How Chinese Filmmakers Effectively Respond to Chinese Government Policy for Enhancing Their Competitiveness

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Abstract

In spite of the substantial liberalization of China's film industry, it is still highly regulated and protected from foreign competition through a series of policy measures. In the midst of pushing both liberalization and protectionism, Chinese firms tend to exploit favorable government policies and avoid restrictive regulations through alternative options to maximize profits. Most preceding studies emphasized the liberalization efforts by the Chinese government as a significant contribution to the film industry, while neglecting the response and strategies of Chinese filmmakers that have upgraded their overall competitiveness. Therefore, this paper aims to examine the government-firm interplay and their influences on the enhanced competitive advantages of Chinese filmmakers and the film industry, by utilizing the theoretical framework of the ABCD model to demonstrate this interaction. Based on the comprehensive analysis of both Chinese achievements and remaining challenges, this study further provides useful policy implications for improving China's film industry.

The Chinese state’s role in the development of the film industry

Over the past few decades, the Chinese film industry has gradually transformed itself from a tool of propaganda to a commercially oriented cultural industry (Davis, 2010; Lu, 2016). Since 2012, it has emerged as the second-largest film market after the United States (Aranburu, 2017) and is expected to surpass it in the coming years. Not only in terms of market size, but also the quality of Chinese films has improved substantially. Its domestic film market used to be dominated by imported foreign films, Hollywood ones in particular, but since the mid-2000s the share of Chinese films has overtaken that of the imported blockbusters. Domestic films accounted for 62 percent of China's film market in 2018 (Davis, 2019). Many of the studies that touch upon the evolution of China’s film industry tend to emphasize the role of the government on account of its deregulation reforms and globalization policies (Aranburu, 2017; Yeh and Davis, 2008; Zhu, 2002).

Zhu’s (2002) key study on changes in China’s progressive film policy showed how the government’s reforms rescued the industry by focusing on the period between the mid-1980s and the mid-1990s. Zhu and Nakajima (2010) examined the industrial policies from the mid-1920s to the mid-2000s, and acknowledged that the Chinese government has managed well the marketization of its film industry, partly due to effective policy-making that contributed to the film industry’s evolution over the last one hundred years. Su (2014) investigated the more recent period of 1994-2012, and argued that the Chinese government demonstrated its ability to incorporate both market forces and global resources under its control. In this way, it was able to prevent the domestic film market from being dominated by foreign films. Rezaie (2013) reviewed the same period from the mid-1990s to the early 2010s and pointed out that China’s open-door policies towards the film industry such as importing the Hollywood blockbusters and incentivizing the international co-productions have encouraged the domestic film industry to shift toward a profit-driven entertainment business. This has also led to an increase in the number of domestic film productions and the development of co-produced films between the United States and China. Lu (2016), on the other hand, focused on the role of the government in the movie exhibition sector of China’s film industry, and suggested that its deregulation policy, which encouraged the private sector’s investment, had a significantly positive impact on both the industry’s development and also public life and behavior.

However, the government’s reforms and measures toward globalization do not automatically lead to the commercial success of Chinese films. The effectiveness of the government’s policies depends on how it understands the firms’ business ecosystem and facilitates the growth of their activities (Moon and Yin, 2017). Despite the deeper level of marketization and commercialization, the Chinese government did not liberate it from ideological control (Zhou, 2015). Zhou further argued that China’s dual-track censoring mechanism and double standards toward foreign and domestic films have become an obstacle for creativity and competitiveness among Chinese films in the international market. A more recent study by Aranburu (2017) also criticized that
regulations of the Chinese government have always been passive and a consequence of overall economic policies rather than an active will to reform the creative industries of the country. Firms, not the government, create values for consumers (Porter, 1990). As China’s film industry shifts toward a more commercially oriented approach, filmmakers are playing a more important role in shaping the industry. Preceding studies, however, overemphasize the government’s role in enhancing the competitiveness of film industry. Thus, the role of filmmakers is often neglected or downplayed, as firms are commonly considered as passively following the government’s policies. In this regard, this study fills the gap in the literature by exploring the dialectic interactions between the government and filmmakers. To be specific, this article aims to understand how firms proactively respond to government regulations – exploiting favorable policies while avoiding unfavorable ones – that contribute to their competitiveness.

To this end, this paper applies Moon’s (2016) ABCD framework to provide a more systematic and comprehensive analysis of existing studies and investigate the government-firm interplay and its impact on the competitive advantage of filmmakers. One of the strengths of this model is that it is particularly useful in explaining the successful strategy of latecomers’ catchup and development, as it emphasizes how one can achieve competitive and sustainable advantages even though one does not possess any conventional competitive advantages (e.g., technology, capital) vis-à-vis rivals in the beginning. Therefore, the ABCD model can better capture the relevant factors addressed by the previous studies on the development of the Chinese film industry.

The remainder of this paper is structured as follows. We introduce the theoretical framework for this paper which is the ABCD framework. This paper then applies it and systematically analyzes the interplay between the key government deregulation policies and reforms in the film industry as well as the strategic response to these government’s policies among firms for their survival and development. Next it discusses how this interplay contributes to the competitiveness of filmmakers and the film industry, as well as the remaining challenges. Finally, the contribution of this paper and its policy implications for the sustainable development of the Chinese film industry will be provided.

### Theoretical framework

The ABCD model was first developed to analyze the strategy for Korea’s economic success, but later has been widely applied at various levels of nation (Moon and Yin, 2017), industry (Moon, 2017), and firm (Moon et al., 2015). It is composed of four factors: agility, benchmarking, convergence, and dedication. The first factor agility includes two types of speed – entry speed and process speed. The theories of business and strategy developed by Western scholars often focus on the importance of entry speed, such as first-mover advantage. However, process speed is particularly important for latecomers in order for them to catch up with industry leaders and to operate in a rapidly changing market. Moreover, speed should be accompanied with precision in order to satisfy customer demand and achieve sustainable competitive advantages in the market.

The second factor, benchmarking, refers to the adoption of current industrial best practices as a way to enhance competitiveness more efficiently. Western business scholars tend to mainly emphasize the importance of obtaining unique and inimitable resources that can maintain competitive advantages against one’s rivals. Still, this approach is difficult for latecomers who lack the resources and capabilities. It is therefore safer and more effective for them to learn initially the experiences of successful firms that have been proven in the market.

The third factor, convergence, is composed of mixing and synergy creation. Conventional business theories prefer related diversification given its larger advantages when compared to the unrelated diversification. However, in reality, many companies have succeeded by pursuing both related and unrelated diversification. The revolutionary success of Apple’s iPhone should also be attributed to its convergence strategy by connecting phones, cameras, and the Internet that seemed to be unrelated. Here, the synergistic combination through either related or unrelated diversification could allow firms to achieve superior performance.

Regarding the fourth factor, dedication, previous studies have overvalued the importance of innovation and creativity, such as inspiration (Krugman, 1994) and strategic positioning (Porter, 1996). Yet, the basis of competitiveness should be first on setting the goals and committing all efforts to them. Latecomers should set an appropriate goal given their capabilities and the surrounding environment. Diligence and hard work should be added to help catch up with the industry leaders. The process of upgrading goals and establishing full commitment has led to superior performance of successful firms.

The following section uses the ABCD model to explain the government-firm interplay as an interdependent system which has contributed to the growth of China’s film industry.

### The ABCD approach to the government-firm interplay

This paper aims to analyze how government policies and firm responses have contributed toward enhancing the competitiveness of Chinese commercial films, and have been able to successfully compete against imported Hollywood films. As such, this paper will focus on the key government policies for liberalizing and marketing the film industry from the mid-1990s when China imported ten blockbusters and will also investigate the response among Chinese filmmakers across the four aspects of the ABCD model. Many preceding studies (e.g., Aramburu, 2017; Su, 2011, 2014) have divided this period into two terms: from mid-1990s to 2000, and from 2001 to the present depending on the policy features and changes. The first period is seen as the recovery period thanks to the import of Hollywood blockbusters, while during the second period Chinese film industry
experienced a boom due to a series of industrial restructuring and reforms which led to the influx of private and foreign investors. Although there have been no significant changes in the industrial policies and reforms since 2010s (Zhang, 2017), Chinese firms have proceeded further in response to the changing patterns of competition in the film industry by converging with non-film industries. From this perspective, this paper divides the period, from the mid-1990s to the present, into three sub-periods. In each of these sub-periods, the variables of the ABCD model have a different focus on explaining the overall path of Chinese film development. Although each sub-period can be described using all four variables of the ABCD model, in order to capture the key features of each period, this paper highlights the most important aspect that has contributed to the evolution of the Chinese film industry. The agility aspect seeks to explain how government policies and firms have quickly responded to the market, thereby securing the domestic film industry in the mid-1990s. Given the continuous decline of the Chinese film industry during this time and despite the opposing social parties toward importing Hollywood films, the China Film Export and Import Corporation (CFEIC) promptly organized the general managers of the nation’s distribution companies in September 1993 and sought a series of measures to obtain the approval for the revenue-sharing plan (Su, 2016). Within a few months, the Film Bureau approved this in early 1994, and such policy adoption has accelerated the process of marketization and commercialization for domestic filmmakers (Darrell and Davis, 2010; Rezaie, 2013; Zhu and Nakajima, 2010). The benchmarking aspect aims to illustrate how the Chinese film industry was further liberalized and how it adopted the global standard, thereby being able to produce quality films comparable to those of imported Hollywood films during the 2000s. The convergence aspect then helps understand how Chinese firms could effectively mobilize the available resources and out-compete Hollywood films in terms of box office success in China during the 2010s. Lastly, the dedication factor helps explain what the drivers are behind the shift of Chinese government and firms towards commercialization from the mid-1990s to the present. The details for each aspect will be explained in the following part.

**Agility**

**Government policy: importing foreign films to boost the film market**

Because of the underdeveloped studio system and its operations, Chinese films were unable to satisfy the market demand. Facing a large gap between film production and market demand, the industry endured major losses at the box office and a shrinkage of the market into the early-1990s (Zhu, 2002). In order to bring audiences back, the government decided to open the film market and import 10 internationally successful films in terms of box office performance, mostly Hollywood blockbusters. The imported Hollywood films achieved great success in the Chinese film market as they brought audiences back to the theaters and boosted box office receipts. In 1994, Hollywood films accounted for 60 per cent of Chinese box office receipts, and this number increased to 70 per cent by the turn of the 21st century (Su, 2016).

Foreign films though faced the challenge of going through rigid censorship in order to be distributed and screened in the Chinese market. At the same time, in order to produce high-quality films that could compete against Hollywood films, the Chinese government introduced the ‘9550 Project’, by sponsoring the production of main-melody films. The government demanded that the 16 state-owned studios produce ten high-quality films a year within five years from 1996 to 2001. In addition, the government also required that two-thirds of films distributed should be domestic films, and two-thirds of the screening time should be allocated for domestic films (Zhu and Nakajima, 2010).

**Firm response: seeking alternative options for survival**

Despite the government’s financial support, the main-melody films failed to appeal to Chinese audiences. This was due to the fact that these films were designed to promote the state’s socialist ideology, but Chinese audiences were more enthusiastic about market-oriented Hollywood blockbusters. Local distributors also preferred to supply imported films because of their higher market demand and profitability. Furthermore, many cinemas did not follow the government’s regulation on providing favorable conditions for domestic films. On the other hand, Chinese filmmakers in the mid-1990s have sought to explore alternative ways for making commercial films that can appeal to a general audience yet avoid controversial subjects that would cause trouble with the censors. As these films were mainly to please the audiences, they were less politically motivated but more commercialized. Zhu (2002) has also acknowledged that domestic box-office success in the second half of 1990s should be attributed to film production through private investment.

The very successful genre in the mid-1990s was the New Year Comedies, which were exhibited during the New Year holiday season. The idea of New Year screenings was emulated from the Hong Kong Lunar New Year Film. The first Chinese New Year film was Party A, Party B (or The Dream Factory) produced by Beijing Forbidden City Film Corporation and directed by Feng Xiaogang. Thanks to its astounding success, director Feng produced other New Year films (e.g., Be There or Be Square, 1998; Sorry Baby, 1999) in the following years, and all of them have achieved box office success. State-owned filmmakers (e.g., Forbidden City, China Film Group) have been important partners of Feng’s films at the beginning. Private filmmakers such as Huayi Brothers have been the instrumental and consistent investors and producers. Moreover, since the mid-1990s, along with the entry of Hollywood films, foreign filmmakers have also become involved in Chinese film production. This has helped private filmmakers receive enough financial support and access to advanced filmmaking equipment from foreign investors (Zhang, 2008). In addition, Chinese filmmakers...
emulated Hollywood’s marketing and promotional expertise for the profit maximization (Kong, 2007).

Benchmarking

**Government policy: expanding global integration through investment and co-productions**

Although the Chinese film industry benefited greatly from importing Hollywood films, by learning the advanced production skills and technology as well as marketing and business strategies (Braester, 2015; Davis, 2010), the intercommunication and learning effects gained from imported foreign films were very limited. On the other hand, since its entry into the WTO in 2001, China has been required to import more Hollywood films. As part of these preparations for the new challenges of globalization, the Chinese government strengthened its reform of the film industry by encouraging collaboration with foreign firms. In 2002, the Chinese government issued a crucial document entitled ‘Film Managerial Regulations’ and later other complementary regulations that permitted foreign firms to invest in the film industry through joint ventures with non-state-owned companies. However, the share of joint ventures was not allowed to exceed 49 per cent.

Despite these conditions, the supplemented documents issued in 2004 granted greater rights and market access for Hong Kong investors in particular through the Closer Economic Partnership Agreement (CEPA). Co-productions between Chinese and Hong Kong filmmakers were treated as domestic films, and could be distributed without any quota limitation. The agreement allows Hong Kong companies to build or renovate movie theaters in China through joint ventures or alliances, and allows Hong Kong companies to take control of a larger share. From 1 January 2015, China-Hong Kong co-productions can also be developed outside of China if passing through the government review, and Hong Kong firms can establish wholly-owned companies in China for distributing China-made films. In addition to Hong Kong, China has so far promoted official co-production agreements with more than 20 countries, and has become one of the most active participants in international co-productions (Yin, 2019). In addition, the Chinese government has also encouraged its firms to go abroad and acquire the necessary resources to develop high-quality films. However, as with domestic films, these co-productions must receive pre-production and post-production approval from the authorities in order to be distributed and screened in the Chinese market. It should be noted though that the Chinese government has the right to deny the project at any stage of production.

**Firm response: learning best practices through international alliances**

Thanks to the CEPA, the number of co-productions between Hong Kong and Mainland China increased rapidly, with an average of more than 30 films per year since 2005. The co-produced films with Hong Kong accounted for the majority and in some years the ratio reached as high as 80 per cent.

Firms from Hong Kong brought into China factors such as capital, production skills and knowhow, talented people, which were all crucial for Chinese filmmakers to enhance their competitiveness. Unlike the China-Hong Kong co-productions in the 1990s when China mainly relied on Hong Kong’s capital and human resources, it has significantly increased its involvement in terms of capital, talents, and other resources for co-producing films with Hong Kong since the 2000s.

These international co-productions significantly enhanced Chinese film quality and its commercial success. Moreover, such cooperation provides the opportunity toward learning about professional management and advanced production system. Sharing resources and cooperation with Hong Kong companies has not only improved the scale but also the quality of Chinese films. This strategy began to show positive effects from the mid-2000s when domestic blockbusters began to achieve success in the home market. Many of them even appeared in the top ten box office films that used to be dominated by Hollywood films.1 As Table 1 shows, for the second half of the 2000s, China-Hong Kong co-produced films have achieved great market success. Out of the top ten box-office movies in China, about half were China-Hong Kong co-produced films in terms of both the number and the revenues, while the others were mainly imported Hollywood films. However, since the mid-2010s, China has increasingly produced more blockbusters of its own that appeared on the list of top ten box-office films and ticket revenues also showed a growing trend for the same period. In 2019, eight out of the ten top-grossing films in the domestic market were China-Hong Kong co-productions or films made by China solely, putting the Chinese film industry in terms of performance up against Hollywood.2 Moreover, Chinese filmmakers utilized these international co-productions to enter the global market, which has proved to be very effective. The majority of China’s exported films have been classified as international co-productions.

Convergence

**Government policy: reforms for corporate and industrial restructuring**

In addition to learning the advanced production and management system, the policy on promoting the structural transformation at both the corporate and industrial level has also contributed toward enhancing the film industry’s competitiveness. In order to formulate synergy within the various film sectors and with other non-film industries, China emulated the Hollywood model of developing large media conglomerates that can contribute to the long-term financial stability (Zhu and Nakajima, 2010). In order to support the synergy among the various film sectors, the Chinese government implemented reforms since the early 2000s. As part of this effort, it set out its deregulation policy of ‘Temporary Regulations on Access to Film Production, Distribution, and Exhibition’ in 2003 which allowed private firms to invest in the film industry. This policy helped lower the threshold for filmmaking and brought various investment sources to the
Response to Government Policy for Competitiveness

Table 1. The composition of China’s 10 highest-grossing films (2005–2019)

<table>
<thead>
<tr>
<th>Year</th>
<th>China-Hong Kong Produced films</th>
<th>Other international co-productions</th>
<th>Imported films</th>
<th>Films produced solely by China</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>unit</td>
<td>mil. RMB*</td>
<td>%**</td>
<td>unit</td>
</tr>
<tr>
<td>2005</td>
<td>4</td>
<td>405</td>
<td>47.4</td>
<td>0</td>
</tr>
<tr>
<td>2006</td>
<td>6</td>
<td>761</td>
<td>70.4</td>
<td>0</td>
</tr>
<tr>
<td>2007</td>
<td>3</td>
<td>570</td>
<td>40.0</td>
<td>0</td>
</tr>
<tr>
<td>2008</td>
<td>4</td>
<td>854</td>
<td>45.2</td>
<td>1</td>
</tr>
<tr>
<td>2009</td>
<td>5</td>
<td>140.4</td>
<td>49.8</td>
<td>0</td>
</tr>
<tr>
<td>2010</td>
<td>3</td>
<td>153.2</td>
<td>32.1</td>
<td>0</td>
</tr>
<tr>
<td>2011</td>
<td>3</td>
<td>154.5</td>
<td>30.4</td>
<td>0</td>
</tr>
<tr>
<td>2012</td>
<td>2</td>
<td>160.6</td>
<td>23.0</td>
<td>0</td>
</tr>
<tr>
<td>2013</td>
<td>3</td>
<td>230.3</td>
<td>39.9</td>
<td>1</td>
</tr>
<tr>
<td>2014</td>
<td>2</td>
<td>192.5</td>
<td>20.6</td>
<td>0</td>
</tr>
<tr>
<td>2015</td>
<td>2</td>
<td>339.3</td>
<td>21.9</td>
<td>0</td>
</tr>
<tr>
<td>2016</td>
<td>4</td>
<td>687.9</td>
<td>48.1</td>
<td>2</td>
</tr>
<tr>
<td>2017</td>
<td>1</td>
<td>164.9</td>
<td>7.8</td>
<td>1</td>
</tr>
<tr>
<td>2018</td>
<td>2</td>
<td>584.1</td>
<td>24.2</td>
<td>0</td>
</tr>
<tr>
<td>2019</td>
<td>4</td>
<td>923.8</td>
<td>32.6</td>
<td>0</td>
</tr>
</tbody>
</table>


The film sector, which used to be dominated by state-owned companies. This has further encouraged the establishment of large media corporations by expanding into upstream and downstream industry chains in order to encourage the production of big budget films that were beyond the capacities of the small studios and has now become a major trend in both China and the international film market. Interestingly, this has promoted private capital flows from various industries, such as real estate developers and information technology firms. These reforms have helped Chinese filmmakers improve the managerial efficiency and adaptability to the market changes (Wei and Li, 2019).

Firm response: mega-media conglomerates and industrial integration

As directed by the Chinese government, the film industry has integrated and entered the age of conglomeratization since the 2000s. Seven major state-owned film companies integrated film production, distribution, and exhibition chains across various regions during the period from 1999 to 2008 (Wei and Li, 2019). Private firms have also entered the film business, and continuously enlarged the scale and scope of their film businesses by acquiring small film companies. Currently, private giants such as Huayi Brothers, Enlight Media, and Huace Film and Television have all been the leading force in producing, distributing, and exhibiting domestic films. As such they have been the main contributors to domestic box office revenues.

Moreover, as the Internet has become one of the major sources for video consumption among younger generations, Internet giants such as Baidu, Alibaba, and Tencent have swarmed into the film industry, by bringing the technology, capital, and content platforms. Their entry has also significantly changed the behavior and habits in film consumption. Responding to the arrival of industry outsiders, traditional filmmakers have been active in cooperating with them throughout the industry chains. The film exhibition sector has additionally attracted substantial investment from real estate companies such as the Wanda Group. The growing investment from real estate developers was due to the number of multiplexes that were rapidly springing up in shopping malls across the country. On the other hand, despite the thriving film industry and fast growth, only a few filmmakers have made profits and growing production costs involves high risks. In this respect, Huayi Brothers took the lead in pursuing the ‘de-cinematic’ strategy by decreasing the dependence on revenues from theatrical box office, and expanding non-box office revenues in the industries such as gaming, manufacturing derivative products, and location-based entertainment development.

Dedication

Government policy: the government’s shifting attitudes toward commercialization

The government’s measures for marketization and commercialization of China’s film industry were driven by the changing role of the film industry in the nation’s economy and society. In the mid-1980s, the government for the first time stated that the industry should be a part of the cultural industry, instead of acting as the propaganda tool of reinforcing the government’s ideology. In 1986, China Film Company’s supervision was moved from the Ministry of Culture to the Ministry of Radio, Film, and Television. Such an administrative change shows how the film business was being reclassified as a cultural industry rather than as a
propaganda apparatus (Zhu, 2003). Since the Chinese Communist Party’s (CCP) 15th National Congress in 1998, the government has speeded up the marketization process of the film sector. The Propaganda Minister even stated that ‘film should be a cultural product and cannot be independent of the market economy’ (Su, 2011). The 16th National Congress in particular formally put forward the idea of ‘cultural industries’ and set the foundation for the massive transformation toward a new film industry.

Moreover, the development of new media has prompted a growing number of private and international investors to participate in the Chinese film industry, which in turn has pushed the boundaries of censorship forward (Zhou, 2015). This has emerged due to the fact that China has had to allow more diversity in its films as it seeks to expand its cultural influence around the world as a form of soft power. For example, in order to attract a wider audience, the official definition for main-melody films has changed over the decades. It has sought to commercialize these propaganda movies while downplaying their political messages so long as they do not contradict the national interests (Lu, 2016). Recently the government even sought to strengthen its ideological control of the media (Krolikowski, 2017), as it comes up to the 70th anniversary of the state’s founding. In this respect, the Chinese government has pledged to strengthen censorship and ideological control over film and TV content, by encouraging the production of films that tell positive story about China. However, these films have mostly demonstrated a weak performance in the market. Zhu (2019) argued that a positive China story will not help Chinese films go global and hence the heightened censorship and control might be short-lived.

Firm response: adopting various commercialization strategies

Chinese filmmakers’ orientation toward commercialization was influenced noticeably by the influx of foreign films since the mid-1990s. In order to compete against Hollywood blockbusters and attract a wider audience, Chinese filmmakers had to begin producing more commercially-oriented films. Since 2000, the number of commercial films has increased to a higher level and has even produced a group of successful commercial directors. The surging demand for coproductions with Hong Kong filmmakers has also driven a desire to learn more about their successful business models in order to generate more profits. As a result, the current generation of Chinese directors have become entrepreneurs as they are not only responsible for film production but also act as film advertisers and promoters (Braester, 2005). As such commercial films require more funding, product placement has become an increasingly useful tool to finance them (Leung, 2015). About 40 per cent of Chinese commercial films utilized product placement for financing in 2013. In addition to the production skills and technology, Chinese filmmakers further adopted Hollywood-style marketing strategies and developed their own brand name products such as New Year Comedies, Martial Arts, and Urban Romances, tailored to satisfy the entertainment needs of customers (Kong, 2007).

The key points of the above analysis related to the four aspects of ABCD model are shown in Table 2. As Table 3 shows preceding studies that have analyzed the development of the Chinese film industry covered some parts of the four aspects of the ABCD model. Most of them have stressed government policy from the two aspects of agility and benchmarking, but less on policy from the convergence and dedication aspects, in particular the firm response has not been emphasized much. By applying the ABCD model, this paper can thus more comprehensively and systematically incorporate all four variables of the ABCD model from both government and firm perspectives. The following section will discuss more on how the government and firms have influenced each other, which in turn stimulated the sustainable growth of the Chinese film industry.

Discussion and implications

This paper reveals that for the past few decades the Chinese government has carried out different policies and regulations according to the changing industry conditions. There are normally two approaches toward improving competitiveness – overcoming disadvantages and creating new competitive advantages (Moon, 2016). Chinese policies have sought to pursue these two strategies simultaneously which has led to more sustainable growth. Su (2016) has also argued that internal factors were the main reasons for Chinese policy changes in the film industry. The government first identified the problems and pursued an appropriate strategy to solve them. Such a process ultimately contributed to the generation of new competitive advantages and led to a higher industrial development stage.

The government’s policies though are not enough to explain the recovery and booming nature of the Chinese film industry. The private sector emerged as an important driver for its growth as the industry became more liberalized and marketized. Chinese firms are not the prisoners of predefined rules by the government. Instead, they have sought out alternative solutions to maximize their benefits. For example, despite the failure of the Chinese government to respond to the influx of Hollywood films, private investment and the efforts to seek alternative options for producing commercial films have played a significant role in rescuing the domestic film industry and paved the foundation for further development in the 2000s.

The business practices among firms have also affected the government’s attitudes and pushed their regulations toward a higher level of liberalization and globalization. For example, although the policies towards China-Hong Kong co-productions have played a critical role in promoting Chinese films to global standard, its role has diminished since the 2010s, and the demand for co-productions with Hollywood studios has been growing. In this regard, the Chinese government has acknowledged the importance of cooperation between large domestic entertainment companies and leading US film studios to improve further the quality of
films, and this has been emphasized in the Film Industry Promotion Law which was introduced in 2016. Moreover, in response to the growing integration of film industries with other related industries, the Chinese government has introduced relevant regulations for online services to serve as a guide for effective operations of traditional and new players in the film industry.

The development of China’s modern film industry emerged later than its Western counterpart. However, through the process of solving problems and developing new competitive advantages that can be explained well by the strategic approach of the ABCD model, China has become a fast and emerging latecomer in this field. Still, it lags far behind when compared to Hollywood studios. The remaining challenges and policy recommendations of China’s film industry can be summarized from the four aspects of the ABCD model.

First, over the past few decades, the Chinese film market has achieved substantial growth at a two-digit annual growth rate. Despite the improved degree of marketization and globalization, the film industry is still heavily regulated and controlled by the government. Therefore, more freedom of doing business for firms must be allowed in order to improve their managerial efficiency (agility). Second, China has deepened its globalization by increasing the trade quota and deregulation for investment, which have facilitated the emulation of global best practices and cooperation. However, its films mainly aim to serve the domestic market which reveals the need to further improve the competitiveness of films to appeal more to the global market (benchmarking). Third, despite the industry’s enhanced competitiveness through deregulation, the film industry is still structurally underdeveloped and requires further development through synergistic convergence with other industries (convergence). Last, although the government has changed its attitude toward the film industry in favor of commercialization, firms are still struggling with striking the balance between propaganda and commercialization. In this respect, commercialization should be regarded as a complementary tool toward enhancing China’s soft power (dedication).

<table>
<thead>
<tr>
<th>Competitiveness Factors</th>
<th>Government’s policy</th>
<th>Firms’ response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agility</td>
<td>Importing Hollywood blockbusters for reviving of the film market</td>
<td>Seeking commercial films but avoiding controversial subjects</td>
</tr>
<tr>
<td></td>
<td>Main melody films and protectionist regulations against imported films</td>
<td></td>
</tr>
<tr>
<td>Benchmarking</td>
<td>Allowing investment from foreign firms</td>
<td>Learning cinematic techniques through global alliances, for example from Hong Kong or Hollywood</td>
</tr>
<tr>
<td></td>
<td>Establishing official co-production agreements to promote the film industry</td>
<td></td>
</tr>
<tr>
<td>Convergence</td>
<td>Corporate structural reform to create synergy within the film sector</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Deregulation for private sector investment and cross-industry synergy</td>
<td></td>
</tr>
<tr>
<td>Dedication</td>
<td>The government’s conceptual changes toward commercialization</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Allowing more diversity for attracting global audiences</td>
<td></td>
</tr>
</tbody>
</table>

Table 2.

China’s government-firm interplay for the film industry’s development

<table>
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<th>Competitiveness Factors</th>
<th>Government’s policy</th>
<th>Firms’ response</th>
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Table 3.

Comparison between preceding studies and this study

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Protectionist policies may help the industry in the short run, but they will hinder its competitiveness in the long run. Such an inefficient policy could even delay industrial development, as evidenced by Chinese film policies during the mid-1980s and the mid-1990s. Effective government industrial policies should be in line with the development level of filmmakers and consumer needs. Moreover, as film production activities increasingly spread internationally, policies should be designed within such a context instead of restricting the location and ownership of all value activities within a strict domestic setting. Globally successful films have demonstrated that in order to be attractive, the national identity should be minimized instead of being strengthened (Yin, 2019).

Conclusion
This paper has applied the ABCD framework and systematically analyzed China’s key film industry policies by investigating how they have influenced the development of its commercial films. This paper further investigated firms’ strategic responses to government policies that have helped them exploit favorable policies and avoid unfavorable regulations. Here, we found that firms and industry development should be attributed to both the government’s policies and firms’ effective engagement. The influences between the government and firms are bilateral rather than unilateral. Based on the above analysis and discussions, the following policy recommendations can be summarized as follows.

First, the Chinese government is still hesitant about further liberalizing the film industry. It continues to intervene in the film industry as a way to solidify the national identity and culture. However, such control will be an obstacle to further development of the film industry. The government should redefine its role and position in the film industry.

Second, regarding the relationship with foreign investors, there remains strong censorship and protective policies against foreign firms across various channels of cooperation (trade, foreign direct investment, and international co-productions). So far, Chinese firms have mainly pursued cooperation with foreign firms through co-production, whereas other channels are still heavily restricted. However, the long-term sustainable development of Chinese film industry requires a more diversified approach between China and its foreign parties.

Third, as the relationship between the government and firm is bilateral, the government should not unilaterally impose its policy on firms. This would be ineffective for both its objective of expanding soft power and the competitiveness of the firm. They are interdependent. The goal of enhancing soft power depends heavily on the international competitiveness of firms rather than the government’s strategic promotion alone.

Last but not least, there are two main ways to provide a business-friendly environment, financial subsidies and deregulations. Deregulations will facilitate the mobilization of various resources and create efficient competition which can then further improve productivity, whereas financial subsidies are directed toward specific targets and will often distort the market as evidenced in the 1990s when Chinese firms sought to develop their main-melody films. Compared to the former, the latter policy is more effective given that it requires fewer financial resources and is a main concern for global firms when they select a target country for investment. Although China has pushed forward to a more commercially oriented industry, the shift is still slow relative to the business practices of firms. For long-term industrial development, China should more proactively deregulate the industry to make it more globally attractive.

Notes
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1. Although there is criticism that China has inflated the numbers of box office revenues, the statistics in Table 1 helps show the general trend of growth for Chinese films.

2. The values of Chinese films have improved in diverse genre pictures such as animated and science-fiction films. The “main melody films” have also evolved in China’s film industry by incorporating artistic and commercial elements, thereby appealing to domestic audience (Asia Dialogue. 2019). In 2019, the main melody films have particularly benefited from the celebration of the 70th anniversary of the founding of the People’s Republic of China, and has experienced a renaissance in that year (People’s Daily, 2020). Three main melody films appeared in the list of the top ten box-office films in 2019.

References


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