

# Creative Industries Policy and Industrial Development in East Asia and Japan

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## I. DEVELOPMENT OF THE CREATIVE ECONOMY AND THE URBAN ECONOMIES OF EAST ASIA

A major change that occurred in cities from the '80s to the '90s involved a closer relationship between urban development and culture. The '80s was a time of deregulation and globalization among developed countries. In the manufacturing industry, rising values of the home currency and intensified global competition accelerated the shift to overseas production. Manufacturing facilities in cities moved to developing countries where personnel costs were low, resulting in a hollowing out of industry in the cities. Advanced cities entered the postindustrial age and it became increasingly necessary for urban development to focus on the service industry. To revitalize areas that became slums following the decline of city centers due to the departure of manufacturing facilities and other factors, there emerged a growing awareness of the importance of attracting a culture industry that placed importance on knowledge and good taste.

There was next a growing awareness that the culture industry was central in bringing economic benefits to other industries such as tourism. This was because tourists visiting the cultural facilities were spending large sums on such items as accommodations, meals, and souvenirs. The economic effects of the culture industry led to increases in employment at hotels, retail outlets, restaurants, transportation providers, and other businesses. There was a growing expectation that workers who had lost their jobs due to the hollowing out of industry would be rehired by businesses benefiting from the culture industry.

As competition to attract enterprises and residents intensified, cities increasingly focused on culture in their marketing activities. Competition among cities for high-value-added industries was particularly intense, as sophisticated amenities produced by the culture industry were essential for attracting investors and skilled knowledge workers. Urban planning also became focused on incorporating art itself in urban scenery. Land and buildings in city centers once occupied by factories and warehouses were used as art spaces and incubators for the culture industry, and creative municipalities aimed to revitalize their city centers.

The Blair administration in the U.K., when it started in 1997, produced a policy that comprehensively embraced culture as an industry. It supported culture as an industry. The Blair administration established a creative industry task force across government ministries and agencies and supported the creative industry by providing finance, promoting transport, supporting technology development, expanding human resource training programs, providing tax incentives for

content categories, and strengthening protection for intellectual properties.

The task force defined the creative industry as a group of industries that had roots in the creativity, technologies, and talents of individuals, and through the creation of intellectual properties and the development of markets, had the potential to produce assets and employment. The task force identified 13 industrial sectors as structural elements (advertising, architecture, art and antique markets, crafts, design, designers and fashion, film and video, television and computer games, music, performing arts, publishing, computer software and services, and television and radio) and argued for their support.

This Cool Britannia concept and a series of policies promoting the creative industry were based on vague expectations that the creative industry would be highly beneficial for the British economy, and it was criticized for focusing on images without providing concrete details. Nevertheless, British policies for the creative industry significantly influenced content policies and urban policies not only in countries such as Australia, Canada, and New Zealand where the U.K. had great influence but also in Taiwan, Hong Kong, Singapore, Korea, and Japan.

As in the developed countries, regions of East Asia focused on growth for the content industry and the production of content itself while also initiating strategies for intellectual properties. The number of countries looking at the positive economic impact of creative goods and services produced by the content industry on other industries is continuing to increase. While the creative industry itself generates innovative goods and services, this occurs because these goods and services continue to have a major impact on greater product differentiation and higher quality in manufacturing businesses and the service industry. In other words, this could indicate that the creative industry in a certain respect also continues to play a role as a business service industry.

## II. PROMOTION OF INDUSTRIAL CLUSTERS AND SERVICE INNOVATION

In response to the question of why industry is concentrated in specific areas, the theory of industrial agglomeration that goes back to its source in Alfred Marshall's "Principles of Economics" explains that production elements such as land, labor, capital, and natural resources exist in comparative advantage in specific areas and that industrial localization occurs as a result of such factors as the religion, politics, and economics of those areas. Then when specific industries are formed, a variety of related demands emerge from those industries, the locations of supporting and related industries are

promoted, external effects come into play, and the localization of industries gains strength. Studies into the effects of agglomeration have also been conducted from the viewpoint of minimizing costs. [1]

In response to the traditional theory of industrial agglomeration, Michael Porter used the concept of clusters to analyze the competitive advantage of countries and regions from the viewpoint of management strategy. A number of points can be raised concerning the contemporary significance of Porter's concept of innovative clusters that are different from simple industrial agglomeration. The first point is that the importance of new production elements in knowledge bases such as science and technology infrastructures and the needs of progressive customers, rather than the superiority of production elements, has been indicated as a factor for the regional concentration of industry. This is because progressive elements such as knowledge that has become specialized and high-level customer information are still limited by geography. The next point is that attention is being drawn not simply to costs as a source of national or regional competitive advantage but to the importance of innovation and the productivity it achieves. Inside the clusters, not just enterprises but also diverse organizations such as universities and government bodies form networks, intense competition develops in the clusters, and the vitality of that harmony and competition brings ongoing competitive advantage for the region. [2]

This paper will use Porter's concepts and attempt to discuss the problems of service industry clusters and the creation of competitive advantage. In his "Competitive Advantage of Nations," Porter discusses the competitive advantage of nations in the service industry.[3] Since the service industry covers a broad area, however, this paper will follow Porter's diamond analysis and focus its study on industries built on advanced technology and special knowledge bases, the creative industry in particular.

With respect to element conditions first, these have been the subject of debate on industrial agglomeration since the early days. While there are industries where production elements such as the natural environment, geographical conditions, and skilled workers are sources of competitive advantage, when we consider knowledge-based industries, we can point to the presence of a broad range of business education on the graduate-school level as a feature of the United States which enjoys an advantage over other countries in this field. Universities and research institutes in the clusters produce human resources with knowledge and specialized skills in the region, facilitating access to specialized information. Even as globalization and IT progress, region-specific knowledge and skills produced by the universities and intellectual ("gold-collared") workers exist, and the key to success lies in the formation of networks with these organizations and individuals.

Next, concerning demand conditions, Porter states that demand conditions are the greatest deciding factor determining a country's competitive advantage in the service industry. Sophisticated needs required by refined customers in state-of-the-art industries and creative industries often comprise implicit knowledge that is difficult to express in laymen's

terms. Implicit knowledge is highly-cohesive information that is transferred via human interaction. Since this makes accessibility essential, it fosters the geographical agglomeration of industries.

There are also affiliated and supporting industries, and if competitive affiliated and supporting industries are present in the clusters, it is possible to efficiently and effectively procure high-quality parts and services. The international competitiveness of the Italian apparel industry is supported by an affiliated design industry, and New York's Silicon Alley originally grew by aligning its information technology with internationally competitive finance, media, and advertising industries. The IT industry is the most important supporting industry for the service industry and other creative industries.

Finally, related to corporate strategies, structures, and competition, improvements in competitive conditions are required, as many regulations existed in the service industry. A feature of the service industry is that it comprises a large number of entrepreneurial venture companies engaged in new businesses rather than large corporations. It is therefore necessary to promote policies that foster competition and support the entry of new participants. Within the clusters also, it is necessary to have intense competition, not just harmony among organizations and colleagues, and when this causes clusters to give birth to innovation, it leads to further innovation.

### III. URBAN AGGLOMERATION AND CULTURAL CLUSTERS

Discussions on the agglomeration effects brought by clusters have started from two points: the economic potential of regional specialization that relies on efficiencies brought by clustering in lower divisions, and the economic potential of urbanization that relies on efficiencies brought by the agglomeration of many types of activities in the region.[4] While the high-tech clusters and service industry clusters of large cities profit from each other, the variety of industries and study opportunities provided by large, diverse cities are especially important. Venture businesses in the high-tech industry or the service industry require not only investors and banks that provide financing but also many types of specialists such as designers, marketers, lawyers, and accountants. Since large cities can provide these services, the effects of urbanization are more important to these industries. In the high-tech industry in particular, the proportion of knowledge-based services that are dominant in production activities is growing, product differentiation occurs when services are bundled with products, and being located in a city that generates synergy from links between products and services is essential for achieving advantage. Italian design companies that provide designs for many products such as apparel, shoes, and automobiles are significantly enhancing the international competitiveness of these products.

Regions where cultural industries agglomerate and actively cause cultural innovation have been analyzed in cultural economics as "cultural clusters." Many of the studies in cultural clusters have used the cluster approach based on the city theories of Jane Jacobs.[5] Although they also of course touch on research into external effects such as transaction costs

and Marshall's agglomeration, this approach has been used to study why cultural clusters, which are agglomerations of the culture industry, were formed in large cities such as New York, Los Angeles, London, Paris, and Tokyo and why they became centers for the global cultural economy.

Reasons why cultural clusters were formed in cities include a diverse labor market, generosity, and word-of-mouth leading to efficient operation. Their scarcity is present in the city, they have value, and they are connected to diverse knowledge, so securing access to this sort of knowledge itself becomes a source of competitive advantage for enterprises.

Another reason is that it is possible to quickly recombine diverse knowledge in cultural clusters. The necessity to quickly recombine this knowledge is a point of difference between traditional industries and the culture industry. An important feature of the culture industry is that it is project-based. Since most projects are new and clearly different from previous projects, to achieve competitive advantage, it is necessary to create new project teams with different competences in a short time. Therefore, according to Jacobs' approach, cultural clusters need the diversity of human capital in the region, and one feature of large cities is that they normally have this sort of diversity. Cultural clusters are thus formed in cities with high levels of tolerance and openness.

#### IV. CULTURAL CLUSTERS AND KNOWLEDGE WORKERS

Creative industry clusters and other service industry clusters are more dependent on knowledge workers. For knowledge workers, the convenience and life amenities that large cities provide are indispensable for their creative activities. In a special sense, this indicates the importance of urbanization effects. Richard Florida clarified that scientists, managers, lawyers, artists and other knowledge workers (the creative class) agglomerate in specific cities of the United States and are engaged in innovation and other creative activities.[6] San Francisco, Boston, Austin, New York and other large international cities provide amenities for urban life that attract knowledge workers from around the world and knowledge thus agglomerates within the regions. Since knowledge creation and continuous learning are essential in the building of sustainable competitive advantage, there is a need for these regions to become regions of learning. This is one reason why urban policies aimed at building service industry clusters such as high-tech clusters and creative industry clusters need to provide urban life conveniences and amenities that attract knowledge workers.

The fact that productivity is extremely high in cities with advanced agglomeration is due to the economic potential that emerges when the creative energy of people are combined. Florida focuses on the assertion of University of Chicago's Robert Lucas that the function that increases human capital in these cities is the "Jane Jacobs external effect." [7] He also clarifies that there is a strong correlation between regions that have achieved high economic growth and regions that have tolerance for immigrants, artists, homosexuals, Bohemians, and the merging of human races. The importance given to the strong relationship between tolerance for ethnic groups, culture, and economic growth underlines the importance of diversity.

The diversity of cultural cities where ethnic groups co-exist raises the overall value of the goods and services that these cities produce.

#### V. CREATIVE CLUSTERS AND THE ACCUMULATION OF CULTURAL CAPITAL

After the Blair administration adopted the creative cluster strategy in 1997, the breadth of the economic relationships and economic effects of the culture industry led to views that culture industry clusters were creative clusters.[8] What sorts of policies were necessary to foster the formation of creative clusters and make cities more creative? Not only cluster industry policies but the accumulation of cultural capital in cities was also required in efforts to increase the depth of various cultural systems and transform cities into creative places.

According to David Throsby who presented the concept of cultural capital in cultural economics, it is possible to make a distinction between economic capital and cultural capital. Economic capital brings only economic value, while cultural capital generates both cultural value and economic value.

This cultural capital exists in two forms. First, there is tangible capital, such as buildings and land and works of art such as paintings and sculptures. Like physical capital, they are produced by human activities, exist for a period of time, and then deteriorate when they are not maintained. They generate an ongoing flow of services, they can be increased through the investment of current resources, they can be purchased by the general public, and they have measurable financial value. Accordingly, the cultural value of stock or flow can be measured using indices or standards of cultural value.

Next, there is intangible cultural capital, which comprises intellectual capital such as concepts and customs shared by groups, and intellectual capital in the form of beliefs or values. This form of cultural capital also exists in the form of artistic works such as music and literature that exist as public assets. This stock of intellectual capital will decline in value if left unused or increase in value if used. Resources are required both for preserving existing intellectual capital and for the creation of new intellectual capital.[9]

While cultural capital stock generates a flow of cultural capital services, if these cultural capital services also directly lead to ultimate consumption, combined with other elements, they can generate services and assets that have both economic and cultural value. If these newly-generated assets and services themselves also ultimately lead to consumption, they may continue to be combined with additional elements.[10] In other words, services generated by cultural capital become intermediate assets, and new assets and services generate intermediate assets. The cultural assets and services produced at each stage in the production process increase the added value of products and services at the start of the next cycle, and they themselves are sometimes added to the capital stock. If capital stock loses value over time, resources may need to be expended to preserve the stock.

According to Throsby, the derivative processes of economic value for tangible and intangible cultural capital are

very different. In the case of tangible cultural assets such as historical buildings, the economic value of the asset is significantly higher because of its cultural value. Works of art such as paintings vary considerably in economic value depending on the cultural content. Intangible cultural capital, on the other hand, has a different relationship between cultural value and economic value. The stock of currently existing music and literature, cultural customs and beliefs, and language and linguistics has very high cultural value but very little economic value. Aside from whether they can be taxed when bought or sold, their economic value is negligible because they cannot be traded as an asset. The aspect that generates cultural or economic value for an asset is the flow of services that the asset attracts.[11] The economic value of the flow of services generated by these cultural assets, in most of the cases where they are used, tends to be enhanced as a result of their cultural value. In other words, in the case of intangible culture, their cultural value as a stock first attains economic value when they enter the flow. Therefore, if cultural capital does not receive constant investment, intangible cultural capital will dry up. On the other hand, if cultural capital receives ongoing investment, it can yield benefits to consumers as a flow. In other words, public support for culture can be thought of as investment in cultural capital.

#### VI. CULTURAL INDUSTRIES POLICY AND IMPLICATIONS IN EAST ASIA AND JAPAN

When the relationship of the individual and group in society poses a problem, it is necessary to consider the cultural capital in combination with social capital. This is an essential problem of economic sociology. The concept of social capital is essentially based on existence of citizens' social network and confidential relationship. What is the important difference with social capital and a physical capital? A physical capital loses value by being used. However, social capital loses the value by not being used. Social capital complements an economic capital and cultural capital.

It is necessary to consider worth of art and culture from three sides; Economic capital which produces income and grows up economy, Social capital which promotes communication and sustains community, Cultural capital which encourages people's soul. Culture is related even to urban planning, industrial development, and corporate management. Resources peculiar to the region are reappraised from three sides of cultural capital, social capital, and an economic capital in Japan.

Japan's latest cultural industries policy and implications for East Asia will be introduced in the 11th Conference of IFEAMA 2012.

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