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Abstract

From the 1980s to the present, Hollywood's major distributors have been able to redistribute U.S. theatrical attendance to the advantage of their biggest blockbusters and franchises. At the global scale and during the same period, Hollywood has been leveraging U.S. foreign power to break ground in countries that have historically protected and supported their domestic film culture. For example, Hollywood's major distributors have increased their power in such countries as Mexico, Canada, Australia and South Korea (Jin, 2011). This paper will analyze a pertinent "test case" for Hollywood's global power: China and its film market. Not only does China have a film-quota policy that restricts the number of theatrical releases that have a foreign distributor (∼20 to 34 films per year), the Communist Party has also nurtured a Chinese film business that has steady film releases and its own movie star system. Theoretically, China would be a prime example of a film market that would need to be opened with the assistance of the U.S. government. Empirically, however, the case of Chinese cinema might be a curious exception; we can investigate how a political economic strategy rooted in explicit power is reaching a limit. Hollywood is, potentially without any other option, taking a more friendly, collaborative approach with China's censorship rules and its quota and film-production laws.

1 Introduction

Hollywood has recently been working hard to sell itself to China. The international cut of *X-Men: Days of Future Past* included lengthier scenes set in Hong Kong. *Skyfall*, the 2012 James Bond film, has an action sequence in Shanghai. *Looper* also has a significant scene in Shanghai, but in the original script this scene was meant to be filmed in Paris. The change to Shanghai was one of the conditions of China's DMG Entertainment, who invested in the production of *Looper* (O'Connor & Armstrong, 2015, p.10). DMG Entertainment was also able to partner with Disney for the Chinese release of *Iron Man 3*. The Chinese release of this Marvel blockbuster contained an extra side-story that was exhibited in no other country. This side-story breaks from the main plot and has Tony Stark (a.k.a, Iron Man) travel to China to undergo heart surgery. Tony Stark's surgeon, Dr. Wu (played by Chinese star Wang Xueqi), is given screen-time that involves placing a phone call to Stark's A.I. assistant J.A.R.V.I.S., having a conversation with another doctor (played by Fan Bingbing), and pouring a glass of Chinese-brand milk in an advertisement-like shot (Daniel, 2013; Langfitt, 2015; Tsui, 2013).

Examples of Hollywood trying to appeal to the Chinese film market are interesting but perhaps not very surprising. Hollywood's success in China could be key to growing the theatrical revenues of its biggest blockbusters and to helping the media strategies of its parent conglomerates. The 2016 *Theatrical Market Statistics* report, published annually by the Motion Picture Association of America (M.P.A.A.), opens with statistics on the international box-office and lists China as the largest box-office market outside of the United States (US$ 6.6 billion).[1]

Hollywood's ambitions make sense, but its recent push into the Chinese film market is more complicated than it first appears. In fact, the Chinese film market is a pertinent "test case" for Hollywood's global power. Not only does China have a film quota policy that restricts the number of theatrical releases that have a foreign distributor (∼20 to 34 films per year), the Communist Party has helped the Chinese film business grow to have steady film releases and its own movie star system. These circumstances have made it more difficult for Hollywood to dominate in China, a country with a movie-going public that is estimated to be over two hundred million people (Curtin, 2007). Moreover, the pressure of the M.P.A.A. and the diplomacy of the U.S. government has not been as effective as it has been in other countries (Jin, 2011; Trumpbour, 2008).

Thus, the case of China cinema might be a curious exception to how Hollywood behaves as a global enterprise, whereby its biggest blockbusters dominate foreign markets and suffocate national film production. Thus, we can investigate how a political economic strategy rooted in explicit power is reaching a limit. Hollywood is, potentially without any other option, taking a more friendly, collaborative approach with China's censorship rules and its quota and film production laws.

2 The Obstacles in Hollywood's Way

The place of Hollywood cinema in our conceptions of mass culture makes it difficult to think that Hollywood's major studios sometimes struggle for the dollars of moviegoers. But, like any other business enterprise, Hollywood experiences financial ups and downs, which can be investigated empirically. For instance, in the U.S. domestic market, the period from 1980 to the present has been one

[1] After China there are the box-office markets of Japan (US$ 2.0 billion), India (US$ 1.9 billion) and the U.K. (US$ 1.7 billion) (MPAA, 2016).

of the best periods for Hollywood's major distributors, who strengthened their grip over the North American theatrical market.[2] Much of this recent success has been due to the effect of blockbusters on the overall distribution of theatrical revenues and opening-theatre sizes. Partly because Americans are not seeing more films per year, the major studios have increased the opening-theatre size of its biggest films to better the chances of Americans saving their "theatre dollars" for the widest-released films (McMahon, 2018).

At the international scale, contemporary Hollywood has been leveraging U.S. foreign power to make its biggest stars and films global phenomenons, particularly in countries that do not have the tools to protect or support their own domestic film culture. Through both the U.S. government's opposition to the U.N.E.S.C.O. convention, which aims to "protect and promote the diversity of cultural expressions," and the free-trade agreements that remove barriers to American film production, Hollywood major distributors have found political-economic opportunities to dominate the markets of such countries as Mexico, Canada, Australia and South Korea (Jin, 2011).

In the case of selling its cinema to China, Hollywood has not had the same opportunity to establish dominance. Hollywood has made entry into the Chinese theatrical market, but *gains* to its size and strategic position in China have only come incrementally, often through pressure from the U.S. State Department. The following subsections outline two key ways the Chinese State is still protecting its own market from Hollywood domination. *Quota policies* and *state censorship* do not keep Hollywood out of China completely, but they control and limit the ways foreign film producers and distributors can make money in China. These "obstacles" in Hollywood's way have also been giving China the time and space to build a blockbuster-heavy film industry of its own.

2.1 Quota policies

Quota policies can protect domestic cultural production by setting limits to the import of foreign cultural products. They also can restrict how much foreign investment can be involved in domestic cultural production. China is using quota policies in these two ways. Consequently, Hollywood has access to Chinese audiences but not in an environment where the biggest American studios are primarily in control.

As of 2018, China allows, per year, 34 imported films to have revenue-sharing deals between Chinese and foreign distributors. This number of 34 is the sum of two "types." China agreed to 20 film imports per year when it rejoined the WTO in 2001 (Su, 2011). An additional fourteen "enhanced format" revenue-sharing films (i.e., 3D) do not count towards this 20-film commitment, as was agreed by the United States and China in 2012 (U.S. Department of State, 2012). A revenue-sharing deal must go through a Chinese distributor that holds a state-sanctioned import license. The Chinese distributor in this deal, who is

[2] For an analysis of how the wide-release strategy, in combination with the blockbuster style and the high concept standard, enabled the major distributors to lower their systemic risk, see McMahon (2018).

almost always the China Film Group (O'Connor & Armstrong, 2015; Yeh & Davis, 2008), has a percent share of the imported film's gross revenues.

The current allowance of 34 imported films evolved from Chinese cultural policy that began in 1994, when China introduced a new revenue-sharing system for film imports. The first film to be imported through this system was Warner Bros.' *The Fugitive*. From 1994 to 2001, China only allowed ten revenue-sharing imports per year. While this limit was restrictive, the handful of Hollywood films that were imported during this period did quite well; they were sometimes able to collectively claim as much as 70 percent of China's box-office revenues per year (Su, 2011). The first version of the film import system produced debates in China's academic and cultural circles about the benefits of China welcoming Hollywood imports. Some film critics, professors and journalists were not concerned that the majority of theatrical attendance was going to American films. These commentators envisioned Hollywood being able to lift Chinese movie attendance overall, foster cultural liberalism and boost the creative output of Chinese film production. The argument against Hollywood's presence in Chinese theatres often claimed that an influx of Hollywood films would promote American individualism, tell superficial stories or fail to admit that there were social problems in the West. Critics of Hollywood's influence, such as Li Yiming, Zheng Dongtian and Dai Jinhua, also argued that it was naive to think that China's film industry could be lifted on the wings of Hollywood imports; the growing influence of American-style of cinema would weaken the opportunities for Chinese filmmakers to create a distinct national cinema (Su, 2011).

When China joined the W.T.O. in 2001, the quota limit was doubled, from 10 to 20 films per year (Su, 2014). For those who were openly critical of Hollywood's growing popularity with Chinese moviegoers, this doubling would clearly have appeared as a bad sign for the future of Chinese cinema (Su, 2011). However, from a perspective that can analyze what happened after China's W.T.O. entry, we can see how the C.C.P. put Chinese cinema in a stronger position in the 2000s, despite the increase in foreign imports per year. In the years before China's W.T.O. entry, the Chinese government often funded and promoted the strictly-domestic production of "Main Melody" films (*zhuxuanlu*), which were meant to promote "patriotism, socialism and collectivism" (Su, 2014). "Main Melody" films continued to be produced from the year 2000 onwards, but in the 1990s the total output of Chinese film production was low, and this forced these films to be some of the only domestic alternatives to Hollywood imports. "Main Melody" films were not the best alternatives to glossy entertainment, as they were of much lower production quality than the Hollywood blockbusters of the late 1990s (Wang, 2007).

As summarized by Yeh and Davis (2008), state policy after 2000 created opportunities for China to use Hollywood as a "a financial and institutional instrument" (Yeh & Davis, 2008, 40). Changes to cultural policy allowed foreign investors to fund Chinese film projects, as long as the investor group partnered with one of China's state-owned studios (Su, 2014). The biggest and most influential state-owned studio is China Film Group. China Film Group is a horizontal and vertical consolidation of technical studios and the China Film

Corporation. The benefit of this consolidation was that China Film Group's corporate structure updated its production system for creating blockbusters, which are more expensive to produce and that rely on state-of-the-art equipment (Yeh & Davis, 2008).

Foreign interests in Chinese cinema can offer capital and technical know-how, but the Chinese state has also made it clear that it sets the terms to foreign partnerships with its domestic film business (Su, 2014). During the first years of the 2000s, China allowed foreign shares of investment in film production to reach 49 percent, and allowed theatre ownership in major cities to go as high as 75 percent. In 2005, China's Ministry of Culture and other ministries issued an edict that pulled foreign ownership in theatres down to 49 percent. This edict also stated that Chinese investors must play the leading role in all joint venture projects (Su, 2014). "Leading role," according to a U.S.-China Economic and Security Review Commission report, can mean "having at least one scene shot in China, casting at least one Chinese actor … and, in general, illustrating "positive" Chinese elements" (O'Connor & Armstrong, 2015, 8).

There is empirical evidence to suggest that strong protectionism gave China's film industry the time and space to increase the quantity and quality of nationally-produced films. Figure 1 presents the number of films produced in China per year; where data is missing, estimates are made through linear trends (see note in Figure 1). As was stated above, China's output in the 1990s was averaging below one hundred films per year. By contrast, China produced 140 films in 2003 and 411 national films in 2007. This output kept increasing, putting China firmly in Diana Crane's category of "super-producer"[3] (Crane, 2014). In 2013, for example, a total of 638 films were produced by the Chinese film industry. Just as importantly, some of the newer films were of much higher production *quality* and, when needed, their stories could be told with better film technology and special effects. A key reason for this jump in quality was that Chinese producers and directors could partner with American studios and gain access to filmmaking techniques that were responsible for the glossy style of Hollywood blockbusters (Fraser, 2015; O'Connor & Armstrong, 2015).

To estimate the qualitative power of nationally-produced films we can measure how many times nationally-produced films become some of the most well-attended films in a domestic market. Strong attendance is not a simple measure of aesthetic quality, but it is a form of qualitative power. Nationally-produced films that can rise to, for instance, the top ten grossing films per year have found ways to win popularity over Hollywood's big-budget releases. China's protectionist policies would give its nationally-produced films some advantages in this competition, but it is unlikely that policies can fight the sparkle and glamor of Hollywood alone. In fact, there are many countries that have strong domestic film industries but that are still unable to get nationally-produced films to become some of the top ten grossing films per year. For example, take three countries that Crane (2014) would categorize as being major producers

[3] Crane uses data from 2009 to group countries into four categories: super producers (> 400 films); major producers (> 100 and < 401); medium producers (> 51 and < 101); and, minor producers (> 25 and < 51) (Crane, 2014).

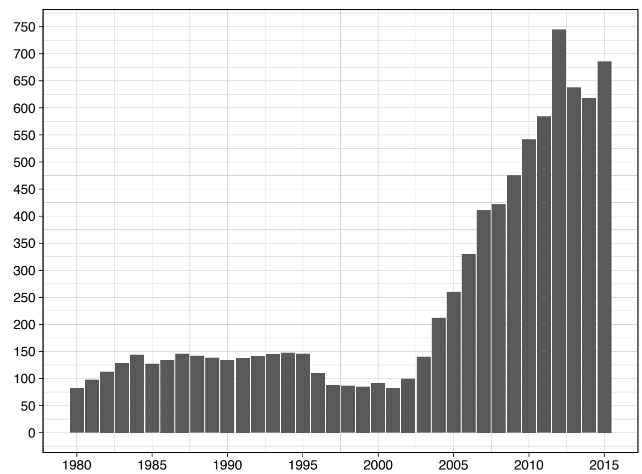

Figure 1: *Chinese Film Production, 1980-2015*

Note: Missing data for China film releases (1971-1973, 1978-1979, 1981-1983, 1988-1989, 1991-1993, 1998) are interpolated as linear trends between adjacent observations.
Sources: Screen Digest for the film releases of China 1970, 1974-1970, 1980, 1984-1987, 1990, 1994-1997, and 1999-2006; UNESCO UIS Statistics data.uis.unesco.org for 2007-2015.

(> 100 and < 400 per year): South Korea, Italy, and Spain. They are similar in annual output but dissimilar in their ability to compete against the glamour of Hollywood blockbusters. The average number of Hollywood films in the country's top ten box-office revenues (in parenthesis), from 2005 - 2015, are: South Korea (3.4), Italy (6.7), and Spain (8.5).

Figure 2 shows the average number of Hollywood films that compose the annual top ten box-office revenues of countries around the world, from 2005 to 2015. The darker the shade, the greater the average number of Hollywood films to have placed in the country's box-office top ten (data is unavailable for countries in white). For parts of the globe, such as Latin and South America, Australia and parts of Europe, the facts match our common ideas of Hollywood being a *global* cultural power. Yet interestingly, there are many countries, from Turkey to Japan, where Hollywood has had a weaker presence at the top. China is one of these countries where Hollywood is relatively weaker (an average of 5.1 Hollywood films in the country's top ten).

2.2 State censorship

China is not the only country to ban films for their content or demand that some go through edits and cuts before being approved for exhibition, but China might be distinguished for its ability to wield state censorship with such strength that

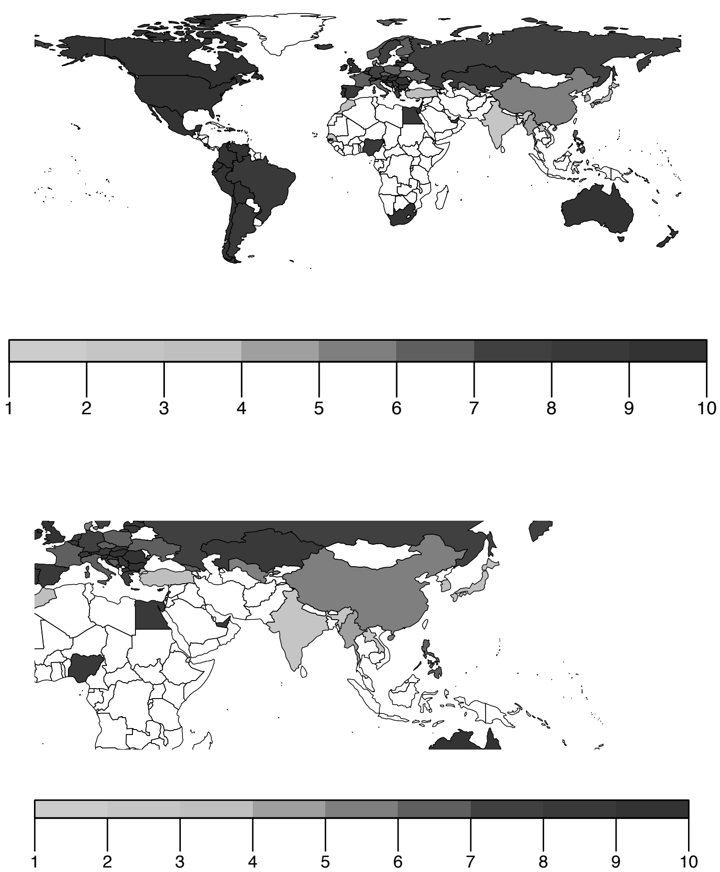

Figure 2: *Hollywood's Box-Office Share, 2005-2015: Average number of Hollywood films in Top-Ten Box-Office Revenues per National Market*

Source: U.N.E.S.C.O. U.I.S. Statistics (data.uis.unesco.org) for 2005-2015.

it can weaken Hollywood's financial power. As was established above, China is not trying to close its film market to Hollywood entirely, especially since joining the W.T.O.. Nevertheless, China shows no signs of removing state censorship from its toolbox, even at the cost of straining its relationship with the United States.

From the mouths of the C.C.P., government censorship of cinema in China is rationalized in nationalist language. This rationalization started in the early years of the People's Republic, when all film studios in China were nationalized and cinema was treated as a cultural product that could support broader social processes with "propaganda and thought work" (*xuanchuan sixiang gongzuo*). During this period, the film bureau responsible for overseeing the form and content of Chinese film production promoted the aesthetic of socialist realism, much like the Soviet Union (Meyer-Clement, 2017). The style of socialist realism is now out-of-date, especially because China has been opened to Hollywood, but the C.C.P. maintains its interest in what a film shows and says. A film can be entertaining, and even have some of the gloss of a Hollywood film, but approval for exhibition in China must be sought from the State Administration of Press, Publication, Radio, Film and Television (S.A.P.P.R.F.T.).

The standards of the S.A.P.P.R.F.T. require that all films in China, both of domestic and foreign origin, adhere to "the principles of the Chinese Constitution and maintain social morality" (O'Connor & Armstrong, 2015, 9). These standards are maintained through the prohibition of certain images and scenes that depict

> demons or supernaturalism, crime or any other illicit or illegal actions within China's borders, disparagement of the People's Liberation Army and police, and anything that could be perceived as anti-China—including merely damaging Chinese sites or monuments (O'Connor & Armstrong, 2015, 9).

The S.A.P.P.R.F.T. also checks that films are always suitable for a broad group of moviegoers. China does not have a tiered film-rating system that allows moviegoers above certain ages to see theatrical releases with increasing degrees of "adult content." No film can offend the values and tastes of what the Chinese state thinks is a "general audience" (Langfitt, 2015).

Incidents of the S.A.P.P.R.F.T. censoring Hollywood films are covered in the Western news media, but coverage can be superficial. News media prefers detailing individual examples to writing a more systematic analysis of what China gains from repeatedly giving Hollywood studios a hard time over this or that scene.[4] Beyond the primary need to obey what is in its own policy, the S.A.P.P.R.F.T. can also use censorship guidelines to throttle the poten-

[4] For the sake of space, examples will not be detailed. Hollywood films that have had difficulty with the SAPPRFT include: the 2010 remake of *The Karate Kid*, *Life of Pi*, *Mission: Impossible III*, *Pixels*, the 2012 remake of *Red Dawn*, and the 2014 of *RoboCop*. For descriptions of what the SAPPRFT objected to in these films and others, see Baldwin and Cooke (2015); Cieply and Barnes (2013); Langfitt (2015); O'Connor and Armstrong (2015); Rosen (2006).

tial financial impact of a film that is imported into China. For example, the S.A.P.P.R.F.T. can delay the Chinese release of a Hollywood film by asking for more edits or by taking longer to give final approval. Imported films are already banned from being exhibited during key holiday periods, such as the Lunar New Year, but the U.S.-China Economic and Security Review Commission claims that "manipulating the timing of a foreign film's release is common practice for [the] SAPPRFT" (O'Connor & Armstrong, 2015, 10). Affecting the timing of Hollywood imports can create situations like what happened to *Minions* and *Pixels*, which were released in Chinese theatres only two days apart. Conversely, less-than-ideal clusters of Hollywood releases advantage Chinese films, which then face less direct competition on their days of release (O'Connor & Armstrong, 2015).

Without open access to the decision-making process of the S.A.P.P.R.F.T., we can only build a proxy to substantiate the claim that the Chinese state can use censorship to throttle the financial impact of Hollywood films. Figure 3 helps us confirm, with some certainty, that domestic and imported films have an inverse relationship–i.e., domestics are popular when imports are not, and vice versa. Figure 3 uses gross revenue data and plots each revenue total on the date of the film's release in China. Panel B visualizes the relatively-clean alternations between the releases of domestic and imported films.

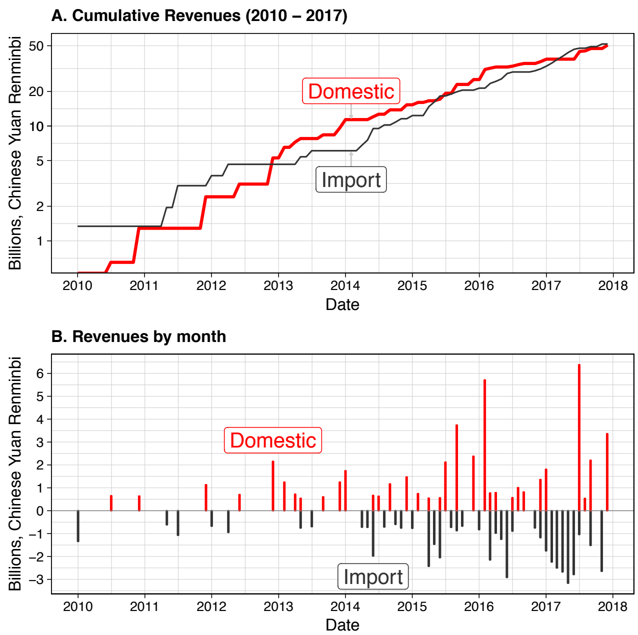

Figure 3: *China's Biggest Theatrical Grosses: 60 Domestics v. 60 Imports*

Note: Import data in Panel B are presented as negative numbers for the purposes of visual clarity. They do not signify costs or net income.
Sources: cbooo.cn/Alltimedomestic for overall gross revenues of the top 60 domestic releases and the top 60 foreign releases in China.

3 Hollywood's Struggle

So far we have outlined key political economic obstacles that prevent Hollywood from entering the Chinese market with ease. We can now analyze the significance of China's film market to Hollywood. By making estimates of China's future potential in cinema, we can *theorize* what Hollywood can gain from acquiring a stronger position in this market. We can also *empirically demonstrate* that it is presently difficult for Hollywood's major studios to acquire this stronger position. This forward-looking analysis from the present is important, as it mirrors the forward-looking logic of capitalization, which discounts future expected earnings to present prices (Nitzan & Bichler, 2009). Moreover, Hollywood's struggle in China would certainly be a factor in how capitalists weigh their future expectations of global income from Hollywood cinema (McMahon, 2015).

China's theatrical market is big now, but it also has room to grow. When we account for China's massive population, we see the potential for the Chinese theatrical market to multiply in size. Figure 4 plots the average annual attendance *per capita* of the world's most populous countries. The average is taken from attendance data between the years 2005 and 2015. On account of its population size and the differences in consumerism between its urban and rural regions, China's average consumer is still only seeing less than one theatrical film per year. This movie-going habit is relatively low; China's significance to Hollywood has an opportunity to *multiply* if the country can grow its movie-going culture to the size of countries like Japan, France and the United States.

As a way to speculate about the future trends in the Chinese theatrical market, Figure 5 visualizes data from a M.P.A.A. report that has theatrical revenue data for groups of Chinese cities. The report uses the "Tier classification system", which uses

> variety of population, economic, political and industrial criteria used to distinguish between Tiers. Tier 1 cities are generally defined as Beijing, Shanghai, Tianjin, Chongqing, and Guangzhou. Tier 2 cities tend to be provincial capitals. Tier 3 cities tend to be prefecture capitals. Tier 4 and 5 cities are smaller country cities, with populations of 150,000 or less. (Oxford Economics, 2017, 8)

The upward trajectory of Chinese box-office revenue might not continue, but if it does, the crucial point is that state control of the Chinese film market has protected national interests up until this point, when Chinese movie businesses are big enough to reap significant future rewards. The China Film Group is a consolidated firm that has technical capacity for large-scale production and wide distribution (Yeh & Davis, 2008). Private film production has been officially legal since 2001 and is contributing to the growth of national film releases (Meyer-Clement, 2017). Additionally, some of the biggest Chinese firms, such as Wanda, Baidu, Alibaba and Tencent, have acquired smaller media firms and invested in all sides of cinema, from production facilities to online streaming (Frater, 2015).

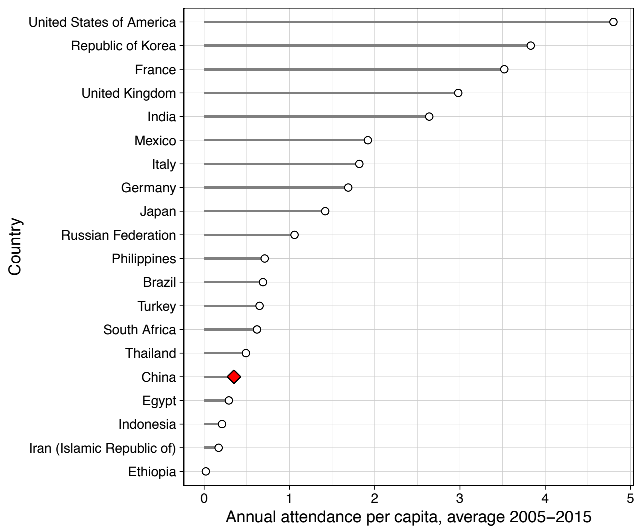

Figure 4: *Average annual attendance per capita, sample of the most populous countries*

Source: U.N.E.S.C.O. U.I.S. Statistics (data.uis.unesco.org) for Annual Attendance Per Capita, 2005 - 2015.

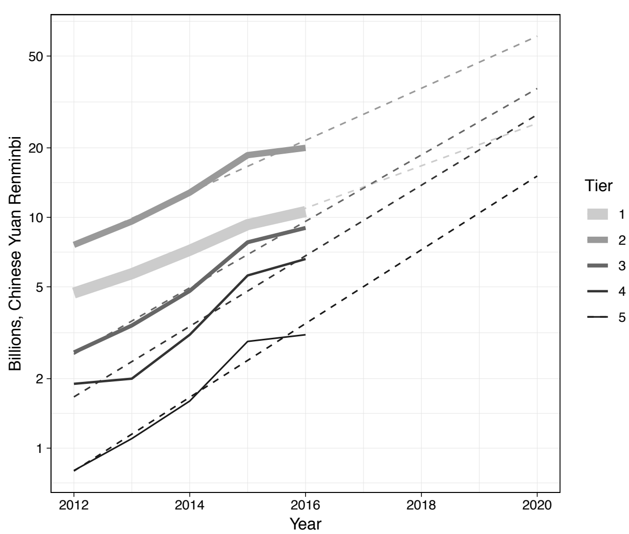

Figure 5: *Chinese box-office Revenue, by city tier*

Source: Oxford Economics (2017)

When a national competitor is *unable* to fight Hollywood for the top-grossing ranks of its own market, Hollywood is content to have its international strategies mirror its strategy in the United States. In other words, Hollywood's most straightforward strategy is to take what is successful at home and export it abroad (Fu & Govindaraju, 2010). The unattractive situation is when, like in China, Hollywood cannot expand the social order that favours its own interests, whereby its biggest films are at the top of the revenue pyramid and everything else (smaller budget; niche market; independent) is on the bottom. The inability for Hollywood to produce a favourable order in the Chinese market can be seen in two ways: (1) in the levels of total revenues and (2) in the relatively low predictability of American box-office successes having success in China.

To identify the problem with the levels of revenues that Hollywood gains from China, we need to look beyond the performances of individual films, which is a scale that can make Hollywood look strong; films such as *Avatar*, *Zootopia* and *Furious 7* have been smash hits with Chinese moviegoers. A wider perspective shows there is evidence that Hollywood needs to be much more dominant in China, especially if this country has the potential to be a keystone of future international sales. As shown in Figure 6, Asia's contribution to the international revenues of American motion picture firms has been shrinking. Data is taken from the U.S. Bureau of Economic Analysis (B.E.A.). Panel A shows the annual revenue total of U.S. motion picture sales outside of the United States (referred in the data as "services to foreign persons"). Panel B shows the percent distribution of international revenues across regions. Both panels use the regional categories already set in the B.E.A. data. The category "Africa, Middle East, Asia and Pacific" is huge geographically–and less-than-ideal for focusing on China–but a large majority of the revenues in this category come from Australia, China, Japan and South Korea.

Assuming that Hollywood's major studios are responsible for the majority of American film *exports*, Figure 6 indicates that international revenues of Hollywood have stagnated for the last ten years. Moreover, Panel B shows that Europe, Hollywood's largest source of international revenues, has been declining since the late 1990s. Just as importantly, it is Latin America that has compensated the most for Europe's declining share after 2005. Canada and Africa, Middle East, Asia and Pacific have smaller total shares after 2005 than they did in the late 1990s.

What is visible in Figure 6 can be connected to Hollywood's struggle in China, even if the B.E.A. data is too broad to make any *causal* claim. Figure 7 can help us see relevant contemporary processes. The figure visualizes the international revenues of the "Africa, Middle East, Asia and Pacific" category, but as a rate of change from a 3-year trailing average. The other series (thin line) is the annual output of Chinese film production, also visualized as a rate of change from a 3-year trailing average (absolute numbers are shown in Figure 1). Other factors would certainly have an impact on the rise and fall of Hollywood's international revenues in Asia, but Hollywood's fall is contemporaneous with the rapid growth of China's film production. Moreover, Hollywood's short burst of revenue growth around 2010 is coincident with a Chinese film industry that was

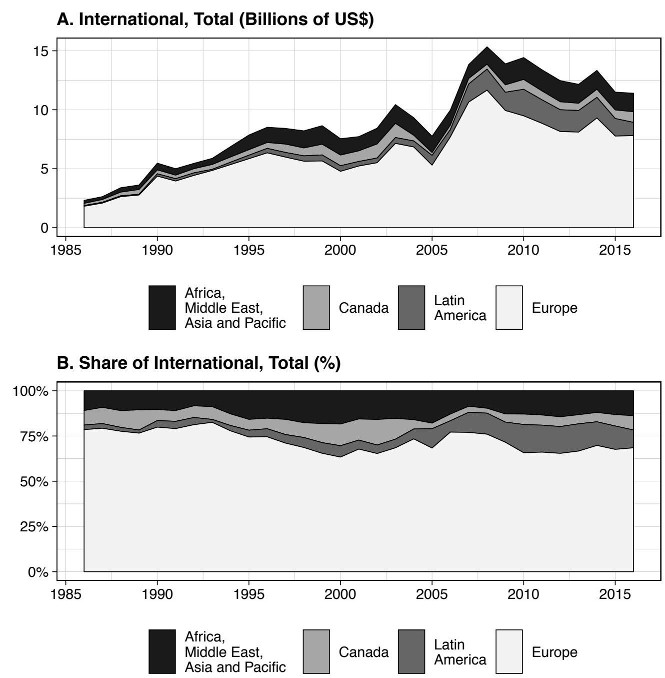

Figure 6: *U.S. Motion Picture Services to Foreign Persons, International Total*

Note: When disaggregated data are available, values for services to foreign persons by U.S. multinational enterprises through their majority owned foreign affiliates are motion picture and video industries. For the years when disaggregated data are unavailable, weighted estimates of the motion picture and video industries are made from the aggregated values of motion picture and sound recording industries. The weight of Middle East, Asia and Pacific (0.85) is the average share of motion picture and video industries, when available.
Sources: B.E.A. International Services data for services to foreign persons by U.S. multinational enterprises through their majority owned foreign affiliates, by industry of affiliate and by country of affiliate.

still growing, but not as rapidly.

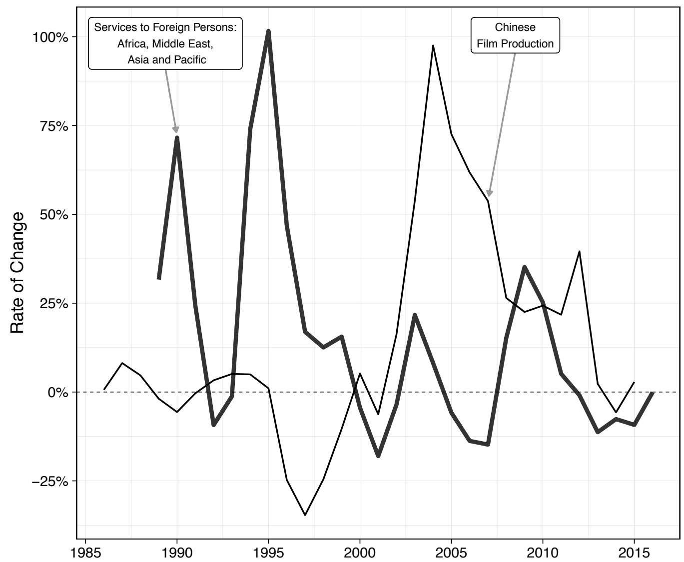

Figure 7: *U.S. Motion Picture Services to Foreign Persons (Africa, Middle East, Asia and Pacific) v. Chinese film production, rates of change*

Note: See note in Figure 6.
Sources: B.E.A. International Services data for services to foreign persons by U.S. multinational enterprises through their majority owned foreign affiliates, by industry of affiliate and by country of affiliate.

The predictability of how Hollywood films will perform in China is another key factor in Hollywood's struggle. The ideal situation for Hollywood would be a state of low risk, whereby confident estimates about future streams of income reduce the uncertainty about aesthetic decisions and distribution strategies (McMahon, 2015; Nitzan & Bichler, 2009; Wasko, 2008). Some of my past research on risk has used data on the number of opening theatres per film as a proxy to measure the risk perceptions of Hollywood. Opening-theatre data can function as a proxy because each commitment to the size of a film's theatrical release is, essentially, an expectation about its future revenues. To release in many or few theatres, or to exhibit nation-wide or start in select cities–these are just some of the choices that must be decided well before opening night, before any revenue dollars start flowing. Without reliable opening-theatre data for the Chinese film market, we can use American opening-theatre indirectly. In the contemporary period, Hollywood has been enjoying a period of low risk in the American market. An important consequence of this low risk is that there is a strong correlation between a film's revenue rank (*n*th place in largest gross revenues) and its rank in the largest number of opening theatres (*n*th place in most opening theatres) (McMahon, 2013, 2018). In other words, we can select Hollywood's top grossing films in recent years, which the major studios were *confidently* predicting would be the biggest hits in America, because they had the biggest opening-theatre releases (McMahon, 2013, 2018; Nitzan & Bichler, 2009).

Figure 8 estimates to what degree the composition of international markets mirror the ranking-order of the largest grossing films in the U.S. market. The figure cannot explain how Hollywood produces a mirroring effect, but its major studios would benefit from any mirroring with the United States film market. Promotion and advertising are key factors of a theatrical-distribution strategy (Wasko, 2003), and uncertainty about how much promotion and advertising are necessary would be reduced when a film's success in one place can indicate how it will perform elsewhere. This benefit in reducing uncertainty was recently demonstrated in the negative, when Disney promoted the latest Star Wars films in China. The original Star Wars films were not previously exhibited in China and its moviegoers did not grow up in an environment where, for generations of people, the Star Wars franchise was one of the centerpieces of popular culture. Thus, Disney added extra doses of promotion in China, but reports indicated that the effects of the extra promotion were still uncertain. For franchises the size of Star Wars, there might be few *certain* substitutes for the knowledge that an entrenched, dedicated fanbase will very likely make the next film a top-ranking success (Frater, 2018; Greenberg, 2016).

Figure 8 covers the period from 2007 to 2016. The x-axis plots a film's revenue rank in the U.S. market (e.g., a rank of 1 means the film had the highest gross revenues of its year). The y-axis plots each film's revenue rank in a foreign market (nothing is plotted if a film was not exhibited in the foreign market). For each year, only the top one hundred films in the U.S. market are counted, as the goal is to focus on major Hollywood releases that were successful in American theatres. In addition to China, Figure 8 has five other countries for comparison. Availability of data was a factor in the selection of these countries, but another factor was the differences in how these countries control the flow of U.S. cultural imports. Australia, Mexico and South Korea have free-trade agreements with the U.S. and, as of 2018, China, France and Japan do not.

The correlation between the revenue ranks of films are higher in countries with U.S. free-trade agreements. Figure 8 also puts the Chinese market in context: China's correlation is the lowest of the six countries that are shown. Table 1 selects a few films that contributed to China's relatively low correlation. Each of the six films was very successful in the United States but could not reproduce a similar box-office ranking in China. Because of our earlier reference to the Star Wars franchise, it is interesting that neither *Star Wars: The Force Awakens* nor *Rogue One: A Star Wars Story* reached the top ten of China's annual box-office revenues. Table 2 illustrates that, in this case, China's film market is similar to South Korea's, somewhat similar to Mexico's, and dissimilar to the markets of Australia, France and Japan.

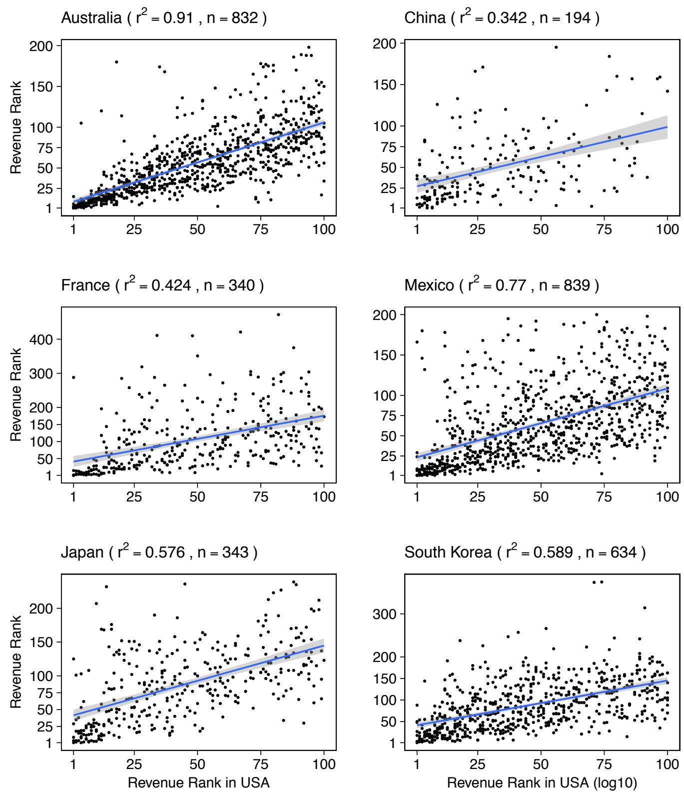

Figure 8: *Box-office revenue rank of U.S. top 100, U.S. market v. foreign, 2007 - 2016*

Notes: Data on France includes revenues from Algeria, Monaco, Morocco and Tunisia. Axes are in log10 scale.
Source: boxofficemojo.com for gross revenues of a films in the theatrical markets of the United States, Australia, France and Algeria, Monaco, Morocco and Tunisia, China, and Japan.

Table 1: Comparison of Ranks: Selection of Films

Film	U.S. Rank	China Rank
Star Wars: The Force Awakens	1	13
Rogue One: A Star Wars Story	1	36
The Hunger Games: Catching Fire	1	40
Finding Dory	2	53
Shrek the Third	2	59
Inside Out	4	81

Table 2: Comparison of Box-Office Revenue Rank: The Star Wars Franchise

	The Force Awakens	*Rogue One*
U.S.	1	1
China	13	36
Australia	1	1
France	1	1
Japan	1	9
Mexico	7	24
South Korea	18	48

4 Conclusion

Coming to a definitive conclusion about Hollywood's position in China is difficult, because the issue is still open. The United States' WTO complaint against China lead to a co-signed Memorandum of Understanding (signed in 2012), but this document was essentially a deferral: it gave China five years to keep its quota system in place, at which point all parties will begin to "discuss the matter of China implementing the [WTO Dispute Settlement Body's] recommendations and rulings" (WTO, 2012). There are also ways for Hollywood's ambitions to be affected by larger issues in Sino-U.S.trade relations, which has been an on-going news story of Donald Trump's presidency (Maddaus, 2016; McCoid, 2017; Wolf, 2018). It is beyond the scope of this paper to predict how the WTO talks will resume or what will become of America and China's relationship under Presidents Trump and Xi.

Nevertheless, this paper has analyzed how we have gotten to where we are now. The Chinese film business has grown under state protection, to a size that enables its largest film producers and distributors to be formidable competitors in the Chinese theatrical market. Hollywood films still do well in China, but American studios are forced to choose from alternatives that each gives Chinese partners some advantage. If Hollywood exports a film through the quota system it must give a share of the film revenues to a Chinese distributor and lose direct control over scheduling. Hollywood must also try to pass films it has already produced through the approval process of the SAPPRFT. Should the SAPPRFT have an issue with a film, there are likely to be added costs and delays caused by editing or re-shooting.

Analysts of Hollywood and China identify that the main alternative to the quota system is co-production with a Chinese studio (Curtin, 2016; O'Connor & Armstrong, 2015). Co-production appears to be a suitable option because foreign investment can still take place and Chinese partners can help tailor stories to the expectations of Chinese audiences and the SAPPRFT. But co-productions with a Chinese studio are less-than-ideal if Hollywood is simply a glorified foreign investor (Hollywood's participation in production is different from an absentee owner who simply wants a return on Chinese cinema). Hollywood prefers to export its films to multiple regions around the world, rather than make a set of films for each region. Hollywood also rarely cedes key pieces of control to others, such as distribution and licensing rights, final cut, advertising and promotion, scheduling and intellectual property.[5] While the recent strategy with China might indicate that Hollywood could alter the ways it accounts for regional differences in language, culture and politics, Hollyood's compromise with CCP policy could put its studios on a slippery-slope. And is China the only country that can force Hollywood into compromise?

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[5] From a broader political economic perspective, the difference between Chinese co-productions and Hollywood's typical behavior as a global enterprise is a matter of *power*. Hollywood does use film labour and production studios all around the world (Curtin, 2016) and post-production of digital media can be done virtually anywhere. However, the extension of a film production network does not, by itself, transfer or dilute the rights of private ownership. A major Hollywood studio can have location scouts in London, shoot in Bulgaria or hire a film crew in Tunisia, but the former's power remains unchanged because it has retained ownership of its claim on future income (McMahon, 2015; Nitzan & Bichler, 2009; Veblen, 2004). This retention of control is why global opportunities to work on Hollywood film projects are concentrated in location-shooting and post-production; the costs of these jobs are being cut in the interest of Hollywood, as countries and regions around the world compete to offer financial incentives, tax breaks and cheap labour (Miller, Govil, McMurria, Maxwell, & Wang, 2005).

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