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The Film Industry in China: Past and Present

Abstract

This study is about the development of the Chinese movie industry through the economic and political opening of the country, from 1979 to 2015. It overviews, in the first place, the main regulations that have shaped the industry and then it goes deep into the business of moviemaking through the analysis of the studio system, the evolution of the Chinese film market and the shift in international relations the country has had regarding this cultural industry.

Keywords: China; Cinema; Filmmaking Industry; Regulation; Structural Overhaul; Political Opening; Economic Growth

Introduction

Since the opening of China in 1978, the country has gone through gradual reforms in all areas of the economy, as well as modernizing and liberalizing almost all industries that were previously owned by the government. Although the main propellers of the economy were those industries behind the production of consumer goods, other secondary industries emerged from a deteriorated state and one of the best examples is the film industry. In just 30 years, the industry has evolved from almost a non-existing point to becoming the second biggest cinema market in the world.

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In December of 2015, the government of the United States issued a report concerned about the protectionist measures of the Chinese cinema. Apparently, the main reason of concern was that in February of that same year and for the first time since the creation of cinema, another country –China- had got a higher monthly box office than Hollywood. But behind it there was a big case of incompliance with the World Trade Organization and a complex case of forces that have dictated the fate of a market that is stipulated to top the American one in just two years.

The Chinese film history: a timeline

The history of Chinese cinema can be traced as far back as 1905, when the Beijing Fengtai Photo Studio and Tan Xinpei adapted a Beijing opera called *The Battle of Dingjunshan*. Taking into consideration that the first “movie” ever created worldwide was “*Journey to the Moon*” by Georges Méliès, just three years before the first Chinese movie was done, it could be said that China was fast on the track towards the movie industry. However, the film industry in China is considered to be started in 1913, with a movie called *The Difficult Couple*, made by the filmmakers Zheng Zhengqiu and Zhang Shichuan. Following the path and style of the also newly established Hollywood, studios started appearing mainly in the zone of Shanghai and Hong Kong, where they laid the foundation of their own channels of distribution and a channel of contacts.¹

Chinese movie industry moved as fast as to have two golden ages before the communist revolution of 1949 changed the way of film production and eventually shut it down completely. The first golden age occurred during the 1930s while the industry was still

¹http://dfat.gov.au/trade/agreements/chafta/Documents/cfta_submission_6se05.pdf
<http://www.nationalmediamuseum.org.uk/~media/Files/NMeM/PDF/Collections/Cinematography/AVeryShortHistoryOfCinema.pdf>

maturing. During this time approximately 60 films were produced every year, and were strongly influenced by an increase in the sense of national identity, given that the Japanese had just invaded Manchuria. The second golden age happened in the 1940s in which the industry grew and flourished.

When the Communist Party rose to power in 1949, the industry started being state-owned, a thing that would be retaken after the Cultural Revolution. During the 17 years that followed until the Cultural Revolution, the state produced a total of 603 movies and 8342 reels of documentaries.

After Mao Zedong died, and Deng Xiaoping started with the economic opening, which included reforms in the film industry that would be a reflection of the overall changes the country would go through in the following years. The first stones that would indicate the path of said reforms were laid in December of 1978, in the 3rd Plenary Meeting of the Chinese Communist Party. This meeting was followed with the creation of the China Imports and Exports Company the following year, which symbolized the Xiaoping's political opening in the sector.

After being closed for the Cultural Revolution, film studios started reopening in 1978 too, with a total of 12 studios making altogether 46 feature films. During those first years the studio system would operate the same way the American studio system did during the 1930s and 1940s, which clearly reflected how underdeveloped the Cultural Revolution left the creative industries of the country (Semsel and Xia1990).

The demand responded to the end of the Cultural Revolution with positivity, and in 1979, the attendance in theaters hit 29.3 billion. Consider that at that time, China had a population of one billion; this meant that on average each person went to the cinema more than 29 times a

year. Taking into consideration that rural and very poor areas are counted in this data, it is statistically astonishing. However, this was pushed by the novelty the new scene offered, because soon after that year, moviegoers started declining steadily. By the time of 1991 the number of admissions to the theaters would have declined in a 50 percent (Ni 1994; Gomery and Paford-Overduin 2011).

The 1980s

During a short period of time during the 1980s, China enjoyed a third golden age of cinema. This was where films from all types started being made: drama movies, satirical movies, science fiction movies and even kung-fu movies which were not as common in Chinese film history as it might seem. Although the Chinese public had its own trends and tastes, the international impulses started to be felt in the mainland. The best example is that as a result of how famous the Star Wars movies had become since its release in 1977, the first Chinese science fiction movie was made: *Dead Light on the Coral Island* (1980) (Sazatornil and Alonso 2012).

Most of these movies were produced by just a few studios that had the dominance of the market: Beijing Studio, Changchun Studio and Shanghai Studio produced on average ten to twenty-one films per year, which was above the combined production of the rest of the studios. Facing this inequality, the smaller studios had to retreat to the production of a varied catalogue of specific genres, like agricultural films, scientific and educational films, documentaries or animations (Semsel and Xia 1990).

Within the smaller studios, Xi'an Studio resulted to be one of the most important ones of the 1980s, and one of the few that was able to compete in the international arena. The Studio's turning point happened in 1983, when Wu Tianming got in charge. He started to produce

films of rather experimental filmmakers that got right out of the Beijing Film Institute: Chen Kaige, Tian Zhuangzhuang or Zhang Yimou. These filmmakers would be later considered as “the fifth generation” of Chinese filmmakers, and the ones that would help the rest of the world, situating China in the international cinema map by winning dozens of awards in different film festivals. As a strategy to make this investment possible, Xi’an studio also produced a large number of entertainment films per year, which subsidized the art-films (Zhang 2004).

The main redefinition of the industry came in 1984, when the state argued, for the first time, that cinema was an integral part of the cultural industries instead of just an instrument to reinforce the government’s ideology. This statement incorporated a new system called the “self-responsibility system”, which withdrew the government’s financial aid to the studios and left them seeking financial backing outside. However, in these studios that functioned with an institutional structure that resembled the Soviet Style, the results of this reform were crippling. Before the reform, Chinese film studios were still making films according to the annual plans designed by the headquarters of the Film Bureau, and received a flat fee of 700000 RMB per title from the China Film Corporation for the rights (Xiao and Zhang 2002). After this, studios got their profits from the China Film Corporation, by either getting paid 9000 RMB per print or splitting the revenue by a pre-agreed percentage, which put a lot of pressure on the studios (Song 2009; Zhu 2003).

Pressured by this changes, the inefficiency of the studios started coming out to light: being state-run enterprises they had very low productivity problems. Each studio was filled with staff members, who were writers, directors, cinematographers, designers or technicians. Most studios also had a fixed group of actors and were extremely well equipped in comparison with

other state-run sectors, but at least they saved some money by contracting the extra cast in the place of the location of each film (Sensel and Xia 1990).

In January of 1985 the China Film Bureau held a conference in which two sub-reforms were announced: a price reform that would consist on the adjustment of each individual film to its market value, and an enterprise reform, which aimed to give managerial autonomy and financial incentives for increasing the production to the involved companies (Zhu 2003). The state also passed the responsibility of distributing from the China Film Corporation to local distributors which started functioning as middleman.

In January of the following year the leadership of the Film Bureau was transferred from the Ministry of Culture to the newly created Ministry of Radio, Film & Television, also known as the RFT (Xiao 2004). The power struggles came soon after, due to the fact that the reform had only been made at state level, leaving provincial institutions unattended and causing glitches with the bureaucratic bickering. The only ones that were not affected by this managerial confusion were the nationalized studios (Zhu 2002). Instead of helping ease the chaos, the Ministry of RFT went one step further and issued the “Document 975”, which was centered in a distribution reform that allowed the studios to share box-office profits with the distributors (Zhu and Rosen 2010).

The instability could be perceived just as soon as 1985, when in the first quarter of the year the number of tickets sold were 30 percent smaller than during the same period in the previous year. The result of those first three months was a loss in the revenue of 9.36 million RMBs, or 1.17 million dollars. All the sectors in the industry – production, distribution and exhibition- lost money due to this, which pushed the further implementation of measures by the government and the rush in the negotiations by the studios with the China Film

Corporation (Zhu 2003). The losses that year were present even in rural audiences, which seemed to have a crosscurrent pattern until then. By 1986, over 40000 mobile projection teams had surrendered and closed their doors (Zhang 2004).

By the end of 1986, the organizational confusion and continuous shrinkage of the domestic film market lead to a loss of revenue of one third of all Chinese distribution companies. Because of this, many of these companies were obliged to branch out by seeking revenues from other commercial ventures. However, the state-owned studios that were under complete governmental control were still immune to this managerial chaos (Zhang 2004).

Shanghai Studio and Xi'an Studio made echo of this problem by starting negotiation with the China Film Corporation with the aim of sharing the box-office receipts. Their negotiation was a success; they both got what they wanted, but the results, not that much. Both companies failed to make any real profits that year. Shanghai Studio discovered that their films were totally out of sync with the shifting tastes of the Chinese spectators. Xi'an Studio on the other hand, produced films that were big hits in the Chinese market, but also discovered that profits from the box-office were not as fast and as liquid as selling directly to the CFC.

In order to ease the situation, the government started funding for these studios to produce main melody films, best known in the west as "propaganda films". The government gave between one and two million RMBs per year to produce these films, which ended up being up to 25 percent of the total annual output of films (Zhu 2003).

In 1988 the boundaries were pushed even further with a symposium known as the "Strategic Planning for the Film Industry" for a further relaxation of price controls. The only reform that prevailed through the 1980s was the price reform: while in 1980 the film prints could be purchased at 9000 RMB. By 1989, their cost was of 10500 RMB. However, instead of

connecting a film's price to its market value, the price adjustment in 1989 retreated to the centralized mandatory system, contradicting the overall reform goal of reaching a market economy (Zhu 2002, 2003).

Overall, during this first decade, the Chinese government kept adjusting passively and partially to the economic reforms the country was facing, and focusing only in the sectors of exhibition and distribution, forgetting almost completely about the production sector.

1990s

When the 1990s began, with the implementation of the new shared-revenue regulations, the distribution system took control of the studios. The China Film Corporation was still the one deciding how many prints it would need to distribute, and then it gave this copies to the provincial and local branch agencies that worked as a subordinate of the corporation. These prints were sold at a fixed price of 10500 RMB, no matter what the expectation or cost of the film was. The branch agencies accorded the distribution contracts with the projection units, who had no control over the titles that were offered at the local level. The studios were put out to deal with the risks, while the profits were kept in other parts of the channel. The screenings only gave losses to the projection units, which can be deducted from comparing the high costs of a screening (and increasing, from the 51 RMB that cost in 1983 to the 99 RMB that a single screening cost in 1988), with the very low cost of tickets (about 0.2 RMB) (Pickowicz 2012).

With these high levels of expenses almost none projection units showed profits, and if they did so, the regional branch agencies of the CFC recollected the funds in order to pay their costs. Then, these agencies gave the after-expense profits to the office in Beijing, and from that moment on, profits were divided: 29 percent of the money went to the film studios, and

71 percent was held by the corporations. But that was not the end of it: if the studios were to show any profit after that, they had to pay a high 55 percent industrial tax, which meant that during the 1980s, only two to three studios were able to show a positive balance each year (Pickowicz 2012).

However, and against all odds, in 1991 the box-office started turning around, but still at a very low speed. To propel this growth, in 1993 the government allowed the entrance of foreign movies for the first time in Chinese theaters. Soon, these movies started outnumbering the Chinese counterparts, in both the number of films screened and ticket sales. Even if the Chinese studios were not gaining almost anything directly from the foreign films, the novelty brought more people than ever to the movies that year, even to the screenings of the local movies.

The reform that had been issued on the 11th of October of 1992 might as well had had something to do with that decline in the box office. This reform stated that now the ticket pricing would reflect better the market price of each individual film by having the owners of the movies setting the ticket prices themselves (Nilsson 2015). These new prices ranged from 2 RMB up to 80 RMB, depending on the geographical zone and the theater.

During the 1990s the government's goal became clearer than ever: to eliminate the multilayered distribution process under the old bureaucratic system which would dredge the clogged distribution channel and encourage competition among both distributors and studios. In 1993, and following the previously mentioned reform of 1992, the Ministry of RFT issued the "Document 3 – Suggestions on the Deepening of Chinese Film Industry's Institutional Reform", considered the new peak of the distribution reform, which also connected the print prices and ticket prices to the market (Zhu 2003; Su 2016). The document was continued by

another regulation the following year, which removed the obligation of producers within China to sell their films to the China Film Corporation and tried to normalize the transit between China, Hong Kong and Taiwan (Zhu 2002).

In January of 1995 the Ministry of RFT issued a reform that had a direct impact in the boom of new films involving private investment, by relaxing the licensing policy of production. From this point on, any investor, even from outside the filmmaking industry, could have the right to coproduce if he were to cover 70 percent of production costs. In an attempt to imitate the western distribution method, the government also induced a division of the profits and losses among the producer, distributor, and the exhibitor.

All the efforts to open to an international cinema worked in both directions: not only foreign films were pushing the Chinese box offices towards profits, but Chinese films were also being a success overseas. Chinese filmmakers apparently also had discovered what attracted to the foreign spectators, who boosted the profits of these artsy films. The best examples of this pattern are *The Wedding Banquet* (1993), which just five months after its release had earned 6.5 million dollars, or *Farewell My Concubine*, only after three months since the release had already sold 4.2 million dollars worth of tickets, and just in the US commercial circuit.

At that point everything was going towards the opening of the market of the industry, and in the path of creating the Chinese Hollywood which could easily be as big as Bollywood in a few years. But in March of 1996, the Ministry of Radio, Film and Television held what is known as the Changsha Meeting. Scandalized by the risqué literature, the politically explicit and exploitable artworks and pirated rock music, the state launched a program to criticize what they called “spiritual pollution”. Because of this, the government started sponsoring public viewings of biographies of socialist heroes and model communist members. Fifteen

percent of the screen time would now also be given to key films (Nilsson 2015), specially selected by the ministry which represented the values of the main melody films. These movies would be especially focused on historical events, mainly for the education of children, peasants and the army. The involvement of the government in sponsoring cinema made the total films of 1995 to increase to 146, up from the 133 films released in 1990 – but that would go back down to 83 by 2000.

Another big issue of the meeting was that the government, quite scared by the success foreign films were having in the country -the box office of domestically produced films had declined to a record of 20 percent that year- and afraid they would tarnish the good spirit of the Chinese, started forbidding their entrance. The attempt to control the entrance of foreign films went even further when the Ministry of RFT issued the “9550 project”, which stipulated that China would just let 10 foreign high quality films enter the market each year between 1996 and 2000 (Hemelryk Donald, Hong and Keane 2014). It also linked the imports to these “domestic quality pictures”, by giving the rights –and profits- from one import to the studio that produced one quality picture. All this steered away the private investors who, being much more profitable, shifted to producing TV dramas. (Zhang 2008; Zhu 2002)

Nevertheless, this did not stop the negative trend of diminishing the domestic film’s share in the home market. It would not be until 1999 that the domestic share started improving a bit, but once again, this was just an outcome of the decrease the entire market was having.

During the 1990s films started having budgets more accordingly to the international market in order to adapt to them. In 1991, the average budget for a domestically produced film was 1.3 million RMB, a number that increased to 3.5 million RMB by 1997 (Zhu 2003). With the nearby entrance of the new millennia, the local tastes were shifting and the public was waiting

for movies with much higher budgets and with a more Hollywood-esque look. These big budget films would be done with governmental aid by adopting “main melody film” values and based on certain historical events that left the country in a good light.

In March of 1998, the Ministry of Radio, Film and Television was suppressed, and in its place two new authorities on film were created: the State Administration of Radio, Film and Television (the SARFT) and the Ministry of Information Industry. This supposed an end.

The 2000s

The 2000s were the time for what the westerners called “the propaganda movies”. The previously mentioned trend of using governmental aid to make main melody films with a Hollywood look accentuated over the years. One of the most famous of these, made by the same Zhang Yimou that made ‘Red Sorghum’, was ‘Hero’ (2002), a historical drama that cost 250 million RMB and just by itself made up to 42.2 percent of the total box-office of the whole country in 2002 (Zhang 2012). ‘Hero’ also set a new trend in the budget for promotion, which had never been too important for the Chinese movie producers. During a time when an average of 10000 RMB was spent in the publicity for each film, ‘Hero’s budget exceeded 15 million RMB.

There were a few big changes that lead to the actual film industry with the entrance in the new millennium. In 2002, the SARFT announced that China Film Group would have to share its distribution authority with distribution companies from the municipalities.² The following year, the “Temporary Regulations on Access to Film Production, Distribution and Exhibition” gave the same rights and responsibilities as the state-owned studios to the private enterprises, which lead to an increase of private studios in the following years (Song 2009; van der Berg

²http://dfat.gov.au/trade/agreements/chafta/Documents/cfta_submission_6se05.pdf

2013). These regulations have had direct impact in the current situation. Nowadays, the studios that once dominated the Chinese market have almost disappeared. In their place, other companies have arisen, oligopolizing almost completely the Chinese movie industry. Although the total number of studios has remained more or less the same, the number of movies has increased fivefold. These data do not show the disparity of the numbers: four big studios produce the vast majority of the movies, which have grown big due to fusions and acquisitions. These four studios are called the China Film Group Corporation, the Huayi Brothers, the PolyBona Film Distribution Company, and the Shanghai Film Group.

The biggest of these corporations was born in 1999 under the name of China Film Group Corporation (the CFG), which is a conglomerate governed by the state. It has the most complete industry chain of all, which assures its obvious dominance in the Chinese film industry. The CFG also produces more than 30 percent of the whole country's film output year by year, and owns the only movie channel in the state, called CCTV-6. This conglomerate also includes a share-owned theater, whose circuit takes up to 40 percent of the total domestic box-office. Since 2004, the CFG has a joint-venture with Warner Bros and the Hengdian Group, who is the owner of the Hengdian World Studios (Song 2009). Huayi Brothers was founded in 1997 and was one of the first and biggest private film corporations of China. It works in both the film production and film distribution and it takes 30-40 percent of the film market.³ PolyBona Film Distribution Company is, as its name states, a distribution company that has been shifting into movie production in the most recent years. Poly Bona is still the largest shareholding distribution company, managing 120 domestic and foreign films in the last five years and taking up to a 20 percent of the overall market share. With its

³ <http://www.prnewswire.com/news-releases/imax-and-chinas-huayi-bros-group-expand-film-partnership-169408446.html>

immersion in film production, in 2006 alone it produced and coproduced over twenty films(Song 2009). Finally, and integrated by the government in 2001, Shanghai Film Group is one of the top five largest film production enterprises and top fifteen TV series production enterprises. This large conglomerate also owns a movie channel called the Oriental Movie Channel and the largest theater chain in China, the Shanghai Lianhe Cinema Circuit. It holds up to 25 percent of the box-office.

However, and although the production of big budget films by these few studios is the major trend, there is an alternative one that has appeared from the impossibility of small studios to compete with them. There are over 300 private film corporations and 20 other state-owned studios operating independently without having any vertical or horizontal integration (Song 2009). These film corporations have two ways of succeeding: the first one is by working on the production of artsy movies, usually joined by partners in Hong Kong or Taiwan, and aiming to reach overseas niche markets that ask for oriental-style independent movies. The second way is by producing main melody films financed by the government, a path that usually the state-owned small studios follow.

Regarding the actual profits of the films, after the nineties regulations for controlling the international entrance the box-office was declining incessantly to the point where in 2003 the earnings from ticket sales got under 1 billion RMB. This revenue was generated mainly in the big cities and their theater chains which were much more used by people than small independent theaters.

However, and partially because of the agreements China started having with other countries pushed by the inclusion in the World Trade Organization in 2001, during the mid-2000s the things started to speed up a bit, not having any yearly setbacks since 2003. In 2007, China's

box-office revenue hit the 3.3 billion RMB, 6.7 billion if we count the whole chain of the industry. This revenue kept coming from the urban theater chains, or at least 83.8 percent of it did. The following year, the revenues reached the 4.3 billion RMB and for the first time in the history of China, this situated the country in the top 10 markets of the world for cinema (Zhang 2012).

This trend was enhanced with the creation of more big productions. One of the best examples of its exuberance is the film ‘Founding of a Republic’ (2009) by Han Sampling. The film, which was ordered by the government due to the 60th anniversary of the founding of the People’s Republic of China was produced and directed by the state-owned China Film Group’s CEO. Because of the importance of the event, the film includes the appearance of 177 Chinese leading stars and directors, including worldwide famous ones such as Jackie Chan, Jet Li, or Zhang Ziyi. The film got earnings of over 400 million RMB, which reassured that the country was entering the era of “main melody commercial blockbusters” (Tang 2015). The movie market was skyrocketing. In 2009 the numbers were at 6.1 billion RMB, and by 2010 a new record was set up, with 10.17 billion RMBs in a sole year, with a growth of 43 percent compared with the previous year (Su 2016). In 2009, something new also happened, an American blockbuster called ‘2012’ won the top of the box-office, but this was what could be called an American “propaganda film”, one in which only China can save the world. The success that came with this film raised many issues over how to market films and how the audience responded to certain patriotic storylines.

With the skyrocket raise of box-office revenues, the number of screens started going up exponentially. Before 2010 a little more than a screen per day was opened though the country. But after that year, the number doubled, even entire cinemas were built at a speed larger than

one per day. Things only got faster after that, from the 4.2 screens per day that were inaugurated in 2010, to the 8.3 screens of 2011, up to the 10.5 screens that were opened daily in 2012 (Leung and Lo 2015).

From 2010 onwards Chinese films started having more and more leadership in the box-office share. The majority of top ten box-office films started being productions or coproductions of state-owned film studios, and in 2012 and 2013 the number one films were solely produced by China. During the last fifteen years alone, the domestic share has increased from 33 percent to 60 percent, which is considered a high share for a market (Nilsson 2015).

It is also important to acknowledge that the box-office tends to concentrate in big cities. In 2008, one-eighth of the total box-office was collected just in Beijing. This reintroduces the idea that the migration patterns of people from rural to urban areas increases the overall box office, which has increased more than 25 times in less than fifteen years.

And then, in February of 2015 an historic event happened, the Chinese box-office surpassed the American one for the first time in history (Brzeski 2016). This made all the alarms jump. It seemed to be just the very tip of the iceberg as to what was actually going on between China and Hollywood, or at least what made it to the surface. In the last 20 years, the quota of international films being able to enter in China had changed very little, while the environment that surrounded it had evolved to an absolute competition between the country and the rest of the world.

China versus the World

From the start, the filmmaking industry had always depended in the relationship between different countries due to the demand of the public for variety and the need of producers to get as much profit as possible. Prints are easy to export, import, and have run around, and are

great subjects to economies of scale for this reason, so their cost of exportation tends to be much lower than the possible profits.

For China, having a closed economy until 1978 did not make things easy for the adaptation of the speed that other countries were going at with importing and exporting, nor did the attempts of China to maintain protectionist measures to promote internal production.

Although before 1979, only the US blacklisted the American drama, 'The Salt of the Earth' that was imported to China (Sandhu 2014). It was not until the 1990s that the state started addressing seriously the foreign film production, most likely because before the structural overhaul, Chinese studios were too unproductive to compete with the big Hollywood studios. Therefore the first film that was imported to China from the United States of America under this objective of opening the market was 'The Fugitive' in 1993. It grossed 3 million dollars in China by itself, which alarmed the Chinese authorities over the power these foreign movies had with the local spectators (Tempest 1994).

During 1995, between 70 and 80 percent of the whole box office profits came from imported pictures (Zhu and Rosen 2010). This did not just mean gains from foreign pictures, but it also boosted the big domestic pictures. The Chinese film 'Red Cherry' was placed on the box-office ratings, topping other international films, and the total return increased in 15 percent. Hollywood's high cost of production was set as a standard measurement for quality in the Chinese studios, companies that had been budgeting on average a low 10 million RMB per film during the mid-90s. With movies like 'In the Heat of the Sun', 'The King of Lanling', 'Red Cherry', or 'Shanghai Triad', the Chinese industry started setting some investment records in the history of its national cinema.

The government saw that regulating the entrance of these films was necessary. It was then when the Ministry of Radio, Film and Television introduced the “9550 Project” that had been explained before, and which stated that a maximum of 10 foreign films would enter per year from 1996 to 2000. These films would be those which the government deemed excellent, and principally, the quota was filled almost entirely by American films, followed by those made in Hong Kong, which still counted as “foreign”(Hemelryk Donald, Hong and Keane 2014).

The regulation linked the right to distribute these foreign imports with the studios that were involved in the production of “quality picturefilms” which the government wanted to subsidize indirectly for showing the good morals of Chinese culture. In 1996 the three big studios that produced the main 10 box-office hits, Beijing Studio, Changchun Studio and Shanghai Studio, got the distribution rights of movies like Toy Story, Waterworld or Jumanji, in a shared box-office returns basis with Hollywood (Zhu and Rosen 2010).

On the other face of the coin, at the same time, Chinese films started being distributed in overseas countries by the home studios. The profits created by these imports were not reaped by the studios. These imports were run by the China Film Import and Export Corporation, and the studios that distributed the movies ended up getting only 14 percent from this corporation, who managed the solo rights to foreign buyers.

When in the 2000’s China entered in the World Trade Organization (WTO), the Chinese government accepted the increase in the import quota to 20 revenue-sharing foreign films per year, which still did not seem to be enough for the American authorities (Zhang 2008). Things started steering up in April 2007, when the USA won a case against China through the World Trade Organization for the restriction on imports.⁴ It took another two years for the WTO to

⁴https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds362_e.htm

consider China's constraints, a violation of its rights and obligation as a member state, and was obliged to comply with the norms by March of 2011.

In December of 2009 the WTO rejected China's appeal against the ruling, which said China should stop forcing owners from the United States to use Chinese state-owned companies to distribute movies and books, which broke the monopoly that the China Film Group and Huaxia Film Distribution (partially owned by China Film) had. However, this ruling ignored the claim against the twenty revenue sharing foreign films per year, and it also agreed with China that their authorities had the right to ban foreign films that the censors deemed objectionable (Zhang 2012).

As the Chinese rules are established, even with an increase in the quota, the future of each foreign film that enters the Chinese market is uncertain. The government can take measures as it pleases throughout different times during the year when foreign movies cannot be shown. For example, without prior warning, on the 18th of May of 2004, the authorities announced that the films that had been already agreed to be imported in would be banned from Chinese cinemas during July and October because of the anniversary of the founding of the People's Republic of China in October 1st, as well as the anniversary of the Tiananmen Square Events the 4th of June. This tends to happen continuously, such as when the State Administration of Radio, Film and Television announced that during the year there would be three times – June 10th to July 31st, September 25th to October 10th and December 1st to December 20th – when only domestic blockbusters should be shown.⁵ These times had the lowest box-office figures of the year, but still the policy continued. Other indirect instruments are also used by the Chinese authorities to reduce the presence of American films from the Chinese theaters, such

⁵http://dfat.gov.au/trade/agreements/chafta/Documents/cfta_submission_6se05.pdf

as the reluctance to keep these films in the theaters once they reach the 100 million RMB mark, with the exception of “super-blockbusters” and sagas, which could be Harry Potter or James Bond (Zhang 2012).

As the Chinese government failed to modify its practices according to what was established in the WTO ruling of December of 2009, it was forced to reach a temporary settlement with the United States’ government. This settlement between the United States and China, official in February of 2012, was called the Memorandum of Understanding, which increased the access of foreign films to the Chinese market. The exact numbers were 34 films in comparison with the previous 20 per year, and a share in the box-office of the 25 percent instead of the 13 percent that had been stipulated before. The settlement is to be consulted in 2017 again, with the aim of producing an official agreement by the 1st of January of 2018 (O’Connor and Armstrong 2015).

Even if the entry barriers are very high, the returns American movies can get out of the Chinese film market are even higher. Experts have continuously stated that at the actual rate the Chinese film market will overcome the American one by 2018 (Child 2015). The increase in the Chinese middle class will make the citizens spend more money on entertainment, and with a GDP that has increased eightfold in the latest fifteen years the Chinese film market taking the first position seems unavoidable.

While the Chinese market is growing, the American one is stagnant. The cost of producing a Hollywood movie keeps growing as the average production cost at present is approximately 200 million USD, with an additional 50 or 100 million USD for marketing, which is a significant increase compared to the numbers in 1996 when the average cost was just of 60 million USD. This forces Hollywood to look at foreign markets in order to just get

profits, making the Chinese seem the more succulent one. Just in 2014, the 6 biggest Hollywood studios got 70 percent of their revenue from markets outside North America (O'Connor and Armstrong 2015).

The United States are at the point where the need to enter into the Chinese film market is so essential that American screenwriters alter scripts, scenes or castings taking the Chinese censors and the 34 film limit into account. For a Hollywood movie, sometimes being between those 34 films is not a privilege, but a necessity. Big blockbusters such as *X-men* have been adapted to please the Chinese. The film even added scenes in Hong Kong and a cameo of a famous Chinese boy-band for it to be liked. This worked in fact; the film got 116 million USD of gross revenue just in China. Other films that include space programs like 'Gravity' or 'The Martian' have to take into consideration that the Chinese authorities do not like films that imply their inferiority in military or spaceships, and that is why they both had to add scenes in which the Chinese helped them –even in a minimal way- in the outer space. This way, Gravity obtained 71 million USD in China, 10 percent of its worldwide gross profit. Sometimes these changes are imposed directly by the censors who give vague guidelines over what is prohibited to the American scripts and once the film is made, they ban entire scenes. In 'Mission: Impossible 3', for example, a scene of clothes drying on flat rooftops had to be erased because the censors indicated that this showed a negative portrayal of Shanghai as a city where no one owned clothes dryers –a sign of poverty (O'Connor and Armstrong 2015).

Another way of making investment in China, although it is a less popular one, works the other way around, the authorities allow foreign investors to invest in Chinese companies up to a 49 percent in revenue sharing films. This way leaves aside the focus from the Chinese market and centers in the production factors from the country. The law also allows investors to put

money in theaters, up to 49 percent of said theater's cost, a number that goes up to 75 percent in the largest cities. They however, cannot create their own cinema chains (Xu 2007). In this way foreign companies can either produce Chinese films for the Chinese market or for foreign markets, as it is common in the artsy films.

Sneaking by the quota: the coproduction

The way to avoid the annual film quota is an easy but compromising one in order to find a company in China willing to coproduce a film. This type of filmmaking has been present throughout the whole opening process of the industry. Although it has gained importance in the last year, quite a few big names bet on this way of making films in order to assure themselves the entrance to the 'red dragon' country.

The China Film Coproduction Corporation was founded as soon 1979, a state branch that handled the films Chinese studios formed a joint venture with other countries and regions – most commonly with Hong Kong during those first years, which was became the third main producer of films during the 1980s, right after Hollywood and Bollywood- (Cheung and Marchetti 2015).

According to the Chinese legislation, a coproduction should include two or more parties of investors, having one of them from home and other one at least from a foreign country. It should be taken into account that the home investor could perfectly be the state itself, a case that has happened in numerous occasions, especially in the early years of the opening.

In 1997 a new regulation about coproductions was introduced, this stated that a maximum of 25 percent of movies could be done through the international coproduction method. Things would be done that way from that point on until approximately 2002, when the government established the Cultural Industries Division of the Ministry of Culture. This division

formalized the idea of using culture as a tool to promote China and the Chinese government's political agenda.

This had a lot to do with the signing of the Closer Economic Partnership Arrangement (also known as CEPA) on the 29th of June of 2003. This agreement's aim was to strengthen trade and investment cooperation between Mainland China and Hong Kong. Translated into filmmaking industry terms, this meant that Hong Kong would not need to be in the coproduction block anymore, and could freely make films using Chinese cultural assets (Peng 2015). However, China used this agreement in its own favor too, by being able now to use Hong Kong directors who already had a high profile films in Hollywood as its own, for example, John Woo or Ang Lee.

Nowadays, coproductions are arranged through the China Film Coproduction Corporation and take up to 43 percent of ticket sales (Peng 2015). This corporation is state-owned, and like other film production enterprises, is supervised by the SAPRFT. Coproductions have been increasingly common, for example, from 2002 to 2012 a total of 37 films were produced via coproductions, while in 2013 alone 5 films were made this way (O'Connor and Armstrong 2015).

However, in order to be accepted as a coproduction, the film has to follow certain minimum requirements and guidelines. The film must have at least one scene shot in China, cast one Chinese actor, have a minimum of one third of the investment from Chinese companies and to illustrate "positive Chinese elements".

The easiness to enter into the Chinese market just by following these guidelines makes it a good incentive, and many big foreign filmmakers are willing to comply with the requirements to enter. The most recent and famous one is the new 'Avatar' movie, which will be completed

through a joint-venture by Cameron Pace Group and China's Tianjin NorthFilm Group and Tianjin Hi-Tech Holding Group, who will take care of the 3D effects of the movie and will grant James Cameron's movie a greater access to China in his upcoming film (O'Connor and Armstrong 2015).

A look into the future

Predicting what is going to happen in the following years in the Chinese cinema industry requires looking at the different forces that are involved, these forces can be predicted not to be going in the same direction but not in the opposite either.

The boom of the industry has had more to do with the constant growth of the population than with the direct intervention of the government in the sector. The regulations have almost always been passive and a consequence of overall economic policies rather than a specific will to reform the creative industries of the country. The conflict caused by the government wanting to liberalize the economy of the country and the will to keep having ideological monopoly through cultural industries has caused contradictions in the past, and it would not be rare to have more of those in a future.

However, the true propeller of the industry –the change in the demography of the country- is still on track. Even though the economy will suffer from the long-term failure of past policies such as the one-child policy, which has destined the country to an inevitable aging of the population that will require a change in the tax structure and the overall economy. Statistics say that even if China grows at a rate of a third part of its past growth rate, it will outstrip the United States in size by 2030 and will also become a high income country.⁶ The increase in the living standards, altogether with the migration to urban centers and to the eastern part of

⁶<http://www.worldbank.org/content/dam/Worldbank/document/China-2030-complete.pdf>

China makes people climb in the Maslow pyramid of needs. This change, and the already huge population the country allows for a skyrocketing market other countries could not even dream of. Nowadays, the change is represented in the incremental creation of cinema chains and projection screens throughout the whole country. The truth is, China is able to absorb even more screens, and the habitants-per-screen ratio is still very high compared to other more modernized countries, which means that if this trend goes on, China's film industry could easily double its size in just some years.

Although, as it has been said that the government's intervention in the film industry has been somewhat deficient, the strategy China is using to protect its local production is an interesting one. In a globalized state of the world and participating in organizations such as the World Trade Organization, protectionist measures are difficult to apply by themselves. Nevertheless, China has found the legal vacuum for it using censorship not as an ideological instrument but as an economical one. The WTO already dictated that China should relax its quota of international movies entering the country, but it also announced that China would still have the right to censor whichever movie they wanted. So if a foreign movie surpasses certain amount of box-office revenues, the government can use its right to ban it from the theaters alleging censorship motives.

Insiders from the sector have commented that the quota is going to be expanded soon, but no official statement has been made yet. It would be advised to have an eye on the revision of the Memorandum of Understanding that is going to be announced in 2017 and made official on the 1st of January of 2018. The necessary steps to be taken after the memorandum to appease the international conflict remain uncertain and will depend to a large degree in which will be stated in this revision.

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