

# Global film market, regional problems

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Global Media and China

2016, Vol. 1(4) 312–330

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DOI: 10.1177/2059436416681576

[journals.sagepub.com/home/gch](http://journals.sagepub.com/home/gch)**Abstract**

In the global film market, China is gaining more and more importance. The Chinese box office and film admissions are growing year after year and Chinese film and related companies are able to make business more and more abroad. On the contrary, US and European film markets are flat and the production costs of their film are growing. Both are trying to enter the Chinese film market and cooperate with Chinese film companies. The article reviews the Hollywood strategies towards China and analyses the advantages and problems that will be found following this way and the reason why China is interested to cooperate with Hollywood. But also, in that case, there are advantages and problems to analyse. The place of European film industry and market is different because Europe has a lot of problems to deal with: industry and market fragmentation, little cooperation among member states, lacking distribution of European film outside national markets and too large box office share of Hollywood films. European companies would like to improve cooperation with China, but they have few financial resources to invest in co-productions, they do not have blockbusters to push the China box office and they have no know-how to offer for gaining on the global film market. They can only offer cultural, artistic and creative competences, but is that what Chinese film industry is looking for?

**Keywords**

Cultural industries policy, European international and intercultural communication, film/video policy, foreign policy and law, globalisation, law/legislation, multiculturalism, political economy

**Introduction**

This article aims to identify the main trends in the global film market, especially in the structure of the three ‘regional’ markets of greatest political and economic importance – China, Europe and the

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**Table 1.** Box office, admissions, screens and films produced worldwide, 2010–2015.

	2010	2015	Growth 2010–2015
Box office (billion USD)	31.6	38.3	21.2%
Admissions (billion tickets)	6.6	7.3	10.6%
Number of screens (000)	122.9	152.1	23.7%
Number of films made	5845	6762	15.6%

Sources: European Audiovisual Observatory (EAO, 2016a); Motion Picture Association of America (MPAA, 2016a).

**Table 2.** Box office, US/Canada, Europe and China, 2015.

	Billion USD	Share
United States/Canada	11.1	29.0%
Europe	8.3	21.6%
China	6.8	17.8%
Others	12.1	31.6%
Total	38.3	100.0%

Sources: EAO (2016a); MPAA (2016a).

United States/Canada – and the relationships between them.<sup>1</sup> Estimates by two authoritative sources<sup>2</sup> show that the global film market has experienced a positive trend over recent years with respect to some of its most significant components: box office revenue, admissions (total tickets sold), total number of screens and total number of films made.

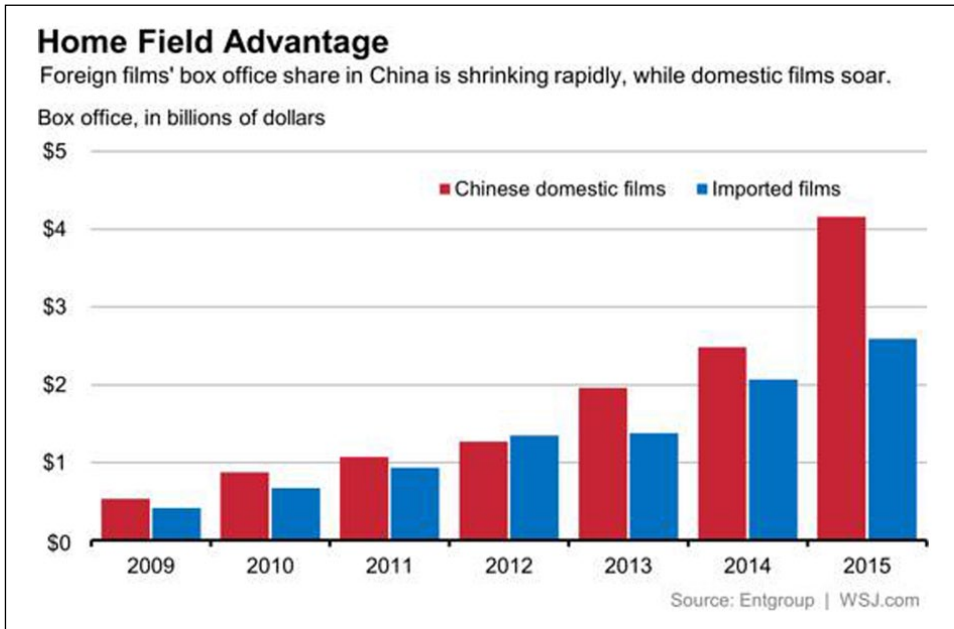
The 23.7% growth in ‘number of screens’ worldwide illustrated in Table 1 signifies an important structural trend for the future of film industry; it is a precondition for growth in both admissions and box office revenue. The 21% growth in box office bodes well for the film industry in general (although dependent upon total admissions and ticket prices). The 15.6% growth in films produced shows healthy dynamism on the supply side. The only less-than-brilliant trend is the 10.6% growth in number of admissions.

China, Europe and the United States/Canada accounted for 66.4% of box office worldwide in 2015, including 49% of admissions, 70% of total number of screens and 38% of the total films made. A few more statistics highlight a prevailing imbalance in the global market, especially in the relationships between the regions in question. This imbalance is creating significant problems on political, cultural and economic levels, all of which we shall discuss.

Table 2 illustrates the impact of United States/Canada in the global market. In 2015, this region’s domestic market comprised almost one-third of the worldwide film market, much more than its European and Chinese counterparts.

The United States/Canada (and the United States in particular) has led the field for a long time; various authors have analysed comprehensively the origins and factors behind its primacy (Guback, 1969; McDonald & Wasko, 2008; Thompson, 1985). Its leadership becomes even more significant when we consider the American film industry’s position abroad, particularly within the European and Chinese film markets.<sup>3</sup>

For many years, imported American films have enjoyed a dominant market position in Europe (Mingant, 2010); this is still evident today according to data from 2014 and 2015. In 2014, the European



**Figure 1.** Foreign films' box office share in China (2009–2015).

Source: Entgroup, Wall Street Journal (WSJ.com).

market share of American films was 63%, and with respect to total admissions, 17 of the top 20 films were either American productions or co-productions. In 2015, the American market share was 64%, and 18 of the top 20 films were American (EAO, 2015, 2016). In China, the imported films' share grew considerably from 2001, when the country joined the World Trade Organization (WTO) – more on that later. As shown in Figure 1, box office of Chinese domestic films and imported films underwent constant growth in recent years. In 2012, imported films' box office even surpassed domestic films' with a share of over 50%. Chinese national films regained market leadership the year after and grew progressively stronger in 2014 and 2015 with shares of 54.5% and 61.5% of the market, respectively (EAO, 2015, 2016). The vast majority of films imported by China were from Hollywood. In 2015, 9 of the top 20 films in China (per total admissions) were produced or co-produced by American companies, notably Universal, Walt Disney and Paramount (EAO, 2016).

Note also that for some time, the top 20 highest grossing films on the global market have nearly all been Hollywood productions or US-led co-productions: 19 in 2014 and 17 in 2015 (plus two more with minor American involvement; EAO, 2015, 2016).

## The United States and control of the world market

Film export revenue has been vital to the balance sheets of the main Hollywood companies for a long time. The revenue from the domestic market alone would not be able to cover production costs, which have been on an almost continuous upward trend. Moreover, support for exporting films and audiovisual content, in general, has been a mainstay of US government foreign policy, especially after World War II (Elwood, 2012; Jarvie, 1990).

During the Cold War, the primary motive was political. More recently, however, economic considerations have also spurred the American government to bolster this strategy. Indeed, not only do films and TV content promote the American way of life around the world and play a major role in consolidating the United States' soft power, but they have also become increasingly important for the country's foreign trade. In 2014, exports in the sector reached USD16.3 billion, against USD3.2 billion for imports. The net result is a trade surplus of over USD13.1 billion, 6% of the total US private sector trade surplus in services (MPAA, 2016b):

In 2014, the industry exported five times what it imported. The industry runs a trade surplus larger than each of the surpluses in the advertising, mining, telecommunications, legal, information, and health related services sectors. (p. 1)

In addition, various problems in recent years have compelled the American film industry to not only maintain the global market share that it has won but also increase it further, by finding fresh markets offering significant new revenues with promising growth prospects.

The first problem is the strong signs of stagnation in the domestic film market, some of which is a result of not only cyclical variation but also structural changes. Between 2010 and 2015, cinema admissions declined from 1.34 to 1.32 billion tickets sold (-1.5%), annual admissions per head fell from 4.1 to 3.8 (-7.3%) and annual box office growth was anaemic, up from USD10.6 to USD11.1 billion (+4.7% over 6 years).

These summary figures highlight how, in a positive economic cycle, the US film market has shown clear signs of stagnation or even recession in recent years. Note that this period in question, box office was the only variable with an upward trend, albeit modest – a 6.8% rise in average ticket prices that compensated for the decline in total admissions.

However, increasing ticket prices to offset falling numbers of total tickets sold is a limited strategy. At some point, this trend will succumb to diminishing returns; that is, escalating ticket prices will begin to reduce total attendance. It must also be borne in mind that the downward admissions trend is not a coincidence, but the effect of a structural change due to new practices of consuming audiovisual content, especially film. Increasing access to online audiovisual content on demand from home, improvements in quality and upgrades to transmission networks (broadband) are all factors that risk turning the present stagnation into a slow but palpable decline in cinema attendances – in the United States and elsewhere as well.

In this light, there is a significant statistic that highlights the penetration of video-streaming tools used to access film (and other) content via the Internet from home. The Motion Picture Association of America (MPAA) figures divide the US population into four categories; two such categories do not affect the film market – those who never go to the cinema (31%) and those who seldom go to the cinema (10%). The other two categories comprise 'weak' consumers (49%), who go to the cinema less than once a month, and 'strong' ones, who go at least once a month. The 'weak' generate 49% of admissions, as do the 'strong', despite their much smaller numbers. Rare visitors contribute 2%. Overall, 62% of 'strong' consumers and 54% of 'weak' consumers have access to one or more video-streaming devices (MPAA, 2016a, p. 11). This phenomenon facilitates the domestic consumption of films and has a negative impact on cinema attendances – and it is growing. Some reasons are as follows:

- The uptake of video-streaming devices in the home still has margins for growth;
- The prices of video-on-demand (VOD) services will fall as a result of increased competition;

- The technical conditions for accessing and consuming audiovisual products at home will continue to improve (through ultra-broadband connections, super-high-definition broadcasting, better TV sets, home cinema, etc.).

In today's US market, cinema theatre revenues typically comprise just 25%–30% of a film's total gross revenue. So why worry about what happens to cinemas? As cinema economics experts know, the problem is, essentially, as follows: Film theatres are an essential step in the economic exploitation of a film because a title's box office revenue in its first few weeks determines how much the film will then gross in other windows, from on-demand video to DVD, and from pay TV to free TV. Moreover, the box office in the first fortnight generates very rapid revenue concentrated in a short time period, most of which is normally banked by the production company.

The importance of a film's run in theatres is also clear from an empirical statistic: most of the investment in advertising and marketing is focused on the run-up to the film's release in cinemas and in the two or three weeks afterwards (Vogel, 1998; Wasko, 2003). For Hollywood productions, that amounts to tens of millions of dollars each. The intense effort to promote a film at that stage raises its profile considerably, boosts audiences (Mingant, Tirtaine, & Augros, 2015) and has the desired effect at the box office and on earnings from the later windows of exploitation (i.e. pay and free TV, VOD and DVD).

For several years, the big film companies (Walt Disney Studios, Motion Pictures Paramount Pictures Corporation, Sony Pictures Entertainment Inc., Twentieth Century Fox Film Corporation, Universal City Studios LLC and Warner Bros. Entertainment Inc.) that dominate the domestic and international markets have adopted a production model geared to strengthening their market position at home and, especially, abroad. They concentrate major investments on producing, distributing and marketing a select few (and more and more costly) films conceived to lead the market wherever they can compete freely – a.k.a., the 'blockbusters'. According to estimates from the US–China Economic and Security Review Commission in 2013 (O'Connor & Armstrong, 2015), the average investment per blockbuster was USD200million, not including USD50million spent on promotion, whereas in 1996, the average investments were USD60million and USD23million, respectively.

The reason for the continual increase of blockbuster films' budgets has already been studied (Cucco, 2009); there is no need to revisit them here. However, there are two important points to make. First, to be an economic success, blockbusters need to play well on an international scale, as the national market alone cannot provide the return on investment.<sup>4</sup> Second, production and marketing costs are constantly rising across the film industry and across the media and entertainment sector in general (Baumol & Baumol, 1984; Creton, 2001; Moul, 2005), and the blockbuster model has accelerated such investment growth.<sup>5</sup> A level has been reached that few countries can sustain; so far, only China has tried. But, as we have seen, China has a large domestic film market, and it has introduced barriers to limit mainland access to foreign films. China also aspires to play a significant role in the global film industry.

Current trends in global film consumption suggest that the US film industry may be facing potential problems, and its dominance in the international marketplace may be at risk. Any fallout would affect not only America's economy but also its political and cultural influence around the world (soft power). Until today, the role of movie theatres within the film industry has been vital because the levels of admissions and box office revenue reached by a movie during its first and second weeks of exhibition defined its market value in all subsequent windows (i.e. DVD, pay TV, VOD, broadcasting). Thus, for Hollywood, it becomes imperative to not only defend but also

extend the ground it has gained abroad, especially within the movie theatre market. Therefore, outside of the United States, the issue becomes, 'Which countries have the greatest potential to compete with the Hollywood giant?'

Traditionally, Europe was American cinema's favourite hunting ground, although history shows that at times certain countries (e.g. France and Italy) have attempted to resist the powerful presence of transatlantic films. Nevertheless, in recent years, American cinema has taken a very significant market share. Moreover, as we shall see, the prospects in the European market are not brilliant, and US cinema will struggle to make further inroads there. What's more, the European Union and its individual member states have been politically committed to prevent such inroads for years.<sup>6</sup>

China, where the internal film market has grown unexpectedly fast in recent years, is a much better bet for the US film industry, rather than Europe. China has become the second largest film market in the world, and many forecasts predict that it could soon overtake America's place at the top. Therefore, China may offer some solutions to the American film industry's desire for further expansion, but penetrating that market, as we shall see, appears to be a tough enterprise for now. In the following sections, we analyse the European and Chinese film markets to see how the structure of the global film industry is changing.

## Europe and the problem of the internal market

European countries have also kept a keen eye on their film industry, trying to support it with state aid and, in some periods, to protect it. Their reasons, though, are in stark contrast to America's. In Europe, cultural motives have prevailed over economic and political ones (soft power), for Europeans have always considered films primarily as works of art, expressions of a nation's tradition and culture and of a people's creative sensibility. This explains both the systematic state intervention to support cinema by all European countries and the European Union – in 2015, more than USD2 billion of public money was allocated (Talavera, 2016) – and the constant distinction between cultural and commercial products. Since its inception, the European Union has maintained its member states' traditional approach to cinema while also taking a closer interest in the industrial and commercial dimensions of film-making (Harcourt, 2005). On one hand, the European Union's effort has sought to make cinema an important vehicle for cultural integration among member states. On the other hand, it has tried to strengthen European cinema's industrial and commercial structure, with three main objectives: first, equip the European film industry to face the competition, especially from America, on its own soil; second, help European films cross national borders and take advantage of broad European markets; and third, help European films to be competitive in the global film marketplace. However, up to now, these goals are still far from being reached (De Vinck & Lindmark, 2012).

Besides the European film industry's unresolved problems, market trends have also been underwhelming for some years, although the outlook is rosier in Europe than in America. Between 2010 and 2015, total admissions grew by just 1.3%, average consumption per head flatlined (as did the number of films produced), while box office grew by 15% as a result of higher average ticket prices. Unlike the American situation, the European film industry's weakness is manifested primarily on three fronts: (1) an unequal import/export balance with the United States, (2) the relatively fragmented structure of its internal market and (3) the relatively small average investment for producing and promoting its films.

There are various reasons for the European film industry's weak condition. The main ones are that the film market is fragmented in many countries due to multiple languages, cultures and

**Table 3.** Main non-European markets for European cinema (2014).

	European film admissions		European film box office	
United States/Canada	30.8 million	37%	USD245 million	49.4%
China	15.5 million	19%	USD88.8 million	18.0%
Other	35.7 million	44%	USD162.2 million	32.6%
Total	82 million	100%	USD496 million	100.0%

Source: Calculated from EAO figures, 2015

traditions. The film industry is composed of hundreds of small and medium-sized enterprises that can only operate at the national level, and the national markets for most European films are too small to make big-budget productions worthwhile. The average investment per film production in Europe is between 4 and 11 million Euros (USD4.5 million and USD12.3 million), depending upon which country the film is produced, with a relatively small additional investment for marketing (European Commission, 2014). This is significantly smaller than Hollywood, which typically pumps in tens or hundreds of millions of dollars per film production.

Some also claim that State aid has been counterproductive, as it reinforces the typically European vision of films as artworks instead of as commercial products, therefore impeding the emergence of entrepreneurs interested in participating within the marketplace. Although this is still widely debated, one might consider the example of several national film products within the Italian film industry. Although very few films ever reach break-even, the money lost by the producers are covered by one or another type of public financial assistance, which enables many producers to go on making films without having to take into consideration the commercial side of their activity (Casetti & Salvemini, 2007).

The European Audiovisual Observatory has published data on the business for European films in 12 non-European countries (EAO, 2016b).<sup>7</sup> In 2014, European films presented in these 12 countries posted 82 million total admissions, with box office revenue of 496 million Euros (USD553 million). The most important non-European market was the United States/Canada, followed by China; together, they accounted for most of the admissions and box office for European films in the 12 countries considered (Table 3).

Based on these EAO figures, European films represent 2.35% of the box office in the United States/Canada and 1.2% in China. That year, American films took 63% of the total box office in Europe; all the non-European and non-American films put together (including Chinese films) amounted to 3%. The market share of Chinese films in Europe is therefore insignificant. In short, these results show that the impact of European films has been marginal on the American film market and even weaker in China. This is in contrast to the predominant American films in the European marketplace, whereas Chinese films are merely an occasional event.

The travails of European films outside of their own continent are only part of the commercial problems that have afflicted the European film industry for years; indeed, they struggle to gain audiences even in Europe. Up-to-date figures are not available, but we can estimate that an average of 12% of European-made films are distributed, outside of their country of origin, in other European countries (European Commission, 2014).

The initiatives and funding from the European Union MEDIA programme (*Mesures pour Encourager le Développement de l'Industrie Audiovisuelle*) have helped to improve this situation in recent years, albeit without achieving the hoped-for results. The goal of significantly increasing

admissions for films imported from other European countries, and reducing those for films imported from the United States (and thereby benefitting Europe's film industry and, indirectly, the European Union's cultural policy; i.e. European integration), remains a mirage.

## **China: protecting the internal market and penetrating the international market**

The Chinese film market has been expanding fast for several years; growth rates remain stellar despite a slowdown in 2016. The most significant trends over recent years emerge in various figures. Between 2010 and 2015, box office grew from USD1.5 billion to USD6.8 billion (+350%). Over the same period, admissions rose from 290 million to 1.26 billion (+339%), and the total number of screens rose from 6253 to 31,627 (+400%) (EAO, 2015, 2016). This unparalleled growth in the Chinese film market has various underlying causes, three of which are particularly important.

First, joining the WTO forced China to gradually open up its borders to foreign companies' products and services, including films, recorded music and other media products. China's slow progress on that front prompted the United States and other countries to remind China of its WTO commitments (Richeri, 2013). And only after a long procedure (2007–2010) in line with WTO rules and regulations were some of China's breaches recognised and an agreement with China reached, a topic that is discussed further below.

Second, the Chinese government has been looking increasingly towards the cultural and creative industries (Bao&Toivonen, 2015), especially the audiovisual sector, to steer and boost its economic development (Hong, 2011; Kean, 2011). Since 2008, the government has taken a much greater interest in the cinema, television and animated-cartoon industry, and new training and production centres have sprung up. The intention is to drive the entire audiovisual sector forward to meet the domestic market's growing demand while also achieving a permanent presence in the international market.

The latter aim was fed by two kinds of political interest (National Development and Reform Commission, 2016). One was to bolster exports by selling products from its cultural industries – the fruit of artistic and intellectual work – to a more demanding international audience. That need arose partly from a desire to improve the image of Chinese industry in general, which suffered from years of mass exportation of low-quality manufactured goods. The second key political interest concerned the soft-power strategy that has become a key vehicle for Chinese foreign policy (Hingjing, 2008). There was a desire, if not a necessity, to construct a new and appealing political, social and cultural image of China on an international scale. There was also a wish to put China on the agenda of the foreign public opinion debate, to push the international attention on China, especially in the West, and outside the narrow political and institutional confines.

The third factor behind the remarkable growth in China's film industry was the need to consolidate social cohesion and revive its collective identity, both of which were threatened by the growing individualism fuelled by a consumer society that had been flourishing inside the country for several years. To buttress the widely embraced political ideology, China has sought in recent years to re-use many elements of the country's history, culture and tradition. These include the spirit of Confucian philosophy and literature of past centuries, which are deeply rooted in the country's millennia-long history and which had been marginalised by the cultural revolution of the 1960s and 1970s. In this vein, cinema, along with television, has become an irresistible and omnipresent vehicle (Zhu, 2009). Other factors behind the cinema market's growth during this period include Chinese mass migration from the countryside to the cities, the increased number of new cinema



theatres also in medium-size towns and the growth in average earnings per head, which have both continued apace.

The United States is interested in the Chinese film market for its growth prospects, which are considered remarkable for several reasons. First, China is expected to continue opening new cinemas at a healthy rate. Second, average cinema consumption per head per year is still minimal in China compared to other countries: 0.6 in 2014 and 0.9 in 2015 (as compared to 1.9 in 2014 and 2015 for Europe and 3.8 and 3.7, respectively, for the United States). Consumption growth is expected to follow a very long cycle because online and offline piracy is decreasing, China is making more blockbusters, its market is gradually opening up to imported films (US blockbusters will still lead the way) and film marketing and promotion techniques are improving, among other factors.

The nature and timeframe of the Chinese cinema boom can be properly understood, however, only by considering the effects of China joining with the WTO in 2001. The impact on the film market, in particular, has been significant. Among other things, it has brought a greater openness towards foreign-made films, reinforced by the Memorandum of Understanding (MOU) China signed with the United States in 2012 (see below).

## China, the United States and the WTO

When it joined the WTO, China committed to opening up its market and allowing increased competition in various domestic media sectors. In particular, the distribution and public sale of films in theatres, of home video products, of recorded music and of print and electronic media had to be placed on a competitive footing. Under the WTO (2001) agreements, foreign firms could also operate directly in the Chinese market under equal conditions and in competition with public and private national companies.

The United States, followed by the European Union plus Australia, Japan, and other countries, filed a complaint with the WTO in 2007 that China had failed to comply with some aspects of the agreement. After a long and complex procedure, the group of experts appointed to investigate recognised that China had not met some of its 2001 commitments and that the claims by the United States and its partners were partly true (WTO, 2009). In 2010, the WTO officially asked China to implement aspects of the agreement with which it had yet to comply. A year later, China informed WTO that some measures had been taken, but others were more complex and would take more time. But the United States' objections were resolved, following WTO (2012) procedures, in a bilateral discussion with China that yielded an MOU, establishing some crucial decisions that applied not only for the United States but also for all foreign countries wishing to enter the Chinese market.

These MOU can be summarised as follows:

1. China will allow at least 14 enhanced format films (such as three-dimensional and IMAX films) to be imported per year, on top of the 20 foreign films already imported annually; the rule allowing the foreign producers of these 20 films to take a cut of the box office generated in China also applies to the 14 additional films.<sup>8</sup>
2. China agreed that the producers of imported films may receive 25% (previously 13%) of the gross box office, while the taxes (the state retains 8.5% of the box office share that remains in China) and other costs are borne by the Chinese partners (distributors and cinema owners).

3. Any public or private Chinese company may apply for a licence to distribute imported films in China. The licence will not be granted on a discretionary or discriminatory basis but in line with normal industry criteria.
4. Five years after the agreement comes into force, China and the United States will resume consultations on how to improve it.

After signing the agreement, the United States commented that significant progress had been made, but there was still further to go. Indeed, the Americans have various objectives, lobbied for (at least in part) by the influential MPAA, which advised the US government in the negotiations. The main goals are nothing new; they are ever-present in American foreign policy and also apply to other areas of the world, including the European Union. In our case, they are as follows:

- (a) To increase the circulation of American films as much as possible by breaking down barriers, filters and other political, cultural and commercial obstacles;
- (b) To create the conditions for foreign – that is, American – companies and capital operating in the film market (especially in production and distribution) to operate freely in China in competition with public and private Chinese companies.

The most restrictive filter – the hardest for foreign films to overcome – is controlled by the State Administration of Press, Publication, Radio, Film and Television (SAPPRFT, formerly SARFT). It is entitled to refuse import licences to films that are essentially deemed contrary to Chinese society's ethical, social and cultural values (especially for young people and families) and to films that threaten state security or provide a distorted picture of China's history, culture and institutions.

This filter has so far been hard to get past, partly because much of Western culture was long considered 'spiritual pollution' in China, and Hollywood was regarded with suspicion because its films were a tool of American government soft power. In any case, China considers censorship a legitimate means of guarding against Hollywood imperialism. We may note here that the 'political' function of Hollywood cinema – long denounced even by many American and European scholars (Elwood, 2012; Fattor, 2014; Guback, 1969; Mingant, 2010; Schiller, 1969; Wasko, 1994) – explains why American diplomacy has always supported the free circulation of American films around the world. The complaint to WTO is a case in point.

For a while now, however, the Chinese film market has become so important, if not indispensable, that many observers believe that some producers are willing to alter parts of their films' original script to 'avoid offending' or even to 'please' the Chinese authorities, in order to get past the SAPPRFT filter (O'Connor & Armstrong, 2015). That is what it is considered necessary to get the green light to penetrate the world's most promising film market. As further proof that China is now an essential market for American cinema, many Hollywood films have earned greater revenue in China than in the States in the last few years. Here are some significant examples (Table 4).

## **China–United States: the strategic role of co-productions and industrial acquisitions**

There are two aspects that well represent not only the reciprocal collaboration strategies but also the open problems between Chinese and American film industry companies. The first aspect concerns the importance of co-productions; the other concerns the growing number of American and

**Table 4.** Films' box office in the United States and China (million USD).

Title	US B.O.	China B.O.	World B.O.	China as % of World B.O.
<i>Brick Mansion</i>	20.4	30.5	68.9	44%
<i>The Expendables</i>	39.3	73.9	206.2	36%
<i>Escape Plan</i>	24.6	40.9	122.1	34%
<i>Need for Speed</i>	43.6	66.3	203.3	33%

Source: Quoted in Rob Cain, *Forbes/Media and Entertainment*, 7 June 2015: US and Worldwide gross figure published by the Internet Movie Database (IMDB), [boxofficemojo.com](http://boxofficemojo.com) and [boxoffice.com](http://boxoffice.com).

B. O.: box office.

Chinese companies investing in the other country's market. The American companies, however, have less freedom because of the tighter constraints on foreign businesses in China (Su, 2016).

Co-productions have been a common practice for some time, especially between Chinese film companies and their counterparts in Hong Kong, Taiwan or other Asian and, indeed, European countries (Peng, 2015). Here, we are interested in the relationships between Chinese and US companies. Despite the various efforts to contain the pressure from Hollywood films on its domestic film market (via quotas, filters, etc.), China needs Hollywood for at least two reasons. First, American blockbusters are a vital driver for admissions and box office growth and thus for the Chinese film industry as a whole. That said, China also wants to ensure that the US films are not critical or hostile to it and do not show it in a bad light. China also wants US films to obey its rules against promoting violence, pornography, corruption and so on (Su, 2016).

The second reason that China needs Hollywood is that the Chinese want to learn the whole mechanism of film industry and how to produce films that can win global market share – not just for economic reasons, but also, and above all, for political motives: the need to boost the country's soft power in the world.

Hollywood companies need China, in turn, because it is the only large market with the sustained growth prospects that can provide the increasingly vital wherewithal to balance their books. Meanwhile, the US government is interested in prising the Chinese market further open, not just to help its own companies but also to exercise its soft power in China (Su, 2016). To meet these needs without broaching the conflicting or contradictory aspects of the situation (so far, at least), both countries have followed two paths: making more Sino-American co-productions and increasing the investment from each country's companies in the other nation's film industry.

Films co-produced in China have advantages and disadvantages for both partners; we mention some of the most evident here. The benefits for American co-producers are as follows:

- Being classed as Chinese products, co-productions do not count towards the limit of 34 films that can be imported into China each year, nor, therefore, are they penalised by the other rules on imported films; that is, that three-fourth of cinema screenings must be of Chinese movies and that at least 50% of the box office must be achieved with Chinese film.
- Overseas co-producers may receive more than 25% of the box office; producers of imported films cannot.

The disadvantages are as follows:

- Co-produced films must be checked by various institutions (Peng, 2015) before and after production, with the risk of having to adapt the content to suit the Chinese institutions'

political, social and cultural needs, but with no guarantee of ultimately obtaining permission to screen the film in cinemas.

- To a certain extent, co-produced films must reflect Chinese cultural identity, which does not help them appeal to the global market.

The main benefits open to China from co-productions are as follows:

- The high-level professional skills and expertise that they attract can help the Chinese learn how to make better films and how to handle various organisational issues, from insurance and marketing to finance, legal affairs, copyright management and more (Kean, 2013).
- The Chinese can gain easier access to the international market, via the American partners' superior knowledge and more effective operational tools.

The main disadvantages for China are as follows:

- To make films that play well on the global market, Chinese filmmakers must avoid content that is too closely tied to the national culture and to the social and political mission that its government want films to fulfil. Success for international co-productions requires low-risk narrative content that can appeal to a combined US–Chinese audience base that is (hopefully) larger than the two individual national markets. However, a film's story line designed to attract a multinational audience can be, potentially, less appealing to Chinese viewers.
- The increase in Sino-American co-productions is drawing resources and attention away from co-productions with the other Western partners that China has signed agreements with in recent years, such as Canada, France, Germany and Italy. The film industry in these countries can do little to help the Chinese industry gain global market share, but it can offer China an approach that is more sensitive to the films' artistic and cultural nuances and their social role.

The part that international co-productions are playing in the Chinese film market can be distilled into one statistic. A study by the University of Queensland in Australia offers an intelligent analysis and a rich picture of this topic (Peng, 2015): in particular, in recent years international co-productions have comprised 10%–20% of the films made in China and 50%–80% of the box office generated. The study also finds that, barring a few exceptions, those co-productions have not been as successful in the international market. Peng (2015) asserts that this co-production model

... is an advantage for the integration of different production styles and the promotion of Chinese culture. US filmmakers are trying to use the coproduction key to open the Chinese market, while China is attempting to use this key to open the global market. However, the huge differences in film industry markets, business culture, and language still pose great challenges for the Western film giant and Eastern rising power to collaborate successfully.

The initiatives by Chinese companies in the US film market, and by American companies in the Chinese film market, are more complex to interpret; they demand an analysis of some legal and financial aspects that is beyond the scope of this article. We shall simply cite a few typical cases that regard both parties.

On the Chinese side, the best-known case is that of Dalia Wanda Group, a private company operating in various sectors, from property and tourism to sport and cultural industries. Wanda controls a chain of 500 cinemas in China, the largest in the country, and has invested over USD6 billion in American cinema between 2012 and 2016.

In 2012, Wanda bought AMC Entertainment Holding, America's second largest cinema chain, for USD2.6 billion. The company controls 385 film theatres, thousands of screens and 17% of the US box office. In acquiring the Carmike Cinema chain (a US leader in digital cinema and 3D cinema deployments), AMC became the American market leader. In 2015, Wanda Group also bought Odeon – the largest chain of cinemas in Europe, with 2236 screens across seven countries – thus becoming the largest operator of cinemas in the world. The company has also invested in film production, buying US-based Legendary Entertainment for USD3.5 billion in 2016. Wanda is a significant example of China's investment into the international (and specifically the United States) film industry, and the global media and entertainment industry as a whole. Indeed, in June 2016, the *Financial Times* ran the article 'Chinese Investors Flood into Hollywood', listing various Chinese companies that have invested in cinema production, distribution and screening in the United States in recent years (Garrahan & Sender, 2016).

The American initiatives in China have, so far, been relatively cautious, as foreign companies are still subject to significant constraints, such as the obligation to have a majority Chinese partner. In some cases, the rules are not yet clear, and the local authorities' discretion can result in unexpected decisions. Nevertheless, several large Hollywood companies have invested significant sums of money in China. The best-known cases are Warner Bros. and Walt Disney. The former invested USD50 million in 2015 to set up Flagship Entertainment with China Media Capital as the majority partner (with 51% ownership); the new company makes blockbusters and has 12 films scheduled for production.

Walt Disney has invested much more – USD5.5 billion – in the entertainment sector. Working with a majority Chinese partner (Shanghai Shendi Group), it has created a theme park near Shanghai, which it will run directly. This venture will have a significant role in promoting Walt Disney films in China and will also act as a launch pad for new film production activities.

## Conclusion

We conclude by summing up the main characteristics of the Sino-US-Europe relationship in the film industry and highlight some unresolved issues.

Chinese entrepreneurs acquire companies in the United States for various motives. Besides the obvious business prospects within and outside the country, China also wants to learn from these companies' experience and wide professional expertise in order to operate better in the international marketplace. American companies electing to operate in China are looking primarily to the development prospects within China's domestic market, and the opportunity to find financial resources, to save on production costs and, in turn, to enhance its competitive advantage in the international marketplace.

In recent years, China has made unprecedented efforts to develop its national film industry. This strategic decision was borne of necessity and ambition. Indeed, China must protect its national film market from foreign competition, which became evident after China joined the WTO in 2001. It has two main motives: First, for economic reasons, China seeks to strengthen its national film industry in order to make it more competitive within its domestic market and to prepare it for greater influence in the international market. Second, for political reasons, China desires to prevent

foreign films from having a negative impact on Chinese culture and society. The Chinese government does not want foreign films to promote a Western model of society driven by individualism, featuring depictions of sex, violence, corruption and scandal. On the contrary, China desires to strengthen its social cohesion, collective identity and shared values, to have its culture and tradition to be in harmony with the 'Chinese model of a socialist society'.

The Chinese government's ambition in this arena, then, is to become not only a player in the international film market but also to occupy a strong position where it can exercise its soft power and, ultimately, to compete with Hollywood as an equal and challenge its global leadership. But this likelihood is more of a dream than a realistic goal.

In any case, economic success and, especially, greater soft power would give Chinese politics an important boost in other areas where there exists an imbalance with the international community. That road has already proved fraught with difficulty. For example, the film industry in China must protect itself from American competition but also needs the US film industry for at least two reasons. First, American blockbusters are still essential to fill cinemas and to grow box office revenue, which, as we have observed, remains largely in Chinese hands. Thus, as it was the case that admissions (total tickets sold) and box office revenue slowed down in the months leading up to the summer 2016 season, Chinese authorities took the rather hurried remedial measure of allowing cinemas to screen foreign films during the summer as well, lifting the governmental restriction aimed at protecting Chinese films in a peak film-going season. The second reason is that the Chinese authorities are well aware that their film industry still has a lot to learn from Hollywood, especially with respect to how to approach the international market on a more regular basis. This need has opened up a new front that could lead to interesting developments for both sides: in China, more blockbuster co-productions are emerging between Chinese and, above all, American companies.

As discussed above, the Chinese side benefits from working with American professionals and learning how to develop products for the world market, while the United States benefits because (per government regulation) co-productions with Chinese partners fall outside the annual import quota of 34 films. SAPPRFT, the Chinese media authority overseeing various sectors, must approve each of these projects. Therefore, they must be devised so as not to contravene China's political, cultural and social principles, and in particular to avoid any content that might reflect negatively on China's image. For the Western perspective, this is a clear handicap, as cinema's role has often included a critical function to expose and spotlight the problems experienced by a country, society or people. China, however, does not yet seem ready to embrace this way of using cinema.

In conclusion, our analysis highlights how the big American film companies need to further penetrate the Chinese market in order to maintain their leading position in the global marketplace. China needs the American companies, too, both to keep its domestic market growing and to learn how to operate in the international market with the goals of achieving economic benefits and enhancing its soft power. In this context, at least two opposing factors loom large. Inevitably for China, allowing America to increase its influence in the film market means facilitating the dissemination of Western cultural content, which is effectively contrary to the Chinese authorities' political, social and cultural objectives.

From the American side, exploiting the developing Chinese film market seems not just opportune, but essential. Yet the risks are clear, the Chinese market is not an open marketplace, it is controlled by Chinese government institutions, whose agenda is dependent upon variables much more complex than those merely underpinning the film industry. For example, if Chinese films continue to achieve little abroad, both economically and in terms of soft power, then China's interest in American cinema will probably decrease.

The relationship between the US and Chinese film industries don't allow much space for the European film industry's future. Europe is not able to offer China nor the United States what they are looking for: it cannot offer China strong know-how to produce blockbusters for the global market, and it cannot offer films useful to improve the Chinese box office; for the United States, Europe is not an expanding film market, and it doesn't have significant financial resources available. It's true that in Europe it is possible to find a long film tradition, culture and art, but for Chinese and US film interests, it's not enough. In the future, they will keep their attention and interest on the European film industry and its skilled professionals, but not as a strategic partner.

For these reasons, the European film industry problems will not find any possible solutions looking towards China or the United States. Europe must find solutions looking from within, at home. First, it must reduce its film industry and market fragmentation, it must improve the cooperation among its member states in film co-productions and in the distribution of national films in other European markets, and it must identify a shared strategy to reduce Hollywood's market share of its box office while improving its own.

Cooperation between European and US film companies is not a new thing. There are many examples of European and US film co-production or of European film directors and actors having worked for Hollywood companies, but, despite all of this collaborative experience, there has not been significant revenue or know-how returned to European film companies, nor has such collaboration enhanced Europe's national or international business. For these reasons, in the European Union today, there is a growing attention focused towards China, its film industry and marketplace. Every international film festival, from Cannes to Berlin, from Locarno to Venice, seminars, round-tables and conferences are organised to understand what Europe can do with China. Some countries like Belgium, France and the United Kingdom have signed film cooperation agreements with China, and other European countries are on the way – but each one is looking to have a 'national' special relation with China. Contents of these agreements are for cultural, creative and economic cooperation, but it's clear that European companies look mainly for the economic advantages that they can reach: Europe–China co-production financed mainly with Chinese money and the distribution of European films in the Chinese cinema market and television channels. It's clear that if European film companies can offer only a few million Euros to put into their films, they will be not able to co-produce films with Chinese companies putting the financial resources required for films to have global market success. This means that a larger investment by Chinese companies, a larger return on investment for Chinese companies in those cases of success, and few advantages for the Europeans. Given that nationally produced European films already confront many difficulties with distribution in other European countries, should we really expect that Europe–China co-production would have better chances at success? It may be that the films produced via Europe–China cooperation will generate richly creative and cultural success, but industrial and economic success will find a questionable future.

The topic that we have analysed in this article opens some relevant questions that are not easy to answer as they represent a complex mix of political, economic and cultural issues. From the economic point of view, the Chinese film industry would greatly benefit from learning and following the Hollywood production model, and adopt the Western storytelling style, in order to compete in the global film market, but that choice is weak on the cultural side. From the same point of view, the US film industry will willingly give up the 'freedom of information' of film screenwriters and directors, and accept the content-based conditions of passing through the filter of the Chinese authorities, in order to enter into the Chinese film marketplace, but this choice is also weak on the political and cultural side. From the perspective of the European film industry, its economic

interest will be of a much more modest share, and its more powerful production companies should consider doing fewer films with bigger budgets, to work in a unified language, in order to compete on the global market. It must also consider narrative content that can be more appealing for the Chinese moviegoer and should develop additional opportunities to collaborate with Chinese film companies. But to make these choices, it means that the European Union must reduce the cultural pluralism and political independence of its member states.

When confronted with the question of cultural perspective, China, the United States and Europe maintain different points of view: China will prefer to have a film industry that sustains its national traditions, helps to build a shared national identity and strengthens social cohesion; the United States will prefer to protect the freedoms of communication of its screenwriters and film directors, and Europe will prefer to protect the national language and culture of each member state, the artistic competences of each country and region and so on. The China–Europe–US triangle gives a global dimension to a wide range of problems. The question is whether it will be possible to find a balanced solution among cultural, political and economic interests or will one of these interests prevail against the others in shaping the future of the global film market.

## Funding

The author(s) received no financial support for the research, authorship and/or publication of this article.

## Notes

1. India also has a huge film industry; it leads the world for the number of films produced (nearly 2000 in 2014) and the number of admissions (over 2 billion, also in 2014). However, the Indian film industry has three limitations. First, the estimated box office revenue in 2015 was USD1.5 billion – much less than in China, a result of much lower ticket prices (the average Indian earns less than the average Chinese). Second, the national film market is fragmented due to language and location-specific issues. India has several film industry sectors within the country, with ‘Bollywood’ in Mumbai, State of Maharashtra, being the most famous (also known as Hindi cinema); other sectors of the Indian film industry are found in Andhra Pradesh, Bengal, Kerala and Tamil Nadu (Hogan, 2008). Third, foreign films struggle to penetrate the Indian market because of cultural (not legislative) barriers. Indian cinema audiences are strongly attached to their typically local artistic, linguistic and narrative components, so Hollywood culture and that of other countries’ cinemas have met with little interest in India so far. Foreign films contributed 8% of box office takings in 2014 and 15% in 2015 (European Audiovisual Observatory (EAO), 2016).
2. The EAO, a research centre founded by the European Union, is the official source in Europe; the Motion Picture Association of America (MPAA) unites the main US-based film production companies, including Walt Disney Studios Motion Pictures, Paramount Pictures Corporation, Sony Pictures Entertainment Inc., Twentieth Century Fox Film Corporation, Universal City Studios LLC and Warner Bros. Entertainment Inc.
3. With respect to Europe, there is a lot of literature available that analyses, country by country, how and why US films have become market leaders and are still now at the top of the box office (Creton, 2001; Nowell-Smith & Ricci, 1998; Richeri, 2012). In the case of China, there is less literature available, but in recent years scholarly activity has increased, with some books appearing in the West that give a good overview of the Chinese film industry and market and of China’s international relations (Su, 2016; Yaping, 2016), as well as some PhD theses that offer interesting information and points of view (Kokas, 2012; Peng, 2015).
4. For a certain number of Hollywood films, this has been true for some time, but for blockbusters, it has become a characteristic component of a new economic model.
5. The Theatrical Market Statistics Report, available from the MPAA website (<http://www.mpa.org>), provides various figures every year. Until recently, it also included some valuable data on how much the



major Hollywood studios had invested on average in film production and promotion (advertising and marketing). However, these statistics have not been available for 5–6 years. According to one of the last rounds of figures published in 2007, the major studios' average investment in a film was USD70.8 million for production, plus USD35.9 million for promotion.

6. Besides the various initiatives by each member state, the European Union has been running and periodically updating the MEDIA Programme since the early 1990s. This intervention programme aims to boost the European film industry by encouraging European co-productions, and improving the pre-production and distribution of European films, to make European cinema more competitive with films from outside Europe, and from Hollywood in particular.
7. These 12 countries are as follows: United States, China, Mexico, South Korea, Australia, Canada, Colombia, Argentina, Brazil, New Zealand, Venezuela and Chile.
8. In addition to the 34 foreign 'revenue-sharing' films that take a share of the box office, China also allows 30 'flat-fee' films in the country every year. Such films receive a flat fee when they are imported and no more; the box office produced by them is marginal and goes directly into the pockets of Chinese companies (i.e. to the distributors and the owners of movie theatres).

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