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Chinese Government's Role in Commercialisation of the Film Industry

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Abstract: China's film market has flourished in the last decade. The growth is unprecedented in China's cinematographic history and China is now on the verge on becoming the world's largest box office market. This thesis aims to examine and explain how this happened. Government's role through policies and reforms carried out and its impact on the industry will be reviewed. Data from SARFT and China Film Yearbook over the last 25 years shows that alignment and opening up of China's film market has been beneficial for the domestic producers and the film market as a whole. The domestic film industry has improved its competitiveness through allowing the Chinese film market adjust to market economy constraints.

Key words: China, film industry, commercialisation,

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1. Introduction

Film as a medium is a unique form to graphically describe stories that can be shared by millions in very short time and easily be spread across the globe as it is a medium easily copied and distributed. It gives the producer the possibility to tell a story over generations and cultures and can convey emotions with an instant impact as it happens on the silver screen.

1.1 Background

20 years ago China again opened up its cinema market for foreign films¹. Since then the film industry in China has become increasingly driven by commercial motives rather than political or aesthetic. After the first reforms carried out in 1978 to turn China from planned economy to a market economy the wealth and living standards have been raised for many hundreds of millions in only a few decades (Naughton 2007, p. 209). Increased living standards have gone hand in hand with migration to urban centres, particularly to eastern China. There the growing middle class' disposable income has created a market for the entertainment industry similar to what North America and Europe have had for many decades. Film in China as a form of entertainment has a short modern history. In less than a decade the box office market in China has exploded (see Graph I).

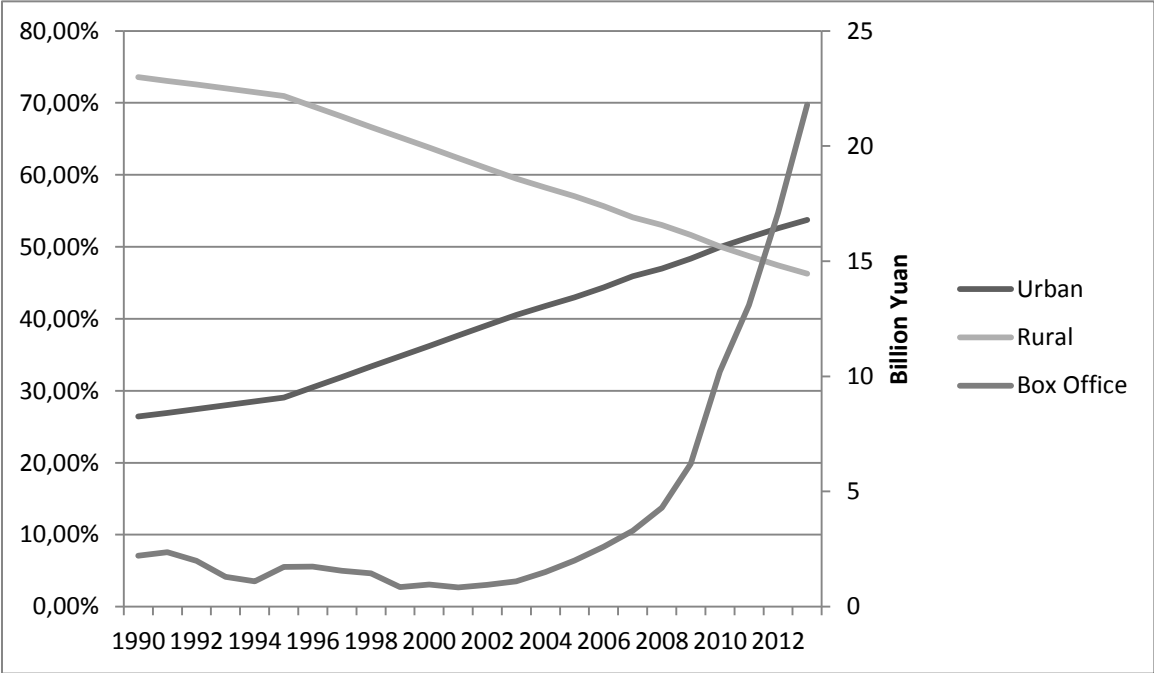
Hollywood, China's main competitor on its home soil, has produced commercial films for almost 100 years. If China wishes to strengthen its entertainment industry, what would be the best way to go from its current standpoint? There certainly exists a lot of experience on how to produce commercially oriented films within today's China with the former British crown colony Hong Kong being handed over in 1997. In its former glory days it was the world's third biggest producer of movies (Mennel, 2008; Guan, 2013). Today it is instead the PR China that has climbed to become the third largest producer of film (Hunt, 2011), but Chinese films have yet to make an impact on the world stage. A powerful entertainment industry can have a positive effect on foreigners' views on China which may also attract tourism. This is what is commonly referred to as soft power (Nye, 1990) which encompasses everything intangible like culture, ideas and values. This together with China's ambition to develop

¹ In the 1920s up to 1949 China was governed by the Nationalist party. During this time commercial film was made predominantly in Shanghai. The city had three big film studios Lianhua Film Company, Mingxing Film Company and Tianyi Film Corporation. In its infancy the film industry was heavily influenced by America and many film technicians were trained by Americans (Li, 2004).

environmental friendly industries has led to the decision to turn the Chinese cultural sector to one of the pillar industries by 2020 (CCTV, 2014).

The box office revenue in China grew fivefold between 2007 and 2012; from 3.3 billion Yuan to 17.1 billion Yuan, in the process eclipsing Japan as the second largest cinema market in the world after the US, but many of the successes on the silver screen are foreign movies.

Graph I Urbanization rate & box office revenue growth



Sources: China Statistical Yearbook 2014; China Film Industry Research Report 2013; EntGroup, 2014; China Film Yearbook, 2005.

However, just a couple of years earlier the Chinese share in its home market was in a “severe situation”. Therefore, China may want to learn from South Korea’s successful commercialisation of its media industry. China’s film market is still not an open market but utilizes a quota of foreign films that are allowed to be distributed in the country. This bears similarity to the South Korean policy up until 1988 when the restrictions on foreign films were lifted so that they did not have to pass through Korean distributors, although there is still a screening quota. China also seems to be choosing this path as it has allowed more foreign film to be distributed in a 2012 agreement with the US. Earlier steps towards commercialisation were set in motion as early as in the 1980s and 1990s, as Ying Zhu, professor of Media Culture at the College of Staten Island, City University of New York, describes it:

“Since the mid-1980s, the Chinese audio-visual industry has gone through a series of institutional reforms aimed at decentralization and marketization. The reform measures from the mid-1980s to the mid-1990s affected the general trend in film production and criticism during the period. The outcome of film reform has been the commercialization and privatization of the Chinese film industry and the surge of entertainment pictures. Meanwhile, the global popularity of Hollywood pictures (re)defined what counted as quality films for Chinese audiences. As such, the industrial structure and market practice institutionalized by Hollywood has become the new model for the Chinese film industry (Zhu, 2002a).”

1.2 Aim and scope of the study

There has been little written in the field of commercialisation of the Chinese film industry; the industry also differs from many other industries as it is a vessel for conveying cultural identity while it is also producing a commercial good that can be traded internationally. This double nature of the film industry can cause conflicts of interest over which aspect should be more emphasized. Recently the importance of the whole entertainment industry has received more attention. In the near future it is to be expected that the demand for this type of industry increases along with the growth of the middle class in China.

The aim of this thesis is to find out where the Chinese film industry stands today and where it might head in the future and of the underlying factors which pushes it in this direction. After China acceded to the WTO in 2001 it has become much more integrated to the rest of the world market which in turn means more opportunities but also leaves its weaknesses more exposed. How can China make its film industry more competitive on a globalized market?

There will be a limit of the scope of this study due to my lack of connections with the governmental authorities regulating the TV, Radio and Film industry in China. This study will be based on data from second hand sources published by Chinese institutions.

In the next section I will review the theories this thesis will be based; this will then be followed by a brief introduction of the film industry in China. In the following section there will be a deeper historical analysis of the Chinese film industry’s development. After this I will examine and compare the development of the film industry in China and South Korea. Finally in the last section there will be some concluding remarks.

2. Theory and method

Before going deeper into what the Chinese film industry looks like some basic theories that affect the trade and production of films and TV series should be explained. There are aspects that can be applied to most industries and some that are unique to the cultural industries. The theory for this thesis consists to large parts of international trade theory. I will also investigate how governmental policies and reforms reflect the theories and how they encourage commercialisation of the Chinese film industry in order to strengthen China's position domestically and internationally later in this thesis.

2.1 International trade theory

There can be different reasons for why a country produces certain products or services and specializes in a few areas where it can find its competitive advantage. Among these reasons are factor endowments and home market effect. Factor endowments are an important reason as to why a country can grow in certain sectors (Davidson, 1979), in the film industry it is made up by skilled labour and capital for larger films. If countries have similar compositions of factor endowments then the size and composition of the home market may impact which country that becomes a net exporter and a net importer of certain products. This means that economies of scale can explain if a country may become a large net exporter. The Chinese film industry has like most other industries in China gradually allowed the market to become commercialised while also gradually allowing foreign enterprises entering into the Chinese market. In traditional economic theory countries with a large home market with high value also dominate trade in the international field (Krugman, 1980). In the movie industry Hollywood is the largest producer counted in revenues and has been so since the early 1900s; this resonates well with the theory since the United States is an affluent country and has a big domestic market that can support the national film making industry (Wildman & Siwek, 1988). Firstly, economies of scale are prevalent since the production of the original copy causes very high costs for the producer but every following copy causes only marginal additional costs (Lee, 2003). Secondly, China has large enough home market to support the economies of scale, thus being able to be a net exporter of film. Since China is the world's largest country in terms of population and in these days also is the world's second largest economy, the two conditions of a large enough market certainly can be claimed to be fulfilled.

2.2 International trade with cultural products

There are three important factors in the trade with film which distinguishes it from most other industries and must be mentioned before examining China's situation. These three are economies of scale, production value and cultural discount.

First there is an obvious nature of economies of scale in the film industry. Producing a movie that aspires to appeal to the masses demands a lot of financial resources as is evident from taking a look at the box office charts today that is dominated by blockbusters. Creating the first copy of a film is incredibly expensive for these top grossing films but additional copies are created at low marginal cost. This means that countries with a large and wealthy domestic market inevitably are more capable of fulfilling the economies of scale constraint of making big blockbusters. The huge investment is much more viable when there is a large domestic market to cover the expenses of producing the film. Transportation costs are held to a minimal as it is easy to distribute film today because of the IT technology.

The first condition covering trade in film is also closely linked to the second condition. Films and TV shows with high production value generally attract more viewers. This means that movies with larger production budgets draw more people, even though every now and then there is a financial bust (Lee, 2003). Therefore there is an incentive to produce expensive entertaining movies which attract more viewers than producing film with a more artistic or documentary approach which get fewer spectators. The product still has to be kept at a high standard to attract people but instead of high artistic quality emphasis is often on technical quality. As productions with larger production values generally attract more people it has a reinforcing effect which explains United States' unique position in the film industry. It has the wealthiest consumer market in the world which can sustain the world's strongest film industry. It can house big productions which are shot in English which is beneficial for its export market. This in turn means more people can enjoy it because it suffers less from the cultural discount problem that is the third condition.

The third condition in the trade with film is a cultural variable that consists of cultural proximity and language, known as the cultural discount. Viewers prefer productions that reflect their own values, cultures and native language over foreign language productions. The language that has the highest cultural discount globally is English and the culture is the American culture. The impact of the cultural discount varies from nation to nation and the native language and culture always has the highest cultural discount. Following the native

culture, neighbouring cultures in the region also often has a cultural discount. Therefore it may be noted that Latin American countries often import TV shows from other Latin American countries (Lee, 2003) and East Asian countries has a higher propensity for showing other East Asian productions (China Statistical Yearbook, 2013). All these things considered explains why a small market like the Swedish TV and Movie market is mainly made up by firstly US TV shows and movies and secondly British. The US and UK have the advantage of economies of scale and produce movies with a high production value. At the same time the cultural proximity is relatively close and the language barrier is low since the north European countries have the largest domestic share of English speakers as second language (European Commission, 2012; EF, 2013).

These three different factors explain why larger and wealthier economies have a large share of their domestic market and also a large share, although not to the same extent, of foreign markets. The film makers in countries like US, UK and France not only produce for the domestic market but also for an export market (Waterman & Rogers, 1994). Small countries like the Nordic countries primarily produce for their own market although they may sell ideas and concepts for the foreign market due to the cultural proximity.

The third factor, cultural influence and language barrier that make up the cultural discount, is higher for China, and therefore beneficial, than for its neighbouring countries. China has exerted its influence in the entire Asia-Pacific region for thousands of years; so many countries share a cultural legacy with China and would be more prone to accept films from them than from the US; countless Chinese artists have made success across the entire Asia-Pacific over the last decades. Chinese was lingua franca in this part of the world before it was exposed to the colonial nations of Europe and North America. Therefore China has a better position when accounting for the cultural discount both regarding cultural proximity and cultural barrier than any other Asian country. Additionally there are several countries outside mainland China that have a large Chinese population (Taiwan, Singapore, Malaysia, Thailand) and many more countries have been influenced by the Chinese language (Japan, Korea, Vietnam). For these reasons China should be able to create a powerful film industry with a lot of influence in the entire East Asian market.

All these three conditions are important factors for creating a strong film industry – however the cultural discount's significance increases when the two first conditions are met. On a market that is small and does not fulfil the first two constraints will be dominated by foreign

productions from the American market despite their low cultural discount. If there instead are also a few large budget movies produced domestically then people will chose movies with higher cultural discount.

2.3 Method

Much of this thesis will be based on current literature that in detail describes policies adopted by the Chinese film industry and its impact over the last 30 years. Data collected from the State Administration of Radio, Film & Television, China Statistical Yearbook and China Film Yearbook will be used in this study on the commercial development of China's film industry. All statistics referred to can be found in the tables attached in the appendix. Older statistics from China are less reliable than more recent ones. There have been some slight adjustments in later publications of the box office figures and market share during the 1990s.

3. Brief introduction of China's film industry

China's business environment has gone through rapid changes in recent decades. The film industry is no exception. Over the last twenty years the industry has shown a tremendous growth. Let us take a brief overlook of the recent situation of China's film industry before digging deeper into how this change has happened.

Some twenty years ago China made the difficult but necessary choice to open up its cinema market to foreign competition. The Chinese film market was completely restricted, even though to some extent there was foreign film but not in the commercial sense. In 1994 the first commercial film was screened in China that allowed the foreign producer to keep some of the box office earnings, but China kept the lion's share. Immediately after the introduction of Hollywood films on the Chinese box office market the share for domestically produced films declined dramatically to a record low 20%. The entire box-office takings for 1994 were only 1.73 billion yuan; a very small amount considering that China has the world's largest population. Chinese studios altogether produced 146 feature films. In 2013 domestically produced films accounted for 59% of the market, the size of the market had grown to 21.8 billion yuan, and 638 films were produced.

Some of the most important events in Chinese film industry since the change in policy towards an open economy 1978 are these: In 1994, Chinese cinemas started to screen foreign pictures. Initially ten foreign pictures per year received permission to be screened. This was the first opening since 1949 when the entire mainland China was controlled by the communists. The restriction on foreign pictures has gradually become less strict and since 2012, 34 foreign motion pictures are permitted to be screened on the Chinese market.

4. In depth analysis of development of China's film industry

To understand the current cultural climate in China and the opening up of the film industry towards a competitive commercial market we have to carefully study the history of the reforms and plans for future reforms.

4.1 Historical development

The Chinese government has encouraged marketization of the film industry in an attempt to increase production, investment and consumption. The aim is to align the country's film industry with international standards while still being in the reigns of the party. China has not opened the door wide – but rather slightly. Anything that might oppose the views of the party or challenge its position will have no place in the market. The marketization of the film industry in China has over the last couple of decades followed the same pattern as many other Chinese reforms. It has been a gradual process moving step by step rather than a big shock whereby the country suddenly opens up towards the global market. The reasoning behind this method is that it allows monitoring by government bodies – during the process they can control market performance. This type of micro adjustment means that the government is in control while gradually relaxing the rigidity of the control. In this way they believe they can guide the market in such way that it works for China rather than foreign interests setting the agenda for the Chinese film industry.

Previous research indicates that with growing income levels so does the amount spent on entertainment products such as films. As consumption in the sector increases so does the domestic studios' market share of the box office figures. The stronger the domestic industry stands on its home market, the greater the foothold will be on the global market (Lee, 2003).

For China this means that there are some outside factors that the industry itself cannot manipulate. The Chinese households' private economy as whole and the country's economy will impact on the strength of the industry. The Chinese market would need to become more self-sufficient instead of being primarily an importer, like many other markets in China.

A future stronger cultural industry would mean that China does not need to rely as heavily on heavy industries with a lot of pollution. A stronger entertainment industry would be completely in line with the Chinese industrial policy to shift direction of the Chinese economy. China has thus far shown effort in strengthening the cultural industries as a way to deal with the environmental problem, at the same time strengthening the country's self-image.

4.1.1 1978-2003 Early years after opening up – failed policies

Up until 1978 the film industry was centrally controlled with no exception. It was seen as an important tool for the Communist Party and was a part of the propaganda system to educate citizens. Films were produced not as entertainment, as in the 1920s up until 1949 when the civil war was won, but as a means to control the people. There was no consumption in the true sense of satisfying a demand from the people; instead it was satisfying the demand of the party officials. Since the political goal of the party vastly differs from the consumers taste and the Chinese Communist Party wanted to use film as a tool to educate the masses, the Chinese film industry got into trouble in the 1980s and 1990s (Chu, 2010).

The number of studios and the films produced has increased drastically from the first reforms of opening up China towards the rest of the world. In 1978, when the first market reforms were carried out, there were only 12 film studios in China and they altogether made 46 feature films. In this year, as we all know, Deng Xiaoping ordered that the country had to go through a number of reforms to revitalize the Chinese economy. However, these reforms were primarily directed towards the rural parts of China. Consequently they did not affect the film industry very much as it was not seen as a commercial industry at this point. The number of films and studios nonetheless grew in the first half of the 1980s after a tumultuous period pre-1978 with the Cultural Revolution.

Policies and reforms

It is not until the 1990s that we can observe some changes in how the state views the film industry, where some of the first steps are taken to make it a commercial industry. The

changes to the film industry came during the first half of the 1990s when China made reforms to its economy that had slowed down after the bloody quelling of the demonstrations at Tiananmen Square in 1989. The period between 1993 and 2003 was a difficult time for the Chinese film industry. This period, culminating around the time of the accession to the WTO in December 2001, became somewhat of a transition period. In 1992, when Deng Xiaoping made his well-known journey to the south, the reforms instead had more focus towards industries connected to the urban parts of China.

This year there were changes in ticket pricing at cinemas to better reflect the market price of each individual film and standard. The fall in revenues from 1993 can be attributed to that reform in October 11th, 1992, when the owners of movie theatres were free to set ticket prices themselves. The new prices ranged from 2-3 Yuan (US \$0.3-0.5) up to 80 Yuan (US \$11.7) depending on geography, quality of film, standard of theatre and time of day. This meant that cinema ticketing price became more independent from state influence, but also that it no longer was subsidised as much as before. After briefly retaking lost ground in 1994 and 1995, the revenues declined again in 1996, in fact during the rest of the 1990s, the box office revenues kept declining due to this and other factors like the support of main-melody films² and the introduction of foreign movies to the Chinese market.

In 1995 it was decided that 15% of the screen time should be reserved for Chinese “key films” selected by the cultural ministry, these films content particularly focused on history, children, peasants and the army (Zhang, 2005). Subjects closely linked to the values of main-melody films. Another decision was made in 1995 as a response to the first years of decline in the 1990s, when both box office revenue and domestic market share declined. China decided to introduce the “9550 Project” which stipulated that China would subsidize 10 high quality films each year between the years 1996 and 2000. This however did not reverse the negative trend, instead the box office taking continued to decline for the rest of the decade. Fewer films were produced and the market shrank year by year. This was a natural effect of the lack of demand for these so called main-melody films.

Most of the admissions to these films were inflated since they received extra support from the government. It was quite common that 80-90 percent of the admissions went through distribution through peoples work units. The demand side was manipulated. This kind of

² Main-melody films are films that reflect old traditional values and patriotic principles produced by the Chinese state (Media Entertainment and Arts Alliance, 2004). These films are supposed to educate people on moral conduct and ethics. A common way to depict this is a hero that serves his superior/emperor impeccably, thus acting as a role model for the people.

policy to subsidize films with an ideological purpose later caused the poor performance of domestically produced films on the box office chart and was eventually terminated.

There was a lacking will or capability to pay the new ticket prices, while there at the same time were a lot of free subsidized tickets for other films on the market. This caused a negative downturn, especially when imported movies were of a much higher quality. Ticket prices that were supposed to better reflect the actual price and apply market forces to the market meant that Chinese films lost revenue for much of the 1990s (Chu, 2010).

Following the many decisions in 1995 it was decided that theatres from 1997 onwards were allowed to allocate one-third of the screen time for foreign films.

China has also used other protectionist methods for developing its film industry during this period, particularly during important or sensitive dates such as the Anniversary of the founding of PR China (October 1st), anniversary of Tiananmen Square massacre (June 4th) and the Chinese New Year (Jan-Feb). These dates were reserved for domestic blockbusters. In 1998 the State Administration of Radio, Film and Television issued three time windows a year when only a few selected domestically produced films would be screened. These time windows were June 10th to July 31st (founding of Communist Party of China), September 25th to October 10th (founding of P.R. China) and December 1st to December 20th (expulsion of Republic of China to Taiwan). Along with this decision it was decided that two thirds of the films screened has to be domestically produced (Zhu, 2002b). The effect from this policy was negative; in 1998 the reserved windows showed the lowest box office figures during the entire year. The following year this policy nonetheless continued and May, June, September and October were reserved for a few selected features, the reason being that these dates are central to the Chinese Communist Party. In addition to this strategy the Communist Party's Propaganda Department put foreign movies on hold to promote locally produced films.

Industry development

China has since the beginning of the 1990s managed to increase the budgets of films produced in the country. In 1991, the average budget for a domestically produced feature film was merely 1.3 million Yuan (\$244,000), but it increased to 3.5 million (\$600,000) in 1997. Ever since there was a big jump from 22 studios in 1994 to 30 studios in 1995 the number of studios has been fairly constant over the last two decades. Also, the change in the number of studios in 1995 did not impact the number of films produced. Contrary to what one might

expect, fewer films were being produced in the years following this increase. In 1997-98, the number of films produced was cut in half compared to 1992. The reduction occurred particularly between 1995, when 146 films were produced, and 1998 when only 82 films were produced, even though the number of studios remained at the same level.

Table I Chinese film producers and market 1990-2003

Year	Studios	Features	Box Office (Billion Yuan)	Market Share (Domestic)
1990	22	134	2.22	(64.8%)
1991	22	130	2.36	(76.1%)
1992	22	170	1.99	(68.5%)
1993	22	154	1.3	(63.9%)
1994	22	148	1.1	*
1995	30	146	1.73	20.0%
1996	30	110	1.74	25.0%
1997	31	88	1.56	31.0%
1998	31	82	1.45	37.0%
1999	31	102	0.85	44.0%
2000	31	91	0.96	47.0%
2001	27	88	0.84	43.0%
2002	31	100	0.95	41.8%
2003	31	140	1.1	41.0%

Sources: China Statistical Yearbook 2014; China Film Industry Research Report 2013; China Film Yearbook, 2005.

China's film market

The Chinese film industry under the administration of the Communist Party was completely nationalized until 1994. After 45 years the 10 first foreign films were allowed to be screened (Chu, 2010). To finally allow Hollywood to distribute films to the Chinese market was a final attempt to save a failing industry; the years before the box office takings had plummeted from roughly 2.4 billion Yuan in 1991 to 1.1 billion Yuan in 1994 (Table I). In 1995, the box office jumped up by 60% only to slowly decrease over the following decade and when China entered the new millennium the box office takings were even lower than before the market was opened up for foreign pictures. During the late 1990s and early 2000s the box office figures were at a much lower level than in the early 1990s and to make things worse these figures were dominated by foreign films that had been allowed to enter the market in 1994. The domestic producers' market share between 1995 and 1999 was rarely above one third and often even less, and the total revenue from box office receipts was several times smaller

during the worst years compared to the years before foreign films were screened in the cinemas. Chinese producers only accounted for between 350 million Yuan and 500 million each year during these dark years. Between 1999 and 2002 the domestic share was improved, although this was only an outcome of shrinking the entire market to abysmal box office figures below one billion Yuan each year.

4.1.2 2001-2009 Beginning of growth and alignment to WTO laws

Many countries across the world have had restrictions on their film markets (Ren, 2011). There is however a trend towards opening up the markets gradually as a consequence of free-trade agreements such as the WTO.

Policies and reforms

When China at the beginning of the 1990s allowed foreign films to be screened it was on a market made up solely by Chinese companies. As a result of acceding to the WTO in 2001 China allowed foreign companies on the Chinese market. Foreign companies were allowed to own maximum 49 percent of Chinese film companies to make sure that China remained in control of the production side of the film industry. The United States, however, continues to put pressure on China to open up its market even more (Jin & Otmazgin, 2014). Since China's commercial film market is much younger it has greater growth prospects the foreseeable future, compared to the US market which is saturated. Therefore, Americans have directed their interest towards China and increased their investment as it is expected to yield greater return. The US also makes it clear that their companies want a greater share of the spoils; the current divide does not reflect the resources invested.

In 2002 the theatre industry took a step towards getting more organized when the cinemas were to be organized into chains. In 2003 foreign capital was allowed into the theatre industry. Foreign investors were allowed to own theatres up to 49%, except for the largest cities where they could own up to 75%. Foreign companies could however not form own cinema chains.

In 2003, the monopoly on distribution rights on imported film was broken, at least on paper, when Huaxia Film Distribution got permission to import films. This was a direct response to joining the WTO which required China to relax its control in many other industries as well. However, Huaxia is just as China Film Group a state owned company and the shareholders are to large parts the same. The impact was hardly noticeable not actually causing much more

competition in the industry. It was more a tactical move by China to comply with the WTO agreement that did not allow monopoly in the industry.

To strengthen the Chinese film industry on the global market after joining WTO China pushed through a reform between China and the Special Administrative Regions Hong Kong and Macau. The Closer Economic Partnership Arrangement (CEPA), launched in 2004 (Davis, 2010) pulled Hong Kong and Macau closer to mainland China. Particularly Hong Kong has a long tradition as powerhouse in film production, housing film companies such as Media Asian, Edko and Golden Harvest. This cooperation agreement also made Hong Kong and Macau exempt from the import quota on foreign produced film.

Hong Kong has a long history as a producer of commercial films but its relatively small size makes it a less than ideal place to house a whole film industry that wants to compete with Hollywood. The accumulated skill still has an integral role in the modern Chinese film industry. Hengdian is an entire city built for the purpose of producing films and TV series. The city, located a couple of hours drive outside of Shanghai, is the closest thing you get to Hollywood in mainland China. The town not only employs professional actors but also stand-ins, scene builders and every kind of profession associated to the film industry (Yan, 2011).

Industry development

The most popular domestic films today are the ones that simply want to entertain the audience. These films barely existed 20 years ago (Hao & Chen, 2000). Films that came out of mainland China were either films with a cultural art value or films that had a political value. Films for entertainment were practically only produced in Hong Kong, which at that point had not been turned over to China.

The main-melody films that received a lot of backing in the late 1990s continued to exist. After the millennia these films were more successful due to allowing production on the basis that they can be commercially feasible rather than to educate the masses. The old system forcibly produced main-melody films to reach a goal set by politicians without regard to demand. When the climate later developed towards a more creative one with no targets set, a few main-melody films have been successful.

The main-melody policy has produced film like Hero (2002), Assembly (2007) and The Founding of a Party (2011), films which create a sense of patriotism that brings people together toward a common goal and convey a feeling of being able to overcome hardships.

The rapid decline of both box office takings and domestic market share caused a lot of critical voices and raised concerns about the development of the industry. However, from 2003 and onwards the total revenue from the cinema market have had a strong growth without any yearly setbacks.

It was at this time, 2003-2004, that the domestic producers finally managed to capture a majority share of the box office for the first time in ten years.

The Chinese government has also been keen on developing big media conglomerates integrated into production chains from production to distribution. This strategy is a recurring theme in industries that have received pillar industry status. There were 34 companies at different levels with permission to distribute films in China in 2008. The total number of films, after allowing film studios to be more independent, has also increased. Today, the Chinese film industry is dominated by a few giants. The two largest are China Film Group and Shanghai Film Group. China Film Group is China's largest film company. It is a State Owned Company responsible for carrying out state policy (Yeh & Davis, 2008). Shanghai Film Group is also a SOE but does not have the same instrumental role in implementing new policies due to its smaller size. These two conglomerates were established in their current form in 2001 and 1999 respectively. This strategy to form some large companies which can compete with foreign companies on the home market and abroad is applied by China in many industries that have received the status as central pillar industries important for the development of the socialist economy. The state owned film companies still dominate the market in China. A majority of the top ten box office films 2010-2014 were productions or co-productions of state owned film companies. In 2008, China Film Group alone took 67% of the total box office revenue (Chu, 2010). This figure however also includes foreign pictures since China Film Group also acts as a distributor and is entitled to a share of the revenues of all distributed films.

The reason for this strategy is that a few large studios is conducive for the development of the industry since they can accumulate wealth and finance films more independently from creditors than if the market consists of many small studios that produce movies for a more exclusive audience. Bigger studios can also more easily attract foreign attention to create investment in China.

The Chinese government has begun to let go of the control over producing companies, yet it still remains at the helms of what is released on the market through administering organs that

control licensing. These companies are after all state-owned but operated by professionals that are exercising some self-censoring. This means that the actual production is left to the experts but the guidelines of what is tolerated and not is controlled by government administrators. Censorship may be imposed on films that are not in line with the current sentiment of what is beneficial to the party and the country as a whole. The government is still the captain of the ship but has delegated the work to the chief mate. Production of films with the sole purpose of offering entertainment also receives support for production, as long as it does not encourage immoral conduct.

Even though China wants to attract more investors to the film industry the average film budget has not increased a lot after the 1990s. In 2010, the average budget per domestically produced film is estimated to between \$600,000-740,000 (Keemax Asia Ltd., 2011), not a large increase from the average budget of 1997 when it was \$600,000. However in 1997 only 88 feature films were produced compared to 526 in 2010 and a film market is primarily made up by small budget films.

China's film market

Not only have market shares and earnings gone up to levels never before seen but the number of features produced increased from 82 in 1998 to 745 in 2013, which means that output has increased nine-fold over mere 15 years. This is a clear sign that the studios are doing much better these days as the average number of films produced by each studio has risen (the number of studios has remained unchanged over the same period).

Table II Chinese film producers and market 2001-2009

Year	Studios	Features	Box Office (Billion Yuan)	Market Share (Domestic)
2001	27	88	0.84	43.0%
2002	31	100	0.95	41.8%
2003	31	140	1.1(+16%)	41.0%
2004	31	212	1.5 (+36%)	55.0%
2005	32	260	2.0 (+33%)	55.0%
2006	32	330	2.6 (+30%)	55.0%
2007	32	402	3.3 (+27%)	54.1%
2008	33	406	4.3 (+30%)	60.0%
2009	31	456	6.2 (+44%)	56.6%

Sources: China Statistical Yearbook 2014; China Film Industry Research Report 2013; EntGroup, 2014; China Film Yearbook, 2005.

4.1.3 2009-2015 Cinema boom

The number of films produced has grown fivefold during the last twenty years even without any growth in the number of studios. The decision to allow foreign competition onto the Chinese market at first seemed to be catastrophic since the market instantly became dominated by much stronger Hollywood productions. The local industry was too weak to compete, resulting in its box office revenues dwindling away; at one stage Chinese film studios only accounted for about one fifth on the own home market. This led to much criticism by some scholars that China had let the wolf in which would cause the end of the Chinese film industry and negatively impact the Chinese culture. These scholars have had their pessimistic scenarios turned upside down in the longer run. The Chinese film industry has had the strongest growth ever recorded in the history of cinema.

Policies and reforms

To be able to produce something that is competitive on both the domestic and international market the production budget for Chinese films has to increase. With a larger budget the production value will increase and allow for greater revenues thus making it possible to achieve the goal of reaching the 5% target of GDP made up by the cultural industries (Xinhua, 2011). More professionalized companies and workers will require greater investment but should also ultimately yield greater return on investment. One of the most important problems is how to fund the production of expensive films. Like in other cultural industries there are many projects where revenues do not cover the expenditures. Therefore there is a need for big film companies that can take a few financial busts without being ruined.

China utilizes a similar strategy as in other industries to attract skill and capital from outside the country; it only allows foreign competition on its own terms. Some of the most skilled and well known Hollywood studios have been allowed to enter the Chinese market only through joint-ventures, where Chinese companies can learn their skills and at a later stage apply this knowledge in Chinese newly start up enterprises. Recently DreamWorks has set up a studio in Shanghai for the production of Kung Fu Panda 3. China has not only decided to allow foreign big studios to invest in China, but Chinese companies have also gone on the offensive and begun to invest in companies abroad. An example of this is state owned China Film Group which in 2014 became part owner of Legendary Pictures at the same time starting a Chinese studio. Yet another example of the attractiveness of the Chinese market and the desire from China to bring state of the art technology and high skilled labour from Hollywood to its film

industry is Transformers 4. This 2014 box office hit is a co-production between the United States and China.

After the CEPA agreement the Special Administrative Regions film industries were merged with mainland China. This decision has made Hong Kong's involvement in the Chinese film industry even more evident – an important step in bringing more high skilled people and large media companies to China. Even though Hong Kong no longer has the same central role in the global film industry – as in its golden era in the 1980s when it was the world's third largest film producer, after Hollywood and Bollywood – it still plays a very important role in the integrated mainland Chinese and Hong Kong/Macau film production industry. Between 2010 and 2013 a majority of the 25 Chinese films that made it to the top 10 box office chart has been produced partly in Hong Kong. The policy to integrate these regions cannot be underestimated in its importance to bring the knowledge and high skill that already existed in Hong Kong to the weak mainland industry.

In 2012 the quota of foreign films was again raised, this time to 34 feature films although the additional 14 movies must be 3D or IMAX movies (Hennock, 2012). At the same time the share of the box office receipts appropriated by foreign film producers rose from 17.5% to 25% (Xinhua, 2013). Co-productions are allowed a higher share of 38% appropriated by the foreign partner and an increasing number of films are today co-productions between the USA and China with prominent examples like Iron Man 3, Transformers: Age of Extinction and Kung Fu Panda 3. The greater incentive for foreign companies to invest in China's has had an immediate response.

Industry development

After reforms to commercialise the industry and allowing professionals to make decisions, the Chinese film industry has begun to catch up with its competitors. Over the last 15 years it has increased its share of the domestic market from less than one third to almost 60% percent. This is a very high share compared to many other markets. Many European nations have a much smaller share even though these countries are more developed economies. The South Korean film industry, a leading example of how a nation can turn around its cultural industry, has also managed to take a majority share of its own market.

The weak performance by the Chinese film industry in the 1990s and first half on 2000s was not something unique in itself. This phenomenon occurred at many different markets at the

same time, not least in South Korea. What makes China unique is how its market has exploded in the last ten years. To understand how the market has been able to grow so rapidly we have to look at the cinema infrastructure as well as people's purchasing power and their movement up Maslow's hierarchy of needs (Maslow, 1943).

The migration to the largest Chinese cities has been ongoing for several decades, but the growing middle class in the cities has become a significant share of the population quite recently. As a result the building boom in the cinema infrastructure in China has not unravelled until the 2010s. Prior to 2010 there had on average been built little more than one new screen across the country per day. From 2010 onwards the number of screens constructed has doubled many times each year and even entire cinemas are constructed way above an average of one cinema per day. This has been possible through the policy of creating cinema chains that has led to a few strong players on the market with enough resources to expand the cinema market over a short period of time.

To be able to sustain this extreme growth there has to be an infrastructure to support the ever growing consumer base. In 2002 the Chinese market was very small for being the world's most populated country. The entire cinema market was made up by only 872 cinemas across the country and in between them there were only 1,845 screens, an average of 2.1 screens per cinema. At this time the Chinese population was estimated to a total of 1,280 million inhabitants. For every screen there were thus 693,766 citizens. Since then 11,273 new screens have been built, reaching a total of 13,118 screens by the end of 2012. The population has since 2002 grown much more moderately, reaching about 1,353 million in 2012. All this meant that by the end of 2012 there were only 103,140 people per screen. Between 2012 and 2013 an additional 7,000 screens have been constructed, and today there are over 20,000 screens, compared to over 40,000 screens in the United States. In recent years the rate of newly built cinemas has outnumbered the rate of revenue increase, magnifying the risk of a cinema market bubble. Tony Adamson, marketing head of DLP at Texas Instruments, however thinks the Chinese market in the future may support as many as 100,000 screens without being over-screened (Hille, 2011).

Table III Chinese cinema infrastructure 2002-2012

Year	Cinema Chain	Cinemas	Screens	New Cinemas	New Screens	New Screens per day
2002	35	872	1845	–	–	–
2003	32	1045	1923	173	342	0.94
2004	33	1188	2396	143	443	1.21
2005	36	1243	2668	55	272	0.74
2006	33	1326	3034	182	366	1.00
2007	34	1427	3527	102	493	1.35
2008	34	1545	4097	118	570	1.26
2009	37	1680	4723	142	626	1.70
2010	38	1993	6256	313	1533	4.20
2011	39	2796	9286	803	3030	8.30
2012	46	3442	13118	646	3832	10.50

Source: The research report on Chinese film industry, 2013.

Even though there has been a very strong growth it would seem unlikely that the Chinese cinema market has become saturated. As late as 2008 Beijing accounted for 1/8 of the total domestic market (Chu, 2010). The cinema industry is still very much concentrated to the largest cities of China and has the opportunity to expand in the coming years to middle and small cities across the country. The concentration together with the construction of multiplexes that mainly is a first tier cities phenomenon will make it difficult to further expand the market in these cities. Just like the national economy as a whole now grows in second and third tier cities, the future construction of cinemas has to take place in regional cities away from the coastal area that has seen most of the economic development; otherwise there is the risk of over establishment, even taking into account that some old cinemas need to be replaced with more modern ones.

The Chinese cinema boom has even gone beyond China's borders. Private Chinese companies have been investing in US companies; the most well-known case is Wanda Group, which mainly focuses on real estate and in 2012 bought AMC Theaters, in the process becoming the world's largest cinema chain.

The Chinese film industry is plagued by a piracy problem. This reduces box office takings as long as it is not dealt with in a sterner way. Estimates show that in 2010 the total value of bootlegged DVDs amounted to \$6 billion – four times of the box office earnings of that year (Wheatley, 2014). With a successful strategy for protection of intellectual property rights

(IPR), the growth of box office takings by no means should have hit the roof yet. The market for bootlegs clearly shows that the Chinese market is far from saturated.

China’s film market

The Chinese film studios have had a majority share of the market each year over last decade except in 2012 when it only reached 48.5%. This is on a global level a relatively high share. The market share of 2013 was the second highest ever since the market opened up for global competition. The market is also much more competitive today compared to 20 years ago, allowing more foreign films on the market. Among top ten films it is difficult to discern a clear trend. It tends to be relatively evenly divided between foreign produced and Chinese produced films (see appendix).

In 2013 the total box office revenue of China was 21.8 billion Yuan, a twenty-fivefold increase compared to the total box office revenue in 1999 which was 0.85 billion Yuan. The number one in box office takings in both 2012 and 2013 was a Chinese produced film (Lost in Thailand and Journey West: Conquering the Demons; see appendix) which both had total revenue of just over one billion Yuan and thereby surpassed the rerelease of Titanic (the stereoscopic version) at 947 million Yuan. Best performing foreign films on the box office chart in 2013 and 2014 are also Chinese co-productions. The Chinese Film industry is getting bit by bit more international as it is part of film productions that are financial successes not only on the Chinese market but also globally.

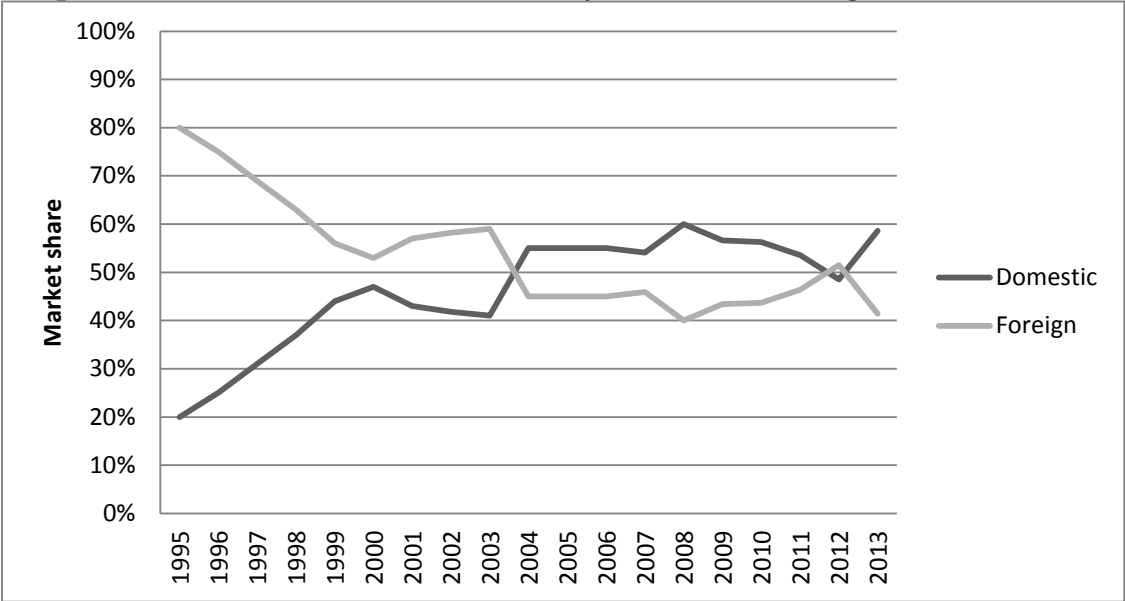
Table IV Chinese film producers and market 2009-2013

Year	Studios	Features	Box Office (Billion Yuan)	Market Share (Domestic)
2009	31	456	6.2 (+44%)	56.6%
2010	31	526	10.2 (+65%)	56.3%
2011	31	558	13.1 (+28%)	53.6%
2012	31	745	17.1 (+31%)	48.5%
2013	31	638	21.8 (+27%)	58.6%

Sources: China Statistical Yearbook 2014; China Film Industry Research Report 2013;

EntGroup, 2014; China Film Yearbook, 2005.

Graph II Chinese box office market shares by domestic and foreign industries



Sources: China Statistical Yearbook 2014; China Film Industry Research Report 2013; EntGroup, 2014; China Film Yearbook, 2005.

4.2 Future guidelines

China is an economic super power, which aspires to become a cultural super power, while maintaining a grip on shaping its domestic cultural values.

Entertainment is an industry which has little impact on environment. The previous president of PR China, Hu Jintao, for this reason, as well as the ambition to become a cultural super power, set a target that the culture industry of China should make up 5% of the total GDP in the year 2015 (Wong, 2014).

In June 2014, seven departments, of which one was SARFT, jointly provided a notice for how the film industry should develop in coming years (Guo et al, 2014). This document supports the entire chain of the film industry from production to viewing. Five main points were to be found in the notice, the first being one hundred million dollars in financial aid to between five and ten Chinese produced films. The second point focused on supporting technological development and high tech hubs, also facilitating for Chinese films to go abroad. The third point included how financial policies could help the film industry to get access to resources allowing for more high quality production. The fourth point states that between 2014 and 2018 there will be no value added tax on the revenue from the sale of film copies. The final point aims at encouraging construction of cinemas. Over the last couple of years many new

multiplexes, shopping malls with cinemas, have been built and to encourage further growth different land policies have been developed.

The measures to overcome financial difficulties are probably the most crucial ones. China has realised that it is necessary to create big film groups managing the entire process of film production. Solving financial problems has been an integral part in the success of Korean film industry and Hollywood's biggest film producers have also developed their own financial support to be more independent from outside investment. If China manages to find a solution in this area it will further strengthen its film industry.

5. Comparison with South Korea

Reforms successfully implemented by the South Korean government in the 1990s resulted in a turnaround of the country's film industry. The Chinese governmental bureaucrats have closely observed how Japan and South Korea managed to develop their economies to become success stories. Through the lessons learned from these countries China has developed reforms and policies acclimatised to the Chinese environment in many areas. Therefore it may be of interest to see what the South Korean policy of opening up its market looked like.

5.1 The Korean case

The Korean film industry was under an import quota until the mid-1980s. The quota was designed so that local film producers had to produce at least four domestic movies for every foreign movie they wanted to import. The purpose was, of course, to limit the market share of foreign movies. This policy, contrary to the expectations of the policy makers, worsened the situation of the domestic film industry, since studios which imported foreign movies hastily produced low quality films. There was not only an import quota, but also a screening quota which mandated that Korean films had to be screened at least 146 days a year (Kim, 2000).

Other governmental policies concerning the Korean film industry in the 1980s included state censorship over sensitive topics. This censorship was set up by the Park Chung Hee regime to prevent critical voices from making themselves heard through different types of media. Through the democratization process in South Korea, state control over the media has been severely relaxed, allowing for a much more creative climate in the cultural industries.

During the 1980s and 90s there was less technological diffusion in South Korea than in the US market which meant that Korean film makers had limited access to revenue streams to cover production costs and create opportunities for profitable film making. There was no cable TV in South Korea until the mid-1990s and the VCR market developed later in South Korea than in the US. The protection of copyright law was also far less strict in South Korea than in the United States, further increasing the difficult situation for Korean film producers.

In 1987, when the import quota was abolished (Shim, 2010), the number of movies produced in South Korea continued to grow for a couple of years, but soon thereafter decreased and the market share as well. After another couple of years the domestic market share increased beyond previous levels as a result of better quality (Lee, 2003). Throughout the 1980s and the 1990s the screening quota remained.

The market share of domestically produced films first declined for the rest of the 1980s but eventually increased to reach the initial level and then continued to conquer market shares until it levelled out at a higher level than during the days of the import quota and stricter screen quota. There thus seems to have been a positive effect of liberalising the media industry, allowing for fierce competition in the market and influx of foreign capital. Due to the dual nature of audio-visual entertainment, which is not only a commercial product but also a cultural expression, the South Korean state has had the difficult task to find a road between protecting the cultural identity and allowing market forces to work towards creating winners and losers based on competitiveness of the product (Kim, 2004).

In 1994, the politicians of South Korea caught notion of the commercial opportunities of the cultural industry when a report was publicized stating that the Hollywood film Jurassic Park with all its spin-off products generated revenues totalling more than two years of foreign sales of Hyundai cars, the value of 1.5 million cars (Shim, 2002). The new insight about the possibilities of revenues from the media industry led to adopting new policies to promote the media industry, among them tax breaks, and the Korean conglomerates were encouraged to invest in the hitherto overlooked mass media industry.

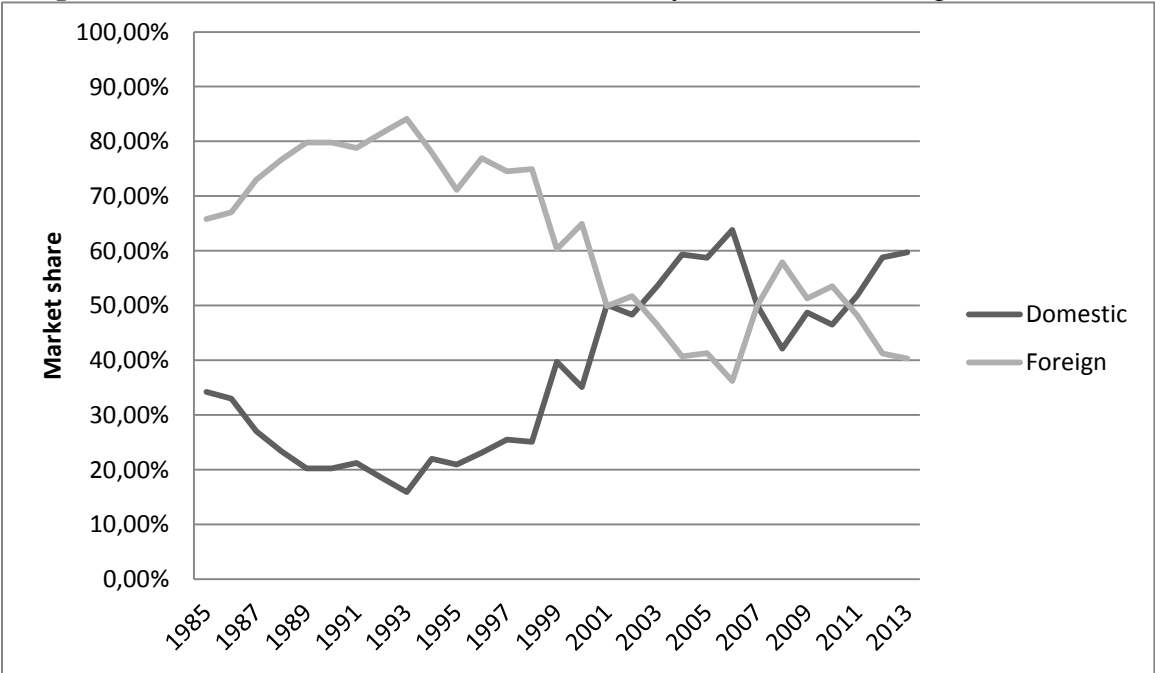
Consequently, it became easier to attract investors. Several factors may explain the success of the commercialisation of the Korean film industry. One factor is the financial input into the industry from the Korean conglomerates, Chaebol, which gave Korean films means to produce films of higher quality. Korea's largest film producers today are backed by CJ Group, Lotte Group, Orion Group and KT Group. The largest Korean conglomerates Hyundai,

Samsung and Daewoo have also actively participated in different aspects of the film industry (Shin, 2005).

The screening quota was subject to much debate and in 2002 the ministry of culture and tourism put forward a proposition for cutting the quota; from 1 July 2006 it was reduced to 73 days a year (Choi, 2007). The motive for the quota was to protect Korea’s cultural identity. However, the regulations did not prescribe what a Korean movie should be like except that it was to be produced by a Korean studio. The result was many low budget films that were making a loss and did not display Korean characteristics. It became an inducement for importing financially successful American films (Lee, 2003).

The Korean market share for domestically produced movies has varied greatly over the last 50 years. It was as high as about 50% at the end of the 1960s. During the following decades the share declined year by year until it accounted for about 20% in the latter half of the 1980s and early 1990s. At this time there were a lot of changes in South Korea related to the democratization process. Many quotas and other government policies that had regulated the market were changed or removed. From the mid-1990s until 2001 the Korean films steadily took market shares and by the end of 2001 reached a share of 40%; at the same time United States recorded a share of 42.3% in the Korean market in 2003. During the last ten years Korean produced films have held a market share between 50 and 60%.

Graph III South Korean box office market shares by domestic and foreign industries



Source: Korean Cinema, 2013.

Even though the number of foreign films brought to the Korean market vastly outnumbers the Korean films, in 2013 there were 183 Korean films screened while foreign films were as many as 722 (Korean Film Council, 2013), there is a strong trend of Korean films outdoing foreign films in admissions and Box Office ratings. This can be explained by the fact that the Korean market as a whole has had a strong growth ever since the 1990s (see Table V). A strong home markets benefits the domestic industry more than the foreign companies but in the end it benefits both. As a result there is a greater market even for foreign films than before and this has led to more foreign films being imported since the film medium has very small distribution costs.

Table V South Korean film producers and market 1985-2013

Year	Studios	Features	Box Office (Million US \$)	Market Share (Domestic)
1985		80	*	34.2%
1986		73	*	33.0%
1987		89	*	27.0%
1988		87	*	23.3%
1989		110	*	20.2%
1990		111	*	20.2%
1991		121	13.72	21.2%
1992		96	14.16	18.5%
1993		63	15.50	15.9%
1994		65	16.31	22.0%
1995		64	16.67	20.9%
1996		65	17.57	23.1%
1997		59	20.65	25.5%
1998		43	22.38	25.1%
1999		49	24.79	39.7%
2000		59	29.97	35.1%
2001		65	45.36	50.1%
2002		78	54.80	48.3%
2003		79	*	53.5%
2004		*	*	59.3%
2005		*	*	58.7%
2006		108	870	63.8%
2007		112	940	50.0%
2008		108	920	42.1%
2009		118	1030	48.7%
2010		140	1100	46.5%
2011		150	1160	51.9%
2012		175	1370	58.8%
2013		183	1460	59.7%

Source: Korean Cinema, 2013.

5.2 Similarities with Korea

It is difficult to find a lot of hard evidence that China's leaders are trying to emulate South Korea in their ambition to grow China's cultural industry. However, from examining film industries in both countries some similarities can be detected.

China has, just like South Korea did, imposed a quota on imported foreign films. Many of the reasons for this policy are shared with the former South Korean regime's idea on how to protect the domestic film industry. The native cultural identity is one of the strongest reasons. Some other important reasons for this interventionist policy are that the industry is too weak to face competition from primarily Hollywood and that the media is used for propaganda purpose to educate the people.

There are many similarities between the development of the Chinese and Korean film industries but since the political situation differs there are also differences. Both markets have thrived after being gradually opened towards foreign film by allowing more freedom for film producers as well as bit by bit letting go of the quotas. The import quotas have also differed in form. In China they have been limited to a fixed number of feature films whereas in South Korea they have been tied to a ratio based on the number of films produced by the studio. China also went ahead with the strategy that large groups are beneficial to a strong film industry but instead of allowing private companies the major Chinese film groups are still state owned although these companies are much more independent and professionalized today. In concrete examples there are fewer similarities but in the essence of what both countries are trying to achieve there is a similar trend. The differences can be partly explained by the different sizes of home markets.

Both nations have had cultural identity as a reason to protect the domestic market from being flooded by foreign media projecting different cultural norms. It has however in both countries proven difficult to define and protect the cultural identity; the effect has often been a restriction on creativity. This has been detrimental to the ambition of spreading the cultural projection within the country as well as abroad and has also created an industry that does not live up to its potential in economic terms with low revenue streams due to mismanagement.

China of today has also a more export oriented mind-set when it comes to the cultural industry. New policies are adopted to mimic models such as the Korean policy (Jin & Otmazgin, 2014). The censorship has become less strict to favour a more creative climate to nurture new talents; however to a lesser extent compared to South Korea.

Both China and Korea holds a majority share of their domestic box office figures and they have followed each other quite closely over the years. What sets the two countries apart are the dramatic increase in export revenues from the Korean cultural sector – it may be here that China would want to look closer into what has caused this export success.

6. Conclusion

China is already the world's second largest cinema market, overtaking Japan by the end of 2012. Many forecasts show that even with a slower growth pace in the coming years China will overtake the position as the world's largest market in cinema from the United States before the end of this decade. Although this extreme growth started at a time when the Chinese film industry was quite weak most of the box-office takings can be credited to domestic productions and it has remained strong, keeping its market share and even increasing it over the last 10 years.

China's ambition is to have a competitive cultural industry that stands for a significant share of the nation's GDP. To realize this ambition the industry has to expand beyond its borders and become an export industry just like less creativity intense industries in China and like Hollywood in the US. China has intentionally studied other successful cultural industries to implement their lessons in a model that tries to mix foreign and home-grown policies.

The Chinese government has strived to follow the international model for film trade by subsidizing domestic films produced by the most skilled artists. The most important factor for the growth in the home market is the increased migration and growing middle class together with the improved theatre infrastructure. The building boom and modernized theatre infrastructure has allowed a greater exposure.

China has a clear strategy of how to enhance the current factor endowments within the country's borders. With the policies developed over the last 25 years or so both internal and external resources are poured into the film industry. Skilled labour from Hollywood is much more common in China today than in both the 1990s and the 2000s. Thus, China should soon be able to have factor endowment equal to the most developed nations in Asia, and in the future even the US. Since opening up the market China's home market has also grown intensely on this side of the millennia. With equal factor endowments and the largest home

market in the world after the US China has managed to fulfil the first conditions for becoming a net exporter of film.

China has through the way it is governing the film industry and the country as a whole made it possible to draw advantage of the economy of scale. China has the largest population on earth but its film market has not been close to match the other large film markets. After raising the income levels and purchasing power of a large share of its population. China is turning into a country that not only produces goods but also consumes products beyond the most basic ones, thereby; making it feasible for film companies to produce an expensive movie whose costs can be spread over a much larger audience than was possible before. Even though the market has increased over the last fifteen years the average production value of Chinese films have remained fairly constant. A possible explanation of this is that the output of films has exploded and the market only supports a few blockbusters whose budgets are much higher than the average. Some blockbusters are co-productions between China and the US and these film budgets are not accounted for since those films are mainly produced outside of China.

With the improvement of the quality of the Chinese films and larger market which improves the feasibility for economies of scale and films with large production values the cultural discount has made its presence more noticeable. The Chinese box office market is despite increased exposure from foreign competition dominated by domestic producers like the South Korean. When competitive options are offered many viewers' preferences are biased towards films with the same culture and language as their own.

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Appendix

Table 1

Year	Studios	Features	Box Office (Billion Yuan)	Market Share (Domestic)
1990	22	134	2.22	(64.8%)
1991	22	130	2.36	(76.1%)
1992	22	170	1.99	(68.5%)
1993	22	154	1.3	(63.9%)
1994	22	148	1.1	*
1995	30	146	1.73	20.0
1996	30	110	1.74	25.0
1997	31	88	1.56	31.0
1998	31	82	1.45	37.0
1999	31	102	0.85	44.0
2000	31	91	0.96	47.0
2001	27	88	0.84	43.0
2002	31	100	0.95	41.8
2003	31	140	1.1(+16%)	41.0
2004	31	212	1.5 (+36%)	55.0
2005	32	260	2.0 (+33%)	55.0
2006	32	330	2.6 (+30%)	55.0
2007	32	402	3.3 (+27%)	54.1
2008	33	406	4.3 (+30%)	60.0
2009	31	456	6.2 (+44%)	56.6
2010	31	526	10.2 (+65%)	56.3
2011	31	558	13.1 (+28%)	53.6
2012	31	745	17.1 (+31%)	48.5
2013	31	638	21.8 (+27%)	58.6

Sources: CSY 2014; China Film Industry Research Report 2013; EntGroup; CFY.

Table 2

Year	Cinema Chain	Cinemas	Screens	New Cinemas	New Screens	New Screens per day
2002	35	872	1845	–	–	–
2003	32	1045	1923	173	342	0.94
2004	33	1188	2396	143	443	1.21
2005	36	1243	2668	55	272	0.74
2006	33	1326	3034	182	366	1.00
2007	34	1427	3527	102	493	1.35
2008	34	1545	4097	118	570	1.26
2009	37	1680	4723	142	626	1.70
2010	38	1993	6256	313	1533	4.20
2011	39	2796	9286	803	3030	8.30
2012	46	3442	13118	646	3832	10.50

Source: The research report on Chinese film industry, 2013.

China box office top 10 2010-2014

Table 3.1 Box office top 10 2010

#	Title	Country	Revenue mn ¥
1	Avatar	US	1,391
2	Let the Bullets Fly	CN/HK	674
3	Aftershock	CN/HK	665
4	If You Are the One 2	CN/HK	482
5	Inception	US/UK	475
6	Detective Dee and the Mystery of the Phantom Flame	CN/HK	304
7	Alice in Wonderland	US	223
8	Harry Potter and the Deathly Hallows – Part 1	UK/US	221
9	Ip Man 2	CN/HK	219
10	The Expendables	US	212

Source: EntGroup

Table 3.2 Box office top 10 2011

#	Title	Country	Revenue mn ¥
1	Transformers: Dark of the Moon	US	1,111
2	Kung Fu Panda 2	US	617
3	The Flowers of War	CN	596
4	Flying Swords of Dragon Gate	CN/HK	542
5	Pirates of the Caribbean: On Stranger Tides	US	476
6	Harry Potter and the Deathly Hallows – Part 2	UK/US	419
7	The Founding of a Party	CN/HK	412
8	Love Is Not Blind	CN	352
9	The Smurfs	US	263
10	Fast Five	US	263

Source: EntGroup

Table 3.3 Box office top 10 2012

#	Title	Country	Revenue mn ¥
1	Lost in Thailand	CN	1,264
2	Titanic (3D)	US	977
3	CZ12	CN/HK	879
4	Painted Skin: The Resurrection	CN/HK	726
5	Mission Impossible: Ghost Protocol	US	648
6	The Avengers	US	575
7	Life of Pi	US	570
8	Men in Black 3	US	520
9	Ice Age 4: Continental Drift	US	458
10	Journey 2: The Mysterious Island	US	371

Source: EntGroup

Table 3.4 Box office top 10 2013

#	Title	Country	Revenue mn ¥
1	Journey to the West: Conquering the Demons	CN/HK	1,246
2	Iron Man 3	US/CN	753
3	So Young	CN	717
4	Personal Tailor	CN/HK	712
5	Pacific Rim	US	694
6	Young Detective Dee: Rise of the Sea Dragon	CN	600
7	American Dreams in China	CN/HK	537
8	Police Story 2013	CN/HK	532
9	Finding Mr. Right	CN/HK	519
10	Tiny Times	CN	483

Source: EntGroup

Table 3.5 Box office top 10 2014

#	Title	Country	Revenue mn ¥
1	Transformers: Age of Extinction	US/CN	1,978
2	Breakup Buddies	CN	1,169
3	The Monkey King	CN/HK	1,043
4	Interstellar	US	753
5	X-Men: Days of Future Past	US	723
6	Captain America: The Winter Soldier	US	720
7	Dawn of the Planet of the Apes	US	709
8	Where Are We Going, Dad?	CN	695
9	The Breakup Guru	CN	665
10	The Continent	CN	628

Source: EntGroup