



**Institut für Rundfunkökonomie
an der Universität zu Köln**

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**Understanding Marketisation
Within the Chinese Information Sector -
Taking Television as an Example**

**Institute for Broadcasting Economics
Cologne University, Germany
Working Paper**

No. 175

Cologne, November 2003

Arbeitspapiere des Instituts für Rundfunkökonomie
Working Papers of the Institute for Broadcasting Economics

ISSN der Arbeitspapiere: 0945-8999
ISSN of the Working Papers: 0945-8999

ISBN des vorliegenden Arbeitspapiers 175: 3-934156-68-1
ISBN of the Working Paper at hand 175: 3-934156-68-1

Schutzgebühr 6,-- €
Price 6,-- €

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* This paper is part of the project “Commercial Information and Stability – Approaches to Understand the Economic Relevance of Institutional Change within the Chinese Information System”, supported by the German Research Foundation, DFG. A research stay in Beijing in February 2003 focusing on questions of the Chinese television sector has been kindly supported by the German Academic Exchange Service, DAAD. A draft version of this paper was presented at the Third International Convention of Asia Scholars (ICAS3) in Singapore, 22. 8. 2003. The participation in the convention was supported by the Maria-Sibylla Merian Programme of the Collegium for Gender Studies at the University of Duisburg-Essen.

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Introduction: The Media Paradox

During the past twenty-five years, the Chinese society and economy has undertaken a reform process with tremendous impact on people's daily life. It is widely accepted that the living conditions in China today are much more favourable than at the beginning of the reform process. The state is no longer the single most important economic actor, after consumers have gained sovereignty and private enterprises have entered the market. In addition, China has visibly entered the process of globalisation, not only in terms of trade and investment, but also in terms of students studying abroad, tourists from China travelling in foreign countries, and all kinds of public persons taking part in international activities and organisations. By accessing the WTO in 2001, China has impressively documented her commitment to internationalisation and marketisation. Naturally, this success story of the reform process has been accompanied by many structural and institutional problems, but the general judgement on the Chinese reform process remains positive. This is true for Chinese as well as for foreign commentators.

In sharp contrast to this – mostly – positive picture painted for the trends of economic growth and internationalisation, there is a common impression outside China, even (or perhaps especially) among China experts, that the economic reform has neither been accompanied by similar reform endeavours in the political realm nor in information politics. The political monopoly of China's Communist Party has not been successfully challenged, and information control still is one of the remaining instruments of the Communist Party to sustain her political power.¹ As a result, Chinese statistics are widely deemed unreliable,² news production is believed to be politically forged³ and foreign enterprises as well as researchers still struggle to find access to reliable information.⁴

Naturally, the assumed contrast between far-going economic reforms and an unchanged political system relying on information control is exaggerated. Indeed we have experienced reforms in the political realm in China and we do observe a different information policy in comparison to pre-reform times. This latter aspect raises several interesting questions: Have changes within the Chinese "information percolation system"⁵ been the result or a precondition for economic success? What kind of changes have taken place? Can we observe any strategy within the change of the government's information policy? How

¹ Chan (2003), p. 159

² See for example Rawski/Wei (2001).

³ See for example "Wang Dan: China news media has found no freedom", in: Taipei Times, internet version 6.7.03, republished by FBIS 7.7.03, AFS document number CPP 2030707000211.

⁴ It is commonly agreed, that the amount of accessible information has been tremendously enlarged. Nevertheless the quality of information publicly available is still subject to doubt. See Fischer (2003), p. 295

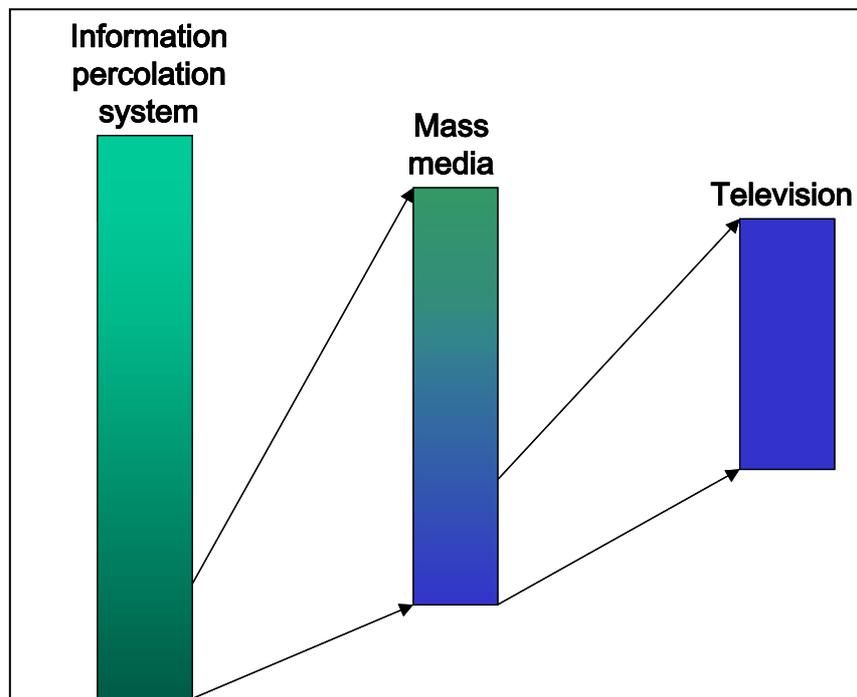
⁵ Engelbrecht (1998), p. 360



much marketisation and internationalisation would we assume to be necessary for the information producing sector? That is, how do we have to evaluate the ongoing changes and perceived strategies on the basis of economic theory?

This paper does not provide final answers to any of these questions, but it tries to add substance to the discussion by analysing institutional change within the Chinese television sector. In the following we first summarize how current research on China's media deals with the above "paradox" and identify a certain neglect of economic aspects of research on Chinese television.

Figure 1:
Television as Part of the "Information Percolation System"



The paper continues with the attempt to clarify the differences and relationships of "commercialisation", "marketisation" and "competition" on the basis of the new institutional economics. The analysis of institutional change within the Chinese television then focuses on the question, how changes in the institutional environment have introduced or changed competition within the sector, and how institutional arrangements within the sector should be interpreted before the background of a poorly defined institutional environment.

1. The Media Paradox As Topic of Media Research

In recent years, there has been a steady output of publications dealing with the Chinese media sector. A major part of this literature deals with the relationship between commercialisation of mass media on the one hand and political control of information flows on the other hand. As demonstrated by the impressive overview over recent English-language research literature by Barrett L. McCormick,⁶ one focus of interest in the relevant studies is whether commercialisation of Chinese media will somewhat naturally lead to political change and a civil society.

There is one common weakness, though, to McCormick's study and to most of the literature on Chinese media in general. Mass media, that is newspapers, television, magazines or even movies, are considered to be more or less homogenous in terms of its information distribution function, its economic rationality, and thus as a political factor. Commercialisation is discussed as a general phenomenon of Chinese media. Examples are presented, but with few discussions whether Chinese media politics do or should discriminate between different mass media. This generalisation is somewhat astonishing. International comparison shows that many societies have different laws and policies for different mass media. In many industrialized countries for example, while print media is basically organized as a private sector, government regulation applies to broadcasting, and most governments support public radio and TV channels to some extent.⁷ The necessity of public service broadcasting generally is explained with a specific risk of market failure.⁸ In short, it is assumed that without public service broadcasting, certain social aspects of broadcasting would be neglected. Especially it is expected that public service broadcasting better ensures social integrity, pluralism in published opinions, sets quality standards, and is able to provide programmes of special interest that would fail criteria of economic efficiency.⁹

Knowing about the international experience in regulation of the broadcasting sector and theoretical explanations we can not necessarily assume that commercialisation and liberalisation of print media and broadcasting in China will move along the same path. Nor can we naturally assume that the future institutional environment will be similar for all media. If we expected the Chinese government to have a blueprint or roadmap for economic change within the realm of mass media, we would probably expect separate plans for different mass media. These differences are even institutionally prepared by the Chinese government in that it has special administrations for print media and radio/television.

⁶ McCormick (2003/03), p. 177

⁷ See Mattern et al. (1999), p. 13.

⁸ See for an attempt to apply the theoretical concept of public service broadcasting to Chinese broadcasting: Ollig (2002).

⁹ See Mattern et al. (1999), p. 14.



If we look at McCormick's as well as other authors' comments on media commercialisation in China, the examples presented for commercialisation etc. actually are mainly taken from print media, especially newspapers. There exists probably a number of explanations for this bias. First of all, for researchers outside China it is much easier to collect information and examples about reforms and commercialisation of China's print media, as printed resources are easier stored and thus easier accessed after publication.¹⁰ In addition, reform and commercialisation of the print media, especially of newspapers, have been much better documented by Chinese research publications in recent years. Arguably, this is strongly connected to the fact that this reform had a higher position within the reform agenda of the central government, resulting, thirdly, in an earlier start of commercialisation or marketisation. Government policies do directly influence publication trends and thus, the comparatively abundant research coverage of newspaper restructuring in China can be taken as a mirror of policy priorities.¹¹ Restructuring efforts within the TV sector accelerated at the beginning of the new century, and have only recently become a topic of major interest for Chinese media researchers and publishers. While some reform approaches, such as the creation of conglomerates, are obviously copied from earlier experiments within the industrial sector and with newspaper publishing houses, special aspects resulting from technology etc. might lead to special challenges. Last but not least, the neglect of television in foreign media economic research might be an indicator for the difficulty to define a target model for the broadcasting system.

¹⁰ Actually the concentration on print media analysis did not cause any bias as long as the majority of news production and dissemination was centrally controlled by the government and the party for all mass media through Xinhua News Agency. Even today, sensitive news are strongly controlled and often published with the same wording. For insights in the process of direct censorship and self-censorship see 郭镇之 (2003), p. 4.

¹¹ Just recently it became known that in a further step of reform most print media publishing houses are to be turned into commercial companies and that private as well as foreign capital investment into such companies is expected to be allowed up to a level of forty percent of total capital. See www.c-biz.org, Newsletter 25. 07. 03.

2. Commercialisation, Marketisation, Competition and Institutional Change

Liberalisation of mass media, not only while focussing on China, is often summarized under the headings of “commercialisation” or “marketisation”. This is partially true even for China, where people often use the words “产业化” (industrialization) or “市场化” (marketisation) for the observed transition.

“Commercialisation” is a popular term, though not a strictly economic terminus technicus. Simply speaking, it expresses the introduction of commerce, thus vaguely describing that some commodity or service that had not been traded for money in the past is now being traded for money. In a broader interpretation, and also in the context of commercialisation of media, it describes the endeavour of enterprises to raise the productive and allocative efficiency of the production, i.e. a classic entrepreneurial approach. In connection with media economics it has been used to describe a process of target shifting: As a result of commercialisation, media institutions are no longer primarily focusing on their product (content) or its assumed social functions, but on the economic return of this production.¹²

“Marketisation” is related to “commercialisation”, but goes further as it describes the introduction or creation of markets. If commerce (the exchange of goods or services for money) takes place within a public market place, we assume the existence of a number of actors at the supply and the demand side. Marketisation thus leads to competition between these actors. As long as total supply exceeds demand, competition is expected to take place between suppliers. In the course of marketisation of the TV sector, we would expect TV stations to start to compete for spectators’ attention. Spectators attention, defined by market reach and audience shares, is decisive for revenues for “marketized” TV stations, as revenues result from fees and advertising revenues.

It is not always easy to identify market places, as commodities and services may not be traded in real market places like vegetable markets, auction halls or stock exchanges. In a situation where the market place itself is difficult to identify and marketisation is just taking place, it is thus helpful to take the incidence and extent of competition for demand as indicator for the existence of market transactions and market “places”.¹³

“Competition” as a concept within economic theory does not only relate to the existence of exchange, though, but also to the question of how prices are being set. This includes the idea of market structures, market power, market entry and exit, as well as restrictive business practices. In addition, government policies targeting the economic properties of the television industry could be interpreted

¹² Kiefer (2001), 21.

¹³ Marketisation thus understood is similar to the concept of liberalisation, but not equal to privatisation. While the former refers to the openness to and actual amount of competition, the latter refers to the reduction of state ownership.



as industrial or competition policy in contrast to the government's information policies focusing on social and political aspects of television. The concept of "competition" has the further advantage that it allows the identification of actors and the introduction of the concept of incentives set by the "rules of the game". Thus understood, competition is closely related to the theoretical approach of the new institutional economics, too. Analysing the Chinese TV sector from a perspective of competition therefore allows the use of analysing tools missing with the rather opaque concept of commercialisation. Or, otherwise said, commercialisation in this context can be understood as the introduction of competition as well as changes of actors, rules and incentives influencing competition.

Competition among state-owned media entities within a socialist planning economy is different from competition within a market places, as it is about privileges and revenues paid by the central government.¹⁴ These privileges are best secured by fulfilling the expectations of the government concerning propaganda and the assumed political responsibility of mass media. By contrast, privately run media within a "classical" market environment are expected to compete for readers' or audience attention to secure advertising revenue and maximise profits.

The transition from a socialist planning economy to a market economy clearly needs some kind of policy change for a start. China's economic transition did start with policy changes in 1978, but without any blueprint for a new economic system. Experiences in other sectors, actually have proven that – once liberalisation of some kind was allowed, the evolving competition developed dynamics of its own, contributing to the evolution of new policies and new perspectives of economic reform. For a number of industries this reform approach, sometimes called "step by step" approach, gradualism or evolutionary reform, has culminated in China's WTO accession. The WTO accession protocol for these industries secures earlier reform achievements and fixes the path for future targets. Consequently, for these industries and services, the period of trial reforms has basically come to an end.

Mass media is one of the few sectors that is not explicitly subject of a liberalisation blueprint laid out by the WTO accession protocol. Thus we can not refer to the protocol to understand where China's mass media is heading. On the other hand we already observe gradual reform approaches and liberalisation. Based on the experience of other sectors for anticipating the future direction of media policy, it should be conducive to understand the competitive situation within the

¹⁴ Before the beginning of the reform process, the official economic ideology in China included the understanding, that competition does not occur within a socialist economy. For the differentiation between capitalist competition and socialist "contests" see Fischer (2000).



sector for extracting hypothesis as to how the “Entdeckungsverfahren” induced by competition will influence further developments.¹⁵

In terms of the new institutional economics, the initial and ongoing policy changes are changes in the institutional environment of the television sector or changes of “the rules of the game” set by formal institutions. Changes of the institutional environment induce changes of transaction costs and incentive structures. The reaction of economic actors to these changes and the resulting institutional innovations (formal and informal) can be interpreted as institutional arrangements which – in the longer run, might themselves be the cause for new adjustments of the institutional environment.

This understanding of institutional change is helpful for analysing the Chinese television sector and its reforms. Neither in interviews with Chinese experts nor within official and scientific publications could the author gain the impression that anyone has a clear idea of the future of Chinese television or the targets of related policies. As one author explains his call for liberalisation and more transparency of state policies:

“[This] obviously could effectively reduce the blindness of government action [and] help to reduce the detours in broadcasting reforms [...]”.¹⁶

¹⁵ The understanding of competition as an economic „Entdeckungsverfahren“ goes back to Hayek, for possible transfer of this concept to public choice theory see Erlei et al. (1999), p. 360.

¹⁶ See Ai Honghong (2002), p. 49.



3. Observing Competition Within the Chinese TV Sector

During interviews in China in 2002 and 2003, in an attempt to better understand the situation and institutional changes within the TV sector, the author asked different Chinese media experts to assess the competitive situation in television. Astonishingly the assessment varied from no essential competition to heavy competition,¹⁷ one interview partner even came to both assessments within the same interview. An explanation for this seemingly contradictory assessment lies within the structure of the Chinese television sector which allows for different competitive situations at different organisational levels.

3.1. Competition for the Establishment of TV Stations

As a result of the socialist tradition, television stations, just as other Chinese mass media, are not named enterprises (qiye) but facilities (shiye), and all television stations still are owned by the state. They are not able to go bankrupt, though they might be closely based on government decisions. It would be easy to conclude that such an industrial structure does not allow for competition. The reality is more complicated, though, especially as these “facilities” are expected to operate like enterprises.

Parallel to the beginning of the reform process in 1978 the already existing Beijing Television Station was renamed China Central Television Station (CCTV). Apart from the education TV channel maintained by the Ministry of Education, CCTV was the only TV station broadcasting nationwide. At the same time more provincial TV stations were added to the already existing ones, cumulating to 47 TV stations at the end of 1982. An essential boost to the TV sector came from the so-called “four level administrative”-guidelines published in 1983 that allowed to establish radio and television stations at four administrative levels (central, provincial, prefecture and county).¹⁸

Until 1997 the number of TV stations rose to 923 (see table 1), including terrestrial, cable and satellite TV stations. Since then, the China Statistical Yearbook stopped integrating the numerous TV stations at county level into the statistics.¹⁹ The resulting impression generated by the Statistical Yearbook is that the number of TV stations basically stagnated since 1998.

¹⁷ According to a market survey of the Beijing Broadcasting Institute realized in 2002, among 70 broadcasting operators, including 27 television stations, when asked about their perception of competitive pressure within their business, 54,3 percent answered that they experience competitive pressure and further 45,7 percent perceived severe competitive pressure. No respondents perceived “no” or only slight competition. See “Technical report” (2001), p. 393.

¹⁸ *Ibid.* p. 46.

¹⁹ This shift in statistical counting might have been an early indicator for the growing dissatisfaction of the central government with regionalism in TV broadcasting and for attempts to re-centralise the sector.



Table 1:
Number of TV Stations as Counted
within the China Statistical Yearbook (CSB)

Year	91	92	93	94	95	96	97	98	99	00	01
Number of TV Stations	543	586	684	766	837	880	923	347	357	354	357

Source: CSB, various issues.

Note: Starting from 1998 (CSB 1999) the statistics only include TV stations at the level of provinces and prefectures, excluding those of counties

But, actually the number of TV stations continued to rise. Recent publications in Chinese media economics, count 1108 TV stations for 2002, obviously including the county level.²⁰ Other publications indicate that the total number of TV stations might be much higher if local cable networks at the level of villages or stations run by neighbourhoods and enterprises as well as illegal stations were included.²¹

The “four level administrative”-guidelines were one aspect of a general trend of decentralization during the eighties. To overcome deficiencies of the planning system, decentralization of responsibilities was one major target of reform. Equally, the guidelines contributed to an overall strategy to develop television and telecommunication emphasised since 1983. Clearly the original intention was to spread channels and programmes produced at the central and provincial level to a larger number of households and to encourage local productions.²² Decentralisation was a means to generate financial resources and active support at lower levels by granting governments and organisations means to generate revenue and offering them a stage for propaganda. As such, this policy can be interpreted as a contract, with the central government contracting out the

²⁰ See Fang Hanqi (2003).

²¹ For the development of China cable television see Harrison, Mark (2002), p. 168. According to § 14 the Administrative Regulations for Radio and Television (广播电视管理条例) (1997) the TV “stations” established by government departments, the army, mass organizations and other institutions as well as stations at the level of villages are not named by the character “tai” (台), but by the character “zhan” (站). These different Chinese categories, that are both translated as “stations”, might explain part of the confusion about the real number of TV stations. Statistics for the Chinese advertising industry count 2901 TV stations for the year 2002. See “Analysis of China’s advertising industry in 2002” (2002 年中国广告业统计数据), article in the April edition of „Modern Advertising“ (现代广告), reprinted by www.a.com.cn, 9. 5. 2003, contacted by the author 7. 7. 2003.

²² The development of the rural television network is an explicit target of China’s media policy. See § 4 of the Administrative Regulations for Radio and Television (广播电视管理条例) (1997). A policy named “Connect all villages” aims at penetrating all rural areas. See Ai Honghong (2002), p. 45.

establishment of networks and the responsibility for information content control to lower administrative levels in exchange for the possibility to accrue rents in form of revenue and access to a “mouthpiece” for local politics. The growing level of TV market penetration, with currently around 93 percent of all households being reached by television, is seen as a major indicator for the success of this policy. Though the government’s intention with this guideline was to expand the number of TV stations, it probably did not anticipate the development during the nineties.

The rapid growth of local TV stations had the side-effect that the government had difficulties to control programme content and quality at all levels, and to make sure that central programmes were transmitted as stipulated. Local TV stations produced their own programmes providing local news and government information. Repeatedly the government has complained that obligatory transmission of central and provincial programmes and channels was neglected and that unauthorized TV stations or cable networks produced content. As a consequence, already during the nineties the central government tried to re-centralise supervision over broadcasting and to reduce the numbers of TV stations.²³ We may assume that the four-level administration originally was favoured because the transaction costs associated with this arrangement, especially the costs of possible opportunistic behaviour by local authorities, were deemed lower than the costs that would have occurred, had the government tried to establish the local broadcasting network(s) depending on central agents, that is by establishing a central organisation or “hierarchy”. The current wish of the central government to dissolve this arrangement consequently has to be interpreted as a reaction of the government to growing supervision costs.

This aspect of centralisation became more important as China prepared for accession to the WTO. Firstly, China’s promises in the context of WTO to strengthen the protection of intellectual property rights also calls for better supervision of local TV stations to prevent illegal copying and transmission of foreign formats and programmes.²⁴ Otherwise the government would face severe critique by foreign producers and possibly real costs resulting from international legal disputes. Secondly, envisaging the threat of future international competition the government intends to establish large media conglomerates able to compete with international media giants.

²³ See Redl/Simons (2002).

²⁴ See for example the sharp reaction of the authorities to an unauthorized transmission of the 75th Oscar ceremony by Hunan TV in 2003. The only Chinese channel with rights to air the ceremony was CCTV 6. Xinhua Net 18.06.03, http://news.xinhuanet.com/zhengfu/2003-06/18/content_925821.htm.



Finally, starting in 2001, the State Administration for Radio and Television introduced a number of major reform strategies:²⁵

- TV stations are to be reorganized into conglomerates. This strategy has become most visible by the establishment of the China Radio, Film and Television Group in December 2001.²⁶
- The establishment of TV stations will be limited to the provincial/city level and above. Existing TV stations at lower administrative levels are transformed into relay stations.
- The terrestrial, cable and educational TV stations at the remaining levels are to be integrated into one television station at each level.
- The administration of television broadcasting and cable construction/maintenance will be separated and the cable networks at provincial level and below are to be integrated. The resulting national cable network will be under the control of the State Administration for Radio and Television.

These reforms are still under way and obviously heavily disputed. Disputes and delays in realising the attempted re-centralisation mainly result from unclear property rights: Within the system created by the four level administrative guidelines, governments at all administrative levels were encouraged to invest in networks and broadcasting technology. They had to provide financial means for the TV stations, and they were allowed to collect fees for cable TV and to reap the fruits from successful business activities of “their” stations. These rights are at least partially defined in relevant regulations: The “Administrative Regulations for Radio and Television Broadcasting” (1997) define the responsibilities of each administrative level for network extension and maintenance, programming etc. The “Administrative Regulations for Cable Television” (1994) explicitly allowed the collection of construction and installation fees for cable television. As part of the strategy to spread cable television, the “Communication on various questions of strengthening the Administration of Radio, Film and Television” (1998) clarified that “the cable transmission network is an important instrument of broadcasting penetration [policy]. To secure the perfection of the radio and television network and to guarantee the implementation of central policies, *the property rights and the management* have to be in the hands of the radio and television administration. Therefore, the administration for radio and television *at each level* have to restrict all kinds of sale or transfer of networks.” (Italics added by author.) In sum, the local administrative organs for radio and television had a number of reasons to believe that they have at least limited property rights in the TV stations, once the central government allowed investment and

²⁵ See Ju Kanbin/Wang Ning (2002), p. 3.

²⁶ Xinhua Net, 7.12.01, http://news.xinhuanet.com/zhengfu/2001-12/07/content_152190.htm. A number of regional television stations entered this kind of restructuring even earlier, copying similar re-organization projects for industrial enterprises.



as long as they were able to maintain the stations.²⁷ From the point of view of the lower level administrations, recent endeavours of centralisation and the separation of network and broadcasting come close to an expropriation, and there are indications that the process of re-centralisation is actually a bargaining process for buying back local networks and TV station assets by higher level administrations.²⁸

In addition to the financial aspects, local governments and special entities such as mass organisations, schools etc. were also reluctant to sacrifice possibilities to engage in local programming and local political propaganda.²⁹ Obviously in an attempt to meet the special interests of local governments and entities, former local cable radio and television stations which by effect of the reform have basically become relay stations, at the end of 2002 were allowed to apply for the permission to produce and broadcast a limited amount of local news programmes. Their main task is to transmit programmes, though. The local relay stations are no longer allowed to produce other television programmes, to create channels, or to operate as a “TV station” (tai).³⁰

Competition did exist within the four level administration system in the form of competition between different authorities at each level of the administration to receive the permission for the establishment of a TV station. Once a TV station was permitted, the operator was actually guaranteed a monopolistic position, because it was not allowed to establish more than one TV station at the same administrative level by comparable authorities.³¹ Thus the considerable investment in networks expected from the local authorities could be protected. Competition from private or foreign investors did not occur, as these are not allowed to establish or invest in TV stations.

²⁷ A similar „misunderstanding” is obviously common with print media. In May 2003 an article by Xinhua Net found it necessary to clarify the property rights situation of newspaper and magazine publishing houses. According to this article print media in China are all state-owned with the responsible administrative unit being the legal investor. The article stresses that for special organizations like print media the entrepreneurial principle that “who invests, owns” does not apply. If non-state capital was used for establishing or developing a publishing house, this capital has either to be treated as a donation or as a loan. Xinhua Net, 27. 5. 03, http://news.xinhuanet.com/newmedia/2003-05/27/content_888768.htm.

²⁸ China Nachrichten, Vol. 2002, No.2. The ambiguity of property rights becomes an even greater problem if former attempts to raise private and foreign capital are taken into consideration.

²⁹ Interview Information, CCTV Development department, 28.2.03.

³⁰ Communication concerning the strengthening of management of cable radio and TV operators (关于加强有线广播电视站管理的通知), 10.10.2002, http://news.xinhuanet.com/zhengfu/2002-10/10/content_591309.htm.

³¹ For a detailed description of the role of administrative boundaries for Chinese television see Chan (2003), pp.164-174.



3.2. Competition Between Channels

At the beginning, the rapid growth in TV stations did not extremely change the competitive situation with the “market”, as most stations provided programming within their respective local realm and were blocked from others. All networks were obliged to transmit a number of CCTV channels, though.

Following technological change and a continuous technological upgrading of Chinese television, this situation has changed somewhat. Considering the existence of more than 1000 TV stations, estimations of roughly 3000 TV channels being available in China seem realistic. China Central Television (CCTV) already operates more than 10 channels, and many TV stations at the provincial/city level operate 4 to 5 channels. As a result, residents in all larger cities today have access to more than 50 TV channels.³² In addition to CCTV and the national education television, all provincial TV stations today provide some programming via satellite³³ and thus, theoretically, compete with CCTV nationally. Market research (see table 2) and analyses of viewer shares indicate, though, that competition is strongest between provincial TV channels and TV channels of major cities of the same province.³⁴ CCTV in general has a special position, as it is the main carrier of national and international news and has strong governmental backing.³⁵ Only within Beijing do CCTV channels face fierce competition for audience attention from local channels as issues of the capital are strongly related to national policies and activities. Competition between TV channels of different regions still remains weak. This is mainly due to the programme structure of most channels, which – apart from broadcasting TV plays and films – concentrate on local information programmes, i.e. programmes that are of less interest for people of other regions. Interregional competition is also limited by administrative restrictions, as it is, for example, not allowed to merger TV stations cross-regional.

Channels are considered to be the main assets of TV stations in China. Though they are not tradable, they provide the basis for creating a competitive advantage and future revenue. Currently the strategy of many TV stations is to create a portfolio of channels (which have to receive government permission) composed of general and specialised channels. General channels are considered

³² See Zhang Haichao (2003), p. 10. In the year 2000, according to results of a market research, Chinese viewers in average could receive 29.38 television channels, with the minimum of 18 and a maximum of 57. *ibid.* p.242.

³³ The primary reception mode for satellite television in China still is Satellite Master Access Television (SMATV), with signals received by a large dish and distributed into homes through a cable network mixed with channels of local, provincial and national programming. Direct to home (DTH) satellite broadcasting has also become available in China. According to official estimate 60 percent of the satellite audience received the signals through SMATV systems, with 39 percent using DTH. See Harrison (2002) pp. 172 - 173.

³⁴ See Zhang Haichao (2003), p. 48.

³⁵ Interview information CCTV Development department, 28. 02. 03.



suitable to realise the political and social tasks of the TV stations (information, propaganda, social supervision of government policies etc.), while specialised channels are the major means to secure revenues from advertising, cable channel fees and pay TV fees.³⁶ At this level, the attempt of the TV stations to answer the different expectations concerning their social and economic functions through “channel positioning” (定位) is comparable to the strategy of task division and cross-financing between different newspapers within larger publishing conglomerates.³⁷ While part of the channels and programmes concentrate on the political tasks and propaganda, thus sacrificing audience attention and revenues to a certain degree, other channels restrain from political topics and concentrate on entertainment and popular programmes. The channels themselves have only limited possibilities to compete at their own will, as they are not independent from the TV stations and the related government authorities in major programming decisions.³⁸

The operation of channels depends on permission by SARFT. The current approval practice of SARFT for new channels actually defines the future competitive situation among TV stations. As a result, many regional stations are dissatisfied with the special treatment Guangdong is receiving, where the largest number of international channels is operating so far.

³⁶ Pay TV is in preparation within China. CCTV is said to prepare 4 to 6 channels for pay TV. See Nanfang Daily, 4. 7. 03, www.nanfangdaily.com.cn/nf/20030704/nfcf/200307040239asp.; China economic news, 31.03.2003.

³⁷ This strategy of newspaper publishing houses has been discussed by Fischer (2001).

³⁸ The author likes to thank Prof. Guo Zhenzhi, Beijing Broadcasting Institute for this information (by email, 14. 09. 2003).



Table 2:
The Most Favourite TV Channels (2001)

City		Channel	%*
Beijing	1	CCTV 1 中央台 1 套	55,0
	2	Beijing TV 1 (satellite) 北京卫视	35,6
	3	Beijing TV 4 北京台 4 套	35,2
	4	CCTV 6 中央台 6 套	26,1
	5	Beijing TV 2 北京台 2 套	20,8
Shanghai	1	Shanghai TV Channel 8 上海台 8 频道	44,5
	2	Oriental TV Channel 20 东方台 20 频道	41,4
	3	Shanghai TV Drama Channel 上海电视台电视剧频道	35,6
	4	Shanghai TV Sports Channel 上海电视台体育频道	30,1
	5	CCTV 1 中央台 1 套	25,6
Guangzhou	1	JadeTVB (Chin.) (provincial net) 省网翡翠台 (中文)	35,6
	2	Guangzhou TV 广州电视台	33,3
	3	JadeTVB (Chin.) (city net) 市网翡翠台 (中文)	32,2
	4	Zhujiang TV 广东珠江台	30,3
	5	HomeATV (Chin.) 省网本港台(中文)	26,6
Xi'an	1	CCTV 1 中央台 1 套	66,3
	2	CCTV 8 中央台 8 套	21,2
	3	CCTV 5 中央台 5 套	19,5
	4	CCTV 3 中央台 3 套	19,2
	5	CCTV6 中央台 6 套	18,7
Wuhan	1	CCTV 1 中央台 1 套	49,0
	2	CCTV 6 中央台 6 套	24,5
	3	Hubei Business & Economics 湖北经济台	24,4
	4	CCTV 5 中央台 5 套	19,9
	5	Wuhan TV Entertainment Channel 武汉电视台文艺频道	18,1
Changsha	1	Hunan Business & Economics 湖南经济台	65,2
	2	Changsha TV Politics and Law Channel 长沙电视台政法频道	37,9
	3	CCTV1 中央台 1 套	24,9
	4	Hunan Entertainment & Sports Channel 湖南文体频道	24,7
	5	Hunan Satellite 湖南卫视	24,4

Source: 2002-2003 IMI Consumer Behaviours & Life Styles Yearbook, Beijing, Beijing Broadcasting Institute Publishing House 2002, pp. 385 - 447.

* First 5 of 18 channels ranked according to preferences. Multiple answers were possible. The number of people who answered the survey was comparable in each town: Beijing 998, Shanghai 1014, Guangzhou 977, Wuhan 1036, 1025, Changsha 1028.

Competition among channels is different from competition for the right to operate TV stations, as the Chinese government has allowed foreign channels to enter the market. As can be seen from table 2, in Guangzhou we do find local as well as foreign (Hong Kong) channels among the five most favourite channels. Market entrance for foreign providers is limited, though. Today 26 foreign satellite channels are accessible via satellite.³⁹ The Chinese government tries to secure the political correctness of these channels by a “gate-keeping” platform (“sino satellite”).⁴⁰ In addition, recently three satellite channels have been allowed to produce and broadcast from Chinese territory, i.e. from Guangdong. But, foreign broadcasting firms received the licences only after agreeing to considerable compromises concerning content.⁴¹ As a result, these channels concentrate on entertainment and do not compete with local information oriented channels. The government has so far been reluctant to further develop satellite television within China due to the danger that free access to satellite television, with more than 400 international channels available in the orbit above China, could undermine the state monopoly over information.

3.3. Competition at the Programming Level

A side-effect of the explosion of TV channels has been a growing demand for content.⁴² Even though a large share of the existing channels only broadcasts a few hours of programming a day, the accumulated demand for content is still huge. According to one Chinese media consultant, currently the yearly amount of broadcasted programme is around 9 Mio. hours. Of these, only about 2 Mio. hours are newly produced. Among the newly produced programmes about a half is produced “in-house”.⁴³

Independent programming has only recently been developed in China. The big share of in-house production in new production is a result of restrictions on establishment of production companies and of political controls over content. Even where programme production is commissioned to outside firms, most co-operating production companies are offspring from state-owned TV stations and in fact still directly or indirectly controlled by state media.⁴⁴ Private production firms have only recently entered the market and are only reluctantly admitted to the most profitable segments of programming.

³⁹ For an overview over satellite television development in China and foreign media involvement see Hao (2000), pp. 155 - 182.

⁴⁰ China Nachrichten 04/2001, p. 130 - 131

⁴¹ China Nachrichten 04/2001, p. 130

⁴² See Zhang Haichao (2003), p. 10

⁴³ Interview information Zhao Xiaobing, Global Media Consultant Ltd., Beijing, 25. 2. 2003. See also Zhang Haichao (2003), p. 141, who estimates that even the biggest stations like CCTV or Beijing TV are only able to produce 62 percent or 30 percent of their programme demand.

⁴⁴ See Redl/Simon (2002), pp. 24 - 25.



Relevant regulations clearly distinguish between news programmes and entertaining programmes. News production is strictly limited to those units that have a news producing licence, i.e. Xinhua News Agency, CCTV and all other TV stations. News production is not allowed to be outsourced. Thus, the greater part of news production is done in-house, with some content being provided by CCTV, Xinhua and other TV stations (see table 3).

Table 3:
TV News Programming Sources (2000)

Programme source	Minimum (Percent)	Maximum (Percent)	Average (Percent)
In-house production	20	100	79,9
Provided by CCTV	0	20	4,2
Provided by Xinhua	0	50	7,5
Provided by other TV Stations	0	40	9,2

Source: "Technical Report" (2001), p. 443.

Note: Results of a survey among 27 TV stations at provincial and city level.

Entertainment programmes are allowed to be produced on a commission base or to be purchased directly within the market. As only a few number of TV channels is in the position to produce enough programmes of sufficient quality and variety in-house, entertainment programme purchasing is prevalent (see table 4).

Table 4:
Sources for Programmes of Special TV Channels
(excluding News) (2000)

Programme source	Minimum (Percent)	Maximum (Percent)	Average (Percent)
In-house production	0	90	28,8
Commission to external production firms	0	30	6,1
Direct purchase	10	95	61,4

Source: see above, Table 3.

Given the overall programming situation as described above we would expect fierce competition among TV stations and channels for all kinds of entertainment programmes, resulting in high prices for programme production and high returns for the producing companies. This would attract more producers, leading to fast growth on the production side, and probably a tendency of quick production at low quality until the market reaches a certain equilibrium. Indeed

we observe fierce competition and the willingness to pay high prices for high quality. At the same time, media experts complain that Chinese programming in general is still of low quality. Obviously, the capacities for programme production currently can not keep pace with the results of the technological development, i.e. the rapid increase in TV stations and channels. The capacity gap so far can not be filled by foreign productions, as the amount of foreign programmes to be broadcasted is strictly limited. The situation is complicated by a large number of relatively small incumbent production companies⁴⁵ and the reliance of these companies on financial support from the TV stations/channels for production.

Due to this situation, the competitive situation actually differs for special market segments and depends on the financial resources of the TV stations and the reputation of the production companies.

Figure 2:
Institutional Arrangements in Entertainment Production

		Quality of production (reputation of production unit)	
		High	Low
Financial situation of the TV station	Good	purchase of production rights before or during production; co-production	pre-allotment of advertising space; evaluation of programmes according to share of audience
	Bad	few market deals; illegal copying of programmes and formats	co-production or direct purchase

As long as production companies have a high reputation, TV stations are willing to purchase the production rights even before production has started, and they may also be willing to cooperate in production. The producer company can actually select among different interested broadcasting firms and the most attractive offers for financial support. In contrast, if producer companies are relatively unknown and the quality of the final production can not be predicted, the TV stations/channels often apply a special exchange mechanism which has especially become popular in TV drama production:⁴⁶ Producer companies are pre-allotted advertising space. They are responsible for attracting the necessary

⁴⁵ See Zhang Haichao (2003), pp. 143 - 145.

⁴⁶ See Yin Hong (2002), p. 37. Interview information, Zhao Xiaobing, Global Media Consultant Ltd., Beijing, 25.2.2003.



advertisement to fill this space, and are in return granted a portion of the advertising revenue to finance the production. By this means, the broadcasting unit gets rid of the transaction costs of contacting potential advertisers, which might be considerable high for a production by producer companies without reputation. Pressure on producer companies has been added through the introduction of an evaluating system in many channels of larger TV stations: Those programmes with the smallest audience during a year will not be broadcasted in the following year.

Smaller TV stations are in a different position. Due to smaller budgets they have more difficulties to finance the purchase of attractive programmes. Thus they either do low-budget production in-house or in cooperation with production units without reputation. Thus they easily end up finding themselves in a vicious circle of declining quality of programmes and declining advertising revenue. In this situation they finally have to rely on government financial support to survive⁴⁷ and they might be more susceptible for pepping up their channels by illegally copying programmes and formats.

The larger TV stations obviously have a relatively strong bargaining position, be it in relation to Chinese production units or in relation to foreign producers. This is somewhat astonishing considering the demand and supply situation for programming. There are two possible explanations for this strong bargaining position: government protection and affluence of advertising revenues.

As mentioned above, TV stations are owned by the state. State ownership is represented by the government authorities of the respective administrative level. State ownership is explained by the political responsibilities and social functions of television. Though the management within TV stations might generally feel unnecessarily restricted in its activities, it can nevertheless use these restrictions as a bargaining tool: When dealing with programme producers, the management may stress that it is only an agent for the government and the relevant authorities concerned with quality and social effects of programmes. When dealing with the principals of the TV stations, the management may excuse shortfalls in the attractiveness of its programme and its advertising revenues by arguing that the quality of the programmes available had been too low or unacceptable considering the social responsibility of television.

This attitude so far has been supported by a comfortable development of advertising revenues during the nineties. The channels basically operated on the assumption that advertising revenues would rise continuously. Only in recent years did slower growth in advertising revenues spur interest in channel positioning, viewer's share and consumer targeting as these factors gained importance in attracting advertisements.

⁴⁷ According to one informant, government support for TV stations is important only for TV stations in the western regions of China. Or, as another interview partner explained the role of state support: those television broadcasters in dire financial straits receive more.

4. Summary and Conclusion

This paper intended to enhance understanding of the development of the Chinese information system by analysing some aspects of marketisation within the Chinese television sector. Taking the evolution and characteristics of competition within the sector as a perspective, we could see that an evaluation of the degree of “marketisation” actually comes to different results for different arenas of competition.

Marketisation of TV stations has actually not taken place. TV stations “belong” to government units. They are not themselves subject to market competition, that is property rights in TV stations are neither clearly specified nor tradable. Market entry and exit is based on administrative decisions. Recently, former policies of decentralisation and liberalisation have been revoked. The reason for this is not a change in the information (control) policy, but in technological changes reducing the transaction costs of centralisation and a changed international environment resulting in higher costs in case of opportunistic behaviour by lower level administrations.

Competition among TV stations via channels so far is mainly visible between local channels. As the number and specialisation of channels are subject to government approval and major programming decisions cannot be made independently, the current and future market structure is heavily influenced by administrative fiat. The main strategy of TV stations to fulfil their double task of propaganda and profit generation is to separate news channels and entertainment channels.

Competition is most severe in the context of programming. Notwithstanding the large gap between demand for programmes resulting from proliferation of the number of TV channels, and short supply of programmes, the main players on the demand side have been able to secure a strong bargaining position. They are able to implement special institutional arrangements to avoid responsibility for low quality programme production.

From the arguments presented in this paper it becomes clear that “marketisation” of television in China is a complex process that does not reveal, yet, any unidimensional target model. We actually observe that the Chinese government still tries to limit marketisation to the least sensitive parts of the sector and has so far refrained from granting either TV stations or TV channels independence concerning economic or content decisions. As a result, though elements of marketisation can be identified, competition within the TV sector is still limited.

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ISBN 3-934156-68-1

ISSN 0945-8999