Research Reports

Culture Industries Trade in Asia Pacific:

China's Growing Dominance and Canada's Need to Become More Export Competitive

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Executive Summary

Cultural industries are a growing and significant part of the global economy. The 2002 estimates by the United Nations Educational, Scientific and Cultural Organization (UNESCO) show that cultural content and related creative industries including books, TV programs, films and video gaming account for over 7% of the world's Gross Domestic Product (GDP), or an estimated US$1.3 trillion dollars in annual revenue, (UNESCO 2005, pg 9).

Culture exports are a measure of a region's influence in the world and as many Asian economies grow, cultural industries trade with Asia is on the rise. China has become the third-largest global exporter of cultural products, behind the US and the UK. This is an astonishing entry into the market and Chinese media organizations are establishing a presence all over the world.

Canada regards itself as a significant cultural ambassador and has proudly incubated its domestic cultural industries. It is a leading trader of printed materials and is competitive in recorded and audiovisual media. But how seriously does it take itself in supporting its cultural industries in international trade? With its strategic positioning in the Asia Pacific market and its long-held support for multicultural policies, including attracting significant numbers of Asians to Canada, what should be its goal in building cultural trade in Asia Pacific? What especially should Canada's goals be in building cultural trade with China, its second-largest trading partner in Asia Pacific? How should Canada respond to the rise of China in cultural industries, and how should it build its own cultural trade advantages?

This paper attempts to address these questions by analyzing the characteristics of cultural trade in Asia Pacific, with special attention to trading dynamics between Canada and China. Comparative global growth trends in trade among regions of the world show that Asia Pacific has become the key region, due primarily to the growing significance of audiovisual goods and to the rise of China in this category. North America is becoming less competitive in cultural trade relative to Europe and Asia, and losing ground in the audiovisual category which includes all goods and services produced by media and entertainment industries.

Canada's cultural trade deficit continues to grow and its performance as a culture exporter to China is lagging behind that of other countries. Canada needs to be more competitive as a culture exporter to China, especially in the media and entertainment industries, to ensure its future standing in global cultural trade. This is a key area due to the explosion of digital content and new media technologies which appeal to Asia Pacific and Chinese consumer markets that are increasingly driving the consumer growth of global trade in cultural goods.

China's media and entertainment industry has dramatically grown and diversified since its entry into the World Trade Organization (WTO) in 2001, due to a restructuring undertaken by the government to establish regional media conglomerates, know as *jituans*, across China. These conglomerates are modeled after the world's most powerful media conglomerates, such as Time Warner, Viacom and News Corp. This report traces successful cases of media and entertainment trade between Canada and China, suggesting that Canada must follow China's lead, taking a planned economy approach toward its media and entertainment industries. Canada has developed tax incentives to encourage the production of Canadian cultural content, undertaken co-production treaties with many nations, and been a global leader in promoting international conventions designed to protect cultural heritage rights. But this is not sufficient for increasing Canada's export competitiveness.

This report identifies some of the strategies undertaken by Canadian media and entertainment companies to gain access to the China market and outlines key issues to be

addressed in further opening up the market. To further support the industry, the report recommends that Canada consider first, undertaking a Culture Export Competitiveness Review; secondly, an Asia Pacific Co-production Treaties Assessment; and third, begin the development of Regional Media and Entertainment Industry Cluster Strategies, beginning with a federal and provincially coordinated Pacific Gateway Media and Entertainment Industry Strategy.

Portrait of the Global Cultural Goods Trade

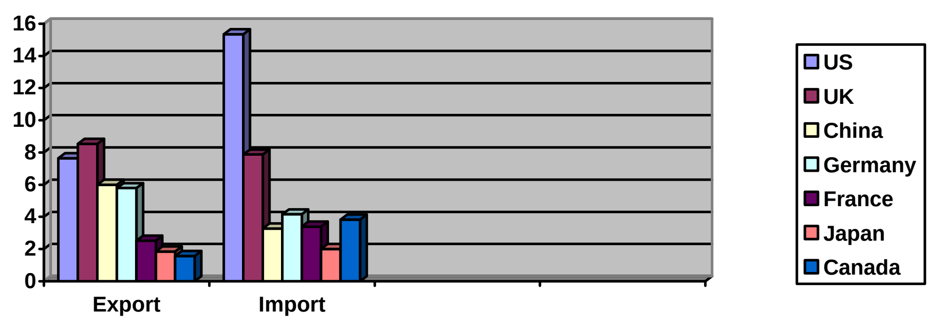
There are many challenges to finding reliable comparative data on global cultural trade, such as the identification of cultural products within common classification systems and finding comparable measurement methodologies across nations. UNESCO's Institute of Statistics has overcome some of the challenges to produce the most definitive study, using international customs data to track the flow of cultural goods. This approach is a departure from traditional standards of measurement which focus on equipment and manufacturing processes surrounding cultural goods trade.

The report, entitled *International Flows of Selected Cultural Goods and Services, 1994-2003*, uses data derived from balance of payments extracted from the United Nations Commodity Trade Statistics database in five core cultural goods categories: heritage goods (collections and antiques over 100 years old), printed media (books, newspapers, periodicals and other materials such as printed music, postcards, maps and pictures), recorded media (gramophone records, discs, tapes and other recordings), visual arts (paintings, statuettes and other) and audiovisual media (video games, films and photos).

The UNESCO review of the customs data shows that the trade in cultural goods rose 50% from US$39.3 billion in 1994 to US$59.2 billion in 2002. Of this total, recorded media represented 31% of the total, printed media 30%, visual arts 20%, audiovisual media 14% and heritage goods 5%.

As Figure 1 below shows, seven countries are the dominant traders in cultural goods, but North America is far more dominant as an importing region than as an exporter, with the US importing US$15.3 billion in cultural goods in 2002. The US and Canada are the only substantial net importers, bringing in more than double what they exported. Other top exporters, including the UK, Germany and China, export more than they import.

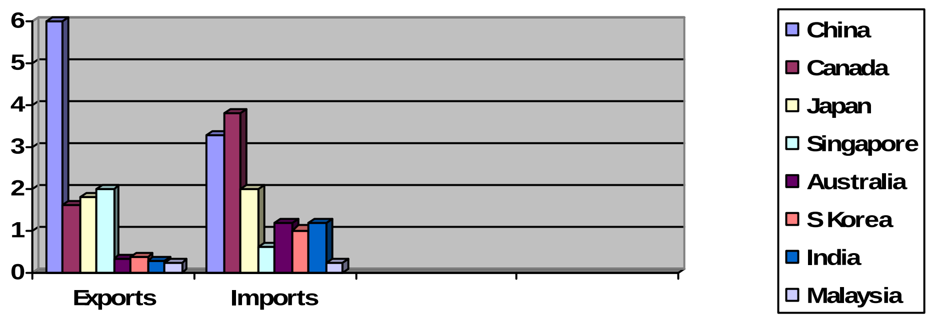
Figure: 1 Leading Global Exporters and Importers of Cultural Goods, (US$ billion)



Source: Orbital Media Group, 2007 - Extrapolated from UNESCO Report, 2005 (Annex 1, Tables I-1 and I-2).

Figure 2, of the flow of cultural goods in Asia Pacific (excluding the US), shows that China, followed by Singapore, Japan and Canada are by far the leading exporters of cultural goods with Australia, South Korea, India and Malaysia also ranking among the leading importers.

Figure: 2 Leading Asia Pacific Exporters and Importers of Cultural Goods, Excluding the USA (US$ billion)



Source: Orbital Media Group, 2007 - Extrapolated from UNESCO Report, 2005 (Annex 1, Tables I-1 and I-2).

Figure 3, showing the competitive trends in trade by cultural goods types, reveals a higher level of competition and activity among Asian nations in recorded media, print media and audiovisual media compared to visual arts and heritage goods which are for the most part controlled by the US and the leading European countries.

Figure: 3 Dominant Groups of World Exporters and Importers of Cultural Goods

Cultural Good Type in Rank Order	Global Value US$ billion		Top Exporters	Market Share		Top Importers	Market Share
Recorded Media	31.0		US, Germany, Ireland, UK, Singapore, Austria	64%		US, Germany, UK, France, Canada, Italy, China	48%
Printed Media	18.2		US, Germany, Ireland, UK, Singapore, Austria	64%		US, UK, Germany, France, Canada	76%
Visual Arts	11.3		UK & China	42%		UK and US	63%
Audiovisual Media	8.5		China, Japan, Mexico, Hungary, Germany	61%		US, Germany, UK	59%
Heritage Goods	2.2		Europe: UK and France	69%		US and UK	78%

Source: Orbital Media Group, 2007 - Composite of the UNESCO Report, 2005 (2002 Data Findings).

A significant finding of the UNESCO Study is that the UK, US and China together accounted for about 40% of the world's cultural trade products. As shown in Figures 4 and 5, China now ranks as the 3rd largest exporter and 6th largest importer of cultural goods. This is a result of it being the largest exporter of audiovisual media, 2nd largest exporter (behind the UK) of visual arts, and 5th largest exporter of printed media in the world.

Singapore's position as a cultural goods trader is also strong, ranking as the top exporter among the Asian countries of recorded media, with a total of US$1.55 billion, three times as much as China which was in 2002 the second-largest Asian exporter in this category. Singapore also ranked 7th as an exporter of printed media. Japan, too, is a top ten Asian exporter, due largely to its involvement in exports of audiovisual media, which stood second behind China among Asian countries at US$1.2 billion in 2002.

Figure 4: Top 10 Global Exporters of Cultural Goods, (US$ billion)

	Heritage Goods	Printed Media	Recorded Media	Visual Arts	Audiovisual Media	Total
UK	1.05	3.0	1.64	2.70	.33	8.72
US	.14	3.12	3.07	.89	.35	7.57
China	.00	.82	.54	2.23	2.28	5.87
Germany	.07	2.24	2.28	.55	.64	5.79
France	.19	.99	.74	.50	.09	2.52
Ireland	.05	.12	2.13	.01	.00	2.37
Singapore	.00	.39	1.55	.01	.04	2.00
Canada	.03	.80	.36	.16	.22	1.57
Netherlands	.02	.45	.96	.10	.02	1.55
Japan	.00	.16	.04	.06	1.20	1.46

Source: Orbital Media Group, 2007 - Extrapolated from UNESCO Report, 2005 (Annex 1, Table I-1).

On the import side, China is by far the largest importer of printed media overall (including books, newspapers and periodicals and other printed materials), having imported US$7.75 billion or about half of the world's total trade in this cultural goods category. However, within this category Canada is the largest consumer in the world of newspapers and periodicals, having imported US$647 million of these cultural goods in 2002.

Figure 5: Top 10 Global Importers of Cultural Goods, (US$ billion)

	Heritage Goods	Printed Media	Recorded Media	Visual Arts	Audiovisual Media	Total
US	1.39	3.60	1.35	5.42	4.09	15.85
UK	.67	1.77	1.95	2.76	.71	10.29
Germany	.04	1.1	1.48	.59	.89	7.87
France	.06	1.1	1.48	.35	.52	4.43
Canada	.03	2.0	1.71	.19	.50	4.16
China	.09	7.75	1.16	.58	.71	3.52
Switzerland	.10	.70	.82	.66	.07	2.35
Japan	.05	.53	.77	.40	.26	2.01
Italy	.01	.35	.99	.30	.06	1.71
Belgium	.03	.31	.64	.12	.08	1.18

Source: Orbital Media Group - Extrapolated from UNESCO Report, 2005 (Annex 1, Table I-2.).

The portrait of global cultural goods trading that appears from the UNESCO report is that there are currently two dominant trends that point to dramatic changes to come in the flow of cultural goods in the world. The first trend is the emergence of Asia Pacific as an increasingly dominant cultural goods marketplace. The second converging trend relates to the growing significance of audiovisual and new media, which is increasingly produced in Asia, and growing in market size relative to other cultural goods.

Emerging Competition from Asia Pacific

While high-income economies are the largest producers of cultural goods, trade in these goods is now flowing to and from Asia Pacific at a rate that is increasing faster than in other regions of the world, making China the third-largest exporter of cultural goods. In 2002, UK was the biggest exporter of cultural goods with US$8.5 billion, followed by the US with US$7.6 billion and China with US$5.9 billion.

Asia had surpassed North America in 2002 as the second-largest cultural goods exporting region, with a 20.6% market share compared to North America's 16.9% share, down from 25% in 1994 (UNESCO Report 2005, p.9). The 15 largest European Union (EU) nations are holding their own relative to North America, providing over 51.8% of the world's export of cultural goods in 2002, which represented only a small decrease from the 54.3% share held by the EU in 1994.

The emergence of Asia as the second-largest cultural goods trading region in the world, is due to phenomenal increases in the export market share of Southeast Asia for recorded media and East Asia for videogames. These are significant gains, since recorded media surpassed printed media as the leading cultural good traded in the world and audiovisual media had the highest proportional increases during the period.

China has in the past decade become the biggest exporter of audiovisual products, due largely to its growing involvement in video game production. This at a time when video game production now represents about 15% of the global marketplace in cultural goods, and is the only core cultural goods category analyzed to increase its relative share of global trade, doubling over the last decade.

A more detailed analysis of the rate of market share growth of three of the five key categories of cultural industries trade which are undergoing the most change in flow of goods is summarized in Figure 6. The striking thing about this data is the number of Asian countries that are experiencing dynamic growth, including China and Hong Kong, Japan, South Korea, Singapore, India and Malaysia. Although visual arts is not shown, it is worth mentioning that Philippines and Indonesia are both very competitive in these categories, placing among the top 15 exporting nations.

Figure 6: Competitive Cultural Goods Trading Markets - Average Annual Percentage Change From 1994 to 2002

Recorded Media				Print Media (books only)				Audiovisual Media			
Export		Import		Export		Import		Export		Import	
China	30	China	40	China	25	Australia	57	Hungary	91	China	29
HK	28	India	38	Canada	11	Spain	22	Norway	73	Japan	25
S Korea	27	Italy	13	Malaysia	9	Denmark	16	Australia	45	Norway	25
Spain	25	S Korea	8	Ireland	7	Germany	9	China	39	UK	23
Sweden	22	Spain	8	Mexico	6	US	8	Mexico	38	Australia	23
Austria	21	US	7	Spain	5	Italy	7	Finland	37	Singapore	21
Singapore	19	UK	6	Germany	5	Switzerland	7	Germany	27	Mexico	21
Mexico	14	France	6	UK	3	HK	5	Austria	24	HK	18
India	10	Switzerland	5	Sweden	2	France	5	Japan	23	Holland	18
Germany	8	Mexico	5	Italy	1	Holland	4	Canada	17	Sweden	16

Source: Orbital Media Group, 2007 - Extrapolated from UNESCO Report 2005 (Annex 1, Tables V-2, V-3, V-4, V-5, and V-7).

Recorded Media

Recorded media is by far the largest and most competitive cultural goods category, accounting for about 45% of the world's exports in cultural goods in 2002, with six countries sharing more than US$1 billion each of the export market. Import markets in recorded media are also more varied than in other categories, with seven countries sharing almost half of the global import market in 2002.

Asia Pacific is a highly competitive region in recorded media, making up about a third of its global trade. In 2002, the leading regional exporters were the US (US$3 billion), Singapore (US$1.55 billion), China (US$540 million), Canada (US$360 million), India (US$200 million) and South Korea (US$170 million). In the import market that year, the Asia Pacific leaders were the US (US$1.35 billion), Canada (US$1.71 billion), China (US$1.16 billion), Japan (US$770 million), India (US$700 million), South Korea (US$630 million) and Australia (US$370 million).

These performance numbers are strong, but even more impressive are the levels of annual percentage of change tracked by the UNESCO data between 1994 and 2002. As Figure 6 shows, China, Singapore, South Korea and India posted among the highest levels of average annual market growth in both recorded media exports and imports during those years. If this pace of market growth continues, these Asian nations will be the leaders in recorded media in the future.

Singapore's recorded media exports are about half of those of the US, but its export market is growing an average of 19% per year, whereas exports of recorded media from the US have been declining at an average rate of 2.4% per year. Canada and Japan are also losing their competitiveness within Asia Pacific, growing at only about one-tenth the rate in recorded media exports as compared to China, South Korea, Singapore and India.

Printed Media

Printed media is a market in which Asia Pacific is capturing a growing share, including in the fields of book publishing, newspapers and periodicals and other printed materials. As the book publishing data in Figure 6 show, Asia Pacific countries are the main export growth countries, with China leading the way, increasing its market at an annual growth rate of 25% between 1994 and 2002. Canada has been increasing its exports at an annual rate of 11% and Malaysia at 9% over the same period.

China and Canada were of similar market size in the book export market in 2002, with each country having exported about US$800 million in printed books. However China is increasing its market share twice as fast as Canada. China will dominate the book publishing category among Asia Pacific countries, where competitors such as Singapore and Japan are showing decreasing market shares. However, Asian countries are all decreasing their level of imports, with the exception of Singapore, and rely on exports to North America and Europe to continue to build their book publishing markets.

The UNESCO data show that Canada is a leading global competitor in the field of printed media, placing 8th in the world in exports and 3rd in imports of books; placing 7th in exports and 1st in imports of newspapers and periodicals; and placing 4th in exports and 2nd in imports of other printed materials. However, it is losing market share to the US, UK and Germany even though it is a strong competitor among Asia Pacific countries. Other Asian countries are also beginning to participate in the industry on a selective basis. Countries such as Malaysia, whose book exports are starting from a fairly low level, and South Korea, whose imports of other printed materials are rapidly increasing.

Audiovisual Media

Audiovisual media is the most dynamic cultural goods category in the Asia Pacific region. The market has doubled in size in the last decade due largely to the production of video games, which according to the UNESCO report, represents about 90% of the category. East Asia now exports about half of the world's audiovisual media. Export market share from the EU (with the exception of Hungary) has eroded from about 36% to just over 20% and in North America from about 20% to under 8% during the period from 1994 to 2002.

China and Japan are now the leading producers in the world, exporting almost 50% of the world's goods in this category. The US, Canada, South Korea, Singapore, Australia and Malaysia are also dynamic Asia Pacific exporters of audiovisual goods, and most of these countries, with the exception of South Korea and Malaysia are experiencing dynamic growth with rates of increase between 10% to 45%. However Hungary, Norway, Mexico and Finland are new challengers in the market, with annual growth rates averaging 91%, 73%, 38% and 37% respectively between 1994 and 2002.

The UNESCO report shows that China, Germany, Hungary, Japan and Mexico are the five top exporters, accounting for over 60% of the world's exports in 2002. The main international destination for these goods is the US, which imported about 42% of the world's production in audiovisual media. The data show that the accelerated growth in relative market size of audiovisual media among cultural goods is due primarily to China's dramatic performance (especially in video games which account for 99% of its audiovisual exports), to become the leading exporter with a 28.2% share of the world market and US$2.3 billion in exports value, well over the US$1.2 billion of Japan, the second largest exporter. (UNESCO Report, 2005: p. 42, 43).

Emerging from the detailed comparative investigation of the UNESCO data, is a portrait of Asia Pacific as an exceedingly dynamic region in cultural trade, with China potentially becoming a media industry giant. This growing intensification of cultural goods and services trade to and from Asia Pacific, is reshaping and redefining global cultural trade. Music, film, television, books and other cultural goods and services are beginning to move freely between China and North America, creating a network of new trading relationships.

The emergence of new players in cultural goods and services, new ways of transacting business between them and new demands placed on the global market by the growing clout of new Asian and Chinese consumers of culture, will continue to morph our understanding of cultural trade. Gone are the days characterized by some as Western cultural hegemony.

The Explosion of Digital Content and New Media Platforms

The global market size of the cultural goods industry, while impressive, is not fully captured by UNESCO and other cultural statistics organizations that rely on customs-based data for tracking cultural industries trade. These statistics do not fully capture the real size and scale of the global audiovisual media market which is expanding with the shift, in the last decade, to new digital content and multimedia platforms, including online and mobile delivery.

The cultural goods industry is experiencing an explosion of digital content and new media platforms used to distribute that content. According to Pricewaterhouse Coppers (PwC) in *Global Entertainment and Media Outlook: 2006-2010*, (2006), the entertainment and media market will grow by US$500 billion in the next four years. These estimates include the new economic drivers of the cultural goods industry -- Internet advertising and subscription and content fees paid online by consumers.

PwC projects that revenues will be up by 8.4% compounded annually in the US, going from US$40.2 billion in 2005 to US$60.2 billion in 2010; and by 11% in Europe, Middle East and Africa (EMEA) from US$49.5 billion in 2005 to US$83.4 billion in 2010. The highest projected growth will be in Asia Pacific, which PwC projects will surge by 17.9%, from US$48.4 billion in 2005 to US$110.3 billion in 2010. PwC projects that this surge will be primarily fueled by China, which is expected to account for over 80% of the region's growth to 2010. Canada's Internet advertising and digital access spending, according to PwC's forecast, is expected to rise by 9% on an annual compounded rate from US$2 billion in 2005 to US$3.1 billion in 2010.

Much of this projected growth is due to the rapid increase of broadband Internet access that is being rolled out in the homes of consumers across Asia Pacific. As the PwC projections in Figure 7 show, the average rate of online penetration to homes across Asia Pacific will be almost 40% by 2010. As Asia Pacific leapfrogs to broadband access, providing digital content distribution to online home users more rapidly than the rest of the world, it will change the face of culture trading, dramatically raising the flow of goods and online commerce to the region.

Figure 7: Internet Household Penetration (%) in the Asia Pacific Region

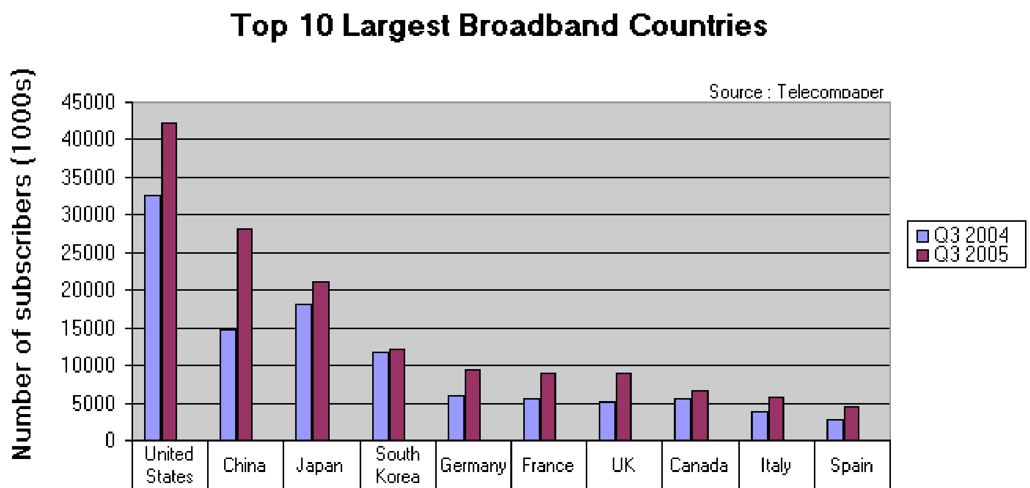
	Actual				Projected					
	01	02	03	04	05	06	07	08	09	10
Australia	41.9	45.8	60.5	64.6	78.0	80.7	82.6	84.6	86.5	88.1
China	5.2	7.9	10.5	12.3	18.7	26.2	32.1	37.9	43.4	48.8
Hong Kong	43.8	49.8	55.7	60.9	64.8	68.5	72.1	75.5	78.8	82.4
India	1.4	2.1	2.6	3.0	3.6	4.5	6.1	7.9	9.6	11.3
Indonesia	0.3	0.4	0.5	0.8	1.1	1.2	1.3	1.4	1.5	1.6
Japan	71.6	76.3	80.9	86.7	90.9	92.0	93.1	94.1	94.2	94.2
Malaysia	13.0	16.9	19.5	22.1	23.3	25.7	28.1	30.4	32.6	34.8
New Zealand	24.5	30.7	36.2	41.5	45.5	49.3	53.1	56.8	60.5	64.2
Pakistan	0.4	0.6	1.2	2.8	3.8	5.1	6.6	8.3	9.9	11.4
Philippines	6.0	6.8	7.8	9.0	11.1	13.2	15.5	18.5	22.0	25.4
Singapore	49.6	58.8	61.7	64.3	66.7	69.0	71.3	73.5	75.7	76.9
South Korea	58.4	63.5	71.4	85.9	89.3	90.9	92.2	93.1	94.0	94.7
Taiwan	35.5	39.0	46.2	49.0	52.4	56.3	60.6	64.2	67.5	70.1
Thailand	7.0	8.8	10.9	12.5	12.8	13.6	15.7	17.6	19.2	20.8
Total	10.5	12.6	14.7	16.5	20.4	24.5	28.1	31.7	35.0	38.3

Source: Pricewaterhouse Cooper LLP, Wilofsky Green Associates, 2006.

As research by the telecom analyst group Telecompaper (www.telecompaper.com) further shows in Figure 8, Asian countries are outpacing the countries of North America and Europe in the number of broadband subscribers. The US currently leads all countries with 42,172,000 total broadband subscribers and 29.08% yearly growth. However, the three Asian dragons are not far behind. China now has 28,182,000 broadband subscribers, Japan has 21,056,000 subscribers and South Korea has 12,054,000 subscribers. At its current growth rate, China will soon overtake the US in total broadband subscribers to become the largest broadband country in the world.

This growth in broadband access requires new digital content. According to Internet content research group, In-Stat (www.in-stat.com), the worldwide market for online content services is expected to expand by 10 times in the next five years. Worldwide broadband households are expected to more than double between 2005 and 2010, from about 194 million households in 2005 to more than 413 million by 2010. With this rapid market growth, the world's largest Internet portals, broadcast networks and pay-TV services are all involved in finding ways to blend their video assets with interactive services.

Figure 8: Top 10 Broadband Countries (Total Subscribers)



	United States	China	Japan	South Korea	Germany	France	UK	Canada	Italy	Spain
Q3 2004	32670	14786	18206	11802	5991	5555	5057	5580	3908	2786
Q3 2005	42172	28182	21056	12054	9451	8894	8856	6641	5783	4448
Growth %	29.08	90.6	15.65	2.14	57.75	60.1	75.14	19.01	47.98	59.66

Source: Telecompaper, "World Broadband Research Report", 2006

A very similar picture emerges in the area of wireless, mobile and handheld distribution of digital content. The UMTS Forum (www.umts-forum.org), an industry association of universal mobile telecommunications system providers, predicts that almost half the world's physical mobile users will be located in Asia Pacific by 2010.

As Figure 9 shows, that amounts to a projected 850 million users in Asia Pacific, compared to 220 million in North America and 260 million located in Europe. More importantly, the 2010 projections reflect approximate market saturation levels for North America and Europe, whereas many countries in Asia, and especially China and India, will still have decades of market growth potential ahead of them, further outpacing the rest of the world in a medium where population size is key.

Figure 9: Physical Mobile Phone Users (millions)

	2000	2005	2010 (Projected)
Europe (EU15)	113	200	260
North America	127	190	220
Asia Pacific	149	400	850
Rest of the World	37	150	400
Total	426	940	1730

Source: UMTS Forum, 2006

Asia Pacific mobile owners are also very active users of mobile content, including short messaging and video displays. Countries such as China are forging ahead aggressively with the provision of multimedia infrastructure and content services, provided through 3rd and 4th generation satellite mobile systems and IPTV services that deliver voice, graphics, video and other broadband entertainment and information content direct to users.

In addition, smart home and diverse multimedia content applications will become prevalent in Asia. Already South Korea is the world's biggest early adopter of digital smart home applications and content, and multimedia home entertainment systems, such as digital set top boxes and personal video recorders, are becoming more common across Asia Pacific.

Asian countries are expected to drive the rapid growth of online and wireless video, music, gaming, IPTV and ring tone content markets. Based on its size and scale, Asia Pacific will, within the next 20 years, become the leading region of world in the development of the information society, through the convergence of communications, information, entertainment, commerce and computing, and with its more rapid adoption of multimedia computing, interactive TV and the use of online and mobile services.

Canada's Lagging Performance and the Importance of Trade with China in Film, Television and New Media

China and Canada are very different players on the cultural goods trading stage. China is now one of the world's biggest net exporters of cultural goods, with big trade surpluses, and will be the biggest engine for cultural trade in Asia Pacific for decades to come. Canada, on the other hand, is one of the world's biggest net importers, with cultural goods trade deficits second only to the US, but a relatively small exporter of cultural goods.

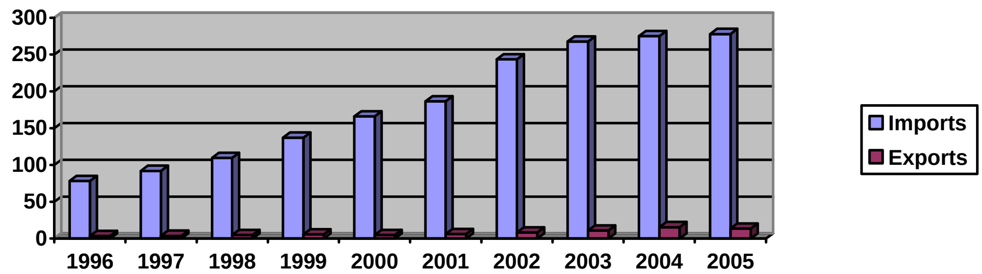
China's strength is in visual and in audiovisual media, with world-leading growth rates in printed and recorded media. Canada's strength is in printed and in recorded media, so is facing a situation where it needs to raise it competitiveness to deal with the growing competition for market share. Canada is also positioned to become a competitor in the audiovisual market, but must focus on developing a sustained growth strategy if it is to become a more viable player in Asia Pacific.

Unfortunately, Canada's competitiveness has shown serious signs of lagging in the past decade. According to Statistics Canada, Canada's international trade in cultural goods amounted to C$6.8 billion in 2005, down 2.3% over two years. This decline was attributed to weakened foreign demand for Canada's services in film and video, and in advertising services. Canada's cultural goods imports are also declining. Still, it recorded a trade deficit of C$545.4 million in 2003, the largest since Statistics Canada began compiling culture services data in 1996.

Despite the decline, trade in cultural goods between Canada and China has been growing at a double digit pace every year from 1996 to 2003. China had become the 5th largest market for Canada's exports of cultural goods in 2005 and the 2nd largest source of cultural goods imports. Overall, China is now Canada's second-largest trading partner in cultural goods, accounting for about 5% of all of Canada's international transactions in cultural goods.

As shown in Figure 10, along with this growing trade in cultural goods, Canada's cultural trade deficit with China has also grown, climbing from C$78.3 million in 1996 to C$265 million in 2005. China is the second-largest contributor to Canada's cultural trade deficit, behind the US. These deficits have increased more than with any other trading partner, with writing and published works accounting for 60% or C$160 million of the total cultural trade deficit with China in 2005.

Figure 10: Value of Canadian Cultural Goods Imports from and Exports to China ($m)



Source: Statistics Canada, “International Trade in Cultural Services” 2005.

Statistics Canada data show that in 2000 Canadian cultural imports were allocated among books and printing services (30%), music and other recordings and software (27%) and newspapers and periodicals (22%). The leading cultural goods exports by value in 2000 were music and other recordings and software (22%), advertising materials (20%), and books and printing services (17%).

However, a change occurred in the balance of Canadian cultural trade between 1998 and 2005. There was a relative drop in printed media trade which was compensated by an increase in the audiovisual segment, with film and video services accounting for half of all imports, increasing to C$1.3 billion. Imports of broadcasting services became the second largest category, representing 21% or C$570 million of total imports.

Figure 11 below, further provides a comparative summary of the relative competitiveness of Canada’s culture sectors and their potential in Canada-China trade. The summary shows that the visual arts, performing arts and heritage sectors, though relatively small, play an important role in building strong relations in support of Canada-China trade and economic development.

The audiovisual, recorded media and printed media sectors represent the bulk of Canada’s cultural trade. They also represent the key areas of growth potential in Canada-China cultural trade. However, these sectors are not without their challenges. A big part of the cultural export growth that Canada experienced in the last decade is due to what Statistics Canada defines as “culture services,” not goods, especially in the areas of film and video, advertising and published works.

As mentioned, demand for these services declined in 2003 after a seven year surge. It is therefore critical for Canada to regain its momentum in culture services, and at the same time to increase its volume of goods in the audiovisual category, which, as discussed in the previous section, is the wellspring of the rapidly developing digital content and new media industry that will dominant global cultural trade in the future.

This appears to be the most effective way for Canada to remain competitive in the cultural goods and services markets of Asia Pacific, which will far exceed other regions of the world once the audiovisual sector fully converges, bringing digital content onto a host of new media platforms.

Figure 11: Summary of Canadian Cultural Sectors Competitiveness

	Value to Canada	Competitiveness	Canada-China Trade Potential
Audiovisual and Recorded Media	Very significant future sector for Canada's culture industry. US$1.53 billion in recorded media goods trade in 2002; and USD$0.75 billion in audiovisual goods trade. Film and TV production volume was C$4.5 billion in 2004.	Ontario, Quebec and British Columbia all have large production centres, with Alberta, Saskatchewan and New Brunswick following.	Strong potential for all Canadian services exports to China. Growth potential: Canada-China co-productions the 9th largest among Canadian treaty countries.
Printed Media	Significant traditional sector in Canada's culture industry. Revenues reached C$2 billion in 2004, but about half of the companies involved are foreign owned.	Heavily reliant on Imports. Canadian book publishing industry is a leader in Canadian cultural exports, mainly focused on US, Europe and Japan.	Writing and published works represent 58% of total Canada-China cultural imports and 23% of total Canada-China cultural exports.
Visual & Performing Arts	Small economic sector, with exports of original Canadian art estimated at C$70 million and of mass-produced art at C$125 million in 1998. Among the performing arts, theatre accounts for 28% and music groups account for 25% of total revenue.	Diverse and not organized on a sector-wide basis. Performing arts are at the core of Canadian tourism destinations, almost 70% of which located in Ontario and Quebec. In 1997 performances abroad generated about 50% of the segment's export revenues.	Visual arts imported from China represent 32% of total Canada-China cultural imports but 9% of total Canada-China exports
Heritage Goods	Canada had 2,670 heritage institutions in 2002, with operating revenues of C$1.7 billion.	Heritage institutions have seen reductions in government funding and are struggling to compete with other forms of entertainment for visitors.	Highly important in building international relationships, and significant as tourist destinations. Represent only 1% of Canada-China cultural trade.

Source: Orbital Media Group, 2007 - Extrapolated from UNESCO Report and Statistics Canada Reports.

Canada's relationship with China is pivotal in this regard. However, industry ties in the key categories are just beginning to take shape and Canada-China trade activities have been fluctuating. For example, co-productions in film and television amounted to just C$5.1 million in 2003, the ninth-largest among Canadian partnerships in that year, significantly down from 2002 where C$38.2 million in co-productions took place making China Canada's third largest co-producer in that year.

As Canada's Trade Commissioner's Report on Film and Television (July 2005) shows, Canada has taken a small but important position in the Chinese film and television industry. Canadian suppliers of film and television competed with Japan, the US, South Korea, Australia and Europe to claim C$11.8 million worth of China's cultural goods import market in 2002. Of this, C$5.1 million was for the supply of films and videos, while Canada exported nearly C$7 million in cultural services to China. The Chinese film and television market is particularly promising for firms involved in animation products and services for the entertainment and education markets, digital film production, cinema ownership, and industry services such as marketing, management and distribution. Canadian firms are well positioned to explore opportunities in this rapidly expanding market.

China’s Burgeoning Media and Entertainment Industry

The global media and entertainment industry is now at the doorstep of the China market, already knocking to come in and in some cases even invited into the living room of Chinese households. Little wonder since over 80% of China’s 1.3 billion people are now regular television viewers, with about 40% of Chinese households having access to cable television, according to the Canadian Trade Commission’s Report (July 2005).

As the affluence of China’s consumers rises, it is not difficult to understand why global media companies are interested in China’s media market -- the country ranks top among nations in television market growth. With annual profits reputed by *Beijing Business Today* to be US$$12 billion a year, media has become China’s fourth-largest industry, behind the electronic information industry, manufacturing and the travel industry.

China has the largest broadcast television network in the world. Broadcasting covers 93% of the population and television is available to 94% of China’s population, creating an audience of over 1.2 billion people. Television cables extend 3 million kilometers and reach 100 million subscribers. At the same time, the number of Internet users is also rapidly increasing and will soon make China the largest Internet consumer base in the world.

This dramatic rise of China’s media industry is fueled by advertising revenues. Television advertising and subscriptions revenues are reported by www.worldscreen.com to be growing at a rate of 20-25% per year and there are no signs of this trend slowing down in the foreseeable future. A 2000 study by ACNielsen Media Research suggests that China was maintaining an annual increase of 16% in advertising revenue. Advertising income for TV, newspapers and magazines all reached new highs of US$8.1 billion, US$2.9 billion and US$200 million respectively.

To encourage the further evolution of the media industry so as to become a dominant player on the world stage, and with China’s entry into the World Trade Organization, Beijing undertook a major and significant restructuring of the country’s media sector at the turn on the century. As is aptly described by Ruoyun Bai, in his paper entitled “Media Commercialization, Entertainment and the Party-State” (June 2005), this restructuring began with the issue of a circular in late 2000 by China’s regulating body, the State Administration for Radio, Film and Television (SARFT) with the State Council.

Known famously as No.17 document, the circular put forward proclamations for the amalgamation of the media industry into regional clusters, known as *jituan*, allowing them to become commercialized and listed on the stock market. Following the proclamation, cable networks started to merge with terrestrial networks and smaller stations at the county level. At the national level, amalgamation grouped China's most valuable media assets, including China Central Television (CCTV) and the country's cable-backbone network, into the mammoth China Radio Film and Television Group (CRFTG) and put senior party propaganda officials in charge.

Five leading media *jituan* were established following the release of No. 17 document and the subsequent shift to “managed competition” in China’s media industry. These media *jituan*, reviewed below, include CRFTG, Shanghai Media and Entertainment Group (SMEG), Hunan Radio Film and Television Group (HRFTG), Beijing Media Group (BMG) and the Southern Broadcasting Media Group (SBMG).

Figure 12: Summary of the Emergence of China's Leading Media *Jituan*

	Monopoly Formation	Industry Position in China	Market Development and Future Plans
China Radio Film and Television Group (CRFTG), also Known as China Media Group (CMG)	Formed in 2001, CRFTG is an amalgamation of the largest national broadcaster, Central China Television (CCTV) and the country's cable-backbone network along with film, radio, print, online and advertising assets.	Total assets valued at US$2.6 billion and corporate revenue close to $US2 billion in 2005. Total revenue increased by 21.24% from 2003 to 2005. TV revenue increased 142% from 1999 to 2005.	CRFTG will be the leading agent for film and TV programs made in China and abroad, setting up a film and TV trading platform called the China Radio, Film and Television Program Exchange Centre. Owns CBSat which will oversee the SinoSat platform that will eventually allow foreign channel providers to access Chinese cable viewers.
Shanghai Media and Entertainment Group (SMEG)	The conglomerate has three television companies, two radio stations, a newspaper, an Internet portal, six sports teams and 12 prominent buildings in Shanghai.	SMEG has around 5,200 staff, with capital assets totaling US$1.5 billion.	Began offering pay-TV services to its 50-channels. 11 of the group's TV channels achieved a market share of 76% during prime time in 2003. Expanding into news services, IPTV, mobile content, program patent sales and program innovation.
Hunan Radio and Television Group (HRTG) also referred to as Hunan Media Group (HMG)	Formed in 2000 as the first regional media conglomerate in China, consisting of seven TV channels, four radio stations, print media, websites and other visual and audio studios.	HRTG has total assets of US$362 million. Owns the first listed company specializing in TV media in China , Hunan TV & Broadcasting Intermediary Co. Ltd.	Focused on entertainment and aggressively trying to partner with the largest media conglomerates including Murdock's News Corp. and Viacom. Has ambitions of becoming "China's Hollywood" entertainment producer.
Beijing Radio Film and Television Group (BRFTG), later known as the Beijing All Media and Culture Group (BAMC)	Includes 10 institutions originally under the administration of Beijing Broadcast & Television Bureau, such as Beijing People's Broadcasting Station and Beijing Television Station Group, and five production enterprises as Beijing Gehua Culture Development Group and others.	Total assets or revenue statements can not be obtained.	BAMC integrated content and services building both a terrestrial digital video broadcasting and cable TV network platform to support trans-regional and international media development and build many domestic media brands focusing on children's entertainment.
Southern Broadcasting Group (SBG)	Established in 2004 to merge all media in the Province of Guangdong including, 21 TV stations and network companies, reaching 10 million households.	Reported combined assets of US$1.3 billion.	Working in a highly competitive market with pressure from Hong Kong broadcasters TVB and ATV and Rupert Murdock's Star TV.

Source: Orbital Media Group, 2007

As the summary above shows, China's recent media consolidation has resulted in the rapid growth in size of national and provincial media conglomerates. The first provincial broadcast conglomerate was established in December 2000, and was followed by the formation of seven conglomerates in 2001, including the national broadcast conglomerate that has CCTV at its core. By the end of 2002, there were 357 television stations including CCTV, 33 provincial stations, 27 provincial capital city stations, and 296 regional city stations (Shanghai Television Festival Committee, 2004).

These media groups were further encouraged to commercialize their operations in a 2003 policy statement issued by SARFT entitled, "Proposal for Accelerating the Development of the Media Sector". It urged the media groups to move to a level of commercialization, market development, capital investments and expansion into entertainment empires not previously seen in China.

By mid-2003 all channels except the news channel became commercialized and structural reform of the culture sector was underway. By February 2004, SARFT further issued the "Proposal for Promoting the Development of Radio, Film and Television Industries," with a commercialization framework for the media industry in the coming years. This was soon followed by a move, again endorsed by the 16th Party Congress, to commercialize all publishing houses, except for the People's Publishing House, turning them from government undertakings into businesses.

These directives have revolutionized China's media and entertainment industry, consolidating its diverse media properties previously operated by local, provincial and national authorities, into a handful of big, powerful players. As a consequence, the biggest *jituans* have consolidated and are now amassing business interests in terrestrial, cable and satellite television, radio, film studios, cable networking, online portals, IPTV and mobile content assets, newspapers, production and distribution of cultural products, advertising, real estate and other areas. A sampling of SMEG's activities gives an idea of just how dynamic the media and entertainment conglomerates in China have become.

> Shanghai Media and Entertainment Group (SMEG)
>
> SMEG has since it formation in 2003 pursued initiatives aimed at rapid expansion. It has become a national broadcaster with international operations, focusing on market-driven programming. The Group launched a satellite television channel called Dragon TV which has teamed up with CNBC to exchange business news. It has also launched China Business Network (CBN) in hopes of becoming the Chinese counterpart to Dow Jones, commercializing both Dragon TV and CBN by setting them up as autonomous companies.
>
> The Group is further aspiring to become China's premiere entertainment monopoly, through such moves as buying the exclusive broadcast right to the China Football Super League, and by teaming up with Time Warner to build 10 cinemas across China and with Viacom to set up "co-programming joint ventures." Run by former actor Ye Zhikang, and managed by a young, western educated professional media executive, Ruigang Li, SMEG is now a conglomerate of more than 50 subsidiaries including film studios, newspapers, symphony orchestras and a puppet troupe.
>
> SMEG is on a continuing growth trajectory in television broadcasting and related media entertainment services including sports, show business, performance arts, science and technology, and finance. Its television assets consist of 11 analogue TV channels, 90 digital paid cable TV, a full broadcasting Internet TV service, 10 analogue and 19 digital radio services and the first IPTV mobile service in China. The group operates and owns five sports centres and 14 cultural art centres. Other areas of operation include newspapers, magazines, news websites and audio-visual publishing.
>
> According to an AC Nielsen survey (January 2007), 11 of the group's TV channels achieved a market share of 76% during prime time in 2003. Its revenue from advertising accounts for 10% of the commercial sales turnover in the local market. Being a producer and a publisher in the various fields of news, movies, TV series, music, sports, finance, entertainment and documentary, SMEG is now pushing itself forward in both the domestic and international Chinese-speaking market.

China's media and entertainment sector is moving forward in a highly charged and competitive manner as the media monopolies also push each other to develop their market advantages. The most famous case in that regard is the Hunan Media Group which was the first TV studio to list on a Chinese stock market and is famous for its focus on media entertainment. The group attempted to launch an all-movie satellite channel which was blocked by CCTV because it came into competition with its movie channel. It then tried to launch several dramatic series which were similarly blocked.

Despite these competitive setbacks for the Hunan Media Group, Beijing is determined to establish the framework for a more competitive and commercialized media and entertainment market following a Chinese Media Capital Investment Summit held in May 2003. Coming out of this Summit, the central government decided to take additional measures to open the market, including to allow private companies to make programs for TV, to allow the media *jituan* and their TV stations to set up joint-venture programming companies with both small foreign and large transnational media companies, and to ultimately allow the *jituan* to enter the stock market with their subsidiary privatized, joint-venture companies.

The creation of the *jituan* has further allowed for the creation of various tiers of producers and distributors. Private Chinese media firms have emerged through the commercialization process that were initially engaged in advertising and media buying activities and then later advanced to themselves become media producers and new media entrepreneurs. The industry is beginning to also attract Chinese companies interested themselves in becoming media owners. For example, China Poly Group, a giant armaments trader and real estate dealer, acquired the China Travel Channel satellite service.

A more significant case is that of China Satellite Television (CSTV), a Beijing-based technology company that provides all of the physical infrastructure and technical support in linking China broadcasters to their viewers via satellite. CSTV has in recent years grown to provide transmission services not only in China, but across Asia Pacific, and parts of Europe and the Middle East. In addition, CSTV recently acquired Macao TV from which it plans to produce and distribute specialty channels and to be a media and entertainment provider for the nearby city of Zhuhai and surrounding area, which has been earmarked by Beijing to be developed into a studio mecca as the Hollywood of China.

At the same time, Chinese media are cooperating with overseas media groups. By March 2002, Star Satellite TV produced by the Star Media Group under the jurisdiction of the News Group was being televised in Guangdong Province. It was the first time that China had authorized an overseas channel to use the landing right of a cable television network. By the end of 2003, 30 overseas groups, such as the Phoenix Satellite TV, Bloomberg Finance, Star Satellite TV, Eurasian Sports and Chinese Entertainment TV had arrived in China. At the same time, China media are also seeking to establish an international presence. For example, the English channel of CCTV entered the United States through Fox News Internet under the jurisdiction of the News Group.

While ownership of broadcasters had in the past remained largely off-limits to investors, as of December 2003, SARFT has allowed private owners to operate television channels. The separation of ownership and commercial operation of television channels makes it possible for outsiders to participate in the broadcasting sector. To protect the mainland market, the central government has placed limits on foreign broadcasters, with companies such as Star TV permitted to air only in Guangdong and selected venues such as hotels.

However, an increasing number of private Chinese companies are acquiring de facto control of selected television channels in China and partnership development for programming makes early stage entry by foreign companies possible in the China broadcasting industry. Under the new SARFT policy guidelines, qualified foreign companies will be allowed to own a minority stake in programming joint ventures with state-owned Chinese partners and restrictions on partners' background and ownership percentage are easing.

Demand for content will continue to grow in China for a very long time, especially with the ongoing roll-out of digital channels, publishing ventures and new media, creating significant opportunities for both Chinese and foreign content providers. Creative transnational relationships are being developed between the *jituan* and the world's biggest media companies including DreamWorks, Disney, News Corp, Vivendi Universal, Warner Brothers, Bertelsmann, Turner Broadcasting, Viacom and others.

Diversification of Media and Entertainment Sector Cooperation Opportunities with China

China's dynamic media and entertainment industry is poised to generate a major growth surge in international cultural trade. The media landscape is now occupied by three kinds of major players: state-owned media conglomerates or *jituan*, Chinese private capital and transnational media and capital.

In this landscape the dominant role of China's Ministry of Culture and SARFT in owning and managing media and entertainment ventures is evolving to assume primarily a regulatory function. SARFT's operational arms which once held a monopoly in the Chinese culture market have been restructured into the state-owned *jituan*, which are now expected to behave like giant western-style media conglomerates and in doing so, have more autonomy to establish their strategic business interests and partnerships.

This has brought about opportunities for transnational media companies and foreign governments to help China's media conglomerates and their related companies to establish cooperation agreements, set up operations outside China and become established in worldwide markets. In turn, the biggest of the western transnational media companies are making progress in establishing their own strategic interests in China.

We need to therefore ask, where is Canada and how is it participating in this media development landscape? This is an important question, given that we have shown how significant the participation of Canada's cultural industries in the China market is to the growth of its cultural trade in the world. We can certainly say that Canada is active, but is it active enough? And is it doing the rights things in its own media and entertainment regulatory and business development landscape to be competitive?

The growth in size, sophistication and diversity in China's cultural industries presents new opportunities for Canadian cultural trade. But Canada appears to have treated these opportunities primarily to assist in building diplomatic relations with China. Canada has not yet fully addressed the fundamental significance of China's emergence as a culture market. The Canadian government has certainly not yet considered how Canada regulates and structures its culture industries in response to how China is changing the fundamental landscape of cultural trade in the world.

With China's economy now effectively doubling in size every five-to-seven years, and with its media and entertainment industry rising to become the 4th largest sector in China's economy, there is no doubt that the nation's impact will be felt in restructuring global cultural trade. With China's media and entertainment industry is in a formative stage of development, now is the time to act in becoming a significant culture trading partner with China.

This will require having a stronger strategic orientation toward Canada-China cultural industry trade, looking at Canada's key strengths and identifying those segments of the market in Canada which can best compete in China. As is the case in all sectors of China's economy, media and entertainment industry players want to work with large transnational monopolies. Canada does have a few large media and entertainment groups. It also has a number of specialized media and entertainment providers that can could be better encouraged and supported by Canada's federal and provincial governments.

An internal government report, produced by the Canadian Embassy in Beijing, entitled "The Internationalization of Culture in China: Implications for Canada" (March 2003), recommends that Canada should be engaged as soon as possible in building stronger cultural trade with China. The report suggests Canada begin doing this by tracking the regulatory changes underway in China, focusing on developing new cooperation agreements which keep pace with market changes, and participating in a number international cultural exchanges and events which have proliferated in China with a growing range of key players, events and potential partners.

The Canadian Embassy in Beijing, the Canadian Consulate in Shanghai and various missions in China are well aware of the need to facilitate access to key contacts in the rapidly changing culture industry, and to establish a network of institutions and agencies needed to promote information-sharing and to facilitate cultural trade. What is needed is nothing short of building Canada's engagement with China's media and entertainment industry at an institutional level of review and cooperation.

China's approach to the global development of the industry is very systematic and the institutions which have historically been at the centre of this development are well known. China's Ministry of Culture, for example, is responsible for high-level cultural exchange agreements, which it has signed with over 140 countries. The Ministry has also now established Chinese cultural centres in several foreign cities.

As it relates more specifically to media and entertainment, SARFT is the most powerful regulatory agency, responsible for regulating radio and television broadcasting and television and film production. SARFT had sweeping operational and regulatory powers in managing the broadcasting and film industries, being responsible for all approvals of the content of radio shows, TV programs and films. This included overseeing film imports, and regulating foreign broadcasting activities in China.

Before the sweeping changes, SARFT controlled access to, and supervised the operations of, the nation's satellite and cable networks and was solely responsible for cooperative agreements between China's radio, television and news organizations and dozens of countries, including Canada. But with the move to commercialization following China's entry into WTO in 2001, SARFT spun off its operational control of the media outlets to the newly formed China Media Group and provincial media *jituan*. However, SARFT remains in control as China's national regulatory body, performing licensing functions comparable to the Canadian Radio and Television Commission (CRTC).

The central government's restructuring requires China's media conglomerates to increase their pace of development in the field of digital and new media platforms. The media groups are now also allowed to use up to 50% foreign capital investment to support the growth of their Internet ventures and for the construction of joint-venture cinemas. Thus agreements are moving away from general statements of cooperation governing international cultural activities, to more sector-specific and project-based bilateral agreements.

Foreign media distributors are now permitted to establish joint ventures and the government has opened up the amount of foreign films which can be released in theatres, currently at 20, with a target of 50 feature length films per year. The newly formed China Film Group (CFG) is investing directly in film production and distribution, ending its monopoly on foreign film distribution and providing distribution licences to regional enterprises. New policies have also been put in place aimed at improving distribution, increasing chain cinemas and ticketing processes, and building or renovating theatres to encourage the growth of consumer demand for Chinese films.

The CFG's subsidiary, the China Film Co-production Corporation (CFCC), is responsible for supervising and assisting in film productions with overseas companies, focusing on documentary, short film and animation co-productions. With the rise of production companies affiliated with the media *jituan*, television and film content is now more likely to be produced through partnerships with the private sector, and no longer exclusively in government-run studios and productions centres.

This gives independent Canadian production companies, such as IMAR and Electric Orange, an opportunity to produce innovative low-budget films: the government is also forming new companies to compete in the indie film sector. The Changchun Film Group, which organizes the annual Changchun Film Festival, was the first film conglomerate to be formed by the Chinese government in this market segment. Others now include the Oriental Divine Dragon Film Company (run by Changchun Film Studio and Poly Group Corporation of China) and the China Hero Film Investment Company (founded by China Film Corporation, China International Trust and Investment Corporation).

Industry events to promote media and entertainment industry trade have, in step with the growth of the industry, proliferated and risen in international stature. The most prominent among them include the Shanghai Television Festival, Beijing International Television Week, China Radio and Television Exposition and Sichuan Television Festival. Besides judging and giving awards, these festivals also conduct exhibitions and technology exchanges and the trading of television programs. In this regard, Shanghai has become the largest television program trading market in Asia.

Canada-China Trade in Film and Television: Taking up the Call of China's Culture Industries

Canada is slowly taking up the call of China's cultural industries to become more engaged in the China market, building on historic ties in film and television. Two prominent early joint projects were the film "The First Emperor," which was co-produced in 1988 by Canada's National Film Board (NFB) and Telefilm in cooperation with the Xi'an Film Studio; and secondly, François Girard's "Red Violin," which was made in 1989 with assistance from the China Film Co-Production Film Corporation and the Shanghai Film Studio.

The NFB and Telefilm have been working in China since 1979, with partners such as the China Film Archives, with whom in 2000 they hosted a "Screening of Contemporary Canadian Films" in Beijing. A Canadian film retrospective was also organized by the Archives In collaboration with York University in 1998. The China Film Art Research Centre under the China Film Archives further conducted research in Canada with the support of DFAIT's Special Awards for Canadian Studies.

The NFB and Telefilm have probably been Canada's most active co-producers in Asia Pacific, having generated more than 400 films including with companies from China, Hong Kong, Macao and Taiwan. Much of their recent activity is supported by the 1987 China-China Agreement on Co-production, and an MOU on Cultural Exchanges and Cooperation signed in 1998, in which Canada advocated cultural cooperation with a commercial focus.

The time is right, in the wake of this co-operation in the media and entertainment sphere, to develop institutional capacity building agreements which benefit Canada as a culture trading partner with China. This was acknowledged by the Government of Canada with the signing, in January 2005, of a new China and Canada Agreement on Cultural Cooperation, expressing an interest to be more actively involved in cultural trade with China.

Cultural trade was elevated to the Prime Ministerial level during this period, with Canada establishing a Canada-China Strategic Working Group designed to establish common interests in trade, and with the Prime Minister on hand in 2005 to witness the signing of an agreement between the Canadian Museum of Civilization with the National Museum of China to prepare an exhibit exchange and to mount an exhibit about Canada's First Peoples during the 2008 Beijing Olympics.

Institutional capacity building is taking place, but primarily on a government-to-government basis, reserved for elite institutions such as the NFB, Telefilm, the CRTC and others, such as the Canada Council for the Arts which in 2002 was hosted by China's Ministry of Culture for the first time, resulting in an MOU that encourages the exchange of artists in residencies, exhibitions and festivals organized in the two countries. But this type of capacity-building appears to be flowing primarily in China's favour in achieving its objective of propagating its culture industries to countries, including Canada, with strong Chinese diasporas.

The most dramatic recent example of this is the CRTC decision in December 2006 to award China International Television Corp., a wholly owned subsidiary of state-owned CCTV, under the sponsorship of Rogers Communication Inc., nine new Chinese-language television stations in Canada. The controversial decision clears the way for CCTV-4 (which already has satellite carriage into Canada), The Satellite Channel of Southern TV Guangdong, Southeast TV, Dragon TV, China Yellow River TV, Beijing TV, Hunan Satellite TV, Jiangsu International TV Channel & CCTV Entertainment Channel.

By bringing Chinese broadcasters to Canada, Rogers sets up strong relationships to do business in China through its joint venture with Hong Kong's Sun Wah Media, established in 2004 to form a media production company in China called SW Rogers Media Ltd. SW Rogers is currently distributing a 52-hour documentary series, "Mandarin Planet," which deals with the thoughts and feelings of Chinese living abroad. Plans are also underway to establish a Chinese edition of a Canadian magazine and to introduce Rogers' Shopping Channel to Chinese viewers.

The deal to bring China broadcasters to Canada also makes it easier for multi-cultural broadcaster the OMNI network, owned by Rogers, to enter the China market. But this type of quid pro quo bargaining is not limited to Rogers and OMNI. As Figure 13 below summarizes, many of the Canadian media and entertainment companies involved in China are building similar relationships in Canada or setting up joint-venture companies in China.

Figure 13: Ten Examples of Canadian Media Companies and their Involvement in China

	Industry Focus	Key Operations	Asian Partner Participation and/or China Activities
Alliance Atlantis Communications	TV programming.	Canada's largest TV producer owns CSI, the biggest franchise on TV.	Distributing CSI and lifestyle content to Asia, focusing on home decorating and personal makeovers. Launching a pre-school series, begun "mobisodes" of Degrassi and looking at VOD for CSI in Asia.
Channel M	Multicultural broadcasting	Vancouver-based TV station.	Cooperating with Beijing-based Travel Channel to set up an office in Canada.
CHUM	TV broadcaster and programmer.	Toronto and Ontario TV station. CHUM TV International distributes programming in original formats, with franchising worldwide.	Chum created MuchMusic/Citytv hybrid channel for RTV Broadband Services and Shanghai CAV Online. Is syndicating Fashion TV across Asia and for China Entertainment TV carried on its satellite channel. Providing CCTV's V Entertainment China with CHUM TV Music Countdown programming.
Corus Entertainment	Specialty television, radio, children's programming.	National operations and assets in cable and pay TV, children's animation and publishing.	Developed partnerships for children's programming with CCTV. Involved in specialty programming, such as the production of Business TV segments in China.
CryptoLogic Inc	Gaming software	Toronto-based leading Canadian supplier of gaming software.	Developed an MOU in 2006 with Brilliance Technology Co. and 58 Network Inc. to set up JV to adapt CryptoLogic's skills-based games for the China Welfare Lottery.
Nelvana	Children's animation	Canada's biggest children's animation production house, owned by Corus Entertainment.	The leading animation production house in Canada has produced dozens of animations with China partners and is active in Vietnam, South Korea and Japan.
OMNI Television	Multicultural broadcasting.	TV Stations in Toronto and Vancouver	Funding co-production to produce a 20x60 drama on immigrant families in Canada, called "Once Upon a Time in Toronto", with Western Movie Group of China.
Quebecor Media	New media production.	National media company with assets in printing, cable and new media.	Acquired China Interactive in Shanghai through its subsidiary, interactive programming company Nurun Inc., based in Montreal.
Rogers Communications Inc	National broadcasting and programming services.	National telecomm giant which owns wireless and TV cable assets.	Set up a JV with Sun Wah Media called SW Rogers in China to develop programming for China. Sponsored CCTV to set up nine Chinese language stations in Canada.
Toon Boom Animation	Children's animation producer, specializing in digital animation teaching.	Montreal production studio.	Has worked in China for 10 years, with CCTV's animation department and its JV partner in China, Dison Computer Graphics & Image.

Source: Orbital Media Group, 2007

For example, Vancouver-based Channel M has recently established a deal with Beijing-based Travel Channel, which has 300 million claimed viewers in China, to set up an office in Vancouver, and commence broadcasting TV programs on Channel M which features newscasts in Cantonese, Mandarin and Punjabi. The new office, called the Travel Channel, is promoting tourist attractions in Canada to Chinese viewers, and introducing Chinese tourist destinations to Canadian viewers. It will also promote program exchanges between the two TV stations.

Canadian media and entertainment companies are establishing a presence in China through these quid pro quo practices, which invariably involve co-production agreements and now also increasingly involve the establishment of joint-venture partnerships, especially in the field of animation productions, entertainment software and gaming software. Three examples of this are CryptoLogic Inc., Nurun Inc., and Toon Boom Animation.

CryptoLogic is a leading supplier of gaming software that established a joint venture in 2006 with two Chinese companies so that it could cultivate a relationship with the China Welfare Lottery. Nurun, a subsidiary of Quebecor, acquired a Shanghai company specializing in corporate new media programming to localize and sell its interactive programming for corporate productions. Toon Boom, an award winning animation house, works with animation departments at CCTV and academic institutions in China, and has partnered with a Chinese computer graphics company, to help it develop and deploy its digital animation teaching software.

As Canadian media and entertainment companies become larger they take a more pan-Asian perspective to their business development, with China becoming one of the cornerstone markets for both production and distribution. Canada's premiere animation company, Nelvana Corporation, owned by Corus Entertainment, has been active in China for as long as the NFB and Telefilm. Nelvana has decades of experience in China and co-produced dozens of animations for Kids TV, including 500 minutes of the Duck Detective Series co-produced with Shanghai Film Studio (2002), George Shrinks II, IIII (2001), Franklin and the Green Knight (2001) and Donkey Kong Country III (2000), to name just a few.

Today Nelvana produces and distributes animations across Asia Pacific, including South Korea, Japan, Malaysia, Singapore, Vietnam and the Philippines. As the media and entertainment industry evolves in Asia Pacific, distribution and syndication of programming is another important method of developing business. CHUM broadcasting has been a Canadian pioneer in this regard, being one of the first media companies to go into China by syndicating MuchMusic/Citytv as a hybrid channel for RTV Broadband Services and Shanghai CAV Online. CHUM continues to build on this approach, syndicating Fashion TV across Asia and for China Entertainment TV, which is carrying Fashion TV on its SAT3 satellite channel. CHUM is further innovating by providing CCTV's V Entertainment China with CHUM TV Music Countdown programming.

An ever-expanding list of Canadian companies is also beginning to use the growing number of trade shows and exhibitions in Asia to generate distribution and syndication deals. For example, following the 2006 MIPCOM Show in Singapore, Alliance Atlantis, Canada's biggest television program producer, announced that it will be distributing the CSI franchise across Asia including to Video-on-Demand, along with lifestyle content that focuses on home decorating and personal makeovers. Focusing too on the growing importance of new media, Alliance Atlantis further announced that it has begun to provide "mobisodes" of Degrassi to young Asian's mobile phones.

Perspective of the Canadian Industry: Key Competitiveness Issues

Canadian companies are clearly doing what they can to be competitive in Asia Pacific and looking for strategies to leverage their business into the China market. But will even its biggest companies be able to compete with large transnationals such as those that have already acquired permission from SARFT to transmit satellite broadcasts in China, including BBC, CNBC, CNN, Discovery, ESPN, HBO and National Geographic?

Or will Canadian companies be able to compete with large content vendors and program block traders, such as Encore International, which provides a 500 hour program block to CCTV in exchange for broadcasting a CCTV programming block into the US? Maybe not, but Canadian companies are poised to be significant content providers and have proven their ability to bring creative business strategies to the bargaining table.

However, there are many challenges still to overcome for Canadian companies to establish a strong position in the marketplace. As we have seen from the UNESCO data, despite the efforts of Canadian business and government leaders, Canada's cultural export market share in China is slipping relative to many other countries. How do we build on our best efforts and try to establish a growth trajectory that builds Canada's culture export market potential?

These questions were front and centre during the Asia Pacific Foundation Summit hosted in Vancouver on October 27, 2006, and during a subsequent Executive Roundtable that was conducted for this report in the Vancouver offices of the Foundation on October 31. Both the Summit, which held a "TV & Media Session," and the Executive Roundtable, solicited the views of cultural industry leaders, including government experts and industry executives in film, television and new media. Participants to both the Summit Session and the Roundtable expressed a clear set of challenges to the development of Canadian media and entertainment business in Asia and China, as summarized below.

Figure 14: Key Issues in Opening up China and Other Asia Pacific Markets

Market Access Restrictions	Localization	IP Protection	Co-Productions and Partnerships	Distribution
Growing interest in North America to use Asian goods and services to produce Western cultural goods. Some companies are offering North American goods and services to produce Asian cultural goods.	Local story telling and understanding linguistic and cultural needs in Asia are considered the keys to successful localization. Canadian cultural diversity can support North American productions for Asia but limited by higher labour costs.	Piracy still the major barrier to China market access. With the exception of China and Thailand, piracy is thought to be decreasing and IP protections are now adequate in Japan, South Korea, Hong Kong and Singapore.	International co-production treaties have gaps and need to be updated and improved. Production partnerships are thought to be the way of the future for East-West media ventures.	Traditional means of media distribution, such as on cable TV, is considered unreliable in Asia. Western companies are focusing on digital distribution channels such as online, mobile and IPTV.

Source: Orbital Media Group, 2007

The key issues identified by industry leaders which limit Canada's ability to be more competitive in Asia Pacific especially in China, are: the formidable restrictions to market access that still exist, despite China's reforms; the challenges of localizing content to have cultural appeal to consumers in each market; the relative of lack of regard for intellectual property rights that is still seen to be prevalent; the limitations on establishing a greater volume of relevant co-production agreements; and the unreliability of content distribution to traditional carriage platforms.

A review of the highlights of the discussions in each key issue area is provided below.

Market Access

The North American media industry has traditionally used Asian countries to provide low-cost production services. However, there is growing interest in producing goods and services, whether in North America or in Asia, destined for Asian markets.

Media executives indicated that some Asian countries have major market access restrictions. China's market access, for example, was still viewed as very restrictive. It only allows the import of 20 foreign films per year, and even these are distributed by a government monopoly. It is also far too easy for market access regulations to be suddenly tossed out because there are no distribution rules. Without distribution controls illegal products make their way to the street corners very easily, where they are sold for a few dollars.

The participants also cited market access problems related to administrative approvals, logistical problems in working on-location, shifting censorship hurdles, laborious script approval procedures, restrictions on foreign animation programming and foreign satellite uplinks, and prohibitions on foreign investment in broadcasting or pay television stations.

Localization

As western standards for entertainment become more culturally diversified and as Asian consumer markets become more active, it is becoming increasingly important for the North American media industry to localize its production to those markets it is attempting to enter and become established.

Localization is therefore extremely important in markets across Asia, especially where consumers are accustomed to locally produced offerings. Foreign and North American film makers need to overcome linguistic challenges and tell local stories that appeal to the local culture to win market interest.

To deal with this challenge, some production houses are setting up a chain of production sites needed to accomplish localization. For example, Vancouver-based animation production company Studio B, finished a 24-episode Korean production called "Poku." The production was optioned in the UK, made in South Korea, and edited in Canada with a Chinese-Canadian editor. Establishing a value chain for developing good stories and building synergies in story-telling was citied as critical to successful localization and also a Canadian strength because of Canada's multicultural makeup.

IP Protection

Western media companies are still very concerned about IP protections and piracy in Asia. According to the media participants, the situation is bad and getting worse. A Time Warner executive explained that the US loses an estimated US$8 billion a year to piracy, and emphasized that this loss affects the whole system. Rates of piracy were cited as very high in some Asian countries, including 90% of titles sold in China and 80% in Thailand. But the problem is thought to be improving in Japan, South Korea and Hong Kong, which have been reduced piracy to single digits.

It was emphasized that everyone should work on this, including Canadian government agencies. Technology is posing many additional challenges in controlling piracy. Digital technology makes it easy for organized syndicates to pirate. Optical disc, online, portals, cable and satellite piracy are becoming entrenched and so there is no silver bullet solution. Legislation and penalties would help, and it was suggested that enforcement and sentencing would send a strong message. But it was also felt that a hard-line enforcement approach would not work. Instead what is needed is to educate the market about this problem.

Co-Productions and Partnerships

The executives all agreed that the creation of partnerships is the way of the future for Canada's media and entertainment industry to become more competitive in Asia Pacific. This was nevertheless also regarded with some trepidation, as not all companies can afford to make investments in China. However, Vancouver and its Pacific Gateway is seen as an ideal location to foster media and entertainment industry partnerships in Asia, because of its proximity and cultural compatibilities.

However, the executives unanimously agreed that the best way for Canadian companies to enter Asian markets is under international co-productions treaties which provide the funding and tax credit incentives needed by Canadian companies operating in foreign markets. Since Canada has treaties with China, Japan, South Korea, Singapore and the Philippines, for example, it was felt that this was a good way for Canadian companies to expand their field of opportunities in Asia Pacific.

It was expressed, however, that not enough is being done for Canadian companies within the framework of these treaties, as many of them need to be updated to reflect the tremendous changes that have taken place in the industry. It was also felt that the Canadian and provincial governments could provide better tax incentives to assist Canadian companies establishing co-productions in new markets.

Distribution

It was also emphasized that partnerships and co-productions are of little use if the distribution of content is not more opened up. It was felt, for example, that distribution of content into China is too restrictive to gain the audience reach needed to make products financially successful. As was discussed in addressing the issue of market access, the executives identify a lack of distribution rules and regulations in Asian countries, and especially China, as making it especially difficult to ensure a reliable distribution network for Canadian products.

Canadian companies feel that they are too vulnerable to the vagaries of government policies in China, restrictive limits on film and television imports and unreliable distribution operations and systems, especially by comparison to traditional North American cable and network television distribution, which is tightly regulated, and not subject to sudden regulatory changes, as in Asia. To overcome this, some executives in the animation industry in particular, have suggested that they are focusing on non-traditional distribution channels in Asia, especially on digital channels such as IPTV, mobile and online.

Improving Canada's Competitiveness: Building Regional Markets and Launching a Pacific Gateway Media and Entertainment Industry Strategy

The UNESCO and supporting Statistics Canada data cited in this report show that cultural trade is becoming an increasingly important segment of the global economy. They also show that Canada's competitiveness in the global culture economy is lagging, not keeping pace with Asia Pacific's rise and especially China, the engine of growth in this economy. Canada needs to increase its competitiveness in global cultural trade. It needs to do so, in large measure, based on recognizing the new dynamism that China brings to cultural trade, especially in the media and entertainment industry.

China's dramatic rise to becoming an economic superpower is due in large measure to its ability to bring big government together with big business and to use a planned approach to direct and build its market economy. Canada, and indeed, other nations, need to respond by taking a more planned and strategic approach to market development to ensure their future competitiveness. This is what could be called the "planned economy imperative" that will undoubtedly become increasingly important to a nation's competitiveness in the global economy.

Three high-level, strategic policy considerations are therefore recommended toward introducing a planned economy imperative to make Canada a more export competitive in Asia Pacific and China. The first recommendation is for Canada to undertake a detailed **Culture Export Competitiveness Review**, focusing on each sector of Canada's cultural trade. This assessment should be undertaken with a view as to how government policies and funding can be better deployed and utilized by Canadian culture industries, organizing government resources devoted to culture exports in a more strategic manner.

This type of assessment was initiated with work undertaken by DFAIT's Cultural Industries Sectoral Advisory Group on International Trade (SAGIT), which produced a report in 1999. However, SAGIT's review of Canadian cultural industries revolved around the issue of preserving a balance between maintaining an open global marketplace and defending Canada's cultural diversity within our own market. But as we have seen, this debate is somewhat of a red herring, since Canada ranks as one of the biggest per capita importers of cultural goods in the world and has the highest deficit in culture goods trade in the world after the US.

Rather than thinking about how to preserve its culture, Canada would be well advised to think about how it can increase its competitiveness in culture goods exports. SAGIT rightly points out that Canada needs to depart from its cultural exemption strategy of the past, which takes culture off the table in international trade negotiations, and move to a new strategy that looks to negotiate new international instruments that address cultural diversity.

Unfortunately, this approach, too, is ineffective, not to mention anachronistic and patronizing. It insists culture should not be considered as a commodity and that cultural diversity needs to be defended, when in reality cultural goods and services are commodities operating in highly structured and competitive markets which need little defending as these goods and services are in pursuit of consumers who are culturally diverse with specific tastes as consumers which producers must satisfy to be successful.

The SAGIT report correctly identifies that Canada, like every other nation in the world, has certain policy tools at its disposal to assist the Canadian culture industry, such as financial and program incentives, Canadian content requirements and other regulatory support mechanisms, tax measures, foreign investment and ownership and measures to protect intellectual property. However, these policy tools are rather inward looking and do not advance Canada's culture exports competitiveness.

The second recommendation of this report therefore is for Canada to undertake an **Asia Pacific Co-Production Treaties Assessment** including China and the nations summarized below. This review should determine how Canada's treaties can evolve to be more rigorous agreements that strengthen Canada's ability to be a more competitive culture exporter by, for example, looking at more advantageous ways for co-productions to be considered as domestic content in each of the partnership countries.

Figure 15: Summary of Canadian International Co-Production Treaties with Asia Pacific Counties

	Culture and Co-Production Treaties	Status and Future Development
China	1987 China-Canada Agreement on Co-production; MOU on Cultural Exchanges and Cooperation in 1998; and 2005 China and Canada Agreement on Cultural Cooperation. Minimum financial participation is 15% for each country. 35 SARFT-approved companies are granted status to co-produce feature films with Canadian partners.	China is opening up it regulations. Since the implementation of the treaty the Chinese government has informed the Government of Canada any audiovisual production company which is legally registered in China may co-produce feature films with Chinese partners of their choice and they no longer have to form a partnership with a Chinese public company in order to co-produce in China.
Hong Kong	An MOU was signed in 2001 replacing a 1991 MOU. The minimum participation for each country is 20% and any departure from this ratio needs to be approved by the competent authorities of both countries.	Canada and Hong Kong agreed to suspend the 2001 MOU. Projects co-produced under the MOU are no longer eligible for Canada Revenue Agency Tax Credits. The MOU has been suspended until CRA gives a final opinion regarding the eligibility of the Tax Credits and will ultimately need to be replaced by a treaty between Canada and Hong Kong.
Japan	Cultural Agreement was signed in 1976, based on mutual recognition that quality co-productions could contribute to cultural exchanges. A "Common Statement of Policy on Film, Television and Video Co-production" was subsequently signed on July 20, 1994.	Few guidelines are given, based on the Common Statement, except for mutual co-operation and a minimum financial participation of 20% for each co-producing country.
South Korea	Cultural Cooperation MOU, signed in 1990, promotes cooperation in culture, education, science and technology. An MOU focusing on television co-production was signed in 1995. Contributions of the co-producers may vary from 30% [minority] to 70% [majority] of the budget for each co-production.	Both countries acknowledge the mutual benefits for establishing a framework for the development of their audiovisual relations and particularly for television co-productions.
Singapore	An agreement was signed in November 1998 for co-production projects including film and TV productions. Contributions of the co-producers of the parties may vary from 20% to 80% of the budget for each co-production.	Productions produced under a twinning arrangement may be considered, with approval, as co-productions and receive the same benefits. Reciprocal participation of the producers of both countries may be limited to a financial contribution alone, without excluding any artistic or technical contribution.

Source: Orbital Media Group, 2007

It should not be difficult for Canada to bring its cultural trade partners to the negotiating table, since Canada is a net importer of cultural goods. The figure above further shows Canada's cultural trade treaties with China and Hong Kong are in flux, inviting sector-specific discussions in co-production and other important areas of media and entertainment trade. These discussions should be carried forward to other significant trading partners such as Japan, South Korea and Singapore, with whom Canada should also engage in more explicit sector-specific strategic cultural trade talks.

It should be emphasized that these proposed talks should be strategic and focused on advancing Canada's important export sectors in cultural trade. Culture is a strategic trade commodity, both in diplomatic and economic terms. Canada should be prepared to frame its discussions so as to promote actively those industries that it regards as having competitive advantages in Asia Pacific export markets. For example, as noted, Vancouver and the Pacific Gateway is an ideal region from which to promote and develop treaties with Asia Pacific countries.

As has been detailed in this report, while Canada's new media growth projection is slightly higher than that of the United States, it is clearly overshadowed by Asia, with triple growth projections in China. Canadian policy makers clearly need to ask if enough is being done to stimulate Canada's growth in the digital content and new media industries, so as to keep apace with the market surge now underway. This process has begun with such initiatives as the "Digital Coast" funded by Western Economic Diversification Canada to accelerate technology commercialization on Canada's West Coast, strengthen its new media industry, create a new media hub in B.C. and increase Canada's global competitiveness.

The third recommendation of this report is therefore for Canada and the provinces to more aggressively undertake **Regional Media and Entertainment Industry Cluster Strategies**, with a view to China's approach to giving more autonomy to the provinces in organizing their media and entertainment industries. The regional cluster strategic reviews should look at what strengths the regional markets possess and how these strengths can be strategically leveraged and better funded, to make Canada more export competitive.

The reviews could begin by looking at the development of a **Pacific Gateway Media and Entertainment Industry Strategy**. Canada has been recognized as being a leader in children's animation, gaming software, documentaries, educational media and film post-production. A regional review might look at what role Vancouver and the Pacific Gateway should play in increasing its institutional capacity in one or more of these areas, so as to contribute to building Canada's overall export competitiveness in those areas Canada has a global market advantage.

The review may include taking a look at ideas such as weighted tax credit regimes for companies operating in areas deemed to strengthen Canada's culture export readiness, which go beyond British Columbia's Production Service Tax Credit (PSTC) for digital animation, and a new methodology for disbursing Canadian Television Funds, based on determining regional industry export development priorities. It also may include looking at decentralizing some aspects of Canada's elite cultural institutions, in film and television most notably, Telefilm and the NFB, to bring them closer to the creative communities that exist across Canada.

Regional media and entertainment industry reviews would serve to better foster the development of cultural industries in all regions of Canada, taking a strategic approach to fostering and retaining the growth in each region and moving regional clusters in a direction that contributes to Canada's overall culture export competitiveness. The reviews would look not at changing the structure of the media and entertainment industry so much as how to better administer and adjudicate in each region co-production treaties, tax incentives and the special mix of public and private funding that have made Canada a serious player on the global media and entertainment landscape.

A Pacific Gateway Media and Entertainment Industry Strategy would be an ideal first undertaking to move the notion of regional reviews forward because of its thriving new media, television production and documentary film-making industry. To use the Chinese parlance, Vancouver and the Pacific Gateway could be described as an important Canadian media *jituan* or cluster. It has fostered the growth of at least two huge success stories, Electronic Arts and Lions Gate Entertainment, both of which achieved rapid growth in the region but then re-located to other centres. The review should address this issue to determine how best to keep thriving companies active in the Gateway.

This media and entertainment industry cluster is home to unique television programmers, including Shaw, OMNI, Fairchild and Channel M, which can bring a strong media gateway identity to the region. It is also home to The Eye Productions, one Canada's leading documentary and lifestyle programming producers; Rainmaker, one of the world's leading visual effects producers; and Studio B, a leading animation house with over 10 years experience in Asia. The Gateway is also a leading showcase destination for the film industry, with the presence of the Vancouver International Film Festival; and it is a major training site, with the Vancouver International Film School and several important new media schools.

The region possesses strengths in animation, documentaries, visual effects and gaming, having been described as Canada's largest vertically integrated new media cluster. According to a study done by New Media BC, there are now 800 new media firms in British Columbia, most of which are located in the Gateway and over 100 of which have revenues in excess of C$5 million. This represents a talent pool of over 15,000 people working in the industry, all well represented by New Media BC, a vibrant and highly active association, and the Canadian Awards for Electronic & Animated Arts, a newly developed awards show which brings the new media community closer together.

These organizations will also be critical to helping to build a media and entertainment identity in the Pacific Gateway, helping to encourage smaller, highly creative production houses, doing their best to establish their presence in Asia Pacific and China such as Holiday Pictures which is has been very active in China, and Joee Studios which has recently partnered with Wuhan Digital Media to produce and market a 3D animated feature film. The Pacific Gateway Media and Entertainment Industry Strategy should look at fostering growth among the SMEs, to help them build Canada's culture export competitiveness and to spawn but then also keep the next Electronic Arts or Lions Gate Entertainment.

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