The impact of protectionism on cultural industries: the effect of China’s film policies on imported films

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ABSTRACT
Hollywood studios have actively sought to export more films to China in order to benefit from its huge film market. Facing this expansion, the Chinese government has introduced quotas in order to restrict the market access of foreign films while protecting its domestic film industry and preserving Chinese values. Nonetheless, this protectionism has brought about an unexpected effect; a limited number of Hollywood films in China have been able to attract large audiences and even exert a strong influence upon society. This paper examines how this paradox has been possible. First, it compares the level of China’s overall protectionism with other countries. Second, China’s two main policy instruments in the domestic market are scrutinized: import quota (buy-out and revenue-sharing models) and screen quota. In revealing their true effects, this paper demonstrates that these instruments of protection have produced unexpected negative business practices that foster rather favorable conditions for US films in China which is contrary to what the Chinese government is seeking to achieve.

China’s film market is one of the largest in the world and offers much potential given the size of its audience. Already China’s film industry produces more films than the United States (US); 874 compared to 660 in 2017 (UNESCO Institute for Statistics, n.d.). In terms of box office admissions for the same year, China has surpassed the US while since 2012 the size of its revenues has become the second largest in the world. Even in this category, it is expected that the Chinese market will overtake the US in the near future (Deloitte Global, 2017). In 2019, the share of China’s film market is almost one-third of the Hollywood studios’ global box office revenues.

This story was very different a few decades ago. The number of films produced and the market size in China were very marginal compared to the rest of the world as its film industry was mostly exploited for propaganda purposes and the market was underdeveloped. In such an environment, there was very little concern for the economics and business of the film industry and all production costs were subsidized by the state (Rosen, 2010). With the implementation of economic reforms in 1984, China’s film production companies became more responsible for their own costs as subsidies were sharply reduced. However, the distribution system remained underdeveloped and was fragmented across regional lines (Su, 2014). This had a number of negative effects which pushed many Chinese studios into debt and forced the state to once again extend subsidies in the early 1990s (Zhou, 2019).

As China’s economy rapidly grew in the 2000s, its film industry absorbed talent from Taiwan (or Chinese Taipei) and recruited further skilled workers from Hong Kong which helped to enhance the competitiveness of China’s film industry. With increasingly more attractive big-budget films, the
domestic market share of Chinese films reached approximately 64% in 2019 (Sohu, 2019). To enhance their operations, China’s media giants have created new distribution channels and have even begun to participate in global distribution channels which were long dominated by the Hollywood studios. For instance, the Wanda Group (万达集团) acquired the largest US cinema chain AMC Theaters in 2012 as well as its European subsidiary Odeon Cinemas in 2016. It further went on to pick up the major US film production company Legendary Entertainment in 2016 which signified a move to begin investing in foreign film production.

While its media companies expanded abroad, at home China implemented numerous measures to protect its domestic film market and industry as highlighted in Article 14 of the Film Industry Promotion Law (电影产业促进法). By using relevant protectionist measures, the Chinese government has sought to control the number of foreign films imported and censored their content in order to reduce (or limit) the impact on the domestic film industry and audiences or more broadly society as a whole. Yet, despite these efforts, just a few Hollywood blockbusters have still been able to account for around 30–40% of China’s box office revenues in a market where a large number of domestic films are released per year, notably since 2012. In other words, the impact of Hollywood films on China’s industry and market is much larger when considering the small number of films imported. How have such a small number of foreign films been able to achieve a large market share despite the protectionist measures in place? And in this regard, what are the true effects of China’s film policies and how exactly do they function toward foreign films imported to China?

In seeking to address the questions raised above, this paper begins with a critical literature review and then provides a comprehensive overview of protectionism in China’s film industry. Following this, the specific key policies and their true function and effects are analyzed. Finally, the conclusion summarizes the findings and relevant implications for other countries that are in favor of similar levels of protectionism.

Regarding the data used in this paper, they are all based on documents published by various official sources including Chinese public organizations, Center national de la cinématographie et de l’image animée (CNC), Korean Film Council (KOFIC), Motion Picture Association of America (MPA), Motion Picture Producers Association of Japan (MPPAJ), the Organisation for Economic Cooperation and Development (OECD), and United Nations Educational, Scientific and Cultural Organization (UNESCO). Furthermore, secondary data from other published academic papers, reliable media outlets, and websites are also utilized.

**Critical literature review**

When addressing the research question regarding the impact of China’s protectionism on the domestic film industry, it is important to highlight that the time frame employed for this issue is the period after 2012. This was a critical moment when the key measures – those that restricted the number of imported films in order to protect the film industry while allowing a larger share of revenues to be collected by the Hollywood studios – have been shaped by the Memorandum of Understanding between the People’s Republic of China and the United States of America. Regarding

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2. Article 14: Legal persons and other organizations may, with the approval of the film department of the State Council, cooperate with overseas organizations in shooting films; but they shall not cooperate with overseas organizations that engage in activities detrimental to China’s dignity, honor, and interests, jeopardizing China’s social stability, or hurting national sentiments in China, among others, nor hire individuals committing the aforesaid acts to participate in film shooting. [...] Overseas organizations shall not independently engage in film shooting activities within China; and overseas individuals shall not engage in film shooting activities within China.

3. The number and percentages used here are based on the official number of films released in the market. According to Wang Xiaohui, executive deputy director of the Central Propaganda Department and director of the National Film Bureau, a large number of the films produced in China are never screened at movie theaters (see, Davis [2019]).
Films for Theatrical Release (中美就解决WTO电影相关问题的谅解备忘录达成协议, hereafter MoU) signed between China and the US.\(^{4}\) However, as the period before 2012 was the main focus previously, the relevant literature that covers this time period is limited.

While we do recognize the contribution of several significant works such as Su (2016) and Kokas (2017a), their timespan is limited for this study. Su covers the period from 1994 to 2013, thus missing how the market has functioned following the newly installed protectionist policies in 2012. Kokas is centered on 2001 when China joined the World Trade Organization (WTO). While her work serves as a great introduction and resource on the development of Sino-US film co-production, it offers a limited analysis on how Chinese film policies \textit{per se} actually work in the domestic market vis-à-vis Hollywood films.

Crane (2014) stresses that initially China's cultural policies developed on their own and were autonomous, thus not pressured by the US. For instance, from 1995 to 1999, China imported only ten Hollywood films per year. Despite this small number, US films managed to account for 70\% of China's box office revenues. Following the MoU between China and the US in 2012, China has imported more Hollywood films, but at the same time the overall market share of these films has decreased to around 30–40\%. Crane emphasizes that this decrease is due to the close alliances among Chinese film businesses and politics, not due to the public's interest in domestic films. Based upon this analysis, Crane finds that China's film policy toward imported foreign films has succeeded to a certain degree.

This view though does not take into account the greatly increased production and exhibition of Chinese films — almost around twenty times more than the number of imported US films — every year. In other words, the film market size in China has increased significantly; hence the market share should be carefully examined by considering data in absolute value. Indeed, Crane's view ignores the fact that the box office revenues for US films in China have increased notably over the last ten years, therefore the market share of a small number of Hollywood films can still be considered to be significant. All of these results suggest that China's protectionist policies have been ineffective.

In contrast to Crane, Song (2018) believes that China's protectionist measures have not been effective enough. To analyze the popularity of Hollywood films in China, he focuses on one specific measure, the revenue-sharing model which has become the main measure to limit the number of imported Hollywood films while allowing its studios to take more revenues generated from the exhibition of these films. He also points out this mutually beneficial relationship between Hollywood studios and the key players of China's film market for import and distribution of US films in China as the key factor that has increased the share of US films in the Chinese market. In particular, Song examines the various facets of the "relationship management" among the Hollywood studios such as its various relationships with the government, the general audience, the fan-based community, investment/promotion partners, and the media.

Zhou (2019) shares a similar view with Song regarding the ineffectiveness of China's protectionism. According to Zhou, the reason why US films in the Chinese market have further expanded is due to their superior quality (p. 360). In particular, when focusing on policies after 2012, she also highlights how the Hollywood studios have found a particular way to handle the protectionist barriers set by the government while employing at the same time several "expediencies" such as the promotion of China and Chinese culture in local versions of their films and the collusion between the Hollywood studios and Chinese distributors, cinema chains, and the authorities.

\(^{4}\)This agreement was the outcome of an effort to resolve a standoff that dates back to 2009 as China allowed only 20 foreign films a year to be shown in its theaters despite the fact that the WTO ruled this policy to be in violation of international trade rules. Since the MoU was reached, China has allowed additional 14 films a year. In addition, the portion of shared revenues for foreign producers rose from 11–15 to 25\%.
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markets. However, Brazil, Russia, India, and South Africa or the grouping known as the BRICS countries are also included for a “fair” comparison when considering the level of economic development.

To examine the level of restrictions in these ten countries, this paper uses the OECD database on the Services Trade Restrictiveness Index (STRI) which encompasses the most exhaustive list of protectionist measures in services trade across forty-five countries (OECD, 2019). The overall level of restrictiveness index based on barriers and measures in the film industry is shown in column (1) of Table 2; the higher the index, the higher the level of restrictions. This index consists of three components: barriers and restrictive measures on access to the theatrical market (column [2]), on movements of input for producing films in the host country (column [3]), and others influential barriers and measures on the film industry such as intellectual property rights or rules on cross-border data flow (column [4]). The index for barriers and measures on inputs is further divided as there are two types of input such as capital and labor as shown in columns (3a) and (3b), respectively. Each country has two rows; the index for each component is on the top row while its share in the overall index is in the second row.

When compared with other countries, Table 2 shows that China’s film industry is more protected across all components. Among the four components of China’s film industry, restrictions to market access – which consist mostly of import and screen quotas – are the lowest, although they are higher than in the other countries (see column [2]). Since the barriers and measures that China employs for limiting market access play a key role, they are the focus for this study and analyzed further in the following sections.

<table>
<thead>
<tr>
<th>Table 2. Level of restrictions (selected countries, 2020).</th>
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</thead>
<tbody>
<tr>
<td>Overall index on barriers and measures in the film industry ((1) = (2) + (3) = (4))</td>
</tr>
<tr>
<td>(1)</td>
</tr>
<tr>
<td>China</td>
</tr>
<tr>
<td>(%)</td>
</tr>
<tr>
<td>Brazil</td>
</tr>
<tr>
<td>(%)</td>
</tr>
<tr>
<td>Russia</td>
</tr>
<tr>
<td>(%)</td>
</tr>
<tr>
<td>India</td>
</tr>
<tr>
<td>(%)</td>
</tr>
<tr>
<td>South Africa</td>
</tr>
<tr>
<td>(%)</td>
</tr>
<tr>
<td>France</td>
</tr>
<tr>
<td>(%)</td>
</tr>
<tr>
<td>Japan</td>
</tr>
<tr>
<td>(%)</td>
</tr>
<tr>
<td>Korea</td>
</tr>
<tr>
<td>(%)</td>
</tr>
<tr>
<td>UK</td>
</tr>
<tr>
<td>(%)</td>
</tr>
<tr>
<td>US</td>
</tr>
<tr>
<td>(%)</td>
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</tbody>
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Note: Due to rounding, numbers presented throughout this table may not correspond with the sum of the separate figures. Data source: OECD (2021) but recalculated by authors.

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Footnote: Import quota limits the number of foreign films imported per year whereas screen quota imposes a mandatory number of days for screening domestic and/or foreign films per year. They are often believed to be effective to protect/promote local film industry.
Foreign investment in Chinese film production and distribution is strictly prohibited by law. There are only two exceptions: co-productions that require state approval and joint ventures for which the majority of the board of directors must be Chinese nationals or residents of the country. Furthermore, the use of foreign labor, such as international crew or cast, for co-production is also subject to state approval (column [3b]). The “other” measures cover a wide range of restrictions varying from public procurement practices to the discriminatory treatment of foreigners over copyrights or related rights as well as a ban on cooperation in film production with foreign organizations (or individuals). A notable example here is the difficulties induced by the fact that China does not use any film classification or rating system. This means that foreign film producers often have to modify the contents of their films to ensure that they are appropriate for all age groups (Lang & Frater, 2018).

Despite all these restrictions, the box office revenues for a fairly limited number of US films in China has increased 2.5 times since 2012. Hence, it is rather obvious that these restrictions have not limited the immense popularity of Hollywood films in China (see, Figure 1). This becomes even more noteworthy when the level of Chinese protectionism is compared with other countries as shown before. In general policymakers believe that restrictions on market access can reduce the consumption of foreign films domestically. Yet, the growth of US films in China shows that what counts is not merely the restrictive measures per se or their number, but how these measures function, particularly with market access. In this regard, a careful investigation of the true impact of these restrictions on China’s film industry is required.

Figure 1. Box office revenues of US films in selected countries (2010 constant US$ mil., 2002–2018).
Note: The right Y axis is for the US and the left Y axis is for the other countries.
Data sources: China (CHN) – KOFIC (various issues) and Sohu (2019); France (FRA) and the UK – CNC (various issues), Japan (JPN) – MPPAI (n.d.); Korea (KOR) – KOFIC (various issues); the US – Nash Information Services (n.d.).
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Table 4. The evolution of China’s import quotas.

<table>
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<tbody>
<tr>
<td><strong>BOM</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>no. of films/year</td>
<td>no limit</td>
<td>no limit</td>
<td>20 (flexible)</td>
<td>no limit</td>
</tr>
<tr>
<td>distribution of revenues</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>generally 0%, but exceptions exist</td>
</tr>
<tr>
<td>license fee/film</td>
<td>&lt; US20,000</td>
<td>US$20,000–500,000</td>
<td>US$100,000–10,000,000*</td>
<td></td>
</tr>
<tr>
<td><strong>RSM</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>no. of films/(quota)/year</td>
<td>n/a</td>
<td>10</td>
<td>20</td>
<td>20 + 14 in enhanced formats</td>
</tr>
<tr>
<td>distribution of revenues</td>
<td>n/a</td>
<td>11–15%**</td>
<td>11–15%**</td>
<td>25%</td>
</tr>
<tr>
<td>license fee/film</td>
<td>n/a</td>
<td>(negotiated) market price</td>
<td>(negotiated) market price</td>
<td>(negotiated) market price</td>
</tr>
</tbody>
</table>

Notes: * the maximum figure includes distribution of additional revenues in the case of a new (or hybrid) type of BOM; ** this data is adopted from Su (2014).

Source: Based on Liang (2017) but modified by authors.

system in theory. There is also no reference on the restriction of specific film formats such as 3D or IMAX. As Hollywood studios showed no interest in BOM, in some way, it has been used to alleviate the influence of Hollywood films; in particular with the introduction of RSM, under the pretext of “cultural diversity” which is one of its stated policy objectives (The State Council Information Office, 2021). This eventually helped to promote a positive image of the Chinese government as it was considered to be supporting cultural diversity.

While there are no official quotas on the number of films that can be imported under BOM, there are other less visible protectionist measures in existence. For example, the National Radio and Television Administration (国家广播电视总局), previously the State Administration of Press, Publication, Radio, Film and Television (国家新闻出版广电总局) has been known to enforce unofficial flexible quotas (Papish, 2017). While, at the same time, films imported through BOM tend to be more closely and easily monitored by the Chinese film authorities (refer to the section “Analysis of the buy-out model [BOM]” for further details) who on occasion even impose ad hoc restrictions for political or economic reasons.

**Revenue-sharing model (RSM)**

Following the great success of the US film *The Fugitive* (1993) in China, the authorities realized just how powerful Hollywood’s influence could be within their society (Zhou, 2019). While for the Hollywood studios, it highlighted just how lucrative the Chinese market was and prompted them to seek ways to increase their revenues. It was within this context that the Chinese government established RSM in 1995 as a way to limit the number of foreign films that could be imported as well as to protect the local film industry. At the same time, it was also used to promote China’s film industry by attracting more audiences to movie theaters (Su, 2016). More importantly, it allowed a larger share of revenues for the Hollywood studios to take from their successful films thus addressing their interests.

Before 2012, the share of revenues under RSM was around 11–15% of total box office revenues (Su, 2014), however following the signing of the 2012 MoU it was increased to 25% for purely foreign films (MPA & CFCC, 2014; U.S. Department of State, n.d.). This makes RSM the most profitable channel for foreign films to enter the Chinese market.

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*In some cases, RSM is also known as profit-sharing model. However, in this paper, the term revenue-sharing is used as referred to in the MoU.

*Coproduced films with Hong Kong and Taiwan (or Chinese Taipei) are considered as domestic films in Mainland China. The implementation of the MoU led to a series of conflicts between the CFGC and the MPA during the period 2012–2015. Addressing them required the negotiation of the "Agreement on Cooperation in Importation and Distribution of Revenue-Sharing Films" signed in November 2015 by the CFGC and the MPA. Three main issues were dealt with. First, the Agreement confirmed that the US film producers should receive 25% of the net film revenue without any additional withholding for taxes or marketing expenses. Second, it
RSM also specifies the sharing of revenues among Chinese participants in the film industry such as Chinese distributors, cinema chains, and movie theaters. One should add that, in most cases, foreign film producers do not bear the expenses for film copies and distribution as they are absorbed by their Chinese counterparts (Lang & Frater, 2018; MPA & CFCC, 2014).

Under this system, the MoU imposes a severe constraint on the number of films imported; thirty-four films per year since 2012, although a degree of flexibility has been observed since 2016; for instance, the number reached thirty-nine in 2019 (see the section “Analysis of the buy-out model [BOM]”). Furthermore, the MoU specifies that at least fourteen out of these thirty-four films should be in an “enhanced” format such as 3D and IMAX (MPA & CFCC, 2014, p. 51). Under such conditions, RSM has been the channel for importing big-budget and high-profile Hollywood studio films that have a high likelihood of being successful; mostly superhero films. As will be shown later, RSM has actually brought about a series of unexpected dynamics.

**Screen quota system (SQS)**

Typically, the screen quota system (SQS) imposes a mandatory number of days per year for screening domestic films or limits the number of days when foreign films can be screened. However, SQS in the context of China’s film industry has a broader usage; it can be any measure related to restrictions on screening by either season, period, or day. Before films are released, they must all undergo checks by the film authorities in order to pass the state regulations on censorship.

Once foreign films have gone through the censorship procedure, they cannot simply be screened as the studios and/or distributors would wish. The Chinese government reserves a “film protection month” (国产电影保护月), where only domestic films can be screened during prime movie-going seasons such as around the Lunar New Year (春节, late January-early February) or the summer vacation (July-August). This is also known as the “blackout” period for foreign films. Furthermore, the screening period for foreign films should not be more than 30 days in general.\(^{10}\)

In the Chinese film market, around 40% of a film’s box office revenue is realized in the opening week (Hozic, 2014). Such a trend places pressure on distributors to engage in a long and expansive promotional period, particularly given the size of China. However, the censorship procedure is rather arbitrary and often generates unexpected early release or delays for authorization; the authorities often only inform foreign studios on the authorized release date four to six weeks in advance and on some occasions, they even move up the release date so as to leave no time at all for promotional activities (Lang & Frater, 2018).

When all of these hindrances come together, they occasionally create a situation where a number of foreign films are all released at the same time in Chinese movie theaters. This creates a situation known as “stacked-up” or “bunched-up” release (Frater, 2017; Shaw, 2018), which can lead to significant disruption in the distribution and release schedule. As a result, it hinders the maximization of box office revenues for foreign films due to insufficient time for promotion and/or excess competition among foreign films in movie theaters within the limited screening time.

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\(^{10}\)When copies of films are sent to movie theaters, they must be connected to a server and authorized by a key provided. The key is similar to an activation code; thus, films cannot be shown in movie theaters without it. The validity period of the key is one month. If the producer and distributor wish to continue showing it in movie theaters after its expiration, they must then apply to the Digital Film Development (中影数字电影发展有限公司) of CFGC for an extension (see, Li [2016]). It is very common and easy for Chinese domestic films to be extended regardless of their performance in the market. Some Chinese films are even shown in movie theaters for three to four months whereas it is very rare for foreign films to be granted an extension in general (see, Zhang [2016]).
The effects of restrictions on market access of foreign films

BOM, RSM, and SQS are all used to protect China’s film industry by controlling the import and exhibition of foreign films. These restrictions have been effective in controlling the number of imported films released in cinemas, particularly under RSM, but this is not the whole story. Although the total number of foreign films represents less than 10–15% of all films released in China, they still account for around 40% of the total box office revenues since 2012.\footnote{For the same years, the number of films that Korea produced were 302 in 2016 and 376 in 2017 while the number of imported films were 1,218 and 1,245 respectively. The number of foreign films reached between 70–75% of the total number of films released in Korea and they account for less than 50% of the whole Korean box office revenue; see, “KOFIC” (2018) and Parc (2017, 2021).} Therefore, there is a need to demonstrate how and why a small number of foreign films in China have been capable of attracting such a large audience despite these tight restrictions. Although BOM appeared before RSM, its function has changed significantly following the introduction of RSM. Therefore, it is worthy to explore RSM first in respect of its greater policy impact.

Analysis of the revenue-sharing model (RSM)

In China, both domestic and foreign films can be distributed through RSM; however, the allocation rules for revenues are substantially different as shown in Table 5. From the view of Chinese distributors, it is in their interest to acquire as many attractive domestic and foreign titles as possible. By contrast, the primary concern for movie theaters is the optimal allocation of their existing screens for both domestic and foreign films based on their attractiveness. Hence, these two types of films are currently in competition under RSM. Overall, this situation ends up creating diverging interests.

Under these circumstances, \textit{ceteris paribus}, Chinese distributors have more incentive to distribute foreign films in order to achieve a greater revenue share whereas movie theaters are induced to screen more Chinese films. However, the different profitability (or attractiveness) for foreign and Chinese films changes this balance for movie theaters. As stressed before, thirty-four foreign films under RSM represents only four per cent of the total number of films released in China, but accounts for around 30% of the total box office revenues (column [6] in Table 6) and roughly 80% of the total revenues gained by foreign films (column [7] in Table 6). Therefore, by considering revenues per screening session, foreign films are more lucrative than Chinese films. In this respect, Chinese movie theaters can easily overcome the slightly lower allocated percentage of revenue share earned from foreign films. This shows why both distributors and movie theaters prefer to screen foreign films under RSM, particularly the more promising titles produced by internationally well-known directors and/or producers.

Throughout the 1980s, China imported cheap foreign films regardless of their attractiveness among the audience (Rosen, 2010). This situation changed after the introduction of RSM in 1994 which created strong incentives among distributors to import the most attractive Hollywood films. For Chinese films, this created an environment in which they faced tougher domestic competition from abroad in terms of attractiveness which also happened in other countries such as Korea (Messerlin & Parc, 2017; Parc, 2017,

<table>
<thead>
<tr>
<th>Table 5. Different formulas under RSM: Foreign vs. Chinese films.</th>
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<tbody>
<tr>
<td><strong>Foreign or Chinese producers</strong></td>
</tr>
<tr>
<td>-----------------------------</td>
</tr>
<tr>
<td>Foreign films</td>
</tr>
<tr>
<td>Chinese films</td>
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</tbody>
</table>

Notes: These allocations are those settled following the 2012 MoU; Percentages are calculated on net box office revenues (excluding VAT and seat tax). Sources: MPA & CFCC (2014, p. 51) and MPA & CFCC (2017, p. 51).
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small, ranging from US$75,000 to US$250,000 because of the asymmetric power balance between these foreign film producers – mostly from non-Hollywood studios – and Chinese distributors.

In contrast to RSM, BOM does not impose any “official” quotas which means that an unlimited number of foreign films can be imported into China under this system. However, foreign films under BOM are subject to tighter measures by the authorities as they are often from studios with weaker bargaining power, in general non-US studios. The best illustration of this case is the swift and complete ban of Korean films in 2016 following the political dispute over the deployment of the US Terminal High Altitude Area Defense system in Korea which is known as the THAAD crisis (Sanchez, 2016; Schwankert, 2016).

In the absence of a strict quota, the annual number of foreign films released under BOM varies as shown in column [3] of Table 7. Interestingly, the contribution of BOM films to box office revenues has become more significant since 2013 as the performance of RSM films has not always been successful. This can explain why China’s film industry has become more interested in maximizing the utility of these BOM films in recent years as a way to increase revenues.

As shown in Table 7, the increasing importance of BOM films to China’s film industry has evolved since 2016 as a way to secure more promising titles. In addition to fixed and flat license fees, the new (or hybrid) BOM contract permits the allocation of an additional share of box office revenues to foreign studios if these films perform beyond a certain mutually agreed upon number of admissions (Brzeski, 2017a). The inclusion of this option has drawn in the interest of several US studios who failed to have RSM contracts but are still keen to distribute films in China. For instance, Resident Evil: The Final Chapter generated US$156 million at the Chinese box office, which was the seventh top-performing film among both RSM and BOM foreign films. The production studio for this film was reported to have earned a shared revenue that ranged from US$5 to US$10 million, which represents around 6.5% of the Chinese box office revenue for this film (Brzeski, 2017a). While this might seem like a paltry figure compared to the 25% share under RSM, it is still a better deal than under the original BOM.

This hybrid BOM has also attracted the interest of those Chinese distributors who want to release attractive foreign films but are unable to distribute US blockbusters which are mostly under RSM. Furthermore, it has highlighted the importance of business activities such as the promotion of movies instead of entirely depending upon the brand value of the studios or film franchises. Given these factors, an increasing number of BOM films have achieved greater success at the box office than the least performing RSM films as can be seen in column [7] of Table 7.


<table>
<thead>
<tr>
<th>Year</th>
<th>Foreign films</th>
<th>No. of films</th>
<th>Rev. in Chinese market</th>
<th>% in total rev.</th>
<th>% in foreign film rev.</th>
<th>No. of outperforming films over RSM films</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>2.7</td>
<td>1.4 (51.6%)</td>
<td>41</td>
<td>0.2</td>
<td>5.8%</td>
<td>11.2%</td>
</tr>
<tr>
<td>2013</td>
<td>3.5</td>
<td>1.4 (41.1%)</td>
<td>23</td>
<td>0.3</td>
<td>8.4%</td>
<td>20.4%</td>
</tr>
<tr>
<td>2014</td>
<td>4.8</td>
<td>2.2 (45.0%)</td>
<td>33</td>
<td>0.3</td>
<td>6.8%</td>
<td>15.1%</td>
</tr>
<tr>
<td>2015</td>
<td>7.0</td>
<td>2.6 (37.5%)</td>
<td>29</td>
<td>0.2</td>
<td>2.8%</td>
<td>7.5%</td>
</tr>
<tr>
<td>2016</td>
<td>6.8</td>
<td>2.8 (41.5%)</td>
<td>47</td>
<td>0.7</td>
<td>9.8%</td>
<td>23.6%</td>
</tr>
<tr>
<td>2017</td>
<td>8.3</td>
<td>3.7 (44.7%)</td>
<td>53</td>
<td>0.8</td>
<td>9.7%</td>
<td>21.6%</td>
</tr>
<tr>
<td>2018</td>
<td>9.2</td>
<td>3.5 (37.8%)</td>
<td>77</td>
<td>0.8</td>
<td>8.2%</td>
<td>21.6%</td>
</tr>
<tr>
<td>2019</td>
<td>9.5</td>
<td>3.4 (35.9%)</td>
<td>86</td>
<td>0.6</td>
<td>6.7%</td>
<td>18.9%</td>
</tr>
</tbody>
</table>

Notes: a. number of BOM films that have outperformed the least performing RSM film; b. the striking outperformance of BOM films in 2018 is due to the failure of Crazy Rich Asians, which was an RSM film; The average number of Chinese films produced from 2012 to 2019 reaches 751.25.

Data sources: Chen (2020), Sohu (2019), Wang (2018), and Box Office Mojo (n.d.); authors’ calculations.
When the Chinese government permitted the use of hybrid BOMs in the late-2010s, they intended to use it as a channel to import foreign films from a wider source of countries that would have less impact on the domestic film industry. It was hoped that such a move would propagate the notion that China is a more open market as well as supportive of cultural diversity. However, this BOM has "distorted" the function of Chinese film policies toward foreign films as Chinese participants tend to seek out more attractive Hollywood films that are non-RSM contracted. Rather than enhance cultural diversity, it has simply intensified the competition between domestic and foreign films, especially those from Hollywood, in the Chinese market. Far from protecting China's film industry as intended, this hybrid BOM has instead favored industry participants selectively and unevenly.

**Analysis on screen quota system (SQS)**

As noted before, the Chinese film authorities have been known for their arbitrary behavior such as unexpected delays for authorization, prolonging or shortening exhibition periods, enforcing blackout periods, as well as creating stacked-up releases. In the case of unexpected delays for authorization, this hurts directly the revenues of foreign films under both BOM and RSM, and also indirectly Chinese film industry via the seat tax.

Delayed releases have an impact on the image of China's film industry. If foreign films are released too late or are ultimately banned in China, online piracy for these titles tends to increase accordingly (Chen, 2017). And since these films will not be on Chinese screens, local production companies will be tempted to copy and/or produce similar ones. Combined, this creates the image of China as a frequent copyright violator which has led in some cases to Hollywood studios suing Chinese film companies over such matters (Brzeski, 2017b; Xinhua, 2017). This also results in reducing the national fund that China's film industry could utilize later.

The prolongation of exhibition periods are not helpful for enhancing the competitiveness of China's film industry; rather they only suit a few public organizations and state-controlled companies, which increases the transaction costs for foreign studios. It is no surprise then that in such an environment some Hollywood studios have made special associated deals with the Chinese authorities in exchange for guaranteeing box office success (Song, 2018; Zhou, 2019). For instance, Disney extended the screening period for *Zootopia* in exchange for an exclusive deal regarding Shanghai Disneyland (上海迪士尼乐园; Robinson, 2016). As a result, the film was able to be exhibited for two more weeks beyond the original screening period of thirty days and achieved the highest gross revenue in China for an imported foreign movie with US $235 million in 2016 (Zhang, 2017). Similar deals, that increase transaction costs, can be found between other Hollywood studios and the Chinese authorities (Kokas, 2017b).

Regarding blackout periods, such a measure has had little impact on protecting China's film industry. By exhibiting only Chinese films during peak seasons such as in the summer vacation or around the Lunar New Year, the audience numbers for domestic films are artificially inflated as there is no other choice on what to watch. However, this is only a temporal shift of the demand: outside the blackout periods, the demand for foreign films would catch up vigorously while the demand for Chinese films would be depressed (Cain, 2012).

Stacked-up releases have much to do with the fact that the Chinese authorities set a pre-determined target for box office revenues each year to demonstrate that its film market is supposedly "growing" (Shaw, 2018). When the audience numbers are not enough to meet this target, the Chinese authorities will then initiate a stacked-up release with a number of foreign films in addition to the quota of thirty-four foreign films under RSM. According to Dresden (2018), this is why it was reported that the Chinese authorities released several more US films in 2016 and again during the period of late 2018 to early 2019 (see column [4] of Table 6).

Furthermore, as the weak performance of foreign films under RSM reduces funds to the National Special Fund for the Development of Films, stacked-up releases can also assure a stable flow of subsidies to Chinese film producers while maintaining the "ideal" ratio 50:50 or 60:40 between
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