ASIAN *Style*

Alan Wheatley

Cultural products are playing an increasing role in the region's economy as disposable incomes rise

THE love story of a 400-year-old alien and a pop diva who chows down on fried chicken and guzzles beer sounds like an unlikely harbinger of a new phase in Asia's growth.

Not so fast: The phenomenal success of the Korean television drama *My Love from the Star* has underscored the potential for cultural products, from computer games to contemporary art, to play a much bigger role in the regional economy as disposable incomes rise.

The series has attracted more than 2.5 billion views online (Korea.net, 2014), and when the final episode was broadcast in Korea on February 27, 2014, Chinese viewers were able to watch it in real time, a first in the history of Chinese television.

Chinese newspapers extensively analyzed the success of the show. Wang Qishan, one of the Chinese Communist Party's seven top leaders, acknowledged that it had taken China by storm. A committee of the country's political advisory body even spent a session agonizing over why China cannot make high-quality soaps of its own.

"If you listen to policy addresses, cultural industries generally get mentioned fairly frequently. Governments like to feel it's part of moving up the economic development ladder," said Marcel Fenez, global leader of entertainment and media practice at PricewaterhouseCoopers (PwC), based in Hong Kong SAR, in an interview with *F&D*.

Granted, a blossoming of modern Asian culture is not about to turn the economy on its head. Even in rich countries, spending on culture averages no more than about 5 percent of GDP. Asia will largely remain synonymous with manufacturing things that people can see and touch (van der Pol, 2007).

A compelling opportunity

"We make semiconductors, autos, cell phones and ships. Of course, the cultural stuff will grow, but it won't be as big as those sectors," Kevin Jin, an analyst with Hyundai Securities in Seoul, told *F&D*.

However, cultural industries represent a compelling opportunity for growth-hungry governments, especially when demand for their traditional exports is still sluggish following the global financial crisis. What's more, unlike steel production, pop music and smartphone gaming apps do not pollute much and gobble relatively little in the way of costly natural resources. And cultural smash hits project a positive picture of a country, allowing other exporters to piggyback on their success and attracting tourists.

Until recently, many foreigners associated Korea with the Korean War and the unpredictable, authoritarian government in Pyongyang, North Korea, Jin argued. But the Korean Wave of entertainment and pop culture, known as *hallyu*, has ushered in a modern, fun image typified by the tubby rapper Psy, whose *Gangnam Style* dance video has been viewed nearly 2 billion times on YouTube—a record.

"It's not a matter of money. It helps people to look at us in a different way. The effect is priceless," Jin said of Korea's cultural rebranding.

After Daesang Corp, one of Korea's biggest food companies, hired popular girl band Kara to model in its advertisements in Japan, its sales in the second half of 2011 were 15 times higher than in the first half of the year, according to Min-Soo Seo with the Samsung Economic Research Institute in Seoul (Seo, 2012).

He cited an estimate by the Korea Foundation for International Culture Exchange that put the economic benefits from the surge in Korean pop exports at 5 trillion won (about $4.3 billion) in 2010.

"K-pop's stature now transcends economic terms; it has become a strategic asset with halo effects on Korea's brand and its products," Seo said in a report.

What is it worth?

Statistics about cultural products need to be taken with a bucketful of salt. Weighing the worth of cultural data is almost as subjective as appreciating a work of art. Tastes and perspectives vary greatly.

Despite the ubiquity of cultural goods, they are largely neglected in economic studies. The U.S. *Journal of Economic Literature* classifies them under "Other Special Topics" (Chang, 2012).

Hendrik van der Pol, director of the United Nations Educational, Scientific and Cultural Organization (UNESCO) Institute for Statistics, frames the problem nicely: the cultural sector exploits an infinite raw material—creativity—that proves difficult to trace in physical form.

For instance, current statistics do not accurately capture copyright flows and other intangible assets. Definitions and categorizations vary, often making information incomparable, and data are frequently scarce or at best incomplete, van der Pol laments.

"Furthermore, there is a widespread lack of resources and expertise to ensure high quality statistical work, especially in the developing world, as data collection on the creative sector remains a low priority area for many countries," he wrote in 2007 (van der Pol, 2007). That remains the case today, according to UNESCO (2013).

The United Nations Conference on Trade and Development (UNCTAD) also bemoans the lack of effort to develop a universal measurement system. However, that has not prevented the agency from taking a stab at gauging the magnitude of the global creative economy—a broad concept that captures not only cultural goods and services but also things such as toys and games as well as research and development (UNCTAD, 2013).

By this measure, world trade in creative goods and services totaled a record $624 billion in 2011. Developing and emerging market economies now account for half of global trade in creative goods, and China represents more than half of that share. According to UNCTAD, China sells into the global market over three times more creative goods than the United States, the second-biggest exporter.

But it is not that UNCTAD has suddenly stumbled on a Chinese arts and crafts industry of unimaginable proportions. Rather, its categorization of creative goods includes "design," which it defines as functional creations that deal with the form, specifications, and appearance of products.

Design goods, including interior design products, fashion, and jewelry, make up fully two-thirds of UNCTAD-defined creative-goods exports.

As the agency acknowledges, it is not possible to isolate the design input from the final product. Thus, its export figures reflect the total value of the final goods, not the design content. And, in any case, it is foreign companies, not China, that design most made-in-China products.

In contrast to the $125 billion in creative-goods exports that UNCTAD attributed to China in 2011, Beijing itself reckons its exports of "cultural goods" in 2012 rose 16.3 percent from a year earlier to $21.73 billion, or about 1 percent of total exports ($2,048.93 billion—*China Daily*, 2013). Exports of visual art accounted for 65 percent of China's cultural exports, underlining the record prices for the country's contemporary art.

For what it's worth, the proportion of cultural exports in the case of Korea is roughly similar. They rose 7.2 percent in 2012 to $4.61 billion, according to the Korea Creative Content Agency. The total has almost doubled since 2008, testifying to the power of the Korean Wave, but these products make up only 0.8 percent of the country's overall exports ($559.7 billion).

In short, the figures from UNCTAD and national statistics agencies measure different things but they are consistent in depicting a sector that is growing rapidly. And governments are pitching in to sustain that growth.

Official support

China has elevated culture to the status of a pillar industry in its current five-year economic plan. The government, which is targeting annual growth in the sector of 15 percent between 2011 and 2015, is providing preferential financial, tax, and land policies for cultural enterprises and has promised to open the door to more private capital (ChinaCulture.org, 2013; Nip and Choi, 2012).

"The strength of a country and a people lies in the flourishing of its culture as a support. The power and competitiveness of its culture is an important goal of a strong and prosperous nation," said Mei Song, director-general of the Beijing Cultural and Creative Industry Promotion Center.

The Japanese government set up a 30 billion–yen (about $300 million) "Cool Japan" fund in November 2013 with the aim of promoting a broad range of cultural goods and services, including animation, fashion, and food, to project soft power and help drive economic growth (Ministry of Economy, Trade and Industry, Japan, 2014).

The ministry hopes that Japan, faced with a shrinking population at home, will have cultural-goods exports of 8 to 11 trillion yen ($80–$110 billion) by 2020, or about 1 percent of a global market that it estimates will by then have reached $9 trillion. The country now exports cultural products valued at 2.3 trillion yen (about $23 billion).

In setting up a fund to support companies investing overseas, Japan is emulating Korea, whose current success is due in part to steady government support over more than a decade.

Seeking to build on that success, Korean President Park Geun-hye in February unveiled plans for 17 innovation centers for the creative industries that she said would be critical to the overhaul of an economic growth model that had reached its limit (Korea.net, 2014).

One-stop finance

Not to be outdone by its bigger neighbors, Korea keeps expanding its official financial help. The Korea Export Import Bank last year modified its lending programs to provide what it called a “one-stop finance solution” to promote exports from creative industries (Korea Exim Bank, 2013).

By dint of their size or sophistication, it is north Asian countries that have the greatest potential to increase exports of cultural goods. Southeast Asian economies are largely importers. Still, that has not prevented governments from jumping on the cultural soft-power bandwagon.

Indonesia introduced a ministry of tourism and creative economy, arguing that culture, arts, heritage, and the economy are inextricably linked. Thailand made the creative economy a priority sector of its 10th national economic and social development plan, emphasizing that creativity and innovation are critical to sustained economic stability.

In India, by contrast, the concept of the creative economy is not yet well integrated into national strategies, according to a 2010 UNCTAD report.

Hollywood has outsourced visual effects and animation to India, the world’s largest movie producer. The film and television industries contributed $8.1 billion to the country’s economy, representing 0.5 percent of 2013 GDP, according to a report from financial services firm Deloitte and the Asia Pacific office of the Motion Picture Association (MPA).

But the 2008 movie *Slumdog Millionaire*, directed by a Briton and set and filmed in India, is one of the few films to have grabbed a big international audience.

“In terms of pure content that goes beyond the Indian diaspora, the examples are few and far between. It’s still a work in progress,” said PwC's Fenez.

One of the brakes on Asian exports of cultural goods is the rampant theft of intellectual property (IP) in China. The MPA has estimated that 9 out of 10 DVDs sold in China are bootlegged, and piracy rates for downloaded films are almost certainly as high or higher. China itself reckons that bootleg DVDs raked in $6 billion in 2010, four times box office takings (Levin and Horn, 2011).

Many Japanese companies long ago gave up on China, dismayed by rampant piracy of their music, movies, and games, or have devised business strategies to compensate for it, such as developing in-game purchases.

Korean entertainment companies are also wary. “The Chinese have very limited ideas on copyright. So we try to sell not too many albums but focus on concerts or TV shows which cannot be copied or faked,” said Jin, the Hyundai analyst.

My Love from the Star proves the point. China’s Jiangsu Satellite TV paid 1 billion won (about $1 million) for Kim Soo-hyun, who plays the alien, to appear on a variety show in Nanjing in March, according to the Korean media. Kim earned a 400 million–won appearance fee (around $400,000); the rest went for associated expenses, including hiring 600 security guards to protect the star (Korea.net, 2014).

Fenez said he is only slightly more optimistic about China’s readiness to protect intellectual property.

By contrast, Jayson Chi, a McKinsey & Company partner who heads the consulting firm’s global gaming practice, told *F&D* he expects China’s big Internet companies to crack down on pirated content so they can negotiate official digital distribution licenses for the next wave of online games. That would lure Japanese and other cultural-products exporters back to China.

“There’ll be a cleansing going on in the next couple of years that will see a lot of foreign players with IP who will finally be able to reap the benefit of IP in China with proper licenses,” said Chi, who is based in Tokyo. But will the next wave of Asian creative content be worth protecting? As with cultural data, it’s all in the eye of the beholder.

China’s culture minister, Cai Wu, has grumbled that China lacks works of “profound ideas” and “unique styles” (*China Daily*, 2010). McKinsey’s Chi agreed that China could not be called a cultural powerhouse; while the creative environment should improve as IP protection is strengthened, far too many narratives, even for mobile games, are still derived from Chinese stories that are hundreds of years old, he said.

Global culture

Given that today’s creative economy straddles technology and business as well as traditional arts, it pays to take a broader perspective in assessing how cultural products originate nowadays.

India, for instance, stands out for its prowess in information technology services, while IMF Managing Director Christine Lagarde has lauded China for its innovation. China is currently among the top three countries in the world in filing patent applications and topped the global rankings for creative exports—products based on exclusive trademark registrations in China—she said in a speech in Beijing in March (Lagarde, 2014).

John Howkins, whose 2002 book *The Creative Economy* helped popularize the phrase, sided with Lagarde. The Chinese e-commerce company Alibaba does more business every day than U.S. giants Amazon and eBay combined, Howkins told the BBC World Service (BBC, 2014).

Tencent, a Chinese company that provides mass media, entertainment, Internet, and mobile phone value-added services and operates online advertising services, is as innovative as Google, he added.

In practice, bridging the gap between national cultures is hit and miss. Success can be ephemeral.

"It doesn't have the same wide range of scope as Google, but in their area of online activities they are as inventive in coming up with new products and services as Google," Howkins said.

The rapid rollout of broadband across much of Asia is a clear advantage in the modern creative economy. But making a wholesale shift from being producers of hardware to providers of software and Internet-based services is still a daunting task.

"The cultural goods economy is different from the hardware sector, where the rules are clearer and more tied to costs," Chi said. "In the creative world it's a roll of the dice. You know someone is going to win the lottery; you just don't know who it will be."

Japan's Sony stands out as an example of a company that has struggled to match in the content field the global success it enjoyed with iconic consumer electronics products, including the Walkman.

Andy Yee, an Asia-Pacific policy analyst for Google based in Hong Kong SAR, said he fears Taiwanese manufacturers lack the skills to make the transition from supplying global brands with specialized technology to developing consumer-based services such as e-commerce platforms.

"Today, Taiwan is at a crossroads," Yee wrote in a post for the East Asia Forum. "The key to its reinvention depends on whether it can get plugged into the Internet age" (Yee, 2014).

Plugging into the Internet made a YouTube sensation of an obscure Korean rapper and enabled Rovio Entertainment, a small Finnish computer game developer, to turn *Angry Birds* into the world's most popular video game.

In principle, then, global culture knows no boundaries. In practice, bridging the gap between national cultures is hit and miss. Success can be ephemeral.

Pokémon, Dragon Ball, and Super Mario stand out as examples of Japanese manga, anime, and games that won large, lucrative international audiences. However, Japanese content makers are finding it increasingly tough to export their wares. Overseas sales of anime peaked at 16 billion yen ($138 million) in 2006—the United States and France were especially big markets—but had fallen to 9.2 billion yen (about $100 million) by 2010 (Nagata, 2012).

Chi of McKinsey traced the problem back partly to the Japanese market's increased preference for niche subgenres that do not hold the same appeal for foreigners. "It's getting harder to create a hit in the U.S.," he said. "A lot of production has gone offshore to try to bridge that cultural gap."

In *My Love from the Star*, the alien, Do Min-jun, bridges much bigger gaps of time and space before his unlikely romance—surprise, surprise—draws to a happy ending.

Asian content producers can only hope for the same outcome. Thanks to geographic proximity and shared cultural sensibilities, they are well placed to tap growing regional demand. But cultural success is hit and miss. There is no guarantee that Asia's creative economy will be a powerful new engine of growth.

"It doesn't just happen because somebody says it's a good idea. It's not like building an airport," said Fenez of PwC. ■

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