

Properly Understanding Supply–side Structural Reform in the Cultural Sector

Fan zhou, Zhou Jie*

Abstract: The proposal of supply–side structural reform in the cultural sector is based on theoretical inspiration from the economic sector and actual issues in the cultural sector. A proper understanding of the proposal is crucial to the implementation of the reform which should be based on the backgrounds of macroscopic reform and cultural development of the country as well as the need for theoretical innovation. The reform should be carried out with a clear understanding of China’s current conditions, a clarification of the reform thinking, the similarities and differences of supply–side structural reforms between the cultural and the economic sectors, as well as an analysis of issues related to the “supply–side” and “structure” in the cultural sector. Concerted efforts from the government through guidance, and market entities through operation should be made to apply appropriately to the reform principle of “unity of doubles effects.” Innovations, especially those in technology and institutions, should be promoted as a new momentum to drive cultural development. Concerted efforts from the government and enterprises should underpin optimal supply and a mechanism for competition should be established to ensure effective supply in the cultural sector. In the meantime, the upgrading of demand should be used as a new guidance for effective supply and investment should be oriented to supplement the need for public cultural services. Attention should be paid to a satisfaction–oriented approach to fill the gaps in cultural consumption. For the cultural industry and undertakings, it is now the prime time which brings along great opportunities for development and challenges for reform. From now on the cultural sector should seek its development from transformation and upgrading. Supported by the central government through policy incentives and driven by technological innovations and the capital markets, the cultural industry will maintain stable growth for a relatively long period. In the implementation of supply–side structural reform in a well–organized and all–round way, governments, markets, enterprises, and the industry should each perform their functions and make concerted efforts for innovation to jointly promote the sound development and sustainable growth of the cultural sector.

Keywords: cultural sector; supply–side structural reform; unity of benefits; innovation–driven; cultural industry

* Fan Zhou, senior researcher, head of the School of Economics and Management and Dean of the Cultural Development Institute, Communication University of China.

Zhou Jie, Doctor, postdoctoral, Culture Development Institute of CUC.

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China's economy is entering a stage of new normal. The pressure that may lead to an economic downturn mainly comes from structural problems and institutional incongruities accumulated over the years. Such problems and incongruities must be addressed through supply-side structural reform to promote structural adjustments to enhance total factor productivity and increase the adaptation and flexibility of the supply structure to changes in demand and foster a new momentum for economic development.

Vigorous practice in the economic sector is a vivid model for the cultural sector. China is currently embarking on a supply-side structural reform of the cultural sector (hereinafter referred to as "the Reform"). This is in line with the new tendency in this era and consumers' new demands. It is also the inevitable choice for promoting the cultural sector to develop in a sound and sustainable manner. Furthermore, the Reform is a significant move to implement the central government's strategic blueprint and build the country into a cultural powerhouse from the perspective of taking the overall development of the Party and the country into consideration. It is also the most critical measure for taking the initiative to develop China's cultural undertaking in the 13th Five-Year Plan period and even for a longer term. To carry out the Reform, it is necessary to properly understand this proposal, focus on the development trend of the sector, identify the problems and institutional bottlenecks, pinpoint the key factors of the Reform and figure out the implementation approaches so that it can be carried out to reasonable breakthroughs and sustainable development can be achieved in the sector to guarantee that China's cultural industry and undertakings can develop in a sound and well-organized manner and in the right direction.

1. The Reform must be based on the actual conditions of China

In the context of the new normal of China's economic development, supply-side structural reform is a solution to the question, "What measures should China take to accomplish the transition and sustainable development?" (Jia, 2013) from the wider and innovative perspective of economics based on China's current needs for development and international experience. Likewise, the proposal and implementation of the Reform should be based on the actual conditions in China, particularly the background of national macroscopic reform, the practices of the cultural industry and the needs for theoretical innovation, in a bid to ensure that the concept and roadmap of the Reform are reasonable, feasible and constructive.

1.1 China's macroscopic reform

As China's economic development ushered in an age of new normal, theoretical and practical studies on supply-side structural reform have been progressing. Since President Xi Jinping proposed the concept of "supply-side structural reform," the phrase has gradually become a key term in documents issued by the central government and in important meetings. It is particularly the case after "supply-side structural reform" was highlighted as "the main thread of development" in the next five years as indicated in the 13th Five-Year Plan (2016–2020) for Economic and Social Development of the People's Republic of China. The Plan also points out that, "We will make it our central task to improve the quality and efficiency of development and make supply-side structural reform the main thread of our work. We will expand effective supply and meet effective demand, and move faster to create systems,

mechanisms, and growth models that can guide the new normal in economic development.” Since then, supply-side structural reform has become the primary move for deepening reform in various industries, regions and sectors, and sparked a vigorous momentum for reform and innovation.

The development of the cultural sector is an important part of China’s “overall plan to seek economic, political, cultural, social, and ecological progress.” It has become more and more significant and urgent with the growing cultural needs of people as well as the increasingly frequent exchange, fusion and confrontation among different cultures in the world. It is not only the strategic cornerstone for developing the core socialist values, carrying on fine traditional cultural and strengthening the consensus of all ethnic groups of China for solidarity and joint efforts, but also the inevitable requirement for enhancing the country’s cultural soft power and safeguarding national cultural security. It is also closely linked to the achievement of the “Two Centenary Goals” and the Chinese Dream of the nation’s great renewal. While a supply-side structural reform has been rolled out in the economic sector, it is also necessary for the cultural sector to launch such a reform and to reflect on its past notions and development path, to study the directions and breakthroughs for the future and to promote the sector to develop in a healthier and more well-organized manner.

1.2 Achievements in cultural development

A series of achievements have been made in China’s cultural sector in recent years thanks to the economic and social development as well as cultural system reforms. A network of public cultural service facilities has been basically established, covering both urban and rural areas, and efforts are continuously made to promote the standardization and equalization of public cultural services. The cultural industry has been optimized both in scale

and quality. In 2014, the added value of the industry recorded RMB 2.4 trillion, doubling the figure of 2010 and accounting for 3.76% of the total GDP. Outstanding cultural products are made in various forms and great cultural works are created one after another, representing the spirit of the Chinese nation and our mainstream values. Moreover, cultural trade and exchange with foreign countries are increasing and the Chinese culture is becoming more and more influential in international communities. Overall, China’s cultural development is full of vigor and vitality. Despite the achievements, we must squarely face the problems existing in China’s cultural sector, especially the increasingly serious structural issues on the supply-side.

In terms of product mix, there is a surplus of low-end and homogenous cultural products while medium and high-end customized products are relatively lacking. In terms of industrial structure, the segment of traditional culture takes a larger proportion while that of emerging culture is yet to be fostered. In terms of regional structure, a huge gap exists between the eastern and western regions, featuring strikingly unbalanced and uncoordinated development. In terms of factor input structure, much emphasis has been put on physical and human resources while such factors as system, technology and management that are essential for innovation are less emphasized. All the above structural problems are constraints for the prosperity and development of Chinese Culture. In the new era, it is urgent to strengthen research on the supply-side of culture, promote supply-side structural reform, increase the supply of high quality cultural products and services, facilitate the optimization and upgrading of the cultural industry structure, cultivate new business types of the industry to further enhance the adaptability and flexibility of the supply structure to the changes in demand, and to meet people’s growing demands for cultural products and services.

1.3 Need for theoretical innovation

“Without revolutionary theory, there can be no revolutionary movement.” While modern experts and scholars have studied and expounded from a macroscopic level the significance, conceptual connotations, realization approaches and guidance for practical exploration of supply-side structural reforms, specific actions for promoting the reforms in the cultural sector depend on theoretical studies, breakthroughs and guidance. In the past years, cultural studies have been carried out intensively and meticulously, focusing on ways to stimulate cultural consumption, promote cultural investment and expand cultural trade from the perspective of the demand side. In comparison, there is a lack of studies and analysis of the issues, momentum and approaches about the development of the cultural sector from the perspective of the supply side. With the deepening of the cultural reform, it is urgent to intensify research on the supply side of the cultural industry to identify the rules for development and drive innovative practice more effectively.

2. There are differences in supply-side reforms of the cultural and economic sectors

The supply-side reform of the cultural sector should be carried out by adhering to the five major principles of innovative, coordinated, green, open and shared development and accomplishing the five priority tasks of cutting overcapacity, reducing excess inventory, deleveraging, lowering costs, and strengthening points of weakness through the five supporting policies, namely, the proactive orientation of fiscal policy will be maintained; prudent monetary policy should be kept neutral; structural policy should play a greater role; social policy should address problems that the people are concerned about to improve their overall well-being and push

forward all-around opening up. In the meantime, in view of the unbalanced supply and demand in the cultural sector, the supply structure should be improved to upgrade supply capacity and expand effective supply based on the reform of the cultural system. Hence, supply-side structural reforms of the cultural and economic sectors are connected, yet different.

2.1 Similarities between supply-side structural reforms of the cultural and economic sectors

Both of the reforms encourage technological innovation, research and development (R&D) and structural improvement of stock capacity. Against the backdrop of “Internet Plus Action Plan,” “Made in China 2025 Initiative” and “Mass Entrepreneurship and Innovation,” the cultural industry is facing new opportunities for leapfrogging development. It emphasizes innovation-driven growth and attaches great importance to technology R&D. It focuses on increasing the technological content of cultural products, strengthening technology R&D of cultural equipment manufacturing, cultivating, attracting and retaining talents in cultural technology, and encouraging enterprises to become leading players for cultural technology R&D and commercialization of innovative products. It continuously promotes the increase in the value-added of products and services along the cultural industry chain, and improve the investment structure, product mix, technological structure and organizational structure of the cultural industry.

Both of the reforms pay attention to the merger and restructuring of enterprises and guide industry transformation and upgrading. Although some leading enterprises have emerged in China’s cultural industry in recent years, most enterprises of the industry are small-sized, scattered and less competitive. Merger and restructuring of cultural enterprises can help to address industry issues such

as overcapacity and homogeneity competition, spur the leading enterprises to play a model role, enhance input into technological innovation, particularly into core technologies in critical fields, to dilute R&D input of the industry and lead successful industry transformation and upgrading while merger and restructuring are conducive to promoting cultural enterprises to expand their business line to multiple fields, to go global rather than solely relying on the regional market, to apply resources integration instead of burying themselves in their business, and to extend the business outward instead of indulging in endogenous development. Merger and restructuring are also helpful for cultural enterprises to make breakthroughs via capital platform and technological innovation and to grow bigger, stronger and more competitive.

Both of the reforms emphasize streamlining administration, delegation of power to the lower levels, tax reductions and cost cuts to reduce institutional transaction costs. Basically, reducing production costs is to alleviate excessive burdens of enterprises while the reduction of institutional transaction costs is to lessen governmental intervention. Efforts should be made to reduce the burdens of enterprises, including reductions in taxes, administrative and management costs, development of associated preferential policies for finance and taxation and boosting of enterprise vitality in the cultural sector. In the meantime, laws and regulations should be adjusted and supervision means should be reformed to streamline administration and delegate power to the lower levels, to standardize administrative approval procedures and range of purview, to clarify the division of responsibilities, to balance administration and delegation, and to make sure that the optimization of institutional supply be carried out in accordance with the laws and regulations.

Both of the reforms aim to identify key issues and make up vulnerable aspects, implement targeted

poverty alleviation and expand effective supply. Making up vulnerable aspects in the cultural sector is to solve prominent problems and major conflicts, such as partial, inadequate and ineffective supply, to continuously improve the quantity, quality, efficiency and benefit of effective supply, to develop new functions, foster new momentum, new industries and new economic growth points. Vulnerable aspects in the cultural sector involve such fields as cultural livelihood, quality cultural products, cultural infrastructure and talents. On the one hand, it is necessary to ensure all citizens are covered by basic public cultural services. Especially for some impoverished areas, targeted poverty relief measures should be provided from a cultural aspect. On the other hand, new supply should be actively created based on market demands for consumption upgrading to continuously offer high-quality, customized and diversified products in cultural development.

2.2 Differences in supply-side structural reforms of the cultural and economic sectors

Where culture differs from economics lies in the fact that cultural products have commercial as well as ideological and public attributes. Therefore, attention should be paid to the following issues in promoting the supply-side structural reform in the cultural sector.

We should emphasize the advancement in cultural and economic functions as well as social values, which should be dominant for realizing sustainable development under correct values. Culture offers a wide range of functions such as economic, social and moral adjustments, and represents the norms of moral values. Hence, in the supply-side structural reform of the cultural sector, we must stick to core socialist values and develop the business concept of “social benefits first and social values paramount.” We must integrate social benefits with economic returns and shape and guide the market through positive effects from social benefits.

We should persist in the superposition of market rationality and rational government systems to develop a modern cultural market system. The supply-side structural reform in the economic sector emphasizes the maximum role of the market and focuses on the “decisive power” of the market in resource allocation. Due to the special ideological features of the cultural sector, a rational guiding mechanism is needed from the government to bring the market’s positive role in resource allocation into full play, to connect the market and cultural mechanisms by innovative management means and to ensure the optimization of the cultural supply structure based on cultural value.

We should attach equal importance to cultural protection and well-organized development to pass on the brilliant culture of the Chinese nation. Different from incentive policies for developing and optimizing existing resources in the supply-side reform in the economic sector, such a reform in the cultural sector should emphasize the protection of stock resources and staged development, which is especially true to the field of cultural relics. We must revere and cherish all the non-renewable relics which record the history of the Chinese nation during development, utilization and creative design so that they can be well protected through a good plan. The protection of tangible cultural heritage shall comply with the guidelines of “stressing protection, giving priority to salvage, making rational use, and strengthening administration” to make sure that our cultural heritage can be passed down from generation to generation and made good use of.

3. The status quo of the supply-side structure in the cultural sector should be well understood

The Reform should be guided by well-defined

concepts, clear plans and specific tasks. The supply-side problems and structural issues existing in the current cultural sector should be sorted out to promote the steady implementation of the reform work in the next stage.

3.1 Supply-side problems in the current cultural sector

Cultural products and services are characterized by unbalanced supply and demand and structural disequilibrium. At present, many industries in the cultural sector are subject to overcapacity, which causes great waste of resources and seriously restricts the effective supply of cultural products. Take the theme parks that have emerged in China in recent years as an example. According to the Analysis Report on Development Model and Investment Strategy Planning for Theme Parks in China, there are more than 2500 theme parks across the country, with the aggregate investment of over RMB 300 billion. Many cities even have up to 10 theme parks. However, over the past ten years, about 80% of the theme parks have been closed. Among the parks that are still in operation, about 70% are operating at a loss, 20% can barely make both ends meet, and only about 10% make profits. The saying of “the first year for presence, the second year for prosperity, the third year for flatness, the fourth year for falling and the fifth year for closing” has become a “spell” on theme park development in China. In this new era, cultural development must start with supply-side reform, rationally adjust the supply structure of the cultural industry, and promote the coordinated upgrading of cultural supply and demand.

Cultural capital is characterized by institutional obstacles and financing difficulties. At present, social capital is relatively active and abundant, and the booming cultural industry attracts many investors. Nevertheless, many barriers still exist in the operational process, and conventional

problems such as difficulty in customer selection, risk evaluation, and business operation still restrict the alignment between financial resources and the cultural industry. According to statistics, the balance of loans of the cultural industry accounts for merely 0.2% of the aggregate balance of loans of all the industries in the country.^① Cultural enterprises, particularly the private micro, small and medium-sized cultural companies, can hardly get financial support. After the promulgation of such official documents as the Guidance on Revitalization and Boosting of the Cultural Industry through Financial Support (2010) and the Opinions on Deepening Cultural-Finance Cooperation (2014), governments at all levels and various financial institutions are paying increasing attention to investments in the cultural industry. It is significant for the maturity of China's cultural industry if ways are found to make further innovations on investment and financing modes, to improve the investment and financing mechanisms, to encourage the capital structure to develop in a more diversified manner, and to establish a multi-leveled and internationalized investment/financing system in the industry.

Cultural technologies are underinvested and not sufficiently transformed. In recent years, although some progress has been made in the capability of China's cultural enterprises for technology innovation, these enterprises are still not good at independent innovation and lack proprietary intellectual property rights of core technologies. They are generally less developed in technology, less capable of bringing imported technology into application and re-creation. They are highly dependent in developing their key technologies and have no technology innovation systems established that incorporate the efforts of enterprise, university

or research institution with the enterprise as the major player. China is a cultural country with a history of 5,000 years, but its cultural products are to some extent still made with traditional techniques in the process of design, production and marketing, leading to the awkward situation that the scale of the cultural industry is not equivalent to its abundant cultural resources. With research, development and popularization of new technologies, more types of business will be developed in the cultural industry. Facing this opportunity, we must further improve the management mechanisms for cultural technology, the management and incentive mechanisms for talent in this field, and promote grand development and prosperity of the cultural industry through scientific and technological innovation.

There is a great shortage of cultural talent and a disconnection between enterprises and universities. Currently, there is a huge gap between the demand in associated fields of China's cultural industry and the reserve of talent, and skilled and highly-educated or interdisciplinary talent and professionals are in great shortage. Although many universities train students by drawing on their strengths and resources for the cultivation of talent for the cultural industry and the process tends to be more standardized, diversified and featured, some problems still exist.

Only a small proportion of cultural exports are excellent products, and they are thus less influential. According to *The Globalization of Cultural Trade: A Shift in Consumption-International Flows of Cultural Goods and Services 2004-2013*, China has been the biggest cultural product exporter in the world since 2010, but the cultural products on the top of the export list are "audiovisual and interactive media products" dominated by electronic games

① Cultural industry embraces favorable policies. *China Financial and Economic News*. Retrieved from http://www.mof.gov.cn/zhengwuxinxi/caijingshidian/zgcjb/201404/t20140410_1065772.html.

and “Visual Art and Crafts” such as gold jewelry and accessories, sculptures and plastic ornaments, while products featuring “cultural and natural heritage” or “books and Books and Press” and “design and creative services” which possess more cultural connotation, creative design and ideological value are less developed than these of developed countries.^① According to the data of the National Bureau of Statistics, China’s exports of cultural products in 2012 only took up 3.19% of the world’s market share. China is not a powerhouse of the cultural industry due to the lack of core competitiveness (National Bureau of Statistics, 2014). More emphasis must be laid on developing high-end cultural products and services, and cultural exports must focus on connotation-based development to improve the cultural soft strength of the nation and promote Chinese culture to go global.

The supplied public cultural services do not match the demand, and the efficiency is low. As public cultural services emphasize the government’s leadership, cultural administration authorities at various levels pay more attention to executing the orders from a superior level and meeting the KPI than to satisfying the actual needs of the public. This gives rise to unused or great wastes of facilities for public culture and poor outcomes of government’s intention. Take the “Rural Library” project as an example. As a major national cultural project for people’s wellbeing, this program has been supported by and implemented in 640,000 administrative villages throughout the country. After more than five years of hard work and nearly RMB 20 billion of fiscal and social investments, the goal of “making a rural library available in every village”

was accomplished three years ahead of schedule.^②

However, a majority of these public cultural premises which were built in accordance with relevant standards have no customers or visitors, and the intended cultural benefit end up as ineffective supply. Well-grounded and innovative ways should be developed for public service supplies, and the market and social mechanisms should be employed to improve resource allocation in a bid to expand the range as well as the efficiency and quality of public cultural services.

3.2 Current structural problems in the cultural sector

The structure of ownership is unbalanced. The structure of ownership in the cultural industry is characterized by the great disparity in strength between state-owned and private cultural enterprises as well as inequality in policy treatment. At present, China’s state-owned cultural enterprises enjoy a high starting point and steady growth under preferential national policies. According to the *Development Report of State-owned Cultural Enterprises (2014)*, as of the end of 2013, there were 12,000 state-owned cultural enterprises in China and 1.205 million practitioners, with a total operating income of RMB 1.07 trillion and the average operating income of RMB 89 million. In contrast, private cultural enterprises, which are mainly micro, small and medium-sized companies, though growing fast, are still relatively weak. Furthermore, restricted by industrial barriers and some policies, these enterprises find it difficult to grow bigger and stronger. Data from the National Bureau of Statistics shows that by the end of 2013, there were 773,000 micro and small-sized cultural enterprises in China, accounting for 98.5% of the

① Our cultural products go farther than expected (going out and where to go). *People’s Daily*. (2016, May 11). Retrieved from http://news.xinhuanet.com/book/2016-05/11/c_128975189.htm.

② Rural libraries are in the brink of closure. *Guangming Daily*. (2014, February 27). Retrieved from http://news.xinhuanet.com/gongyi/2014-02/27/c_126195052.htm.

total number and employing 9.799 million people, but the aggregate operating income was only RMB 3.8 trillion, accounting for only 45.7% of the total operating income of cultural enterprises, and the average operating income was only RMB 4.953 million.^①

The technical structure is unbalanced. With traditional industries taking a large proportion in the technological structure of the cultural industry, technological content needs to be increased. Investment in China's cultural enterprises is still confined to traditional and low-end cultural fields which show serious homogenization. Such cultural products are mostly similar in image, style, content and function. Tens of thousands of cultural industry parks across the country have either a simple product structure or are similar to leading industries. They generally lack special features and clear positioning and have no long-term plans or proactive decisions. In the application of technology, the content of technology is still low in the cultural industry, and inadequate technological investment directly hinders the transformation and upgrading of the cultural industry and affects the development and cultivation of independent innovation abilities of enterprises.

The regional structure is unbalanced. Regional industrial structure features unbalanced development and a lack of distinct characteristics. For China's cultural industry, regional development presents a gradient trend, with the eastern region taking the lead, followed by the central and western regions. *China City Creativity Index (CCCI) 2015* showed that eight out of the top 10 Chinese creative cities are in eastern and southern China.^② Although the central and western regions have unique advantages

of cultural resources, a large cultural industry zone with unique characteristics has not been formed due to constraints from economic, geographic and traffic conditions, and the effects of regional agglomerations are yet to be improved.

4. Soundness and vitality of the cultural sector rely on the roles of government and the market

"Achieving the unification of social and economic benefits" is the principle that must be followed during the supply-side reform in the cultural sector. It means that in the development of the cultural industry, priority should be given to social benefits and values, and a corresponding operational philosophy should be developed to realize the unity of social and economic benefits. "Achieving the unification of social and economic benefits" is not only the foundation for ensuring sound and well-organized development of the cultural sector, but also the premise for stimulating the vitality of the cultural market and the prosperity of the cultural ecology. It should be secured by joint efforts from government guidance and market players.

4.1 Top-level design and appropriate interventions are the responsibilities of the government

The government is responsible for guiding the trend, defining the direction and mapping the development path. The cultural sector has been developing rapidly since the goal of "building the cultural industry into a pillar of national economy" was put forward at the 18th National Congress of the Communist Party of China (CPC). In recent years, the growth rate of the cultural industry has

① National Bureau of Statistics releases development data of micro and small-sized cultural enterprises. *China Economic Net*. (April 28, 2015). Retrieved from http://www.ce.cn/cultural/gd/201504/27/t20150427_5223318.shtml.

② CCCI 2015 published: Shanghai, Beijing, Shenzhen, Guangzhou and Hangzhou ranking the top 5. *Shenzhen Special Zone Daily*. (2015, December 6). Retrieved from <http://sz.people.com.cn/n/2015/1206/c202846-27253840.html>

gradually declined from a high level, and a “normal” transitional period has begun. The mechanism for driving the development of the cultural industry is to be gradually improved, and the government needs to carry out top-level design to further shift its functions, streamline the administration, delegate power to lead the cultural industry to develop along a path of innovation, deep integration, quality and efficiency improvement, transformation and upgrading.

The government is responsible for policy guidance, support and implementation. To further improve the top-level design of the cultural industry, deepen the reform of cultural systems and promote rational mobility of cultural resources, competent ministries and commissions of China formulate relevant policies and regulations for guiding the cultural industry to develop on basic principles and core values. In the meantime, measures should be taken to ensure supporting policies are effectively implemented since ambiguous rules or insufficient execution would lead to ineffectiveness of such policies. Efforts should also be made to prevent any enterprise from taking advantage of these policies or distorting government intentions to impair the sound development of the industry.

The government is responsible for adhering to the baseline principles and guiding value orientation by appropriate interventions and risk prevention. As the cultural industry features obvious functions such as ideological guidance, cultural empathy, thought transmission, entertainment and leisure, the provision of cultural products and services should be guided by core socialist values, and a variety of forms of cultural creativity should be encouraged to disseminate the mainstream values and positive mindfulness and provide quality cultural products and services. Meanwhile, we should stick to the baseline principle in that any violation of laws and disciplines or challenges against the baseline of culture and morality must be

curbed. The government should apply appropriate interventions into improper practices in the industry, such as fraud in viewership rates, box office scandals or unreasonably high remuneration for superstars, which would result in the unhealthy development of the industry. The cultural industry should be encouraged to explore new investment and financing modes. The government should relax the restrictions on the entry of social capital into the cultural sector. In the meantime, necessary, scientific and moderate regulatory means should be taken to warn against or rectify any potential violation or behavior that may cause financial risks.

The government is responsible for safeguarding the foundation, promoting fairness and providing basic public cultural services of high quality. It is an important part of the goal of building a cultural powerhouse to safeguard citizens' rights and interests to basic, equal and quality public cultural services in accordance with the laws. The government should promulgate Public Cultural Service Guarantee Law of the People's Republic of China as early as possible, establish and improve the guarantee mechanisms for public cultural services, encourage and support social efforts to participate in the development of public cultural services and allow reasonable returns on investments. The government should bear the responsibilities for public cultural services that are necessary but hard to yield profits.

4.2 The market should feature a free and open mode with fair competition

The rules of the market must be complied with. Fair competition among market players is the prerequisite for sound development of the market. At the Third Plenary Session of the 18th Central Committee of the CPC, the awareness of “reform on the grounds of fairness” was highlighted, emphasizing the importance to “ensure that economic entities under all forms of ownership have equal access to factors of production in accordance

with the law, compete on a level playing field and are protected by the law as equals.” “abolish all forms of irrational regulations for the non–public economy, remove all hidden barriers.”^① Such a proposal addresses the issues prevalent in the cultural sector that the government tends to offer different treatment to public and non–public entities, giving excessive support and protection to state–owned cultural enterprises while applying mandatory policies to private cultural companies. Take China’s performance market as an example. There were 1,422 state–owned art performance troupes in China in 2013, with total revenues of RMB 7.854 billion, of which, RMB 5.006 billion were government subsidies, accounting for nearly two thirds of the total revenue. On the other hand, there were 10,953 private art performance troupes, with the total income of RMB 11.106 billion, of which only RMB 239 million came from government subsidies.^② Although the number of state–owned art performance troupes was less than one seventh of that of private ones, the amount of government subsidies for the former group was 20 times greater than that for the latter. In 2014, the gap was further widened between government subsidies for state–owned and private art performance troupes.^③ Reform in the cultural system is the key point for the supply–side reform in the cultural sector. We must accelerate the establishment of a unified, open, competitive and well–organized modern system for the cultural market, and make great efforts to tackle problems such as financing difficulties and high financing costs for private enterprises, especially micro, small and medium–sized companies. We must break the barriers of horizontal, vertical or regional fragmentation, and address the traditional

market pattern featuring division of urban–rural areas. We must encourage all types of market entities to compete fairly, let the fittest survive, and stimulate the flow of cultural resources across the country.

The market vitality must be boosted. In the supply–side reform of the cultural sector, we should continue to make the market environment fairer and more competitive. The key lies in how to handle the issue of “government’s over–action” while to improve the support system for the cultural market, it is crucial to make up the “vacancy of government’s function.” To realize the goal of making the added value of the cultural industry account for over 5% of the total GDP of the same period by 2020, we must take more effective measures to boost the vitality of the cultural market and improve the scope and depth of cooperation between the cultural and financial sectors. For instance, it is significant for easing financial burdens, boosting market vitality, promoting diversified competition, and expanding the overall scale of the cultural sector if the government can lower the threshold for private capital to get access to the cultural market, and actively guide the innovation and development of internet finance. In recent years, thanks to the continuous benefit of relevant policies, the cultural industry has attracted various types of capital. The leverage effect of central financial funds has greatly sparked the initiative of social and financial capital to be engaged in the cultural industry. In 2014, the cultural industry obtained about RMB 200 billion from various financing channels, with less than 10% coming from private equity funds or commercial banks and the other 90% from social capital.^④ While new modes of investment and

① Decision of the Central Committee of CPC on some major issues concerning comprehensively deepening the reform. (2013, November 12).

① China Association of Performing Arts. China Performance Market Annual Report 2013.

② China Association of Performing Arts. China Performance Market Annual Report 2014. In the Annual Report 2015, no division of state–owned and private performance troupes was made for the statistics of government subsidy.

financing are created and improved for the cultural industry and a diversified and multi-tiered cultural capital market is being developed, we should find a way to avoid the profit-driven capital to overdraw the cultural industry and to establish a scientific policy to promote a win-win situation for industrial development and capital operation, thus to ensure the long-term vitality of a healthy cultural industry. This will become one of the important goals to be achieved by joint efforts from the government and the market in the future.

5. Innovation is a powerful engine driving the Reform

To foster new momentum for economic development and realize long-term and steady development, the core of the Reform is to enhance total factor productivity and to establish a pattern for innovation-based economic growth. To raise total factor productivity, we should optimize factors such as the labor force, capital, land, technology and management in an all-round way through innovation, especially technological and institutional innovation.

5.1 Technological innovation requires content upgrading for the era

The Fifth Plenary Session of the 18th Central Committee of the CPC prioritized innovation and put it on the top of the five development concepts, indicating that innovation is the primary force for guiding China's development in this era. Driven by and integrated with ground-breaking technologies

such as cloud computing, the Internet of Things, mobile internet, big data and intelligent city, the cultural industry has seen tremendous changes in its ways of expression, content production, business management, and operational mode. New types of businesses featuring creativity and new technology mushroom in the cultural sector while traditional industries will also present a completely new outlook in the era. Take the development of museums as an example. With changes in mindset driven by the development of technologies, museums have gradually “jumped” out of their old boxes characterized by heaps of books, journals, samples or historical data and put an end to the image of an enclosed, static, monotonous and boring place. The Palace Museum has developed a data visualization platform called “Digital Sand Table of the Forbidden City” based on big data. Through developing projects that create interactive experiences with information technology, including a digital palace, a virtual reality theater, “The Palace Museum” App, and a panorama of the Palace Museum,^② it changes dramatically the typical passive operation mode of museums. In this way, it has become a distinctive cultural space for people to exchange their ideas and a venue for creative design and technological experiences. In this era of new technology, the cultural industry should still focus on its content. Technological innovation will in return promote the content to change from time to time and to provide the market with competitive cultural products in the era.

5.2 Institutional innovation guarantees the optimization of cultural supply

① Cultural Industry: how to dance with social capital, *Guangming Daily*. (2015, November 12). Retrieved from http://news.gmw.cn/2015-11/12/content_17697971.htm.

② Ups and downs: a small peak period of the Palace Museum in the off-season with the number of online tickets increasing fivefold. *Focus On*. Retrieved from <http://news.cntv.cn/2016/02/16/VIDE86mBjLSAdCUURZSrUGTn160216.shtml>. The digital Palace Museum: treasures come alive. *Guangming Daily*. Retrieved from http://epaper.gmw.cn/gmrb/html/2015-01/17/nw.D110000gmr_20150117_2-04.htm; The Palace Museum registers a billion sales with cultural and creative products. *NetEase News*. Retrieved from <http://news.163.com/16/0420/01/BL2CEFA200014AED.html>.

The Reform cannot be implemented smoothly without support of policy and relevant innovations. As innovation channels, “Cultural Plus” and “Internet Plus” open new areas for the cultural industry. To ensure high quality and efficiency of the cultural product and service supply systems, we must give full play to institutions, take measures to offset market failures, guide market behaviors, adjust systematically the policies on finance, taxation, banking, investment, land, talent and environment, and strengthen alignment of policies to create a policy environment that is beneficial to the coordinated development of cultural consumption upgrading and industry upgrading.

Efforts should be made in the following four aspects to innovate on institutional policies in the cultural sector. First, innovation of a policy checklist. With this checklist, we can improve the mechanisms for access to and exit from the cultural market and lay strict controls over project initiation to control the quality of cultural supply at the source. Second, innovation of asset management and property rights transactions. We should accelerate the improvement of the system and mechanism for state-owned cultural asset management, featuring the unity of the administration of personnel, affairs, assets and orientation. We should encourage cultural companies to establish a modern enterprise system with cultural characteristics and encourage them to conduct mergers and acquisition across regions, sectors and ownership systems to enhance their supply strengths. Third, innovation of cultural governance policies. We should lower the threshold for non-public enterprises to obtain access to the cultural industry and arouse the enthusiasm of the people to participate in cultural development to gather more efforts to drive the supply-side reform in the cultural sector. Fourth, innovation of quality management policies. We should upgrade the industrial management standards, provide a reference scale for promoting the

construction of cultural facilities and the supply of cultural products and services to enhance the overall level of cultural supplies.

6. Moderate increases of cultural investments and consumption to support the supply-side

Supply and demand are like the two sides of a coin, opposite to each other yet closely connected. As it is the same case with the economic sector, the supply-side reform in the cultural sector does not mean that the demand side is unimportant and requires combined efforts from both sides. The supply-side reform mainly focuses on structural and institutional issues in current cultural sectors while the demand-side management plays a proper role in the troika of macroeconomics (consumption, investment and net exports) to guarantee steady development of the sector.

6.1 Investment should be guided to shore up weak points in public cultural services

During the 13th Five-Year Plan period, while the cultural industry is shifting from government-led investment to social investment, public cultural services which aim to meet people's basic cultural needs are still in need of more financial support, especially in the construction of cultural infrastructure, which needs to accelerate equalized and standardized development. Currently, imbalance is prominent between different regions, between urban and rural areas, and between different groups in terms of public cultural service systems. Due to the failure in the alignment of effective supply and demand, there is a huge gap between the willingness of government for input and public expectation for cultural services. In fact, although financial departments at various levels have been increasing their investments in cultural projects, a big gap still exists between the growth of financial investments

and the demand for cultural development because of a long standing low base amount of funds available for cultural development. Faced with the actual situations in the development of public cultural services, we should guide more investment to shore up the weak points and this is still one of the most important tasks at the present stage.

We should check and make up for deficiencies and take measures to fill the gaps. We should become knowledgeable of public cultural infrastructure construction across the country, especially in old revolutionary base areas, areas with concentrations of ethnic minorities, border areas, and areas with relatively high incidences of poverty to achieve the goal that each area is equipped with public cultural infrastructure. Before the construction, we should carefully investigate and understand the actual needs of the citizens to realize targeted poverty alleviation in the cultural aspect. We should give financial support to the central and western regions as well as the areas below the county level that are still lacking in public cultural and sport resources and should adjust appropriately the proportion of funds earmarked for national cultural undertakings.

We should make good use of existing resources and assets. China now has more than 4,000 museums and over 3,000 public libraries. The construction of public cultural facilities has basically been completed at each administrative region ranging from the central government to province, city, county, township and village. For the county-level areas, libraries and cultural centers have been established; for the township-level areas, there are cultural stations, and there are cultural activity rooms for villages and cultural activity centers for communities. To make full use of these numerous cultural venues and prevent them from becoming useless and abandoned buildings, we should revitalize dormant cultural resources and consider

local folk characteristics and cultural customs to complete the “last kilometer” for the public cultural service system and make cultural activities appealing to the public.

We should integrate resources by linking rural and urban areas. We should narrow the gap between urban and rural areas and deal with the long-term imbalance between them in terms of public cultural service levels. We should strengthen the integration of cultural resources, promote cultural interconnections and integrated cultural development in urban and rural areas, and develop a linkage mechanism between them. It is worth noting that during the establishment of such a mechanism, there may be some institutional obstacles and operational difficulties, including failure in the alignment of administrative management, differences in cultural reception habits, and an imbalance between “business” and “public welfare.” All the obstacles and difficulties that may affect the integration of urban and rural public cultural services need to be addressed through “trial and mistakes” to seek the most practical, effective and acceptable ways for cooperation between urban and rural areas.

We should be guided by technologies to realize leapfrogging progress. The rapid development of information technology has made many things possible. Modern digital network technology breaks through the limitations of space-time, channels and means in a traditional sense. It can quickly and easily provide people across the country with public cultural products and services, and realize remote product updates, real-time synchronization of services, and timely evaluation and feedback. In addition, for backward areas, they can promote greatly balanced development of public cultural services by drawing on cultural information resource sharing projects, digital libraries, public electronic reading rooms, the construction of smart cities, and innovative scientific and technological products to

achieve leapfrogging development as if they pressed a “fast forward button” to give play to their late-mover advantages.

We should innovate on supply and offer tailor-made services. The top-down supply of cultural services often leads to the fact that cultural welfare provided by the government cannot meet the cultural needs of the grassroots. To make public cultural services more satisfying to people, we should innovate on the ways of cultural supply. For large-scale cultural infrastructure projects, we may explore various types of public-private partnerships to reduce financial burdens and investment risks, and to improve management efficiency and rates of utilization. For public cultural products and services, bottom-up and demand-based “menu-style” approaches may be adopted. Measures should be taken to guide and encourage social efforts to participate extensively. Such measures include government purchases, project subsidies, and targeted funding to promote a positive complementary relationship between the government and society.

6.2 Measures based on customer satisfaction should be taken to fill the gaps for cultural consumption

We should focus on the differences between urban and rural demands. The cultural consumption in the eastern part of China is generally better than that in the central and western regions. The urban residents’ cultural consumption environment, consumption ability and consumption satisfaction are better than those of rural residents. Rural residents, however, show a greater intention for cultural consumption than urban residents. This indicates a big growth potential for the rural cultural consumption market. While providing cultural products and services, quality improvement should be emphasized for urban areas to increase customer satisfaction while attention should be paid to quantity

for rural areas so that more effective choices can be provided to rural residents.

We should pay attention to differences and provide customized and diversified cultural products. China has a vast territory and various local cultures. Consumption habits reflect consumer psychology and directly affect consumption patterns. The development of cultural consumption should attach importance to the cultural habits of different regions. It means that we should not only highlight local characteristics but also endeavor to guide people to understand and accept diverse cultures. Meanwhile, we should offer differentiated and customized cultural products and services to customers of all age groups, and to people with different consumption purposes, such as for literature and art, family entertainment, popular entertainment, and cultural science popularization, and to special groups of people, including migrant workers, the disabled, and left-behind children.

We should guide and cultivate forward-looking and healthy consumption habits. With the extensive use of big data in all walks of life, a national-level cultural consumer service platform should be established to monitor and analyze residents’ cultural consumption habits, preferences, and behaviors, and to collect statistics on cultural consumption in a timely and accurate manner. In this way, we can guide cultural enterprises to research and develop according to real demands to provide satisfying cultural products and services to the public. While expanding the scale of cultural consumption, we should also cultivate good aesthetics for the public and create a good artistic atmosphere. With various excellent cultural products and through all kinds of public opinion channels and market means, we should guide mass cultural consumption properly to enhance our cultural taste and moral accomplishments.

7. Thoughts on sustainable development in the cultural sector

The Reform is designed to meet the inevitable requirements for self-development of the cultural sector and to serve as a long-term plan guiding the trend of civilization in this era. The development of China's cultural industry and undertakings is faced with great opportunities while entering a deep-water reform stage. To build the cultural sector into a pillar industry of the national economy, to make public cultural service systems that cover each part of society, to guarantee people's basic cultural needs, and to offer richer spiritual experiences as well as extensive cultural support to the people, we should concentrate on the development of this sector through transformation and upgrading.

7.1 The cultural industry is in a golden age filled with opportunities

National cultural policy and support will become more exhaustive. Since the 18th National Congress of the CPC, an overall national strategy for boosting the development of the cultural sector has promoted all-round prosperity of cultural undertakings and rapid development of the cultural industry. Several significant policies for cultural and related industries have been introduced successively, including the policies on encouraging innovation and entrepreneurship, advancing the "Internet Plus," supporting industry integration, backing up micro and small businesses, implementing the Belt and Road Initiative, attaching importance to intellectual property protection, and stepping up to establish modern public cultural service systems. With these policies, national strategic deployments have been turned into concrete instructions. The industrial development will be oriented by active guidance from the central government, and such policies

are bound to continuously benefit all the parties concerned.

The cultural market potential will be continuously unleashed. With ten-plus years of market operation, the cultural industry has gradually become full-fledged, generating huge market vitality. Customized and diversified cultural consumption will be the main trend of the market, and innovation-driven supply will dramatically boost market consumption. In 2015, the added value of the cultural sector stood at RMB 2.58 trillion. It was estimated that by 2016, such figure would have reached RMB 3.12 trillion. The annual compound growth rate in the coming five years (2016–2020) is expected to be about 14.5%, and if so, by 2020 the added value of the cultural sector in China will be RMB 5.36 trillion.^①

Continuous technology upgrading will promote reforms in the cultural sector. Digital networks and modern information technologies play an important role in supporting R&D of strategic, cutting-edge and core technologies in the sector, promoting industrial upgrading and technology transfers, protecting, developing and utilizing cultural resources, as well as implementing preferential policies and targeted distribution of public cultural products. They will give rise to rapid and lasting changes in the cultural sector and its undertakings. In addition, the integration of technology and culture can advance the transformation and optimization of traditional cultural industries, promote the cultivation and expansion of emerging cultural industries, and improve the efficiency and performance of public cultural services, leading to leapfrogging development in the sector.

Good projects will be preferred by capital. In the past two years, investment and financing projects have sprung up rapidly in the cultural sector, and

① CICConsulting. Report on consultation and advice for in-depth analysis and development planning of China's cultural industry 2016–2020

the merger and acquisition of enterprises have been hitting record highs in terms of the number and amounts. In 2015, except for special funds of RMB 5 billion from the central government, commercial finance, social capital and internet finance enjoyed vigorous growth in the cultural sector with a capital inflow of RMB 324.18 billion. There were 166 mergers and acquisitions in the cultural media industry, with a total inflow of RMB 149.904 billion (excluding the amount of 23 undisclosed mergers and acquisitions), up 50% on a year-on-year basis.^① Faced with the downward pressure on the macro-economy under the new normal, the cultural sector, as a promising industry, has entered a golden age for its development. It will maintain a stable growth over a long period of time under the national policy incentives and driven by technological innovations and the capital markets.

7.2 The cultural industry is facing a “deep water zone” during reform

The government should strengthen supervision, streamline administration and delegate power. Transforming government functions is one of the important tasks for deepening the reform of the cultural system. The government should carry out macro-control in a scientific manner and governance in an effective way with good coordination between regulation and delegation. It should steer the transformation and upgrading course of the cultural sector. Streamlining administration and delegating power will reduce administrative interventions and stimulate market vitality, thus vigorously promoting development. Strengthening supervision will maintain a healthy industrial environment, thereby ensuring steady development of the cultural sector towards its goals.

The market should keep its vitality and have tiers established. In the development of the cultural

sector, we should give full play to the positive role of the market in allocating resources and unceasingly stimulating development vitality in the cultural industry. We should transform state-owned cultural institutions into enterprises in a practical way, and continuously enhance the market competitiveness of cultural enterprises. We should introduce social efforts to participate in public cultural affairs to enhance the quality and efficiency of cultural services. Furthermore, we should establish multi-tiered and dynamic cultural ecosystems to form an industrial structure in which small, medium and large-sized enterprises coexist harmoniously, develop equally, and enjoy a reasonable layout. We should build an industrial value chain featuring interconnected development, consistent management, and considerably increase the economic benefits of enterprises along the chain, to create a modern cultural governance system that is reasonable, well-organized and healthy.

Enterprises should be rational and have long-term planning. An industry is composed of many enterprises which are vibrant entities; in turn, the industry provides the soil for enterprises to survive and grow. Forced by capital and driven by profit, cultural enterprises find it difficult to stay true to their mission. It is rather understandable that an enterprise always seeks profits, but for cultural companies, profits should not be their only purpose. To safeguard the healthy development of the cultural industry, all enterprises must not violate the laws, follow a trend blindly or allow the baseline to be crossed. Nor should they break the rules or their own principles. In addition, they should have rational thinking, independent judgment, a forward-looking mindset, and long-term planning as well as genuine passion.

The sector should favor industry convergence

① 2015 report on merges and acquisitions in cultural sector: sport and tourism industries take off vigorously. China Economic Net. (2016, January 2).

and reserve its core resources. Integrative development of cultural and related industries is the trend of the era as the integration greatly enriches the industrial patterns and brings infinite possibilities for the future of mankind. As the integration leads to a rather vague industry boundary, it is possible to combine the cultural industry with other technologies such as biotechnology, new materials, new energy, space technology and marine technology. However, the unlimited expansion of the industry boundary may cause the dissolution of the entire cultural industry, and the endless extension of technologies may result in nothing-to-attach for culture. Therefore, in the expansion of the cultural industry, we should keep firmly to the most valuable resources and protect our cultural cores,

such as ideology, value, emotion, aesthetics and consciousness.

“Going global” should be based on cultural connotations. Introducing our culture to the world is regarded as a significant mission for demonstrating China’s cultural soft power. Cultural exports have shown a trend that is falling behind the development of the cultural industry. It is therefore urgent to reshape China’s image as a culturally influential country through structural adjustments. Cultural exports must be developed on the basis of connotations. We should devote ourselves to producing cultural products that embody arts, ideology, ethnic characteristics, aesthetics, and diversity rather than making practical, cheap, simple-function and low value-added products.

(Translator: Xu Qingtong; Editor: Jia Fengrong)

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