to jump through to get things done. As such, money, time and resources will need to be invested in dealing with China's bureaucracy.

There are also restrictions on content due to local protectionism. For example, foreign television series are not allowed to be broadcast between five and ten pm, foreign content cannot be uploaded on the internet and websites like Twitter and Facebook are prohibited.

Despite the risks and hurdles, Pierre still believes that China is a market that UK companies cannot miss. "With the ever rising number of internet users in China, the market for high definition programmes and digital content is going to be enormous." For example, it is said that the Beijing government is going to invest RMB 45 billion in Chinese media organizations that target global audiences. The cash will be available to agencies which come up with worthwhile projects to enhance their global image. Pierre concludes, "The key to success is to embark on cooperation with local broadcast companies to produce content tailored to Chinese people's needs."

> "With the ever rising number of internet users in China, the market for high definition programmes and digital content is going to be enormous."
>
> Pierre Cheung, BBC General Manager of Greater China

DIGITAL CONTENT

The digital content industry, defined as "emerging sectors providing information products and services by digital technology-based channels and platforms", is at the first stages of development in China.

Shanghai first defined the digital content industry in its 2003 Government Report as "intelligence-intensive, highly value-added emerging sectors covering software, e-learning, animation, digital publishing, digital music, digital TV and film and digital computer". Only in 2006 did the Central Government first incorporate the development of the digital content industry in its strategic five-year plan during the National People's Congress (NPC) conference. The digital content industry is now recognised as consisting of the six main subsectors which are: digital games, animation, digital TV and film, digital music, digital publishing, and e-learning. All relevant administrative departments including MOC, GAPP, SARFT and the Ministry of Industry and Information Technology (MIIT) have issued support policies.

Digital gaming is divided into stand-alone games, internet games and mobile games. The digital games industry emerged in China in the mid-90s. After years of development the industry has now matured with a well-established infrastructure, burgeoning R&D, production, publishing, distribution, operation, and technical support. Now the industry has become very competitive with narrowing profit margins and a high threshold for market entry. Each year hundreds of new products are launched. To date, overseas providers have advantages in technology and operation and have been taking a lead in the China market. In the last few years a number of local providers have appeared and taken a larger market share. Among the three games sectors the internet games market is the most prosperous. It is estimated that by the end of 2010 the China internet digital games market will have a sales turnover of over RMB 17 billion, accounting for 80 per cent of the total digital games market, with over 64 million subscribers. Meanwhile, there is a trend for mobile games to become more internet connected.

RMB 17bn

It is estimated that by the end of 2010 the China internet digital games market will have a sales turnover of over RMB 17 billion, accounting for 80 per cent of the total digital games market.

Animation

In 2009, animation production achieved dramatic growth which was driven by the "Directives on Boosting the Animation Industry" by the State Council. CCTV and provincial production organisations produced 322 animation TV features totalling 2,800 hours, an increase of 31 per cent compared with 2008. The top five regions by production are: Jiangsu, Zhejiang, Guangdong, Hunan and Liaoning. Local government preferential policies and State Council policy have achieved enormous increase in production in many cities. The top ten cities are: Hangzhou, Wuxi, Guangzhou, Changsha, Shenyang, Suzhou, Beijing, Nanjing, Shenzhen and Chongqing. In 2009, national TV, film and animation production bases were also given support by governments at all levels, with a number of production clusters formed. Within these production bases 221 animation features were produced, accounting for 77 per cent of total output for 2009. The most productive animation bases are: Animation Industry Park of Hangzhou High-tech Development Zone, Wuxi National Animation Production Base, Southern Animation Production Centre, Animation Industry Park of Shenyang High-tech Development Zone, and Animation Industry Park of Suzhou Industry Zone.

Digital Music

The size of the digital music industry is estimated to reach RMB 12.7 billion by 2010. It mainly consists of two subsectors of online music and mobile music. At the moment, the online music market is much larger than that of mobile music. In 2009 there were 200 million online music subscribers, while by the end of the first half of 2010 mobile music subscribers reached 580 million. Mobile music subscribers tend to have the awareness to pay for the music, while 80 per cent of the revenue generated from online music is from advertising – not from subscription fees. Online music service providers are mainly from label production companies, professional music websites, web portals, music software and search engine websites.

The mobile music market division is quite concentrated. Some possess their own music content resources and some are specialised in professional music services.

In terms of operational platforms for digital content, mobile content services account for 59 per cent and internet content accounts for 21 per cent. The top ten internet application businesses are: digital music, digital news, live messaging, video, search engine, email, digital games, blogs, forums, and online shopping. The future development of the digital content industry will be a move towards new profit-generating models, more collaboration in new products and services, and an integration of operation platforms.

Beijing

Digital Audio Broadcasting (DAB) was launched in 2006 by Beijing Radio Broadcasting Station and is the only digital radio broadcasting operator in Beijing. It was the first DAB project in China and now has over 20 radio programmes. The Beijing Radio Broadcasting Station also produces content and data. The mobile multi-media platform was constructed by Beijing Jolong Digital Media Broadcasting Co Ltd.(www.bjdmb.com.cn) and is responsible for digital multimedia network construction and operation, multimedia content production and data and information services. DAB digital mobile multimedia broadcasting provides a digital audio and video broadcasting service and public information.

Beijing has imported a lot of digital special-effects equipment and has established its own digital special-effects production base. At the moment nearly all the films made in Beijing need digital processing. So far Beijing already has 1,500 digital movie screens. Going to see digital movies has become cheaper, and more and more digital cinemas have been built, even extending to a rural audience. Preferential policies are in place to subsidise construction of more digital cinemas, to import digital films and for the establishment of new digital movie technology standards.

The Beijing digital publishing industry structure is a little different in sector-split from the rest of the China market. The leading sectors in terms of output are: first, education, followed by science and technology, social science, arts, and literature. Beijing leads the nation in the areas of social science and science and technology, accounting for 90 per cent of the whole country's output. Education and literature publishing account for over 50 per cent. There are around 1,000 digital science publishers accounting for 23 per cent of the total number in China. There are nearly 900 education publishers (34 per cent) and nearly 200 literature publishers (11 per cent). The digital publishing industry in Beijing as a whole is growing at a rate of over 30 per cent per annum.

There are over 400 games and animation publishers representing 11 per cent of the national market. Internet games companies in Beijing take around 7 per cent of the national market share and are growing at a rate of 12 per cent per annum.

Animation is one of the key sectors in Beijing's cultural and creative industry development plan. Beijing's animation sector has surpassed RMB 1 billion.

Animation is one of the key sectors in Beijing's cultural and creative industry development plan. Beijing's animation sector has surpassed RMB 1 billion. In 2009 Beijing produced 25 animation features with a total length of 155 hours. Beijing has formed six animation industry bases and has industry clusters covering production, publishing, and distribution. However, as a whole, Beijing's animation industry is still small in comparison with other regions. The six industry bases are:

- Zhongguancun Innovation and Creative Base
- Deshengyuan Industry Design Creative Industry Base
- Beijing Digital Entertainment Model Base
- National New Media Industry Base
- Chaoyang Dashanzi Arts Centre
- Dongcheng District Cultural Industry Park

Digital content industry clusters in Beijing are concentrated in those subsector industry bases and parks. In August 2009 the "Beijing Animation and Game Industry Alliance" was initiated by the key industry players to develop the industrial environment. Early this year, supported by the Government, Zhongguancun Digital Content Industries Association (www.maia.org.cn) was set up to help co-ordinate and improve development of all the subsectors.

Hangzhou

The key area of strength in Hangzhou is the digital entertainment sector with particular focus on animation production and digital games. In 2009 Hangzhou produced 456 hours of animation, accounting for 16 per cent of national output and making it the most productive animation city in China. At the end of 2009 Hangzhou had 274 animation production companies.

In 2005 Hangzhou Municipal government published "Advice on Supporting the Development of the Animation and Games Industry", which was the sector-specific guidance in China. Since then RMB 50 million has been allocated as funds to support the development of the animation and games industry. From the beginning of 2010 this fund has been increased to RMB 70 million per annum. The government has also developed financial policies to help SMEs finance their growth. Starting in 2005 the National Level Animation Expo has been held in Hangzhou.

With a well-established industry environment, Hangzhou has attracted a large number of leading enterprises in the field of animation and digital games. In 2009 the biggest animation production company in China, Great Dreams (www.greatdreams.com.cn), moved to Hangzhou. Hangzhou now has two animation production bases (Hangzhou National Animation Base www.cndmy.com and the National Digital Entertainment Industry Pilot Base www.hzszyl.cn) and three animation training centres (Zhejiang University, the Chinese Academy of Arts, and Zhejiang Communications University). Some large local corporations, such as Tedelon (www.tedelon.cn) have all expanded their business to include animation and games.

In the Hangzhou Cultural and Creative Industry Development Plan 2009-2015, issued by the Hangzhou Municipal Government in May 2009, animation production is expected to reach 500 hours by 2010 with a value of RMB 1.8 billion. It is also expected to generate output of RMB 18 billion for the animation-related industry sectors. By 2015 Hangzhou aims to cultivate a number of animation production companies with annual revenue of over RMB 100 million and to have up to five enterprises publically listed.

The municipal government is dedicated to developing their city into the "Animation Capital of China" by 2015. To achieve this target the role of the animation bases will be enhanced. The scale of the existing production and training bases will be expanded and new industry bases will be built up. More animation contests will be organised to find and attract creative talent. Training resources will be further strengthened by improving the quality within animation educational institutes and through importing animation training organisations.

Nanjing

Nanjing is quite strong in animation and the digital games sectors. 2009 saw a mushrooming of animation production, with 22 animation features of a total of 135 hours produced by local production companies. Many feature animations have won national-level awards and have been distributed nationally on CCTV animation channels.

Digital Content Opportunities

In general, products and services in new media formats enjoy a more open and flexible market. With the development and integration of three net operations (telecommunication, cable and internet), new media business is highly endorsed by the government at all levels and companies are keen to expand their business to include new media. With the development of three.net there will be great demand for digital technologies, infrastructure equipment and creative content.

Ver Digital Film Factory (Shanghai)
Ver Digital Film Factory (Shanghai) is developing towards a complete industry chain integrating animation film, virtual community and derivative products like toys similar to the commercial operations of Disney and Club Penguin.

It is focusing on developing its brand image as that is very important within its business environment. For its animation film business, it wants to co-operate with investment companies, experienced animation companies and those with a need to develop derivative products, and experienced film/animation film distributors. It is also interested in co-operating with publishing companies that have author resources and are experienced in distribution.

Creative design studios,and companies specialised in the design, manufacturing and sales of toys are also welcome to talk with Ver Digital about co-operation. Co-operation is flexible and could be in terms of buy-off, royalty trade, or long-term contract.

Zhejiang Zhongnan Group Animation Video Co Ltd (Hangzhou) (www.zn-cartoon.com)
Zhejiang Zhongnan Group Animation Video Co Ltd has experience working with UK animation production companies. In the view of its President, the potential co-operation opportunities may arise in several areas. One is joint production and shooting with Chinese characters as it is easier to get approval from SARFT and be broadcast by local TV stations. Second is to import foreign animation features to the domestic market even if the animation has not been finished. If it has an animation production from a foreign producer that it believes will enjoy popularity in China, it can co-operate with them and make necessary adjustments on content in order to meet the requirements of SARFT, and therefore gain regulatory approval. It can then sell them via new media channels such as video and online publications in China.

The regulations on importing programmes in new media like the internet and publications are not as strict as for importing and broadcasting them on TV, but within this co-operation model UK businesses need to be cautious of IPR issues. The company could also help UK animation companies export their derivatives products to China such as books, toys and clothes.

The company is also looking for partners in Europe to distribute and promote its Chinese-made cartoons in the overseas market. It has set up an animation cartoon theme park in Ningbo, having been provided consulting services by Disney. It plans to open more theme parks in other cities and would be happy to talk to UK companies specialised in programming and planning and operating theme parks.

Zhejiang Dishun Science & Technology Co Ltd
Zhejiang Dishun Science & Technology Co Ltd focuses on animation and digital film production. It is undertaking a lot of post-production work outsourced by foreign companies.

It has strong links in publication and distribution channels within the China market and has good relations with local TV stations and audio/video publication companies, and thus could help animation from the UK enter the China market. It has also highlighted the huge market potential for animation production equipment from overseas to Hangzhou, since Hangzhou is leading in animation production in China and there is great demand for related equipment. One such is Renderfarm, which is widely used in Shanghai and Beijing but there is only one Renderfarm system in Hangzhou.

Last October SARFT discussed in a seminar that all animation films must be High Definition (HD) instead of Standard Definition (SD). Therefore, the need from Hangzhou as the largest production base in China for this equipment would be very high in the near future. (It is said that the local price for a Renderfarm system is around RMB 10 million.) Motion capture systems is another area which may be worth investment in Hangzhou. The cost of renting such equipment is very high for local animation production (RMB 13,000-18,000 per day). It would be very profitable if a UK company invested in such equipment in Hangzhou.

Hunan Topken Culture Communication Co Ltd (www.topken.cn)
Hunan Topken Culture Communication Co Ltd (www.topken.cn) has recently produced a massive 3D TV cartoon named Weasel and Chicken which is recognised and positioned as the Chinese version of Tom and Jerry. It would like to find a distributor for European markets for this animation series by export of the royalty rights. It is also looking for opportunities for co-producing new cartoon and animation films.

With the development and integration of three net operations (telecommunication, cable and internet), new media business is highly endorsed by the government at all levels and companies are keen to expand their business to include new media.

CASE STUDY:
COMMUNICARTA

Communicarta has been designing city transportation maps for over 20 years and has published 106 different transportation maps in over 244 different publications. However, when Nintendo approached it to design nine interactive digital maps for the DSi it went through a very sharp learning curve. Working with Nintendo sparked Communicarta's interest in digital media, and the launch of the iPhone prompted it to look further into the market opportunities digital media presented.

After working on a few projects for the iPhone it teamed up with The Commercial Press, Beijing, the longest-standing modern publishing house in China, to produce a mobile application for the Shanghai Metro (www.shanghaimetroapp.com).

Communicarta's collaboration with The Commercial Press brought benefits to both parties. The Commercial Press benefited from Communicarta's knowledge about digital mapping and its access to markets outside of China. Communicarta benefited from The Commercial Press's local market knowledge and relationships. For example, it was The Commercial Press that obtained the licences required for Communicarta to publish its digital maps in China. Being associated with The Commercial Press is also helping Communicarta to raise the profile of its brand in China.

Communicarta's map of the Shanghai Metro is already available to download on Apple's app store. It is now working with The Commercial Press to produce similar maps for the Beijing, Hong Kong, Taipei, Guangzhou and Singapore Metros. Robin Woods, CEO of Communicarta, believes that there is an enormous market for these apps – not just in China but globally from the millions of people that visit these cities each year.

Communicarta wants its success to inspire other companies to go in and sell their mobile applications in China as well. According to Ken Chui, Communicarta's Director of Business Development: "The key to our success has been our relationship, not just with The Commercial Press but also with UKTI and CBBC, whose help in China has been invaluable."

"The key to our success has been our relationship, not just with The Commercial Press but also with UKTI and CBBC, whose help in China has been invaluable."

Ken Chui, Director of Business Development – Communicarta

INDUSTRIAL DESIGN

As defined by the Ministry of Industry and Information Technology and the China Industrial Design Association, industrial design focuses on industrial products to make use of scientific achievements and knowledge related to society, economy, culture, and aesthetics and to embrace innovative activities with the aim of integration and optimisation of the function, structure, form and package of products.

Currently, the industrial design sector is at the initial stages in China and most of the design companies are based in the more developed coastal (and exporting) cities. According to statistics of the China Industrial Design Association, there are 1,200 larger design institutes in China. Moreover, major manufacturers such as Lenovo, Huawei, Haier, Konka, Chery, and Fiyta have their own internal industrial design centres. According to partial statistics, over 200 large groups have their own industrial design centres and some design companies have extended services from design to support services from pre-development to post-production. Some design companies are creating their own R&D systems and forming their own design and product brands. Nevertheless, the most successful industrial design institutions to date still concentrate on – and are authorised in their business licence to have an impact on – improved product appearance.

At present, over 800 universities and 600 colleges offer undergraduate courses on industrial design and art design, with about 300,000 graduates each year.

In 2007 the China State Council issued a document titled "Several Opinions on Accelerating the Development of the Service Industry" which emphasised taking measures to encourage and support the development of industry design. Furthermore, the renovation schemes of the machinery, light industry and automotive sectors also require the effective services provided by industrial design.

In December 2009 "Guidance on Promotion of the Development of Industrial Design" was drafted by the Ministry of Industry and Information Technology and the China Industrial Design Association. This has been presented to the China State Council for approval.

300,000

At present, over 800 universities and 600 colleges offer undergraduate courses on industrial design and art design, with about 300,000 graduates each year.

In this document, targets to be achieved by 2015 include **domestic**: to expand the sector, to improve service quality, to cultivate enterprises with high competitive power in an international market, to build national level demonstration zones with larger regional coverage recognising success, to increase independent innovation, to increase the number of registered designs, to increase quality of professionals – and **international**: to encourage the introduction of overseas enterprises, talent and funds towards the zones, to encourage Chinese industrial design companies to invest in other countries and to encourage Chinese companies to list on overseas stock markets and to encourage venture capital institutions to do business with industrial design enterprises.

On 29 June 2010, the unveiling ceremony of the China Design Market (CDM) was held in Beijing. CDM is centred around the Beijing Industrial Design Centre (under the management of the Beijing Municipal Science & Technology Commission) and will begin operation in October 2010. It is the first design market in China. It is hoped that a number of international design companies and brand agencies will locate there.

According to the introduction by the Director of Beijing Municipal Science & Technology Commission, Mr. Yan Aoshuang, the area includes a design exchange institution, the museum of China red star awards, a design investment zone and a brand agency zone, and it will provide services to share international design information, one-stop services, sharing of databases, and financing for sectors such as industrial design, software design, environmental construction design, engineering design, graphic design, arts and crafts design, fashion design, consultancy and planning. It is hoped that 100 design agencies and enterprises from China and abroad will be attracted to the area to assist over 1,000 enterprises. A longer-term goal is to increase the design industry within Beijing to a RMB 130 billion industry by 2012.

Beijing

The typical feature of manufacturing in Beijing is high-end, mainly focusing on the sectors of auto, aviation, decoration, and pharmaceuticals. Because of this, industrial design is also a very important service sector in Beijing. The leaders of China Central Government and local government often emphasise the importance of updating the structure of sectors, which also provides a good opportunity to develop industrial design in Beijing.

Shanghai

Shanghai is comparatively developed as a Chinese city in industrial design because of a more developed industrial structure, abundance of scientific talent, and great concerns given by the local government. According to international trends, the demand for industrial design and service will increase rapidly when per capita GDP is over US$3,000. In 2009, per capita GDP in Shanghai was over US$10,000 and it provides great economic support to the development of industrial design in Shanghai. Industrial design has become one of the important sectors of Shanghai's economy.

In the document of "Three Years Plan (2008-2010) for the Development of Industrial Design in Shanghai", it is mentioned that the key design sectors include transportation (automotive and marine), equipment manufacturing, electronic information, clothing fashion, food industry, souvenir, furniture and indoor decoration, vision media (advertisements and exhibitions).

The document also emphasised the importance of protection of intellectual rights. It hopes to induce famous international design companies to open offices in Shanghai and attract the most prestigious industrial designers from across the world. Meanwhile, to strengthen co-operation and exchange with leading design universities and famous design firms from developed countries.

Hangzhou

In the document of "Three Years Action Plan (2009-2011) of the Development of Industrial Design in Hangzhou", it is mentioned that to push forward the development of industrial design to meet the requirement of transforming the local economic pattern, the theme should be changed from "made in Hangzhou" to "innovated in Hangzhou". The major goals are based on activities to attract famous industrial agencies to have a presence in Hangzhou.

The milestones are: by the end of 2009, to increase turnover of industrial design companies in Hangzhou by 20 per cent, profitability by 30 per cent and to double the number of industrial design companies. By the end of 2010, to complete the initial phase of an industrial design core zone and over ten creative zones related to industrial design, to increase turnover of industrial design companies in Hangzhou by 15 per cent and profitability by 20 per cent, to increase the number of the industrial design companies by 30 per cent; by the end of 2011, to have developed Hangzhou as a "famous city of industrial design", to cultivate main industrial design firms with an annual turnover of over RMB 5 million and to become one of the first-tier cities of industrial design in China. The overriding sector focuses are envisaged to be machinery and equipment, ICT, textiles and light industry.

Industrial Design Opportunities

As the Chinese economy is striving towards a sustainable growth from "made in China" to "created in China", design has become a national priority. Chinese clients and designers as well have gradually changed their mindset from seeing design as styling to a strategic tool that adds value to business development. UK design force could certainly stand out in helping Chinese brand owners in product development and brand management.

As Chinese design firms have sufficient staff capable of using computer-aided systems and who are good at the detailed development phase of the design work, so there maybe more opportunities for UK design agencies to add value in the conceptual phase. While working with Chinese clients, UK agencies should also place emphasis on providing design as a process management rather than for a single product. In addition, educational institutes have started to strengthen their efforts in cultivating creative talents for the design industry, and UK companies could help them train these would-be design professionals.

Many small- and medium-sized Chinese manufacturers are still marketing via exhibitions and internet advertising and find overseas branding design services very expensive, which might not match their development needs. But those large leading Chinese manufacturers supplying products to multinational corporations or that have business exporting to international markets are more likely to accept and use overseas design agencies as driven by market demands.

Jewellery Design

Zhejiang Neoglory Jewelry Co Ltd (www.neoglory.cn)

Zhejiang Neoglory Jewelry Co Ltd subsidiary of Neoglory Holdings Group Co, Ltd is engaged in jewellery design, manufacture and sales. It has its own design institute, but would also like to work with more design agencies to strengthen its luxury jewellery business. It has also engaged in fashion design and electronic product design integrated with jewellery. For instance, it is co-operating with Aigo to develop jewellery-related USB and digital players. The company is looking for more product design partners who have strong design capability.

Fashion Design

Jiangsu Sainty Corporation Ltd (www.saintycorp.com)

Jiangsu Sainty Corporation Ltd is engaged in fashion design and manufacturing. It has its own design team working on its own-brand garments. It has experience working with foreign fashion designers in buying its creative concept design. But what it needs is detailed engineering from creative concept to design scripts. Also it has found that lack of certain textiles in China is one of the main reasons for failing to apply foreign design concepts into its production. The company is looking to expand its business in Europe and is very interested in meeting UK fashion design companies and also retailing sector experts to help it with European market entry issues.

Shanghai International Home Textile Centre (HTIP)

HTIP has more than 4,000 member companies engaged in designing and manufacturing home textiles and fashion. It is happy to facilitate links between UK design agencies and its Chinese members. It knows of some textile companies – such as Loftex Industries Shanghai Ltd and Jiangsu Yueda Textile Group Ltd – that are looking to expand into the international markets.

HTIP is very conscious that UK designers are concerned with the IPR issue in China and it could ensure their services would get protection with the help of the Shanghai Copyright Bureau.

Chinese clients and designers as well have gradually changed their mindset from seeing design as styling to a strategic tool that adds value to business development.

Loftex China Ltd (www.loftex.com.cn)
Loftex China Ltd produces various kinds of top-quality home textile products and has its own retail chains or shopping mall stores in developed countries such as America, Europe and Australia. Loftex has registered in the USA and has a store on 5th Avenue, New York employing international designers.

Loftex expects to outsource more design work to foreign home textile design companies for manufacturing in China and export to international markets.

Jiangsu Yueda Textile Group (www.ydtextile.com)
Jiangsu Yueda Textile Group is a large corporation producing a hi-tech ecological series of textile products. The company is considering importing UK textile brands of high quality to open retail outlets in China. It could even set up a joint venture with the UK partner and open the stores with joint branding. It could also open shops in the UK by a reverse joint collaboration. Yueda would also like to subcontract the design work to UK companies in order to avoid direct competition with several other local famous home textile brands that have already set up design capabilities for many years. Yueda wants to target luxury and high-end customers, taking advantage of UK design creativity. Production work can be done in China and products marketed abroad.

Brand Design

Viewpoint Communication Co Ltd

Viewpoint Communication Co Ltd is a TV and film production, broadcasting, communications and cultural-related consultancy. It very much appreciates the UK's creative expertise and would like to co-operate with UK business partners on co- producing animated TV programmes and films.

As China lacks such professional education and training to cultivate creative talents, it would like to induce educational institutes to give lectures or courses in partnership with educational counterparts in Shanghai. Also local education/training institutions here would be very interested in co-operating with UK training organisations. They would also like to introduce UK brand design agencies to two projects. One is a large-scale commercial building in Kunshan city near Shanghai. The property developer failed to set up a suitable brand identity for his commercial buildings which resulted in a high vacancy rate.

Viewpoint could introduce UK design agencies to the owner of the real-estate developer. The other opportunity is the brand design for Huaxi Village. It is well known that Huaxi Village has a nickname of the "Number one village under the sky".

The village, located in Jiangyin in east China's Jiangsu province, is now attracting as many as 2 million tourists each year. Farming there has shifted from its traditional purpose and has now become a way of providing tourists with a unique experience. A lot of people come to the village simply to enjoy the beautiful scenery, while many others come to find out just how Huaxi has earned the reputation as China's most successful and most famous village.

Now, Huaxi Village is considering how to integrate tourism, the economy and the village, and set up a creative brand image. Local government welcomes qualified brand design companies to provide consulting.

Integrated Electronic Systems (Shanghai) Ltd

Integrated Electronic Systems (Shanghai) Ltd is engaged in the design and manufacture of medical, diagnostic and analytical instruments. It has provided products to world-renowned companies. It is looking for qualified packaging design service providers. It is thinking of adopting UK creative design concept and producing them in local markets to save cost. If the UK design company has a fixed partner/ manufacturer to produce the packaging for products in China or they have joint-venture in China (mainly for quality control), it would also be keen to talk to them.

Meigao

Meigao is a leading design house in China. From having been engaged to do design work for the Beijing Olympics, Meigao has found that local production companies are not mature in this industry and the creative work from local companies is quite weak. Meigao is open for a discussion with UK design agencies on a specific project as a pilot for more understanding of UK design expertise.

Dalian Universal Electronics Co Ltd (DUE)

DUE has leading-edge technologies in producing Diode and Bridge Rectifiers and has been exporting to markets in Europe, the Americas and South-East Asian markets to world-famous companies like BYD.

DUE attaches great importance to industrial design and has a design team with 60-70 designers working in the USA, Japan, South Korea, Taiwan, Hong Kong and the mainland. It knows the UK is very strong in industry design and is very much interested in UK industrial design for similar products. It would consider buying the design and other relevant services from UK companies.

Dalian Golden Pebble Beach Film & Video Co Ltd

Dalian Golden Pebble Beach Film & Video Co Ltd is currently engaged in constructing Dalian Cultural Industry Park-Digital Hollywood Project. Concept design of the Digital Hollywood Project is finished. Construction work will start very soon and it is planned to be completed within 18 months. Currently, it has two technical service providers from the USA for the Digital Media Experience Hall and Film & Video and Animation Production Centre. Since London, UK is renowned for its creative industry, it is keen to engage UK companies in the digital media, film/ television production and animation sectors in this large project.

CASE STUDY:

THE ALLOY

The Alloy is a product design consultancy based in Surrey which is exporting its services globally. The Chinese market currently accounts for less than 20 per cent of its turnover; however it is confident that this will grow considerably.

Geoff McCormick, Consultant at The Alloy says: "I can't see how we would grow our brand and performance without becoming part of China's economy." Geoff has visited China over 20 times in the last seven years and on these visits has developed a real understanding of the Chinese design industry.

The Alloy's clients in China are OEMs and Chinese brands that are developing, especially consumer electronics and home appliance manufacturers. It has also worked with government agencies.

Fifteen years ago, when The Alloy first approached China, the companies it was dealing with were very hungry, very cheap and very adaptable but they didn't understand design. That has definitely changed, especially over the last four or five years.

Geoff feels that the Chinese are currently at an inflexion point in their economy where they will have to decide how they will sustain growth and how to make it clear that "design" is going to be a powerful tool to help them achieve this. He knows that Chinese companies are intent on getting a greater slice of the value chain and realise that doing the design themselves is one way they can achieve this.

The competition that companies like The Alloy face from local Chinese design companies is very strong, especially from the older design agencies. However, many of the older design agencies are much less creative.

Geoff believes that the opportunities for British design companies will be in the conceptual phase rather than the design phase. Chinese design firms aren't willing to pay for the development phase of design work when they have rooms full of employees who can do the job for less than British design companies will be charging.

On his visits to China Geoff has found that Chinese businesses are less happy working in a client-and-supplier relationship and are much happier working in collaborative partnerships. They are not happy just to pay you money for your work and then let you disappear. They will want to embed some element of risk in the deal.

Geoff has always found negotiations in China to be much longer and harder than they are in the UK and has spent many hours negotiating into the early hours of the morning. Many times, he tells us, these negotiations have felt like a game of attrition. He has also found that the Chinese tend to start playing games when the contract is about to be signed. "You have to remember that the Chinese love to negotiate – it is almost a badge of honour for them. Therefore it is important that you enjoy negotiating, you should relish it and, if you're good, the negotiation might even work out in your favour."

> "I can't see how we would grow our brand and performance without becoming part of China's economy."
>
> Geoff McCormick, Consultant – The Alloy

CASE STUDY:

TANGERINE

Tangerine is a strategic design consultancy with offices in London (Bermondsey) and Korea (Seoul), and agents in Brazil and Japan. They have been exploring the China market since 2005 by regularly visiting Chinese companies. They secured a contract with Huawei, a leading Chinese telecommunications solutions provider, to complete insight and market research, and design of a series of mobile handsets, as well as ongoing advice on design management. One of the handsets quickly became the best selling mid to low tier handset in the Chinese market.

Things weren't all smooth going when Tangerine entered the market, Martin Darbyshire, Tangerine's Managing Director, says "The first Chinese company I talked to asked me to host a sales meeting on the 23rd of December! It was an example of the degree to which some may test you to see how pliable you are." Martin wasn't put off by this experience but persevered in the search for clients. His efforts have started to pay off and Tangerine are also in discussions with other major players in China.

According to Martin, there is not much difference in terms of design fees between Chinese and other clients. "Fees within China can be comparable to those from Korea and Japan." Martin admits that compared with local design agencies, Tangerine's prices are not very competitive. However, Martin believes that they are not deemed expensive as long as they can demonstrate value. "We ask the right questions, which local agencies don't, and demonstrate that our costs will be paid back many times over."

In terms of finding businesses, Martin stresses the importance of talking to the right people. "You have to be talking to someone very high up and UKTI and CBBC have helped us to meet people at a very senior level – they carry a lot of authority in the China market and are well connected to the businesses."

Tangerine focuses on strategy and design for brands, experiences and products, and deliver improved customer experience, increased brand value and significant return on investment. They are exploring city branding, although Martin is highly aware that there is a difference in the perception of city branding between China and the West. "Chinese see city branding as having an emblem that represents the city and driving that through everything. While we treat city branding almost subliminally, the Chinese prefer to be much more up front about it."

One limitation to Tangerine's China business is that they don't have a presence in China yet. "We are genuinely concerned about whether or not it adds value. We have Chinese employees in London but we could have a growing need to service our clients in China.

> "You have to be talking to someone very high up and UKTI and CBBC have helped us to meet people at a very senior level – they carry a lot of authority in the China market and are well connected to the businesses."
>
> Martin Darbyshire, Managing Director – Tangerine

Another issue Martin is very aware of is the need to build up relationships and trust. "Generally speaking, Chinese clients have a lack of experience about design and this lack of experience increases the need for trust. In my experience, you need to be clear, honest and straightforward. You need to be transparent in the way you portray your fees and demonstrate an understanding that what's written on a piece of paper is not necessarily absolutely what is going to happen."

In terms of negotiation, Martin has his own techniques. "Many companies ask you to do some work for free, we just say no. When we provide proposals, we may include some initial research and demonstrate a case study that makes it easy for people to understand what we will do and how we will do it."

In the long term, Tangerine is fully committed to embark on their China venture. "At present China represents about 30 per cent of our business and we'd expect this to grow quickly over the next few years."

CASE STUDY:

QUADRO DESIGN ASSOCIATES

Phil Gray is the Managing Director of Quadro, an industrial and strategic design agency. Quadro has been doing business with China for 12 years, working primarily with OEMs, ODMs and government agencies. Its clients cover a wide range of manufacturing industries from high-volume consumer products to specialist high-cost, high technology capital equipment.

China has long claimed that it is undergoing a transformation from "Made in China" to "Designed in China". Every year China produces hundreds of thousands of design graduates and a large number of local design agencies are emerging in a bid to meet the demands of this industry. Phil observes, "It is a highly competitive market and UK design companies need to carefully position themselves to ensure they provide high value in terms of the services they offer." According to Phil, there are two areas that hold the greatest potential for UK design agencies in China.

The first is the management of design: bringing about the cultural change within an organisation that will enable it to better understand and embrace design. "We work on the principle of legacy; we do not design a product and walk away at the end of a project. Rather, we encourage our clients to learn by doing. At the end of a project, the company hasn't just got a nice product but a whole methodology and approach."

The second area is to help China manage its new design graduates effectively. "They are all fresh graduates who have no experience. It's a relatively new discipline so there are very few experienced design managers and China needs to use foreign expertise to manage their design graduates, make sure they are effectively used, that they gain the status and, ultimately, executive responsibility to realise the ambition of 'Designed in China'" Phil says.

In terms of finding business in China, Quadro primarily relies on its extensive experience and successful track record. "We have a number of case studies where we can demonstrate significant returns for our clients. Therefore Chinese companies trust us to deliver tangible results."

Another way they have been able to raise their profile is by speaking at events. "We have got great feedback from speaking at CBBC events. Building our profile is helped by being able to speak alongside other high-profile figures. We are also a founder member of UK China Partners, a not-for-profit organisation that promotes the British creative industries. Through this platform we deliver seminars and workshops to local Chinese government and enterprises, which has significantly improved our visibility."

Quadro is looking to continue working with both medium and large enterprises in China. "We know we can make a difference and ultimately improve people's lives. Over the past 50 years, choice is not something that has always been available to Chinese consumers. Now, with a much more open market, people have increasing choices in fashion, food and life style. Our role, one we are passionate about, is to help develop products that provide that choice."

"It is a highly competitive market and UK design companies need to carefully position themselves to ensure they provide high value in terms of the services they offer."

Phil Gray, Managing Director
– Quadro Design Associates

ARCHITECTURE

China is in the midst of a historic urbanisation process. Coupled with the privatisation of the real estate market, higher living standards and the presence of multinational corporations in China, home ownership is increasing and demand for residential housing will continue to be strong.

The real-estate construction market is a major driver of China's economy. During the 11th Five Year period (2006-2010), the plan for total real-estate construction is estimated to reach 2 billion square metres each year. According to the Industrialization Report issued by the Ministry of Construction's Promotion Center for Housing, by 2010, China will have built 80 billion square metres of new housing. By 2020, estimates are 205 billion square metres. According to the National Bureau of Statistics, construction spending in China increased 165 per cent in the last four years and is still expanding at 25 per cent year on year.

Total investment in real estate for 2009 was RMB 3,623 billion which was an annual increase of 16.1 per cent. Of this, RMB 2,562 billion was in mixed commercial-residential with an increase of 14 per cent. The total number of architecture firms with an Energy Performance Certificate (EPC) licence or EPC relating to a certain field made profits of RMB 266 billion, an increase of 21 per cent. It is estimated that China's urban population will increase from 46 per cent in 2009 to 65 per cent by 2030. This surely indicates a massive opportunity within the architecture sector.

In July 2010, Fortune published the latest list of the top 500 companies in the world. Once again this included five Chinese architects. However, they had all moved up the ranks compared to 2009.

More and more Chinese real-estate developers are looking for high-quality architectural services. Meanwhile, with the fast development of the cities in China, other projects such as landscape design, urban planning, old city redevelopment also welcome joint enterprise with foreign companies. All these offer foreign design firms good opportunities in the long term. In addition, because of such a large population, energy is a severe issue in China and the Chinese Government is concerned about architecture energy efficiency.

It is estimated that the development of architecture in China will be focused on seven areas: railway, road, light rail and subway, harbours, urbanisation, real estate and energy.

In 2002 the Ministry of Construction and the Ministry of Foreign Economy & Trade in China issued regulations for foreign-invested design enterprises (FIDEs) to apply for architecture, engineering and design licences in China. Foreign firms can now apply for engineering and design licences in China and pursue related opportunities.

RMB 3,623bn

Total investment in real estate for 2009 was RMB 3,623 billion which was an annual increase of 16.1 per cent.

Beijing

In the 12th Draft of the "Five Years Plan of Beijing", a new concept of being a World City was proposed, which supposes that a lot of world famous architecture firms can find business opportunities in Beijing.

According to the Annual Report of Architecture in Beijing in 2009, the total output value is RMB 406 billion which is up 32 per cent from 2008, and ranks number four of all Chinese regions after Jiangsu, Zhejiang and Shandong. Of this value, 30 per cent is for work within Beijing, 50 per cent for other work in China and 20 per cent from work outside China. Categorised by sectors, housing projects accounted for RMB 192 billion, an increase of 24 per cent; civil engineering accounted for RMB 149 billion with an increase of 66 per cent with the remainder being made up from construction, installation and decoration.

In 2009, investment in real estate in Beijing reached RMB 234 billion which increased 23 per cent. The main areas of the projects are the new zones of Tongzhou, Shunyi, Daxing, Changping, Fangshan and Yizhuang.

The report also mentions that the steady and constant development of the economy also provides great support for the development of architecture. For example, the Government will increase the investment in infrastructure (rail transportation and road), increase the number of the building of policy-regulated housing, speed up the construction of new cities like Tongzhou and improve urban facilities. RMB 290 billion will be invested to update the transportation and public facilities in South and South-West Beijing.

Shanghai

According to the 11th Five Year Plan (2006-2010) on Real Estate in Shanghai, the annual investment in real estate will reach around RMB 100 billion within the next five years. As a rate of growth this will represent a slowdown as there is an anxiety over the economy's reliance on real estate.

Generally speaking, a contribution of over 6 per cent to GDP can be judged as a pillar industry. Real estate contributes over 8 per cent to the economy of Shanghai. Mr Dai Xiaobo, Vice Director of the City and Real Estate Research Centre of Social Sciences Academy of Shanghai said: "The position of real estate as a pillar industry in Shanghai should be kept until at least 2020."

Although the China Central Government has adopted measures to keep development of the real-estate market healthy, and some strict measures to control prices, real- estate market costs continue to rise unabated.

In the first half year of 2009 the added value of real estate of Shanghai achieved RMB 41 billion which was a 23 per cent increase on the same period in 2008. The sales area in commercial property was 15.7 million square metres, a 28 per cent increase and the sales area of residential property was 14.4 million square metres, a 35 per cent increase. However, the investment in real estate was RMB 62 billion, which was a fall of 3 per cent.

Nanjing

According to Nanjing Statistics Bureau, in the first half of 2010 total investment in real estate was RMB 37 billion, an increase of 27 per cent. This in itself only represents 24 per cent of the total social fixed asset investment.

In the first half year of 2010, investment by foreign enterprises was RMB 2.3 billion, an increase of 67 per cent.

Hangzhou

In 2009 the total output value of architecture in Hangzhou was over RMB 211 billion, an increase of 17 per cent on 2008. As this represents nearly 7 per cent of the local economy the sector can be classified as a pillar industry of Hangzhou.

The goal in 2010 is to generate RMB 230 billion of which 30 per cent will come from work in other Chinese cities and regions such as Beijing, Tianjin and Hebei. Overseas markets already include work in Africa and East Asian countries but local firms are now understood to be looking further afield to Central and South American and Western Asian markets.

Architecture Opportunities

There is enormous demand for urban planning and architecture design.

Many cities are in the fast process of urbanisation. City landscapes are changing quickly with the emergence of new buildings. There is enormous demand for urban planning and architecture design. Chinese clients, mainly private estate developers and governments (for public buildings) are very mature and demand creativity from western architects.

Governments place emphasis on environmental protection and sustainability. Since the Government is pushing green and clean technologies and architecture from the top level, green and sustainable design in architecture is becoming more and more important and popular in China. However, many local architect firms and property developers are not so familiar with what is required for a "green building". They just pile up advanced equipment and technologies which cost hundreds of millions in investment into their buildings which increases operational costs, and such costs are finally transferred to end users. In that setting, advanced technologies and design expertise are in great demand for the green and intelligent building sector.

Before, it was regulated that foreign-based architect firms can only take charge of concept/scheme design and other design work such as primary design, and that construction design must be done by local qualified design institutes. In recent years, most government-funded significant projects adopt international tendering procedures to commission design work to eligible architects, from concept design to detailed engineering and construction drawings. Recently, more and more clients come straight to foreign design companies to commission the whole project process as a package, in which the foreign company takes charge of the whole project management and subcontracts parts of the work. Since domestic clients are more mature they expect to get high-quality and value-added services and international companies with greater experience can meet their requirements and provide multi-disciplined services and deliverables to them.

The domestic building sector offers little opportunities for newcomers. In most cases local estate developers have fixed local design partners already (some are with foreign design firms). Investment for residential building development is less and the payback period is short. There are also concerns that newcomers do not understand domestic tastes and habits in living environments which have many requirements different from foreign living standards. For commercial building and mix-used building and public sector development, Chinese clients are more interested in co-operating with foreign architect firms because there is room for design creativity.

For design firms already established in the China market there are many opportunities in some undeveloped regions, in particular the leisure and tourism sectors.

Beijing

Beijing Institute of Architectural Design (BIAD) (www.biad.com.cn)

BIAD is a state-owned architectural design and consulting institute. BIAD has been co-operating with many foreign architecture firms in China. Currently it is looking for partners who are knowledgeable about British standards, rules and regulations for the development of China national children's recreation facilities. BIAD has designed the Family Box building for a UK client and will be engaged in some other design projects of children's education and entertainment premises. BIAD is keen to meet for further discussions with British associations and organisations that are engaged in this sector.

Hangzhou

Hangzhou Urban Design and Planning Institute

The Chief Engineer of Hangzhou Urban Design and Planning Institute recognises the strong capability of UK-design houses, especially in concept design. They are interested in working with UK partners specialised in urban planning and the design sector.

Hangzhou Huazheng Design Institute is specialised in residential building design and is interested in co-operating with UK architecture firms in that sector. It believes that working with foreign design houses could help improve its brand image. The most important criteria are for it to choose a partner with reputation, then business in China and then cost. Overseas architects have very good design concepts which local architects lack.

Greentown Real Estate Development Co Ltd (www.chinagreentown.com)

Greentown Real Estate Development Co Ltd receives many visitors from overseas architecture design firms every year and its operation department is responsible for dealing with such co-operation queries. It already has long-term co-operation relationships with its existing partners in residential project development and would like to find new partners in the fields of landscape design, large-scale public buildings and mixed-use complex buildings. The most important criteria when selecting a partner are design quality and overseas market experience.

Nanjing

Jiangsu Research Institute of Building Science Co Ltd (www.jsjky.com)

Jiangsu Research Institute of Building Science Co Ltd is mainly engaged in consultancy and research for design and construction work, with particular emphasis on green building and energy-efficient technologies for real-estate development. It has been working with international funds and local design partners to undertake green and energy-efficient demonstration projects. It has not yet worked with any UK organisations and is not familiar with the UK green and energy-efficient concept and technologies. It is very keen to talk to such companies.

Dalian

China Resources Land Limited (CRLAND) (www.crland.com.cn)

CRLAND is a real-estate company owned by China Resources Group. CRLAND is quite established in residential building development but lacks internal design resources for large-scale public sector buildings. CRLAND is keen to work with foreign architecture firms with strong capability in this area. CRLAND will be involved in more public and commercial building projects in the future and is interested in talking to UK architecture firms to seek potential co-operation. When looking for such partners it would prefer to see some sample projects that the partner has done in China. Previous experience, design staff qualifications and cost are the other key factors for consideration.

CASE STUDY:

WILKINSON EYRE

Dominic Bettison, Managing Director of China operations for leading international architects Wilkinson Eyre says that China has been an important market for Western architecture firms during the economic crisis. Based in London, Wilkinson Eyre already have offices in Singapore and Shanghai. The firm is the designer of the 440-metre high Guangzhou International Finance Center.

Its London office already has a China team of 20, many of whom are bilingual. Dominic said that this reflects the amount of business coming through from China. It is a very reliable stream of opportunity.

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CASE STUDY:

ZAHA HADID

© Virgile Simon Bertrand

"In China, the language of architecture is not a hurdle to overcome instead Chinese clients encourage you to push the boundaries."

Paul Crosby, General Manager – Zaha Hadid Architects

Zaha Hadid's first project in China was in 1983 when her competition entry in The Peak project in Hong Kong won first place. Although the project was never built due to the global financial downturn of the late 1980s, it was a phenomenally important project conceptually in terms of its architectural language.

Zaha Hadid Architects have had an office in Beijing since the beginning of 2008 and have won a number of projects in China of various sizes, including the Guangzhou Opera House with its unique twin bolder design which opened earlier this year.

Other projects in China include Innovation Tower in Hong Kong; Galaxy Soho, a 330,000 m² office, retail and entertainment complex and The Wangjing Business Area project in Beijing; as well as a performing arts venue in Chengdu and a theatre in Nanjing. According to Paul Crosby, General Manager at Zaha Hadid Architects, "Our clients in China seem to have done their research before they come to us and have a shortlist of architects that they want for their projects."

Paul found the speed of doing business in China much faster than other markets he has worked in. According to Paul "You can have two competitions going on at the same time, one in China and one in Europe. The European project could take up to ten years to be realised, whereas the one in China will be up without any delays." He explains "It is quite common to have different teams on a construction site working through the night and this pace of work can put pressure on us to deliver, two months being a common expectation."

He muses "Sometimes, it would be nice to be able to slow down a little."

Zaha Hadid Architects is very mindful of the cultural issues of doing business in China. In order to make sure that they understand the Chinese market, they have employed Chinese staff in their London headquarters, in fact they would never work in any country without a trusted in house advisory team.

As a result they have a very good working relationship with their clients in China and also with the local architects they work with. By developing good relationships and working with decision makers in these companies, they are well positioned to add value and immediately respond to the specific requirements of each client. Paul says, "Ultimately, every single issue comes down to relationships, understanding where other people are coming from and being aware of the value you're offering to your Chinese clients."

Paul believes, because Chinese cities are growing at such a pace, the opportunities for British architects in China are enormous. "There are significant numbers of potential projects and in general terms, clients in China are braver. In China, the language of architecture is not a hurdle to overcome instead Chinese clients encourage you to push the boundaries."

CASE STUDY:

ROBINSON DESIGN LTD

Robinson Design Ltd is a multi-disciplinary design company providing architectural, landscape architecture, civil and structural engineering and geo-engineering services. Its China journey began when it set up a joint venture with 75 per cent shareholding with a Chinese architectural firm in Chengdu in 2004, Robinson-JZFZ Architectural Design Ltd, which has secured extensive commissions across China.

Before entering the market Robinson Design conducted considerable market research on the ground. It also made sure that it allocated sufficient resources for capital investment in the joint venture and employment of local staff. Another important aspect of its preparations was designating senior personnel to manage the Chengdu office. Keith Linch, the CEO in Chengdu, now resides there full time.

Clive Horsman, Director of Robinson Landscape and regular visitor to China over the last five years, believes there are enormous opportunities for UK practices across China. ''UK expertise is a premium in areas of master planning, healthcare, tourism and sustainability, particularly in the regional cities. There is demand for work carried out by western architects.'' According to Clive, the market is very mature but the Chinese have a different mindset as to the quality of the product. "Chinese developers usually have big demands and want results incredibly quickly!" The inclusion of Chinese staff within the design team has proven to be essential to understand this and Robinson-JZFZ crucially employs local staff at various professional levels and qualification.

Robinson-JZFZ works direct with both private developers and government departments while the UK office, in the case of landscape, has also co-operated with other architect practices. Clive places a great emphasis on the relationship with stakeholders: "We have learnt it is essential to build up basic trust and build up a personal relationship where possible because the majority of our business comes through word of mouth."

When working with Chinese customers, Clive finds there is a lesser degree of certainty when compared to working with the west. ''Clients seem to frequently change their minds and the demand on time and the need for a western face to present the changes, often at a moment's notice, is a regular occurrence. '' This though, can be to our advantage due to our permanent presence in Chengdu where we can respond quickly.

Clive also finds a lack of cultural knowledge a big barrier for inexperienced staff. "The challenges lie in a good understanding of the local culture such as attitudes to business, speed over quality and basic differences to working in the UK." Another area that Clive feels frustrating is the issue of payment. "The payment schedules are not as flexible as they are in the UK and it can be difficult and complicated to get cash out from China, especially from the regional cities not accustomed to the process."

Despite the difficulties, Robinson Design is still ambitious about expanding its business in China through the joint venture company, including exporting expertise from the UK office when needed to complement their considerable on-the-ground presence.

> "UK expertise is a premium in areas of master planning, healthcare, tourism and sustainability, particularly in the regional cities."
>
> Clive Horsman, Director – Robinson Design Ltd

SEIZING THE OPPORTUNITIES

Doing business in China requires a long-term commitment before generating revenue. Getting a good understanding of the business culture and establishing long-term relationships based on mutual trust with your clients and your partners is essential for business success in China.

Working in the consulting services industry sectors in China you have to demonstrate to the Chinese clients that your contributions add value to their business, as Chinese clients are inclined not to buy into believed intangibles.

The key factors driving a Chinese company's decision to buy UK services are the UK companies' experience in overseas markets, reputation, cost and local presence in China – as well as language communication skills. However, doing business in China is not just dependent on how professional your services are. Relationships and networking are more important to obtain first-hand project information.

In terms of the broadcast/TV production sector, foreign production companies are advised to set up joint-venture or partnerships with local production companies in China, and it would then be easier to produce TV programmes and pass examination from SARFT. Your Chinese partners are in a better position to guide you through the strict policies and regulations. However, local production companies are very cost-conscious. They want to work with leading commercial production companies from the UK but are afraid the service charges are too high to make it affordable.

There are well-established TV/film festivals in China such as the Shanghai TV and Film Festival, which is a good platform for UK production companies to find their potential buyers.

In terms of industry design, you have to talk to the right decision-maker in the organisation and get a good understanding of their cost concerns, their requirements and the technology barriers they have encountered themselves in business development.

Many local manufacturers are reluctant to buy creative design services from foreign companies because they are concerned whether and when such investment can be returned, as the cost is usually high. The local manufacturers prefer to buy the lump-sum service including creative concept, production and promotion. In this lump-sum service, creative concept just accounts for a small percentage. Although creative concept is considered as an initiative and essential part among the whole service procedures, it is not regarded as worthwhile to pay for such concepts.

UK companies need to make efforts to really demonstrate the value of their creative design work. Another opportunity could be the domestic electronic appliance industry. Some are not able to export their products to European markets because of a lack of knowledge in relevant technical standards.

For small- and medium-size companies that might not be able to afford outsourcing design work, you may look to government agencies that are funding some SMEs in the regional cities. For instance, South Korea Creative Design Association is located in Ningbo HeFeng Originality Plaza (Ningbo Industrial Design and Creative Center). The Association collects business information and helps creative companies of South Korea to provide a design service for local clients. For business deals in this Plaza, the Ningbo government covers 30 per cent of the total contract amount as design subsidies.

It would also be good to have Chinese employees and Chinese representatives in the market to ensure smooth communications with clients. Take Atkins as a successful example of a foreign architecture firm well established in the China market. It relies much on local architects who are well educated, have local knowledge, can break through country barriers and have good communication skills. Communication skill is the most important factor when recruiting staff at Atkins. International architects of Atkins bring international flavour to building design, and local architects will make them more detailed and practical for local clients.

For architecture design it is important for UK design houses to win a first project to become recognised and set foot in the China market. The first project is a sample and demonstration project and many local clients believe in the age-old adage "seeing is believing". Completed projects can bring more clients. UK design firms need to be strategic in undertaking projects.

Some projects taken are for profit and some projects are not taken for making money but for building image.

At the moment, many local design houses receive recommendations for partnership from their client's local property developer and the most senior member of staff is the decision-maker when choosing their partners. UK design houses should approach municipal-owned or state-owned design institutes for partnership because they have more advantages to win big projects across various sectors.

Market Entry Route

UK creative companies are advised to work with a Chinese local partner when they first enter the market, taking advantage of their partners' knowledge and sales channels and understanding of how to do business in China. If a foreign company just wants to make profit as soon as it enters China, it is very unlikely to win the game.

Broadcast and Production

There was no mention of the media sector when China joined the WTO. The broadcast and TV production sector has long been controlled and does not allow foreign investment. However, in late 2004, SARFT and the Ministry of Commerce jointly issued the "Provisions on Market Entry by film Production Enterprises", in which foreign investors are stipulated as being able to enter the market by joint venture.

Digital Content

Animation production companies need to adopt joint investment or asset ownership co-operation entities with Chinese partners to collaborate on joint production projects. It is regulated that foreign animation production companies are not allowed to set up Wholly Foreign Owned Enterprises for business operations. Instead they must find local partners to co-operate with and all production and shooting must be in the name of the local partners.

Industrial Design

For product and industry design houses, having a permanent local presence to be visible in the local market and committed to constant communication with clients is essential as business grows. However, for companies concerned with the related costs of a local presence, collaborating with a local partner or assigning a local representative could be an efficient approach.

If UK creative companies want to enter into the local market, then setting up joint-venture or a merger with or acquisition of a local Chinese company is suggested. Foreign companies will almost certainly fail if they just want to obtain business on a first visit.

Architecture

For architecture design, there are more types of successful approach for developing business in China. For small- and medium-sized UK design houses, working in partnership with Chinese local design houses and bidding for projects in consortium would be an efficient route to win business, making best use of both sides' advantages. Many projects in China require an intensive workload and fast reaction – where local architects are more experienced. Overseas architects are more advanced in detailed aspects such as landscape design and concept design – in which they are usually very creative. For regulatory plan, preliminary design and construction drawing, only local design institutes can work on these because there are too many complicated procedures and documentation for approvals, which can take a long time. In international tendering projects it is regulated that each bidding consortium should include famous foreign architecture firms. UK design houses, however, need to have a local presence for better communications with clients and partners.

Market Access Issues

Broadcast and Production

There are strict regulations on setting up a media company. SARFT has a very strict control on content broadcast by TV/radio stations, and therefore co-operation in the field of joint production is still quite limited and risky. Even the political relationship is one of the key factors impacting on the import of TV programmes. Also, local governments are conscious of protecting the local production industry in that if the TV/broadcasting production opens to the international market, more than two-thirds of local employees are at risk of losing their jobs.

Co-operation with foreign TV production companies or distributors for Chinese companies is allowed but is not happening much as regulatory issues remain an obstacle for co-operation. Local Chinese programme directors and producers must be sensitive to co-production content and programmes. They need to attend training on a regular basis on international co-operation issues directed by higher levels of government. If co-produced programmes are not approved by SARFT or not broadcast by TV stations due to any unexpected reasons (mainly political constraints) there will be no returns on investment. Although SARFT has released new policies to commission the production function to independent producers, the control is not yet released. Co-produced content for the time being is confined to purely entertainment TV programmes.

SARFT has a strict restriction on TV drama import or joint-production. There must be Chinese characters in the script representing Chinese social and ethical values. Domestic TV stations each have an import quota which is calculated by the length of the programme or series. The shorter the series the higher chance a domestic TV station can fit it into their quota. There are also limits on the number of imported films each year.

Animation distribution in China is quite different to overseas markets. The market still relies on cheap if not free programmes, as advertising is used as a payment replacement. This is a commercial model not acceptable to most foreign animation companies.

Digital Content

According to WTO agreement and related policies and regulations, internet operation business is not open to foreign investment, yet creative content and advanced digital technologies are welcome. In terms of animation, since it is a highly supported industry sector in China, foreign investment is encouraged to set up production companies in China. As for digital games, R&D and technical service companies are welcome but operations of online games are not allowed by foreign investors. In 2010, because of illegal publishing in some imported online games and many foreign games companies making good inroads into the market, SARFT has decided to get stricter on approval of imported games and now controls the import volume.

Industrial Design

When choosing design agencies to help build their brand, Chinese companies would consider whether the designer knows Chinese culture and consumer habits. As branding is a long process and should take a systematic approach, Chinese companies have concerns that foreign-based companies may not understand local traditions and cultures compared with those companies that already have a local presence in China. Creative concept and ideas are not yet well recognised as valuable by clients in China. Local customers are used to receiving information in a direct way while foreign advertising creativity is too abstract to understand. The advertising content appears to have no relationship with the product at all. On the other hand, foreign-based advertising and creative companies struggle with Chinese culture, tradition, themes and concepts, thus it is difficult for them to provide tailor-made services for local clients. In that case, foreign design and branding agencies need to make a lot of effort with regard to localisation.

Architecture

Foreign-based architecture firms could only work on concept design when first entering the China market. If they set up a WFOE and want to also understand detailed design work like construction drawings, then they have to apply to the Chinese Government for all relevant qualifications for doing detailed design work themselves.


外墙装修
照常营业
步行街
九江路
北京
河南中路

APPENDIX 1: Industry Events

For up-to-date details of trade shows, exhibitions, seminars and missions concerning the creative sector as well as a range of sectors in which your clients may work, please visit: **www.cbbc.org/what_we_do/events** or **www.ukti.gov.uk**

APPENDIX 2: Useful Contacts

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