

THE FUTURE OF TV IN CHINA

Terence Graham
Center for the Future of China

In 10 years, China's TV industry will become more like the rest of the world. It is moving from a world of control and subsidies to one of greater experimentation and freedom, where money far outweighs other considerations. The Propaganda Department of the Chinese Communist Party (CCP) might still view TV as the Party's mouthpiece, but business people are now running the "Show." Thus, the table is set for a series of absorbing contretemps, between control freaks and unbridled market forces. Large media groups are being formed to compete in the global marketplace. The Chinese want to establish reputable brands like Columbia Broadcasting System, better known as CBS in America. But, to become successful, the Chinese have to become good at selling to themselves. There is this huge pent-up demand for quality TV programs in China, which in turn represents vast business opportunities, capable of producing future Chinese Fortune 500 companies to rival the likes of AOL Time Warner.

This paper aims to offer a comprehensive picture of how TV in China will change in the next 3-5 years. First, a short general context – a "big picture" – of TV in China is provided, followed by the "meat and potatoes" of a forecast of specific changes set to remake the industry's face. The general context consists of a brief look at (1) how TV in China, despite significant changes in the next 3-5 years, will still be different from TV in the West; (2) how TV is part of China's aggressive move to participate in the knowledge economy; and (3) how there has been an irreversible shift to money-based business, driven by fierce competition for TV advertisement revenue, and why this is not necessarily a bad thing. The second, and much longer, part of the paper examines what's exactly going to be different about TV in China: (4) the new audience; (5) the new talents, including promising independent production houses; (6) the new content formats, and the bedeviling questions of originality and censorship; (7) industrial policy and consolidation, as marked by the emergence of new regional superstations; (8) new cable TV; (9) new regulator; (10) new TV technologies and their impacts; and finally (10) the role of foreign media.

But first a quick snapshot of TV today in China. China has 80-90 million cable TV homes. The others are reached by terrestrial broadcast, totaling over 300 million TV households in China. Table 1 shows how China compares to other nations.

Table 1 Comparing TV Markets

	China	Hong Kong	Taiwan	Korea	Australia	India	Thailand	UK	US
Population (million)	1263.0	6.8	22.5	47.2	19.3	185.8	62.7	58.2	255
TV households (million)	316.6	2.1	6.8	13.2	7.2	65.0	18.9	24.0	99.4

Multi-channel penetration (%)	28	46	86	15	16	47	2	40	75
Daily Viewing (minutes)	177	232	200	145	205	95	320	215	238

Source: ABN Amro (2001)

Executive Summary

Of all the changes, the key to unlocking the TV puzzle in China lies in the sector's restructuring and consolidation into several powerful media groups. The emergence of new regional TV superstations and CATV multiple system operators (MSOs) backed by local and provincial governments and publicly-listed Chinese companies will result in greater competition and less control over future developments by Beijing. These new TV bodies will be the agents of change: they will introduce new business models and investment practices. Competition, whether between provincial flagship stations, or between SARFT and a company like CITIC GuoAn, will in turn drive demand. This is a good thing for foreign equipment suppliers and content providers. In a competitive landscape, the Chinese will need to realize greater operational efficiencies, better cost controls, more differentiation through diversified programming, and new sources of funding. These are things they lack now, much of which they are unable to carry out by themselves. They need partners and will look more and more to Hong Kong, Taiwan, America, Japan, Korea, and Europe to satisfy their needs for managerial expertise and financial support. Hardware makers stand to profit, while those who are selling programming or seeking distribution for a new channel in China face a more elaborate process of market entry.

This process is part of a wider industrial policy where China realizes that in order to develop healthier industries, like TV, it needs to expose them to greater competition. Although the WTO doesn't specifically mention media, it too will have an impact. The WTO telecom reference paper articulates the principle of an independent, unbiased regulator and a level playing field. This principle is being extended to all industrial sectors, including TV. WTO is often seen as defensive measure as pressure is brought upon China to remove trade barriers and open up its economy to foreigners. Yet this reactive China is interconnected to a China that is more proactive and aggressive in exploring global opportunities. As in the high tech industry, China is making a concerted push to develop TV as an export-driven industry. It has its sights set on becoming a leading exporter of world class TV programming, mostly in Mandarin language. There is a big world and a big market out there for them to capitalize on.

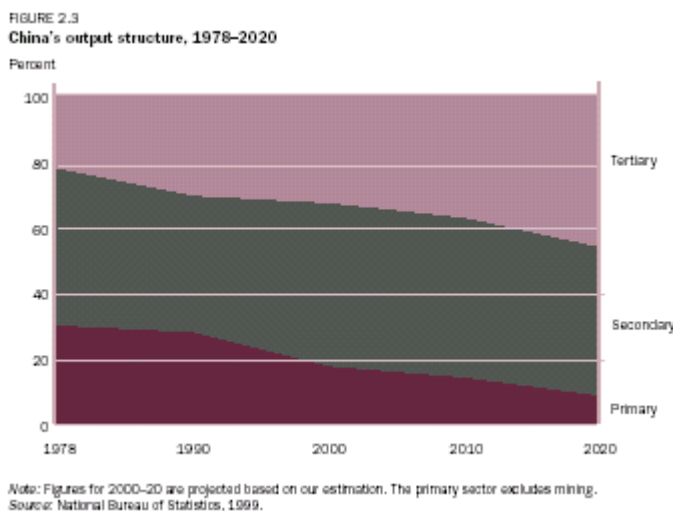
As a result, there will be more content produced, some of it derivative, some original and creative. There will be a challenge to come up with content which keeps Chinese viewers glued to their TV screens as there are close substitutes to watching free-to-air TV or cable TV. Worldwide TV viewing audiences are decreasing due to the Internet. Like kids everywhere, Chinese teenagers are playing more video games or surfing the Web. There will be market shifts over time as other forms of popular entertainment take hold among urban,

middle-class Chinese. TV itself will be undergoing a change as a viewer gets to do more things through the TV set, like “TV commerce.” This development is in its incipient stage and difficult to forecast. The Internet will also impact how Chinese people access their news, and force TV news reporting, which has and will remain tightly controlled, to change. The Chinese government is trying to clampdown on the Internet by encasing it in a thick bureaucratic layer, shutting down Internet cafés, blocking popular search engines like Google, and throwing up a Chinese firewall. But it’s doubtful how sustainable these defenses are.

The Bigger Picture

The Chinese government sees TV as an industry, in and of itself, for the consumption of Chinese viewers domestically, and as a potential player in the global media industry. TV and the services industries are part of China’s move to a knowledge economy, one comprised of industries that rely on the creation of Intellectual Property (IP). In the case of TV, the valuable IP is well-crafted, well-acted, and well-received TV shows. The TV industry can become an important engine of future economic growth in China – see Table 2. [David Wolf, Burson Marsteller]

Table 2 Tertiary industries, of which TV is part, will make significant contribution to China’s future economic growth



Source: World Bank (2001)

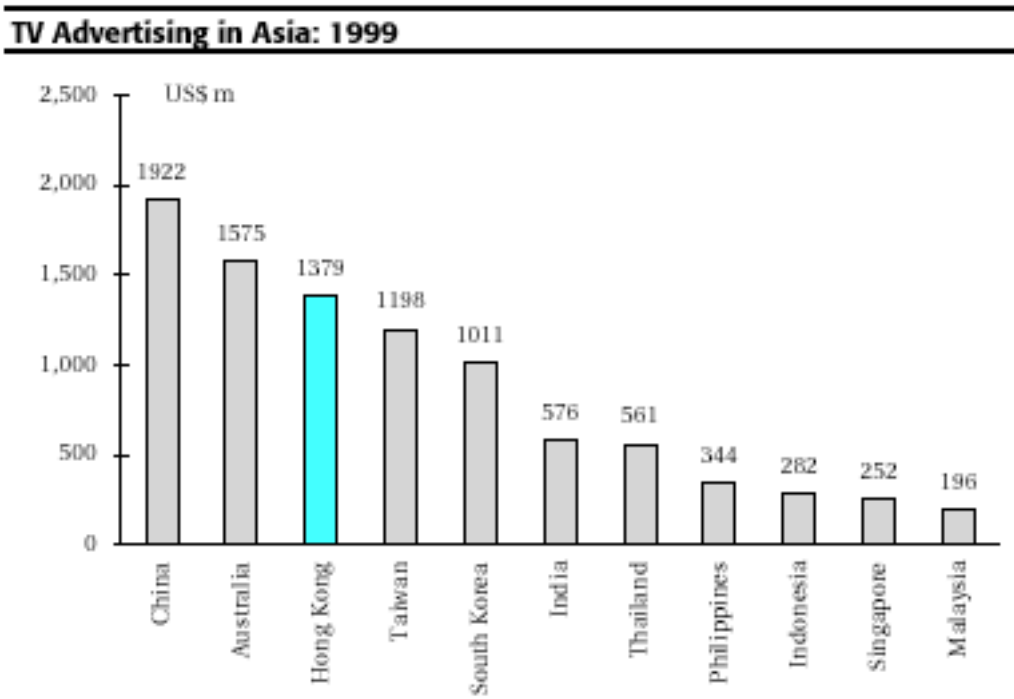
Advertisement Rules

[The New Pragmatism]

TV and publishing (print media) have been among the most adventurous in introducing capitalism, or market forces, to business practices in China. The main driver has been the fight for advertisement revenues, which has resulted in greater competition, and a gradual move away from politics-based to money-based, or “US-style,” business. Decisions are increasingly being made on a commercial basis first, then secondly on a political basis.

The growing advertisement revenue pile is the prime motivating factor behind provincial and municipal governments getting into TV. It's a lucrative opportunity for them to increase their tax base and revenues. The TV market in China will remain mostly advertisement driven, until popular basic programs are packaged with new channel offerings into subscription-based "premium" services. Table 3 shows how China compares to different TV advertisement markets.

Table 3 Comparing TV Ad Markets



Source: Zenith Media

	China	Hong Kong	Taiwan	Korea	Australia	India	Thailand	UK	US
Advertisement market (US\$ bn)	4.1	2.8	2.2	4.0	4.7	1.2	1.0	16.5	234.39
TV advertising market (US\$ bn)	1.9	1.4	1.2	1.0	1.6	0.6	0.6	5.5	58.15
TV advertising as % of GDP	0.2	0.9	0.4	0.3	0.4	0.1	0.5	0.4	0.5
TV advertising as % proportion of total	47	49	55	25	34	49	58	34	25
TV ad revenue per household (US\$)	6	657	176	77	219	9	30	230	585

Source: Zenith Media, ABN Amro (2001)

Shanghai Oriental TV is a good example of how profitable TV can be in China. It is a new broadcaster (now part of a larger media group) which opened up shop 8-9 years ago.

Incredibly, it reached the break-even point within 5 years of its launch. Shanghai Oriental TV benefited from broadcasting in China's largest consumer market, cushy tax breaks, and strong local government backing. Their ad revenue skyrocketed because they did a great job of targeting a youthful audience with their program selection – see Table 4.

Table 4 Oriental TV Rakes It In

Top 5 Terrestrial TV Stations by Ad Revenue (US\$ million), excluding CCTV

Oriental TV 1	30
Shanghai TV 1	25
Shanghai TV 2	14
Hebei TV 2	13
Beijing TV 2	12

Source: China Media Monitor Intelligence, X&L Marketing (November 2000)

Even though China's media market is becoming more like the US, where market competition reigns, the change is taking place slowly and over a prolonged period of time. While Chinese broadcasters today have to operate in a more competitive environment, the state-owned national broadcaster China Central Television (CCTV), established in September 1958, remains the only central buyer. All production houses shop programs and ideas to CCTV, which as a monopoly buyer, has chosen to abuse and underpay them.

Trends in TV Advertisement

Advertisements are limited to Chinese middle-class consumers and to what they're willing to spend. Ads abound on Chinese TV for cheaper goods, like sex pills, hair tonics, and alcohol – see Table 5. In principle advertisement rate cards are standardized, but in reality they are fictitious as discounting and corruption exist in the form of kickbacks. Local monopolists in Shanghai and Beijing have even been upping ad rates by 25%.

Table 5 No Automobile Ads Yet

Top 10 Products by TV Adspend (US\$ Million)

Tonic	316
Shampoo	177
Chinese Liquor	157
Skin Care	134
Canned Drinks	92
Toothpaste	81
Beer	74
Distilled Water	51
Mobile Phone	49
Tea	42

Source: China Media Monitor Intelligence, X&L Marketing (May 2000)

Over the past decade, ad spending in China's TV sector has increased 20-30% year-on-year. The slight flattening out in 2001 was attributable to much weaker overall economic growth. While the world ad market was flat, China last year grew at 12%. [Burson Marsteller] Ad revenue in China was largely driven by foreign multinational corporations (MNCs), such as

P&G, Unilever, and Johnson & Johnson. TV has been their primary conduit, enabling them to get into the China market, and build up brand recognition. As the landscape diversifies, smaller advertisers are jumping in, and foreign MNCs are taking a step back to rethink their advertising strategy. In the past, many MNCs have spent US\$1m, even 10-20 times that amount, and seen it swallowed up by CCTV without much of a “bang.” Foreign MNCs are moving away from a national ad buy to a local ad buy, going to where their markets really are in places like Beijing, Shanghai, Guangzhou, and Chengdu. They are also moving into other forms of media, particularly print. TV is losing its pull over the foreign MNCs’ ad budgets. To pick up the slack, Chinese MNCs are waking up to the promise of advertising, and beginning to participate in the TV advertising “craze.” The ad market has grown to include large Chinese manufacturers and consumer brands, such as the sports drink company Wahaha, DVD manufacturers, and calcium supplement producers. These local companies will drive ad spending growth for the next 3-5 years, which even if not as feverish in the past will still be in the low double digits – see Table 6.

Table 6 TV advertisement growth in China should remain strong

	2002E	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E
TV advertising (US\$ m)	3,230	3,850	4,579	5,436	6,442	7,621	9,002	10,618	12,507

Source: Goldman Sachs (2000)

Consumer brands and manufacturers want to reach a national audience. Now with competition, there’s an increasing need for exceptional, high-quality programming to attract more viewers, and the concomitant ad money. While the last 3 years have seen a corresponding rise in programming quality and diversification, TV in China is still very much controlled and regulated. The media in China is considered “special” since it is the main means of conveying whatever social message the CCP is propagating. This preoccupation with control of the infrastructure over which information is disseminated, especially at the central level, will remain a thorn in the side of ambitious broadcasters, who must adroitly navigate the policy currents. Understanding and behaving in a manner politically acceptable to the government will continue to be of greater concern to broadcasters in China than their American counterparts.

Celebrating Change

Although TV in China will not resemble standard TV fare in the West, where political satire is a daily feature, it will be dramatically different in the next 3-5 years from what it’s been in the past. The remainder of this paper examines the changes likely to take place: (1) in the audience sitting in front of the TV; (2) in the talents appearing on and behind the screen; (3) in the types of shows about to premiere; (4) in the types of stations set to dominate; (5) in the delivery mechanisms and underlying technology platforms; (6) in the shape of regulations to come; (7) and in the growing participation of foreign media interests.

NEW AUDIENCE

Everyone is chasing the same slice of the demographic pie: the middle class in China – see Table 7. This urban class has more contact with the international community.

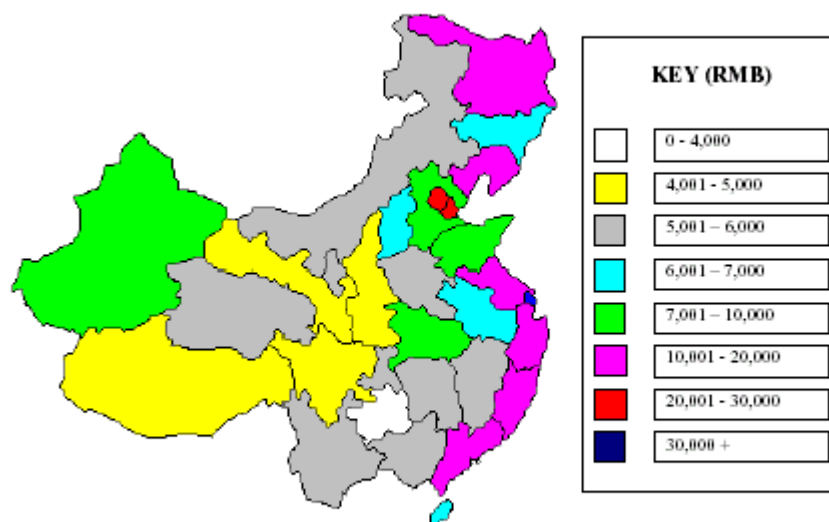
Demographically and psychologically speaking, they are more similar in their lifestyle choices to the denizens of Singapore, Taipei, and even San Francisco. They have high-disposable incomes and stable jobs, live in a coastal city, work for a commercial firm or private company, and are between the ages 25 and 45. The new Chinese audience is hip, fun, young, and wants to be entertained. They are motivated by money and aspire to better living standards, spending money, winning job promotions, and enhancing their knowledge. They want to entertain themselves in style, in high quality, and are no longer just content with belting out karaoke songs every night.

Table 7 China's middle class is blossoming along the coast

Table 1.14 PER CAPITA GDP BY PROVINCE 1999/2000

<i>GDP per capita (RMB)</i>	1999	2000	% growth, 1999-2000
Shanghai	28,577.9	30,703.1	7.4
Tianjin	23,266.0	24,925.1	7.1
Beijing	17,224.6	18,460.9	7.2
Guangdong	11,509.2	12,356.6	7.4
Zhejiang	11,155.7	11,955.6	7.2
Fujian	10,257.3	11,076.9	8.0

Map 2.3 VALUE OF GDP PER CAPITA BY PROVINCE 2000



Source: Access Asia from national statistics

Source: Access Asia (2001)

In viewing habits and tastes, there exists a North-South divide. China is not a single, homogeneous country. Southern Chinese like Qing Dynasty dramas whereas Northerners go for news, sports, and more factual programs. There is greater income and diversity in southern China, and a general disdain for CCTV programming. More than 50% of viewers in Guangdong province and Shenzhen tune in to TVB Jade or ATV, the two Hong Kong free-to-air channels broadcasting in Cantonese. [Dr. Michael Keane, Queensland University of Technology]

NEW TALENT

The future of Chinese TV will see the rise of independent production houses and better writers and onscreen talent. Today, there are more independent producers in China, and in a multi-channel environment, their numbers will increase – see Table 8.

Table 8 Fresh Programming: Promising Independent Film & TV Production Houses

Number of local private TV production companies in China: 317	
Shanghai New Generation Film & TV	"Dazzling" (Hua Yan)
Huayi Brothers Taihe Film & TV	Investor in 2002's big comedy hit "Big Shot's Funeral"
Beijing Dison Dynasty Film & TV Culture Communication	Creators of Yan Dongfang, China's first virtual TV host
Beijing Weihai Cultural Broadcasting	Cloner of reality-TV shows: "Walking Into Shangri-La" based on "Survivor" and "Strategy of Love" based on "Temptation Island"
Wang Film Productions (Guangdong and Taiwan)	Animation
Enlight TV Production	Variety shows dishing dirt on stars: "Entertainment Live" and "Celebrity Weekly"
Beijing Science and Education Film Studio	"Abyss: The Nature of Cults"
China Millennium Monument Digital Media	"Chyna," the country's first all-digital short film
Great Star (Guangdong)	Established name in TV drama series
Hai Run Film & TV Production	China's largest independent; deal with AOL for content and advertising
CCTV-created fare more in step with its role as CCP's mouthpiece: see "The Clarion Army Song," a 20-part TV drama reflecting the "developmental history of the Chinese army," and the "Red film and TV series" featuring "Decisive Battle," "Wedding Ceremony at the Execution Ground," "The Making of New China," "Mao Zedong in 1925," and "Long March"	

Source: 2002 Beijing International TV Week, Asian Wall Street Journal, China Daily, CFC (2002)

Independent production houses still run into a problem of trust with the broadcasters. A broadcasting bureau might offer them a short-term license – a temporary permit to see if their work is satisfactory. The main production units belong to the city or provincial channels. The head of the drama production unit and the TV head decide what they will produce each year. The sister TV station gets first rights to screen the output. Then the production unit can try to barter its content on the market. On an annual basis, a unit will produce 2-3 dramas, one satisfying the need for a politically-correct drama, the others satisfying more popular urges. In

an emergency, a TV station might resort to an independent, like the Beijing TV Arts Cluster, a semi-independent TV production center.

The State Administration of Radio, Film, and Television, or SARFT as the Chinese regulator is known, has tried to apply the brakes to this unbridled rise in independent programming. The Aaron Spelling (producer of “Beverly Hills 90210” and “Charlie’s Angels”) studio model – of strong, separate content producers – is what should happen in China. Currently, content providers can only sell to CCTV. It boils down to whether a new production house, or local channel, can offer programming that’s sufficiently compelling – as illustrated by the example of SUN TV (see box 1 below). If they do, viewers elsewhere will lobby their local cable systems to carry the new channel. Most likely, it will take the provincials the next 3 to 5 years to break out of CCTV’s shadow, and become significant buyers of new content.

The removal of state subsidies is fueling the trend to outsource content production in China. Outsourcing represents a way to save money while adding more spice and variety to a TV station’s lineup of shows. While the Shanghai and the Beijing TV production companies will continue to be real spatial loci of production, more shows will be filmed elsewhere. TV action dramas will be made in places like Wuxi, a city close to Shanghai; Hunan and Zhejiang provinces can be made to look like ancient China or the Mongol plains; Guangzhou is ideal for making Cantonese dramas with financing from Hong Kong. Independent production houses will have their own specializations, uniqueness, and organizational structures; for example, excelling at heavy dramas, light entertainment, or documentaries; selling concepts for TV shows; or having a strong sales division. However, news will remain the one glaring exception, strictly off-limits to the independents.

The individuals running the new independent production houses are folks who have been working in the local state-run media, but have managed to become entrepreneurs. They understand the market, are capable of assembling talented people, and know how to produce good dramas. What the new independents need is better management, new sources of funding to replace decreasing state support, and better marketing savvy. These production houses want to target the Asian and Overseas Chinese markets. However, they can’t do this by themselves, and will need to team up with an international player.

Future TV channels will seek out good working relationships with a handful of the new independent production houses. As part of transforming itself into a genuine operator, CCTV will be spinning off its different production units and having them compete with one another to pitch back ideas to the parent company. With greater competition, costs, which are low to begin with, will stay low. In China, shooting a half-hour episode of a TV serial is incredibly cheap: it’s only 0.5% to 3% the cost of making a show in the US, roughly US\$5,000 to 30,000. [NewsCorp] The main reason is that onscreen and off-screen labor in China is very

inexpensive and non-unionized. New unknowns will be plucked from obscurity, and built up to create the faces for the new TV channels. The acting pool in China is deep as universities and drama schools are very specific in grooming acting talent.

Box 1 The Sun Also Rises

Sun TV is a notable example of the many new Chinese media companies, which enjoy a high profile, are innovative, and understand the market. Yet, Sun TV's future success is not assured. Sun TV, based in Hong Kong, demonstrates that foreign cooperation with China's TV industry can exist in the guise of joint ventures on the production side. Two well-known mainland Chinese high-tech companies, Sina and Stone, have recently invested in Sun TV. Yang Lan, the former host of an interview program on CCTV, is the head of the company. Sun TV is doing dedicated programming – scientific and historical shows – and is the authorized reseller for A&E Television Networks in China. Sun TV televises A&E documentaries in China using "The History Channel" as its brand name. It is building a bigger profile in the mainland and hopes to operate a theme channel with dedicated content for a niche group. Sun TV is independent, not aligned with any of the big media groups, but does cross-media work with Sina. Since Sun TV reroutes programming through Chinese platforms, the Chinese government has the power to switch them off any time. Also, Sun TV doesn't have a natural revenue base. Historical and scientific programs are subscriber-driven in the rest of the world. But Sun TV is trying to generate revenue through advertisement in China – a business model for which there is no global precedent.

NEW CONTENT

[Footnote: This section on the new TV formats owes a big debt to Dr. Michael Keane of Queensland University of Technology. Dr. Keane was interviewed for this paper. For more, see "Media in China: Consumption, Content, and Crisis," edited by Dr. Keane and Yin Hong.]

Driven by the search for diversified programming, Chinese TV stations are resorting to cloning, or the selective copying of TV formats, whereby the Chinese attempt to localize successful overseas programs. Such a move represents a cheap way for undercapitalized TV stations to see what works out there, and clone the success of others. One startling example is the proliferation of a popular Taiwanese dating show distributed by Phoenix TV. Hunan satellite TV was the first to clone the format with a show called "Romantic Meeting." Now, there are 200 versions of the same format in China. Cloning is a way for the Chinese TV stations to avoid doing expensive R&D and road testing – they simply let someone else to do it. But it has aroused the ire of many critics – see box 2 below.

Today, there are prohibitions on the number of shows a production house can make. This is tied to a system of subsidizing content, in which, to be eligible, one needs a license to produce a TV drama. The overriding problem is that most Chinese TV programming, for

historical reasons, lack innovation. In a centrally planned economy, people were simply told when to produce, what to produce, and how to think; they weren't bent on being creative. Another contentious issue is that distribution remains a bottleneck in China. It's all about connections and taking advantage of assiduously built channel relationships, which are heavily based on *guanxi* (who you know). Programming trades are made based on reciprocity and on an estimate of a program's market value. And, as for any type of intellectual property in China, piracy is a major headache. Many Chinese cable TV operators simply refuse to pay the programming fees to channel aggregators, and are content in piping ripped-off shows.

On the bright side, the technology deployed by Chinese TV stations is excellent and the equipment is, quite often, the best money can buy. It's state-of-the-art, which some broadcasters in developed countries don't even have. All this investment in hardware has been driven mainly by ad revenue. China's TV industry is described as having "great hardware, poor software." [Willie Brent, China Entertainment Network] The expectation is for the software side to catch up to the hardware side. Table 10 sketches China's most popular TV programming over the past two decades.

Box 2 The Nattering Nabobs of Negativism

Many conservative Chinese commentators believe that the rampant commercialization of the TV industry has not led to greater diversity. Instead, programming continues to be monolithic. The local TV industry, which is now more profit-driven than ever, is all about meeting low-brow demand. Chinese viewers get dating shows and vapid entertainment formats to amuse them to death. This vein of criticism is a reflection of concerns about the larger impact of TV on Chinese society. Numerous Chinese social critics bemoan the fact that the TV industry in China is falling down the slippery slope to trash TV, that this development sadly mirrors the spirit of the times prevalent in Chinese society. Even though the sheer quantity of shows on TV is increasing rapidly, the quality of programming on Chinese TV is declining. TV in China is being inexorably reduced to marketshare, and to an industry purely bent on making profit, incapable of educating or inspiring the masses. The conservatives point to children shows, basically no different from toy commercials, as the most egregious example of this trend.

[Footnote: This overview came from an interview with Professor Zhao Bin of Beijing University.]

The first forecast is that the local TV stations will continue to produce content that is far more relevant to their viewers. They will come out with higher quality programming than CCTV, beating it in local ratings competition. New regions of taste are forming in China. What works in Shanghai and is produced by Shanghai TV could conceivably be sold to a different network, utilized in its own regional system, or exchanged and sold to international companies and other networks. Programming in China used to be "build it and they will come," an outgrowth of a supply side mentality. Put anything on the air and Chinese viewers would

watch it. With competition and the phasing out of subsidies, local TV stations are under pressure to come up with programming that truly appeals to their viewers. The independents, with a genuine understanding of what local viewers want to watch, will be more creative in coming up with programming that's relevant locally. This translates into programming that is more tightly tailored to local viewing whims, that offers a dash of local color, like TV talk shows dedicated to raising local issues. These types of shows are inexpensive to produce, and people kill to be on them. Another example is economics shows that cover what local firms are doing, or that uncover the "shenanigans" of foreign investors.

The second forecast is that formats, or content templates, will be "King." The Chinese have taken game show concepts from Europe, Japan, and America, and licensed the formats – e.g. "Who Wants To Be A Millionaire" and "Survivor." They come out with a local version, using, more or less, the same format as the original foreign show. In a charitable light, the exercise can be viewed as an example of the Chinese learning from foreign best practices. The process is better off being called cloning. To date, the TV industry in China has never developed that risk culture to fund and write new, innovative programming. Their sense of R&D is to "do as you've been told." People look around and see what's playing on TV sets in the next province. They copy that and get the show out as quickly as possible to exploit the audience.

The third forecast is that cloning will evolve beyond "Flavor of the Month" to more elaborate foreign formats. The trend is exemplified by Granada TV taking its popular British TV series "Coronation Street" and turning it into *Xinfujie* (see box 3 below). There's been a steady flow of regional programming into mainland China, mostly from Hong Kong and Taiwan, which are considered safe bets for Chinese TV. Other popular formats include economics and sports shows. There is a lot of corporate sponsorship of variety shows that focus on gossip in the entertainment industry. There are also co-productions experimenting with more intricate formats. Saga TV is trying to create a Chinese version of The Discovery Channel. Bedford, a foreign co-production, is working on a Chinese sci-fi drama called "Flatlands," starring Dennis Hopper. It's a time-warp epic jumping across many different Chinese dynasties, and is seen by some as a vehicle to promote Chinese programming in the US market.

Box 3 "Coronation Street" Lesson

Granada was hoping for success in China by using the very familiar formula of "Coronation Street." Retitled as *Xinfujie*, or "Joy Luck Street," 158 hours of programming were shot. Although expensive by Chinese standards, *Xinfujie* turned out to be a moderate success after some early hiccups. Granada had originally hired a Hong Kong director, who never quite understood the nuances of Beijing life. After 20 episodes, the producers got rid of him and the

Beijing actors started writing the scripts themselves. They felt they understood the feelings of ordinary Beijing people much better, and made the show more melodramatic.

The fourth forecast is that cloning will result in many bombs. NewsCorp is trying – in what is according to some critics an impudent effort – to transplant the wildly successful American TV show “Friends,” a show characterized by a snipping style of humor that relies heavily on irony and sarcasm, into a Chinese setting called “Joyful Youth.” Many of these attempts to localize foreign shows in China are going to bomb because of different cultural factors and preferences. Western media groups tend to use Taiwan as a test case for Asian audience acceptance of Western shows. But Taiwan, because it has a stronger affinity with America, might not always be the touchstone for what will work in China. On the other hand, some Japanese programs do well in Taiwan and China because they touch upon Confucian values of collective morality: love, suffering, and redemption. “Joyful Youth,” once it hits the Chinese airwaves, may yet prove its critics wrong.

The fifth forecast is that true originality will emerge in situation shows and dramas.

Because it's difficult to translate or successfully clone these offerings cross-culturally, original concepts must be developed. Another driver of originality is that more TV drama in China is being fueled by the confluence of 3 forces: Hong Kong, Taiwan, and domestic. The result is a “cultural” technology transfer. The Chinese are learning from Hong Kong and Taiwan through co-production efforts and licensing, through picking up new techniques, and through hybridizing new ideas. Consequently, domestic houses are coming out with some of the top-rated TV drama series. This has attracted the interest of both advertisers and broadcasters, who want to purchase the shows, or even invest in the production houses. The relationships with Hong Kong and Taiwan are advancing into new media collaboration. For instance, a New Media Center is going up in Beijing with overseas cooperation. The city wants to create a cluster environment for media, where everyone in the creative industries can interact with one another. The New Media Center will provide a common platform – a net enhancer – where many artistic streams can feed off one another, rather than broadcasting as an isolated entity.

In the years to come, Chinese TV will improve by leaps and bounds. Quantity certainly will no longer be a problem – see Table 9. Diversified, high-quality world content, including shows from the rest of Asia, especially from Korea, will be shown. There will be more presentation of Chinese content in an international format like a Chinese version of “Larry King Live” and co-produced regional dramas and game shows like “The Weakest Link” only with more Chinese elements added in. A foreign channel like CETV will tap into its parent company's (AOL Time Warner) extensive TV library and use the worldwide resources to develop new programming ideas. Chinese TV will benefit from enhanced international production values and quality. New programming will look completely different in terms of design standards, lighting, use of cameras, and so on. The viewer won't be able to point out each element, but when seen all

together the viewer will notice the difference. The whole look and style of the new channels will be sleeker.

Table 9 More to watch



Source: China Broadcast & TV Yearbook, The Economist (2001)

The next two forecasts deal with dimensions of content that won't change so fast. One concerns the political duties of Chinese TV stations, the other censorship.

There are two big political events each year. Both are celebrations of CCP anniversaries: National Day and the gathering of the People's Congress. During that time, TV stations can't broadcast any other content. They must run shows which elucidate the leaders' philosophy – i.e. promote the achievements of the CCP. All stations take up the assignment perfunctorily, and air serious news programs talking about the history of the Party.

Censorship in China is the final frontier. Today, a Chinese TV talk show gets an idea and draws up a specific list of guests. The show has an executive producer and a senior editor, both of whom have high CCP qualifications. They know the specific propaganda requirements that qualify a show for "healthy" status: what can be talked about without going over the line. If the editor feels the show is toeing dangerously close to the "cut-off" line, he can go to a chief editor up in Beijing or to the local Party Propaganda Committee for consultation. Through the entire process, the editor develops an intuitive understanding about what's permissible and stays nicely behind that line. No talk show is ever transmitted live on TV in China and is heavily edited to show only the best parts.

Even in this system, there's a growing amount of freedom as reflected by a surge in magazine and news shows that exhibit edgier editing styles. The writing is no longer linear. The producers are thinking "out of the box." For example, "Jiaodian Fangtan" (Focus Report) is a popular TV program on a specific news story and goes out each day for 10 minutes after the main evening news. The show deals with the problems that ordinary people in China must

contend with – problems with the system, with the natural environment, petty corruption at the local level, etc. The stories are relevant and well-produced, making “Jiaodian Fangtan” a highly rated show. Another show “Shihua, Shishuo” (Tell It Like It Is) has people speaking their minds on topics once considered too touchy and taboo to be publicly discussed, like “Should parents beat their children?” While like “Jiaodian Fangtan” and “Shihua, Shishuo” enjoy tacit support from the central government, nothing is aired in public without adhering to the government “line.” Increasingly the boundaries for what is permissible are blurring.

News shows like “Jiaodian Fangtan” and “Shihua, Shishuo” do have an impact. They affect the way people view the relationship between state and society by addressing critical issues which don’t make the system look good. This is partly a reflection of a culture and a rapidly modernizing society that is confident enough to know that airing such “dirty laundry” won’t bring about “regime change.” This is also partly a reflection of the Party’s awareness of the necessity of allowing the masses to vent their dissatisfaction with social ills, like corruption, through such shows. These shows will never be a “60 Minutes” type of investigative reporting. Those who put these shows out know they can only go so far – call it “pushing the envelope with Chinese characteristics.” [China Entertainment Network] If no one in the central government is explicitly saying it can’t be done, Chinese producers will confidently keep taking small liberating steps forward. If they go too far, their show gets pulled off the air.

Table 10 China’s Top TV Viewing Events in Recent History

Name of Show	Reason for popularity	Effect	Originality Quotient	Orientation
1980-1985				
1. Spring Festival Gala Show	The top-slotted entertainment show in the country ever since its debut; a new way for Chinese families to celebrate the year’s biggest holiday	The biggest event in China’s entertainment industry; seasonal cheer and excitement	Very Chinese; contains some political elements; some parts of the show express significant social concerns	Common
2. Overseas: Japanese series “Axiu” and Hong Kong made kungfu series like “Huo Yuanjia” or “Shediao Yingxiong Zhuan” (Stories of Eagle Heroes)	Only entertainment fare on TV then; completely new viewing experience for Chinese	Become national phenomena, more than just mere TV shows; owning a TV set turns one’s home into a bloc party	Imported; quality far superior to domestic products	Common
3. Televised matches of Chinese Women’s Volleyball	Win gold medal at 1984 Los Angeles Olympics; strong patriotic feelings unleashed	Upsurge in national pride; China’s 1 st generation of TV sports fans cultivated	Broadcasts of live sporting events, quite a technical accomplishment at the time for CCTV	Common
4. Learn English program called “Follow Me”	1 st of its kind; popular among high school and university students	Learning English fervor, now 2 decades old, is kicked off	Imported, with Chinese interpreters as program hosts	Educated
5. BBC’s “Animal World”	New, high quality form of educational TV; Chinese see animals and places they will otherwise never see	Opens viewers’ eyes and lets them approach foreign worlds, new vistas	Imported; too expensive for CCTV to produce similar content on its own; copycats never quite as popular as the original BBC series	Educated

1985-1990				
1. "He Shang" (Yellow River Elegy)	Introspective political critique and intellectual treatise on Chinese civilization	Placed China's development in global and historical context; sign of maturing Chinese intelligentsia	Highly original cultural program; successfully uses TV idioms to tell a serious story	Elitist
2. Stress on specialized children's programming	Parents fret over children's education; consistent with single child policy which turns urban children into significant "cultural" customers	Certain segments on TV become devoted to specialized themes; production side more affected than viewing side	Full of imitations of foreign programs, especially of foreign cartoon elements	Specific segment of Chinese populace
3. Domestic-made TV shows like "Kewang" (Aspiration) based on lives of ordinary Chinese people	Coincides with dramatic social changes from economic reform, and people's longing for love, friendship, family harmony, marriage, happiness, etc.	Social education TV, touches people in their hearts	Real Chinese originality in terms of story lines, casting, and narrative style	Common
Honorable Mention: "Hua Shuo Changjiang" (About The Yangtze River), travel show; "Hong Lou Meng" (Dream of Red Mansion), TV series based on the classic Chinese novel				
1990-1995				
1. TV news magazines like Oriental Horizon	New form of presenting news: live reportage, exclusives, and exposés	People are informed about important social and economic events	Standard working format for international media but very innovative in China	More elite but still popular throughout China, except for those with little education
2. Live broadcasts of domestic and international sporting events, mostly professional soccer and basketball leagues	China has largest base of sports fans who love European soccer and NBA telecasts	Sports and an interest in watching sports becomes integral part of many changing Chinese lives	Live broadcasts and highlight shows	Common
3. Second generation of domestic-made soap operas like "Beijingren Zai Niuyue" (Beijingers in New York)	Show coincides with 1 st wave of Chinese studying and living abroad	Chinese people want to know more about what life is like for Chinese immigrants in a foreign country	An original global vision and a multinational production staff	Common
4. New forms of entertainment programs like "Zhengda Zongyi"	Guests are invited and participate in quiz-like competitions	Live audience participation; lots of new information released	Imitation of foreign genres, especially using video from one Taiwanese tourist program	Common
Honorable Mention: "Bianjibu De Gushi" (Stories of a Magazine Office), light social satire comedy; "Sanguo Yanyi" (Stories of the Three Kingdoms), another TV series based on a classic Chinese novel				
1995-Present				
1. Live broadcasts of big events like the Hong Kong Handover, Beijing Olympic Bid	Satisfies people's curiosity and lets them participate in distant events of historical significance	Scattered individuals are brought together in the same space to celebrate	International standard practice	Common
2. Talkshows like "Tell It Like It Is" and "Dialogue"	Audience participation and interaction with host and guests in discussion of pressing social topics	Facilitation of social morality; serve as social forums	Copied from international media, with added Chinese flavors	Some elite like "Dialogue," some for ordinary folks like "Tell It Like It Is"
3. Increasingly specialized programs and "thematic" channels: news, music, sports, economics, legal issues, military, etc.	More sophisticated program production	Almost everyone gets to see what they want	Big source and space for Chinese TV innovation and originality	Some cater for elite audience, some for general audience
4. Commercialized TV quiz shows like "KaiXin CiDian" and	Quiz shows with real financial rewards; chance to win objects	Seen as "virtual game," members of TV audience can	Imitation of foreign formats, with some Chinese innovation	Common

"Lucky 52"	like new refrigerator not cash	imagine themselves answering the questions and winning the prizes		
Honorable Mention: "Huanzhu Gege" (Princess Huanzhu), Taiwanese TV series about life of a princess in Qing dynasty; "Shuihu" (Water Margin) TV series based on classic novel about feudal outlaws; "Huanle Da Benying," entertainment show				

Source: Liu Neng, Beijing University; Hans Huang, Berkeley University (2002)

INDUSTRIAL RESTRUCTURING

Programming diversity is being spurred on by "new" regional media powerhouses, themselves the offspring of an ongoing process of consolidation. While continuing media consolidation is another example of China's penchant for managing competition, it is increasingly market-driven, policy-driven, and enabled via technology, especially satellite and cable. The TV industry in China will consolidate into healthier, more robust business groups, with which the government feels comfortable. They are the progeny of merging provincial cable and terrestrial assets, partly to fend off incoming foreign competitors, partly to fend off bankruptcy, and partly by fortuitous accident.

One key driver of consolidation is the need for rationalization and economies of scale. It's not economically viable to have 3000 channels nationwide, as there isn't enough ad money to go around – see Table 11. In 10-15 years, that number will probably be whittled down to 8 major media conglomerates, approximating the US situation. [China Entertainment Network] Consolidation in China's TV sector is inevitable, as an increasingly competitive market can only sustain companies which have attained economies of scale and scope.

Table 11 Overcapacity?

TV broadcasting channels in China	3,000
TV broadcasting channels in the U.S.	1,500

Source: Time Magazine (2000)

Another key driver of consolidation is the need for "national champions" as a response to perceived foreign media threats. The backing of national champions is not unique to the media sector. It is a general Chinese response to the sweeping changes mandated by China's admission to the World Trade Organization (WTO). The Chinese government is busily creating large monopolies to control the country's various industrial sectors. For instance, Shanghai has blended Shanghai Terrestrial TV, Shanghai Cable, and the third Shanghai cable TV company into one outfit. In effect, the municipal government has created a real monopoly in Shanghai, with one line of authority, and a single person running it. This monopoly basically controls distribution, program creation, and ad rates. The "new" Shanghai TV group is the only game in town, through which all advertisers must go to reach their target audiences.

Although monopolies will emerge on the national and regional levels, they won't necessarily be well-run companies. Capital flows will continue to be stifled and diverted into unproductive ends. But their creation satisfies Beijing and its concern with control. Beijing won't be able to completely order these regional monopolists to hew to its dictates, but together they create a solid front against the Western media powers. The Chinese prefer to consolidate rather than let market forces take over and decide who wins and loses.

Looking ahead, consolidation in China's TV industry will unfold differently from the chaotic process which took place in Taiwan during the nineties. Taiwan witnessed what some term a "deformed" development: over-saturation, massive black-market industry, including collusion between gangsters and politicians, and illegal hotwiring. The result was lots of interesting content, but not much profit. In China, the media consolidation "crusade" was kicked off at a crucial meeting of regional Radio and TV Bureau chiefs in Lanzhou, the capital of Gansu province, in August 2000. The call went out for the merger of terrestrial TV stations and cable TV stations at all levels. Up to now, the main groups which have been set up are Beijing, Shanghai, Guangdong, Hunan, Zhejiang, Sichuan, and Hubei. [China Media Monitor Intelligence] Beijing, Shanghai, and Hunan have been quite progressive in terms of China's evolving TV industry. Hunan has been especially creative and done a tremendous job, including a public listing on the Shenzhen stock exchange 2 years ago – see box 4 below. More provinces are behaving like Hunan, and becoming provincial TV monopolies. Eventually, they will be squaring off with CCTV, resulting in the emergence of a real media market in China, similar to the American market which is blessed with 5 competing national TV networks.

In major provinces and municipalities, both terrestrial and cable TV stations have been profitable commercial enterprises. Until now, they have also been largely responsible for their own business, including investments in non-media subsidiary companies. Now, all of these different terrestrial and cable stations must somehow be welded together, creating potential clashes of corporate cultures and business plans.

Box 4 Trailblazer

Hunan TV is a good example of a state entity which early on identified media as an important growth engine. It formed a group controlling three-quarters of in-province ad revenue. They used that ad base to set up a shell company and do an IPO in Shenzhen. Unleashing those financial resources, they then set up a nationwide group, Hunan Satellite TV, to take on the nationwide ad buyer (CCTV). But Hunan TV remains small in comparison to the CCTV behemoth. Its programming budget is about US\$20m, which is less than one-tenth that of CCTV. Even if Hunan TV took in 100% of all Hunan provincial ad revenue, that alone won't be enough to finance major nationwide results. Nonetheless, for a provincial station, Hunan TV is faring well. It has increased revenue tremendously over the last 4-5 years, taken the initiative

to adopt new forms of entertainment, and is at the forefront of inviting people from Hong Kong and Taiwan, who represent Hunan TV's base of funding and ideas. Hunan TV is very good at creative "borrowing." They are more experimental and commercial in their programming choices, and on the whole, well-packaged. Currently, Hunan TV is embarking on a huge expansion in equipment and technology, and is beefing up its programming production and ad sales force. It has erected a state-of-the-art studio and has good outlets for its shows. [James Mitchell, Goldman Sachs]

There are several possible outcomes to industrial restructuring and consolidation: (1) the emergence of a two-tiered TV market, (2) the emergence of TV affiliates, (3) the emergence of regional TV superstations, (4) the solidification of new Beijing-backed national players on the distribution and content sides, (5) the growing involvement of powerful, cash-rich outsiders, and (6) a new role for the "public's choice," CCTV.

The least likely possibility is the emergence of a two-tiered TV market in China, where only the wealthier eastern regions receive multiple TV channels and good content. The government will act to prevent this development from occurring. It doesn't want better TV in the East to be one of the reasons why people move from the interior to the coastal regions of China.

The second least likely possibility is that China might follow the US affiliate model, where CCTV is the national network in charge of content production while the provincial TV stations become CCTV affiliates. Some view the affiliate model as a way for Chinese broadcasters to practice in a quasi-competitive environment before foreigners come in. With the advent of cable, the affiliate model is most likely a dinosaur because the business model is increasingly focused on getting distribution for cable programming. The affiliate structure is a non-starter in China, when cable penetration in major urban areas is so high.

The next possibilities are developments that are beginning to take place in China, and are expected to gain traction as they pick up momentum.

One dividend from the spate of mergers should be the rise of new superstations in China – like Ted Turner's superstation TBS which came out of Atlanta to achieve a national footprint in the eighties. These are stations with regional roots that are achieving distribution via satellite to a national audience through cable as the final delivery means – see box 5 below. Out of the 400 million TV households in China, these local superstations are scooping up the top 30%. They're getting into urban, well-off households, making this their sales pitch. Not only can advertisers reach a national audience at a lower rate, but also those people who can really afford to buy their goods. As a result, these local superstations are slowly building up good ad revenue bases, in spite of the local cable operators being under no obligation to take the ads

that the superstations are running. Hunan TV is all the rage right now. Guangdong, by itself Asia's sixth largest economy, will also be important, even if the Guangdong cable systems are taking the easy way out by stealing Hong Kong programming. Beijing TV and Shanghai TV will also be key players because a local TV station needs a strong local base to raise the funds to challenge the status quo, and cross-subsidize new programming efforts. These stations, as they diffuse across the country, will lose the close associations with their home provinces, and introduce innovative business models – see box 6 below. Hunan TV could become what CBS is today in America: a TV corporation with 20-25% national marketshare and reach.

A fourth possibility is that the big groups, or holding companies, which the central government is trying to form, actually become viable businesses. They are part of an effort by SARFT to convert itself, from being a regulator to a company. On the delivery side, there is the Information Network Center (INC) of SARFT. INC is intended to have a limited stake in the cable assets of most of the local bureaus. On the content side, SARFT set up the China Radio Film TV (CRFT) Group in December 2001, in which it holds a 51% stake. CRFT combines CCTV, China People's Radio, China Radio International, and their online sites. These moves are also part of an effort to rectify a past blunder on SARFT's part, when it decided to divest power to the local SARFT bureaus. Beijing gave them the right to develop cable systems locally and it lost its ability to control them in any real way. Local governments also got into the act and built their own rival cable systems.

INC is SARFT's attempt to establish a nationwide cable system (sometimes called China Cable). SARFT is afraid that it's going to be regulated out of existence. Through INC, it's trying to diversify into owning the assets it putatively regulates. In the past three years, INC has built a 17-province, 18,000-mile backbone network, connecting the country's most prosperous provinces, without any real idea of how it's going to make money. SARFT now awaits State Council approval to take in all the cable operators in those provinces covered by the INC network. A lot of INC's network is dark fiber, hence there's intense pressure to monetize this asset. Ideally, INC wants to connect all the "last miles to the home" in China together to this massive backbone. That way SARFT can put a show on this system, and get 30 million viewers tuning in (or about a third of China's current total). It can then turn around, sell that ad space, and end up making a fortune. But the stumbling bloc is that SARFT doesn't own the last mile – the local cable operators do. SARFT is trying to buy majority stakes in regional cable systems, but the locals won't sell cheaply. As a result, INC has become very quiet recently.

To realize the dream of becoming a nationwide cable operator, SARFT and China Cable are faced with the task of buying up a significant number of China's more than 2000 cable systems (some of them tied to listed companies), at a cost no less than US\$20 million per

system. In China, a cable system is not worth US\$4000 per subscriber like in Manhattan. But if one were to perform a replacement cost analysis for China's cable system, a reasonable figure of roughly US\$200-500 per subscriber is derived. Beijing Cable has been trading at US\$600 per subscriber. INC has been seeking to buy in the low one-hundreds. If they had intended to spend serious cash to buy the cable systems at cost plus profit to the sellers, they might have gotten somewhere. Instead they tried to get things on the cheap, via their connections. So far, SARFT and China Cable have secured some capital from a couple state banks, including the State Bank for Infrastructure – totaling around US\$1 billion in bank credit. Perhaps US\$3-5 billion, if not more, is a more realistic figure needed to snap up 30 million subscribers, a sizable amount of cash which SARFT doesn't have. The attempt to raise more money, for now, has been shot down by other forces in the government. At last count, INC has direct control over 5-10 million cable TV subscribers.

[Andrew Collier, CLSA; Vivek Couto, Media Partners Asia; James Mitchell]

A fifth probable outcome is that more domestically listed giants will enter the media fray and become major factors, following the path blazed by CITIC GuoAn, a publicly listed company on the Shanghai board – see Table 12. CITIC GuoAn has been aggressively acquiring stakes in local cable systems. It aims to gain a controlling influence on the delivery side of TV – i.e. the actual physical network. Over the past couple years, it has made enough acquisitions so that a cohesive asset is starting to emerge. But no matter how well connected CITIC GuoAn is, its advances, like those of INC, have been occasionally rebuffed. In one memorable episode, CITIC GuoAn was competing head-to-head with the Hunan provincial cable group to buy out the local cable players in that province. The provincial government stepped in and invoked a clause on the books, which prohibits strategic provincial assets from being sold to outside or foreign media groups. Hunan provincial cable won because it had the province behind it. But, in general, companies like CITIC GuoAn underscore the long-term trend towards the privatization of cable in China. SARFT realizes that companies like CITIC GuoAn are acquiring assets it could have had, should have had, and that in the process of divestiture it is gradually losing control over what's being aired in a meaningful way.

[James Mitchell]

Table 12 Local companies become involved in CATV projects

Shanghai Industrial Holdings	Working on Shanghai Cable Network with Shanghai Information Investment (SII)
China Aerospace	JV with Jiangsu Broadcasting TV Bureau
Central China	49% stake in Henan provincial CATV network
China Prosperity	Cable stakes in Fujian, Hebei, Heilongjiang, and Sichuan
China Trust	Invested RMB140m in first phase of Hebei CATV construction project
Taikang	25% stake in Chengdu CATV network
Xinlian	Indirectly owns 49% of Changchun Northern CATV network
Qingdao Eastern	49% stake in Qingdao CATV network

Zhongda	Invested RMB147m in Zhejiang Zhongguang Information Network Shareholding Co.
---------	--

Source: ING Barings (2000)

A sixth outcome is that the venerable state programmer CCTV will succeed in changing its stripes, and could become more like a public broadcaster in the European sense – a responsible, quasi-autonomous organization which produces “best quality” content. CCTV has been really the only creator of content since the 1950s. As a result, CCTV possesses reams of highly valuable archival footage. CCTV is also important to the CCP as the national broadcaster and as the main purveyor of official policy to the masses. But now in the face of rising domestic competition, CCTV’s management is increasingly being judged by its ability to maintain high ratings, and consequently starting to produce much better content – see Table 13.

Table 13 CCTV’s Fragrant Bouquet

Exhibit 19: CCTV channel bouquet	
Channel	Program type
CCTV-1	News and current affairs
CCTV-2	Economic, social, and educational
CCTV-3	Culture
CCTV-4	International
CCTV-5	Sports
CCTV-6	Movies
CCTV-7	Science & Technology
CCTV-8	Drama & Theatre
CCTV-9	English Language Satellite Feed Channel

Source: Company data (Homepage).

Source: Company data (homepage)

Box 5 Satellite

With satellite, a popular superstation can do a regional ad buy. A superstation approaches a channel and promises to air the channel in 4 provinces, all with good TV household demographics. The budding superstation turns around and approaches the provincial cable operators and promises them each US\$1m guaranteed to televise its package of channels. China needs large-scale operations like the superstations to confront the likes of NewsCorp. [Andrew Collier]

Box 6 Business Innovation

The Shanghai Media Group harbors aspirations beyond terrestrial TV. It is pursuing a multimedia play and a global play, and has set its sights squarely on becoming China’s version of AOL Time Warner. The Shanghai Media Group seeks to take a piece of content in

one form of media and leverage it across other different forms. As production costs rise in both TV and film and profit margins in printed matter erode, Shanghai Media Group must have the ability to leverage content in many forms in order get as many streams of earnings as possible. It wants to come up with a “bouquet” of services that Chinese consumers will be willing to pay for, especially 12-18 year olds. It intends to first dominate the Shanghai region, then become a leading player in China, and finally transform itself into a global content & media company. Shanghai Media Group’s first strategic stage is the “Viacom” stage: come up with compelling content, like Paramount Pictures and MTV. The second stage is to localize. The third stage is the “NewsCorp” stage: to own production companies in different countries, like India. There are some opportunities for Chinese media groups to tap into the North American market – a Chinese Pay TV channel could crack the mainstream in the US. [James Mitchell]

If can find

[Graph: picture of INC network?]

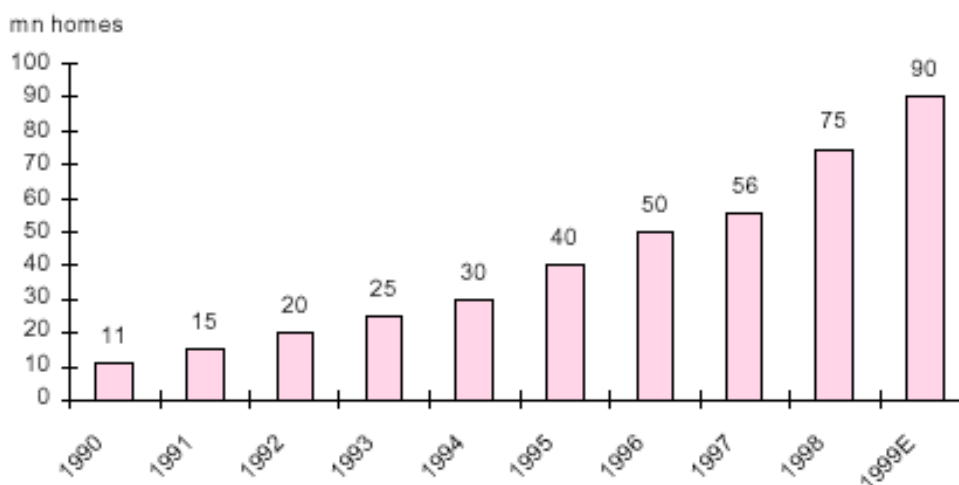
[Graph: CITIC acquisition history?]

NEW CABLE

Cable plays a pivotal role in any future of TV in China since China has more CATV subscribers than any other country – see Table 14. The government has been pushing the merging of cable and terrestrial channels to avoid wasteful duplication. In China, the cable operators are also channel operators, unlike in the US. For instance, Beijing free-to-air TV owns 5-7 channels: BTV1 is News; BTV2 is Sports; BTV4 is drama; and so on. Beijing Cable TV Network owns BCTV1 (News); BCTV2 (Sports), and so on. Beijing Cable now has 3.5 million subscribers. It is basically running another gauntlet of channels, creating a lot of redundancy, and generating excessive competition between cable and terrestrial programming in the eyes of the authorities. An edict, issued in June 2001, requires cable operators to be just carriers and relinquish their channel operations. The implication is that resources will be centralized; and each “new” media organization will have stronger bargaining power on content and ad rates and will benefit from reduced operational costs. There is also an influx of TV executives, who have more international exposure and knowledge, to run these media organizations as businesses. The future of Chinese cable will be marked by the emergence of several MSOs (Multiple System Operators), similar to cable companies like Cox and Comcast in the US. [David Wolf]

Table14 Growth in CATV subscribers in China and CATV subscription base by city (1999)

CATV subscribers in China



Source: Zenith Media, IWICS

China's CATV subscription base in cities in China

City	Subscribers ('000)
Shanghai	2,900
Beijing	1,800
Hangzhou	1,000
Wuhan	1,000
Tianjin	850
Qingdao	750
Guangzhou	700
Chongqing	500
Shenzhen	500
Xiamen	280
Chengdu	200
Luoyang	200
Zhengzhou	200
Jinan	200

Source: Rothman, Barker & Associates, IWICS

Source: Zenith Media, Rothman, Barker & Associates, IWICS (2000)

Today, most of China's local cable systems are 5 to 10 years old, and usually carry 20-30 channels. Cable has been relatively inexpensive to deploy in China as it is linked to entire building blocs, not to individual homes like in the US. A homepass in major Chinese urban areas comes out to US\$100-120. [Vivek Couto] Cable companies are under pressure to improve ARPUs (Average Revenue Per User), which currently average US\$13 a year. Basic cable subscription rates in China are officially capped at 8 Renminbi (RMB) per month, a little over US\$1 – see Table 15. The industry is beset by other problems as well. Cable TV operators can't always collect their fees. Some CATV operators only have a 50% collection rate. The average rate nationwide is 70%. [David Wolf] Many of the CATV companies are also notorious content pirates. Despite being the most popular TV channel in Guangdong

province, Hong Kong's TVB isn't the one making money. The cable operators in southern China audaciously steal TVB's free-to-air broadcast and transmit it through their cables, cutting out TVB's commercials and replacing them with their own. Ad sales therefore go to an operator like Guangzhou Cable, and not to TVB. [Andrew Collier; James Mitchell] The cable sector, as a whole, is trying to consolidate into a handful of national networks, equipped with more stable business models. Potential national operators look set to emerge in Beijing and Shanghai. In Beijing, a company named Gehua is trying to replicate CITIC GuoAn's success, but on smaller scale. It is trying to fashion the "managed growth" of the Beijing cable industry through consolidation at the municipal level. [Dr. Michael Keane]

Table 15 CATV subscription is unbelievably cheap in China

Per household GDP and subscription charge for CATV in 1998

<i>Country</i>	<i>Ccy</i>	<i>Basic subscription (p.a.)</i>	<i>Total no. of households 1998 (mn)</i>	<i>GDP 1998 (bn)</i>	<i>GDP per household (000)</i>	<i>Subscription / GDP per household</i>
China	CNY	96	338.1	7,955.3	23.5	0.4%

Source: Zenith Media, IWICS (2000)

Despite official policy to merge the two, China's cable TV sector is vastly different from its terrestrial TV sector. Local SARFT bureaus and local governments own the cable systems, which have posted handsome returns. For SARFT to step in and appropriate local cable assets through INC will be extremely difficult due to politics and money; regional governments can't simply be forced to sell one of their prized assets. For instance, a system like Shanghai Cable, which has 3 million subscribers, would be worth roughly US\$400 million. [At US\$13 per subscriber per year, Net Present Value analysis results in a figure of US\$130 per subscriber.] If Shanghai Cable is an undervalued US\$400 million (each subscriber in Shanghai is more like US\$1000 due to the region's wealth and the industry's relative infancy), then 100 million CATV subscribers in China come in at a value of US\$13 billion, or 100 billion RMB. [David Wolf] For SARFT, this is a huge sum of money to buy out all the local owners. In all probability, SARFT will end up doing select deals, chasing attractive markets like Shandong, Fujian, and Zhejiang provinces to become China's first, but not only, MSO. Access should be sewn up in the next 3 to 5 years, with most likely 6 other major entities, made up of local operators aligned against CCTV, exerting control over access and financing alternative programming.

NEW REGULATOR

On the regulatory front, SARFT is faced with several daunting challenges. One is deciding how to strike a balance between the interests of being a regulator and an operator. SARFT is under pressure to trim its own bureaucratic vastness and inertia, epitomized by constant

rounds of internal debate and revision. Another is deciding how to respond to the clash between the pull of re-centralization and the tug of devolution – i.e. how Beijing will contend with emerging regional media centers. A third is removing the traditional opaqueness of rules and regulations governing the sector. Other challenges are more typical of the kind confronting regulatory regimes everywhere: how to deal with convergence between the cable TV and telecommunications infrastructures; the digitization of content; and heightened competition. As always, the “fear factor” in China remains the political imperative to maintain control with an “iron fist” over the TV industry. As the country’s private sector continues to make a greater contribution to GDP growth, and the CCP continues to shed its economic base, Beijing might leap at the opportunity to milk the media industry as a new revenue stream for government coffers.

A key development is how risk-adverse the locals are, and whether they will challenge the Center for greater control over the profits emanating from the TV trade. The conflict is an outgrowth of quasi-capitalistic forces taking root in the industry. As a result of decentralization, local media groups can become alternative centers of power. To stimulate local development, the central SARFT accorded provinces the right to develop cable systems of their own, which led to network fragmentation. A couple years ago, SARFT decided to take back the local cable assets, and has since been engaged in a tug-of-war with various powerful political groups – the local and provincial governments, and publicly-listed mainland companies. Their TV investments have paid handsome dividends, and effectively given them the means to threaten Beijing’s control over information and its enforcement of policy. The regional media groups will strenuously protest and defend themselves against central media policies formulated by the Propaganda Department, which are meant to re-inject new life in Beijing’s tenuous hold over the industry. [CETV]

Many commentators think SARFT’s days as a regulator are numbered, and that it will be subsumed under the Ministry of Information Industries (MII). Besides the threats from below, SARFT must defend its political turf against encroachments by other high-level bodies, such as the MII and the State Council Development Research Institute – see Box 7. So far, rearguard action by Ding Guangen, SARFT’s “eminence grise,” has been successful in extending SARFT’s lifeline. He convinced the party leaders that TV, due to its significance as a propaganda tool, is more than an industry and requires specific government control. As a result of his pleas, SARFT wields considerable clout as the content police. Now, SARFT is also hoping to create a viable business as China’s national cable company while cobbling together a media empire out of CCTV and a couple other disparate TV and radio parts. Unfortunately, trying to build up the business by shafting the locals has encountered great resistance.

Ironically, as China opens up its economy, Ding Guangen and SARFT have reinforced their position by co-opting the argument for a strong and independent regulator in any industry, an extension of the principle outlined in the WTO telecom reference paper. Compliance with one of WTO's fundamental stipulations will be partial cause for SARFT's continued existence. Most likely SARFT won't become part of the MII nor part of the Ministry of Culture and will retain its independence. SARFT has won another reprieve since it convincingly argued that as foreigners enter the market having SARFT around becomes more necessary than ever. The prime motivation to support SARFT comes from China wanting to maintain, at all cost, control over its own TV destiny. This fixation calls for regulated competition and the creation of powerful local players. SARFT and Party organs will maintain State oversight over TV, and build a strong industry through industrial policy. [David Wolf]

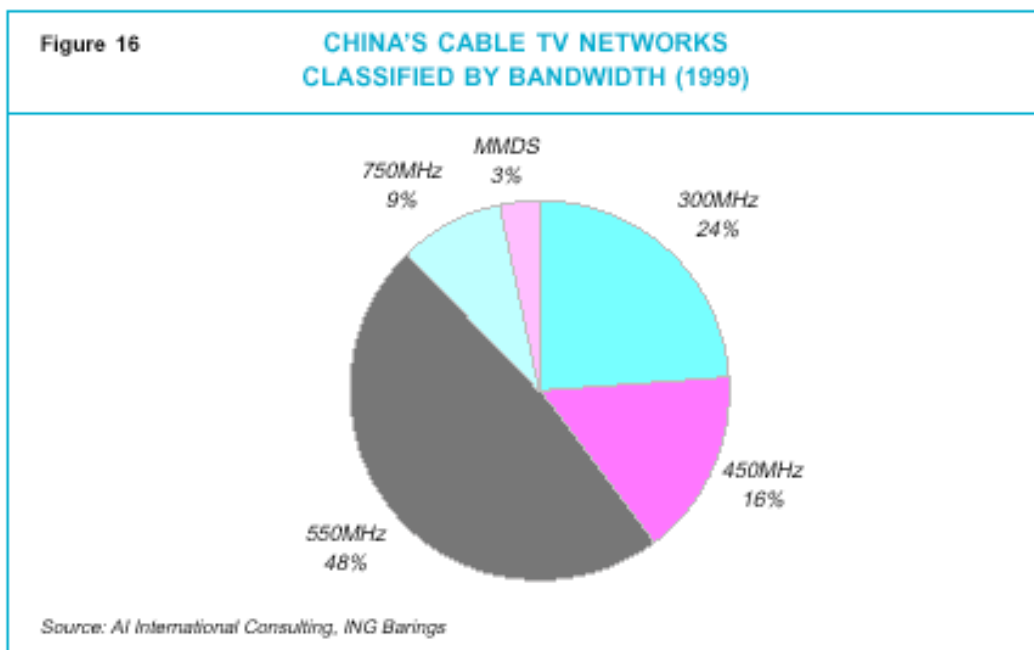
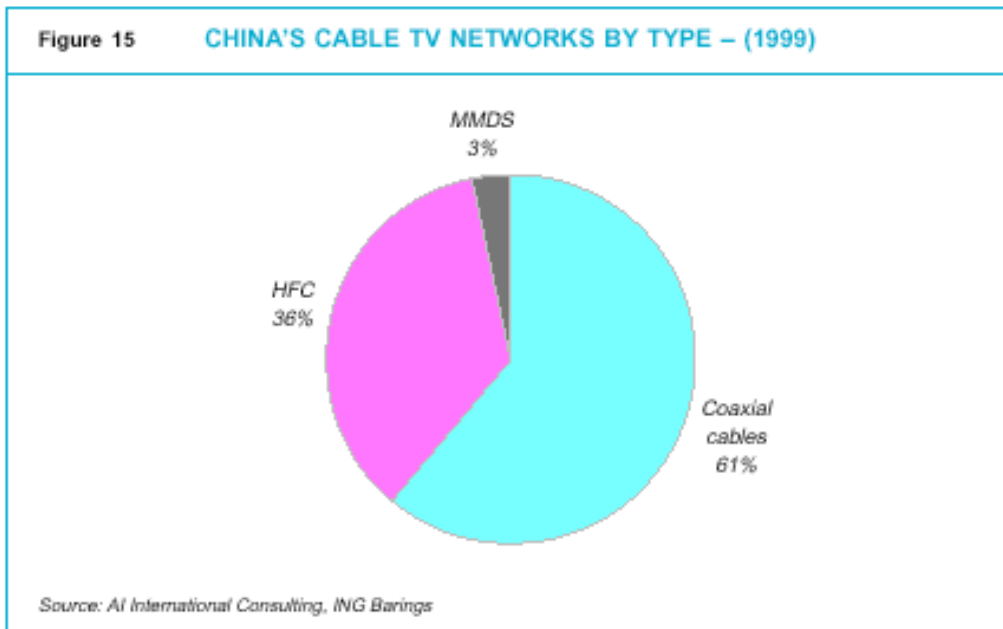
NEW TECHNOLOGIES

Because of its enormous TV viewing audience and a growing middle class, China is an increasingly important testbed for new TV technologies, like digital broadband TV, and a litmus test for the new services and business models. China is moving forcibly towards devising its own standard for digital TV, a hybrid which isn't so spectrum hungry as the Japanese or American standards – see Box 7. Becoming a “broadband nation” is official government policy, and officially-sanctioned technology players enjoy tremendous backing. On the production side, costs will be lowered through greater use of high-powered and inexpensive computers capable of digital imaging. On the distribution side, state-owned cable monopolies are under strong pressure from the government to rollout state-of-the-art broadband networks. China seeks to replicate South Korea's success in “mandating” broadband. China's cable TV operators will benefit from the ability to introduce new multimedia services, to collect healthy subscription fees and to drive up ARPUs. But in the multimedia age, success will ultimately depend on the service providers' ability to package content, riding on top of fancy technology, in a way that is attractive to their subscribers, and gets them to spend their money. In that respect, China possesses all the technology advantages; it's the content advantages which are far more elusive.

To deliver on the promise of broadband, local Chinese cable operators have to first upgrade their networks, which are currently one-way analog with no addressability and no back channels built in, to two-way, duplex, and digital – see Table 16. Besides decent cabling to homes, subscribers at each endpoint need a digital set-top box (STB), costing US\$150-200, which allows cable operators to charge premium rates, offer different tiers of service, and shut off delinquent customers (i.e. conditional access). Analysts have calculated an upgrade fee of US\$400 per subscriber. [Andrew Collier] Multiply that number by the 90-100 million CATV subscribers in China, and one has a reasonable estimate of the costs involved in upgrading the cable plant. As a holdover from the days of central planning, when cost was secondary to

achieving national targets, a number of provincial governments have so far completed the first phase of their broadband investments, making the cable head-ends fully digital.

Table 16 Only small percentage of China's cable lines is ready for high-speed Internet access with two-way capability



Source: AI International Consulting, ING Barings (2000)

In tackling the next phase of broadband investment, Chinese cable operators are focusing on the link between technology and various service offerings (or ARPU drivers): in particular, (1) Pay TV and premium services; (2) data services and packet-switched, or IP, telephony; and (3) combination of high-speed Internet access and truly interactive services – see Table 17. Decisions are now more commercially-driven rather than cleaving to a state-set Five Year Plan. Cable operators are investing in technologies where the greatest returns are possible and avoiding those plagued by uncertain and deferred payoff profiles.

Table 17 With upgrade of cable network, more value-added services can be offered

Cable network revenue sources
Basic operating revenue
Basic subscription fees
Programme-carrying revenue
New user installation fees
TV advertising
Expanded operations revenue
Graphic TV transmission fees, remote education and medical service fees
VOD pay-TV, added value pay-TV, music request broadcasting
Value added services revenue
Internet TV, internet communications, video conferencing, data transmission
Intranet services for government bodies, banks, and other corporations.

Sources: China Securities and SG Securities Research

Source: China Securities and SG Securities Research (2000)

The majority of Chinese cable operators are currently occupied with setting up one-way digital video broadcasting (DVB) networks, which support MPEG2 broadcasts, and installing STBs to decode the digital video signal, rather than plunging into the more expensive and technically-challenging two-way cable modem networks. DVB transmission requires a network operating center (NOC) to encode the signal at the cable head-end and a conditional access system for encryption so that only paying customers receive the service. Since most Chinese systems are “digital ready,” with the cable already laid out, an operator just has to transmit the digital signal over it, which simply means transferring an analog signal into digital at the NOC, and putting it on to the cable. DVB represents a proven technology and a mature market. It is attractive to Chinese cable operators who want to charge higher subscription fees by offering new Pay TV services. Like Motorola and Lucent which made good money off the telecoms boom in China in the early nineties, equipment suppliers like NDS and Irdeto OpenTV, a subsidiary of MIH, stand to benefit from the frenetic pace of DVB construction. The value chain for equipment suppliers comprises different opportunities in basic equipment for DVB, components for STB makers, systems integration, management software, billing, and equipment testing. Cable service providers are replacing their General Instrument distribution equipment with DVB elements, bought from NDS and OpenTV. Beijing Cable has

purchased 40,000 boxes from Irdeto and 20,000 from NDS. In Shenzhen and Guangzhou, local cable providers have launched enterprising Pay TV programming bundles (such as HBO, National Geographic, Phoenix, and Japanese movies). Despite subscriber fees of nearly RMB100 (US\$12) per month, more than ten times the basic subscription rate, the services are apparently "welcomed widely." [China Media Monitor Intelligence]

However marketing Pay TV services on a wider scale is not such a straightforward proposition. The issues relate to the manner in which cable TV economics have evolved in China. To this day, pricing has been a "black hole" in China. Due to regulatory constraints, local operators have grown accustomed to a very low pricing environment. It will be difficult for them to price for the consumer in a competitive market. Cable ARPU has been deliberately set at 8RMB to 15RMB (US\$1-2) a month. Most Chinese cable operators aren't thinking about raising basic ARPU, but rather layering premium services on top and charging extra for that. Some have expressed a desire to charge an extra 20RMB a month for 2-3 more channels, along with online stock trading. Operators still see cable as a public good and aren't willing to push up the basic price. Perhaps a better approach is to think about incorporating the most popular basic channels into a premium package with sports. [James Mitchell] With an artificially low ARPU of 8RMB a month, it is impossible to fund a set-top box (STB) scheme. In spite of falling terminal costs, an STB, equipped with an encryption mechanism, an electronic programming guide (EPG), a hard drive, and two-way interactive capabilities, costs several thousand RMB. [A more typical STB, consisting of a very simple digital box, telephone modem for return path (Internet service), and some ability to do interactive applications, still retails for US\$120.] In the present economic climate, STB vendors like Scientific Atlanta are reluctant to extend credit. So instead of following the Western model of subsidizing and giving away the STBs, Chinese cable operators have been offloading the cost onto the subscribers' shoulders, which naturally has dampened take-up. Chinese cable operators will have to come up with more innovative financing models. [Wang Keyu] Thirdly, piracy continues to rear its ugly head. Why should a Chinese consumer pay an extra 20 RMB or more a month for content they can view right away as a pirated DVD?

Data services and IP telephony, widely touted as the next paradigm shift for cable operators, are at best value-laden propositions in China. Hangzhou in Zhejiang province is establishing a city-wide IP network and offering Internet connectivity, with Hangzhou Cable charging a fixed flat rate of 100RMB a month for unlimited broadband Internet usage – in effect, still a subscription package. [Ren Xiaoyan, NDS] Such a remarkably low price highlights how ruthless the Internet service provision (ISP) competition is in China. On the other hand, cable telephony not only must overcome regulatory hurdles, but also the technical complexity in preparing China's cable systems for dependable voice service is vastly underestimated.

Lastly, broadband in China will probably hold a much narrower allure than the hype would lead one to believe. Yet, even with diminished expectations, China will still, quixotically, become the world's largest broadband market in the sheer number of users. The realistic market for cable broadband services in China over the next 3-5 years is limited to about 20 million out of the 90-100 million CATV subscribers (see Table 16), the same group that China Telecom is targeting. Broadband's first-adopters will be found among the residents of Shenzhen, Guangzhou, Beijing, and Shanghai. The hybrid fixed co-axial (HFC) network deployed in Shanghai, which is the most advanced in China, uses cable modems for the return path to enable bi-directionality, and bypassed one million homes a half-year ago. The municipal government has tried to legislate convergence. Shanghai Telecom uses the cable network to offer fast Internet service, with the PC as the end terminal, while Shanghai TV tries to emulate the British BSkyB model by using the same network for interactive TV services and "TV-commerce." [NDS] In the foreseeable future, Chinese cable operators will be primarily testing out and familiarizing themselves with new interactive TV technologies. This past summer, CCTV ran a trial with 1000-2000 interactive TV boxes during the World Cup held in Japan and South Korea. Basic TV has to be reprogrammed to become interactive TV with pop-ups and useful info links – in itself a costly endeavor.

Table 16 Broadband Take-up in China Slower than Expected

	2002E	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E
Broadband RPSM, US\$	20.0	17.5	15.0	12.5	10.0	10.0	8.0	8.0	8.0
Broadband households, million	0	3	9	16	23	30	37	44	50
As % of pay-TV households	1%	4%	10%	17%	23%	30%	36%	43%	49%
As % of TV households	0%	1%	3%	5%	8%	10%	12%	14%	16%

Source: Goldman Sachs (2000)

Box 7 The Digital Divide

Politics have made convergence in China so far impossible. There has been a history of acrimonious dispute between traditional rivals MII and SARFT. SARFT has been pushing for asymmetrical entry and regulation – granting cable companies early entry into the telecoms market before telecoms companies could enter the cable TV market and entitling cable companies to preferential regulatory treatment. The MII has strenuously resisted cable networks carrying telecoms traffic, to the point of violent confrontations between China Telecom and SARFT employees. In 1998, the State Council intervened and ordered the MII and SARFT not to touch each other's assets. These background disputes have continued to poison the debate around convergence, to the extent that they even held up the introduction of the *Telecommunications Regulations* by a year because of a dispute over the definition of "telecommunications" to encompass radio and TV transmission networks. [Hong Kong University PhD dissertation]

With the digitization of content and deployment of broadband, the technical divisions between different means of conveyance disappear. The Internet, or for that matter digital TV, can be accessed by cable modem just as easily as by ADSL. The Tenth Five-Year Plan highlights the trend towards convergence between TV, computer, and telecom networks but didn't mention specifically how China would deal with the regulatory issues surrounding convergence and digital TV. In Hong Kong and Malaysia, licensing for digital TV will be split between the telecom authority issuing multiplexer licenses and the broadcast authority issuing content licenses. China not only must address this issue but complicating matters it also plans to create its own digital standard.

In the future, one can expect China and Hong Kong to adhere to a single digital TV standard. China can have its own standard but this would mean that it would need China-specific digital TV sets which would reduce economies of scale and push up price to consumers.

Broadcasters could repurpose their content for different digital standards without too much difficulty as China's own digital terrestrial TV broadcasting (DTTB) standard will be a variation on the American ATSC and European DVB standards. The impossibility lies on the receiver end due to the prevalence of analog TV sets in China.

Unlike Malaysia which has a Multimedia Commission, the regulatory split in China between SARFT and the MII is unclear and the outcome uncertain. Eventually, it seems that SARFT will be content oriented while the MII is transmission oriented. [Just to add to the confusion, there is also the State Informatization Leading Group (now known as the Informatization Committee) which might displace the MII as regulator of conveyance. Unlike leading groups in the past which have been disbanded once they have given that initial stimulus to reform, this one might survive.] However, Chen Xiaoning, who led the creation of SARFT's backbone fiber optic network, is pushing for control of cable and the CCP is likely to back him on this. The CCP is fearful of losing control of state assets, and thus its power base. Unlike autos or steel, media is an area the CCP can justify as part of its domain. The CCP can control cable (as media) more than telecoms (as infrastructure) and thus would most likely like to see Chen Xiaoning's plan succeed, centralizing control of the cable last mile with the CCP in Beijing. It also depends on whether the Center or the provinces get to split the pie. The incumbents (i.e. CCTV nationwide and the provincial broadcasters within each province) might simply take a multiplex license each and do as they please with it. Whatever happens, this process will evolve over time and is not an immediate threat to content providers. China is in the process of consolidating its provincial television networks (a process that is only just beginning in many of the outlying provinces). Major markets, such as Guangdong province, have yet to consolidate. This entire process will most likely need to roll out before there is any real migration to digital TV.

[Andrew Collier; James Mitchell; NewsCorp]

NEW FOREIGNERS

Foreign TV companies are all active in China, but without much success until recently. It is illegal for foreign organizations to own equity in a state-owned production house or to do their own production in China. Viacom, eschewing the launch of a full channel, has enjoyed moderate success by cooperating with a local independent Chinese partner to fund, produce, and promote a thirty-minute show of the music video channel MTV that's been syndicated to over 200 broadcasters.

Two major deals, the culmination of years of hard negotiations, were struck in the past year, granting milestone landing rights in Guangdong province to AOL Time Warner (through its purchase of CETV) and NewsCorp (through a new channel called Xing Kong, or "Starry TV," in which it has a controlling share) – see box 8 below. NewsCorp also owns a 38% stake in the Phoenix satellite TV channel. CETV and Xing Kong are beaming Mandarin-language programming out of Hong Kong to Guangdong cable head-ends, a market where pirated feeds of Cantonese-language TV fare have long been the mainstay. In return, AOL Time Warner and NewsCorp have agreed to carry CCTV overseas. Even though dipped in symbolism, the pacts legalize the presence of AOL Time Warner and NewsCorp in China, and empower them to reach contractually-based and legally-binding arrangements for full carriage rights with local Chinese cable players, as opposed to shady handshake deals. [Vivek Couto]

The AOL Time Warner and NewsCorp deals, which accord them limited market access, come on the footsteps of China's admission into the WTO. In general, WTO encompasses a very long period of opening up the Chinese economy, giving the Chinese government a chance to implement "protectionist" policies, partly driven by the need to safeguard against the threat of Western cultural imperialism, and the befuddling tide of globalization. Although missing an explicit timetable for opening up the TV sector, WTO will indirectly help relax China's TV rules on provincial tie-ups with foreigners for their expertise. As a member of WTO, China has pledged to follow a program of progressive liberalization in all facets of its economy. It intends to open up the market, and reduce the number of laws and rules that control market entry. China will be under intense international scrutiny, to show "good faith" and abide by the principles enshrined in the General Agreement on Tariffs and Trade (GATT). WTO serves as a pretext for the government to introduce some order and transparency, and to rationalize TV investments. In the near term, most of the WTO-related action will occur in the market for imported movies, as foreign film distribution rights are liberalized. This year the Chinese government doubled its quota of Hollywood films that are allowed to come into the country – to 20 from 10 a year – and relaxed rules that awarded one quasi-private company, the China Film Group, an absolute monopoly over the importation and distribution of foreign films. The TV market in China will remain a domestic medium, partly because people will always prefer domestic TV content even if it's of a slightly lesser quality than overseas content. [Dr. Michael

Keane] Ultimately, China will be compelled to open up to foreign content. It wants to create a robust, sinewy TV industry, capable of capitalizing on global opportunities, and therefore must crack open the window, even if a discordant fly is occasionally let in.

The agreements signal a controlled opening, with the objective of yielding wider entry to foreign broadcasters only a fraction at a time. The Chinese government is hewing to a sensible “double-track” strategy; by firstly encouraging over the next 3-5 years industry consolidation and the formation of powerful local media groups, while secondly inching open the door to foreigners (like those in Table 17). Companies like AOL Time Warner and NewsCorp get a chance to prove themselves as dependable partners, while laying the foundation for future expansion. Their goal is to penetrate all major urban centers and reach full cable coverage. China, understandably so, is reluctant to see an India-type development take place, where 2 of the 4 nationwide channels are practically controlled by foreigners. [James Mitchell]

To ensure that the TV industry develops at a pace dictated more by a domestic agenda concerned with shaping future media stars than by mollifying external pressure, China can resort to a number of “slow down” measures. China can give domestic producers a step up by extending a ban on non-mainland produced TV shows occupying prime time viewing slots, and reinforcing existing quotas which cap the total number of hours of international programming at 2000 hours per year. Guangdong Terrestrial TV was recently reprimanded for airing Taiwanese variety shows and TVB dramas in prime time. [CETV] China can institute stricter, lengthier licensing reviews of international TV shows, in particular seeking to filter out inappropriate content. China is also adopting a more “hands on” approach, as SARFT tries to introduce a centralized satellite platform and assume direct control over the 26 international channels beamed to luxury hotels and residential high-rises where foreign nationals live. China is intent on regulating the enduser by crafting its version of Direct TV and cashing in along the way (programmers must pay a fee to use the platform and hotels must pay for new equipment to receive and decode the signal). In theory, with the push of one button, China can turn everything off. In reality, the project has proven a boon to the vendors of satellite piracy systems as the government-run corporation has only invested in the most rudimentary form of encryption, giving pirates a convenient one-stop shop for all their programming needs.

So even after AOL Time Warner and NewsCorp have laboriously managed to grab a foothold in the China market, the toughest battles still lie ahead. China’s TV industry continues to be a restricted and vexing environment for foreign investors. By pretending to be a “show,” and not a full-fledged network, Star TV (part of the NewsCorp empire) has circumvented stricter regulations and achieved some penetration. In the coming years, China’s contribution to NewsCorp profit will still be incremental and very small. Compared to Taiwan which now accounts for 30% of Star’s revenues, China might account for 2% of Star’s overall turnover for

the fiscal year of 2002 and 5-7% in three years. [Vivek Couto] Foreign networks are smart enough to self-censor and be cognizant of local sensibilities. Survival is about knowing and abiding by the rules of the game as set by a prickly regulator in China. Foreign media does have things, which the Chinese covet, such as money, managerial and technical know-how, and attractive content. As such, a bargaining model is slated to emerge with the purpose of sealing deals that are fair to both sides. AOL Time Warner and NewsCorp hold many brand name “bargaining chips” in print, entertainment, TV, and multimedia. There is room to explore different symbiotic exchanges – quid pro quo [Reciprocity] being the ruling motif. An example of the mutually beneficial “horse trading” is Warner Movies working out an agreement with Shanghai Film Studio to distribute their movies overseas, while CETV gets access to local Shanghai cable systems. Another example could be NewsCorp deciding to work together with Chinese partners on a version of “TV Guide,” which is owned by NewsCorp, in return for permission to expand beyond Guangdong province. Access is also possible through one-off programming sales, revenue-sharing deals with Chinese distributors, and joint ventures with regional cable network operators. China needs good programming, and capital investment on the infrastructure side.

There is the chance that AOL Time Warner and NewsCorp will not expand beyond Guangdong and become disillusioned with the China market. Without a doubt, once restructuring is completed, they will have to compete against much more resourceful national champions unwilling to concede marketshare. Politics, as usual, might intervene, as the Chinese government is unlikely to give influential Western companies branded access to China. What little has been granted so far will be made to last a long time. Eventually, foreign TV enterprises will figure out what is their proper role in China, and most likely their involvement will produce 3 vectors of change. One, they will bring in more expertise in marketing and production. Two, they will start doing more full-blown productions in China. And, three, they will breach the walls penning them in Guangdong, either by creating channels programmed for a specific region, age, or gender or selling a program across a diversity of markets. The key will be to identify suitable strategic local partners, among the emerging regional media groups, which can quickly deliver local markets. In exchange, foreign media will bring their local partners to the international arena. Chinese media groups will learn to trump their masters, be they regulators or global media giants. And most importantly, Chinese viewers will benefit from a plethora of new shows and channels coming to the “small screen” soon, and making their lives a little bit more interesting.

Box 8 Great TV Minds Think Alike

There is no great difference between the approaches of the two foreign behemoths. They're both pouring money into China to localize production and create content, coated with a strong sense of the “sugary.” [To paraphrase someone, “No one lost money betting on how sentimental Chinese TV viewers are.”] Beefing up the ability to produce programming locally,

rather than relying on one's vast existing library, will be a key to success in China. Xing Kong is offering general entertainment ware. And AOL Time Warner is essentially mimicking Xing Kong. They're chasing the urban, white-collar consumer segment. Both are broadcasting "cross-over" programs, such as movies, game shows, sports, and sitcoms. The one best able to leverage across all their diverse knowledge bases and offer the greatest value to China will succeed. [Willie Brent; David Wolf]

Table 17 Other Hopefuls

Company	Pros
TVB (Hong Kong)	Purveyor of most popular TV shows in southern China; dubbing into Mandarin, can leverage its content in rest of China; doing programming joint venture with CCTV
Phoenix (Hong Kong)	Listed company owned by well-connected Liu Changle; managed to penetrate China market, amassing US\$100 million in revenue; benefits from edgy cast to its news shows, a hit with elite in Beijing; newscaster Sally Wu is Premier Zhu Rongji's favorite TV personality
ATV (Hong Kong)	Hong Kong's second largest free-to-air TV network; won landing rights in Guangdong; could possibly merge with Phoenix
Tom.com (Hong Kong)	Li Ka-shing's foray into multimedia; involved in advertising ventures in China; failed recently to acquire stake in ATV
Eastern Multimedia (Taiwan)	Public company with US\$1.5-2 billion cash to fund acquisitions
ERA Communication (Taiwan)	Significant Mandarin programming; funded many of Zhang Yimou's movies, like "Raise The Red Lantern"
Golden Harvest (Hong Kong)	Run by Raymond Chow; does the Jackie Chan movies
MeaSat (Malaysia)	Interested in stake in China, possibly with regional operator like Hunan TV
Viacom (US)	Owns famous "brands" like MTV, Paramount, Nicklelodeon, Blockbuster, and CBS
Fuji TV (Japan)	Recently sold 2 TV series to SARFT subsidiary; aims to sell 10 dramas to China next year
National Geographic (US)	Politically neutral content, exhibits "good values"; shows on global travel of great interest to Chinese viewers

Source: CFC (2002)