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# The Growth of E-Commerce in China's Commodities Market

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## I. An overview of China's e-commerce market

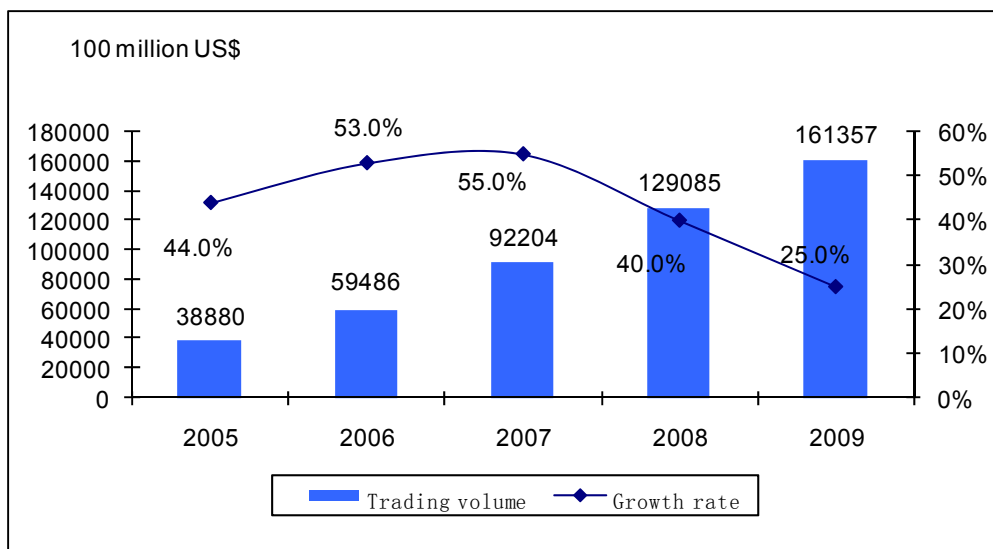
After passing through the internet bubble in the early 2000s, the e-commerce market has continued to grow steadily throughout the world year after year. The global e-commerce market seemingly came through the impact of the 2008 financial crisis to reach US\$16.13 trillion (€11.02 trillion) by the end of 2009, +25% over the previous year, although the in-

crease was slightly slower than in previous years (Fig. 1).

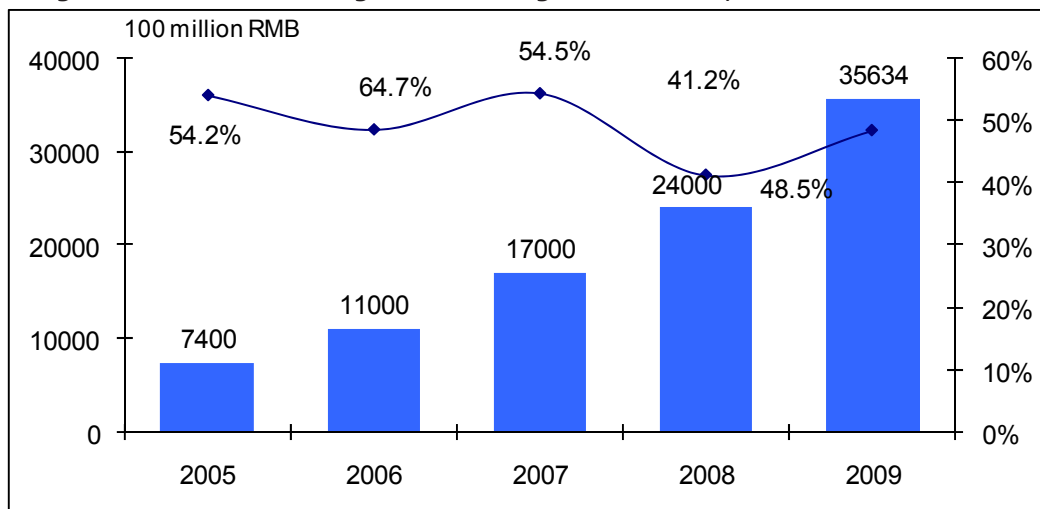
The e-commerce market has developed quickly in China in recent years. In 2009 China's e-commerce market reached RMB3.56 trillion (€373.65 billion), a 48.5% increase from RMB2.4 trillion (€234.75 billion) in 2008 (Fig. 2).

Considering these data, we predict that China's e-commerce market will continue to develop steadily in the coming three years as China

**Fig. 1 - E-commerce trading volumes and growth worldwide, 2005-2009**



**Fig. 2 - E-commerce trading volumes and growth in China, 2005-2009**



Source: CCID Consulting, January 2010

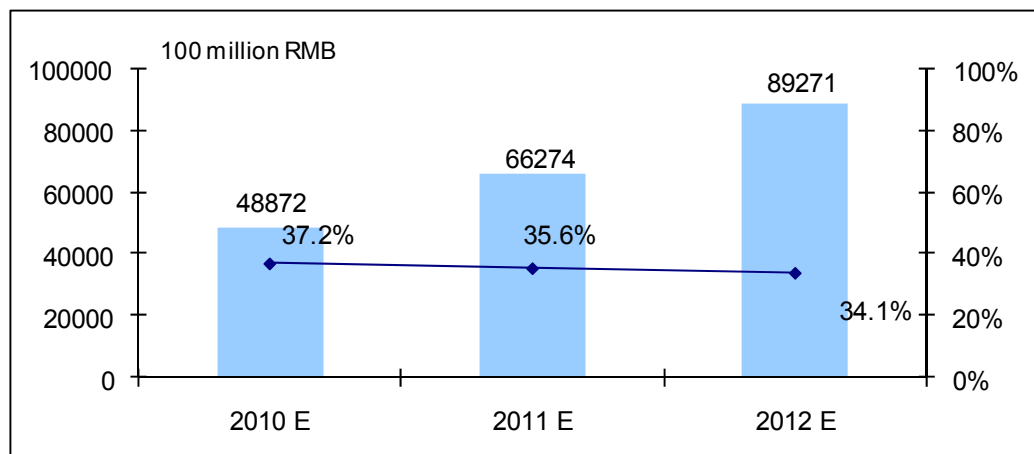
comes out of the financial crisis. Trading volumes will account for RMB4.89 trillion (€543.21 billion) and RMB8.92 trillion (€992.26 billion) by the end of 2010 and 2012, respectively, showing a compound growth rate of 35.2% in the next three years (Fig. 3).

Analysis of the structure of China's e-commerce market shows that *business-to-business* (B2B) is still the predominant segment: in 2009 trading volumes reached RMB3.08 trillion (€323.27 billion), accounting for 86.3% of the total. The trading volume of the other two segments, *business-to-consumer* (B2C) and *consumer-to-consumer* (C2C) accounted for RMB253 billion (€26.55 billion), 7.1% of the total trading volume, and for RMB234 billion (€24.60 billion), 6.6%, respectively (Fig. 4).

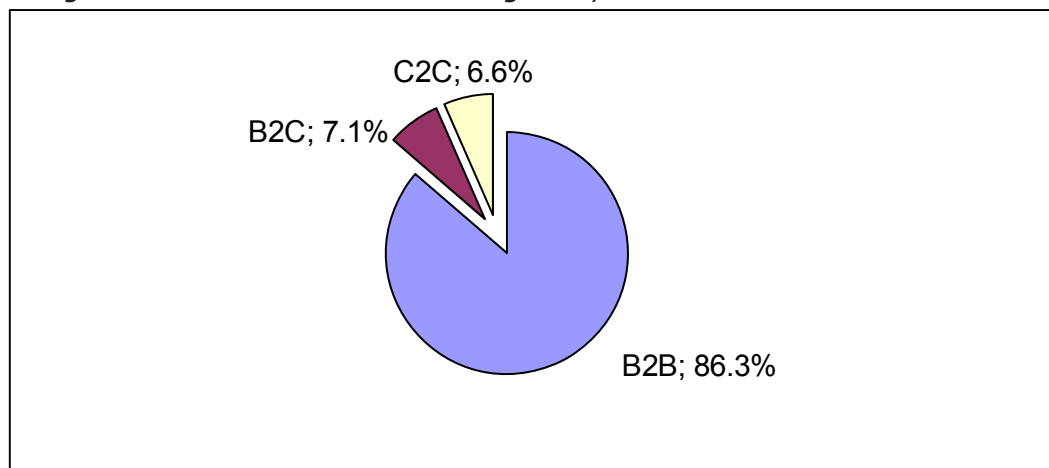
Examination of the structure of each segment shows that at the end of 2009 Alibaba ([www.alibaba.com.cn](http://www.alibaba.com.cn)) still dominated the B2B segment with a market share of 63.9%, followed at a distance by Global Sources (*huanqiu ziyuan*, [www.globalsources.com.cn](http://www.globalsources.com.cn)) and Huicong ([www.hc360.com](http://www.hc360.com)), which accounted for a 15.85% and 3.9% market share, respectively (Fig. 5).

In the B2C segment, despite the fact that the business is fairly diversified, dominating players in certain fields can be identified. In 2009 Dangdang ([www.dangdang.com](http://www.dangdang.com)) was the main player in the on-line book sales sector with a 7.9% market share, followed by [amazon.cn](http://amazon.cn) with 7%. In the field of IT, computers and electronic products, *Nanjing shangchen* ([www.360buy.com](http://www.360buy.com))

**Fig. 3 - China's e-commerce market size and growth: forecasts 2010-2012**

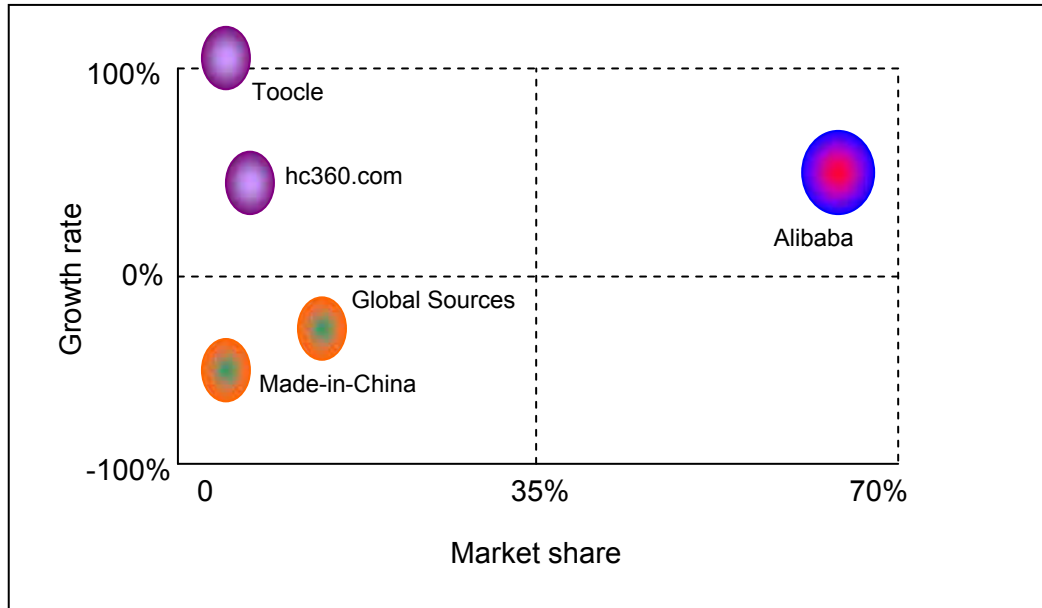


**Fig. 4 - China's e-commerce market segments, 2009**

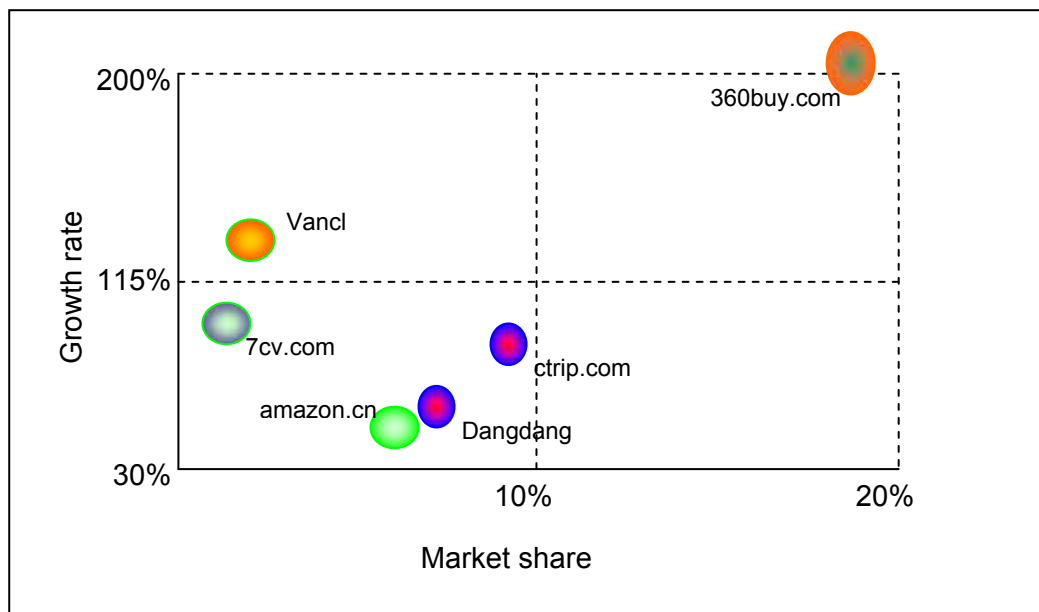


Source: CCID Consulting, January 2010

**Fig. 5 - China's B2B e-commerce market structure, 2009**



**Fig. 6 - China's B2C e-commerce market structure, 2009**



Source: CCID Consulting, January 2010

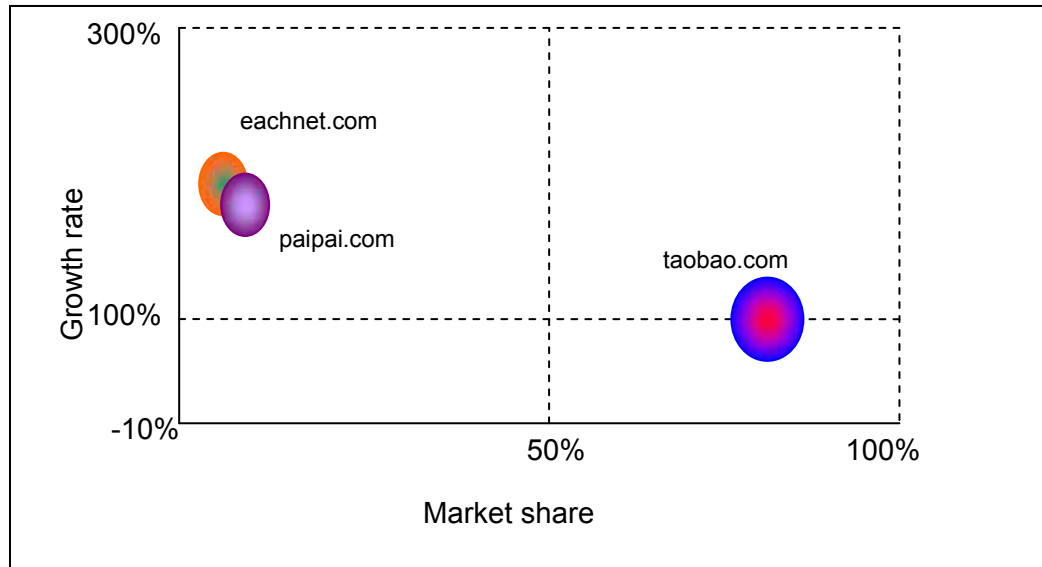
has seen rapid growth, reaching a 18.6% market share by the end of 2009. In the field of clothing, Vancl ([www.vancl.com](http://www.vancl.com)) dominated with a 3.3% market share (Fig. 6).

In the C2C segment, in 2009 Taobao ([www.taobao.com](http://www.taobao.com)), a subsidiary of Alibaba Group, was the market leader with a 85.9% share, followed by Paipai ([www.paipai.com](http://www.paipai.com)), a subsidiary of China's largest Internet company Tencent Group, with 7.4%, and Yiqu ([www.eachnet.com](http://www.eachnet.com)), a joint venture between eBay and the mainland

leading portal TOM Online of the TOM Group, which accounted for 6%. China's largest portal Baidu's C2C platform, Youa (<http://youa.baidu.com>), which finally debuted in 2009, registered only a 0.7% market share. Nonetheless, it is expected to become one of the leaders in the C2C segment in the coming two-three years as Baidu efficiently integrates its existing resources (Fig. 7).

II. The current situation and the problems faced by China's commodities market

**Fig. 7 - China's C2C e-commerce market structure, 2009**



Source: CCID Consulting, January 2010

The financial crisis that swept the world in 2008 caused severe turbulence in the global economy. Also in China, many enterprises, above all small and medium enterprises (hereafter, SMEs) in the export industry in the Pearl River Delta and Yangtze River Delta went bankrupt because of a reduction in the number of orders and late payments which directly resulted in production stagnation and a product backlog. To face the economic crisis, the Chinese government implemented large-scale economic stimulation measures which seemingly produced their effects as data show that China's economy has come through the global financial crisis, its economy is about to embark on a new phase of high-speed growth and China will once again become the fulcrum of the world's economy.

In the face of the financial crisis, China's commodities market was forced to take a close look at itself. For a long time the traditional mechanism had caused the production, orders and management of many enterprises, especially small and medium manufacturing ones, to lag behind international market demands. The development of e-commerce in China helped to better connect the various sectors of the

market, but because it lacks governmental supervision, promotion, and a sound credit system and because of the hysteretic nature of the legal system, the e-commerce sector in China is actually completely disorganized. Alibaba, hc360.com and other major websites occupy most of the domestic market, but with a background of unsure creditworthiness, these websites go their own ways, making it difficult to protect users' interests. Besides, China's e-commerce industrial operative make-up is still in the information flow phase. Because of the lack of powerful governmental support - which could facilitate the introduction of paperless electronic transactions, capital flow and logistics, including information matching, quotations, contract signing, logistics, distribution, electronic settlement, financial reliability system authentication, e-pass, secure payment authentication and cargo track detection - China's commodities market's e-commerce sector cannot become completely paperless.

### III. A development strategy for China's e-commerce

For China's e-commerce to develop healthily, we believe the following issues must be taken into consideration:

1. Learn from the experience of the international markets while developing a “Chinese” path. Compared to developed western countries, China’s commodities market is still in the early stage of e-commerce applications. In particular, how to effectively learn from the experience of e-commerce in developed countries and how to effectively combine international experience with the Chinese situation are two important issues to be considered in the development of e-commerce in China’s commodities market.

2. Achieve full convergence of a market operation mechanism and traditional institutional resources. At present, besides the supervision system in place in the traditional commodities market, the market regulator State Administration for Industry and Commerce (SAIC) is stepping up its efforts to define ways of supervising the market to allow for effective use of traditional institutional resources from e-commerce websites, continuous innovations in market operation, and to achieve effective convergence of the market and traditional institutional resources.

3. Build up and optimize the content of e-commerce websites and enhance their attractiveness. China’s e-commerce websites should not only pay more attention to improving their electronic functions, they also need to put greater effort into disseminating information about the e-commerce websites of enterprises so as to steadily strengthen the attractiveness of the websites and build more business development opportunities. Moreover, if enterprises choose Alibaba and other third-party e-commerce platforms to build a website, more attention should be placed on the optimization and promotion of the website in order to reap greater success.

4. Pay more attention to the convergence of technological R&D and the enterprises’ operations. As

a new marketing channel, e-commerce is increasingly attracting the attention of traders. Meanwhile, as a new emerging technology of the traditional commodities market, R&D in technology are key factors in its development. The success of e-commerce in China’s commodities market relies on investments in the innovation of the network technology.

5. Pay more attention to the effective cultivation of talents. In short, competition between internet enterprises means competition between talents. Finding, employing and cultivating talented people is the key to the long-term competitiveness of enterprises. A major factor in this is cultivating talented people who understand the mechanisms of the commodities market and e-commerce bearing in mind the need for enterprises to develop and grow.

The development of e-commerce in China’s commodities market offers trade opportunities and improves service to the customer while, at the same time, reducing times due to turnover, cutting the costs of managing transactions and allowing enterprises to have smaller inventories. Opportunities and challenges coexist along the development path of the e-commerce of China’s commodities market. How to seize the opportunities and meet the challenges are crucial in determining the future development and success of e-commerce in China.

*The original article in Chinese was provided by CCID Consulting Co. Ltd, a leading Chinese public consultancy firm. CCID Consulting is directly affiliated to the China Center for Information Industry Development and provides services for public policy decisions, industry competitiveness upgrades, development strategy and planning, marketing strategy and research, HR management, IT programming and management. For contacts: [duyu@ccidconsulting.com](mailto:duyu@ccidconsulting.com)*

## The Growth of *Manhua* in China: An Overview

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To interpret this article correctly it is important to note that the word *manhua* is used in China to refer not only to cartoons and comics published in China but also to translations of Japanese works and, in general, to comics in the Chinese language. On the contrary, the Japanese word *manga* (from which *manhua* takes its name and style) is used only for comics produced in Japan. In any case, the word *manhua* has now been adopted also in Japan.

The development of Chinese *manhua* has been closely bound to the main historical and political events that have shaped China's history. According to some authors, *manhua* was born in the years straddling the 19th and 20th centuries, roughly between 1867 and 1927 (e.g. Wong, 2002). Indeed, 1867 saw the creation in Hong Kong of the first Chinese satirical comic magazine called 'The China Punch': this magazine was in English and the style was that of the modern *manhua* while the stories were political satires full of humor and pictures (Fig. 1).



Fig. 1 - The China Punch, 1867

Although there were other kinds of comics circulating in this period, the satirical *manhua* was the most important as it marked the birth of China's modern *manhua* which developed along with the bourgeois democratic revolutionary move-

ment and mass demonstrations against imperialism and foreigners in the early 1900s. These events inspired the creation in 1900 of a comic called 'Shoot pig cut sheep pictures' (*shezhu zhanyan tu*), where, by playing with Chinese characters and sounds, 'pig' indicated the Christian God and 'sheep' stood for the Christians. From an aesthetic point of view, this comic is relevant in the history of Chinese *manhua* as it combines folk pictures with more traditional Chinese pictorial elements (Fig. 2).



Fig. 2 - Shezhu zhanyan tu, 1900

*Manhua* appeared for the first time in a Shanghai newspaper in 1903; after this more and more newspapers in other important Chinese cities such as Beijing, Tianjin and Guangzhou began to publish comics and comic magazines. The main aim of these was to criticize and highlight the weaknesses of the Qing dynasty and, after 1911, of the Republican government. One of the most important comic magazine was 'The Journal of Current Pictorial', created in 1905 by a revolutionary group called the "Chinese Alliance" that depicted an emblematic history (Fig. 3). Because of its political nature, this magazine was banned on mainland China two years after its creation but it continued to be published in

Hong Kong for some years until it had to shut down because of the continuous pressure exerted by the Qing government on the British Colonial government. In 1912, with the fall of the Qing dynasty



Fig. 3 - *The Journal of Current Pictorial*, 1905

and the founding of the Republican government in China, the "Chinese Alliance" began publishing again on mainland China and created the magazine 'The True Record' (*Zhenxiang Huabao*) in Shanghai. However, this magazine was soon banned by the Provisional President of the Republic of China, Yuan Shikai, because it criticized the new Republic of China government.

Although a number of comics and comic authors began to emerge and become familiar names with the public in this period, it was only in 1925 that the word *manhua* was used for the first time in association with Chinese comics, when Feng Zi-Kai used it for a collection called 'Zi-Kai manhua'. More notably, *manhua* gained increasing importance with the rise of the Communist Party of China (CPC) - founded in 1921 - as a propaganda tool for Party activities and events aimed at workers and peasants throughout China.

From the late 1920s to mid 1930s, considered the golden age of *manhua* in China, Shanghai became the most active comic production center in China: in 1927 *Manhua hui*, China's first cartoon and comic arts organization, which

published 17 magazines for around 15 years, was established, leading to more coherent and systematic growth of the cartoon sector. The Association was important in the history of Chinese *manhua* as it contributed to the cohesion of the loosely organized group of artists. One year later the 'Shanghai Sketch', the first Chinese *manhua* magazine in the Chinese language, was created. It is interesting to note that the 'Shanghai Sketch' was largely influenced by Western comic works such as 'Ally Sloper's Half Holiday' (Gilbert Daziel, 1884) and 'The Yellow Kid' (Richard Outcault, 1896): for example, the Chinese works 'Mr. Wang' by Yeh Qianyu and 'Dr. Reform' by Lu Shaofei had a similar design to the Western comics. The importance of Shanghai as a creative center of *manhua* also influenced Hong Kong's cartoonists of that time as they created comic characters inspired by Shanghai-based authors.

The publication of *manhua* continued even with the outbreak of the Sino-Japanese war in 1937 and, two years later, of World War II, as well as during the civil war between Communists and Nationalists after the end of the war. During this period of conflict, the focus of the content and themes of most *manhua* was on the war and political events.

A number of scholars hold that the 1950s marked a revival of *manhua* in China (e.g. Lent, 2001; Wong, 2002). Indeed, the new political and social phase China entered with the founding of the People's Republic of China in October 1949 offered opportunities for new ideas and inspiration for comic authors. 1950 saw the creation of a comic monthly called 'Manhua', which contributed to enhancing the creativity and quality of comic works in China and cultivated talented young people in this field.

During the Cultural Revolution (1966-1976) *manhua* became a tool of propaganda and education

in the hands of the Chinese government because of the very simple language and repetition it used, making it easy to promote and disseminate also in the furthest flung and poorest areas of mainland China.

The launch of the reforms in 1979 opened up a new phase for comics in China. On one hand, the CPC's official organ the 'People's Daily' began to publish a series of satirical and humoristic comic works, followed by other major national dailies and specialized comic magazines in the following years and research and conferences flourished throughout the country; on the other hand, an impressive inflow of foreign comics, above all the Japanese *manga* - with well-known titles such as 'Doraemon', 'Dragon Ball', and 'Saint Seiya' - dominated the market for a long time. The *manga* had a huge influence on Chinese *manhua* and its development in the following years not only in terms of design and content but also as regards the organization and the market of comic works.

In order to limit the "Japanese invasion", in 1995 the Chinese government made a first attempt to launch its domestic comic and animation sector by promoting production with the first official package supporting the sector, but this strategy failed because the funds were handed out without conducting any kind of market or target research. Another explanation for this failure was the commonly held opinion - still advanced by some - that animation and comic arts are minor arts. Indeed, in the eyes of mainland China's government and the public, comics have always been considered products for children, used most commonly for propaganda and educational purposes. This in part explains why, although the Chinese *manhua* have begun to reach readers throughout the world, the creativity of the authors has been limited by the taboo

on sex.

Nonetheless, the cultural, social and economic implications of having China's own animation and comic sector was clear to Chinese leaders, above all in view of China stepping onto the global stage through membership of the World Trade Organization in December 2001. The official recognition came in October 2000 during CPC's 15th Congress and, one year later, animation and comic arts were made an eligible sector for government funds in the 10th Five-Year Plan.<sup>1</sup>

In 2008 the Ministry of Culture launched a project which allocated a total of RMB7 million (€748,190) to the promotion of 101 publications. This investment was doubled one year later, with 108 comic works receiving funds and adopting a more advanced industrial strategy (Shanghai Daily, 2010); indeed, the *manhua* authors and stories were chosen for their creativity and their sales potential.

The Ministry of Culture has also encouraged the exploitation of merchandising (gadgets, clothes, toys, etc.) because comics and animation on their own are not profitable: in fact, in developed markets such as Japan and the US, comics and animation are sold with their side-products to create a profitable "industrial chain", says Professor Chen Shaofeng, deputy director of the Peking University Institute for Cultural Industries.

Thanks to the government's support and better targeted publication and marketing strategies, in the last five years new *manhua* and animation production companies have been set up and more than 20 provinces consider it a new industrial sector which needs support. Some cities like Beijing, Shanghai, Guangzhou, Suzhou, Hangzhou, Dalian and, above all, Shenzhen

<sup>1</sup> Animation, Comic and Game (ACG) have been recognized as "creative cultural industries" in the State Council's "Plan to develop the culture industry" (*wenhua chanye zhenxing guihua*) dated July 2009 as a key sector to be developed and to be promoted abroad under the framework of the 'go out' (*zouchuqu*) strategy.

have created new *manhua* and animation production studios, granting the sector preferential policies. Today more than 200 universities offer masters courses in animation and comics.

A successful example is the animation and comics production company Summer Zoo which, thanks to the funds from the Ministry of Culture, has launched a new team comprising 30 famous cartoonists and six authors. In just a short time the company published 20 *manhua* with a circulation of 500,000 copies of which 'Little Piggy's Time Machine' and 'Traveling with Ruffle' are the most successful. In addition, 10 serials produced by Summer Zoo are published in the major comic magazines in China (Shanghai Daily, 2010).

In particular, two series of comics produced by Summer Zoo have reaped much success even in Japan, the homeland of the *manga*: 'Zibuyu', and 'Confucius Did Not Say'. These *manhua* are published by Tokyo-based Shueisha Publishing Co. Ltd, one of the largest production and distribution companies of Japanese cartoons and manga.

There are also cases of exploitation of the popularity of animation TV series and movies to launch *manhua* series for children. For instance, after the resounding success of 'Big Big Wolf and Pleasant sheep' as an animation TV series first, and on the Internet and at the cinema later, a new series of *manhua* based on this title has been launched recently with children as the main target.

According to the Ministry of Culture, China now has around 10,000 companies located between Beijing and Shenzhen which produce cartoons and comics and employ more than 200,000 people. To foster the development of the national animation and comics industry the Chinese government has declared "war on the Japanese invasion" in an ironic way, urging the Chinese studios to forge close

relationships with companies based in Hong Kong with a view to creating a common front not only against the *manga*, but also against the Korean *manhwa* and the American comics.

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### CMMR Releases China's TV Coverage Report

The mainland's top research company China Mainland Media Research (CMMR) recently released its "12th Survey and Research Report on China's TV Coverage and Ratings" based on surveys conducted between July and August. Of all the satellite TV channels, six China Central TV (CCTV) channels, including CCTV-1, CCTV-2 and CCTV-7, have more than 1 billion viewers each. China Education TV-1 (CETV-1) and eight provincial satellite TV channels, including Zhejiang Satellite TV, Shandong Satellite TV and Jiangsu Satellite TV, each exceed 800 million in terms of population coverage. Seven provincial satellite TV channels, including Xinjiang Satellite TV, Jilin Satellite TV, Tianjin Satellite TV and Yunnan Satellite TV, increased their coverage by over 100 million last year.

CMMR notes that TV dramas are still Chinese viewers' favorite genre. The ranking of the Top 5 program genres by viewers has not changed compared to 2009.

**Table 1 - Top 5 Favorite Genres 2009-2010**

Rank	Genre	2010	2009
1	TV dramas	69.2%	68.8%
2	News reports	65.9%	66.9%
3	Entertainment	45.9%	48.4%
4	Movies	38.9%	37.8%
5	Legal dramas and documentaries	22.9%	27.5%

Source: Xinhua - October 14, 2010.

### CCTV-2 Finance Channel to Make RMB2 Billion in 2010

China Central TV's finance channel, CCTV-2, will exceed RMB2 billion (€210 million) in income in

2010, says director Guo Zhenxi.

To change the single revenue flow based on advertising sales, CCTV-2 has just started building its finance information platform which includes newspapers, magazines, broadcasting, mobile terminals, databases and research institutes. The platform is expected to offer CCTV-2 high revenues from the sale of information products, increasing its annual income to more than RMB3 billion (€315 million) each year after year three.

CCTV-2 and China Business Network (CBN) under the Shanghai Media Group (SMG) are the only two finance channels to cover the entire country.

Source: *Caijing* - October 18, 2010.

### Landing Fees: A Real Burden for China's Provincial Satellite TV

A provincial satellite TV channel has to pay approximately RMB2-4 million (€210,000-420,000) per year to each local cable TV network operator for its coverage on a provincial city level in China, according to China's Provincial Satellite TV Coverage Research Report. The landing fee has become the second largest budget item, behind the purchase of TV dramas, for most provincial satellite TV channels.

In 2009 eight provincial satellite TV channels each spent over RMB100 million (€10.5 million) in landing fees. Jiangsu Satellite TV and Zhejiang Satellite TV spent RMB120 million (€12.6 million) each. In 2010 nine channels exceed RMB100 million (€10.5 million) and eight channels exceed RMB90 million (€9.4 million). For some channels, landing fees represent more than 30% of their operating costs.

Source: China Radio, Film & Television magazine (*Zhongguo guangbo yingshi zazhi*) – October 21, 2010.

## SARFT and China Eximbank Sign to Promote Film and TV Exports

The State Administration of Radio, Film and TV (SARFT) and the Export-Import Bank of China (China Eximbank) have signed a contract that offers support to key export enterprises and projects in the radio, film and TV sector. China Eximbank will offer financial support worth no less than RMB20 billion (€2.1 billion) or the equivalent foreign currency to the above enterprises to promote their “move abroad” over the next five years.

In 2009 China exported more than 10,000 hours of movie and TV programs to over 100 countries. Domestic film sales abroad exceeded RMB2.7 billion (€283.5 million). Exports of video products and services amounted to more than RMB545 million (€57.3 million).

Source: [www.gov.cn](http://www.gov.cn) - August 26, 2010.

## China International Film & TV Program Exhibition Wraps

The 8th China International Film and TV Programs Exhibition (CIFTE) closed on August 28 posting a total trade volume (including letters of intent) of RMB2.4 billion (€252 million), according to event organizer China International Television Corporation (CITVC, *Zhongguo guoji dianshi zonggongsi*). The exhibited programs amounted to 6,758 titles, including 66,392 episodes of TV dramas with 2,474 titles, 385 films, 3,135 documentaries and columns (magazine strands), and 68,726 episodes of animation with 764 titles. The event attracted over 1,300 exhibitors to an exhibition area of 22,000

square meters. Out of all exhibitors, 34.7% are foreign companies.

**Table 2 - Trade volume at CIFTE 2003-2010**

Year	Trade volume (RMB/Euro)
2003	RMB530 million (€56.6 million)
2004	RMB656 million (€63.7 million)
2005	RMB767 million (€75.3 million)
2006	RMB936 million (€93.5 million)
2007	RMB1.1 billion (€105.6 million)
2008	RMB1.6 billion (€156.5 million)
2009	RMB2.0 billion (€209.9 million)
2010	RMB2.4 billion (€252.0 million)

Source: CITVC – September 1, 2010.

## SARFT Approves CRI Broadcasting Internet Network

China International Broadcasting Network (CIBN), run by the state-owned radio station China Radio International, has recently been approved for establishment by the State Administration of Radio, Film and Television (SARFT). This international new media broadcasting network will feature 61 languages and international characteristics. CIBN is set to become a multilingual and multifunctional state-level broadcasting organization that caters to audiences from all over the world. The network will be based on CRI Online, the world’s largest multilingual website, run by China Radio International and will cover a variety of online audio and visual programs, mobile broadcasting television, Internet protocol television, Internet television and China Multimedia Mobile Broadcasting (CMMB).

With the motto “Introduce China to the world, Introduce the world to China, Report everything in the world,” the network will provide all-round information on current events, politics, economy, culture, sports, tourism, society and Chinese learning to international audiences, thus serving as a platform linking China with the rest of the world.

Source: CRI Online - September 2, 2010.

### Beijing Bank to Provide a RMB3 Billion Loan to China Animation Group

The Bank of Beijing (BoB) has signed the Strategic Cooperative Agreement with the China Animation Group (*Zhongguo dongman jituan*) supporting the Chinese animation industry. Under the agreement BoB will provide lines of credit of RMB3 billion (€315.02 million) to the China Animation Group. The Group, founded jointly in November 2009 by China's Ministry of Culture and Finance Ministry, will use the money to set up an animation industry service platform, produce and promote animation and build an industry park. BoB has so far provided RMB41 billion (€4.30 billion) of loans to cultural enterprises.

This Strategic Cooperative Agreement, like many measures of this kind from the government, follows the guidelines contained in the State Council's *Plan to develop the culture industry* (*Wenhua chanye zhenxing guihua*) dated July 2009 and in the *Guiding opinions about the financial support for the prosperous promotion and development of the culture industry* (*Guanyu jinrong zhichi wenhua chanye zhenxing he fazhan fanrong de zhidao yijian*) jointly issued in April 2010 by nine entities (People's Bank of China, Central Department of Publicity, Ministry of Finance, Ministry of Culture, State Administration of Radio, Film and Television, General Administration of Press and Publication, China Banking Regulatory Commission, China Securities Regulatory Commission and China Insurance Regulatory Commission).

Source: *People's Daily* (*Renmin ribao*) - September 13, 2010.

### 50% of Domestic Animation Register Losses, Coproduction is the Future

More than 50% of China's eight well-known animated films, released between January and August 2010, have recorded losses, according to the Chinese Animation Film Investment Forum held in Beijing on October 30. There are only three profitable ones, *Pleasant Goat and Big Big Wolf* (*Xi Yangyang Yu Hui Tailang 2: Huhu Shengwei*), *Mr. Black* (*Heimao Jingzhang*) and *CJ-7* (*Changjiang Qihao Ai Diqiu*). The others, including *Armor Hero Emperor* (*Kaijia Yongshi Zhi Dihuangxia*) and *Hongmao & Lantu: Phoenix Rising* (*Hongmao Lantu Huofenghuang*) have all registered a loss. The eight domestic animated films took a total of RMB165 million (€17.326 million) at the box office, most of which came from *Pleasant Goat and Big Big Wolf* (*Xi Yangyang Yu Hui Tailang 2: Huhu Shengwei*).

However, seven overseas animated films released in the same period have performed well, making RMB1.5 billion (€157.5 million) at the box office. *Avatar* and *Toy Story 3* made RMB1.23 billion (€129.16 million) and 115 million (€12.07 million) respectively on mainland China.

Sino-foreign co-production will be a good way of promoting the rapid growth of China's domestic animation industry, said Kevin Geiger of Magic Dumpling Entertainment, at the forum. China's animation production companies can adopt elements of foreign advanced production and distribution systems, just as the global blockbuster *Kung Fu Panda* made use of Chinese cultural elements, he explained.

Indeed, Sino-foreign co-production has quietly become a trend. "By September 30, 2010, China had exported 38 films, 37 of which were co-productions. The only domestic one was *Pleasant Goat and Big Big Wolf* (*Xi Yangyang Yu Hui*

*Tailang 2: Huhu Shengwei*) said Zhou Tiedong, general manager of China Film Promotion International.

Source: [www.dongman.gov.cn](http://www.dongman.gov.cn) – November 3, 2010.

### **17th Beijing International Book Fair Closes**

The five-day 17th Beijing International Book Fair (BIBF) closed on September 3. Some 2,379 Sino-foreign copyright trade agreements were signed, up 19.48% year on year (YoY). Copyright export and cooperation agreements reached 1,412, up 22% YoY, and there were 967 copyright import agreements. The event attracted 1,841 exhibitors from 58 countries to an exhibition area of 43,000 square meters and 2,150 stands. More than 200,000 book titles were exhibited. Visitors also topped 200,000. India was the guest of honor.

Source: *People's Daily (Renmin ribao)* - September 6, 2010.

### **American Baby Genius Coming Soon in Chinese**

Children's magazine *Highlights High Five* published by America's *Highlights* will launch its Chinese version called *Baby Genius (Tiancai baobao)* on mainland China. *Highlights* will provide content to its Chinese partner Sichuan Children's Publishing House (SCPH) and the latter will edit and publish the magazine on mainland China, according to SCPH's managing editor Gao Haichao. *Baby Genius (Tiancai baobao)* is still in a trial phase and is expected to officially release in January 2011.

Source: *China Press and Publication Journal (Zhongguo xinwen chubao)* – September 2, 2010.

### **China's ad industry grows 30% on average annually**

Since the opening-up the average annual growth of China's advertising industry has stood at around 31% and the advertising industry has become one of the fastest growing industries in China, said Liu Fan, deputy director of the State Administration for Industry and Commerce (SAIC).

The growth of China's advertising industry and China's GDP are closely linked, he said. In 2009, the annual turnover of China's advertising market reached RMB204.1 billion (€21.4 billion), with around 200,000 advertising companies in the market. China's advertising industry now basically possesses the foundations and conditions for sustainable growth. "We should also clearly realize that China's advertising industry is still at a relatively low level of development because of the low starting point and short history," Liu said.

May 2010 saw SAIC release new regulations to foster the development of China's advertising industry: from 1 October 2010 applications to set up Chinese-foreign equity advertising joint ventures, Chinese-foreign contractual advertising joint ventures and foreign-capital advertising enterprises must be submitted to provincial SAIC offices instead of the central SAIC. Advertising enterprises from Hong Kong, Macao and Taiwan will also have to apply to provincial SAIC offices for their advertising investment projects on mainland China.

Currently, China's advertising turnover only accounts for 0.6% of China's GDP whereas it is more than 2% in most developed countries.

Sources: *Xinhua*, [www.gov.cn](http://www.gov.cn) – October 18, 2010.

### **Online Auction for CCTV Primetime Ad Slots Makes**

### **Over RMB1 Billion**

China's national-level broadcaster CCTV has made over RMB1 billion (€105 million) from the on-line auction for its primetime ad slots. The auction consists of three rounds: subscription bidding, on-line auction and on-spot auction. The household appliances manufacturer Midea has overtaken P&G as the biggest ad client after the first two rounds. According to the broadcaster, advertising prices will rise by around 10% this year. The final on-spot auction round will take place on November 8.

*Source: Beijing News (Xinjing bao) - October 28, 2010.*

### **SNS Ad Market to Reach RMB1.11 Billion in 2010**

Market research company iResearch (*Yirui zixun*) estimates that Chinese social networking sites will make RMB1.11 billion (€116.5 million) in ad income in 2010, up 46.1% year on year, and will reach RMB1.99 billion (€208.9 million) in 2011, up 79.3% year on year. Of all Chinese social networking sites, Renren.com is the advertisers' favorite. Its daily page views total nearly 480 million and users interact with each other 4.1 billion times every day, outstripping all the other Chinese social networking websites.

*Source: iResearch (Yirui zixun) - October 21, 2010.*

### **Youku Reaches Agreement with MTV China on Music Content**

Online video site Youku.com has reached a partnership agreement with MTV China. Both parties will cooperate in sharing content and marketing activities. Internet users will be able to enjoy all MTV's Chinese music programs and activities such as Style Gala on Youku.com. Youku.com has reached simi-

lar partnerships with the China Film Group Corporation, Hong Kong's Media Asia and Korea's CJ Entertainment.

*Source: Liberation Daily (Jiefang ribao) - September 7, 2010.*

### **Online video website Tudou to list on Nasdaq**

China's second most popular on-line video site Tudou.com has hired Credit Suisse and Deutsche Bank to help it prepare for a US\$100-150 million (€70.14 million-105.21 million) initial public offering on the Nasdaq stock exchange, and it hopes to list in the first quarter of 2011. Tudou is backed by venture capital firms including IDG China, GGV Capital and General Catalyst, and by the Singaporean sovereign wealth fund Temasek. It competes with Youku and Ku6. The company currently has 16% of the on-line video market in China, behind Youku with 20%. Tudou's revenues - mostly coming from online advertising - have been growing but the company has still not posted a profit. Youku is also aiming to list in the first quarter of 2011.

*Source: China Economic Review - October 26, 2010.*

### **Alibaba and Microsoft to Jointly Launch Search Engine**

Chinese e-commerce giant Alibaba Group and Microsoft are testing a new search service, which aims to rival the search engine giant Baidu Inc. and the struggling Google in the Chinese market, and to marginalize Yahoo, which owns a 40% stake in Alibaba.

The Etao search site launched in beta version combines Alibaba's e-commerce search engine with a Chinese-language version of Microsoft's Bing.

Etao is currently undergoing public testing and, although its

search range is limited at present to online shopping, it is expected to develop into a comprehensive engine search.

Alibaba also owns Taobao, which is currently China's largest online shopping (C2C) platform. As of the second quarter of this year, it accounts for 75% of all e-commerce transactions in the country. The company expects to double its numbers to take in RMB400 billion (€42 billion) this year.

Along with Alibaba, other Chinese companies including Tencent Holdings Ltd, the country's largest Internet company, are entering the Internet search market.

Microsoft has been working steadily to improve its Bing platform for China. Previously, it had reached a partnership with a Guangdong based e-commerce operator, Winhi.net, as its first China agency.

Source: [www.chinaventure.com.cn](http://www.chinaventure.com.cn) - October 13, 2010.

### **Baidu gains a bigger search market share in Q3**

China's search market hit RMB3.13 billion (€328.6 million) in revenue in the third quarter with Baidu dominating the market with a share of 72.9% while Google had 24.6%, said technology research firm iResearch. China is the world's largest Internet market in terms of users with more than 400 million going online.

Google also said its termination of contracts with seven large Chinese advertising sellers would come into effect on Oct 27. The termination of contracts with the seven AdWords sellers will have a positive impact on Baidu, analysts said.

Source: *China Daily* - October 19, 2010.

### **China Mobile: Not in the Comm Biz**

If you've ever wondered why dropped calls are so much rarer in China than in the U.S. the words of China Mobile's research division representative during a keynote speech at Stanford University's China 2.0 conference (October 18-19) in Beijing may interest you.

China Mobile — the largest carrier in the world — serves 550 million users through 550,000 base stations which cover 99% of China's population, according to Bill Huang, general manager of the China Mobile Research Institute. In comparison, the largest U.S. carrier AT&T serves roughly 100 million users and has 200,000 base stations, covering 85% of the U.S. population, he said, suggesting that the Chinese carrier's broader coverage is what makes its signal strength more reliable.

While Huang seemed satisfied with his company's current performance, he was more concerned about the future. Giving an overview of the trends and challenges ahead, he warned that companies like China Mobile need to think about their businesses more broadly or risk becoming obsolete. "We are not in the communications business. We are in the information services business," he said. "If we do not make that leap of faith ... we will wake up one day to see that people are not using our networks anymore."

Huang highlighted Japan's Softbank as a case study for what's to come for the rest of the industry, saying that Softbank was the first carrier in the world to see data usage surpass traditional voice usage, adding that carriers will have to find a way to increase profits as data usage increases.

He didn't talk much about state-owned China Mobile's own third-generation mobile network which operates a locally-developed standard called TD-SCDMA that hasn't been commercially successful outside of China.

Instead, the executive talked

about China Mobile's deployment at the Shanghai Expo of a fourth-generation network that allowed news crews to broadcast live video from their cameras without satellites and vans full of equipment. With the rollout of fourth-generation networks around the world, he said, end-users will no longer have to worry about whether they can get a mobile service when they're traveling abroad because carriers around the world are collaborating to determine future mobile technology standards.

Today, with many of the world's carriers using different technology standards for third-generation networks, cellphones that can be used, say, with China Mobile's TD-SCDMA network, cannot be used in the Japan, where a different standard is used.

Separately, Huang discussed smartphone platforms in his speech, emphasizing China Mobile's move to embrace open platforms by launching its own OPhone operating system, based on Google's Android.

*Source: China RealTime Report - October 19, 2010.*

### **China's Monthly Mobile Phone TV Users Exceed 6 Million**

According to China's Ministry of Industry and Information Technology (MIIT), China's 3G mobile phone users numbered 34.99 million by the end of September, of which China's homegrown TD-SCDMA users reached 15.28 million. Other statistics are as follows:

TD-SCDMA wireless networks cover 27 cities in the country.

Internet broadband users have reached 121 million.

IPTV users have exceeded 5 million.

Monthly mobile phone TV users have also exceeded 6 million.

*Source: Xinhua - October 28, 2010.*

## **FOCUS**

### **The E-Reader Boom in China**

The fire Amazon.com Inc.'s Kindle kindled in the United States has spread to China. But it's not a buying spree of Kindle products, which aren't being sold here, but a manufacturing frenzy of Kindle-like products—electronic-book readers (e-readers). These e-readers, adopting paper-like display technology called e-ink, are nothing new to Chinese IT companies. As early as 2006, Tianjin Jinke Electronics Co. Ltd. released its Hanlin e-reader. But most Chinese IT companies adopted a cautious attitude due to the high cost associated with e-reader technology. It was not until late 2008, after Kindle had found a niche in the U.S. market, that the current Chinese market leader, Beijing-based Hanvon Technologies Co. Ltd., rolled out its first e-reader.

Since then, more and more Chinese companies have piled into the market. Currently, about half of the world's e-reader makers are in China. Zhang Yijun, an official with China's General Administration of Press and Publication (GAPP), said that 41 Chinese mainland companies, of 80 throughout the world, are engaged in developing their own e-readers. "But China's e-reader industry is far from successful," said Wang Bangjiang, Vice President of Hanvon. Wang is cool-headed, despite the fact that he's in the heart of a manufacturing "fire" - Hanvon's monthly output has exceeded Sony to become the world's second largest.

Although endowed with potentially the largest market, Chinese e-reader makers are still plagued by shortfalls, mainly in prices and content. Some problems are in-

herent to their business models; some are indigenous in the country's culture and society. Others include challenges facing the entire e-reader sector.

### **Burgeoning market**

2009 is widely considered the first year of the e-reader era in China. In the absence of Amazon.com and Sony in China, local IT giants, such as Peking University-invested Founder Technology Group Corp., joined up to cut a slice of the market. It is estimated that Chinese e-reader shipments exceeded 300,000 units in 2009. Hanvon, with an overwhelming volume of 267,000, dominated the Chinese market.

Substantial market opportunities have also been alluring to publishers and telecom operators. In March 2010, Shanghai Century Publishing Group became the first publisher to launch a branded e-reader. The country's largest telecom operator, China Mobile, released its e-readers with access to its 3G network in May 2010.

This enthusiasm has made China the world's second-largest single-country market in terms of e-reader shipments. Data from the Taiwan-based Digitimes Research shows that China accounted for 21.4% of the world's e-reader shipments in the first half of this year, ranking only behind the United States with 58.1%. Last year, the entire Asian market totaled just 8.8%.

The latest market presence is the August release of the Bambook e-reader by Shanghai-based Shanda Literature, operator of China's largest online literature website. In addition, the other two telecom carriers, China Unicom and China Telecom, may put out their own devices before the end of the year. An optimistic mood is prevailing in the Chinese market, with estimates for the 2010 yearly shipment ranging from 1.5 million to 3 million.

### **Price matters**

Featuring e-ink technology, e-readers boast a paper-like reading experience with ultra-low power consumption. They're also portable, large in storage space, and some can provide easy access to the Internet. Hanvon even added its advantageous technology—handwriting recognition—into its products. Despite these selling points, e-readers in China are still not attractive to ordinary consumers.

Research by Analysys International shows that 61% of the e-readers in the Chinese market are priced over RMB2,000 (€210), 27% from RMB1,500 (€157.5) to RMB2,000 (€210), and 12% between RMB1,000 (€105) and RMB1,500 (€157.5).

In sharp contrast, Kindle with Wi-Fi access now features an affordable price tag of \$139 (€97.5), while a version with free 3G and Wi-Fi costs \$189 (€132.5), slashed from \$259 (€182) in response to the launch of the iPad. But a similar-size Hanvon e-reader with Wi-Fi access is priced at over RMB3,000 (€315).

E-readers in the Chinese market are much more expensive than Kindle products in terms of absolute value. Moreover, taking consumers' income into consideration, an e-reader may cost more than the average monthly income - less than RMB2,000 (€210) - of an urban Chinese resident.

Currently, the Chinese e-reader market is still a high-end gift market, said a report on China's e-reader market by Zero2IPO, a service provider in China's venture capital and private equity industry.

Why are the prices for domestically produced e-readers, which use the same technology as the Kindle, so much higher? The difference lies in the business models of Chinese and U.S. e-reader providers. Amazon.com, the largest

online book retailer, sells e-books through its Kindle, while Chinese market players, mostly IT companies, have to profit from the devices alone.

In August, Shanda Literature's Bambook, backed by its online literature website, shocked the market with its 998-yuan (€105) trial period price. Shanda Literature expects the low price to spark an e-reader sales frenzy in China. In the meantime, many industry insiders say it will possibly start a price war. Despite this, an Analysys International survey shows 82.2% of people accustomed to reading via mobile phone won't buy an e-reader until prices drop below RMB500 (€52.5).

### **Content is king**

Domestic device makers have realized that Kindle's success stems not only from its cheap price but, more importantly, from the number of e-books Amazon.com can provide for Kindle users to download. IT giant Sony also has an e-book store for its Sony Reader. Most Chinese device makers have launched their own online stores for customers to buy and download books. They've also been busy negotiating with publishing houses to stock their own e-book stores. Following in the footsteps of the Shanghai Century Publishing Group, several publishers have worked with device makers to tap their book resources. Despite their efforts, they are still not comparable to their U.S. counterparts in the number of available e-books. Earlier this year, Amazon.com's first-quarter financial report said it offered more than 500,000 titles, including 100 of the 111 New York Times bestsellers. Barnes & Nobles, the largest U.S. book retailer, is another major e-reader vendor offering a growing collection of e-books.

In comparison, Hanvon only provides about 100,000 titles

through its online bookstore but aims to double its list by the end of the year. Lacking a sufficiently large collection of e-books makes profiting from content difficult. And to see any profits, domestic device makers such as Hanvon will have to invest greatly in building and expanding their own e-book stores. Hanvon said this year it would triple its investment in its e-book store from last year's figures to RMB30 million (€3.15 million).

In addition, rampant online book piracy in China is also a barrier for the e-book businesses. Payment awareness among Chinese online readers is still low. According to the China E-book Market Development Report, jointly released by China Business Book Report and e-book portal Du8.com, 95% of Chinese people reading e-books download unauthorized works from the Internet.

To attract buyers, most Chinese e-readers come equipped with memory cards and support a large number of e-book formats so users can get e-books from various sources. As a result, e-book content sales through e-readers in China remained small - totaling only RMB7 million (€735,000) in 2009, accounting for 0.54% of the RMB1.3 billion (€136.51 million) in market scale propped up by device sales, said the China e-book report. A fight against piracy will be necessary to encourage more publishers and authors to cooperate with e-reader makers. Already, Shanghai-based Yeahmore E-Reading Media has set up a digital rights management system to prevent its e-books from being pirated after being downloaded.

### **More pages to turn**

Chinese e-reader makers hope to entice more customers to their e-reader camp to replicate Kindle's success. However, the market still lacks real customer demand and the boom in the market is actually

being driven by device makers, said the Zero2IPO report. However, the manufacturing fire will soon fizzle out and those who haven't found a niche will disappear. Along with fast growth in market size, industrial consolidation will soon appear, Zero2IPO says. Chinese e-reader makers will also be challenged by external competitors. Reports hold that Amazon.com and Sony both plan to officially launch their e-readers in China. Apple's fancy, multi-functional iPad will also appear on the shelves of Chinese stores.

That will be a true threat, as the iPad is already eclipsing Kindle's market share in the United States. The iPad's emergence has even given rise to concerns about the demise of dedicated e-readers. But the more imminent threat may come from mobile phones. Reading via mobile phone has already become a trend. China's Ministry of Industry and Information Technology (MIIT) said that 155 million Chinese were reading via their mobile phone at the end of last year. Meanwhile, creating larger screens suitable for reading e-books hasn't been a problem for smart phone makers.

*Source: Beijing Review - September 3, 2010.*

## **EVENTS, CONFERENCES and BOOKS ABOUT CHINA**

China Media Observatory, Lugano.

### ■ **Global Communication, Local Perspectives Conference**

Department of Media and Communication, City University of Hong Kong,  
December 10-12

Co-organized by the China Association of Communication (CAC) and the Chinese Communication Association (CCA) and co-sponsored by the Radio and Television Research Center at the Communication University of China in Beijing, this is the first time CAC has held its annual conference outside mainland China.

The sessions of the conference will mainly focus on

- 1) Political economy of global communication;
- 2) Mass media and social transformation;
- 3) Media policy and regulation;
- 4) Chinese culture and communication history;
- 5) New media and social development;
- 6) Journalism practices in the age of media convergence;
- 7) Advertising and public relations in the context of globalization;
- 8) Development of journalism and communication education;
- 9) Round table on communication research.

For more information contact Mrs. Leung Phoebe, Department of Media and Communication, City University of Hong Kong, email: [psmleung@cityu.edu.hk](mailto:psmleung@cityu.edu.hk).

### ***New & Notable Books***

Ying Zhu & Chris Berry (eds.) (2009), ***TV China***, Bloomington & Indianapolis: Indiana University Press.

If radio and film were the emblematic media of the Maoist era, television has rapidly established itself as the medium of "marketized" China and in the diaspora. In less than two decades, television has become the dominant medium in the Chinese cultural world. Covering mainland China, Hong Kong and Taiwan and the Chinese diaspora, this anthology presents twelve original essays that introduce and analyze the Chinese television industry, its programming, the policies shaping it, and its audiences.

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