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Opening address.

Good morning ladies and gentlemen, colleagues from the global creative community. It is an honour, a privilege and a pleasure for me to take part in this meeting of the International Music Council and to give the opening address at this historic gathering in Beijing.

My presentation this morning will draw upon on-going work in UNCTAD on the topic of creative industries and development; and upon the recent Routledge publication titled *Creative Industries and Developing Countries: Voice, Choice and Economic Growth*, co-edited and co-authored with my colleague Zeljka Kozul-Wright.

In our book, and threaded throughout the UNCTAD work on this topic, is the belief that the dynamic growth of global creative industries markets offers a significant opportunity to developing countries. The sector is one of the newest and fastest growing sectors of the so-called "global knowledge economy" - the word used to describe the new economy where creativity, knowledge and other intangibles serve as the basic productive resource, rather than raw materials in terms of physical or natural endowments. Ideas,

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knowledge and creativity are not only renewable resources, they can also be enhanced and expanded by use. Moreover, these resources are not the monopoly of young people or rich countries, as with some other aspects of the knowledge economy: all of us have a store of knowledge, human capital, stories and songs. These can be used to create tradable goods and services that can help to generate employment and to provide livelihoods -- in addition to their traditional and important cultural, spiritual and social roles.

UNCTAD research and analysis is leading to the view that many, if not all, countries can potentially increase their participation in the global economy through the expansion of their creative industries -- provided these are nurtured and supported by appropriate and integrated policies, and that the producers of creative works can receive an appropriate return for their input. This perspective implies that creative industries can be valued not only for their important cultural and social functions but also as an economic tool to contribute to development. They are, for example, also valued for their potential to create employment, to generate incomes, to earn export revenues, and ultimately to help improve economic and human welfare. As described by Richard Florida, one of the early writers in the field, they are being seen as a way of regenerating local communities and catalysing entire cities; of diversifying and repositioning traditional or regressing economies, of boosting human capital, skills and innovation, and of opening a door to the global knowledge economy.

We do not suggest they are a panacea - and we certainly would not suggest relying on them as a single development strategy -- but rather we aim to draw attention to their untapped potential in terms of economic diversification and trade. Creative activities are still valued as a form of cultural expression, but increasingly they are being given the rather weightier expectations described above as well. As I indicated earlier, these benefits require a positively engaged policy environment, and that challenge is what I would like to talk about with you today.

All economic activities present various challenges to the innovators who come up with new and original ideas; the investors who take the financial risk in getting these ideas to market; and the governments that regulate the market in which they operate, but the creative industries sector poses special and particular ones. In part this is because the essential ingredient of creative industries is creative ideas. Because ideas and the creative processes behind them are among the most complex dimensions of human behaviour. Understanding what exactly they are, and knowing how best to encourage and disseminate them, has both fascinated and frustrated philosophers and social thinkers for millenia.

Economists tend to take a more prosaic perspective -- ideas deserve attention to the extent that they fuel innovations and enhance economic growth and welfare. In this view, designing a policy framework for creative industries implies designing a policy framework for harnessing ideas and creativity as a factor of production for wealth creation. This is no easy endeavour. Creativity is elusive. It must not be overly planned, but it cannot be left entirely to market forces either. The challenge is to find the right balance between the two.

Policy makers in developed countries have quite a long tradition of applying a mixture of public and private incentives and mechanisms to promote their domestic cultural industries, but it is only relatively recently that they have added an economic growth rationale to the task. Usually the justification was related to market failures, or public good arguments of nation building or cultural voice, positive externalities and the like. Now, alongside these conventional arguments, almost all developed countries have identified CIs as a part of their national economic strategy. They are devoting energy to mapping the sector, quantifying its value, identifying its main obstacles, and seeking to redress them. In a growing number of countries, including my own New Zealand, it is one of the three or four specially targeted growth sectors, sharing this privileged platform with activities such as ICT and bio-technology. Other countries where pro-active policies have been successful in this sector include Ireland, the Republic of Korea, Canada, Australia, Germany, Sweden, France and many others. One of my messages today is that developing countries should also treat the creative industries seriously -- creativity and innovation are important in all countries, not just rich ones, and as we will show shortly, there can be a powerful economic imperative to give the sector more attention.

1. Defining 'creative industries'.

Let me start by defining what we mean by the CIs. The concept is a relatively recent one, that links together ancient and traditional skills of creativity and communication with the latest IT and digital technologies. "Creative industries" use creativity intensively as an input and they rely on market mechanisms for their production and distribution. These mechanisms include (although they are not restricted to) Intellectual Property Rights and it is this marketising feature that distinguishes them from traditional cultural industries, whose primary function is the creation of cultural or social value.

Another feature that distinguishes them from more traditional cultural activities in our perspective is that they are essentially industrial activities, meaning that we are moving away from the traditional vision of creativity existing at the level of the cottage industry or the individual artist, such as giving live performances, and placing it in the frame of a distinct economic sector that accounts for a rapidly expanding share of the global economy. There may be exceptions of course -- recent research for example suggests Egypt as an unusual model where the best-known performers earn the largest share of their total income from live performance, rather than from CD sales or advertising etc -- but for the most part we have a modern industrial process and market structure in mind, where there is a tangible and tradable re-presentation of the intangible experience that is embodied in cultural exchange. Reflecting this, the value of the creative industries in the form of patents, copyrights, trademarks and propriety design are being estimated at many trillions of dollars, and this rises still further if indirect contributions are included, such as the economic value of unauthorised trade of film or music through digital mediums, for example, or the social value of 'fair use' (free) of copyright.

The point to make is that in advanced industrial economies, creative industries are modern industries, based on principles of mass production. In some cases they are even what could be called 'post-industrial', based rather on models of highly skilled and flexible specialisation. These have gone beyond 'mass' production of standardised goods and become instead large scale production of highly customised goods and services. On the other hand, most creative industries particularly in developing countries, remain small scale and essentially craft-based (or as music is described in Jamaica, no more than 'a scene'.)

This definition thereby includes the broad cluster of businesses involved in entertainment (including film, music, television), communications, information, science and technology, arts, advertising, design, architecture, fashion, and museums[2]. There are many points of convergence between all of these diverse activities, which are situated in the so-called 'creative economy', - the sub-set of the 'knowledge economy' that focuses on the knowledge-based industries that produce and distribute services and goods based on texts, symbols, images, and experiences. As we have said earlier, this economy illustrates the growing power of intangible assets as the primary determinants of international competiveness. By means of digitalisation and related technological advances, creative industries are the vanguard of the knowledge economy. The music industry - the topic of today's meeting - is at the vanguard of the creative industries.

2. Creativity as commerce.

The economic value of the sector may surprise some who are new to this rather instrumentalist vision of creative industries. World Bank estimates

[2] In our book, Zeljka and I further limit the sphere of research to film, television and music, given that they share common economic features.

have placed the global value of the Creative Industries at from seven to ten per cent of GDP, and industry forecasts typically predict growth rates of up to 10 to 20 per cent per annum. Other estimates vary depending on how the sector is defined -- whether for example it includes general scientific research and development. Even taking a fairly narrow definition of 'entertainment and media' (including film, music, television and publishing) the figures are significant - some $1.2 trillion in 2005, according to Price Waterhouse Cooper. Given that this represents around three per cent of global GDP, this is clearly a market that should not be ignored by developing countries.

The employment potential is also significant, and this may be of particular interest for developing countries that have experienced 'jobless growth' in recent years, for example where commodities price rises have added to total GDP but done little to provide employment. In the extractive industries sector, for example, there are very few linkages created throughout the domestic economy and only limited job-creation. Because they are so cross-cutting and interlinked, the creative industries by comparison account for significant direct and indirect employment. In the United Kingdom for example, the sector has been estimated to employ 1.3 million people; in India, the film industry alone has been estimated to employ directly and indirectly as many as 5 million people.

At present, the shares of these global markets are still very uneven and even those developing countries that are participating reasonably actively (India, Brazil, South Africa, some countries in Latin America) have a long way to go before they capture a significant share. However the widespread diffusion of new technologies is helping to make the distribution of global market shares much more fluid. In 2005, the United States accounted for 42 per cent of global audio-visual markets but the share accounted for by Asia in general, and China in particular, is increasing rapidly.

The data on developing country trade in these activities is at best patchy, but on the basis of the limited data available on the COMTRADE database, the indications hint to a potential new balancing of global trade. Some developing countries (notably Africa and Latin America) recent years have seen their market share of the world audio-visuals market decrease, but for a number of others, exports have grown at a pace far exceeding that of exports of goods and services in general. This includes but is not only restricted to China, India, and Brazil. In part this reflects the fact that the base-line is low, but the remarkable point is that for some areas of the world, the share of global audio-visuals trade that is attributed to developing countries is rising fast. Global audio-visual imports from developing countries accounted for only 5% of total world imports in 1989, but by 2004, the latest data currently available, this had increased to 12%. By comparison, the share accounted for by the United States fell from 35% of the total to only 20%. The evidence also suggested - unexpectedly - that trade in these new and dynamic sectors has been no more volatile than trade of all goods and services in general.

What is known about the sector in China? I expect that we will hear from speakers with a more direct or even first-hand experience over the next few days, but generally speaking the Chinese creative industries exemplify a transitional environment as it moves from a state-environment to a mixed model of enterprise and subsidy. Reflecting this, researchers have argued that domestic levels of cultural industries production and trade have not yet reached the levels one would expect, based on international comparisons. However in terms of music, PriceWaterhouse Cooper predicts that the music industry in particular represents a huge opportunity for China to further integrate into the global economy. Asia Pacific is predicted to be the fastest growing market region in media and entertainment, advancing at levels of around 5 % per annum, to the extent that it is expected to exceed the United States market in terms of size by as soon as the year 2008.

However before we continue, I would like to repeat that we must continue to remember the generally poor quality of the data available. Serious debate about the economic value of the sector is hindered by the fact that there are numerous methodological and statistical shortfalls in measuring the knowledge economy, not least the limits of existing economic categories and classifications. The 'copyright' industries have not only grown significantly in recent years, but they have also expanded beyond their traditional core, to encompass a wider set of activities that statisticians do not really know how to capture. As an indication of the importance of this question, UNCTAD is currently spearheading a multi-agency research and policy analysis programme with international institutions such as UNDP, WIPO, UNESCO, the ILO and others, researching how best to map the creative industries. This will be reported on in 2008, but one can take encouragement from the experience of the United Nations approach used in tourism, where a methodology known as the Tourism Satellite Account has been applied in many countries to identify and quantify the direct and indirect impacts on employment, foreign exchange, etc. The resulting information about the scale and impact of the sector has helped to raise the profile of the sector with government policy-makers and can contribute to better policy-making. The call for better data on the creative industries is therefore not statistics for its own sake but rather as an essential first step towards a better understanding of the sector and therefore the ability to design appropriate policies. Moreover, there is also a need for a narrow and common definition of the sector so that it will encourage focus at the level of policy making, and help use the scarce resources that are available most effectively. Too encompassing a definition of creative industries may lead to exaggerated claims and subsequent marginalisation by the policy makers.

3. Why has the sector grown so rapidly?

The rapid growth of the sector stems from a multiplicity of supply and demand factors, which in turn are related to trends of structural change in the global economy. As it seems likely that these patterns are likely to continue in the future, rather than decrease, let me describe some of the key influences. *Firstly*, the creative industries have risen along with the general rise of the services economy that has characterised globalisation in the last few decades. International trade in services more than quadrupled since the 1980s and creative industries have been affected by this, in the way that a rising tide can lift all boats. Related to this, much of the growth in services trade has come on the back of a massive increase in investment in information and communication technologies and the link to many creative industries reflects the fact that they are to a large extent ICT-based and have contributed to the convergence of complementary technologies and the emergence of digital and multimedia technology. One cannot underestimate for example the effect of digitalisation, for its dramatic reduction of production costs and lead-times, and other forms of barriers to entry. This has created a real opportunity for smaller producers and for late-comers. These forms of technological 'creative destruction' may be a concern for the established majors, but for newcomers to the sector they can rather be seen as an opportunity than a threat.   The new peer-to-peer distribution mechanisms, for example, may offer new entrants new ways of gaining access to global markets -- if they have the right copyright and collection mechanisms in place.

A second feature contributing to the boom has been the opening up of markets, stemming from the deregulation of national cultural and media policy frameworks experienced by most countries form the 1990s onwards. Markets that were previously closed were opened, creating new incentives to boost production and trade, coupled with an increase in private sector investment as many governments sought to maximise their national broadcasters' abilities to earn market revenues rather than rely on private finance. In some developed countries, including New Zealand for example, this contributed to the creation of new independent production sectors that had not existed before. In India, as a special case, it lead to a formalisation of the film industry that has helped to access increased finance, to improve production standards and to widen the market. On the other hand, liberalisation also brought with it threats to nascent domestic industries through the effect of low cost, low-risk imported film, music and television product.

Demand side effects have also been significant, and can be expected to become even more so in the next decade. The growing affluence of many developing as well as developed countries is leading to an increase in purchases of income-elastic goods such as film and music, which were once luxuries but which are now increasingly part of the household shopping basket. The rise of new, young middle-class consumers in China, India and South Africa is one of the most visible examples, coupled with growing diaspora and 'world music' markets in developed countries. Reinforcing this shift of the demand curve has been the effect is the fall in prices of many CI products, such as CDs and DVDs for example; and the rise of internet usage has further contributed to the demand for audio-visual content.

These various supply and demand influences have opened new possibilities that feed into the natural imperative to trade that exists in any economic activity that is marked - as are many CIs - by features such as economies of scale. When unit costs are either the same or falling as the scale of production, distribution or marketing rises, producers will aim to spread their costs over a larger and larger market - moving from domestic producers to global ones. Add to this the fact that these markets rely on novelty and increasingly fast production cycles, and the power of scale is obvious. In the past, this feature has been a barrier to new entrants such as developing countries and to small countries, not least because the supply response has been to create highly concentrated, oligopolistic market structures. However the new technologies that are opening up are creating possibilities for small and nimble firms to enter global markets as never before - offering highly niche services. The new income streams that are related to digital music, for example, are one example of the new doors that are opening. While physical sales of recorded music have been on a declining trend since 2002, the sales of digital content have been on a notable increase and it is estimated that revenue streams from digital platforms will account for one quarter of all music revenues within a few years. My colleague Zeljka and Peter Jenner, who will be speaking later in these sessions, are currently researching the way that these cycles of technological change and 'creative destruction' can be seen as offering opportunity, as well as costs[3].

The less regulated markets, the more open trading system, and the ceaseless oxygen of technological change have implied not only more competition, but also a different kind of competition. It is based more on knowledge and information, product quality and originality, speed of delivery and customisation. Some have argued that the human 'software' of originality and experience is worth at least as much, and perhaps more, than the 'hardware' that is embodied in physical plant or facilities. This can be an important incentive for developing countries, but it is also a problem because it is not easy to ensure that a labour force has the necessary skills without having the opportunity to nurture and exercise them in the first place.

4. Why policies are needed - what is so special about the creative industries sector?

The perspective that I am describing to you puts a different twist onto traditional 'public good' arguments that have historically been used to

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[3] See Kozul-Wright, Z. and Jenner, P., 2007, Creative Destruction in the Music Industry and the Copyright, DIME Working Paper Series, Birkbeck College, Univ of London.

support domestic production and consumption of creative industries such as music, film and the arts. Such traditional arguments about market failure, merit goods and externalities are intrinsic to our approach, but there are now additional arguments based more on industrial policy and trade policy.

For example, the industry structure is typically a very heterogeneous one, characterised by a small number of extremely large and powerful firms, and a mass of extremely small, often very precarious, enterprises. There is a great deal of part-time or self-employment, usually on a project-by-project basis; most learning is conducted on-the-job; and workers flip in and out of employment, often supplementing their creative industry work with regular employment in other, more conventional, activities.

Another marked characteristic is that creative industry clusters emerge frequently, leading to a policy focus on 'creative cities' or other spatial organisations as policy-makers attempt to understand the complex and shifting networks of collaboration and competition that occur between firms, investors and creative individuals who are highly mobile and travel from one location to another in search of opportunities. More formal collaborations are increasingly taking place, both at the inter-firm level and between countries, through for expel the signing of bi-lateral co-production agreements, adding to the challenges of policy-makers eager to find the particular entry point at which they should focus their interventions. Finally, at the corporate level, strategies focus on protecting economic rent, especially copyright, but also through other ways of organising the value chain, such as control of the distribution network. The sector is therefore very different from traditional forms of economic activity.

Another feature that is particularly characteristic in the music sector, but which can equally apply to most CIs is the intrinsic patterns of 'creative destruction'. As we have described before, what appears to be a threat can also be an opportunity -- especially for the newcomers to the scene who are not yet entrenched and tied into existing technologies, structures and business models.

This heterogeneity and diversity pre-empts a uniform industrial structure - and a uniform policy prescription. There is no 'one size fits all' policy palliative, because what is needed in each country is very different. There are however, some common obstacles and challenges that typically arise - mostly in developing countries but also in many developed ones.

5. Policy challenges for CIs in developing countries.

The main challenge today is to create the kind of 'enabling environment', at low cost, that will help the CI sector to flourish. Throughout the 1960s and 70s most of the activities that come under the Creative industries rubric in developing countries were marked by strong state involvement - as in many developed countries. Today that is very rarely the case, with the exception of a few ASEAN countries, and now most developing countries have neither specialised or general polices to develop the sector. This lack of an enabling environment in the economy in general, has contributed to a poor economic performance of the majority of non-Asian countries over the last two decades, with the LDCs in particular falling further behind.   Reflecting this, there is now a growing interest in industrial policy in the developing world, which goes far wider than the creative industries but which shares many features in common.

There are five main areas in which policy attention is required, if developing countries are to participate on a more equal basis in the global creative industries economy. These include: i) raising the level and nature of domestic capabilities and capacities, ii) mobilising investment, including foreign as well as domestic, iii) the question of innovation, and how best to promote it, iv) Infrastructure, in particular that relating to the linkages between the various cross-cutting creative activities, and finally v) the social, educational and economic institutions that create the environment in which CIs are embedded. Rather than present the exhaustive list of actual mechanisms that are used in developed and developing countries, that are discussed in our book and in next year's UNCTAD report on the Creative Industries sector, let me draw the many policy strands together under the title of *'the development-oriented state and public entrepreneurship'*.

By this term I mean that there is a positive, enabling role to be played by the government, that helps to promote markets and to harness the benefits of markets where possible, but that also recognizes there are some critical activities for which markets will fail, or are not appropriate. This is very different from the wholesale subsidisation of large-scale public cultural schemes, and it goes way beyond fine tuning and adjusting copyright or getting the IPR system right --to take just a few topical examples. It includes a host of policy measures for a developmental-oriented state that helps to create the environment that will enable the virtuous cycle of resource mobilization, capital accumulation (including human capital as well player as physical capital), boosting of domestic demand and overcoming supply constraints, helping with enterprise development and providing support for innovation, and finally stimulating the kinds of structural and technological changes that will help promote the creative industries in general, including music in particular.

Traditional and extremely important interpretations of this role would include, for example, measures in support of learning, at the level of a basic musical education in schools or the domestic music publications industry - which help nurture appreciation, capabilities and capacities in the broad field relating to music; but a more entrepreneurial role would also extend to investment in the teaching of high-tech applications related to digitalization and multi-media convergence, because entry costs are high and the market may under-estimate or not understand the longer term value. The state is not seen as a in this view, but a facilitator. Other entrepreneurial and market-oriented policies would include helping to promote creative industries clusters by financing -or accessing the financing -- those public-good elements of infrastructure that the private sector will not provide - not the least including financing the move to digitalisation and other new technologies. It may include establishing special agencies to help SMEs or even promoting the establishment of technology banks for bigger music or film projects, helping to lower capital costs by mechanisms designed to reduce risk and transactions costs, or to pool finances for example.

Attention may need to be given to the value chain to determine exactly where public intervention can be used to greatest effect --to help new and unknown talent to get a first hearing, for example, or to help talent that has already made a name for itself at home, find opportunities to be heard on a wider global stage. Even though the new technologies relating to digitalization and the internet offer potential benefits to developing country musicians in terms of lowering production costs and bypassing entrenched distribution networks, they will still need help for example, with branding and gaining access to markets, otherwise their voice will stand little chance of reaching potential listeners in global markets. The new meta-data standards will help, for example, if they lead to the development of a filtering mechanisms that helps consumers find new tracks out of the 30 million titles currently estimated to be available on-line, but there will also be an important role for an intermediary to help unknown artists to gain a 'profile' that will enable them to be found by the search engines.

Similarly national and regional trade and competition policy need to be aligned, to achieve the balance between the beneficial effects of competition together with those arising from co-ordination. The role can also include designing appropriate incentives for innovation and systems of renumeration that can stimulate local creativity and investment and reward artists with real returns, while at the same time ensuring access and affordability to consumers. The internet and the ability to download millions of songs in a fraction of a second has changed the business model completely, and national and international policy attention needs to be focused onto how to develop entirely new mechanisms of payment for artists. I will not talk more about this topic as we have several sessions devoted to it to come, other than to note the challenge is not only about what systems are in place, but also how they are *managed*.

Another message that we need to make is that the particular enabling policies that are required, and the role of the state that this implies, will vary from country to country. It may depend on what resources and skills are already available from the markets, including from philanthropists and 'angels', and what is the nature of the opportunities and the obstacles that the local and international conditions present. There is no 'one size fits all' model, and there is a great deal to be learned from the various experiments that many developed countries have used in the past, or are currently using. No doubt we will hear more about some of these over the next few days.

6. To conclude, I would like to finish by summing up with four main messages:

1. The creative industries sector, including music, is one of the most rapidly growing and dynamic sectors of the global economy. In addition to its traditional intrinsic and cultural value, which has long been recognized, there is a new appreciation that these can be significant industrial activities that contribute to a more general development path of economic diversification, trade, and ultimately growth.

2. This will not however happen automatically. Most developed countries have a variety of measures and institutions in place that promote and enhance domestic production, and developing countries will need to give this attention too. Positive policy responses are needed to face internal obstacles relating to poorly developed capacity as well as to face the international ones.

3. The third point is to remind ourselves that the task has potential pitfalls that do not exist in more conventional industrial sectors. Caution is needed to walk the difficult line between culture and commerce, to avoid an outcome where efforts to enhance and boosting creative industry production has somehow de-valued and undermined the authenticity and integrity of a country's creative production. Music or films that are designed to appeal to all markets, rather than to express an authentic voice, may fail to find acclaim in any market.

This facet poses particular challenges for policy makers in terms, for example, of deciding what aspects of the industry to support - even so far as to which individuals or which projects - and which to leave to their own devices. Most developed countries that support their domestic film and music industries, for example, continue to flounder with the definition of 'success' in terms of their policy interventions. Should they finance films or musical productions that provide moderate pleasure for large audiences, or should they focus their support on productions that are highly appreciated by the few? Or, should they rather fund critical high-tech infrastructure that can be applied to a number of different industries, including the music one? The effective use of public support will be a particularly important issue in developing countries, where the sums to invest will be small and there are many competing needs for the public purse. In addition, the notion of support for an infant industry implies that there comes a day when the support is removed -- so it is important to have a clearly defined exit strategy.

4. Notwithstanding these challenges, the fourth and final point is that being left out matters -- in important ways. Firstly, the skills that are involved in the creative industries are generic ones that can readily be applied to other important sectors of the knowledge economy, including but not restricted to ICTs. Over the last two decades many developing and least developed countries have lost in terms of high value-added and service exports, as they lack the infrastructure, skills and complementary services. Failing to participate in global creative industries is part of this falling-behind phenomenon.

Secondly, being left out matters, to the extent that countries that do not produce any of their own films, music or other creative products will find themselves relying on imported ones. This is not of itself without some benefit, in the sense that consumers are offered international products that were previously unavailable and at low prices. But if this occurs without there also being a thriving cultural sector with domestic producers and creative industries, countries may not only miss out on valuable export opportunities, they also lose the distinctive 'voice' that comes from hearing their own songs and seeing their own stories. To the extent that this means consumers in global markets are subsequently faced with a narrower range of music or films that are on offer, we have all also reduced our 'choice.'

Thank you for your attention.