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**PATH TO GLOBAL INFLUENCE:
CONDITIONS FOR CHINESE FILM INDUSTRY TO
SUCCEED**

YU DONG

SINGAPORE MANAGEMENT UNIVERSITY

2021

**PATH TO GLOBAL INFLUENCE:
CONDITIONS FOR CHINESE FILM INDUSTRY TO SUCCEED
YU DONG**

Submitted to Lee Kong Chian School of Business
in partial fulfillment of the requirements for the
Degree of Doctor of Business Administration

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SINGAPORE MANAGEMENT UNIVERSITY

2021

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I hereby declare that this PhD dissertation is my original work and
it has been written by me in its entirety.

I have duly acknowledged all the sources of information which
have been used in this dissertation.

This PhD dissertation has also not been submitted for any degree in
any university previously.

A handwritten signature in black ink, appearing to be 'YU Dong', written in a cursive style.

YU Dong
August 17, 2021

ABSTRACT

PATH TO GLOBAL INFLUENCE: CONDITIONS FOR CHINESE FILM INDUSTRY TO SUCCEED

YU DONG

The world has undergone tectonic transformations since the onset of the coronavirus pandemic. Inevitably, the pandemic created the perfect conditions for the acceleration of digitization and new infrastructural technologies aimed to increase the speed and availability of content. In China, the pandemic forced major releases to be streamed via online platforms and drastically altered consumer's perception of the quality of digital content. Most importantly, digital streaming has shown huge capitalization potential, aided by the spread of 5G technologies, as those who embraced online platforms thrived in the midst of the global pandemic.

During the course of this dissertation, the Chinese film industry had undergone significant transformations, including but not limited to stringent enforcement of policies aiming to regulate content and the rapid expansion of streaming technologies. In parallel, I have put in best efforts to share my analysis and viewpoint on how the industry needs to be conditioned to reach the status of a global film powerhouse.

The aftermath of the pandemic in China has seen a rebirth of the entire industry with an eager consumer audience ready to embrace films as a source of collective mental healing, begging the question, "can the Chinese film

industry finally receive the type of global recognition that Hollywood has started taking for granted?” While the Chinese film industry has thrived, for it to truly become a global film powerhouse requires that five critical conditions be met, namely film content globalization, censorship / rating system, greenlight process, talent training / development, and streaming.

Structurally, I will give an overview of the five critical conditions and evaluate the current Chinese film industry against these five specific benchmarks with comparative studies and insightful analysis from managing my own company, Bona Film Group.

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CHAPTER 1: INTRODUCTION

During the course of writing this dissertation, the Chinese film industry and Hollywood have both undergone significant transformations, including but not limited to the global coronavirus pandemic; stringent enforcement of policies aiming to tighten social ideology and regulate content; tectonic shifts within the film industry with the acquisition of a major studio; the rapid global expansion of streaming service technologies that has undermined the establishment; the highly publicized tax evasion scandal that both dampened industry moral and contaminated the public perception of the entertainment industry as a whole. With these transformative events happening within the industry domestically and abroad, I have put in my best efforts paint an accurate picture of how I view the industry needs to evolve in order to reach the status of a global film powerhouse.

The structure of the dissertation evolved from the original design during the course of research and analysis. During the course of research and analysis, the entire industry and the world have undergone significant transformations. While the pandemic has made a significant dent in the film and entertainment industry globally, the aftermath of the pandemic in China has seen a rebirth of the entire industry with an overly eager consumer audience more than ready to embrace films as a main source of collective mental healing. The current situation begs the question, “can the Chinese film industry finally receive the type of global recognition that Hollywood has started taking for granted?” While the Chinese film industry has boomed and thrived, for it to truly become and be recognized

as a global film powerhouse will require five critical conditions be met, namely film content globalization, censorship / rating system, greenlight process, talent training / development, and streaming.

In the subsequent chapters, I will be first providing a detailed overview of the current scholarly landscape of the Chinese film industry and the established thought leadership on this particular area of academic and industry research, and to determine the uniqueness and relevancy of my dissertation topic. I will then give an overview of the above mentioned five critical conditions necessary to become a truly global film powerhouse and evaluate the current Chinese film industry against these five specific benchmarks. Subsequently, I will then provide an in-depth review of major film markets, including North America and South Korea, and conduct a comparative analysis to determine what successes and failures can be learned by the Chinese film industry in our current path towards attaining global influence. Concurrently, based on my deep industry knowledge and experience leading Bona Film Group, I will offer my insights as to how and what the Chinese film industry can do to satisfy these five conditions. Afterwards, I will then offer a case study of my company, Bona Film Group, and give a comprehensive analysis of what our company has done well in regards to these five conditions and the important work that is ahead to earn a world-renowned reputation for Chinese films. Last but not least, I will conclude with a summary of the five critical conditions and offer my concluding thoughts

as to the challenges and opportunities ahead for the Chinese film industry in the aftermath of the global pandemic.

CHAPTER 2: LITERATURE REVIEW

Based on an in-depth, best efforts research across a variety of journals, books and industry papers, I have found that the focus of currently available academic and industry scholarship to be primarily descriptive in nature of the Chinese film market in relation to itself and external markets. Prescriptive analysis of what needs to be done for the Chinese film industry to reach powerhouse status on the world stage is not readily available.

The emphasis of currently available scholarly articles and journals is focused on understanding and explaining the “what” not the “why and how” from both an internal and external comparison point of view. From an internal China-oriented perspective, scholars such as Zhu and Leung examine the interplay of politics on Chinese filmmaking and how various governmental and interest groups can profoundly influence the development of films in China. Similarly, Ni and Hemelryk shed light on the reforms in China in regards to film content and the controversies surrounding unacceptable content, with Pickowicz taking a broader analysis of the historical backdrop of content restrictions and controversy that has dramatically limited the scope of Chinese film content. In addition, scholars such as Zhang and Xu take a closer look at the current state of Chinese filmmaking and the continuing role of government censorship. From an externally-oriented comparative perspective, Gomery offers parallel studies of where the Chinese film industry stands in relation to a global history of the film industry, with Cheung specifically examining the relation of the Hong Kong film industry with its neighboring counterpart China.

Last but not least, Su and Peng focus on explaining the central role that the film industry plays in global soft power dynamics and the Chinese film industry's collaboration and cultural politics with its main competitive rival, Hollywood. Current literature has been mostly descriptive in nature with little prescriptive work available to reference. Descriptive work serves to describe what happened and offers a window into the past while prescriptive work is forward-looking and serves to educate the reader on what needs to happen to accomplish a particular goal, in this case, the conditions that need to be satisfied to become a truly global film powerhouse. My thesis serves to bridge the gap in current literature and to offer a forward-looking analysis of the Chinese film industry. The writing of this thesis comes at a critical moment in time, a time of significant transformations in the global society. For the Chinese film industry, this moment in time presents opportunities to transform into a global film powerhouse, through the thoughtful implementation of the five critical conditions. Past literature has not been able to capture these five critical elements given the backdrop that it was written in, with only film censorship making its way into some of the currently available literature given its historical significance for the industry. My dissertation thesis is the first of its kind within the Chinese film industry given my pioneering experience shaping the trajectory of Chinese filmmaking, with an innate and experienced understanding of the pain-points and critical growth areas for this industry as we look to become a global film powerhouse. It is safe to say that no other piece of industry literature

stands at this moment in time and given this unique timeframe, my thesis offers an entirely new approach to the current pool of literature. My approach serves to uncover and point out the exact reasons why the Chinese film industry has not yet become a global film powerhouse, analyzing the current landscape and pain-points while offering my own perspective on “how” the Chinese film industry can satisfy these five critical conditions to reach powerhouse status. Reaching powerhouse status is of crucial importance as China is already a top global film market. I hope that my work will serve as a compass to help guide the Chinese film industry towards the direction of a superpower, a trailblazing mission that no current literature has undertaken. Thus, the objective of my dissertation is to shed a new light on existing scholarly research and bring a prescriptive lens to understanding the Chinese film industry and the five critical conditions that must be fully satisfied to truly become a global cultural-maker. As aforementioned, thriving locally has proven to be the status quo and is no longer a lofty goal as the Chinese film industry has proven time and time again to exceed expectations at the domestic box office and offer a main source of entertainment for a population of over 2 billion consumers in China. What would now be significant for the film industry in China is to develop the conditions to thrive on the world stage. Although there is no concrete number of reasons and conditions, what I have observed to be the most crucial elements are the five conditions that I will analyze in detail in the below sections and provide more clarity as to how these specific conditions will ensure the success

and lasting influence of Chinese filmmaking on the world. In the next section, I will be highlighting the critical five conditions and how the Chinese film industry measures against these five specific benchmarks.

CHAPTER 3: OVERVIEW OF FIVE CRITICAL CONDITIONS

Film Content Globalization

Film Content Globalization is a critical condition for the Chinese film industry to reach global powerhouse status. Content must be able to cater to a spectrum of consumer interests, largely dependent on factors such as demographics, location, culture, gender, and race. The success of Hollywood in gaining universal resonance, which will be analyzed in greater detail in the subsequent chapter, lies in the universality and diversity of its content. Most films that have garnered tremendous global popularity all encompass certain universal themes, which are deeply embedded in the underlying story, themes such as our shared humanity, emotions, and aspirations that represent the human spirit.

There is still much work ahead for the Chinese film industry as content remains domestic in nature, largely due to governmental censorship and heavy oversight of the industry. Furthermore, given the criticality of following in the close footsteps of a constantly evolving government policy agenda, mainstream Chinese films have been hesitant to venture from what has been considered acceptable and risk-free territory. The direct impact of working within such a confined and sensitive political environment is the lack of universally-appealing films. The majority of Chinese films tread safely within the boundaries set forth by government policy and thus resulting films are for the most part nationalistic, exemplifying the virtues of Chinese culture. What currently separates a B-level film from an A-level film are the type of techniques used in the film production

process, with A-level films employing technical talent from overseas such as Hong Kong and Hollywood.

However, what seems promising for the future of Chinese filmmaking is the success of recent box office hits such as “Hi, Mom” during the 2021 Chinese New Year Period, which reflected the potential of Chinese filmmaking to capture universal themes such as the mother-child connection and make films that will resonate with a more global audience, a successful strategy used in South Korean filmmaking. Along similar lines, the success of the animated movie “Ne Zha”, a film that leveraged many of the production techniques used in Pixar animation, further reflects the potential of Chinese films to enrapture a global audience.

Censorship / Rating System

Censorship and a rating system are crucial components to standardize the filmmaking process and provide greater confidence in the production of new content. This critical condition however must be managed carefully by the film industry and the related governmental agencies as too much may hurt the production of creative, universal content while too little may propagate immoral behavior at the expense of consumers. Therefore, having a systematic framework in place for censorship and film rating is important, yet an overly stringent one may stifle innovation and preclude the Chinese film industry from becoming a competitive global player.

Currently, China has no motion picture rating system and films must be considered by the designated governmental agency to be suitable and appropriate for all demographics in China in order to be allowed a release in the country. The overarching purpose of the censorship system is to promote Confucian morality, political stability, social harmony, and prevent the showing of content that may instigate and/or exacerbate societal malaise. All films must be submitted to the State Administration of Press, Publication, Radio, Film, and Television (SARFT) for censorship and obtain full clearance before being allowed to plan the film's release.

Thus, the future direction of censorship and the rating system must adapt to a model similar to that of Hollywood to both serve as a check and promoter of high-quality film filmmaking.

Greenlight Process

The greenlight process could be regarded as a form of in-house censorship, yet offers a critical mechanism to ensure the successful production, distribution, and exhibition of films. The greenlight is an assistant decision-making method used in the development stage of film projects. Film production companies leverage the greenlight process to determine whether certain kinds of films are worth producing and the required capital and human resources available/required to successfully execute on a particular film project. Generally, they focus more on the potential business value revealed by the content of the film project to assess its profitability. On the surface, greenlight seems to be

only a simple metaphor for project approval, but in fact, there is a rather systematic business logic and management method behind this mechanism, which will be covered in greater detail in the subsequent chapter.

Unlike the previous two conditions which are heavily reliant on the larger political context, the greenlight process can be easily implemented given that it happens at the studio-level and does not depend on any external factors. Ensuring that this assessment mechanism is set up in-house is critical and significantly lowers risk and the subjectivity with regards to film investments. Furthermore, this mechanism ensures that approved projects are of high quality and have significant market demand, critical for the Chinese film industry as we look to export and share our films with the world.

For the most part, major studios in China do not have such a systematic decision-making mechanism in place to serve as a reality check on film production. The current model of film project approval is still largely dependent on one-man decision-making, often plagued by over-confidence and complacency. Many film studios in China have gone bankrupt due to a lack of standardization in the film approval process, failing to curb the costly production of unsuccessful projects. Although film approval in China continues to be primarily a one-man decision, major studios such as Bona Film Group, have realized the necessity of implementing such a mechanism to minimize the likelihood of large losses and ensure greater project stability and higher investment returns.

Talent Training / Development

Talent training and development is a critical aspect of any industry, for the film industry, this component is especially crucial as all output depends on the competency and quality of human capital. Upstream, film production is completely reliant on human talent, from script writing to acting to directing to post-production editing and special effects. A lack of training in any one of these critical touchpoints could lead to unprofitable films. Thus, for the film industry to thrive, talent training and development must be emphasized and instituted at the studio-level, from actors all the way to special effects specialists. In parallel, talent must be something the entire industry takes priority in developing given that film production talent is highly mobile and often shared among different studios, thus there is a shared burden to train top talent.

In the Chinese film industry, talent development is haphazard at best, without any systematic training. Films that do exceedingly well at the domestic box office are often films produced in collaboration with top production talent from Hollywood and Hong Kong, hired on a contractual and/or project-by-project basis. Thus, within the domestic film industry, there is a huge gap in demand versus qualified technical creative talent. Given this significant gap, some of the major Chinese production houses such as Bona Film Group have realized the urgency of training and growing domestic talent and have started implementing in-house training programs in collaboration with industry experts.

Streaming

Digitization can no longer be ignored given its acceleration since the onset of the global pandemic. What has become evident globally is the resiliency of digital solutions in the face of uncertainty. Now more than ever, streaming offers a lifeline for the film industry and ensures stability during both good and turbulent times. An online streaming platform provides viewers with access to the latest quality content wherever they are and allows for greater efficiency from production to exhibition. As major studios in Hollywood turn to streaming as a main source of new and sustainable revenue, Chinese internet companies are also tapping into this lucrative area of the content business.

For the most part, traditional film studios in China have been slow to adopt streaming, with studios heavily reliant on cinematic exhibition given that most traditional studios are vertically integrated and have an incentive to protect the traditional mode of exhibition. However, the paralyzing impact of the pandemic in China exposed the fragility of the mainstream business model and the criticality of building a robust streaming platform to ensure resilience and financial stability. In subsequent chapters, I will be sharing how my company, Bona Film Group, is bringing streaming into its core business framework.

CHAPTER 4: HOW TO SATISFY THE FIVE CRITICAL CONDITIONS

Film Content Globalization

First, we will examine Hollywood's journey and how the North American film industry was able to create a diverse portfolio of universally-resonating content through both deliberate and unexpected circumstances. Afterwards, we will then look at how South Korean and Hong Kong filmmaking was able to garner international recognition, in addition to drawing lessons from other comparative models. We will finish this section with my personal take on the diversity of film content within the Chinese film industry and how we can strategically innovate within the boundaries of our current environment by learning from our industry peers.

In the first decade of the 20th century, as the industry trailblazers, American film companies began releasing films on an international scale in order to enter markets overseas. Today, Hollywood holds the power in determining mainstream trends within the global film industry. As a result, characteristics of Hollywood films have shaped the audiences' standards of appreciation, and have also become the indicator for evaluating the quality of a film and for anticipating the box office of newly-releases. As a matter of fact, "natively-produced" films may also involve international cooperation in the manufacturing process. As Hollywood shares its film equipment, shooting resources, and post-production process with the world, Hollywood films have also come to incorporate vernacular content from other countries, as well as

integrating creative elements from all parts of the world. All of the above factors have contributed to the globalization of Hollywood films.

As the pioneers and trailblazers of the global film industry, around the First World War, masters in films such as D.W. Griffith and Charlie Chaplin won world-wide recognition for their films; following such success, banks on Wall Street started to finance the expansion and operations of the industry, with American films being exported into global markets.

As the industry pioneer, Hollywood's American films became global as appetite for this new medium grew around the world and with no precedent, audiences around the world sought out these American movies and became loyal fans of this new form of entertainment. Given Hollywood's first-mover advantage, the popularity of American films skyrocketed across the global markets and in this manner, a little village in the countryside of Los Angeles became a globally-known film city, and Hollywood gradually became the emblem for universal filmmaking. Subsequently, a number of globally-famous film companies sprang up, including Metro Goldwyn Mayer, Paramount, 20th Century Fox, Warner Brothers, Radio Keith Orpheum, Universal, United Artists, and Columbia Pictures.

After the First World War, a number of European directors and actors followed one another to the US, joining an era of self-discovery for filmmakers worldwide. During the mid-1940s, the film industry reached new heights in the US – approximately 400 films were shown in American cinemas annually, and

around 90 million American audiences would go watching each week. During the latter half of the 1920s, sound films gradually prospered in Hollywood. In 1927, the first sound film “The Jazz Singer” was successfully put into market via the means of Vitaphone Talkie. One of the negative impacts resulting from the invention of sound films was the gradual unemployment of silent-film actors. “The Jazz Singer” published in 1927 signaled the beginning of the golden age of Hollywood, whose usage of sound effects not only gradually ended the silent-film era, but also simultaneously increased box office revenue.

Aside from Metro-Goldwyn-Mayer, the dominating company for the 1930s, the Walt Disney Company was another huge success in the US film industry. In 1937, Disney produced the most successful film at the time – “Snow White and the Seven Dwarfs”; in 1939, Metro-Goldwyn-Mayer produced the most successful film ever in history – “Gone with the Wind”, which achieved the highest record in box office history, despite during the Great Depression. Film historians had often commented on many great and diverse works during this high-production period. In addition, film studios would often take risks on feature films of medium budgets with outstanding scripts and not-so-famous actors. In 1939, the studio system reached its heyday, during which many classical films with diverse themes were released, such as “The Wizard of Oz”, “Gone with the Wind”, “Wuthering Heights”, “Casablanca”, “City Lights”, “It Happened One Night”, and the original version of “King Kong”. The universality of Hollywood films wiped out cultural and language barriers as

their themes satisfied the interests of the mainstream global market, making international promotion easier. Consequently, Hollywood became the pronoun for films in many parts of the world.

The prosperity of Hollywood stemmed from the multi-culturalism in American culture. Due to its gifted natural condition, including a mild climate, abundant sunlight, ideal outdoor-shooting light source, picturesque ocean scenery, various mountain backgrounds, and large areas of unexploited natural spaces, the region of Los Angeles became the ultimate destination for filmmakers from all parts of the world. After attracting a huge number of globally-famous filmmakers, the style of American films became a miniature of films from all over the world. Many countries such as Canada, UK, France, Italy, and Australia contributed numerous excellent directors, filmmakers, actors and photographers to the film industry of Hollywood. As the birthplace of the film industry, Hollywood is also the heartland for the global cultural industries, possessing the world's top talent, and surrounded by film giants, namely DreamWorks, Disney, 20th Century FOX, Columbia, SONY, Universal, Warner Bros., and Paramount. As the world's top directors, scriptwriters, stars and stunt technicians gathered in Hollywood, the tremendous screen effects of Hollywood films left audiences with deep impressions. Not surprisingly, Hollywood attracted numerous Chinese stars and directors, including Bruce Lee, Jackie Chan, Jet Li, Chow Yun-Fat, Gong Li, Li Bingbing, Liu Yifei, Zhang Ziyi, Fan Bingbing, Ang Lee and John Woo. The films produced by Hollywood not only

satisfied the taste of the domestic market, but also met the demand of the global market, making Hollywood films a medley of multiple cultures. While communicating American culture to the world, Hollywood films have brought significant returns to their investors.

Along a similar vein, Hollywood's cultural strategy can also be examined to understand its path to global impact and the export of American values. The dominance of Hollywood giants in overseas markets is partly due to the adoption and constant updating of their global business strategies. In addition to these business strategies, the content and quality of films produced and exported by the giants are also significant. The business strategy of the big studios is actually accompanied by a cultural strategy. The term, *cultural strategy*, can be understood in different ways. What ideologists of cultural imperialism see in Hollywood movies was the export of expanding American values, especially the values of the consumer society. Although some scholars see the phenomenon in a positive light, as they do modernization, it is often seen as a stylized invasion of viewers and foreign creators, an "unconscious angelization". The second way to understand the concept of cultural strategy is to explain the dominance of Hollywood companies in terms of the quality of their films. Jack Valenti believes that it is the excellence of Hollywood films that has captivated audiences around the world. Also, many film professionals and researchers have helped to globalize Hollywood movies. Scott R. Olson came up with the concept of "narrative transparency", the narrative structure of

Hollywood movies that would resonate in every culture around the world and therefore be seen as “the local”. The dominant theorization of Hollywood films is based either on the political platforms or the original cosmopolitanism of Hollywood productions. However, another way to define the concept of cultural strategy is to use commercial means rather than political ones to attract people. Therefore, the central question the giants are asking is: how to attract audiences around the world to see the Hollywood movies in an universal light? The creation of desire is the central mechanism of the cultural strategies of the giants as we define here. The production of this desire requires an understanding of the tastes and preferences of the audience to which it is addressed and an effective degree of satisfaction. Finding a product that meets the tastes and preferences of the diverse global public is the equivalent of optimizing the film business and increasing the revenue of the giants. The temptation to the audience is reflected in two aspects. First, the desire to see a movie is created by the marketing model of the movie, the marketing is the first element of a cultural strategy. The giants can also decide to go one step further, that is, appeal to a global audience through the content and quality of the films themselves instead of creating advertising campaigns. As a result, the giants built their international business on a sound business and marketing strategy, and supplemented with a cultural strategy designed to attract the local content audiences.

Furthermore, an important factor that marketing decision-makers need to consider is the differences between the domestic and foreign markets. When the subject matter is familiar to Americans but have little relevancy and relatability abroad, the marketing department is required to reposition the cultural order. Marketing decision-makers take into account the diverse cultural nuances between domestic and foreign markets, and try to minimize the typically American aspect of a movie while emphasizing elements known to the foreign public, such as shared human emotions, friendships, and/or universally-understood visual comedy. The deletion of "too American" is particularly used in films that promote racial sentiments. As a result, patriotic campaigns aimed at American audiences have been weeded out in foreign marketing strategies (w. friedkin, 2000).

In order to operate well in foreign markets, which means to choose the most suitable position in each market, the marketing department must know the audience, seasonality and media of the target market. For example, Japanese cinema audiences are dominated by teenagers and young women, therefore the campaign should emphasize the emotional portion of the film or the male stars, such as Tom Hanks in *The Terminal* (S. Spielberg, 2004), the character who failed to fulfill his promise to his father. Also, Japanese audiences especially like sitcoms, such as *Un Autumn a New York* (Chong Chen, 2000). Likewise, marketing departments should not only know the demographics of the audience, but also the most popular genres in different countries. In addition, marketing

decision-makers must understand the behavior and attitude of the foreign audiences, especially their acceptance of various film promotion campaign formats. In the United States, the United Kingdom and Australia, audiences are always quickly touched by advertising campaigns, that is exactly how the sensitivity creates business opportunities and the films are able to do well on their first weekend of release. In Germany, however, audiences are only aware of the arrival of film when it is shown so the attendance will be relatively insignificant until the second weekend. Another example of understanding the audience behavior is word-of-mouth, marketing departments take this seriously in many countries and territories, especially in Hong Kong. But Australian geography minimizes word-of-mouth effects. Finally, the marketing department needs to know how familiar the audience is with American culture and its history in the movie. Before the film, *Independence Day* (R. Emmerich, 1996), was released, 20th Century Fox's international marketing department confirmed that the concept of *Independence Day* was familiar to different audiences. After discovering that Independence Day was a holiday in many countries, the studio launched a campaign around the subject and kept the original name. Therefore, creating and releasing globally-resonant film content requires an in-depth understanding of the nuances of the global audience: their demographics, preferences, behaviors and cultural references.

In a similar vein, since the 1980s, foreign investors also began to venture into Hollywood and started investing in various ways. For example, foreign

companies can put their money into the film production funds or even directly into the heart of the Hollywood machine, and the cash flow can be signed a long-term contract to make a series of feature films that reinforced the multiculturalism of the film industry and many cross-border cooperation deals were signed. Foreign partners then became an integral part of the Hollywood film industry, and signed countless similar contracts with independent Hollywood studios, in addition to the main production houses. Consequently, the films that were born out of this cross-cultural collaboration became increasingly catered towards a global audience.

From another perspective, the diversification of film content in the Hollywood system may have also been inadvertently accelerated by a severe and systematic shortage of capital to fund film projects. Between the 1980s and 1990s, the studio giants increasingly relied on foreign capital as traditional sources of capital were drying up. Prior to the arrival of foreign investments onto the shores of North America, one of the primary methods used prevalently by the Hollywood giants in attracting capital funding was through tax shelters, in which significant tax cuts were offered to investors in return for funding. However, the first tax reform act of 1976 complicated the process of cutting taxes on film investments, and followed by the 1986 tax reform act, which eliminated the investment tax credit for investors; film investing no longer offered an attractive financial incentive for wealthy investors, complicating the process of obtaining investment funds to continue production activities. As

expected, these reforms significantly deprived the studio giants of a huge source of capital in the second half of the 1980s. Moreover, in the 1990s, Hollywood studio giants' second source of major funding dried up as the consolidation of some of the largest banking systems in North America led to a reduction in institutions that could provide credit. In the last two decades of the 20th century, a volatile economic environment rendered Hollywood's film industry more unstable, with fewer players and their usual sources of funding drying up. In this context, the foreign capital, initially treated as a mere lifeboat, became increasingly part of the fabric of Hollywood and led to a proliferation of diverse film content.

The flow of foreign investments into Hollywood occurred over two phases: Phase 1 being primarily Japanese capital and phase 2 being largely European capital inflow. The 1980s was the start of a glorious era for Japanese investors when two Japanese electronic enterprises acquired two major Hollywood studios, with SONY acquiring Columbia in 1989 and Panasonic buying the Universal Music Company (MCA - Universal) in 1990, ushering in an era of Japanese money flows into the American entertainment industry, with foreign investors having a larger stake in determining the types of film content to be produced and distributed to a global market. By 1992, Japanese funds accounted for more than a third of the films distributed by the giants.

While foreign investors are interested in typical Hollywood projects, especially those with high production value, they are also investing in low-

budget films. Foreign groups investments in films was around 25.1 percent of the total film investments made by the studio giants between 1996 and 2004, proving that foreign investment covers a wide range of Hollywood's productions from small budget films to super blockbusters, from films with international content to films with local content.

In the early 1990s, as the presence of Japanese funds waned, the availability of European funds grew inversely. European investment flows are made up of companies such as Credit Lyonnais in the Netherlands, private investors who benefited from European tax policies in countries, such as the UK, Ireland and Austria, as well as Germany, which was particularly encouraged by the government and large European media groups. One reason for the increasing influence of European cultures on Hollywood can be explained by the strong economic dynamism of some European countries in the late 1990s, notably Germany and its new markets. Availability of funds and tax laws have facilitated their huge investments in the Hollywood film industry.

Through capital injection, the indirect presence of foreign countries has had a lasting impact on the universal reputation of Hollywood filmmaking. The increasing presence of globalization in Hollywood and the shift of filmmaking from local to foreign productions, the increasing use of foreign story, actors, or filming locations are manifestations of globalization. Embracing globalization, Hollywood became known for the universality of its films and has shown the

world that the nationality of a film does not have to match the nationality of the country where the film is made.

A quick detour, in the early 1990s, Benjamin Barber predicted two possibilities for the future world. The first one was a trend of "integration and coherence" that will create "*A seamless global network from a business perspective*". He called this trend "*macro world*." And he thought that there will be another possibility to the contrary, the "*Retribalization*" of the human race and the "*Lebanonisation*" of the nation-state. Thus, while globalization has created the illusion of a global village, and a national unit being erased, it will reappear, even more powerfully than before. The rhetoric of globalization is beginning to have some resonance at the national and local levels, the cultural sphere is one of the areas where the global and local movements are most at loggerhead. "*The central problem facing global interaction today is the tension between cultural homogeneity and cultural heterogeneity*", expressed by Arjun Appadurai, an expert scholar. Because of the importance of cultural factors in the tension between the globalization and localization, this adjustment of economic strategy must be accompanied by the adjustment of more and more cultural strategies, especially those of Hollywood giants in the areas of film production and marketing.

Under the pressure of globalization, the giants need to reshape their relationships with the rest of the world, which means moving the Hollywood film industry to greater openness. Opening to the outside world has become an economic

necessity, and although this phenomenon of globalization requires Hollywood to make certain industrial adjustments and innovate their operation methods. Globalization is very beneficial to their activities and has driven the concentration of industries in which companies must grow to a certain size in keeping with Hollywood's tradition of trying to control everything. The possibility that they can integrate and participate both horizontally and vertically gives them greater control over the film and the derivatives industries. Globalization and openness to the world do not, in any case, mean a loss of national roots. In this regard, the case of the Hollywood giants and the lessons they have learned, can be instructive for the Chinese film industry in this new era of globalization.

In the early 2000s, exports were a standard that could be used to partially define Hollywood filmmaking. The giants have been making films with foreign audiences in mind and are gradually moving their films in the direction of big-budget films, which industry insiders call “glocalization”. At the same time, studios have been more and more willing to use foreign scripts and artists. While the performances of these actors are still very traditional, they are slowly moving toward greater respect for foreigners and more authentic roles. While it may be a balancing act for Hollywood studios constantly juggling between quintessentially American elements with foreign ones, this path has been Hollywood’s not-so-secret strategy to developing a globally-reputed brand and spreading it’s influence abroad.

Hollywood's giants have responded to the phenomenon of globalization by creating greater openness and adding more foreign partners. The direct

consequence of globalization is not only the evolution towards glocalization of big-budget films, but also the realization of a culturally diverse production plan. The giants have become global while remaining American, the foreign market is one of the factors of Hollywood identity and the construction of its identity.

In a similar vein, the cultural impact of Korean film and television culture, especially Korean dramas, on global culture has become increasingly apparent. South Korea is known for its cultural export strategy, similar to that of Hong Kong films. Due to local market size limitations, it continues to rely on a strong overseas film sales to meet the business needs of the domestic market. Equally important, after decades of censorship, a new era for Korean cinema began in the late 1980s and early 1990s as state controls were loosened and fresh ideas introduced. Consequently, a large number of young directors and screenwriters went to Hollywood to learn the latest production methods, and returned to South Korea to make films according to the Hollywood management system and standards of production. This cinematic renaissance emerged with socially conscious and experimental films, such as I'm Kwon-taek's 1993 drama *Seopyeonje*, a focus that paved the way for the human and universal theme of *Parasite* (2019), a cultural breakthrough and a symbolic representation of the growing influence of Korean filmmaking on the world stage. (Bicker, 2020)

Moreover, the universal nature of the film gave it a global stamp of approval, resonating with audiences across the world in the universal theme of class warfare. Furthermore, *Parasite's* Oscar win underscores another side of the

success equation, which is the importance of government and industry conglomerates in providing the financial backing and resourceful support required to effectively promote diverse creators and their unique perspectives. In addition, *Parasite*'s winning formula also depended on the film's distributor, Neon, which orchestrated a highly effective release strategy, releasing it on a small number of screens initially before expanding the number of screens as strong word-of-mouth pulled more people in. Last but not least, the film's Oscar nod is a watershed moment that will open the door to a new wave of interest in Korean cinema, and Asian films more broadly (White, 2020). From the experience of South Korea, the international recognition of Korean films largely depends on the openness and inclusiveness of the Korean film market and government policies. In addition, the nature of creative content and production styles are never truly Korean, it weaves many elements of Hollywood production techniques and relies on universal themes.

Furthermore, by examining the film industry in Hong Kong, it can be observed that a similar model exists whereby a lax regulatory environment, coupled with a cinematic renaissance of new ideas that emphasized universal themes and the proactive embrace of Hollywood techniques, provided the perfect underlying conditions for the global appeal and prestige of the Hong Kong film industry. Moreover, given its unique history as a colony of Great Britain, Hong Kong was already positioned to be the earliest trailblazer in creating films influential enough on the world stage. During its incipience,

many of Hollywood's top production and special effects talent also came to Hong Kong to collaborate with industry insiders, creating high-quality movies with global characteristics. Given its particular set of circumstances, Hong Kong was able to quickly rise in global filmmaking prowess, providing a tested and successful path for the Chinese film industry to emulate.

By learning from the paths of Hollywood, South Korean, and Hong Kong filmmaking, a blend of cultural exportation strategies and internationalization, we can draw some lessons that may prove to be helpful as the Chinese film industry evolves, especially in the area of Film Content Globalization. Although the paths to universal influence varied across these different countries, with socioeconomic, political and financial factors that shaped the development of more global film content, what has proven to be certain is the criticality of developing films that have universal relevance and resonance, regardless of the surrounding sociopolitical environment.

In the Chinese film industry, as evidenced in recent domestic blockbuster successes, such as *Operation Red Sea* (2018), *The Captain* (2019), *Nezha: Birth of the Demon Child* (2019) and *The Wandering Earth* (2019), domestically produced Chinese films have gained tremendous momentum, beating Hollywood blockbusters at the domestic box office. However, success at the domestic box office is hardly indicative of global success given that the majority of mainstream content is still largely centered around China's cultural heritage. One can argue that the limitations of current Chinese films largely arise from

content censorship not a lack of innovation consciousness. For Chinese film production companies, we must balance creativity with acceptability. On the one hand, the limitations on content for Chinese filmmaking still lie in the lack of tolerance for genuine creativity and a vision that is rendered opaque by content censorship. On the other hand, given the entrenched constraints on Chinese film production, we must be more strategic than South Korea and carefully tread the fine line between universal reach and domestic acceptability. In the past few years, film companies such as Bona Film Group have been making significant progress in steering Chinese films towards more universal themes to appeal to a primarily English-speaking global market and adopting new production styles and technologies to compete more effectively on the world stage. As evidenced by the success of “The Captain”, which hired the original Hollywood crew that created “Captain Sally”, and “Hi, Mom”, a film that explores in-depth the deep mother-child connection, filmmaking in China has gotten smarter and more strategic in creating globally-resonant content that is also compliant with domestic regulation. Comparatively, as in the case of South Korean filmmaking, we want to give the world a better understanding of Chinese culture through content that can be universally resonating and competitive at the global level. Netflix’s purchase of IP rights to “The Wandering Earth”, is an important milestone for Chinese films in the English-speaking market and proves that Chinese films have the potential for a strong foothold in this global market.

Before I explore how Chinese filmmaking can evolve further on the global stage post-pandemic, let me first provide an overview of the Chinese film industry as of today.

First, let us take a look at the overall industry, back by the most recently updated data from Entgroup Entertainment White Paper released January 2019. The below data shows that the Chinese film market is growing steadily with promising prospects:

- The Chinese film market achieved an overall box office of over 60 billion yuan, with a growth rate higher than that of the North American market as well as the global market.

	Box office	Growth rate (%)
China	60.976 billion RMB	9
The Global Market	41.7 billion USD	7
North America Markets	11.9 billion USD	2.7

The global market also for the first time grossed over 41 billion dollars in 2018.

All indicators of the Chinese film market showed a growth trend in 2018.

- 1) China achieved an overall box office of 60.976 billion yuan, 5.145 billion yuan higher than the prior year, with a growth rate of 9% (service fee included).
- 2) The average box office for each film is 121 million yuan, with a growth rate of 6.09% (service fee included).
- 3) A total of 504 films were released, 20 more than the prior year, with a growth rate of 2.07%.

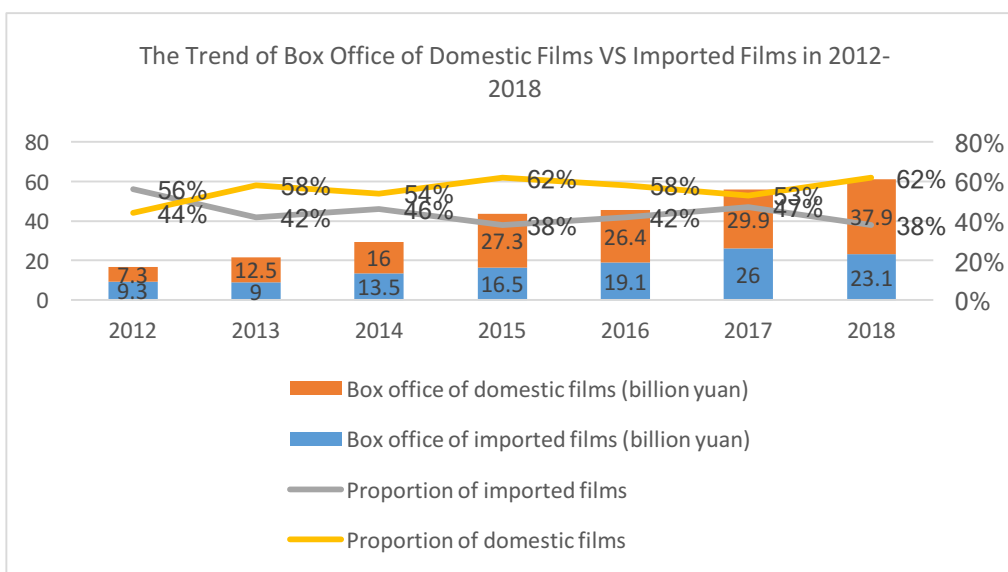
4) Domestic films accounted for 62.15% of the box office, 8.63 percent more than last year (service fee included).

5) 1120 more cinemas were established, with a growth rate of 11.99%.

6) The average number of screens per person (the total number of screens/urban population) was 72 screens per million people.

7) 9303 more screens were constructed, with a growth rate of 17.61%.

Domestic films displayed strong growth in 2018.



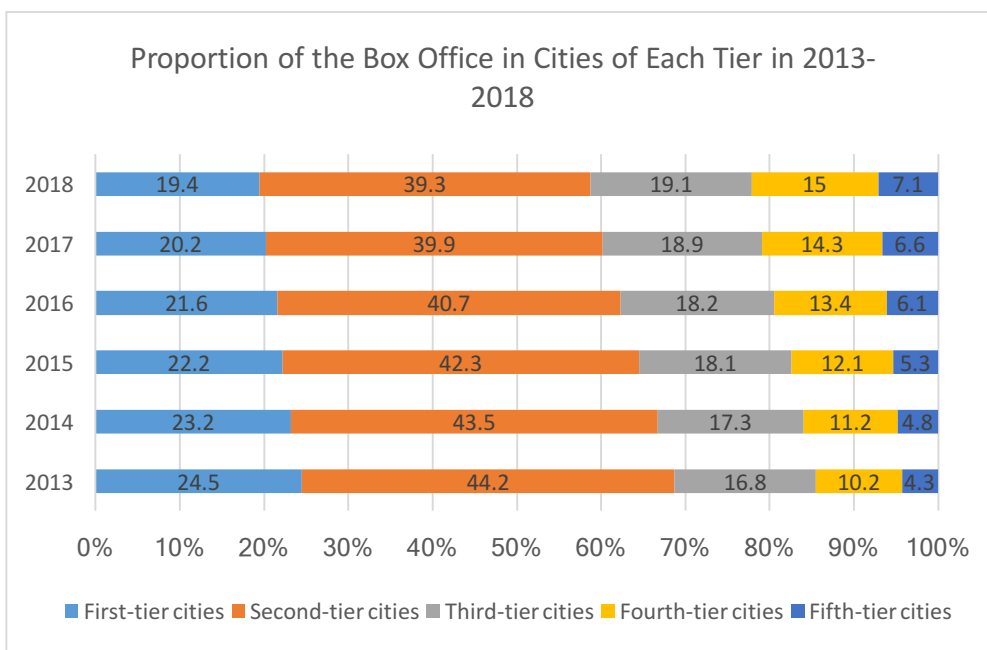
The quality and content diversification of domestic films have also improved.

	Domestic films	Imported films
Number of films in top 50	29	22
Total annual box office of films in top 50 (billion yuan)	31.76	18.23
Average box office for each film in top 50 (billion yuan)	1.1	0.87
Average ticket price of each film in top 50 (yuan)	35.4	35.3
Average attendance of each film in top 50	21	15

Domestic films occupied the top three box office spots for the first time in the past 8 years.

No.	Film	Box office (million yuan)	Director
1	Operation Red Sea	3650.77	Dante Lam
2	Detective Chinatown Vol 2	3397.68	Sicheng Chen
3	Dying to Survive	3099.93	Muye Wen
4	Hello Mr. Billionaire	2546.55	Fei Yan, Damo Peng
5	Avengers: Infinity War	2390.53	Anthony Russo

Growing consumption power among the top-three tiers means greater demand for entertainment.



Top domestic films were released during the Spring Festival and summer holiday, with imported films also striving for schedules.

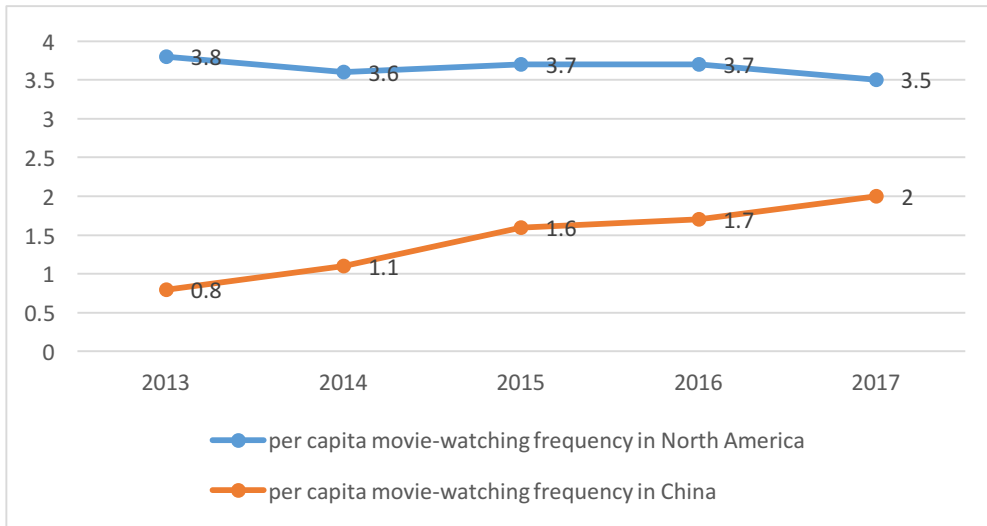
Operation Red Sea	Spring Festival
Detective Chinatown Vol 2	Spring Festival
Dying to Survive	Summer holiday
Hello Mr. Billionaire	Summer holiday
Avengers: Infinity War	Non-popular-season
Monster Hunt 2	Spring Festival
Venom	Non-popular-season
Aquaman	Spring Festival
Jurassic World: Fallen Kingdom	Summer holiday
The Ex-File: The Return of the Exes	Spring Festival
Ready Player One	Non-popular-season

East China has become a major contributor to the national box office. In terms of the box office share of each major region, East China has become the main contributor to the national box office, in which Shanghai, Hangzhou and Suzhou are the top three markets.

Region	Share of box office	Growth rate of box office	Top 5 cities
East China	36.3%	3.2%	Shanghai Hangzhou Suzhou Nanjing Ningbo
Central-south China	28.7%	2.9%	Guangzhou Shenzhen Wuhan Zhengzhou Changsha
North China	12.6%	0.9%	Beijing Tianjin Shijiazhuang Taiyuan Hohhot
Southwest China	11.3%	3.9%	Chengdu

			Chongqing
			Kunming
			Guiyang
			Mianyang
			Shenyang
			Dalian
Northeast China	6.3%	-4.0%	Harbin
			Changchun
			Jilin
			Xi'an
			Lanzhou
Northwest China	4.8%	4.0%	Urumchi
			Yinchuan
			Xining

The gap between the Chinese market and the North American market has narrowed, but the overall domestic market potential remains to be developed. Compared with mature markets such as the North American market, China's film market still has room for further development, with the per capita movie-watching frequency accounting for about 30% in North America.



Both *Operation Red Sea* and *Detective Chinatown Vol 2* made it into the top 15 in the global box office, but the bottleneck in overseas markets is difficult to break.

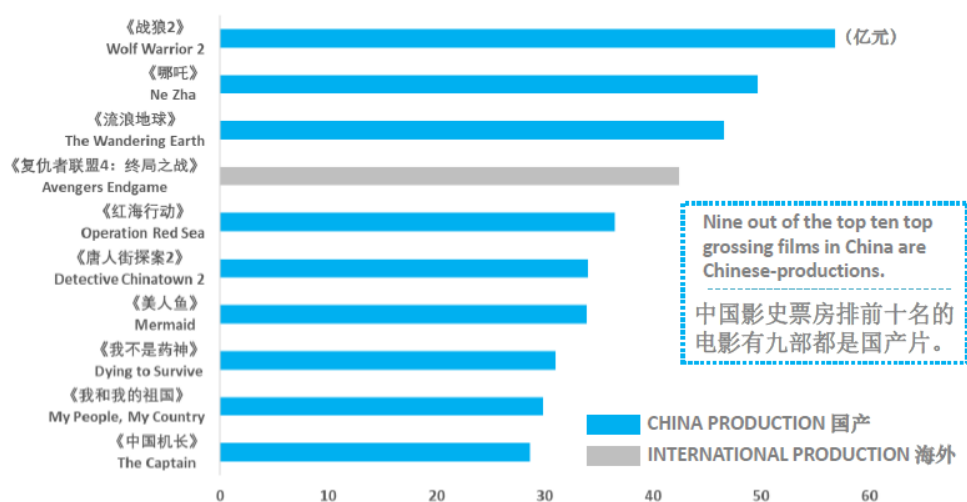
According to box office mojo, *Operation Red Sea* and *Detective Chinatown Vol 2* ranked 12th and 14th respectively among the top 15 movies, but the domestic market made up 99 per cent of the box office, and the contribution of the overseas market was negligible. This is also the bottleneck faced by most domestic films and a prevalent issue that hopefully can be resolved through the production of more universal content and high-quality filmmaking. Thus, it remains to be seen how Chinese film production companies can capture a significant portion of the international box office.

What has shown to be highly promising for the Chinese film industry (refer to below graph on following page) is the number of domestic productions that have met or even surpassed the quality and content of Hollywood blockbusters, corroborated by box office results. This has provided many Chinese film production companies, such as Bona Film Group, the confidence to continue

pursuing a double-pronged strategy of global quality filmmaking with Chinese characteristics. However, it remains to be proven at the box office whether the types of content produced under this strategic lens can be universally accepted at the box office.

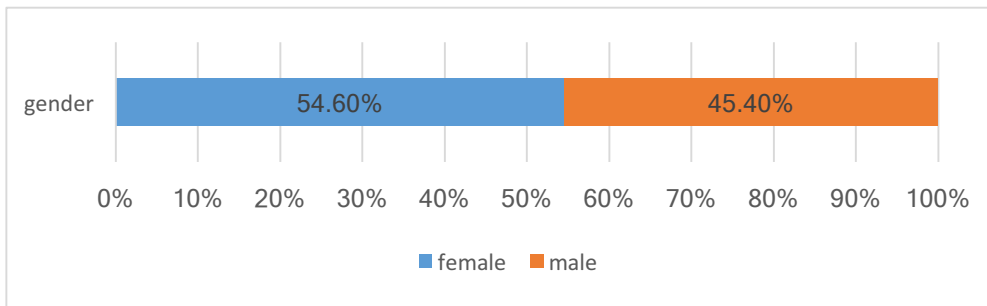
China Box Office – TOP TEN

中国电影票房前十名

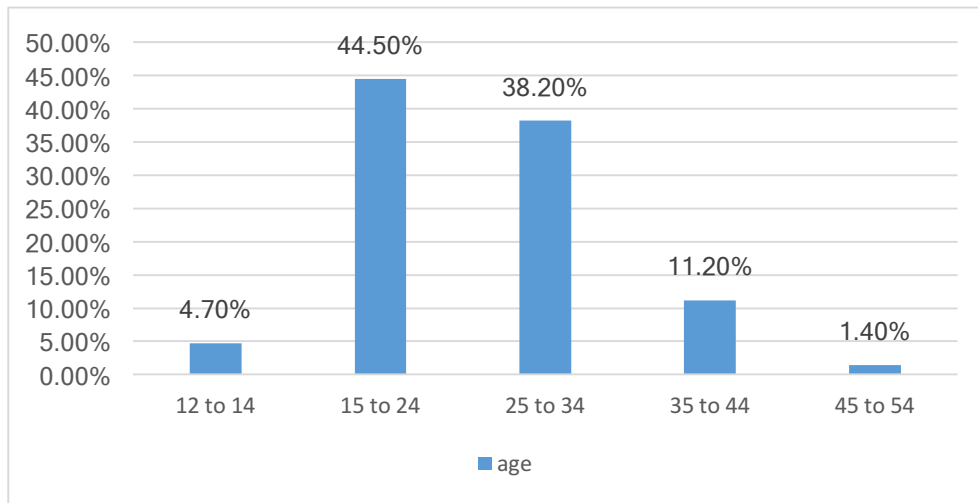


As an added incentive, the post-90s and post-00s have become the new generation of paying groups, and the highly educated group have become the core. Likewise, the consumption preferences of the young and highly educated demographic are constantly changing, driving the continuous transformation and diversification of content to meet the more modern and global tastes of the mainstream audience.

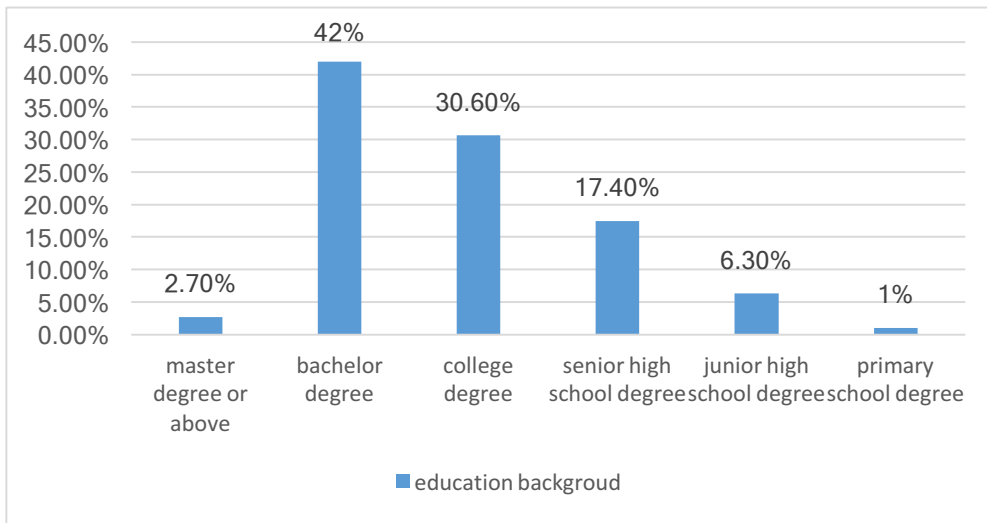
Gender Split



Distribution of Ages

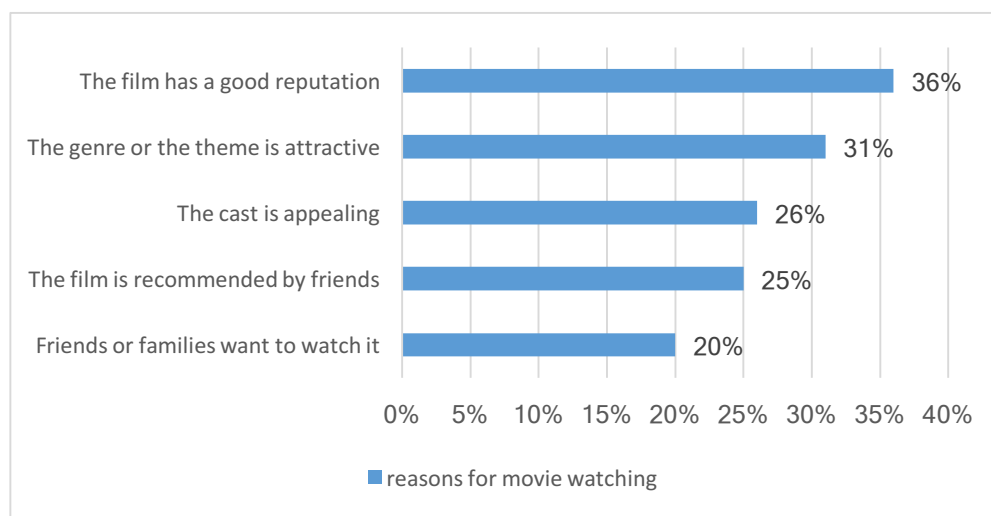


Distribution of Education Background



From another angle, the success of word-of-mouth marketing may have also helped steer Chinese filmmaking in the direction of more diverse and creative filmmaking. As evidenced by data in the below graph, the top two reasons that are often shared through word-of-mouth is the nature of the film itself. Given the financial importance of this form of marketing for a film, film companies in China have become more sensitive to the types and quality of content that is made, with the hope that released films all receive rave reviews from consumers, helping secure a top box office position.

Word of mouth reputation has become the main driving force of movie watching in China.



The importance of word-of-mouth marketing has been proven to align with successful box office results for films (as evidenced by the below blockbusters).

The audience satisfaction of the top nine domestic films at the box office were all over 80 percent, indicative of their overall box office success.

Film	Audience Satisfaction
Dying to Survive	88.0
Operation Red Sea	86.9
Detective Chinatown Vol2	84.1
Project Gutenberg	82.8
Hello Mr. Billionaire	82.7
The Island	82.5
Us and Them	81.9
Monster Hunt 2	81.5

Furthermore, according to the data on the platform of Maoyan Movie, 2018Q1 had a box office total of 18.94 billion RMB excluding service fees, an annual increase of 40%. The number of movie-goers was 560 million, at an annual increase of 37%. Southwest Securities believed that the film market was catching up because of the overall upgrade in the quality and diversity of domestic film content.

According to the data on Maoyan Movie, the ratio of box office accounted for 21.6% to 31.8% for Q1 2013-2017, and the rough estimate for the box office of 2018 Q1 accounted for an annual percentage of 21.6%-31.8%, excluding service fees. It composed to roughly 597-875 billion RMB, at an annual increase between 14% and 67%. Southwest Securities believed that the rapid growth of the 2018Q1 box office was due to more rational demand preferences of the viewers, which made filmmakers gradually return to a focus on high-quality and creative film content. This change in demand structure stimulated reforms, and a series of high-quality works began to appear.

As further indication that Chinese filmmaking has started on the right path, in recent years, the charisma of Hollywood dropped while that of the domestic films rose. In the Spring Festival of 2018, China's domestic box office exceeded expectations, achieving a score of 5.43 billion RMB excluding service fees, an annual increase of 70%. It was one marked by the fastest box office growth during the spring festival period since 2014, with the number of viewings

reaching 140 million, an annual increase of 64%. During the Spring Festival period, six domestically produced new films competed on the same stage – “Operation Red Sea”, “Detective Chinatown 2”, and “Monster Hunt 2”; these were films of higher quality and content innovation than those released during the spring festivals of 2016 and 2017. As for Spring Festival 2019, the universally-relevant film, “The Wandering Earth” topped the box office as the first Hollywood-equal sci-fi film in China, also becoming the second highest grossing film in Chinese film history.

However, it remains to be seen whether domestically produced Chinese films can ensure a significant and sustainable source of box office revenue. Although the box office during the Qing Ming Festival in 2018 was 640 million RMB without service fee - 13.5% higher than the same period of last year. The number of viewings was 1.85 million, an annual increase of 14.5%. The box office during Qing Ming was boosted mainly by imported films, with domestic films released during the same period lackluster in performance, with their subject matter were not suffice to attract moviegoers and heat up the broader market.

Nevertheless, from the point of view of both imported and domestic films, Chinese films accounted for as high as 75% of Q1 in 2018, an increase of 21% compared to the same period a year prior, while the proportion of the box office for imported films dropped sharply. Southwest Securities believed that the main reason for this phenomenon was the improving average quality of domestic

films and more diverse subject matter to meet the needs of different types of domestic audiences.

In the coming decade, the Chinese film market is positioned to be the primary engine of growth in the global market. According to MPAA data, the box office of the global film industry in 2017 reached US\$40.6 billion, increasing at an annual rate of 5%. The box office for the Asia-Pacific region increased by 6% compared to 2016, reaching US\$16 billion, with China being the main source of growth. In 2017, the box office for Chinese films achieved a 21% increase; in Europe, the Middle East and Africa, the annual increase of the 2017 box office was 4% compared to 2016, with the main growth coming from Russia (22%) and Germany (+7%); in Latin America, the growth rate was 22%, mainly coming from Brazil (15%) and Mexico (7%).

The growth in Chinese films for the past fifteen years has brought significant transformations to the film content business. In 2017, 770 feature films were produced, and the net box office reached 55.9 billion, with an annual increase rate of 13%. The box office with a number close to 56 billion is no longer merely a number, but represents the financial prowess of Chinese films. Sharing a global market with the US, the Chinese film industry is both cooperating and competing with Hollywood. The box office of 56 billion in RMB is approaching 9 billion in US dollars; thus, the box office record in the Chinese film industry is getting closer and closer to that of Hollywood, which is 11 billion dollars. Given that the level of collaboration between China and the

US have also reached a crucial stage, the cooperative competition between the Chinese and American markets will surely bring more opportunities for strategic collaboration in the realm of film content with more universal characteristics.

Moreover, while Hollywood continues to be lured by Chinese investments, a higher aim now is to win the hearts of the Chinese audience. As the top film country in content production, the U.S. will inevitably target the massive Chinese market and explore more opportunities for meaningful cross-cultural collaboration on the film content front. From a long-term perspective, American companies are now more willing to cooperate with film content production companies in China and listen to Chinese expert opinions on customizing products suitable for both the Chinese and global market.

As in the case of the film industry in Hong Kong, which had undergone significant changes to its filmmaking and content development process, the Chinese film production houses are also undergoing a similar process of transformation, which Hong Kong filmmakers and directors have helped guide domestic firms in realizing the benefits of such a change. Additionally, their understanding of both cultures and languages have granted them with exceptional advantages as Chinese production companies such as Bona Film Group have placed a heavy reliance on the filmmakers in Hong Kong to produce more globally-resonating and high-quality content. In the past, privately-owned enterprises were unable to obtain shares from imported films, due to the scarcity

of commercial films and commercial awareness. It was the presence of Hong Kong films which rapidly filled the void and led to deeper collaboration to produce films with global appeal.

However, unlike Hong Kong and South Korean filmmaking, the “China factor” has not received the level of recognition and influence that its Asian counterparts have received at the international box office. Looking to surpass North America in terms of box office, it may still be a long way to go before China may reach the level of universal resonance attributed to films such as the Oscar-winning South Korean film “Parasite”. Likewise, Chinese films still pose no threat to the dominant global position of the Hollywood studios in terms of global box office revenue generation as the top-grossing American films continue to hold the number one position on the global list of all-time box office hits. Although the detectable traces of universality in the recent Chinese films have indicated the potential promise of Chinese films for a more global market, it remains to be seen what types of content will be able to truly cross the bridge and gain popularity with a more diverse global audience.

Nowadays, the domestic young audience has developed aesthetic fatigue for the banal figures of Hollywood heroes, comic heroes and sci-fi heroes, being unable to relate to these idealistic personas; they have also watched too many repeats of Tom Cruise climbing buildings and American ghost stories, inadvertently making them extremely thirsty for contemporary Chinese heroes on Chinese screens. Bona Film Group has tried to capture this domestic

moviegoer trend by releasing films with Chinese heroes in an international setting and plot, such as the film “Operation Mekong”, “Project Gutenberg”, “Operation Red Sea” to name a few. In particular, the release of the domestic box office hit “Operation Mekong” was a successful pilot model for the Chinese film industry in understanding the demands of the domestic audience while developing more universal plots for its films.

After more than 15 years of full on film development, the Chinese film industry has accomplished remarkable achievements that have laid an important foundation for its future path towards producing more global content. According to data, the annual box office of Chinese films historically stepped over 56 billion in 2017. If we trace back to 15 years ago, we would find the Chinese film market with a depressing box office of below 1 billion RMB, a downturn period that lasted for more than 20 years. While the economic revolution for China started in 1979, the revolution for Chinese films, especially the marketization reform for the film industry started in 2001. For a considerable length of time, the film industry had always maintained the artistic form of ideological control. The market downturn lasted for more than ten years, with the box office hovering below 1 billion. The year with the lowest record was 1998, during which the annual box office was only 0.83 billion RMB; without “Titanic”, the imported film in 1998 which gained a revenue of 0.36 billion RMB, the total box office would be even lower than the result above. In 2001, the government introduced five new industry-guidance documents. By opening

up the policy for filmmaking, the government permitted private companies to participate in the independent production of films. The policy for film distribution was also opened up, so that private companies could take part in the distribution business as well.

After joining WTO, China promised the international society to introduce 20 foreign films each year, especially North American films, and would meanwhile loosen up the quota year by year. In 2013, China signed the “Memorandum of Understanding between Chinese and American Films” with the US – a policy that lasted for five years, during which 20 films were increased to 34, and the ratio of account division was increased from 17% to 25%. As Feng Xiaogang used to say, “34 Hollywood ‘tigers’ are coming”, which brought massive pressure to filmmakers. The negotiation five years ago was passive and coerced, while at the re-opening of negotiation today, China is facing a market with 56-billion-worth of box office. Therefore, the negotiation today has become tactical and strategic, striving for buffering time for Chinese films. Overall, the remarkable accomplishments of Chinese films in the past five years have been recognized by the world, and are acting as a motivating force in the global film industry.

Furthermore, the production of feature films in the Chinese film industry has exceeded 700 in annual quantities for five consecutive years, which makes China the second largest country in film-production. The number of cinema screens has also leaped to number one in the world, surpassing that of the US.

As to the Chinese box office, it had reached almost 9 billion dollars in 2017, near equal with that of North America. North America, including Canada, has maintained a box office of 11 billion dollars for more than ten years; in comparison, China has already reached the 9 billion dollars mark in 2018. Today, China can proudly claim itself to be a major player and mover of the global film industry, yet we still need to work towards being called a “strong” film production country, by creating a large enough volume of universally-appealing films with a Chinese aesthetic fit for a global audience.

Meanwhile, Chinese film production companies have begun making inroads into Hollywood in order to gain the insider secrets to creating more universally resonating film content. For instance, China’s Dalian Wanda has established a significant presence in the Hollywood film production business. In early 2016, Wanda took over Legendary Entertainment, the studio behind The Dark Knight and Jurassic Park, to work on developing more universal content. Then, in the autumn of 2016, Wanda struck a joint venture to invest in and coproduce several of Sony’s high-profile releases in China. As Chinese companies look to make films with international appeal, there are bound to be more meaningful cross-cultural films such as “The Great Wall”, a Chinese-made 3D epic with a globally recognized Hollywood star, Matt Damon. From Hollywood’s point of view, partnering with Chinese majors like Wanda is a way of getting Hollywood movies into Chinese cinemas, as well as accessing financing which may not be otherwise available. Given that China still has a

quota system for the number of U.S. studio films allowed into the country, co-productions would bypass the quota system and allow for greater diversity of film content to reach the Chinese and global audiences. In 2016, the import quota was set at 34 films, but with the ongoing trade war between the U.S. and China, the negotiations for new terms regarding importing films have been suspended; the 34 imported films quota is still in place, while the distribution channel for other flat-sale films keeps expanding without governmental intervention. As for entertainment mogul Wang Jianlin, the founder and chairman of Dalian Wanda, he has been subject to punishment for his audacious foreign investments that transferred billions of assets from China to offshore locations. Since then, Chinese banks have been warned by regulators against lending to Dalian Wanda as the serial acquirer comes under regulatory scrutiny following half a decade binge in overseas investing. Moreover, Wanda's violations served as a severe warning to its industry counterparts and has consequentially helped fuel the case for more heavily regulated, state-owned enterprises in the industry.

In general, the film industry had entered a sustainable and promising path in 2018 and 2019, with a systemic downturn due to the coronavirus in 2020 and the quick recovery in 2021 as evidenced by box office hits such as "Hi, Mom". The unexpected spike in attendance rates during the Chinese New Year period in 2021 further indicated the resiliency of the overall domestic market and reaffirmed the confidence for Chinese filmmakers to increase the quality and

diversity of content production going forward. Moreover, with the increase in creative content development to meet the changing and more global tastes of this new generation of filmgoers, there is no more opportune time to capitalize on these trends to amplify the scale of content innovation.

Every industry is transforming from being “big” in scale to being “strong” in capability, and the film industry is no exception. There are two prerequisites for the transformation of a country from being “big” to being “strong” in its film industry – first, the absolute advantage of domestic films in the domestic market (we have already accomplished this, as the domestic culture has vertically penetrated through the market, and the dependency level of younger generation on American films has been lessened); second, the capability to disseminate domestic content overseas. The nature of future cooperation in film production will not be solely on shooting Chinese films but instead, China will be leveraging its significant role in the shooting of internationalized films in the English language, which will be published on the global market. In this manner, through international productions driven by Chinese film production houses, the inherently Chinese spirit will be conveyed by blending Chinese values with global elements.

In the post-pandemic future, based on my opinion and strong data indicators, the film industries of China and North America will be competing closely and strategically with each other on the global market, triggering more collaborative films with China having the dominant voice in the production process and

generating a plethora of opportunities for Chinese filmmakers to shine on the world stage. As the production teams, technicians, and talent pools are strengthening via domestic training and international hiring, the film industry of contemporary China will absorb more global experience via constant cross-border cooperation, creating more globally-renowned film content. With the convergence of global production capabilities in the Chinese film industry, Chinese films will be able to make significant advancements into every corner of the world market. Moreover, Chinese filmmakers of this generation are working in a very fortunate time, taking my company Bona Film Group's successes as a pioneer within this industry and the significant milestones that have been reached in the realm of global collaboration through universally-relevant films such as "The Captain", "Midway", "Once Upon a Time in Hollywood" to name a few recent film highlights. From another angle, more international filmmakers and production houses will want to leverage domestic film talent for the making of universal movies that will resonate with the tremendous Chinese market. For instance, take Hong Kong director Dante Lam as an example, his action-packed film Operation Red Sea, for Bona Film Group, released during the 2018 Spring Festival became the number three highest grossing film in China box office history; with this accomplishment under his belt, he has become a well-known figure on the international stage and has been highly sought after by production companies from all over the world looking to produce films steered towards the vast Chinese market.

In summary, gaining universal relevance and resonance with its film content will allow the Chinese film industry to truly transform into a global film powerhouse. Already headed down this path, it remains to be seen how exactly the domestic production houses will further leverage the opportunities ahead in creating a content legacy that can rival that of Hollywood.

Censorship & The Rating System

As the engine for global growth, China has an increasingly prominent voice on the cultural front. However, the problems identified along the parallel of Hollywood's rise through the decades are equally compelling for me to believe China still has a significant amount of work ahead. One of the most pressing and urgent issues is censorship and the criticality of a rating system to ensure both regulation and content diversification. First, I will provide a detailed walkthrough of Hollywood's censorship and rating mechanism, the underlying mechanism, the history, the various triggers, and consequences, to guide our understanding and analysis of the corresponding system in China. Subsequently, I will delineate and outline what the Chinese film industry should adopt and take as reference in order to acquire the critical condition to become a global film powerhouse.

The emergence of any kind of system has its causes and reasons. Only by placing it back into its historical context and taking various factors into consideration can we truly extract the meaning behind any institutionalized mechanism. In this section, I will first comb through the historic details of

Hollywood's censorship and rating system, a fundamental cornerstone of the film industry and a critical component in the maturation of the film-to-market process. As China is going through a critical period of social transition and economic slowdown under the new and potentially long-lasting leadership, we need to draw lessons from history as to what can be done to ensure the continuation and thriving of the creative development of the industry. As a precautionary measure, studios must continue to be vigilant to policy changes and actively monitor market events. On the surface, the rating system seems to be just a categorization of content types, but the underlying rationale and implication is much more significant. As history can attest, the rating system enabled Hollywood to surpass its counterpart in Europe, a mechanism that may also empower the Chinese film industry to rival Hollywood. In the face of other entertainment alternatives and the global inertia from the pandemic, streaming service is allowing audiences to view appealing content anywhere and whenever, allowing for instant gratification via a plethora of mobile device platforms. Thus, now more than ever, Chinese studios are compelled to create more appealing content for theaters, but the only thing is, whether they can be exhibited or not.

In the subsequent section, we will first go through Hollywood's transition from strict regulatory film censorship to an industry-regulated film rating system. Although the MPAA rating system was officially established in 1968, it could only be better understood in terms of its emergence, implementation, transition, and consequences when it is considered in a broader historical

context. I will first focus on the period from 1966, two years before the rating system was established, to 1969, when the first X-rated movie *Midnight Cowboy* was released after the establishment of the rating system, to see how censorship interacted with the Hollywood film industry and social morality on multiple levels and to varying degrees, which might be helpful in our analysis of the workings of this system as well as its effectiveness in serving as both a check on morality and a promoter of diverse content, and then its implications for the Chinese film industry.

American society in this period marched into a big bang era with various events taking place in areas of politics, the economy, and cultural life, such as the civil rights movement, the feminist movement, the student movement, the homosexual subculture movement, and the Vietnam War. The American life was filled with a restless yet flourishing atmosphere, with the major studios remaining unaffected. Hollywood had been playing a leading role in the development of the Western film industry from the very beginning and in all realms of technology, economy, aesthetics and social life. The American film industry proved its resiliency in the face of crisis and its viability in the stage of transition. Talents appeared, creating works which are still considered masterpieces to this day.

What the major studios faced was the increasingly intense competition of popular content, with various forms of entertainment drawing the audience away from movies. As a response, the studios had chosen to increase their

investment in blockbusters, in an attempt to provide audiences with a type of visual enjoyment they could not get on television screens. These movies were expensive yet conservative, bringing Hollywood's dream-making mechanism to its fullest. The rising production costs increased the pressure on box office, but failed to attract the audience back. As a result, the major studios reached the brink of bankruptcy.

These studio tycoons realized that the audience had changed with the changes of the market, and that the crux of the issue was their negligence. The decision was made at this moment for the ratings system to replace the censorship system which had been in place in Hollywood for 38 years; Hollywood had suffered a box office recession for 20 consecutive years. Since the Paramount case in 1948, these major studios have been forced to give up their control on cinemas, especially the first-run ones. They had to break their vertically-integrated businesses, reorganize their staff, and establish new partnerships, grasping their way through the downturn.

Fortunately, the rating system was a kind of self-protection mechanism initiated from within Hollywood, and it brought more freedom and possibility for the industry, justifying the taboo topics during the *Hays Code* era. Those artists with creativity, spontaneity, and ambition kept exploring new forms in this period, reflecting social values in their own filmmaking practice. This new trend attracted the audience back, which not only brought considerable box

office revenue and helped the studios survive the economic crisis of the 1960s, but also became the mainstream mode of future development.

This short yet aggressive period was named the “Renaissance of Hollywood” by historians, which signaled the rebirth of American films as well as a closer parallel to their European counterparts, and led the American film industry towards the “New Hollywood Era”. For the industry, new topics and genres attracted new audiences, with the implementation of the rating system. Consequently, studios began to produce content fit for various audience segments.

This adjustment was a rebalance between creation and freedom, as well as that between film as a media type and the ever-changing social customs. It also satisfied the need for continuous production in the transition period of the American film industry. The implementation of the rating system, as a self-adjustment within this industry, proved again the relationship between cultural products and social revolution; it saved the modern American film industry from an economical as well as aesthetical sense.

In a similar vein, the rating system has been a hotly discussed topic since the mid-1960s. It has been widely debated whether and how it should be promoted. The rating systems exist almost universally in different countries, but they also differ from case to case. We can achieve a better understanding of the details in the making and modification of the rating system, as well as the overall integration and change in the Hollywood industrial system, by examining the

cases around the time when *The Voluntary Movie Rating System* (hereinafter called the ‘*Rating System*’) was promulgated during the economic crisis of the 1960s.

Throughout the 1960s, audience demand for movies remained weak because of the expanding choices of entertainment. Thus, Hollywood was faced with the increased pressure of rising investment risks and declining audiences, to the extent that some were forced to sell real estates for survival. Moreover, expensive movies suitable for the whole family to watch together were no longer appealing to audiences. To tackle this situation, major studios adopted restrictive policies in their production. For example, they stopped the production of B-movies, short movies, cartoons and documentaries, and reduced the production of genre moves with mid-to-low budgets. As industry leaders struggled to keep up with the times, the numbers on the balance sheet were still depressing; Hollywood was in a state of financial crisis in the 1960s.

The transformation of the property rights of Hollywood movie corporations from 1966 to 1969 was much larger than that in the 1930s. This financial crisis marked the end of the production mode in the Classical Hollywood Era, with the focus of the major studios shifting from production to distribution. They gradually became the center for providing financial or distributional services, which developed Hollywood’s distribution system most directly, and finally made their transformation into large media groups.

With the establishment of the ratings system, the shackles of prohibited content began to loosen, especially when movies could bring huge box office revenue for major studios, heralding the most vigorous era in the history of the American film industry — “The New Hollywood Era”. What resulted was the appearance of a large number of one-off, non-reproducible movies without obvious features of large studios. Traditional producers explored the boundary of different topics, while independent producers brought more freedom to the filmmaking process as well. The major studios finally caught on to the revolutionary transformations of the late 1960s.

The Voluntary Movie Rating System was officially launched on November 1, 1968, with the aim to provide more freedom during filmmaking and to protect teenagers from unhealthy influences, which substituted the *Hays Code*. Religious groups, broadcasting agencies, and movie entities made a joint statement at that time, showing their “complete and true support” for the new *Rating System*.

The Classification and Rating Administration was in charge of the rating system, and the Codex Executive Committee was in charge of the daily execution work. Both of them belong to the MPAA, which is an organization within the movie industry and outside the legal system. As I attended the most recent CinemaCon, the annual global conference for distributors and exhibitors in Las Vegas on April 2019, the new Chairman and CEO of MPAA Charles Rivkin presented the Triumph Award to an iconic figure Joan Graves, Chairman

for Classification and Rating Administration, for thirty years of service guarding the health of American minors and the livelihood of vast genres of American films. The Chinese counterpart of this, on the contrary, is the gigantic bureaucracy of government function under the propaganda ministry, controlling the details of every single frame of each film produced in China or pending import from anywhere else in the world.

As a system, the movie rating system has gone through numerous modifications in dealing with various unique and edge cases throughout history. The American legal system stipulates that all verdicts remain effective for a certain period of time. If new cases appear, previous verdicts might be overturned, but if no new cases arise, the previous verdicts remain the principle to adhere to. Similarly, the rating system was also amended multiple times in real practice, with the final version created in 1990, which is what we still see prior to the start of the movie today.

The *Rating System* was a system for content censorship within the industry itself, but it also exhibited the true spirit of the American legal system in its implementation. It was outside the purview of the legal system and instead depended on the voluntary compliance from within the industry. However, if problems came up in its implementation, the legal system would be held accountable for the final solution. Moreover, the overarching criteria was defined by a broader system of rules than the *Rating System* itself, which consisted of people's consensus on moral codes, culture, and other rules. The

Rating System was a condensed version of the system of rules, but what it stipulated was much narrower than the general rules for safety considerations. Therefore, the evolutionary process of the *Rating System* also reflected changes in American society and in the overall political climate.

The *Hays Code* and the *Rating System* are often discussed together in terms of their strictness in content censorship in studies at home and abroad, in order to reflect social changes through the comparison of different systems. Functionally, the American censorship system helped control content on one hand while promoting the development of the industry on the other. The major studios established the *Hays Code* to ensure the stability and development of the whole production system in the 1930s; however, by the 1960s, external factors rendered the system largely uncontrollable. More importantly, this system could no longer ensure the economic interests of the major studios, while those creators who could bring interests to the studios could not participate in the censorship process. Before the *Rating System* was promoted, the fresh atmosphere offered more opportunities for studios and ambitious directors, who began to challenge the *Hays Code* publicly to weaken its restraints, creating the perfect timing for the promotion of the *Rating System*.

The *Hays Code* provided audiences of all ages with uniform film products, while the *Rating System* divided the audience by their age and customized different products for different groups. The *Rating System* was effective because it met the diverse cultural atmosphere throughout the 1960s, which required

wider and more targeted products for the film market. Seen in this view, the biggest difference between the *Hays Code* and the *Rating System* lies in the change in the overall cultural atmosphere and film industrial structure.

The transition from censorship to rating signaled not only the change of a system or a gradually loosening process on the regulatory and oversight level, but also a trend towards a more diversified social climate and culture. The transition from non-rating to rating may be a more accurate description than that from film censorship to rating. In the *Rating System*, different ratings were targeted towards different audiences, thus opening up different profit channels. As a regulatory mechanism, the *Rating System* not only exerted its influence on the major studios, but also restructured the trend for filmmaking. According to the *Rating System*, depending on the type of content that producers intended to make, they would position their works in the film market accordingly and organize their content within the specific rating's accepted standards.

Jack Valenti, once a cabinet member of the former president Lyndon B. Johnson, began to assume a position in the Motion Picture Association of America on September 20, 1966, mainly in charge of setting up new film production rules. As a highly experienced and outspoken professional in the advertising industry, Jack Valenti was instrumental to the promotion of the *Rating System*. From a content perspective, the *Rating System* got rid of previous restrictions in the Hays Code, including prohibiting the use of sacrilegious vocabulary, clothing, dancing, titles, etc. An especially important

provision is that the legislature should have the right to label select films as “Adult Films”, so that these films enter the market with a restriction on the audience’s age. The Rating Appeals Board was set up to deal exclusively with the appeals of these films; if the producer and the issuer have objections against the rating results, they have the right to negotiate about what should be revised or deleted, and to demand that the committee state their reason for the rating and rerate the films.

In the *Rating System*, the word “Parental Guidance” was used for the first time, which came from a sentence said by Abe Fortas, a Supreme Court Justice, in the Ginsberg Case. This word was later used to differentiate between PG-rated movies and PG-13-rated movies as well. Jack Valenti emphasized two core points of the *Rating System* repeatedly, one of which was “to show concern for children and support for parents’ rights”. Previously, filmmakers and the major studios needed to go through censorship before they could put the films on the market, now the task of censorship was transferred to parents by this *Rating System*. The core mission of the MPAA also shifted from “censorship and control” to “education and informing”. As Jeff Randy said, “we believe that self-discipline and self-control are the tradition of the American people. The basic right to the freedom of choice, and the importance of leading by example assumed by parents in the household.”

In a news report titled *What Everyone Should Know about the Motion Picture Code and Rating*, Jack Valenti encouraged parents to pay attention to

the ratings of films before watching them, as well as to the reviews in the newspaper and the orientation of the media. The MPAA would provide detailed information on film products for local cinemas and public libraries to ensure that parents can preview the promotion materials and have a proper understanding of the content before the films are released.

Besides the goal to show concern for children and support for parents' rights, the *Rating System* also emphasized the freedom of creation. Jack Valenti expressed his absolute support for the protection of films by the First Amendment to the Constitution, to quote him, "we believe that motion pictures are to filmmakers what words are to writers. The creation must be free. The importance of the studio system lies in that it can produce different products according to different audiences." He defined the mission of the American Film Association as a "moral device", which could match a particular movie with its audience, especially those under 16. In his inaugural speech, Jack Valenti cited the view by Abe Fortas in the Ginsberg Case in 1967 that "we must never let movies serve only one audience... or movies will become hollow and boring." What he repeatedly stressed in his speech is that "it is wrong to censor or classify the movies by legal means... The MPAA believes that film making should be free for filmmakers." As the same time, he also reminded directors and producers that "freedom does not mean no regulations."

In Jack Valenti's speech, it is not hard to see that behind the *Rating System*, a larger and more important market which was implicitly emphasized,

reconnected movies with frequent cinema patrons. In the *Hays Code* era, movies were much the same in the face of the Codex Executive Committee, regardless of their genre, topic, or quality. The result was either permission or prohibition. The integrated applicability of the *Hays Code* was its biggest difference from the *Rating System*. Before the *Rating System* was promoted, the major studios faced a situation in which works of one applicable style gradually lost their popularity as audience tastes diverged. The *Rating System* was an effort by the major studios, which had realized the growing audience segmentation, to make movies in a more targeted manner, in order to meet diverse interests. As the producer Walter Mirisch said, “Movies do not exist in a vacuum. Movies exist because they are combined with the audience.”

From the perspective of industrial production, the direct influence of the *Rating System* was its encouragement of the diversification of film production. The studios could classify their movies with the *Rating System*, and the audience would be well informed before they choose to watch a particular film. In this way, the audience was better aligned and films could be produced in a more targeted fashion. All these policies were carried out in the hope of drawing the audience back into the cinema. The feasibility test for the *Rating System* took a long time, from 1966 to the 1980s.

The original intention of these systems, whether the *Hays Code* or the *Rating System*, was to continue production and ensure market share. Both the *Hays Code* and the *Rating System* are history to us now, but the masterpieces

produced during these transitional periods remain influential to this day. The trailblazing creators pushed the boundary of the system again and again, promoting the transformation of Hollywood from a closed industry towards a more open one.

The backdrop that supported the creation of the rating system and its evolution from incipience must be analyzed in greater detail in order to understand the particular function and purpose behind its adoption and systematic implementation. From the early to mid-1960s, blockbusters like *The Sound of Music* (1965) and *Doctor Zhivago* (1965) brought unprecedented profits to studios, which became their major projects. Producers were eager to invest more money, attract bigger movie stars and develop new technology for the production of these blockbusters. They focused on genres like biblicals, epics, and musicals, all which possessed common characteristics of huge budgets, prolonged screening times, all-star casts, and wasteful production. With the progression of suburbanization, these films replaced the previous connection of the Church with the American lifestyle. Since the “Paramount Case”, industry verticals became a thing of the past as cinemas broke away from the studios. The major studios could not guarantee the distribution of their films, so they became more cautious in their production. The production of blockbusters, on one hand, was a conservative policy adopted by the studios to focus their strength on satisfying the demands of the main audience.

However, the late 1960s witnessed many setbacks for the major studios caused by these blockbusters. To name a few, *Doctor Doolittle* (1967) and *Star!* (1968) demonstrated a commensurate relationship between benefits and risks. Admittedly, the huge revenue from a few films could recover the deficits, but once they failed, no measures could be taken to help them survive. More harshly, the number of American moviegoers was declining by an average of one billion a year. Several large entertainment companies lost up to 500 million dollars from 1969 to 1972. Consequently, banks began to reduce their investment in the film industry, especially in blockbusters with enormous budgets.

In the face of a demand drought, studio tycoons realized that films were no longer the leading entertainment form, but only one of a wider range of choices for recreation. Thus, Hollywood had to develop new products to satisfy new entertainment preferences. The major studios also hoped to enhance the quality of the movies with technology, developing new products like 3D films, wide screens, color films, and the like; however, technological innovation did not reverse Hollywood's dilemma.

The Sound of Music was the best-selling film throughout the 1960s. Julie Andrews' song on the hills reflected traditional American values like truth, goodness, and beauty. However, American society in the 1960s was filled with violence and rebellion. With the political rise of Martin Luther King and the increasing popularity of the Beat Generation like Jack Kerouac and William S. Burroughs, young people began to resist the status quo through strikes and

demonstrations to make themselves heard. With the popularization of TV and TV news, the war became far closer to the American people, who could see the scenes of burnt villages, fleeing children, and bodies of American soldiers, all of which had a deep impact on the American public and provided something that films could not offer.

Hollywood could not neglect the social and political turmoil in the mid-1960s. The distrust of the state and the church became the central focus of more and more films. The *Hays Code* was questioned for its role as the “screen filter” in protecting American values like traditional marriage values and a positive life orientation. The changes in American society accelerated the pace at which the *Hays Code* became defunct. However, the major studios were wary of the consequence if they canceled the *Hays Code*, so they began to test audience acceptability and the boundary for tolerance of films. The movie *Who’s Afraid of Virginia Wolf* (1966) was a case in point, it had the characteristics which promoted the implementation of the *Rating System*, namely the elements of danger, strength, violence, and popularity.

Industrial reform progressed slowly. In the case of *Who’s Afraid of Virginia Wolf*, Jack Valenti, on behalf of the MPAA, conveyed the message that audiences had already differentiated. What Hollywood had to guarantee in the first place was that young audiences, with a habit of going to cinemas had their demands met, given their role in the formation of mainstream values in the 1960s.

From the late 1960s to the 1970s, box office revenue mainly depended on teenagers aged 13 to 19, partly due to the growing scale of the American art cinema and the largely young movie audience. The “golden seven years” of teenage life was for the first time established as a target focus for Hollywood studios. Their life was filled with multiple media choices: television, magazines, picture books, advertisements, music (radios and discs), and the like; most of the products in this market were very cheap. Hollywood offered some proscribed content in the *Hays Code* to this target market, such as sex, prostitution and drugs, and exhibited them in an emotional (or educational) way. Adult themes, full frontal nudity, and vulgar language were the most appealing to them. However, Hollywood’s success could not be sustained by replication; how to tailor film products to teenagers was what the majors were targeting next.

In the *Hays Code* period, the audience composition was homogeneous. What the *Rating System* did was more than lift the control over prohibited content, it brought more freedom to filmmakers. More importantly, after its implementation, Hollywood began to change its previous scope of production, sales, and target markets.

The integration of the rating system also opened up the door to films from abroad. Only 43 out of the 206 movies submitted to the Codex Executive Committee were produced by MPAA member companies, while only 9 movies were released independently out of numerous independent productions. The production volume of major studios exhibited a continuous decline, with the

emphasis shifting toward the distribution industry, especially global distribution. In fact, the revenue outside the North American market had already surpassed that of the world in 1958, which continued this way through the 1960s. Global distribution reduced the investment risks of those blockbusters. As a result, the major studios cooperated more and more closely with overseas production companies. The major studios needed the supply of products under the circumstances of decreasing production. Therefore, the imported films and the productions of local independent companies made up for this gap and were released widely in North America given the increased tolerance and acceptability of diversity from the rating system. In return, for those overseas production companies, the major studios provided them with the access to American cinemas. The four best-selling movies in 1967 were *The Dirty Dozen*, *You Only Live Twice*, *Casino Royale* and *A Man for All Seasons*, which were all produced overseas and getting a North American release. Judging from the box office revenue in 1967, adult themes, categorized extensively by the rating system, were a strong boost for the box office, among which a large part were imported films with the audience's interest in film viewing getting reignited.

Most of these imported films were from Europe after filmmaking gradually revived in the European countries after World War II, especially in Sweden, France and Italy. Given the preferences by both the audience and the filmmakers for novel and profound film content at the time, neorealism, influenced by documentaries, emerged in Italy. Movies were filmed on the streets, and the

characters were played by ordinary people who had not been trained in acting. In the French New Wave movement, the filmmakers filmed unusual stories in unusual ways, rejecting tradition and no longer pursuing glossy cinematography. More importantly, the rating system was capitalized by these European directors of the 1960s through developing film content that grabbed the audience's imagination, which also inspired American filmmakers to pursue films that were more daring, complicated, and realistic for the domestic film market.

In a similar vein, the rating system's tolerance of greater content exploration allowed studios to produce films, with attractive female European actors, that had more R-rated connotations. For example, the famed French actor Brigitte Bardot, starred in the French movie *Et Dieu... Créa la Femme*, was full of exoticism and childish innocence, appearing on the cover of *Time Magazine* at the age of 15. In 1957, in the movie *Boy on a Dolphin*, produced by 20th Century Fox and directed by Jean Negulesco, with Italian actress Sophie Loren quickly finding her way into the mainstream film industry with her Mediterranean allure. These European stars had began embedding their unique flair to American movies, helping increase the popularity of R-rated content for adult viewers, another significant milestone for content de-censorship in Hollywood. As Jack Valenti positively predicted that the release of the *Rating System* would not only bring a level playing field to the film market, but also provide more room for free creation for local filmmakers.

Nevertheless, not all films were initially accepted within the censorship and rating system and had to be adjusted to comply with certain moral standards. Unlike studio-invested films such as *Who's Afraid of Virginia Woolf*, for which professionals strived in their negotiation with the censorship system, some potentially controversial independently produced films were suppressed and discriminated badly within the distribution system of large companies. For instance, the film *Bonnie and Clyde*, due to its controversial content, was such a movie opposed by the big studios. However, this film, with its aberration in both form and content, received widespread attention and praise after intense debates; Warner Brothers released it again, gaining much box office success and receiving numerous nominations and several awards at the Oscars. Its success enhanced people's recognition of such explorative film content, and making it much easier for independent producers in the movie industry to gain access to the resource platform that major studios offer. Moreover, this significant liberalization of tastes also had a profound influence on the subsequent rise of a New Hollywood. Thanks to new regulation on the "Suggested for Mature Audience" label, a crack in censorship led to a substantial increase in the proportion of pornography entering the market. The Private Media Company, which was established in 1929 and specialized in pornographic products, provided raving pornographic performances, photo pictures, pornographic poker and lighters and pornographic films for frontline American troops during World War II. For many years they were largely

unknown, but suddenly their popularity rapidly expanded, leading to domination of the mainstream market of hard pornography. Under these situations, some other film companies also began to make sexually-explicit content for ordinary American people. As a result, President Lyndon Johnson established a special Federal Commission of Inquiry to shoulder the responsibility of maintaining basic moral codes, investigating the obscenity and legality of these movies and determining the classification of pornography versus non-pornography, which led to subsequent adjustments to the boundaries of content acceptability in the *Rating System*.

Likewise, the release of the *Rating System* led Hollywood's studios to reorganize their businesses. Although the studios still controlled the channel between producers and film exhibitors, small and independent producer companies were also provided with new access to the market. These independent producers avoided the mainstream film schedules, specialized in exploitative movies, and promoted them through TV advertisements. American International Picture (AIP for short), led by Roger Corman, was one of the most outstanding independent companies among them. Roger Corman discovered the subculture of the 1960s that this whole generation cared nothing more than sex, drugs, and rock music. He tried to grasp this anti-traditional spirit, make bold movies that reflected the social reality, and "cross the high walls of the major studios".

While Hollywood did pay attention to the increasing liberalization of film content, the majority of the major studios were still making so-called mainstream films, a habit formed during the much stricter decades of censorship. In 1968, the filming of the movie *Night of the Living Dead* was completed in Pittsburgh, Pennsylvania, by an independent production company, which harvested a global box office revenue of 42 million dollars, while the total cost to produce the film was no more than 120 thousand dollars. Given the box office success of newer forms of content, even the most conservative producers could no longer neglect the vitality of content diversity and modernization. More and more studios and filmmakers started to create works that reflected the social and political atmosphere through various forms and themes, as well as the development of new storytelling skills. Although the major production houses despised the prevalence of the hippie culture and scorned their immorality and rejection of traditional norms, they were compelled due to significant financial reasons to recognize and embrace the avant-garde and more liberal values espoused by the successful independent filmmakers.

Unfortunately, for the exhibitors, the diversified product choices did them more harm than good. The National Association of Theatre Owners (NATO) pointed out in the *Variety Magazine* in April, 1970 that the newspapers' refusal to advertise X-rated films was like defining themselves as film censors, which was against the freedom of speech. The initial *Rating System* lacked concreteness, leading to blurred lines and open interpretation among different

ratings. Jack Valenti recommended that the rating system should place more emphasis and consideration on the particularity of each film before making final decisions, given that even the same content could fit within the definitions of several different movie categorizations. Therefore, the classification of each movie was both objective and subjective. It was very likely that the board members of the rating system were inclined to be more tolerant to those refined and star-studded films produced under the studio system. Interestingly enough, after the decision from the Paramount Case, the vertical monopoly was gradually broken down and the control of the MPAA on exhibitors weakened, leading to weaker oversight and restrictions by the courts on films not approved by the Codex Executive Committee and allowing theatre owners the opportunity to show them on the big screen without punishment from the industry regulators. However, the unapproved films were still regulated by the local censorship board and the Catholic Ethics Committee. It was neither economically sound nor practical for these theater owners to get involved in any lawsuits. Therefore, showing restricted film content was still something that required serious consideration with no guarantees for market success.

In addition, during the initial implementation of the *Rating System*, with new blood flowing into Hollywood, American films offered fascinating experiences between reality and dreams in the face of constantly evolving audiences' tastes and passions, which were full of imagination and possibilities for American life. As the premise of entertainment, American films were

changing again and again, trying to reflect real life and inject various concepts and attitudes onto the screen. These interactions influenced public attitudes and behavior in a variety of ways, from directly espousing a political or social creed to subtle ideas that represented all forms of artistic expression, thus bringing vitality to the United States. The success of *Midnight Cowboy* at the box office and word of mouth was more prestigious than all movies labeled "Adult Only", but the major studios still did not push for the boundaries of X-rated movies across the film industry. They thought that the success of this film had much in common with that of Arthur Penn's *Bonnie and Clyde*, which meant some kind of decadent tone of life, but had little to do with the X rating.

There were many other films which had been rated X but did well at the box office in 1969 aside from *Midnight Cowboy*, like *Vixen*, a soft pornography produced by Russ Meyer, and some other imported art films, like *I Am Curious (Yellow)*. Gradually, there were subtle changes in audience attitudes towards X-rated films. For them, they embodied what was viewed as attractive rather than repulsive. This meant a more tolerant environment of creation for the independent filmmakers, giving them more freedom to explore obscene content and allow its circulation in the film market.

Complying with standard film review procedures, the independent distributors had to submit the films to the MPAA or CARA before they could release them. Because X-rated production was equivalent to *Midnight Cowboy* for major studios, some hard porn distributors were also beginning to hope that

their films would be rated X, a label that became an advertisement in itself for these movies' public distribution. Even some soft pornographies began to strive for an X rating, an R rating was too mediocre and unattractive to adult audiences. Moreover, under the aura of John Schlesinger's *Midnight Cowboy*, the film market became filled with a number of independently-made, highly-repulsive X-rated films, becoming both a blessing and curse for X-rated movies. Since then, the restrictions and self-discipline of media propaganda corresponding to different ratings have become more and more institutionalized, and X-rated films have gradually come to represent niche non-mainstream films.

Furthermore, Hollywood needed to redefine its audiences since these audiences who had long been the mainstream of Hollywood films had to be expanded to include younger generations, within the ages of 15 to 34. The major studios began to realize that the market was expecting more films that matched the new mainstream audience. They could not count on a producer or director who stuck strictly to the *Hays Code* to have any achievements in attracting and capturing young audiences. The major studios started to select producers and directors from the independent film market, because they had more experience in making films that catered to the tastes of young audiences. The major studios launched a series of strategies to appeal to young audiences. One of them was Warner Brothers' 600-thousand-dollar investment in Francis Coppola's *American Zoetrope* to develop film programs in November, 1969.

Likewise, Warner Bros.' strategy was clear to make profitable movies such as *Easy Rider*, targeting the mainstream teen market, and keeping up with the changing times. The production cost of *Easy Rider* was approximately 360,000 dollars; with distribution, the total investment was less than 500,000 dollars. However, it achieved 25 million dollars in the domestic box office and 40 million dollars in the global box office, making it the third largest box office seller that year.

Low investment and high returns deeply stimulated and attracted studio tycoons. Nearly half of the audiences of films, like *Bonnie and Clyde* and *The Graduate*, were young American people aged 16 to 24 years old. The studios realized that it might be a way to get the audience back to cinema with such culturally-oriented and reality-based movies, which conformed to the rebellious mentality of the audience and whose themes were nowhere to be found on TV. While *Easy Rider* was a rare hit, most major studios still had to count on one big-budget blockbuster a year to maintain overall box office stability.

Besides directors such as Francis Coppola, George Lucas, Jim McBride, Carroll Ballard, Willard Huyck and John Korty, film editors like Walter Murch and Robert Dalva, and screenwriters like Gloria Katz Matt Robbins and Hal Barwood were also members of the American Zoetrope at the time. For the major studios, these people looked no different: young age, long hair, representing part of youth subculture. Everyone looked like coming directly out of the movie *Easy Rider*. For a film company like Warner Brothers, which had

a long history, a large scale and a strong financial base, the cooperation with American Zoetrope seemed a bit frustrating. Fortunately, the investment needed was nothing compared with those big blockbusters.

Unfortunately, for Warner Bros. executives, people like Francis Coppola all seemed too ambitious and scholarly. After an entire year's preparation, American Zoetrope still could not offer a program that could catch the attention of the major studios. There were two factors leading to this result. One of them was the distrust of the major studios towards Francis Coppola. He had directed four films: *The Terror* (1963), *Big Boy* (1966), *Finian's Rainbow* (1968) and *The Rain People* (1969), but none of them were successful at the box office. It was not until 1972 when the major studios asked Coppola to direct *The Godfather*, which he felt very reluctant at first, that the new Hollywood directors finally embraced their renaissance. The acceptance of independent production by major studios was partly due to the fact that independent films had helped them solve major aesthetic and economic problems.

Over time, established ratings changed little by little, with each revision starting with a controversial film that leads to an expansion on acceptable content. In 1984, some scenes in *Indiana Jones and the Temple of Doom* directed by Steven Spielberg were too brutal, so a PG-13 rating was added to the original system, meaning that this movie was unsuitable for children under 13. The M rating was replaced by GP, and finally changed to PG, meaning that people under 17 needed parental guidance. Also, the age limit for R-rated

movies was lowered to 17. Gradually, X-rated films began to become the unified symbol of pornographic films in the global film society, and restricted films were becoming synonymous with pornographic films. In September, 1990, the X rating was replaced by NC-17, which meant that people under 17 were not allowed to watch the film. The first NC-17-rated film was *Henry & June* produced and released by Universal Picture Company, indicating the diversion of the adult film market as an independent market.

The Hollywood film industry is not only symbolic of the American film industry, it is also a moral universe at the same time, especially during the *Hays Code* era. From the perspective of the sustainability of industrial development, Hays had been in charge of overseeing and deeming what could be released by the Hollywood film industry for over 30 years. Only films that conformed to the moral regulations could walk out of the gate of censorship, with the golden age of Hollywood being accompanied by these moral regulations for more than three decades. Until the 1960s, when the *Hays Code* failed to assert its continued relevance and legitimacy, the *Rating System* served to reconnect the big screen to the real world.

As a turning point in Hollywood, the *Rating System* not only brought more freedom of expression to the creators and affected the production and audiovisual of films, but also reestablished an industrial filmmaking system. Created as a set of mutually exclusive guidelines, major studios began to produce different film products for different audiences. The *Rating System* not

only helped Hollywood survive the economic crisis in the 1960s, but also promoted the transformation of the major studios to modern entities.

The implementation of the *Rating System* meant that, in addition to the cinematic films, the major studios must reconsider a wider product line, including theatre, pay-TV and other projection businesses. Veteran studios such as Warner Brothers, Disney, and ABC were using new monopolies to control and expand their businesses. Therefore, the *Rating System* was more than a regulatory control over the content of films, it was also an effective way of market segmentation. For major studios, the *Rating System* once again has brought together all the elements of production, distribution, and projection under the contract, established a national standard for film censorship, and provided more content diversification and access for studios to the entertainment market. When the public had established trust in the *Rating System*, it is difficult for a film without rating to find its place and demand in the film market. This short yet eventful evolution of the Hollywood rating system was a natural outcome of evolving sociocultural trends, practical economic interests, and overarching regulatory considerations.

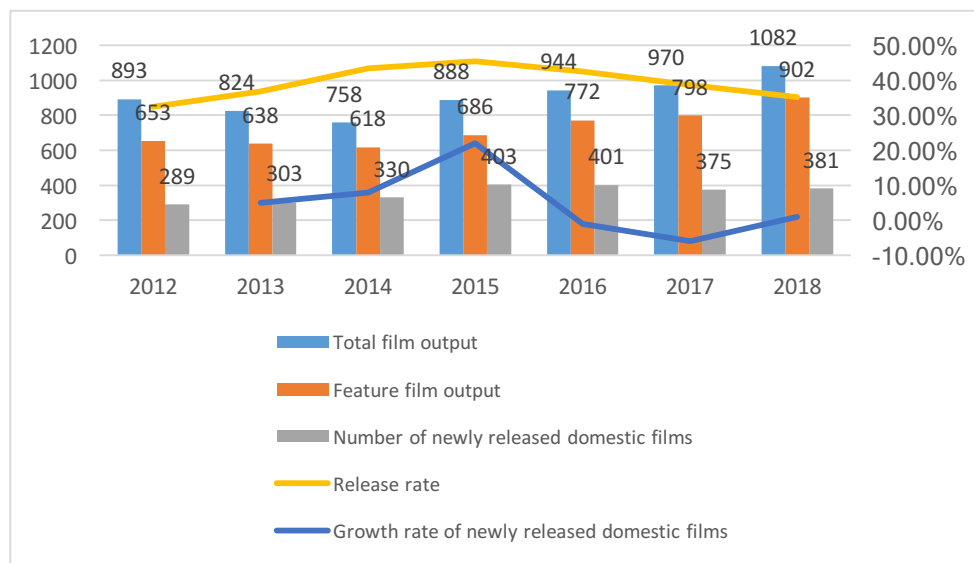
In a parallel historic transitioning period, China is also undergoing financial instability, heavy political oversight, rampant ideology control, capital market regulation, alternative entertainment platform takeover, and more fundamentally, a new era of political leadership turning a new, albeit uncertain, chapter in the rule of law. From an industry perspective, there is an ongoing

demand for a rating system in place to allow Chinese film industry insiders to truly capitalize on their creative potential and broaden the scope of their film output, in the hope of making a universal mark on the world stage for Chinese filmmaking. Unfortunately, the government instituted content oversight agencies have largely ignored this industry proposal, instead focusing their time and efforts on releasing new regulation, on a monthly basis, to suppress content deemed improper in the content business from film to television, to gaming, and to publication.

The current censorship of content in China is so pervasive that one lives in the country without access to the majority of Western media outlets and sources of entertainment, coining the popular culture reference of “crossing the Great Firewall of China.” This lack of knowledge sharing and information flow in the society not only severely limits the domestic Chinese audience’s knowledge and awareness of the world outside China, but also prevents the world from getting to know the authentic elements of Chinese culture and its rich history. Since the Trump administration, the trade war between China and the United States caused the suspension for renegotiation of the 34-film quota on foreign films that can be imported into the Chinese market. However, based on the tightening control, the more likely scenario of the future availability of imported films could be merely Hollywood high-concept films, such as Marvel superheroes and the Fast & Furious franchise, with mainstream nationalistic Chinese blockbusters such as “Operation Red Sea”, “The Wandering Earth”, “Wolf

Warrior 2”, to name a few, getting an increasing competitive advantage and share of the domestic Chinese market. Likewise, the domestic audience will have very minimal access to view any arthouse creations, documentaries, and/or any content that may have a moderate degree of political connotations on the big screen.

In a similar vein, although domestic Chinese film output has been rising steadily in the recent years, the release rate for domestic films is depressingly less than half due to strong governmental censorship. As displayed in the graph below, domestic film output has been showing a steadily growing trend, but the release rate has continued to fall below 50 percent with the number of newly released domestic films declining significantly in the past two years.



Given my own experiences and working knowledge of the film industry, film companies need more tolerant and tailored guidelines, not cookie cutter restrictions. Additionally, the domestic film industry needs more independence to properly function and determine its own set of guidelines through an efficient

internal governing system such as the rating system created by its Hollywood counterparts. Before I offer my own views and suggestions for the setting up of a rating system in the Chinese film industry, let us first review the latest government issued paper on content censorship in China and its implications for the development of film content.

Generally recommended film content:

1. Films that focus on ordinary people rather than historical figures.

These films impress the audience with the tenderness of day-to-day life of ordinary people and always achieve good market performance.

2. Films that show scientific values.

Fantasy films can be classified as sci-fi films to avoid censorship.

As a hot topic in the film market, there are always huge amounts of fantasy films produced and screened every year. To categorize them as sci-fi films is a good way to avoid the charge of superstition, which is also conducive to the approval of censorship.

3. Film production should adhere to materialism and get rid of feudal superstition.

“Suspicion of feudal superstition” is one of the top three reasons for banning online movies, which can also be accounted for by the huge number of films that contain ghosts and demons in the early stage of online film market. If the superstitious plot is to be presented, it can be designed as dreams, mental illness, imagination, rather than reincarnation.

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4. The Eight Diagrams and the Book of Changes are not taboo topics, while geomantic omen and Yin and Yang should be determined according to the plot.

For example, geomancers, as well as the selection of house sites based on geomantic omen, are allowed in the films, but they should not be the key plot. The films should not contain plots such as Taoist priests casting spells.

Also, the magic performance should not be related with religion or sorcery.

5. Ancient legends and classical masterpieces should not be subversively adapted.

Film and television works should not "destroy the classics", as has been repeatedly denounced by the People's Daily and other state media sources.

Especially, the core characters are not recommended to be adapted dramatically, considering the feelings of the audience. The adaptation of villains in the original works is allowed.

6. Films that advocate legitimate actions.

Tomb raiding is illegal and should not be mentioned in the films. To avoid censorship, tomb raiding can be adapted into adventures, in which characters run into the tombs or fall into them unintentionally. The characters should not take the treasures out from the tombs because they belong to the state. Minors are not allowed to be involved in the crimes or violence in the films. Whether involving minors or not, suspicion of violence is one of the top three reasons for banning films on the Internet. It

belongs to the incorrect value orientation. The plots involving crimes are the focus of scrutiny, and the Ministry of Public Security also needs to examine them. The films should not overshadow the details of the crimes or induce any criminal behaviors. Undercover policemen should not use drugs, kill people or be excessively evil.

7. Films that advocate positive energy.

Films should advocate traditional Chinese culture and values, and convey pure and untainted love to the audience. The ghosts in the adapted works of classics must be good and kind in nature. The characters that travel through time should show positive energy, and should not have a huge influence on the overall history development. They should exert positive influence on the era that they come to. Youth films should avoid puppy love. Characters can instead have romantic feelings for each other implicitly at first, and make it clear when they have grown into adults. Realistic films should have positive value orientations. Characters can pursue wealth by legitimate means, but they are not allowed to flaunt their wealth. In the year 2018, the 40th anniversary of Reform and Opening-up, and in 2019, the 70th anniversary of the establishment of P. R. China, as well as in 2021, the 100th anniversary of the founding of the Communist Party of China, films should focus on people's good life and reflect their happiness.

Generally banned film content:

1. Films should avoid the topics of serious national affairs, the social

institutions, the current sociopolitical state, and major developing trends that are in any way tied to societal affairs and/or sensitive political issues.

Politics have always been a sensitive area in film and television production. In the online film market, filmmakers are rarely involved in these topics. However, with the recent increase in the number of military films, it is possible for them to touch on these sensitive political issues. The main creative team needs to be careful regarding editing out any potentially sensitive political content prior to submitting for censorship review.

2. Films should not display in excess weapons or armed forces.

As long as artistic works can show the values of truth, goodness and beauty, they are to be advocated. Films should not present the West as our imaginary enemy nor aggressively flaunt military instruments and tactics.

3. Films should not hire actors and actresses, nor any other creative team members with bad public reputations.

Actors affiliated with extensive drug use, an anti-China political stance in regards to Taiwan, as well as any morally-condemned behavior are the focus of censorship control. In September 2018, the Ethical Self-Discipline Committee issued the Code of Ethical Self-Discipline Behavior for Beijing Performing Arts Industry and the Beijing Performing Arts Industry Self-Discipline Initiative. More than 200 media and entertainment organizations and companies signed the commitment letter confirming that they will not employ nor organize performers involved in prostitution, gambling, and

drug use to take on acting roles or participate in performance activities, as part of the government supported effort to purify the media and entertainment sector.

4. Films are not to touch upon any homosexual topics.

Content guidance on ethnic minorities and religious topics:

1. Film content should obey the established regulatory standards on the treatment and artistic rendition of ethnic minorities and religions.
2. Film content should respect the customs and cultures of all ethnic minorities so as to avoid ethnic conflicts caused by errors in writing, clothing, and/or script lines.
3. Film and television works should not promote nor emphasize any particular religion, especially cult-like religions. If any established religions such as Buddhism is mentioned in the film, the particular religious culture(s) should be paid due respect.

Content guidance on historical topics:

1. The official history cannot be subversively adapted, but the unofficial history can be adapted within regulatory boundaries.
2. Films should conform to historical common senses, cultures and habits.
3. Films should not depart from the confirmed historical details (figures, events or objects). The official records should be fully respected. The minor figures who are not recorded or in the unofficial history can be adapted with due respect to regulatory standards.

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4. Films should not over exaggerate the outdated historical values or lifestyles. For example, the implicit messages conveyed through the conspiracy among the concubines of a monarch are not traditional Chinese values and should not be promoted or espoused in film content.
 5. Films should not touch upon historical events or figures considered to be taboo. For instance, since ancient times, China has stressed the unification of its territory. Films should avoid mentioning the expansion of territory in the Han and Tang dynasties and the conquest of northwest China in the period of Emperor Wudi of the Han dynasty. Areas like Loulan and Yelang cannot be called nations, since they have always belonged to China. Patriotic Yue Fei cannot be called a national hero, since Jin where he lived was part of China. In addition, the history of General Tso and other figures should not be mentioned in film and television works, because Zuo Zongtang once repressed the Hui ethnic minority uprising on behalf of the Qing government, which is specifically referred to in Zhang Chengzhi's "history of the mind".
 6. Films can create an imaginary space-time outside history. If films are to create fictional space and time, no traces of any history should be found in them. The costumes, makeups and props should not show any obvious features of any dynasties.
 7. Film content should not glorify the Republic of China, the Beiyang Government, nor figures like Li Hong-Chiang and Yuan Shikai.

Those living outside of China may perceive the above restrictions placed on content to be too intrusive, however, this is very much the reality that Chinese filmmakers must deal with and live by on a daily basis. Comparatively, as the rating system helped to solve both content and economic woes in Hollywood, the current censorship in China is doing exactly the opposite, by filtering out the diversity of content, giving priority to political correctness over artistic value, feeding the populist taste of the audience, especially in the less educated regions of fourth tier cities and below, while propaganda films that are not meant to make a profit will simply be requested by the government to be produced and watched as a mandatory requirement. While the Hollywood rating system compelled production companies to switch strategies from time to time, creating content appealing to the core audience, let it be adult or teenager, censorship in China as of today has for the most part ignored the industry gold, namely consumer data. This lack of data-driven market drive has served to further disincentive fine productions that embody universal values and storytelling that can be truly translated into the global language of film. On the bright side, for Bona Film Group and other Chinese content production companies, years of innovation within the confinements of content censorship to devise commercially viable films have produced box office hits such as “The Captain”, “The Bravest”, “Operation Red Sea”, while nationalistic, have all garnered tremendous box office success. Thus, with more and more propaganda films possessing monetization potential due to the strategic creativity of film

companies such as Bona Film Group, the Chinese film industry has become a hugely successful profit machine with films that contain “Chinese characteristics” gaining significant market share and beating out Hollywood blockbusters in the domestic market. The success of these mainstream nationalistic productions signaled a change in preferences in the domestic market due to the Hollywood quality of domestic film productions today. However, without a self-regulating rating system that promotes content diversity similar to that of Hollywood, Chinese films will have a hard time gaining relevance with the global audience and capturing a significant portion of the international box office to become a global film powerhouse.

Unfortunately, unlike its Hollywood counterpart, the Chinese film industry is unable to easily overhaul its current censorship by the government and establish a viable rating system that acts as a self-regulating and content promoting mechanism. Given such a political environment, making progress towards producing universal content will need to happen more strategically with smart and agile producers and talents currently placing their efforts on rendering Chinese stories universally-resonant through a combination of Hollywood and international styled narratives and special effects. As evidence of this strategic direction within the Chinese film industry, we witnessed the top box office blockbusters in Chinese film history namely, “Hi, Mom”, “Ne Zha”, and “The Wandering Earth”, “Operation Red Sea”, sharing one element in common, which is the increasingly worldly nature of visual, artistic style and the

underlying plotline. However, it remains to be seen how the Chinese film industry will be able to truly enrapture the global audience through filmmaking given the inveterate censorship system in place. Moreover, the international reputation of China as the emblem of an autocratic country has further dampened the Chinese film industry's creative ability to remove its made-in-China label and to transcend political boundaries to appeal to the more liberal global market. As evidence of this double standard, while Hollywood films such as Captain America and James Bond saving the world have long been universally embraced content, the world has yet to accept the idea of a Chinese hero doing exactly the same. The underlying causes are many, to name a few prominent reasons, many developed Western countries fear the rise of China as the next superpower, which would break the current balance of power between the East and the West, in addition to the imposing soft power threat, in the form of Chinese films.

To many global spectators, while American superheroes can translate into global markets with their core values of democracy and freedom, Chinese heroes are automatically bypassed by the global audience as representing an autocratic set of value systems even when the film was designed without any nationalistic undertones. This subconscious bias on the part of the global market has further precluded Chinese films from gaining universal relevance. Although the current censorship mechanism in China has not helped the case for universality, by further encouraging and actually requiring filmmakers to fit this

value standard, if no adjustments can be made within the current film censorship to mimic a mechanism more closely aligned with the Hollywood rating system, the Chinese film industry will have a hard time transitioning to a truly global powerhouse.

Given the prior analysis, I believe that the overlying censorship governing body in China must first recognize the criticality of creating the internal conditions for Chinese films to gain global resonance, as an important form of soft power influence; specifically, strict governmental censorship must give way to a self-regulating rating system like that employed by Hollywood. Although current Chinese films do well at the domestic box office, they fail to capture the recognition of the global audience, thus failing to be a source of soft power influence. As discussed above, the current censorship system in China has hampered the potential for Chinese films to be universally welcomed given the enforcement of stringent conditions in regards to acceptable content. As an experienced film producer myself, I can attest that although Chinese filmmakers cannot change the current stronghold of censorship, what we can do for the time being is to collectively develop more and more films that speak the language of the world similar to the successful model employed by South Korean filmmakers in relating to the global audience through universal themes, such as in the recent Oscar winning foreign film “Parasite”.

The Greenlight Process

Aside from the hard-to-change fundamental value systems and sociopolitical environment, there is one critical industry mechanism at the business management level that China can learn from Hollywood. From the Major Studio's young director and writer programs, to talent agency's mailroom promotion system, to individual film project Greenlight process, we can set a benchmark and industry standard to Chinese film professionals to learn and adapt from local experience, changing the industrial dynamic from the very root of education and management. Among all the established systems, I will emphasize the Greenlight committee process, which I discovered through years of negotiation and deal making with Hollywood, a key condition to ensuring both the sustainable profitability and strength of the film industry. Afterwards, I will then offer my view on how to adapt Hollywood's greenlight process to fit the particularities of the Chinese film industry.

The Greenlight process could be regarded as a form of profitability censorship under the mechanisms of Hollywood, in fact, it is the cornerstone of Hollywood studio productions. Film production companies use the Green Light Process to determine whether certain kinds of films are worth producing. Generally, they focus more on the potential business value revealed by the content of the film project. The Greenlight is an assistant decision-making method used in the development stage of American film projects. The following

section describes the general process of film production from developing scripts to passing the internal green light system of a studio or production house.

We usually see the term Greenlight used on a variety of film production project report updates to imply that a particular project has undergone the review process and has been approved. On the surface, Greenlight seems to be a term used to mean project approval, but in fact, there is a set of systematic business logic and management methods behind this term. The Greenlight process used by every major Hollywood production company and the corresponding management methods varies from studio to studio, but the general mechanism and decision frameworks are the same, studio agnostic.

First, I will delineate the general mechanism breakdown of the Greenlight process into the following stages:

Stage 1: Script Campaign Breakdown

The stage that requires the most time and financial cost in Greenlight is "script campaign breakdown". However, this is also the most important step, which can provide the most important information basis for project evaluation. Just like budget breakdown, production companies scrutinize scripts and pick out the most interesting scenes. The goal is to use those scenes to produce a 30-second concept trailer for further analysis of script elements. The reason why the analysis of the overall script is reduced to the analysis of the 30-second concept trailer is that when the film is facing the stage of release, the trailer will play a leading role in the promotion of the film, and the core elements of the

film will be conveyed to the audience through the trailer. Therefore, if you can figure out how to articulate the theme of a movie in 30 seconds during script development phase, you will have a better understanding of the core competitive elements of the movie itself. Below are several production methods of the concept trailer that the production company can decide among:

1. The trailer companies can make trailers according to the description in the scene or use CG animation.
2. The production company can shoot and edit several scenes by itself.
3. The production company can make mixed cutting of the films to be compared, but it should ensure that the mixed cutting and the project to be developed have some similarities in terms of genres, main creators and so on. You can also add narration or subtitles to the mixed trailer for the distribution company to better understand it.

Stage 2: Campaign Creativity Construction

In the second stage, an experienced scriptwriter is needed to write a narration of the 30-second concept trailer that can form its trunk and script the final trailer. This script contains two parts: screen and dubbing, which will be key to the smooth passage of the film project through the Greenlight. Therefore, it is very important to hire experienced and talented scriptwriters.

Stage 3: Campaign Beat Analysis

Next, we will calculate how many beats there are in the sample script (the script of the 30-second concept trailer) produced in stage 2. These beats are

divided into three major categories, 11 items in total. Each beat is counted separately. Finally, the proportion is calculated according to the total number of beats to form a "Campaign Signature", which can achieve the goal of market positioning of the production company. The beats of the film contain all the elements that can unfold the story, such as pictures, voice-overs and sound effects. Cultural beats refer to the expression towards a target group, which can show the special aspects of a certain kind of culture. However, if only children appear in the scene, it does not mean that there must be children's beats in it, because the target group may not be children. Hence, the beats need to be analyzed from the perspective of cultural understanding of the target group.

Stage 4: Campaign Signature

Through the analysis of the campaign beats, we can clearly see what the proportion of the film's core elements should be. With industrial experience and proper data statistics, we can make the "campaign signature" of the film. Its significance lies not only in positioning the film market, such as "Romantic Comedy" and "Date Movie", but also in exploring the market segments or target audience in advance, as well as their relative proportion.

Stage 5: Collection and Analysis of Similar Movies

The script planning department of the production company or external data companies will look for 20-30 films that have similar target audiences or script competition elements with the film project to be developed, collect the 30-second TV trailers of these films released before the first public release, and

conduct comparative analysis of script competition elements. Combined with the information of their average box office, release schedules, distribution companies, main creators, one-sentence outlines and so on, this stage focuses on the comparison of films with similar campaign signatures (generally 4-8 films), so as to provide help for the script planning department to identify the film's market segments and other commercial characteristics. Furthermore, the comparative analysis of similar films is a critical component to ensuring the reliability and credibility of the Greenlight process with the following points to be considered when selecting the relevant comps:

- 1) The film to be compared must be released within the last 5 years.
- 2) The commercial value ranking of the main creators, including directors and actors, should be based on the ranking of the year in which the film was shown. Generally, the ranking should be classified as "superstar", "A", "B", "C" and "nameless". Usually, the analysis of the commercial values of these creators will be done through mining the data from business research companies and senior industry personnel.
- 3) The films to be compared must cover all box office levels, so that we can understand the particularities of films with different box office sizes, and learn lessons from failed films. If only successful films are chosen for comparison, the resulting market prediction results would be largely inaccurate and unreliable.

4) If the films to be compared belong to a series of films, sequels or well-known IP adapted films, the box office amount requirement of these films should be reduced to 50% or even lower given the lowered uncertainty risk of new development projects.

5) If the films to be compared have been nominated or awarded, the box office amount requirement of these films should also be reduced during the comparative analysis.

6) If 20 to 30 films are available for comparison, only 7 to 10 of the top ones need to be selected.

7) After the list of films to be compared is finalized, the highest and lowest box office movies should be deleted, and the market performance of the remaining ones should be averaged.

Stage 6: Analysis of Global Revenue

By calculating and comparing the global revenue and net income of the film, we can estimate the total as well as derivative revenues of the projects to be developed in global distribution channels.

Stage 7: Analysis of American Local Promotion Methods and Costs

The last part is to analyze and compare the marketing methods and distribution costs of the film, which will be of great reference significance to the distribution methods of new projects, media publicity strategies, brand joint promotion plans, ticket promotion schemes, and other promotion schemes.

Likewise, the Greenlight process can be divided into two parts, I will first cover the Internal Greenlight which in general refers to each company's standards of internal project censorship, key to determining project viability, including project financing, market demand for film, market positioning of film, and many other important criteria in this first stage of project assessment, which will be further explained in the below comprehensive list of assessment objectives.

- 1) Understand the target market segments for the film under assessment;
- 2) Conduct comparative analysis of top box office movies of the same genre to forecast the maximum market potential of the project under review;
- 3) Identify the potential institutional and private investors most likely to provide film funding;
- 4) Determine the optimal theatrical release schedule;
- 5) Analyze and compare the possible benefits of the film getting distributed through the available distribution channels (streaming, cinematic exhibition);
- 6) Projecting the total revenue from the film, including related revenue from IP licensing, and other post-release business opportunities;
- 7) Implement cost-benefit analysis based on a pre-assessment of costs to ensure a successful film release and the expected lifelong revenue generated by the film;

Given that the effectiveness of the Greenlight process requires the modeling of existing data compiled from past successful projects, the review mechanism is only as accurate as the data that is available for review and analysis. In the

case of a large-scale production company, there should exist a highly comprehensive internal project development database, constituting its own Greenlight review system. In the short term, some small and medium-sized production houses, if unable to build their internal review capacity, can hire external data-intensive firms to carry out project assessments at a cost. Although the time and financial cost of the whole process can be very high, the data analysis and drawn conclusions that the Greenlight process provides is extremely important for evaluating the potential commercial success of the film project and avoiding potential risks.

Within large production companies, due to the accumulation of continuous projects, the data analysis will be more reliable and accurate. They will hire user research companies like Fanink to hold audition sessions for the finished films and conduct data breakdown of the films through audience feedback. In the later stage, the data analysis results of trailers can also be obtained from the research company. Generally, a film will have dozens of trailers in multiple rounds, and almost every trailer will contribute to the feedback data of the audience, so it will be easier to analyze the scripts' campaign signature. This is why Hollywood's major studios are able to run multiple projects with higher success rates.

When the film project to be developed passes the Internal Greenlight, small and medium-sized production companies still need to communicate and cooperate with American and international distributors. This process is called

the External Greenlight. At this phase in the Greenlight process, the film producing company must develop a concrete strategic plan that entails coordinating and collaborating with cinema distribution companies, DVD/VOD distribution companies, cable TV distribution companies, including media groups to which large production companies have their own capacity of global distribution, so this process is more about realizing synergies among various external parties and ensuring that the film's path-to-market is a smooth one. However, whether it is internal communication within the group or external communication, the production company will prepare the concept trailer in advance before meeting with these local distribution companies. Then the distributors will give their opinions based on the concept trailer and determine the degree and mode of cooperation.

In addition, communication with franchise developers should also begin as soon as possible. Alternative franchise development areas include games, books, music and toys. This process will also reveal the feasibility and revenue potential of the film project to be developed, playing a crucial role in determining the lifetime value of the film.

The next stage is to contact and communicate with investors. Like the stages above, this is a process of mutual selection. The investor will judge the commercial value of the film project to be developed according to a series of indicators to decide whether to participate in the cooperation. The production

company will also estimate the possibility of the successful financing of the film according to the capacity of the investor.

Based on the above evaluation and assessment steps, the project to be developed would have completed a relatively comprehensive evaluation at the production level, distribution level, business development level, financing level, that is, it has made its way through the internal and external Greenlight process.

The success of a singular film does not guarantee the success of a film company, but the success of a management mechanism like Greenlight can keep companies like Disney competitive for centuries on end. Quintessentially, the Greenlight system is the mechanism for assessing the risks of the project to determine its potential market success. In Hollywood, the competition between production companies is often the competition of their Greenlight process, which in essence is the competition of management's ability to determine the best formula and set of criteria for success. In contrast, most Chinese film companies are still at a phase of making decisions solely based on intuition and experience, with the phrase one-man decision making highly symbolic of the current state of the project approval mechanism, with little to no data-driven insights involved.

The installation of a Greenlight mechanism into the Chinese film production company would ensure not only the sustainable development of films, but also help flatten unnecessary company bureaucracy that gets in the way of streamlined efficiency, helping to create a much more openly

communicative management and company culture. The content of the evaluation process should involve critical project success determinants such as revenue modeling, production budget forecasting and management, investment and return comparative analysis, business and marketing strategy assessment, to name a few critical areas of the Greenlight process that should be adopted across the board regardless of the particular nature of the production company. However, certain elements of the review and approval mechanism should be tailored according to the particular circumstances and business targets of the production company. For instance, for a small to mid-sized film production studio, a greater emphasis should be placed on ensuring the film under assessment can meet the financial targets given that smaller companies do not have the ample financial resources to sustain a large loss. On the other hand, a relatively large production company with a diversified business portfolio could handle a greater financial shock and thus may choose to place a greater emphasis on finding film content that may be risky but could be symbolic enough for an Oscar or other renowned industry recognition. In addition, another important attribute of the Greenlight mechanism is that it promotes cross-collaboration and collective decision making from different functional departments, in which each function is critical in contributing to the potential success of a film, while ensuring a much more efficient and constructive approval process than the arbitrary or even miscommunicated one-man investment decision currently prevalent at most Chinese film production companies.

For a movie to be developed from a simple concept to the final stage of distribution to the local cinemas, it will require more than a bit of luck, in addition to the value of the project itself. After all, the development of most movies requires a long duration of time, ranging from one or two years to an endless number of years if faced with unforeseen events such as the global pandemic that we are currently experiencing. The detailed explanation above attempts to expound the systemized process of film development from the perspective of film production companies, from selecting scripts to obtaining shooting permission through the Greenlight mechanism of the production company, serving as a critical reference for Chinese filmmakers and movie executives in order to establish scale and sustain the healthy development of the Chinese film industry to rival that of Hollywood.

Moreover, from an internal process improvement perspective, the role of the green light committee is to primarily restrict the arbitrariness of the project decision making process, which must be balanced with input from all related functional departments. In summary, every film's approval rests on a balance between the film producer and CEO's preference versus professional choice. With the adoption of the Greenlight mechanism, this balance will no longer be difficult to sustain given that this process systemically takes into account all stakeholder's views and provides a much more objective decision on whether a film gets the greenlight. Given that the Chinese film industry continues to weather shocks from unsound investments, with many smaller sized production

houses in near bankruptcy due to box office flops, this legacy film approval mechanism has been the Hollywood and universal standard for film assessment, enabling major studios to develop a sustainable and resilient source of long run revenue by ensuring a film's financial viability.

Although a select few of Chinese film production companies have started to adopt the Greenlight mechanism, the adoption and integration progress at these companies have been piecemeal at best. For instance, at Bona Film Group, which I will discuss in greater detail in the next chapter, we have begun to adopt the Greenlight mechanism in modules to enhance the internal film review process, which has helped lower the investment risks associated with filmmaking and has provided me with a second set of opinions as opposed to the traditional one-man decision making process. Nevertheless, the Chinese film industry still has a long way to go in terms of reconciling differences in business values and attaining meaningful consensus with our Western counterparts. Ultimately, the consensus will be culturally unique to the Chinese film industry but much more adapted to incorporate the crucial elements within the Greenlight process.

Talent Training & Development

As with any industry, human capital is a core component of the film industry, with all output generated by the creative and tireless work of individual constituents. The history of film talent goes back a long way from the first actors of the Silent Film era in Hollywood such as Charlie Chaplin, who helped convey the beauty of film through skillful presentation given a lack of sound. As the film industry began to transition to the Age of Sound, acting no longer needed to be so elaborate and carefully curated, opening the door for new acting talent, who were more so selected for their beauty and attractiveness, given that the actual role training could happen on a project by project basis. At the same time, technical filmmaking talent became more important as sound and other technologies could significantly enhance the quality of the film, creating more technical and creative professions within the film industry. Nevertheless, as filmmaking matured with the quality of film content stabilizing, the crucial differentiation between a successful film and a not so successful one often relied on the actors who were involved, with films containing more famous and talented actors getting a bigger box office paycheck.

Thus as history has shown, talent continues to be the main source of value for Hollywood given the complexity and scale of film productions, with talent training and development in all aspects of filmmaking embedded within the core framework of the Hollywood film industry. Talent when used in the film industry refers to both acting talent and creative talent (screenwriters, directors,

special effects designers, sound effects specialists, and other technical experts). On the acting talent training front, although studios and streamers are the main employers of Hollywood talents, they are no longer the center for forging new acting talent. The business of incubating new stars has shifted from an important business function of major studios to the primary business of talent agencies such as the Creative Artists Agency (CAA), in which promising acting talents are represented and trained by talent agents, personal managers, public relation practitioners, and lawyers, essentially tailored professional service providers in the development of Hollywood stars. On the creative talent front, Hollywood screenwriters, directors, special effects designers have continued to be key pillars supporting the success of a film. However, given the structural transformations in the industry, creative talent has become a more contractual form of human capital with both traditional studios and major streamers such as Netflix and Amazon Studios employing them on a long-term and/or project-by-project basis. Furthermore, what has been an interesting recent phenomenon and reverse shift within the talent space is the increasing importance placed on creative and technical talent as the quality and content of the film have proven at the box office to be more important than the chosen acting talent. For instance, in the Chinese film industry, many new domestic blockbusters have employed new actors who came onto the radar post the success of the film rather than the other way around, which was more common in prior Hollywood movies where the actors' reputation and image helped sell the film to the audience.

Nonetheless, both types of talent continue to be a critical condition to ensuring the sustainable and robust development of the global film industry.

I will first give an overview of the current talent situation in the Chinese film industry and then offer my view on how to best structure the talent space to encourage and promote the development of universally resonant Chinese films.

The Chinese film industry has made an unexpected lightning speed recovery since the onset of the global pandemic, with recent releases shattering pre-pandemic box office records such as “Hi, Mom” and with most major film projects already back in production. However, prior to the pandemic, many Chinese film production companies had an overdependence on hiring creative and technical talent from Hollywood, with many films such as Bona’s “The Chinese Captain”, hiring the original team behind the creation of “Captain Sally” to help design and implement the film’s technical and creative elements. With COVID-19 still posing a significant risk for global travel and engagement, Chinese film studios have had to wean their dependency from overseas talent resources and place more emphasis on nurturing home grown talent. For example, for one of the films currently in production at my company, we had to forcibly cut off our reliance overseas creative talent and look domestically for available talent to work on the project. Luckily, given our decades long relationships with film experts from the Hong Kong film industry, we have been able to bounce back relatively quickly.

The pandemic may have provided the much needed interim period for the Chinese film industry to truly invest in the development of top domestic industry talent. Although a select number of domestic actors have gained global awareness, global awareness does not equate to global acceptance, as if we had compared Tom Cruise and Gong Li, most audiences worldwide would want to watch a Tom Cruise film but not so much a Gong Li film, given that Chinese acting talent has not made much of a dent on the world stage. Below table is a list of the top ten domestic acting talents, who have made the greatest contributions to the box office in China.

No.	Actor/Actress	Box office contribution (billion yuan)	Magnum opus
1	Wang Baoqiang	1.679	Detective
			Chinatown Vol 2
2	Zhang Yi	1.378	Operation Red Sea
3	Xu Zheng	1.209	Dying to Survive
4	Jing Boran	1.042	Monster Hunt 2
5	Huang Jingyu	1.033	Operation Red Sea
6	Shen Teng	0.995	Hello Mr.
			Billionaire

7	Liu Haoran	0.972	Detective Chinatown Vol 2
8	Tony Leung	0.902	Monster Hunt 2
9	Eric Wang	0.801	Dying to Survive
10	Hai Qing	0.689	Operation Red Sea

Chinese film production companies should invest more heavily in training local talent and establishing the industry framework to ensure that there is a ready and constant pipeline of employable talent; for instance, at Bona Film Group, we have established a talent division to recruit and develop the next generation of superstars.

In terms of creative technical talent, the Chinese film industry can learn from the Hong Kong film industry, in which the earliest pioneers and experts of technical production in the Hong Kong film sector had established its technical knowhow through working at the storied animation and special effects companies in Hollywood and taking that working expertise to enhance the quality of local film production.

Unlike Hong Kong film production companies, Chinese film studios have the additional advantage of learning from film experts from both Hollywood and Hong Kong, given the latter's proximity to China, a convenience that has proved to be highly critical in helping Chinese production companies obtain the skillset to produce high quality films. As of now, in order to produce a

Hollywood equivalent film, the major Chinese studios often rely on famed Hong Kong directing talent, such as Liu Weiqiang, Dante Lam, to direct its films, with post production editing and special effects studios from Hong Kong also establishing post production support offices in Mainland China to ensure the film content is rendered in top quality format. From my perspective, Chinese studios should not only employ Hong Kong's creative and technical talent, but also concurrently build out its own human capital infrastructure to capture the expertise and incubate more home-grown talent to ensure the healthy and strong development of the industry domestically.

Interestingly, in the post-pandemic future, we will also likely witness a talent supply shift as the global film industry starts leaning more heavily on China as a top box office market and a hedge against global disruptions such as what we have experienced with the global pandemic, with the best creative and acting talent across the globe establishing offices in China to gain exposure to the vitality and tremendous value of the Chinese audience. This talent flow from the West to the East will likely result in more films that are intrinsically global in nature, allowing for the creation of meaningful cross-cultural film content produced in China. Thus, it remains to be seen if this predestined tectonic shift would allow the Chinese film industry to truly capture the global audience. Yet, what is certain is that the development and maturation of the talent infrastructure of the domestic film industry will be a critical condition in ensuring that China becomes a global film powerhouse.

Streaming

Unlike the backdrop for the evolution of the Hollywood and South Korean film models, the rise of Chinese filmmaking parallels the rise in digitization, a potential hindrance yet also an opportunity to catapult Chinese films to global acceptance and establish China as a global film powerhouse. Prior to the onset of the global coronavirus pandemic, Chinese cinemas were still the major driving force for the surge in box office revenues, with policy restraints having largely prevented streaming from taking over the theater exhibition segment (Roxborough, 2020). However, the pandemic expedited the adoption and policy acceptance of digital streaming platforms with most new films switching from theater to online release. The toppling impact of streaming media on the traditional film industry has become a widely accepted phenomenon, with the global film industry in the midst of a tectonic shift.

In the following sections, I will first give an overview of the rise of streaming in Hollywood and the current landscape, trends, and future of the major streamers in Hollywood. Afterwards, I will analyze the current Chinese streaming landscape, offering my views on the role of streaming for the Chinese film industry in the present and future.

No one would have imagined a DVD-rental mail-in service would help usher in the age of streaming. A company now known across the world became the icon of streaming services, Netflix. At the Academy Awards a few years ago, the streamer accomplished a monumental milestone by winning the Oscar for Best Foreign Language Film and Best Director for "Roma", marking a major

advancement for the official recognition of streaming media at the Academy. Consequently, this implicit acceptance and recognition by the industry stalwarts and guardians helped send an urgent signal to the traditional Hollywood studios that they can no longer turn a blind eye to the potential of streaming services. Even if there is an irreconcilable contradiction between the current cinema screening and online screening and distribution, no one can deny that streaming media, as the next outlet of content production, is driving a profound change to both content distribution and exhibition.

In particular, traditional film production stalwarts, such as Disney, Warner Bros, Paramount, and Universal Studios, are racing to build and grow their own streaming platforms. The most notable of these is Disney+, the streaming platform that Disney launched prior to the onset of the pandemic in North America.

In hindsight, Netflix, which was established in 1997, had not been recognized by many audiences until 2011, when its impact on the traditional legacy infrastructure of Hollywood, through streaming as a new business model, became known as the Netflix invasion. In that year, Netflix launched its homemade play, House of Cards. Unlike traditional TV stations and cable networks, Netflix binged its entire season, sparking a new "binge watching" habit. Not only that, but with the popularity of Netflix rising up among the younger generations and the increasingly older demographic, popular culture had developed a special slang known as, "Netflix and Chill." In addition to the

changes in viewing habits and the relentless pursuit of young people, Netflix is also challenging Hollywood's existing content ecosystem at a deeper level. Most obviously, the boundaries between film and television, which have existed in Hollywood and around the world for more than half a century, have suddenly blurred or even broken down. This kind of "cross-border" behavior in traditional Hollywood is undoubtedly unconventional. In response, U.S. theaters quickly rallied on a united front against Netflix, trying to downplay its legitimacy as a new "major". Moreover, after Netflix doubled its global subscriber base, other countries joined in the protest which was notably evident during the 2017 Cannes Film Festival in which Netflix's "Okja" was boycotted and opposition was similarly echoed at home.

Before Netflix established multichannel omnipresence, traditional film companies could still choose whether or not to turn a blind eye to Netflix's business model; however, the industry core's acceptance and recognition of Netflix through the film "Roma" had made the major studios realize that they will have to reexamine the turning around speed of streaming media in Hollywood with "Roma" going on to win an Oscar. Furthermore, on January 23, Netflix's official arrival in the MPAA signaled its equal status with the major studios, joining the entrenched ranks of Disney, Fox, Paramount, Sony and Warner Bros, the five traditional Hollywood studios. Although some industry insiders say that the annual membership fee of \$10 to \$12 million was one of

the factors to consider when Netflix was invited to join, the symbolic effect of the event could not be ignored.

Netflix is often referred to by the media as a "spoiler". What Netflix has spoiled is nothing more than the established rules of benefits distribution including content production, distribution, and exhibition inveterately held in the hands of traditional film companies. Netflix has broken down the binary opposition between TV and films in content production, and firmly grasped onto users in distribution and exhibition, so as to connect with each user and consumer in a more convenient, efficient and personalized way.

Especially in recent years, the social trend of thought once strangled the content ecology of Hollywood. Superhero movies represented by Marvel flooded the whole market, and the movie universe, serialization, and large-scale production became the keywords of Hollywood movies. Netflix, as an outsider, had filled in the blanks in content production and made a bolder attempt. Adhering to the idea of serving users, Netflix injected huge amounts of capital to the small- and medium-cost market, more focused on targeting the younger demographics with their original film and TV series. This strategic direction away from the superman blockbusters that major studios kept on producing allowed Netflix to really stand out and carve out a niche within a highly saturated industry. Some critics say that Hollywood has softened its stance on Netflix; take the Oscar nod to "Roma" as an example, receiving nominations for a number of awards, including Best Picture. Although it failed to win Best Picture,

it became the first streaming film in Oscar history without official box office revenue, which is of great significance for the future of the film industry and puts into question the lasting vitality and demand of the legacy exhibition model. However, streaming does not look to replace the role of theatrical releases, as evidenced by the historical breakthrough of the “Black Panther”, which represents a blockbuster superhero film, winning three Oscar Awards in a row. Thus, while "Roma" represents streaming media's breakthrough into the industry's top prize, the Oscar, the Academy still chose to honor the "Black Panther” more significantly. More importantly, the contradiction between streaming media and cinema in distribution and screening is like that between water and fire, which is difficult to be reconciled, yet may have to learn to mutually co-exist.

It remains to be seen whether traditional industry players can rival the major streamers, given that the biggest advantage of the traditional film companies in investing and building out their own streaming services is still their abundant inventory of IP. Faced with increasing competition from streaming services, these traditional film companies will undoubtedly take back their films licensed to Netflix. For example, in addition to terminating the Marvel series with Netflix, Disney plans to take back all the rights to play Disney movies on the Netflix platform. Likewise, “Friends”, which is owned by Warner Bros., will be retracted from the streamer in 2020. While Universal Pictures, which owns the rights to “The Office”, has not said it will withdraw its assets while it is only a

matter of time for this most watched series on Netflix to be taken back. Furthermore, the major studios have started to further build up their IP war chest in response to the billions of investment dollars spent by Netflix on original programming. With Disney's acquisition of Fox's content assets, Disney will have even more IP content at its disposal as it adds more content diversity and color to its own streaming platform Disney+. And with these existing IP already holding a large fan base, Disney undoubtedly has a huge advantage in accumulating a large user base and potentially rivaling Netflix.

Disney certainly knows its strengths. The first series of Disney+ will begin in the Marvel universe, with three limited series, "Loki", "Vision and the Scarlet Witch", and "Falcon and Winter Soldier". In addition to the three shows, Disney will create 13 more, including a prequel to "Rogue One: A Star Wars Story," a reboot of "High School Musical," and 18 streaming-only TV series and movies. It should also be noted that although Netflix has a high market share in the market segment, the room for the children market is still vast. In the children content niche, Disney has unique advantages in producing kid's shows and movies, in addition to an already vast IP of Disney animation.

Aside from the traditional studios that are about to launch their streaming services, Netflix has a strong group of peer competitors, namely Amazon, Hulu, Apple, and Viacom, within a roughly \$50 billion global streaming industry. Given the race to acquire a greater share of the market, these newcomers have started to restructure its content resources to quickly scale to realize the

economics of streaming. For instance, Viacom recently launched Paramount+, creating a unified banner for all of ViacomCBS's streaming assets, including CBA All Access, BET, and Nickelodeon. Similarly, Disney+ and Hulu are coming together to offer Pixar, Marvel, and other films all on a single platform rather than trying to cater to the diverse array of audiences through each platform. Other streamers such as Amazon have also identified the benefits of cross-monetization by tying streaming activities to almost unrelated points of user engagement, including linking Amazon streaming platform with Amazon Prime, a key destination for online spending. Likewise, Disney also has the opportunity to realize the economics of streaming given its vast theme park and consumer IP business, feeding into a positive feedback loop. A few steps into the future, Netflix has started to leverage AI and machine learning to more effectively tailor entertainment for its subscribers given that to thrive in the business of streaming will depend on the streamer's ability to possess both a diverse and saturated content inventory.

Possessing differentiated and attractive content will be critical to ensure survival and has become a key battleground for streaming platforms. During the 2019 Sundance Film Festival, Amazon paid \$47 million for a record number of hits, including "Late Show" and "Honey Boy". Similarly, HBO had to pay \$500 million each to acquire "Friends" and "Seinfeld". In addition, Apple recently paid \$25 million at Sundance to obtain the rights to "CODA", a dramedy about a deaf fishing family, breaking previous sales records for the film festival. To

echo this sentiment, Jennifer Salk, head of Amazon studios, told the Hollywood Reporter how people ridiculed them, "did you come with a purse on your shoulder?" after Amazon spent \$8 billion on original content in 2019. As the director of content acquisition at Hulu, Ryan Roemer has expressed, "everyone is trying to differentiate their catalog, because they're all trying to signal that they have the ambition to be a streaming service that matters to people." Disney, which also has abundant capital, will surely not be stingy in streaming media investments. As shown, all streamers and major studios fear "getting lost in the shuffle", as the explosion of streaming options has caused consumers to grow more fickle, signing up for a free trial and cancelling before ever needing to pull out their wallet. Moreover, with a better broadband and convenient real-time access to their mobile devices, shopping around and becoming less committed to any particular service has become the symbolic trait of the digital age. With more than 46 percent of survey respondents, in a Deloitte study, cancelling at least one streaming service in the second and third quarters of 2020, it has become an urgent priority for streamers to not just capture the audience for the duration of the free trial but more importantly to convince them to stay and pay out of wallet.

The pandemic has further proven the viability and essentiality of the streaming model, with Disney+ surpassing its five year goal of reaching 60 million to 90 million subscribers in just year one given that the average household increased its streaming time by roughly 75 percent in the second

quarter of last year, according to Nielsen. Likewise, scripted shows such as Netflix's "The Queen's Gambit" had 62 million accounts tuning in during its first month, breaking previous viewership records. Thus, with the resiliency and profitability of the streaming business model proven time and time again whether in good times or bad, the competition has intensified to a whole new level, with niche platforms booming and taking advantage of user fatigue from the content offered by the major streamers. As a result, many of the larger streamers must convince users not just based on the type and quality of content, but for practical reasons such as lowering subscription prices to attract users in the early stage. According to Indiewire, insiders have revealed that Disney knows how difficult it is to persuade its audience to subscribe to a new streaming service at the moment when the overall streaming market has become highly saturated. Therefore, the basic subscription price of Disney + would need to be lower than that of Netflix to win the price advantage, given that its content can easily beat out the niche platforms.

As streaming executives have stressed, the streaming business is a business model fundamentally dependent on scale, "you gain operating leverage by increasing the number of subscribers". Given the maturation of the U.S. streaming market, most major Hollywood streamers have already started putting their investment dollars in overseas markets to gain a higher percentage of the share of the international streaming market. Leading the way, Netflix is projected to increase its spending on original content from approximately \$19

billion this year to \$26 billion by 2028, with a focus on producing attractive original content for its global subscribers. As evidence in support of this strategic direction, the majority of Netflix's projected new subscribers over the next decade will be coming from international markets; to put numbers behind this direction, the company is adding between two and three million new subscribers per year in the U.S. market since 2019, while it has been adding 10 times that many across the world. By 2030, Netflix expects to have 300 million subscribers, with the vast majority of them coming from outside North America. To capture the global opportunity in greater detail, consider the market opportunities in Asia alone, with only 23.5 million subscribers on a continent of more than 4.5 billion people. Similar markets of value can be found in Africa, Eastern Europe, and India, where currently less than one percent of all pay TV households in India subscribe to Netflix, compared to about two-thirds in the U.S. whose population is a quarter of the size.

Likewise, with content diversification and scale satisfied, streaming services must not become complacent and must continue to stay agile by effectively employing data analytics and AI to match audiences with relevant content. One poignant example, when George Floyd was killed by the police last year, there was an overnight explosion of interest in learning about race in America across the world, which presented an opportunity for streaming to engage more audiences by telling stories that resonate strongly with its target viewers. Thus, in this digital age in which everything big to small can spread

like wildfire, it has become ever more critical for streaming platforms to capture the monetization opportunities by staying nimble.

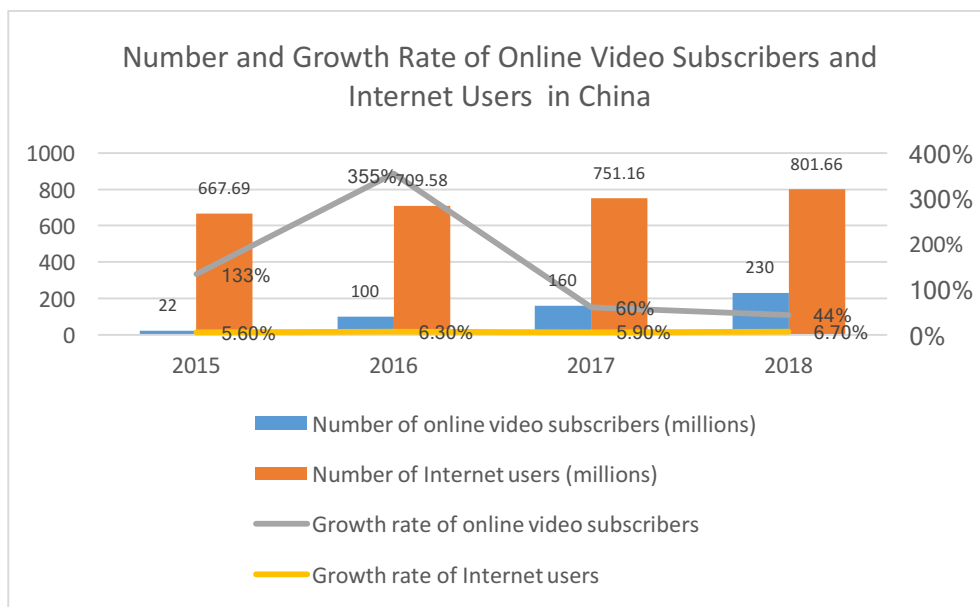
With the pandemic still preventing cinemas from recovering their normal operations, it remains to be seen how streaming will coexist with traditional exhibition. As the only country back on its feet from COVID-19, China has recovered unexpectedly fast from the pandemic, with the film industry getting a much needed injection of capital from box office gains, due to domestic audiences' long pent up desire to leave their homes. Thus, the pandemic may have reversed the course of a slow and painful death of theater exhibition, by indefinitely taking away a human liberty long taken for granted and showing to the world how much it craves being out and about.

In comparison, let us now take a close look at the domestic streaming market in China within the context of the aforementioned accelerating globally-oriented growth of the streaming industry in Hollywood. Like their Hollywood counterparts, the major streaming giants in China such as Youku, iQiYi and Tencent Video, have long invested in original content, and have produced a number of original TV series and movies, such as "Story of Yanxi Palace" (《延禧攻略》), "Burning Ice" (《无证之罪》), "Day and Night" (《白夜追凶》). Yet, the depth of investment is still lightyears away from the level of investments in original content production by Netflix, Amazon Studios, Apple+, Disney+, and other Hollywood streamers.

Chinese streamers have long enjoyed the perks of being in the center of a vast domestic consumption market. Although original content production by the streaming services prior to the onset of the pandemic could not compare to theatrical releases, they were able to take advantage of the proliferation of digital adoption and usage across the country and the increased time spent virtually. In the third quarter of 2019, the number of members of iQiYi and Tencent Video both exceeded 80 million. In 2019, the subscription membership on the two platforms was able to exceed 100 million, according to Sinolink Securities, with a high projected growth rate in the years to come. According to a report from Ampere Analysis, China would have 305 million SVOD (subscription-video-on-demand) subscribers by the end of 2019, nearly double the number in the US. However, by contrast, China's SVOD revenue is less than half that of the US, reflecting the lack of a diversified content portfolio that can get viewers to pay out of pocket.

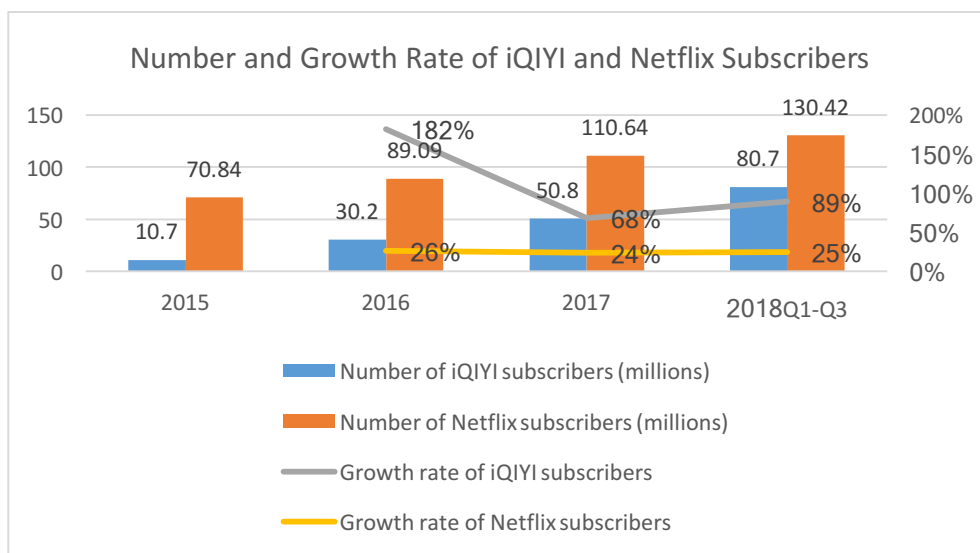
Nevertheless, boosted by the presence of an unrivaled consumption market, according to a report on China's online video industry recently released by Entgroup, the SVOD market in China is developing at a high growth rate, and TV series and movies, among numerous other forms of entertainment, are the basis of online streaming services. In addition, to make up for lost revenue, online video platforms are developing cross-platform memberships, boosting the profitability of original content. The Entgroup report further details below the four major trends shaping the streaming space in China. First, the SVOD

market in China is still largely unsaturated with less than a third of the internet user market subscribed to video streaming platforms. In the last half of the decade, the rate of growth of video membership in China has surpassed that of Chinese Internet users. By the end of 2018, there had been more than 230 million online video subscribers. As evidence, the compound annual growth rate of online video subscribers reached 119% during the last four years, far higher than that of the Internet users in China, which was 6.28%. As further evidence of the potential for the continued growth of streaming, there are 800 million Chinese Internet users and less than a third of this market base have become subscribers to streaming media platforms.



In addition, just as in the U.S., super-digital video platforms with a membership of around 100 million subscribers have appeared in China with the growing demand for content viewership anywhere anytime. Similar to their Hollywood counterparts, the major online video streaming platforms have been

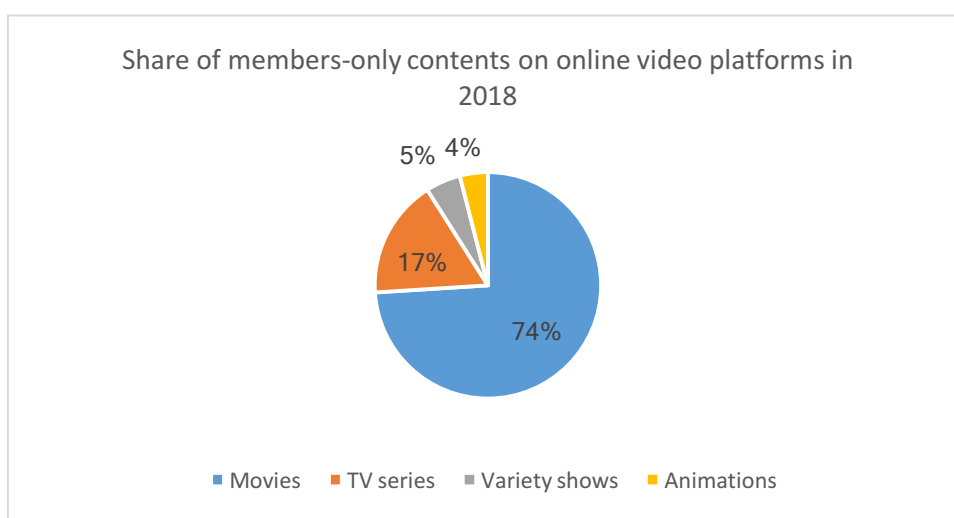
making significant headways into acquiring new subscribers and building robust competition barriers through content diversification, differentiation, and technological innovation on its platforms. Comparing two of the major streaming heavyweights in the U.S. and China, Netflix and iQiyi, both possess online video platforms with a membership of around 100 million subscribers. However, Chinese streamers have a competitive edge in the domestic marketplace given the Chinese government ban on foreign streaming services from entering the Chinese market. Thus, while the number of Netflix subscribers is growing at a steady pace, the growth rate of iQiyi subscribers is far higher than that of Netflix due to the sheer size of the Chinese market. As a further advantage, the Chinese streaming market has continued to grow at an accelerating speed, propelled by the global pandemic and the rise of 5G technological infrastructure.



Original TV series and movies, among other forms of video entertainment, will contribute a growing percentage of content to the video streaming services in China.

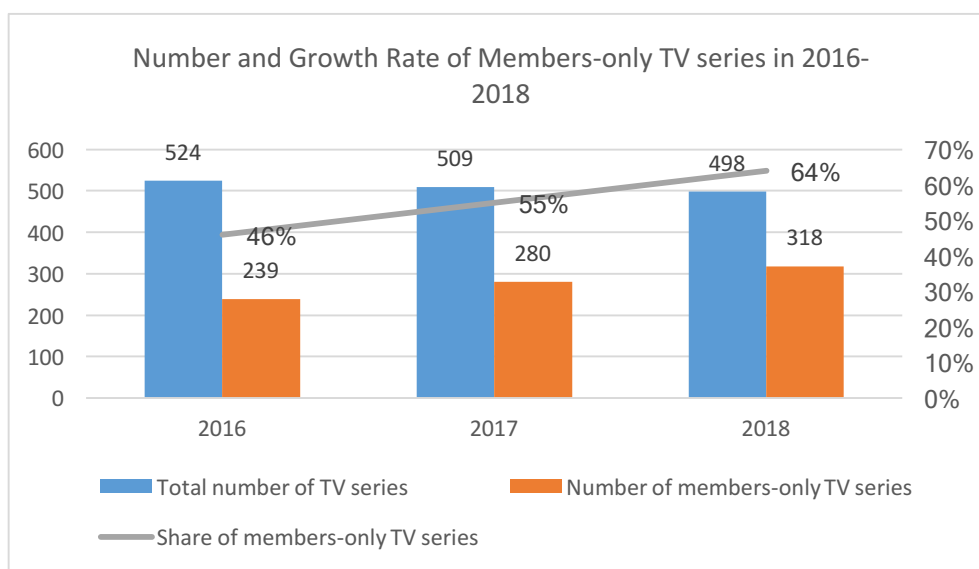
59 percent of all online videos are for members only. Major Chinese online video platforms, including iQiyi, Tencent Video and Youku, released over 3134 videos in 2018, 1853 of which were for members only. Similarly, aside from TV series and movies, these platforms have also applied the SVOD model to variety shows and animations. For example, iQiyi and Tencent Video both produced derivative products of popular variety shows like “Idol Producer” (《偶像练习生》) and “Produce 101”(《创造 101》), with subscribers-only content becoming more and more diversified.

TV series and movies account for 91 percent of all members-only videos. Over 1800 members-only movies were released on the online video platforms in 2018, accounting for 74 percent of all members-only content, while 318 members-only TV series were released, accounting for 17 percent of the total.



In China, online TV series are the main driver of the growth of SVOD market

due to relatively high user loyalty and high episode volume. The number of online TV series shows a steadily increasing trend. Members-only TV series account for 64 percent of all online TV series. Prior to the pandemic, the total number of all online TV series steadied around 500 new productions per year, and in 2018, members-only TV series, accounting for 64 percent of the total, was 9 percent higher than that in 2017. More and more TV series are following the SVOD mode, which has gradually become the new strategic direction for traditional TV producers to expand their revenue channels.



Although not yet at the scale of original content production as the major Hollywood streaming companies, Chinese online video platforms have established their own internal capacity to produce original content instead of solely relying on IP purchases from the traditional film production studios. High-quality content is the core ingredient to the survival and success of the streaming platforms as evidenced by the Hollywood streaming model in which

quality diversified content allows streamers such as Netflix and Disney+ to stay ahead of the competition and thrive in an overly saturated U.S. market. Chinese streamers have caught on to this model as can be seen in the rise of original content investments. For instance, in 2015, after the online TV series "The Lost Tomb" (《盗墓笔记》) was launched in the mode of full episodes available for members first, online viewership traffic exceeded 100 million within 22 hours, catapulting the iQiYi video app to second place on the best seller list of the App Store. In December of the same year, the number of iQiYi subscribers exceeded 10 million, due to the increased traffic brought by the availability of attractive original content. Likewise, the well-known TV series "Story of Yanxi Palace" (《延禧攻略》) effectively stimulated the growth of iQiYi membership in 2018, and also ranked at the top of the Google Global TV Series rankings list. Moreover, the success of "The Lost Tomb" and "Story of Yanxi Palace" have proved that users are willing to pay for high-quality content, further encouraging Chinese streaming companies to focus their time and capital on rolling out a robust pipeline of films and TV series. Opportunistically, filmmakers are also seeing the high returns from returning to the small screen and producing more original online TV series for the Chinese streaming platforms. TV series such as "Ruyi's Royal Love in the Palace" (《如懿传》) and "The Rise of Phoenixes" (《天盛长歌》) were starred by Zhou Xun, NiNi, Chen Kun, and other top stars. Similarly, the popular shown, "Original Sin" was supervised by Han Sanping and directed by Wai Man Yip. Furthermore, China's culture regulatory

agencies have introduced policies to accelerate the development of high quality commercial films. In 2018, the National Film Bureau released the “Opinions on Accelerating the Construction of Cinema and Promoting the Prosperity and Development of the Film Market”, intended to provide more opportunities for high quality art films that spread the culture and national pride of China, in alignment with the overarching One Silk Road political agenda.

In a similar strategy to Netflix and other Hollywood streaming services, the capital rich streaming platforms in China have pursued a two-pronged strategy of original content production and strategic content acquisition, acquiring top quality films from international film festivals, making them increasingly well-known among global audiences. This strategic business focus can also be analyzed from the receiving end, namely that audiences are becoming more and more willing to pay for high quality video content. Among the three major online video platforms, iQiYi has received the highest number of awarded films in 2018, which has further promoted consumers’ demand for high quality films and TV series.

Top Rated Films on the Three Major Streaming Platforms in 2018

	iQiYi	Tencent Video	Youku
1	Coco	Twenty Two	Twenty Two
2	Twenty Two	Ready Player One	Darkest Hour

	Three	Billboards		
3	Outside	Ebbing,	Darkest Hour	Le voyage de Fanny
	Missouri			
4	Wonder		Loving Vincent	National Theatre Live: Yerma
5	Darkest Hour		Dogs Without Names	Patriots Day
6	Patriots Day		Wołyń	Paddington 2
7	Paddington 2		Mission: Impossible - Fallout	Mr. Church
8	My All American		Bridge of Spies	My All American
9	The Florida Project		Me and Earl and the Dying Girl	Lady Bird
10	Dabba		Patriots Day	Open Fire

Award Type for Films on the Three Major Streaming Platforms in 2018

				Cannes	Berlin
	Oscar				
	Academy	Golden	Ball	Golden	Golden
	Awards	Awards		Palm	Bear
				Awards	Awards
iQiYi	Three	Three	Billboards		
	Billboards	Outside	Ebbing,	Lazzaro	Isle of
	Outside	Missouri;		Felice	Dogs
		Darkest Hour;			

	Ebbing, Missouri; Darkest Hour; The Shape of Water; Coco	The Shape of Water; Coco; The Greatest Showman		
Tencent Video	Darkest Hour; Dunkirk	Darkest Hour; The Disaster Artist	-	-
Youku	Darkest Hour; Phantom Thread; Blade Runner 2049	Darkest Hour; Lady Bird	-	-

From another lens, making significant investments in IP must be balanced with additional sources of cash flow and to this end, Chinese streamers have followed a similar approach to its Hollywood counterparts, by diversifying revenue streams via services bundling to increase cross-monetization opportunities. To this end, Chinese streaming services have started to explore

and capitalize on cross-platform opportunities, ensuring the viability and sustainability of its business model. In recent years, Chinese online video platforms have been expanding their cross-platform memberships through strategic business partnerships. In 2018, the strategic cooperation between online video platforms established a user sharing mechanism, achieving cross-platform subscriber sharing and leading to higher member acquisition rates. Moreover, to further monetize online resources, cross-platform services bundling has also begun to integrate other adjacent consumer-focused platforms such as e-commerce, food delivery, transportation services, which will result in even greater levels of user sharing and acquisition. As data has shown, cross-platform membership monetization is a key strategic move for growing the streamers' subscriber base and increasing the opportunities for further monetization. Moreover, this cross-platform resource sharing has not only increased the availability of services to existing users, but also offers an invaluable opportunity for platforms to grasp the consumption habits of their existing and new users in order to offer more targeted services and identify new revenue channels.

Below is a view of the cross-platform partnerships by two major Chinese streaming services, iQiYi and Tencent Video:

iQiYi	Tencent Video
iQiYi + JD	Tencent + Ximalaya FM
iQiYi + Migu Video + China Mobile	Tencent + Vipshop
iQiYi + Dadi Cinema	Tencent + Amazon Prime
iQiYi + Ctrip	

In a similar vein, online video platforms in China have also been developing out their platform ecosystems by providing value-added services to meet the increasingly sophisticated and diverse tastes of consumers. In 2018, major online video platforms, aside from providing consumers with basic video viewing services, have been expanding their value-added services in areas like shopping, traveling, and restaurants, which has in return strengthened users' loyalty to the platforms.

In terms of online video content, both short and long form online videos show tremendous value in promoting online user traffic, while long videos especially for their professional production and more appealing stories, have greater advantages in attracting sticky users and increasing subscribership. Movies and TV series will continue to be the core driving force of SVOD market as shown by the pandemic as we all lead a more virtual lifestyle. Like their counterparts Netflix, Disney+, Amazon Video, the major Chinese streamers have a competitive edge due to scale in the Chinese film industry

given their extensive capital investments in content and technological innovation on their user platforms.

Additionally, innovations in operational strategy will improve the distribution efficiency of paid contents. For instance, full episodes available only for members opened up a new operation mode for online video platforms, strengthening the loyalty of members through providing more exclusive and customized members-only services. On the back-end, major streamers have invested significantly in technological innovation to deliver better front-end services to their customers. One such technological innovation is AI, with algorithms that serve to uncover key insights from content production, distribution, to customer retention, for the streaming space. One use case is that video streaming platforms are relying on AI algorithms and big data analytics to help accurately match their available content with interested viewers, recommending tailored video choices for their users to increase subscription rates and enhance customer retention. The pandemic has further increased the pace of digitization and the deployment of new technologies within the entertainment industry, including AI-driven content creation, distribution, and exhibition, enabling smarter and more streamlined management within the industry.

In general, online video platforms in China and the US have the same objective of increasing subscribership via increasing scale and content diversification. Chinese streaming platforms are aiming to translate heavy user

traffic to subscriber memberships through promoting the diversity and exclusivity of video content. Compared to the North American market, Chinese online video platforms have a larger user base but a lower subscription rate. In terms of ARPU value, domestic online video platforms generally maintain the subscription price of 19 yuan for continuous monthly membership, which is relatively low. Like Amazon Video, some Chinese streaming services are also seeking to diversify their revenue streams via services bundling, for example, iQiYi has integrated adjacent services including shopping and gaming with its online video platform to increase customer stickiness and bring in complementary revenue. Moreover, for a streaming platform, exclusively diverse content is the key differentiator in acquiring new market share. For most streaming platforms, licensed IP such as classic films and television works are still a significant part of the current content library, while streamers have invested large sums in developing and rolling out original films and TV series to retain and attract new audiences. Thus, for streaming services, having the ability to develop a large portfolio of original content is the core of current and future competition. To offer a specific scenario, if a viewer wants to watch the latest "Stranger Things," one would have to subscribe to Netflix. If one wants to watch "The Handmaid's Tale", one can only watch it on Hulu, and the big hit "The Marvelous Mrs. Maisel" is available only on Amazon. Given the uphill battle of content development and acquisition, the big Hollywood studios' retraction of their content from major streamers was indeed a blow to Netflix,

but Netflix like many of its peers, has long anticipated this outcome and thus have been accumulating original productions in its IP war chest, making it hard for traditional studios to steal its customers. What's more, Netflix's near-maniacal investments in recent years, with an originally planned 80 movies in 2019, has long been preparing for this new battle as the streamer understands the urgency of expanding its IP universe and that the stakes are high as the battle grows to encompass more rival streamers, in addition to the traditional studios.

Now, let us go back in time to look at the major streamers in Hollywood and Silicon Valley and what we can summarize from their experiences.

In the face of tremendous pressure from cinema screening, Netflix has not yet yielded, and is continuing to develop content according to its own strategic agenda. Take “Roma” as an example, even with the compromise, Netflix eventually stuck with a one- to three-week theatrical screening, a significantly shorter time period than the traditional theatrical release timeline. However, unlike Netflix, Amazon Video has balanced a dual approach, by producing content for both streaming media and films for theater screening, obeying the rule that films must be screened for 90 days before they can be released online. Unsurprisingly, Amazon was the first streamer to win an Oscar with the film "Manchester by the Sea".

For the traditional Hollywood studios and major technology companies in Silicon Valley, entering the streaming space was just a matter of time. Starting with Disney, in the face of increased competition from Netflix, it increased its

investments in developing original content for Hulu and expanded services internationally. Having launched Disney+, the company also increased investments in Hulu given its buyout of 21st Century Fox, Disney now owns 60 percent of the TV streaming service, which gives it considerable say in how Hulu is run and the content that gets distributed on the platform. Currently, Hulu has had only a handful of breakout original hits — most notably, the timely dystopian spectacle that was *The Handmaid's Tale*. But its originals output has paled in comparison with that of Netflix, which spent \$8 billion on content in 2018. Hulu has spent considerably less — around \$2.5 billion, per analyst estimates. With Fox, however, Disney gains access to the Fox studio and FX, and more, which will help it fuel Hulu with more original content.

Meanwhile in Silicon Valley, on Nov 15, 2018, Apple enlisted Oscar-winning indie studio A24 to produce a slate of films for the tech behemoth to be released on its digital platform. The partnership comes as Apple has been delving more deeply into making its own shows and movies, having previously signed deals with the likes of Steven Spielberg, Reese Witherspoon, and Oprah Winfrey. Apple did not provide many specifics about the deal with A24 beyond saying it was a multiyear agreement and involved a slate of films. Launched in 2012, A24 has differentiated itself by backing edgy, auteur-driven projects; the production studio nabbed a best picture Oscar for “Moonlight”, and also scored with the likes of “Room”, “The Witch”, and “Ex Machina”. Moreover, this deal is one of Apple’s first big film pacts. Apple has also been actively involved in

the television space, and has budgeted approximately \$1 billion to date on their initial series development slate. Apple had previously announced that it was making the “Morning Show” drama with Witherspoon and Jennifer Aniston, an adaptation of the book “Defending Jacob” starring and executive produced by Chris Evans, and a revival of the Spielberg-produced “Amazing Stories” anthology franchise. On the film front, it has acquired a few films, including the documentary “The Elephant Queen” and the animated film “Wolf-Walkers”.

In a similar vein, on November 16, 2018, industry heavyweight Paramount Pictures signed a landmark, multi-picture deal with Netflix to produce movies exclusively for the streaming service. The companies had previously collaborated across the studio’s operations under Gianopulos, who became CEO of Paramount in March 2017. At the TV studio, Paramount has supplied Netflix with popular series such as “Maniac” and “13 Reasons Why”. The film unit broke new ground by selling “The Cloverfield Paradox” to the streaming service, an abrupt change of plans two months before a planned theatrical rollout. This also means that Netflix could have access to some of the studio's major franchises, including “Transformers”, future Cloverfield titles and other Hasbro properties like “Dungeons and Dragons” and “G.I. Joe”.

Compared with Disney and other traditional film companies, Netflix currently still possess a significant business advantage, namely its technological prowess. The most telling example is Netflix's customized recommendation for every one of its members. Moreover, the company has been adept at leveraging

customer data to deliver better services and create more targeted original content while monetizing data to grow its subscriber base. With the battle for quality original content heating up more than ever, streamers and studios alike have been fighting for top talent. For instance, being early to the game, Netflix has struck up many exclusive strategic partnerships to ensure the robustness of its content pipeline, including locking in ABC's leading producer Shonda Rhimes and Ryan Murphy, another gold-medal producer. Furthermore, Netflix doesn't face the same pressure as traditional studios to release movies in theaters, granting the streamer more freedom in content production and more openness in scale.

Before we close off this chapter with an summary of what makes streaming a critical aspect of the future of entertainment and how companies within the Chinese film industry should embrace this technological advancement to ensure the continued development of a strong industry, let us review the major trends that have been pushing the global industry into the age of streaming by first looking at the world and then zooming in on the North American market, widely considered the place where the streaming business model was created.

Major Trends of Online Video Consumption

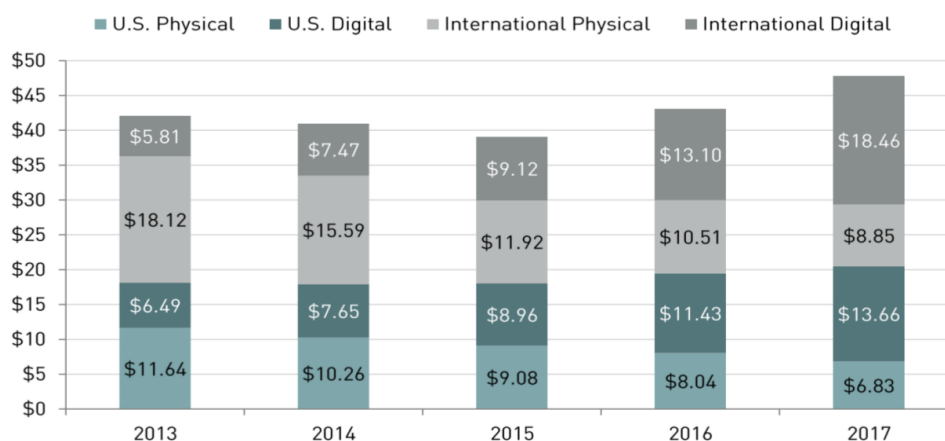
*(*All statistics in this part are from MPAA THEME Report 2017.)*

In 2017, home entertainment consumer spending for content released digitally and on disc increased 11 percent globally to \$47.8 billion, with digital home entertainment (including Electronic Sell-Through (EST), video-on-

demand (VOD), and subscription streaming) the driver of growth. Since 2013, digital spending has increased by 161 percent globally, while physical spending (including rental and retail) has decreased by 47 percent during the same period, reflecting the shift toward digital viewing choices.

Global Home Entertainment Consumer Spending (US\$ Billions)

Source: IHS Markit and Digital Entertainment Group



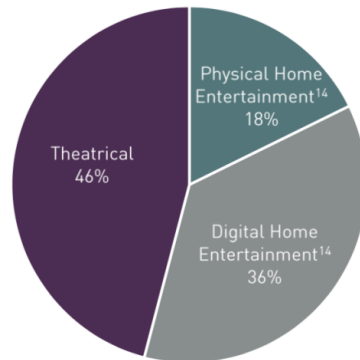
		2013	2014	2015	2016	2017	17 vs. 16
International ¹²	Physical	\$18.12	\$15.59	\$11.92	\$10.51	\$8.85	-16%
	Digital	\$5.81	\$7.47	\$9.12	\$13.10	\$18.46	41%
U.S. ¹³	Physical	\$11.64	\$10.26	\$9.08	\$8.04	\$6.83	-15%
	Digital	\$6.49	\$7.65	\$8.96	\$11.43	\$13.66	20%
Total		\$42.06	\$40.97	\$39.08	\$43.08	\$47.80	11%

In 2017, box office accounted for 46 percent of combined theatrical and home entertainment spending globally, with digital home entertainment (36%) and physical home entertainment (18%) making up the rest.

Since 2013, global theatrical consumer spending has increased 13 percent, while home entertainment has increased 14 percent. Digital home entertainment growth (+161%) overcame a decline in physical home entertainment, further showing the growth and continued acceleration of digitization within the global media and entertainment industry.

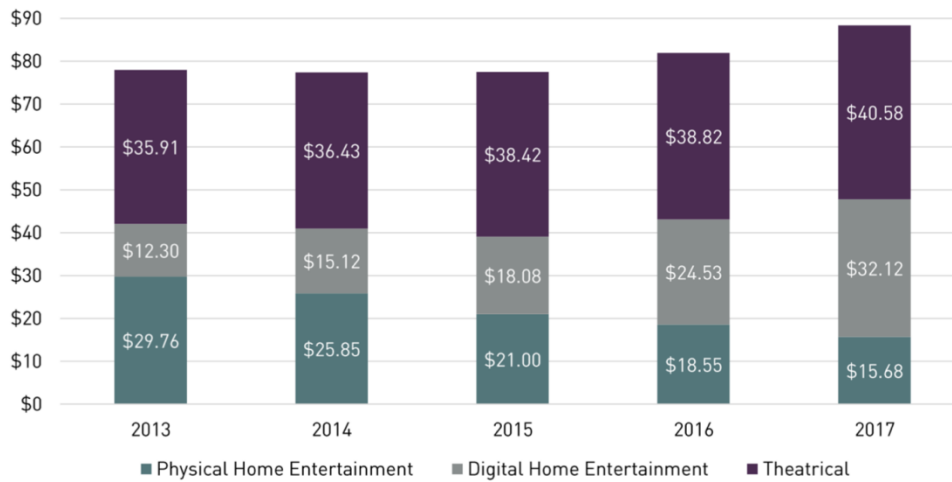
(Source: IHS Market)

2017 Global Theatrical and Home Entertainment Consumer Spending (US\$ Billions)

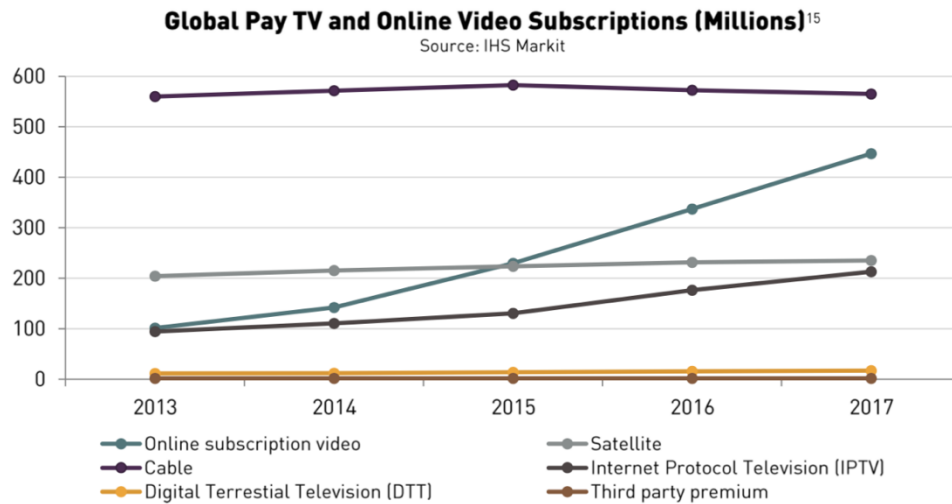


(Source: IHS Market)

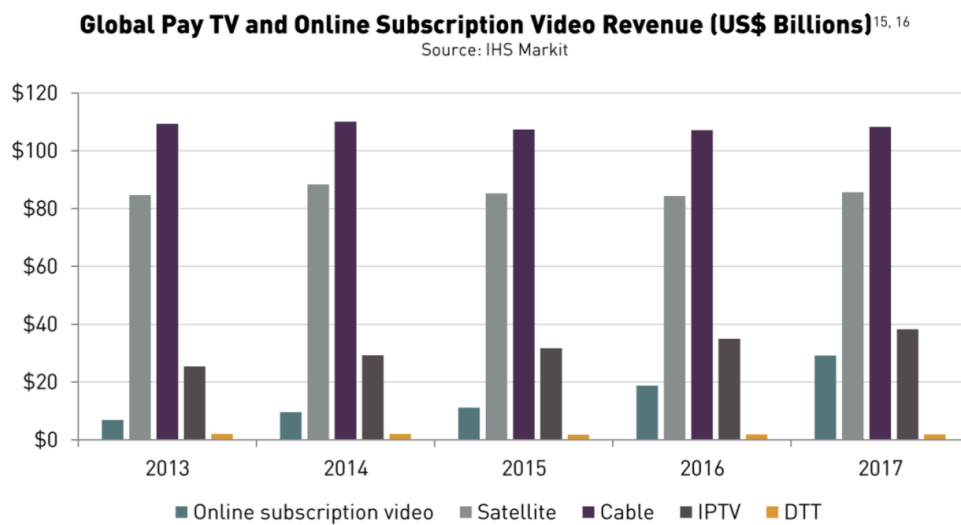
Global Theatrical and Home Entertainment Consumer Spending (US\$ Billions)



As further evidence, globally, the number of subscriptions to online video services (446.8 million) increased by 33 percent, or 109.8 million, when comparing 2017 to 2016. (Online subscription video includes movies, sports and TV.)



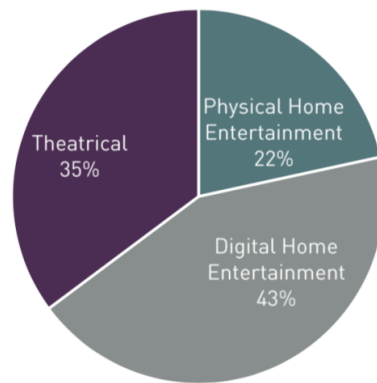
While the amount of subscriptions to online video services is 79 percent of the amount of cable services, online subscription video represents a lower proportion of revenue due to the cheaper subscription fees.



In the United States, digital home entertainment consumer spending accounted for 43 percent of combined theatrical and home entertainment consumer spending in 2017, followed by theatrical (35%) and physical home entertainment (22%). U.S. theatrical consumer spending has increased just two percent since 2013, while home entertainment spending has increased 13 percent, largely due to an increase in digital home entertainment such as online streaming subscription.

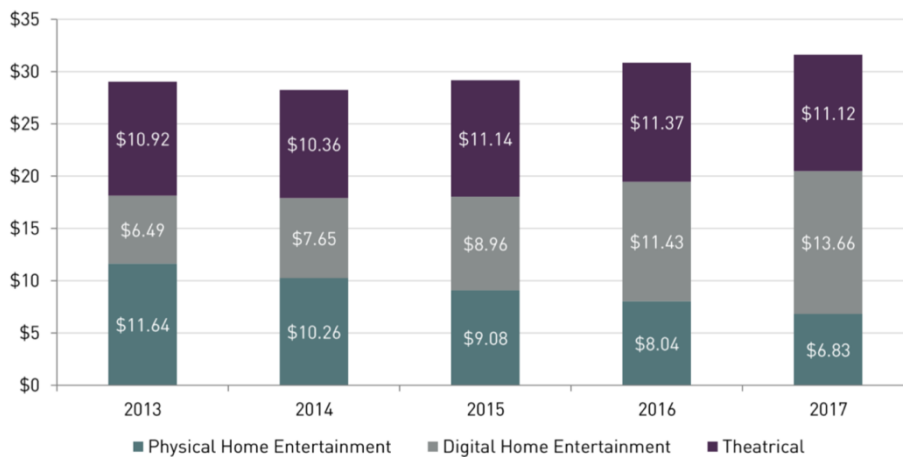
2017 U.S. Theatrical and Home Entertainment Consumer Spending (US\$ Billions)

Source: comScore – Box Office Essentials (Theatrical), Digital Entertainment Group (Home Entertainment)



U.S. Theatrical and Home Entertainment Consumer Spending (US\$ Billions)

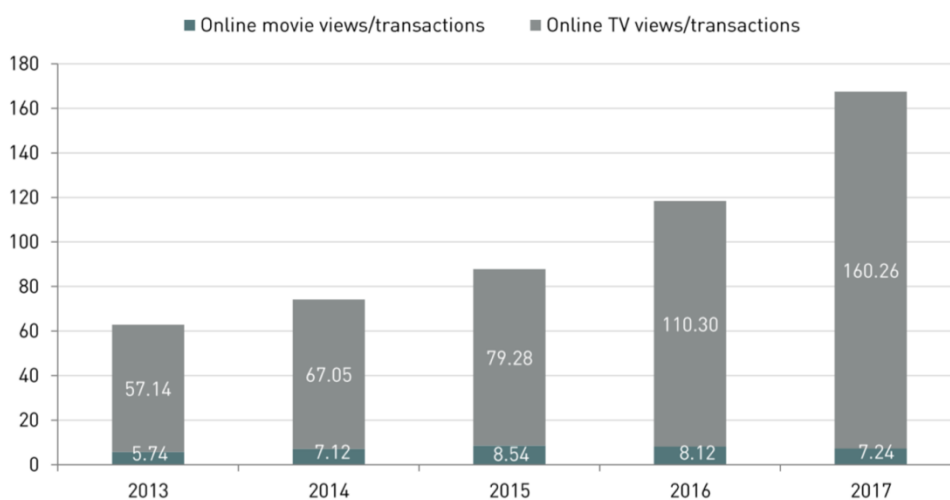
Source: comScore – Box Office Essentials (Theatrical), Digital Entertainment Group (Home Entertainment)



Overall, online content viewing continued to increase in 2017, reaching 167.5 billion views/transactions in the United States, a 41 percent increase compared to 2016. In breakdown, online TV views/transactions increased by 45 percent in 2017, offsetting a decrease in online movie views/transactions (-11%).

U.S. Online Views/Transactions (Billions)

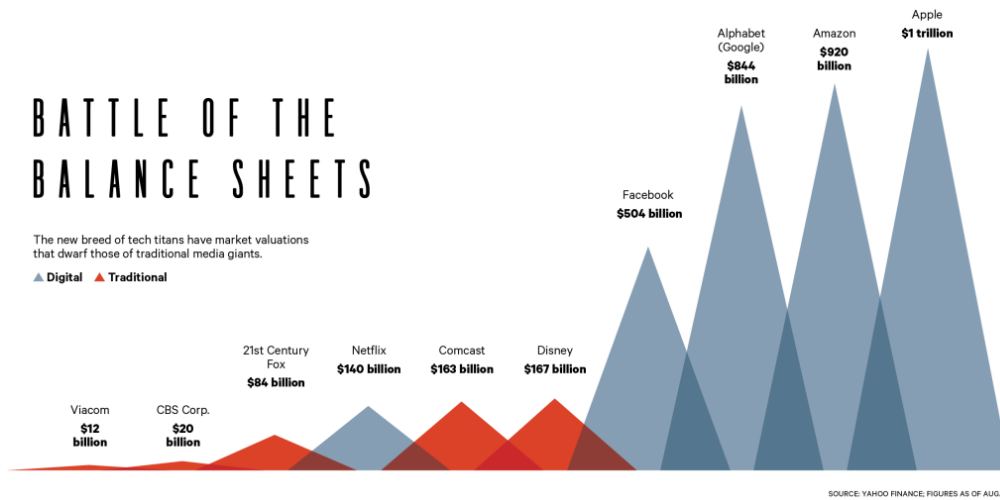
Source: IHS Markit



	2013	2014	2015	2016	2017	17 vs. 16
Online movie views/transactions ³⁷	5.74	7.12	8.54	8.12	7.24	-11%
Online TV views/transactions ³⁸	57.14	67.05	79.28	110.30	160.26	45%
Total	62.88	74.17	87.82	118.42	167.50	41%

(Source: Yahoo Finance)

Below captures the competitive landscape of streaming in North America, with the tech titans possessing a competitive advantage in terms of cash reserves



while the traditional IP houses possess unparalleled IP inventories, and Netflix being a one of its kind in having the first mover advantage within the streaming space, yet it remains to be seen who will emerge as a true market leader.

The table on the following page provides a structured overview of the main streaming players from North America who had an early-in to this lucrative space, showing the traction that they have had both from a content and subscriber perspective. Likewise, the below three graphs will give a further view of the growth of streaming media.

(Compiled by Michael Schneider; Sources: Company Reports, Variety Research)

STREAMING SERVICES

These seven companies are producing their own entertainment content and then delivering it straight to consumers.

NETFLIX

amazon prime video

hulu

YouTube Premium



Facebook Watch



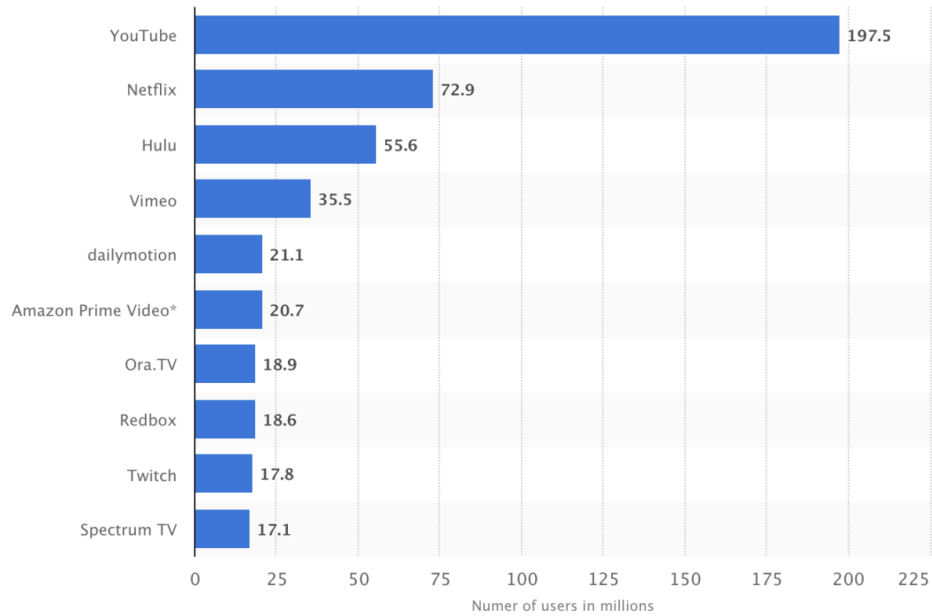
MONTHLY FEE	» \$10.99 (standard) » \$7.99 (basic) » \$13.99 (premium)	» \$8.99 (Prime Video only) » \$12.99 (Amazon Prime)	» \$7.99 » \$11.99 (no commercials) » \$39.99 (with live TV service)	» \$11.99	TBD	» Free	» Free (advertising-based video-on-demand service)
SUBSCRIBERS	» 130.1 million (56 million in U.S.)	» 100 million globally (Amazon Prime) » 26 million viewers domestically (Prime Video)	» 20 million	» 1.5 million	TBD	» 2 billion users worldwide » Approximately 185 million daily active Facebook users in North America	» Sony Crackle apps have been downloaded more than 100 million times » 5 million monthly unique visits
CONTENT SPEND	» \$12 billion-\$13 billion in 2018	» \$5 billion in 2018	» \$2.5 billion	» "Hundreds of millions"	» \$1 billion	» Up to \$1 billion	» Not revealed
MAJOR TALENT DEALS	» Ryan Murphy » Shonda Rhimes » Jenji Kohan » Barack and Michelle Obama	» Nicole Kidman » Jordan Peele » Amy Sherman-Palladino	» Bruce Miller » Jason Reitman	No overall deals, but talent includes: » Kevin Hart ("What the Fit?") » Will Smith ("The Jump")	» Oprah Winfrey » Kerry Ehrin	No overall deals, but talent includes: » Jada Pinkett » Tom Brady	No overall deals, but producers include: » Bryan Cranston ("SuperMansion") » 50 Cent ("The Oath")
BIGGEST SUCCESS	» "Stranger Things" ❶ » "Orange Is the New Black"	» "The Grand Tour" ❷ » "Sneaky Pete" ❷	» "The Handmaid's Tale" ❸ » "South Park" (off-net)	» "Cobra Kai" ❹	TBD	» "Ball in the Family" ❺ » Mike Rowe's "Returning the Favor"	» "The Oath" ❻ » "Comedians in Cars Getting Coffee" ❻ (moved to Netflix)
BIGGEST FLOP	» "The Get Down" » "Gypsy"	» "Crisis in Six Scenes" » "The Last Tycoon"	» "Hard Sun"	» "Youth & Consequences"	TBD	» Its partnerships with controversial information sources	» "Sequestered"
TERRITORIES	» More than 190	» More than 200	» U.S. only	» 17	TBD	» Global	» 20
ORIGINAL SERIES	» 700 globally	» Approximately 125 domestically	» 20-25	» 50	» 20-25	» 14	» 27
PITCH	» They need a lot of content. You name it, they'll hear it.	» The new executive team is much more invested and looking for bigger, more commercial projects.	» The depth of its library and acquired content makes Hulu a must-have for TV fans, and there is attention to every show, given the low volume.	» A mix of YouTubers and Hollywood talent, geared toward a young, active audience that's already on YouTube.	» The sky's the limit, so be there on the ground floor; despite rumors to the contrary, all kinds of programming welcome, including darker fare.	» Facebook Watch isn't interested in doing large, prestige dramas; it's focused on shows that are heavily social and good to watch on mobile.	» Ad-supported network allows viewers to watch for free, and originals are supplemented by a library of movies and series.
AWARDS	» 43 Emmys out of 225 nominations » 2 Oscars out of 14 nominations	» 10 Emmys out of 66 nominations » 3 Oscars out of 8 nominations	» 10 Emmys out of 47 nominations	» YouTube Premium hasn't yet been Emmy nominated, although YouTube as a platform has been nominated at least nine times.	TBD	» No Primetime Emmy nominations yet, although Facebook Watch was nominated for three Daytime Emmys in 2018	» 5 Primetime Emmy nominations

COMPILED BY MICHAEL SCHNEIDER; SOURCES: COMPANY REPORTS, VARIETY RESEARCH



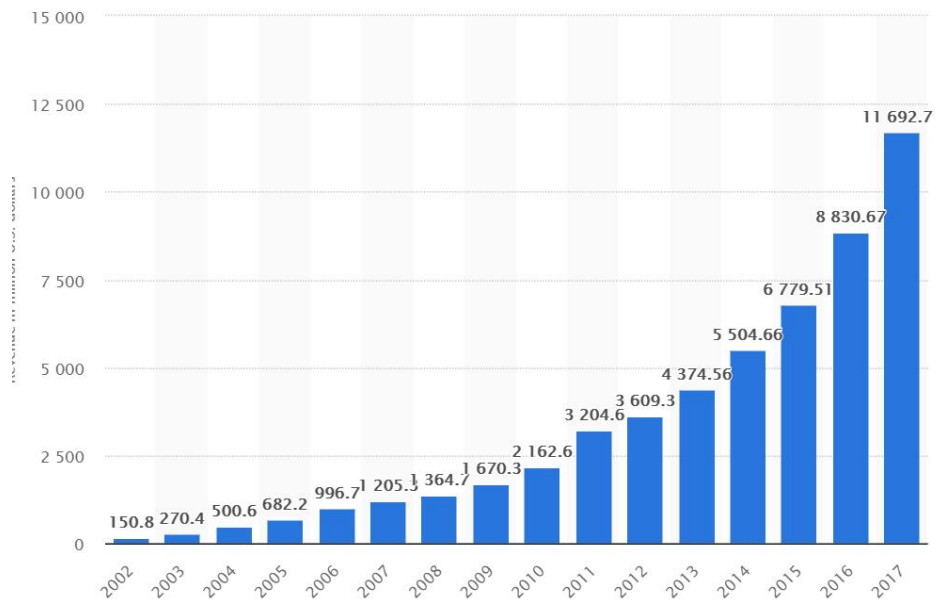
Most popular video streaming services in the United States as of July 2018

by monthly average users (in millions)

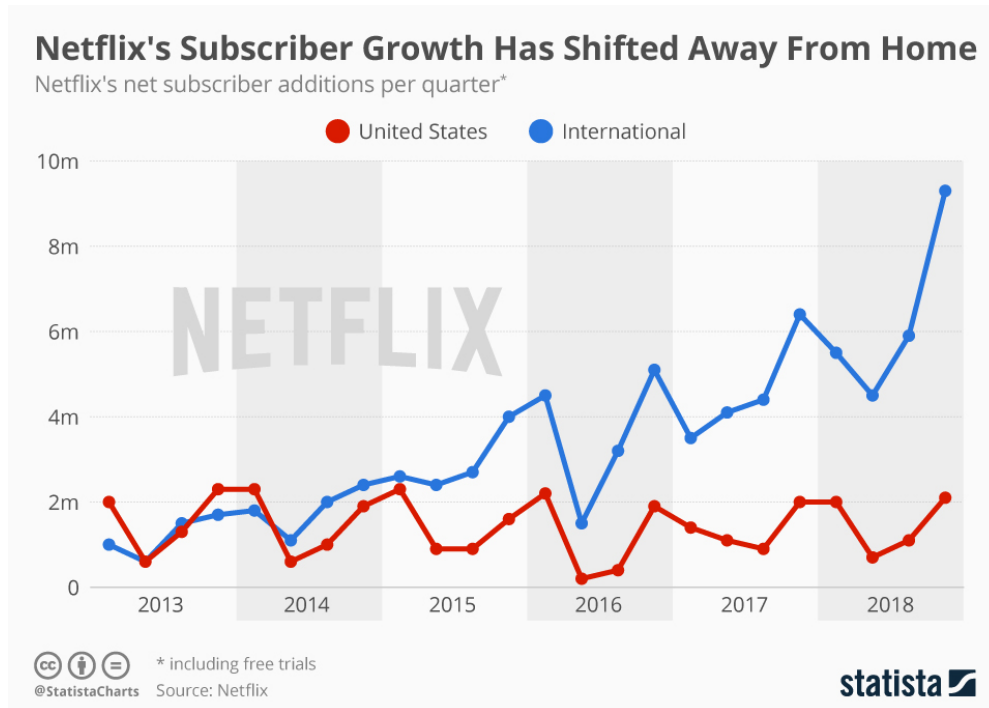


(Source: Statista)

Netflix's annual revenue from 2002 to 2017 (in million U.S. dollars)



(Source: Statista)



The arrival and rapid acceleration of streaming could be seen as inevitable. The pandemic further justified the streaming model and pushed more traditional production houses to embrace this new era in which streaming will be a critical pillar to ensure the industry's continued vitality. I will provide some of my analysis as to what makes streaming advantageous for the long-term growth of the industry:

1) Mass audiences and a global platform

In recent years, Netflix and Amazon have come onto the scene with platforms that command tens of millions of viewers—and perhaps just as importantly, seemingly unlimited bandwidth. Given the particular nature of streaming, its ability to cover a wide range of audiences, across nearly all geographies with broadband and internet service, allows this particular model to be highly competitive and resilient to unforeseen disruptions. Echoing this

sentiment, "Having a global platform means that these films can get global distribution and find a following in places that likely wouldn't have seen them otherwise," a Netflix spokeswoman says. "The upside of all this is that a lot more people who never got to have access have access now."

2) Power of big data

Streamers such as Netflix have become experts of leveraging the valuable pools of data generated from their streaming platforms to devise more catered services and content for its subscriber base. For content production, by conducting data modeling, machine learning, and data optimization, the streamer can deliver targeted insights for content creators from pre-production through principal photography and editing, VFX, sound mixing. From an operational standpoint, the data can also be utilized to identify painpoints in the user experience and additional functions/services that can be added to enhance the overall user experience, as well as new revenue opportunities.

Data analysis is deeply embedded in Netflix's decision-making mechanisms, by continuously mining vast amounts of data about its subscribers' tastes to determine which programs to invest in and how to promote them.

3) A subscription-based model

Streaming's subscription-based model provides a constant and steady supply of revenue for the company, a business model that is not reliant on the traditional box office, given that streaming receives its cash flow from users not content. Thus, unlike the business risks faced by traditional studios, a single

movie or show on Netflix or Amazon, or any other streamer, do not need to appeal to everyone to be successful. More importantly, the key lies in making sure enough content is offered that would suit the tastes of all profiles of their existing and potentially new users who have yet to convert to paying viewership.

4) Flexible and efficient managing practices

Unlike traditional production studios, the streamers have adopted a much more agile, transparent, streamlined approach to governance, allowing for highly effective decisioning across all levels of decision-making and increasing the speed to market for its content and supplementary platform services. As a case study, the Netflix approach incorporates two highly effective practices: (1) board members periodically attend (in an observing capacity only) monthly and quarterly senior management meetings, and (2) board communications are structured as approximately 30-page online memos in narrative form that not only include links to supporting analysis but also allow open access to all data and information on the company's internal shared systems, including the ability to ask clarifying questions of the subject authors.

5) Marketing strategy based on social media platforms

The collapse of the DVD market has made profits even more meagre for the traditional studios, which are desperate to cut marketing costs and reach consumers directly through Facebook, Instagram and Twitter. But most established studios, averse to talking about social media algorithms, are still reluctant to use Twitter and Instagram posts as the backbone of their marketing

campaigns, and currently leverage social media only as a supplement. On the other hand, legacy streamers such as Netflix has fully leveraged the amplifying power of social media to market new content on its platform to retain current customers and attract new ones.

Before I conclude this section with my analysis and view on streaming for the Chinese film industry, I will offer a final look at the impact of streaming on the current and future trajectory of the film industry as a whole.

The global industry is facing a severely shrunken theatrical market due to the onset of streaming and the option to view quality content within the comfort of one's choosing. It remains to be seen how theatrical and streaming can coexist, or if it is truly a zero-sum game where the winner takes all. In an age in which the consumer is king, how to influence and shape consumer behavior will be critical in this ultimate rat race given that the success of any business model depends on how effective it is at manipulating consumption habits. For instance, the more that viewers become habituated to home-based forms of entertainment, the less inclined they may be to watch content in a cinema setting. Likewise, on a bigger scale, a film like "Beasts of No Nation" debuting on Netflix doesn't just minimize the theatrical revenue it might have made, it essentially fills the casual moviegoer's prestige movie "quota" without having to get up from their sofa, making them that much less inclined to seek out a "Carol" or a "Room" or a "45 Years" in theaters. Nevertheless, there is still a light at the end of the tunnel for theatrical releases, yet the journey to getting there will require a lot

more effort, namely in the form of big budget productions that showcase the beauty of the big screen. Thus, while it may be easy to see a future in which there are fewer competitors and a severely shrunken theatrical market, it remains to be seen what that would exactly look like given the pandemic has both compelled the growth of digital entertainment and triggered an almost rebirth of traditional cinematic entertainment. The Chinese film industry is a great example of this as consumers have embraced the newfound freedom of a pandemic-free nation, with nationwide box office toppling pre-pandemic record-holders.

As theatrical and streaming fight to become the dominant business model for the industry going forward, comprising through a synergistic partnership may be the next best thing as traditional studios have begun to cooperate with major streaming platforms. For instance, although Paramount has recently announced its own Paramount+ streaming platform, the Paramount/Netflix partnership and the A24/Apple partnership to produce original films for the digital giants, represents a major shift in the entertainment industry and the diversification of the traditional business model. In a Viacom earnings call on Nov. 16th 2018, Paramount Pictures CEO Jim Gianopulos described a new, multipicture deal his studio had set, not with a producer or star, but with Netflix. At a time when competitors Disney and Warner Bros. are withholding their movies from Netflix to feed their own future streaming services, Paramount has adopted a two-pronged strategy, becoming a ready supplier in exchange for

what Gianopulos called “an incremental revenue stream” and its own streaming platform. Paramount+, which the company just announced will be releasing a new original film every week as part of its core strategy to catch up to the big streamers in terms of both content and subscribership. Similarly, A24, the independent-minded company behind such art-house hits as *Lady Bird*, *Hereditary*, *Moonlight* and *Eighth Grade*, signed its own deal to produce a slate of films for Apple, signaling the transition to a hybrid business model. Taken together, the deals represent a major shift in the industry, namely that movie studios are no longer making films just for themselves, but for the deep-pocketed technology companies that have become Hollywood’s latest conquistadors. Yet, for the film studios with the financial capacity to do so, developing their own streaming platform has become an urgent priority as the success and wide acceptance of the streaming giants have placed traditional studios on the brink of extinction, innovate or die.

For studios adopting a hybrid model, for example producing new films designed for Netflix from the greenlighting stage, Paramount will mine its IP and creative relationships to make movies that might not justify the expense of a theatrical release, most likely the decent dramas and mid-budget movies that have a hard time luring audiences in a marketplace driven by theatrical tent-poles. Apple and A24, both notoriously tight-lipped, have shared virtually nothing about their deal, including where these movies will be seen — in theaters, on a streaming service or on some yet-to-be announced Apple product.

For Apple, which has already committed to spend \$1 billion this year on content, A24 represents an asset that, at least theoretically, you can't buy in the movie business: taste. "Apple is projecting an aesthetic by committing first to A24," says Jason Squire, author of *The Movie Business Book* and professor at USC's School of Cinematic Arts. "They're making a statement that they are committed to these mid-range, independent movies."

Though the A24 deal is a tiny transaction for Apple, the largest company in the world, it's part of a pivotal retrenchment in the movie industry — how Apple and Netflix deploy their billions is already reshaping the next generation of filmmaking.

The rest of Hollywood is still racing to catch up with Netflix and other streaming media (Disney, Warner Bros.) The direct-to-consumer streaming video business model refined by Netflix is the reason Disney and Comcast chased 21st Century Fox with such fervor. It was also a big part of AT&T's motivation for scooping up Time Warner. It marks the biggest shift in entertainment industry economics in decades, and it is an evolution largely driven by a company that has been in the original content business for a relatively short period of time considering the more than a century long history of the movie business. Trying to play catch-up to Netflix, the largest U.S. media conglomerates are bent on reinventing part of their operations as a direct-to-consumer business model. The industry's biggest content producers aim to tap into the efficiency of streaming video via the internet to build proprietary

pipelines into America's living rooms, laptops, tablets and smartphones. "The modern media company must develop extensive direct-to-consumer relationships," AT&T chairman-CEO Randall Stephenson told investors last month. "We think pure wholesale business models for media companies will be really tough to sustain over time." Traditional media conglomerates feel the urgency to act now out of fear that Amazon, Facebook, Apple and Google are also busy crafting global content platforms that will dwarf their operations. It's no surprise that Disney — the world's biggest media company — is leading the race among Hollywood's old guard to catch up with Netflix, et al. Disney chairman-CEO Bob Iger called the planned launch of a suite of DTC services the biggest priority of the company in 2019. With its own streaming content platform, Disney no longer needs to rely on Comcast and DirecTV and a host of international distributors to deliver its TV shows and post-theatrical movies.

But as with any historic shift, change won't come easily — or cheaply. To build their own platforms, Disney, AT&T and others will have to invest billions of dollars in high-end content while at the same time forgoing much if not all of the traditional licensing revenue that they would have commanded by selling rights to third-party networks and distributors. Moreover, the emphasis on launching attractive DTC alternatives will likely hasten the pace of cord cutting. That will only put more pressure on the billions of dollars the conglomerates take in annually in carriage fees from cable operators for channels that may no longer be first in line for the hottest properties coming from their parent studios.

In short, the evolution of the DTC marketplace for content will continue to be costly, messy and risky. For starters, Disney said goodbye to about \$300 million in annual revenue it had received from Netflix for pay TV rights to its theatrical releases, starting with its 2019 movie slate. Those movies — including “Captain Marvel,” “Dumbo,” “Toy Story 4,” “The Lion King,” “Frozen 2” and a new “Star Wars” installment — are now key selling points for the new service Bob Iger had referred to as “a Disney play.”

This new era is the era of the consumer as “all of the media companies will have to become more consumer-oriented,” says Jessica Reif Cohen, media analyst for Bank of America Merrill Lynch. “Five years ago, none of us thought people would watch as much as they do on their phones. Content consumption is going mobile, nonlinear and on-demand.” Naturally, the hunt for business and creative talent has further intensified given the significant investments in creative original content by Netflix, Amazon Video, Disney, WarnerMedia to name a few of the key streaming players. Creative talents have become the strategic reserve for future competition, so the priority of each company has been to compete for talented acting, directing, and creative talent. For example, some in Hollywood believe Netflix keeps a tally of how many promising young execs it poaches from competitors around town. “They’re trying to staff up and they’re overpaying executives to go there and they’re working them to death,” says one agent. The company’s infamous “statement of culture,” posted online, declares, “Adequate performance gets a generous severance package.” It also

says the company isn't right for those who "feel fearful at Netflix" or who'd be "bitter if let go." Yet turnover, at least among creative execs, appears to be low.

From another perspective and on the bright side, streaming media offers hope for indie filmmakers as independent filmmakers have always struggled to find funding and an audience. But in the past 10 years, the number of indie filmmakers has grown substantially as the cost of making films has dwindled, making competition for distribution even more cutthroat. "It's becoming more and more difficult to get independent films distributed whether that's in traditional movie theaters or even on cable," says Tom Nunan, a founder and partner of Bull's Eye Entertainment and a lecturer at UCLA's school of theater, film, and television. Luckily, given the increasing number of streaming platforms looking to both invest in existing and new content, independent filmmakers may have a more rosy outlook than what circumstances appear. As tech companies amass their inventories of self-produced content, acquiring independent films has been equally pervasive, ranging from the big Sundance acquisitions to smaller buys that end up on their services through distributors. "The idea that the streaming services can be our new arthouse circuit is just nothing short of lifesaving for these artistic storytellers," Nunan says. "It's been a good few years for independent films and documentaries." The nature of streaming platforms, by commanding tens of millions of viewers, and perhaps just as importantly, seemingly unlimited bandwidth, creates a huge appetite for new content to feed its steady stream of available content for audiences the

world over. After all, streaming video isn't limited by the number of available movie screens or TV time slots.

If history shows us anything, the biggest threat could be that the encroachment of these companies could create an unsustainable bubble, because they're over-spending in order to make their mark in the film world. Spending \$12 million on "Beasts of No Nation," \$10 million on "Manchester by the Sea," or financing the \$60-million Brad Pitt vehicle "War Machine" isn't necessarily a reflection of those films' value; these big acquisitions are statements of intent. If each process took place over several years, these transactions might have been seen as a bid to be taken seriously as buyers within the existing industry framework. But the accelerated, undeniable flexing of financial muscle is instead a major gauntlet thrown down, a territorial pissing that goes beyond "being taken seriously" and generates anxiety that not only do the new players want a seat at the big table, but they may want the whole table.

However, as the pandemic has shown, traditional players must learn to co-exist with streaming platforms and embrace the technological innovation long overdue in an industry still stuck in its old ways of doing business. The time has come for a rebirth and revival that will at least give a much-needed facelift to the film industry.

The latest study of consumer habits during the pandemic, and what may remain afterward, from Hub shows that 28% of consumers report having signed up for at least one new streaming service since February, before the pandemic began.

The big four streaming platforms—Netflix, Amazon Prime Video, Hulu and Disney+—all had at least a three-point growth during that time frame in terms of percentage of consumers that say they subscribe to the service. Hulu saw the biggest growth (25% to 33%), followed by Amazon Prime Video (38% to 44%). Netflix and Disney both saw a three-percentage point growth—from 60% to 63% for Netflix and 29% to 32%. Hub identified three key reasons for why consumers turned to these services while sheltering at home: they offer exclusive shows, provide value for money and have a deep library of content.

The habit of watching streaming TV is expected to continue for many consumers after the pandemic. While 40% of consumers said they were watching more streaming TV because of the pandemic, 19% said that habit will continue after the pandemic; only spending more time outdoors and shopping online had higher responses. Hub found that video on-demand (VOD) has increased. The number of people watching VOD from an MVPD weekly went up from 46% in February to 52% as of July. Buying or renting pay-per-view (PPV) movies went up from 19% to 26%, while buying or renting PPV TV shows went up from 18% to 25%. “When it comes to the business of entertainment, people clearly intend to continue supporting the streaming TV services they’ve relied on for comfort viewing,” said Peter Fondulas, co-founder and principal of Hub Entertainment Research. As such, Netflix is one of the rare companies benefiting from the global pandemic, which has kept billions of people at home with nothing to do but stream. Although much of Netflix’s

recent boom didn't start until mid-March of 2020, when more people were forced to stay home to help curb the spread of the novel coronavirus, a series of popular, original shows and movies helped Netflix boost subscribers in its first quarter. Netflix added 15.8 million subscribers, more than double the 7.2 million that were expected — a growth of more than 22 percent year over year. Netflix now has more than 182 million subscribers worldwide. Still, Netflix's opening letter to shareholders was not all good news. The letter noted that "some of the lockdown growth will turn out to be pull-forward from the multi-year organic growth trend, resulting in slower growth after the lockdown is lifted country-by-country." The letter adds that executives expect "viewing to decline and membership growth to decelerate as home confinement ends." At Netflix, we're acutely aware that we are fortunate to have a service that is even more meaningful to people confined at home, and which we can operate remotely with minimal disruption in the short to medium term," the letter reads. "Like other home entertainment services, we're seeing temporarily higher viewing and increased membership growth. In our case, this is offset by a sharply stronger US dollar, depressing our international revenue, resulting in revenue-as-forecast." Netflix is taking extra precautions right now in an uncertain time, including "temporarily reducing the number of product innovations we try."

The big question is really about content and scale, and Netflix has shown to be more than hopeful that it will be able to continue releasing highly attractive shows. The streamer stated that, "while our productions are largely paused

around the world, we benefit from a large pipeline of content that was either complete and ready for launch or in post-production when filming stopped. So, while we're certainly impacted by the global production pause, we expect to continue to be able to provide a terrific variety of new titles throughout 2020 and 2021." A consistent stream of new originals gives Netflix a leg up over other streaming services.

One of the biggest advantages Netflix has over its competitors ties directly into its release strategy; because full seasons of shows are available at once, Netflix has to have full seasons ready to go. That means TV shows it has in the pipeline for May, June, and July are fully complete seasons, so Netflix does not have to worry about filming more episodes like networks do. Although the company is still mostly seeing additional gains domestically, but it's slowed down considerably. Thus, the company has leaned more heavily on its international growth in recent earnings reports and SEC filings, pivoting some of its focus to developing those international territories as have other major streaming services. Other analysts, like Nason, see it as a natural progression for the company. Netflix is a "foundational service," according to Nason. It's already in the majority of people's homes who are going to pay for Netflix. Plus, people aren't likely to give it up when it comes time to cut down on streaming services. Those who do not have Netflix now, when it's arguably the best time for streamers to get people's attention, likely will not going forward, Netflix's letter argued. "Intuitively, the person who didn't join Netflix during the entire

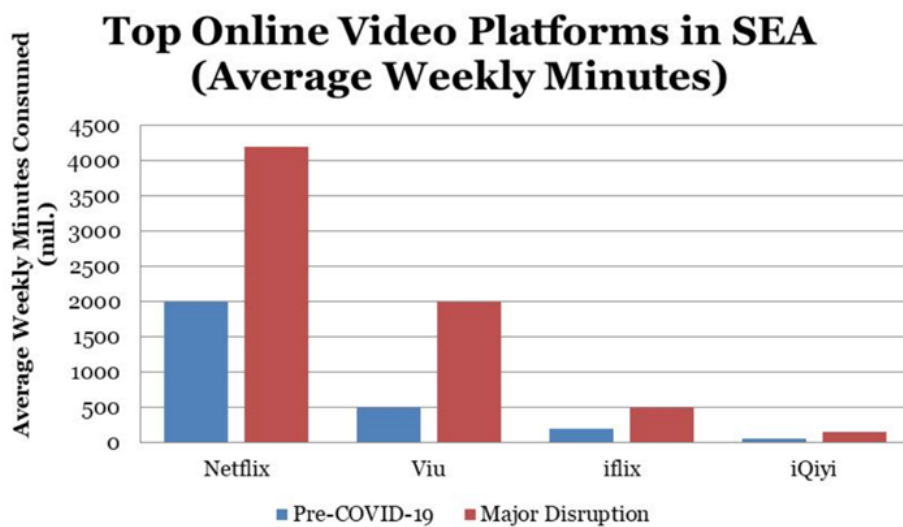
confinement is not likely to join soon after the confinement,” the letter reads. It’s hard to grow from that spot domestically, Nason added, but said because of Netflix’s aforementioned advantages, Netflix’s subscriber base in the United States could continue to grow. “When you are number one, it’s always difficult to grow as fast as your competitors or whoever’s trailing you,” Nason said. “Ever since Netflix hit the 60 million subscribers mark about three or four quarters ago, they have seen decelerating growth. Most of the growth they’re seeing is international where they’re still growing much, much faster.”

Netflix is still far ahead of its competitors, according to HarrisX, a market research and consulting company that specializes in online polling and data analytics. Netflix took up 72 percent of streaming time in homes, according to a new research report from Moffett-Nathanson in partnership with HarrisX, “while overall streaming penetration reached 74 percent, implying very healthy subscriber growth.” That could help explain Netflix’s skyrocketing performance on Wall Street. The company’s boasting an impressive valuation as stocks reach an all-time high, rising 30 percent year over year. Unlike Disney Plus, which has an impressive catalog of older films and TV shows, Netflix and Hulu continue to best serve people looking to watch something on a daily basis, according to Moffett-Nathanson. Netflix also believes that its ongoing curation of new series on top of its licensed library will help weather the storm compared to its competitors. The streamer stated, “our content competitors and suppliers will be impacted about as much as we are, in terms of new titles,” the letter to

shareholders reads. “Since we have a large library with thousands of titles for viewing and very strong recommendations, our member satisfaction may be less impacted than our peers’ by a shortage of new content, but it will take time to tell.” The longer that Netflix has a captive audience because of the coronavirus pandemic, and as long as Netflix can continue serving new content, the company will continue to have a major advantage. “People are consuming, not just Netflix, but all kinds of video content at an unprecedented level,” Nason said. It is probably going to get more challenging as new entrants look to acquire a larger share of the market and take market share away from Netflix, specifically Disney+, Peacock, and HBO Max, and Paramount+.

The sudden outbreak of the coronavirus pandemic had not only caused serious disruption to global economic development, but also froze the accelerating momentum of the Chinese film industry. With most films companies and theater circuits having dealt a devastating blow by the pandemic, adoption of new streaming technologies has become critical in ensuring the sustainability of Chinese filmmaking in post COVID-19. The global film industry is projected to contract by more than five billion USD due to the pandemic. China Film Association, a government-backed agency, released the “Movie Theater Survival Status Survey Report” in late May 2020 that found 47 percent of cinemas would run out of cash and 42 percent could face permanent closure. Data from S&P Global Market Intelligence and OPUS Data showed that China recorded the highest year-over-year loss in box office revenue with

a fall of 97.4% in ticket sales given the coronavirus lockdown. However, for streaming giants such as Netflix and iQiyi, this period delivered the highest growth in the shortest duration of time. According to a report from Media Partners Asia (MPA), between Jan 20, 2020 and April 11, 2020, the total weekly minutes spent on mobile video streaming services soared past 60 percent across Malaysia, the Philippines, Indonesia, and Singapore. (Alexander, 2020) *(Source: Media Partners Asia)*

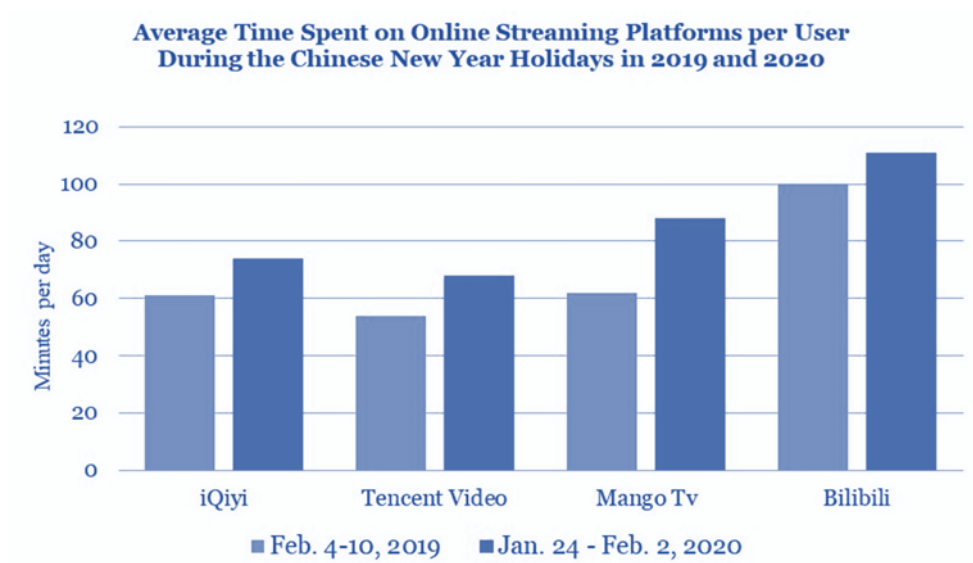


Similarly, in China, while cinemas have been closed for the majority of the pandemic, online movie streaming boomed with a large percentage of the population confined to their homes, with film production companies resorting to online streaming as the only option to reach a broad audience. On January 24, “Lost in Russia”, a highly anticipated Chinese comedy film, became the first movie to be released for free online on platforms of ByteDance — Toutiao, TikTok, and Xigua video — exceeding 600 million views within 72 hours.

Considering the remarkable viewership garnered by “Lost in Russia” on online platforms within a short duration, another Chinese comedy movie, “Enter the Fat Dragon”, was also made available on Tencent Video and iQiyi on February 1. Within three days, the comedy movie registered 63 million paid views on the Chinese video streaming website Tencent Video (Davis, 2020). In all, 26 movies were released on various online platforms during the Chinese New Year holiday in 2020, with daily viewership of movies online rising 100 percent during the holiday, while television viewership had increased by 33

percent this year. The total, streaming viewership captured 310 million new users, representing a growth rate of 17.4 percent over the previous year.

Consequentially, the pandemic has accelerated the rise of made-for-streaming films and series in China, in which previously streaming content were typically more in the vein of American B movies than of “Roma” for instance.



Although theatrical directors and stars have hitherto snubbed the format, this is changing in the face of Covid-19 as traditional film and TV firms thirsty for cash are drawn by its lower costs, quick turnaround, and habit of paying upfront.

Furthermore, theatrical-level directing talent will also give the streaming space a major boost. Cinema icon Wong Karwai, director of “The Grandmaster,” is now making an online series for Huanxi; Peter Chan, after directing unreleased sports feature “Li Na: My Life” and Chinese New Year title “Leap,” is expected to debut a series for his next effort with the company.

Post-pandemic, the boundary between online content and theatrical will be blurred, with celebrities and talent moving more freely from one to another as

content quality improves and subscriber base of online streaming broadens. In particular, streaming giants such as Bytedance is shaking things up by moving into their long-form fiefdom, following up its “Lost in Russia”(《囧妈》) stunt with the release of 100 classic movies free to stream on Tik-tok(抖音视频) and Watermelon Video (西瓜视频) . In January 24, 2020, Joy Media (main production company of *Lost in Russia*) announced a cooperation agreement with Bytedance to cooperate in various fields that related to online video. Bytedance will pay Joy Media a minimum of 630 million yuan (about US \$93 million) to secure the agreement. Shortly after, Joy Media announced that the film would be released for free on the first day of the Chinese Lunar New Year (January 25, 2020) on platforms, such as Tik-tok, Watermelon Video, Toutiao (今日头条) and the Joy-premiere, an online movie-platform owned by Joy Media. In addition, the 2.4 billion RMB box-office guarantee agreement reached between Joy Media and HG Entertainment (横店影视) was terminated. The released of *Lost in Russia* during the Spring Festival was not only good news for Joy Media, but also gave Bytedance platform prestige. The shares of Joy Media surged approximately 44 percent while the audiences applauded the access to high quality "free movies". This strategy of inviting people from all over the country to watch movies for free attracted a wave of new users for its products like Tik-tok, Toutiao and Watermelon videos; overall, traffic brought by the streaming of “Lost in Russia” also greatly increased the reputation of these digital enterprises. Likewise, another platform, Bilibili, has already been

diversifying from social video into professionally generated content, recently receiving a \$400 million investment from Sony and aiming to accelerate its expansion into gaming and animation (Chengevelyn, 2020).

In addition, from an infrastructural readiness perspective, China is ahead of the world in its deployment of 5G cellular networks, which will prove crucial in aiding its streaming giants in providing the same yet enhanced level of internet access to rural communities as with city dwellers. To illustrate, an average movie takes 6 minutes to download on 4G but with 5G, it will take less than 20 seconds, an 18x improvement. Equally important, 5G has the capacity to handle one million devices per km squared as compared to only ten thousand devices per km squared on 4G. Likewise, 5G's ultra-fast speeds and lower latency, when combined with augmented or virtual reality, promise numerous new capitalization opportunities for the entertainment industry (Ghosh, 2020).

5G is the fifth-generation of mobile internet connectivity that will completely transform and revolutionize the means by which we communicate. It promises much faster data download and upload speeds, wider coverage and more stable connections. The superfast service is now available to consumers in 50 Chinese cities, including Beijing and Shanghai. According to a Chinese government release, more than 130,000 5G base stations will be activated by the end of year 2020 to support the 5G network, making China's effort one of the world's largest 5G deployments. Moreover, Asia Pacific is set to become the

largest global 5G market, estimated to reach \$667.9 billion by year 2026 (China Rolls out, 2019).

In summary, while streaming and traditional studios have gradually reached a temporary equilibrium through embracing the new business model, it remains to be seen how the traditional Chinese production studios will compete effectively in the age of streaming given that entrenched players iQiyi, Tencent Video, and Youku have already gained a significant user base and have the upper hand in regards to technological innovation. Yet, given the sheer size of the Chinese market, there is still a huge opportunity for the traditional players to catch up by producing high-quality and attractive content, the competitive advantage for traditional studios. More importantly, with the fast adoption and integration of 5G technology in China and the prevalent consumption of budget-friendly smartphones across urban and rural areas, the true potential of the Chinese streaming market is yet to be captured and monetized. For Bona Film Group, which I will discuss in greater detail in the next chapter, incorporating streaming into our business will be highly critical to ensuring the resiliency and agility of our current business model. However, what shape or form this digital adoption and integration will look like and how we decide to pursue this effort will largely rest on a cost benefit analysis between existing options and build-it-ourselves approach. Nevertheless, streaming is a critical component to ensuring a resilient and strong film industry given our lessons learned and what the future holds.

CHAPTER 5: A CASE STUDY- THE BONA MODEL

A Brief Overview

In China, since the start of the pandemic, the entire film industry was in suspension. A number of planned film investments and projects was shelved and films already in production had to be suspended. Movie theaters, an important part of the film industry, had to close due to the health risks that confined spaces with a concentrated audience posed. Given that many theaters spent significant capital resources to prepare the release of new films for the Spring Festival, the shortage of funds which was caused by the suspension had made the daily operation of movie theaters extremely difficult. The report of ‘The impact of the epidemic on the operation of cinemas and the assessment of losses’ which was released by the China Film Association (CFA) in May 28, 2020 showed that, “The national box office in the first quarter of 2020 totaled 2.238 billion yuan, down 88 percent from the same period in 2019. According to the survey data, the number of large-scale cinemas over 2,000 seats fell by 87.7% year-on-year, the number of large-scale cinemas between 500 seats and 2,000 seats fell by 88% year-on-year, and the number of large-scale cinemas below 500 seats fell by 91.3% year-on-year, with small-scale cinemas suffering the most” (CFA, 2020). *(Source from: The China Film Association, 2020)* Nearly a thousand movie theaters closed across the country in the first half of 2020, with a large number of employees forced out of their jobs. In addition, small film companies have gone out of business for a lack of projects and funding. The total loss of China's

domestic box office is estimated at more than 30 billion yuan for the full year in 2020.

The pandemic will eventually come to an end. As the Chinese film industry recovers, aided by a surge in consumption, new technologies and online streaming, the future of the Chinese film industry in the post-pandemic era is still highly promising although with significant work ahead. First, the traditional film companies must speed up the transformation of business models to diversify revenue channels and build resilience in the face of a similar future crisis. Now, film giants will have to intensify their competition for existing market share, leading to innovation in methods of film promotion, distribution and exhibition. Although the traditional model of cinema-viewing will still continue to exist and will not be replaced in a short period of time, traditional film companies should be prepared for the challenges brought by new film companies, especially internet film companies in terms of film promotion and exhibition. Second, given the experience of the pandemic, companies must become more resilient and adaptive, establishing crisis measures to deal with public emergencies.

In addition, Chinese film companies must continue to explore ways to present China's cultural values and heritage to the world. Similar to the Korean film "Parasite" that was mentioned above, Chinese filmmaking need to consider how to create films that will resonate with global audiences, promoting the globalization of Chinese culture and integrating the distinctively Chinese

cultural values with the universal values of humanity. Telling globally relevant Chinese stories and promoting the Chinese voice across the world will be the main direction for the future of Chinese filmmaking.

Within the past five years, BONA Film Group has achieved significant milestones in the history of Chinese filmmaking. Under the strict supervision of the government and a tightening capital market, Bona did not stop innovating, instead it has been focusing on cultivating and deepening its core business in film production, shattering box office records. BONA's box office contribution increased from 10.267 billion yuan (2010-2015) to 21.972 billion yuan (2015-2019), with an average annual growth rate of 7.1%. The annual box office revenue has almost doubled from 3.8 billion in 2016 to an estimated 8 billion in annual revenue this year.

In the face of all types of market challenges and industrial obstacles, BONA has created and developed the "BONA Model", which has been a commercially successful model of producing big tent-pole mainstream blockbusters exhibited during key release windows. Starting from the "The Taking of Tiger Mountain" in 2014, BONA has embarked on a road of innovation in mainstream commercial blockbusters with uniquely Chinese elements. In the past five years, the "mountain, river, and sea" theme (*The Taking of Tiger Mountain*, *Operation Mekong* and *Operation Red Sea*) firmly established BONA's reputation within the Chinese film industry.

At the end of 2018, when the industry was weathering a tough storm—capital outflow and punishing tax reform, BONA was not discouraged but continued to innovate, by producing the "China Pride Trilogy" (*The Bravest*, *Mao 1949*, and *The Captain*). In the summer season and National Day release window of 2019, these three films achieved unprecedented records at the domestic box office, reaping significant gains from its strategy. In the last six years, the quantity and quality of BONA's theaters have both improved significantly. As of the end of November 2019, the number of BONA theaters increased significantly from five years ago—the number of theaters has increased from 30 to 75, and the number of screens has increased from 250 to 618. In April 2019, the BONA cinema line was officially launched, further consolidating the company's overall industrial layout.

Prior to the pandemic, although the overall growth rate of the Chinese film market had slowed down or returned to a rather rational development pace, BONA had not been affected and had taken advantage of market conditions to acquire a dominating market position. In effect, becoming the top production house in the country given the industry reshuffling as a result of government regulation. Looking back, BONA's return to the A-share market signaled its confidence in the Chinese economy, along with confidence in the future growth of the Chinese film market. From its very beginning to its stable growth today, BONA's films have been sustainably empowering the entire film industry chain, believing that it is also a social responsibility to make high quality Chinese

movies and tell Chinese stories to the world through the continuous output of high-quality content. As of November 2019, BONA had produced more than 270 films, and has ranked first in the number of films produced by Chinese private film companies for more than ten years, generating more than 33 billion RMB in gross revenue. BONA was also the first privately-owned film company in China to obtain a distribution license and granted more than 400 awards and honors at major Chinese and international film festivals.

We may be used to the explosive growth from 2015 to 2017—the box office in 2014 started from 29.3 Billion to 44 Billion RMB in 2015, an increase of nearly 15 billion, with a growth rate of 62%. However, with harsh market conditions due to the pandemic, it will be a challenge for the Chinese film industry this year to surpass the 60.9 billion box office benchmark set in 2018.

Before I discuss my company against the five conditions to shaping the Chinese film industry into a global powerhouse, below are key points in the overall development of the “BONA Model”:

- 1) Cash is king – In 2008, before BONA's listing in the United States, Sun Qian, my investor from Sequoia Capital shared this motto with me "cash is king!" It is also the only way to resist the capital cycle.
- 2) Invest with caution – There is a popular saying recently in China, “Do not pay back the money earned from luck by investing from expertise.” The industry’s professionals need to be more cautious in

selecting projects and read scripts in depth, consult with more colleagues, and leverage the greenlight committee's capabilities.

- 3) Innovate or die – Innovation is risky, but it is always better than waiting for death. Be brave in innovation. BONA has been navigating the path of a new genre for five years, embracing new ways to impress today's audience. The only thing that does not change is change itself. We need to adjust constantly to adapt to the cyclicity of the market and systemic disruptions such as the COVID-19 pandemic.

There is also a 16-character motto that I am compelled to mark in this paper, for the strong path forward for the Chinese film industry, alongside with all the lessons I drew from earlier research and elaborations:

- 1) "Scholastic Wisdom" – One must understand macroeconomics, incorporating future planning, by constantly consulting and learning from scholars.
- 2) "Business Thinking" – One must let long-term strategy and short-term tactic work at the same time, along with value orientation.
- 3) "Homeland Sentiment" – One must hold dear national idealisms and cultural heritage while doing business and making films.
- 4) "Band of Brothers" – One must have a group of dedicated professionals working together as one team.

Next, I will discuss the BONA Model in greater detail according to the five critical conditions, and offer my perspective on the path forward to becoming a global film powerhouse.

Film Content Globalization

No longer are Hollywood-produced blockbusters the main revenue generators in the Chinese market, Chinese domestic productions have become the new cash cows. The success can in part be attributed to the quick adoption and successful integration of the latest production concepts and technologies. Take for example BONA film's blockbuster hit, *The Captain*, a film that leverages the global production concepts and technologies behind the Hollywood hit, *Captain Sally (2016)*. But perhaps just as influential will be the indirect impact of China's digital success stories, as others study those business models and behaviors. "Increasingly, we're looking to Northeast Asia as kind of a new California when it comes to trends," says Duncan Clark, biographer of Alibaba co-founder Jack Ma and chairman of consultancy BDA. As the rest of the world is in some ways literally behind China in terms of weathering the pandemic's course, perhaps COVID-19 will cause a psychological shift, "even in the U.S., that it's no longer always C2C — 'copy to China,'" he says. In the future, it may be necessary to copy from China.

In a similar vein, the importance also lies in creating universally-resonating content that speaks and relates to all audiences. Through creativity, Chinese films must find common ground with their Western counterparts in order to

receive a global level of acceptance. One of the core missions of BONA is to raise the soft power of Chinese culture through universal themes that carry Chinese DNA. As part of this objective, BONA has continued to work closely with Western counterparts in Hollywood to enhance our production methods and styles in order to effectively weave Chinese culture into the fabric of our collective global identity.

However, given the strict level of governmental censorship as discussed in the previous chapters, there is a precarious balance between artistic expression and compliance. Moreover, given the nature of the sociopolitical environment, developing accepted content makes good business sense as the fate of companies is largely dependent on what the government has in mind. As the BONA model can attest, becoming a successful company within any industry in China requires the considerate and careful interpretation of government policies relating to the particular industry. Closely following policy footprints is a crucial aspect of doing business in China and to thrive in a heavily regulated market. While there may be less freedom of expression, there is always freedom of thought, implying that while there is content control, creativity becomes a more urgent priority to successfully navigate the boundaries of regulation.

Partly why the BONA model has been sustainably successful to this day is the core focus on creating blockbuster content for the Chinese audience by leveraging mostly creative directing and production talent from Hong Kong and Hollywood. This approach has allowed the company to produce films that have

the visual and audio quality of a Hollywood blockbuster but underneath it all, the story is still very much uniquely Chinese, centering around Chinese heroes and promoting the cultural heritage of China. This strategic approach has been the main reason behind the box office successes of films such as “The Captain”, “The Bravest”, “Operation Red Sea”, and much more. These films share the common characteristics of a Hollywood-styled production yet focused on portraying Chinese heroes. From another aspect, the BONA model has also emphasized the portrayal of the typical Chinese individual and narrating the common human struggle, emotions, aspirations, and courage on the big screen, through films such as “Project Gutenberg” and “A Simple Life”. As of today, our company has creatively balanced film content innovation with regulatory standards, which is the underpinning reason for the success that we see in the Chinese market. For Chinese movie studios who have pushed the envelope a little too far, before any impact is made, the film studio is prematurely nailed to the coffin. Thus, within the limitations of the larger environment, Chinese filmmaking can only succeed by being cautiously creative and focus on diversifying the types of stories rather than pushing the envelope too far in terms of prohibited genres.

Going forward, I look to continue refining the BONA Model by exploring more universal themes and tying them back to stories about the Chinese people, wherever they may be. Like the successful example of South Korean filmmaking, I do believe that Chinese films can have the same level of impact

on the world stage, it may just take more time and for more audiences to digest the beauty of our films. If we were to look at the films that have garnered international success on the world stage, most of those films were also released after censorship approval in China, showing that attaining international recognition and box office success does not necessarily mean having to traverse the boundary of acceptable content. Overall, given the success that my company have attained, I strongly believe that content diversification does not have to be sacrificed in the face of censorship, but rather requires a deeper grasp of the creative elements of the film. I hope that more studios in China will come to understand this and learn to innovate within the confinements.

Just recovering from the disruptive impact of the pandemic, the Chinese film industry still has a long road ahead in bridging the gap of content diversification. Yet, as evidenced in the South Korean model, becoming a strong film powerhouse and achieving global resonance does not require a complete makeover, but rather requires a deeper analysis of the creative elements that make the film universally-resonant.

Censorship / Rating System

In this section, I will first give an overview of what BONA is doing in regards to this critical condition and my perspective on its importance for the strengthened development of the Chinese film industry.

As analyzed and explained in detail in the above chapter, content censorship is the major bottleneck facing the Chinese film industry. However, a mechanism that could increase the diversity of creative content lies in the rating system. The nature of both censorship and the rating system must happen at a more macro-level and hard for one film production company to determine the proper course of action. However, for all of its films now, BONA has an internal “censorship” and rating mechanism to help assess the risks of governmental disapproval before greenlighting the film. This internal mechanism is a critical component to ensuring that the film is not denied a release given the high costs associated with producing a film.

What I would like to focus on is on outlining my view as to how the censorship and rating system should be designed at the industry level given my experience with film production and the bottlenecks preventing the industry for delivering more acceptably diverse content. Although the Hollywood model of the censorship and rating system cannot be completely copied in its entirety, what we can do is adapt this critical industry mechanism for the Chinese film industry. Similar to the Hollywood model, the censorship and rating mechanism should be a self-regulating mechanism and provide transparent definitions as to

the various categories of acceptable content. However, to fit the particularities of China's political system, the related government agency should have oversight power to ensure that films are labeled properly without any serious infringements. In contrast, the current censorship body in China is overly protective and provides very amorphous stipulations that are subject to open interpretation based on the changing preferences and subjectivity of the official in charge of approving that particular film. Thus, for filmmakers like myself, there is no way to ensure that the films produced will be accepted and given the go by the censorship bureau with hundreds of millions at stake if the film is not granted the dragon mark. Thus, if a proper censorship and rating mechanism is installed, there would not be a need to second-guess and would give Chinese filmmakers the freedom to work within the defined boundaries. Moreover, by clearly delineating the boundaries between content types and ensuring that films are acceptable according to one of the categories, this actually provides more freedom of creativity for filmmakers rather than inhibiting artistic expression, as evidenced by the Hollywood model. Another aspect of the Hollywood model that should also be incorporated is the importance of reliability. Under the continuously changing regulatory framework, it would be hard for filmmakers to adhere to a predetermined set of standards if rules change on a whim or periodic basis. To ensure the diversification of content, the rating system must be a reliable framework for filmmakers, to be able to determine with certainty the type of films they can produce.

In short, regulation is not an issue as long as the boundaries are clearly defined and reliable enough that Chinese film companies such as BONA can utilize it to determine the types of future projects. To fit the particularities of the Chinese market, the self-regulating basis of the Hollywood model should be adopted, yet tweaked so that another layer of governmental monitoring is added as a check on the industry players but should not interfere with the rating categorization process as long as the players remain compliant with the transparent standards.

Greenlight Process

In this section, I will first give an overview of what BONA is doing in regards to this critical condition and my perspective on its importance for the strengthened development of the Chinese film industry.

Just like the Hollywood model, the Greenlight mechanism should become an ingrained process within the Chinese studio system. Unfortunately, as of now, very few number of Chinese studios employ this process in their review and assessment of potential films. For BONA, we have internally adopted this mechanism several years back and has proved to be a tremendous success in helping ensure the commercial profitability of the majority of our films. While there are always potential missteps with the filmmaking process, the internal Greenlight process has minimized the potential of a film flopping by determining its monetization capacity and optimizing its release process and timeline.

At BONA, our Greenlight committee is composed of a select number of department heads, including production, distribution, finance, marketing, to name a few core functions. These various functional heads provide the expertise to help assess the viability of a particular film project. Although I continue to make the final decision on films produced and co-produced by BONA, this cross-functional multi-stakeholder review process helps inform my final decision as to whether to greenlight the film. Without this critical system, the risk of one-man decision making would be inordinately high and could create financial chaos. Furthermore, given that the film production to release process involves many different milestones, including the formulation of a sound film marketing and distribution strategy, it makes business sense to include the required stakeholders into the review and preparation process.

Looking ahead, although BONA has incorporated the Greenlight process into our internal reviewing mechanism, for the Chinese film industry to truly accelerate in the direction of a global powerhouse, this mechanism must be adopted industry-wide to ensure both the profitability of films and the financial sustainability of the companies and investors backing them. Without the industry-wide acceptance and adoption of this critical condition, it will be hard to truly develop the strength that Hollywood continues to possess to this day. Given the high-risk nature of this industry, a mechanism like the greenlight is crucial to providing the much-needed stability to ensuring the vitality of the business in the long-term.

Talent Training / Development

In this section, I will first give an overview of what BONA is doing in regards to this critical condition and my perspective on its importance for the strengthened development of the Chinese film industry.

As I have mentioned in the previous chapters, talent can be viewed from two angles, creative technical and acting talent, with the former being of outmost importance for the robust and healthy development of the Chinese film industry.

On the creative front, I have been known for leveraging the technical expertise of the Hong Kong film industry's veterans to create and capture stories that have a more global feel from a quality perspective. Within the industry, BONA has become known for bridging the knowledge gap of film production by hiring Hong Kong directing and producing talent to help ensure the quality of big-budget productions. Furthermore, I have also looked to Hollywood as a source of technical resources support and hired the technical crew behind "Captain Sally" to create the special effects for my film "The Captain". From my more than two decades of experience, I can state with certainty that the supply of creative technical talent, namely in special effects, sound effects, and post-production technical expertise is lacking in China, which is one of the main reasons why high-quality filmmaking is still concentrated in the hands of a select few movie studios in the country who have the means to hire foreign talent. For my company, we have been actively trying to develop home-grown

creative and technical talent, given its criticality in ensuring the continuity of Chinese filmmaking and decreasing our dependence on foreign talent to minimize production risks such as the paralyzing impact from the imposed travel lockdown due to the pandemic. Currently, we have ongoing partnerships in Mainland China with renowned international creative and production partners to bring creative technical experts to the region to help train the domestic talent by working alongside these creative experts. To this end, we are also planning to establish an educational institution to invest in domestic creative talents and to help propel the industry forward through these crucial human capital investments.

Streaming

In this section, I will give an overview of what BONA is doing in regards to this critical condition and my perspective on its importance for the strengthened development of the Chinese film industry.

As everyone in the industry can attest, the pandemic truly showed us the importance of being nimble, adaptive, and resilient, traits severely lacking in our current legacy-based industry in which most activities happen offline. Thus, prioritizing the rollout of streaming has become ever the more critical in ensuring the overall health and long-term sustainability of the industry. Aided by the acceleration of digitization, we stand at a critical moment in which the digital infrastructure around us has been well established and provides the

perfect opportunity for all companies like ours to capitalize on the online business model.

As of now, unlike our Hollywood counterparts, traditional studios like ours have yet to develop our own online platform given the existing business model of directly selling IP to the Chinese streaming giants post-theatrical, namely Tencent Video, iQiyi, and Youku. However, the pandemic threw us a curveball and made us realize that we can no longer continue to juggle the thought of streaming in our minds given that this global catastrophe completely overturned our primary business model, with the nation in complete lockdown. With tablets and TV screens as the only outlets into the outside world and as an essential source of providing entertainment, companies that were already virtually-savvy had the leg up, including newcomers Xigua Video, who monetized the opportunity from lockdown to gain a significant share of Chinese viewers. Unfortunately, for most traditional entertainment companies like mine, we missed this lucrative period of lockdown but have reprioritized our current efforts to implement a streaming platform that can hopefully capture audiences with our one-of-a-kind content.

Currently, we are considering whether to build our own streaming platform or adopt a platform and will be making our decision based on a cost-benefit analysis, coupled with a long-term outlook. The main disadvantage from building our own platform lies in the upfront costs associated with starting from the ground up as well as the lack of complementary resources. Although we are

not against doing it ourselves, to minimize time to market and other inefficiencies, we are currently exploring the path of working with a startup that possess the capability to support the creation and maintenance of BONA's future digital platform. Unlike the major streamers, we lack the technological prowess to swiftly create a platform, yet our strength is that we possess the content library to scale quickly once our platform is launched. Thus, for us and many of our peers, based on an in-depth review, the optimal approach given a complete assessment of strengths and weaknesses may be to adopt a platform and rapidly scale through content diversification. Moreover, my company's key differentiator is our unrivaled depository of IP, which is crucial to gaining significant traction with the Chinese audience.

CHAPTER 6: CONCLUSION - A POST-PANDEMIC FUTURE

For the film industry, the advent of the 5G era will bring a revolutionary transformation and a complete upgrade to the whole industry. The high-speed of information transfer will further improve the simultaneity and verisimilitude of movie-watching. More importantly, the 5G era heralds a new era for visual content through the introduction of more digitally immersive entertainment experiences.

In the area of film production, 5G technology will lead to innovations in film making. The VR film, “The Deserted” (家在兰若寺), directed by Tsai Ming-Liang (Taiwan, China) and co-produced by Jaunt China and HTC VIVE, was the first Chinese language film created in the field of VR long video. “Gemini Man”, released on October 4, 2019, was also a pioneering attempt by Ang Lee to integrate VR technology into film production. These films have signaled that VR filmmaking may yet be the next generation of content production. In fact, the Chinese film industry has been exploring the creation of high-tech films for years and has been working with different companies around the world. In 2016, Bona Film Group signed a partnership with SONY Pictures and announced the film, “Billy Lynn's Long Halftime Walk”, directed by Ang Lee. The whole film was not only shot with 120 frames per second, 4K resolution and 3D stereo-effect, but also produced several versions in the later stage, including 3D/4K/120 frames, 3D/2K/120 frames, 3D/2K/60 frames, 3D/2K/24 frames, bringing audiences a much more immersive movie-watching experience.

The technological innovations taking place changing film production and viewing methods have also incentivized many traditional film companies to make changes as the arrival of the 5G era presents a rare and exciting opportunity for traditional film companies to revamp their existing business models in order to better capitalize on new revenue opportunities. Driven by technology, the core competition in the film industry will not only stay at the level of content creation, but also extend to competition based on content data transmission and exhibition. In fact, this will pose a significant threat to traditional film companies, because in the 5G era, internet film companies are based on information technologies, allowing them to reach more users at a lower cost. For traditional film companies to stay competitive, they must actively embrace the upgrade and transformation of channels and firmly grasp the entry ticket into the 5G era, which is a pressing matter that film companies now must consider.

Given the convergence of seismic shifts in technology and the global pandemic, China's film industry is in a unique position to fully capitalize on these new opportunities. In particular, the inevitable arrival of the digital streaming era has given newfound power and influence to Chinese film and storytelling. In addition, the global success of all minority-cast films such as "Black Panther" and "Crazy Rich Asians" not only further pushed the traditional boundaries of filmmaking but also fundamentally challenged what was possible. The global film culture is moving towards convergence and the

barriers and monopolies between cultural values are slowly being broken down. Now more than ever, Chinese films have the unique opportunity to create and share universally-resonating content with a uniquely Chinese DNA on a globally-connected platform.

Film Content Globalization

In summary, for the Chinese film industry to emerge as a strong film powerhouse, it must have a diverse portfolio of IP and the ability to produce a diverse array of films. Domestically, major studios have explored more types of film genres yet still remain limited due to the strong enforcement of censorship and the lack of a properly functioning rating system. Released films for the most part continue to follow the same approach to storytelling, with innovation occurring more on the technical rather than creative front. Yet as the Hollywood and South Korean success stories have shown, the ability to tell universally-resonant stories is what sets them apart from the rest.

One solution that I see going forward in creating more diverse content while staying within the set boundaries is to explore common themes between China and the rest of the world, similar to the globally successful Korean films such as “Parasite”, which was a Korean film yet at its core contained a very much universal message about class struggle. Recently, BONA has also placed more emphasis on these types of universal-themed films, such as in the upcoming film “The Chinese Doctor”, which vividly captures the universal nature of the

COVID-19 pandemic and the collective human struggle in the face of a global catastrophe. Thus, for my company, while we pride ourselves in producing films that shed light on China, we also recognize the criticality of global awareness and the importance of digging for universal stories that bring a positive influence to our shared humanity.

In a similar vein, there is still so much potential to be explored and realized in the turning of authentic Chinese stories into Hollywood films. The global successes of Chinese content films such as *Kungfu Panda* and *Mulan* represent significant promise and hope for the universal power of Chinese culture to resonate with a global audience.

As evidenced by both of these hugely successful Hollywood films, animation seems to be a highly effective artistic medium to express the beauty of Chinese stories on the world stage. The magic of animation is boundless as evidenced by the generational success of Disney. Animation somehow blurs or takes away the racial definitions of who we are and somehow magically makes racially distinct characters universally inspiring. Thus, animation may provide Chinese stories an effective medium to express itself and receive global recognition. Nevertheless, with the increased number of global co-productions between Hollywood and China, there is hope that more and more films will take on a more universal undertone with uniquely Chinese content; take for example the film that I co-produced with Director Roland Emmerich, *Midway*, a film that

takes into account the Chinese side of the war story of how Chinese soldiers and civilians helped American soldiers survive during a major WWII battle.

Likewise, I am confident that the Chinese audience will continue to be a crucial market for Hollywood producers and directors. Films entirely driven by Chinese stories will become more and more frequent, with the relatively recent Hollywood film *Crazy Rich Asians* being a good symbol of the acknowledgement of Asian stories and a growing awareness on the part of Hollywood to celebrate the Chinese heritage as it makes good business sense if nothing else. Furthermore, the pandemic has shown the world the resilience of the Chinese market with domestic productions such as *Hi, Mom* shattering the national box office while U.S. box office continues to remain flat due to the ongoing pandemic. Consequently, more and more Hollywood studios will likely increase their investments in producing Hollywood movies made for the Chinese audience in the coming decade as Hollywood moves East.

Censorship / Rating System

In summary, censorship and the rating system should not be impediments to the strong development of the film industry, but should act as both a check and promoter of diverse genres of artistic expression and entertainment. The domestic censorship policy must evolve into a more reliable and transparent set of guidelines for film studios to adhere to and to prevent the spread of negative sentiments and misinformation. At the same time, there must be a viable rating

system that should promote more diverse types of content rather than inhibit artistic creativity and expression. As evidenced in the Hollywood model, a successful rating system should promote rather than forestall the proliferation of a diverse and comprehensive content portfolio.

To accommodate the governing standards in China, the rating system could be tailored to allow for governmental oversight yet the actual review and approval mechanism should be clear enough that no actual governance is required as in the case of Hollywood's self-regulating rating system. Thus, a set of defined and transparent standards is a win-win situation for the regulatory agency and individual film companies given that the former would have less of a need to regulate the latter, with clear standards on what is acceptable and specific rating categories for the type of film content.

Greenlight Process

In summary, the systemic installation of the Greenlight mechanism will be a critical condition to ensuring the long-term sustainability of the Chinese film industry. Currently, the implementation of the internal and external Greenlight process has been haphazard at best, evidenced by the short-lived nature of many film studios. The particular characteristics of this mechanism allows for a more comprehensive and thorough decision-making process given the high risk and costly nature of film investments. With a cross-functional approach at its core, the Greenlight process significantly mitigates the risks associated with the

traditional one-man decision-making approach by having all related stakeholders weigh in during the review and approval process.

For Bona Film Group, we have adopted the internal Greenlight mechanism a few years back, with this process becoming an ingrained review and approval mechanism within the company. I do believe that its adoption has provided me with a clearer understanding of the types of risks that we may encounter and thus have to factor in given the cross-functional approach that is taken to ensuring the success of our films. My hope is that this mechanism can be implemented more systemically to ensure the long-term sustainable growth of the Chinese film industry, with current film output at a historic low due to the aftershock from the pandemic and the resulting investment drought.

Talent Training / Development

In summary, talent is the fuel for all industries, not just the film industry. As evidenced by Hollywood's success, nurturing strong talent is a critical condition in ensuring the development of a strong and resilient industry. For the Chinese film industry, talent training and development has become more of a priority in recent years given the accelerating growth of the domestic movie market and an equally hungry appetite for films that speak to the Chinese audience. As evidenced by the box office success of domestic productions, no longer are foreign movies the main drivers of growth, but rather it is the domestic movies that are catapulting China's box office to the number one position in the world. Yet, the strength of the Chinese film industry's talent pool

still pales in comparison to that of Hollywood, with many of the major domestic blockbusters still largely guided by those with foreign passports.

For Bona Film Group to be where we are today, I cannot take credit away from my amazing partners and the creative/technical talent from Hong Kong and Hollywood. Without them, we would not have had the success with our films at the box office. However, I strongly believe in the potential of the talent within Mainland China and have been working with some of our long-term partners to train the younger generations of creative talent in special effects, sound effects, and other technical skills in film production. This next decade will be a critical period of time for us to build our technical talent pool, a major current bottleneck for the Chinese film industry.

Streaming

In summary, the future of all industries lies in whether they can fundamentally capitalize on technological innovation. For the film industry, it is no exception. Turning an eye towards Hollywood, streaming completely overhauled the traditional business model and placed the major studios at the edge of their seats. Innovate or die became clear to most as the big film companies raced to develop their own streaming platforms. With streaming changing the competitive landscape and future of the industry, the Chinese film industry has become equally vigilant and optimistic as to the potential of this new medium. As evidenced by the pandemic, the beauty of streaming lies in its resilience, adaptability, and convenience. Without it, imprisoned in a largely

virtual world would have been unbearable for most. Consequently, many of my industry peers in China have recognized that although we may be late to the game, now is better than never at this game of streaming.

Streaming represents both a tremendous opportunity and an existential threat to the viability of traditional film companies. In the current global industry landscape, the traditional industry players have reacted to streaming media in a spectrum of ways, from completely rejecting at first to a race to develop and rollout their own streaming platforms. While no one strategic move can be said to be the best approach, what has been proven to make good business sense is for the traditional players to acknowledge and incorporate streaming into their business models or face profitability droughts given the accelerated digitization of the world as a result of the global pandemic.

Prior to the pandemic, streaming media was viewed as an important type of entertainment but with the complete onset of the pandemic, what we can all see is that streaming is no longer the newcomer, but the main source of entertainment as the world transitioned to a largely virtual form of interaction. As with most newcomers to a legacy-based industry, change happens slowly and often reactively rather than the proactive adoption of new technology. However, when a global catastrophe changes the industry order forever, what every film company must do now is to not just adopt streaming media but more importantly, find a way to do an even better job than current streaming stalwart Netflix.

Thus, to compete effectively in this current moment, no longer is just having it enough, it is all about doing it better than the existing competition. Better is an all-encompassing word, it implies creating more attractive content, being faster and more effective in content distribution, and being more user-friendly and personalized to the diverse tastes of the audience. Film companies must focus their time and energy on making the right investments to enhance and optimize their streaming platforms to become better at the game and to differentiate themselves from the vast assortment of streaming platforms currently available. While this is no simple task and requires significant capital investments, it is the way of the future of this industry and sooner or later, everyone must get their game on.

It used to be that traditional film companies completely relied on IP licensing to streaming giants as a way of gaining business exposure to the streaming space but with the rise to powerhouse status for many of these pioneering streamers, no longer are they relying on licensed content as the main source of IP but have concentrated their investments on original content development, weakening the grasp of the major industry studios to this source of significant revenue.

Back to the topic of becoming better at the streaming game, film companies must be strategic in how they use data to discover ways to enhance content development and user experience. Big data analytics will be a critical tool for film companies to invest in and leverage given that competition is no longer just

about the big picture thinking but must be at the user-level, from catering to the specific taste of each user and figuring out what other adjacent services to offer them to what types of content need to be made available to attract new users. In summary, film companies must adopt a user-level strategic mindset to truly differentiate themselves from the sea of competition and to emerge as better than the rest.

For Bona Film Group, we look forward to implementing our own streaming platform by leveraging the expertise and technical resources of promising companies and technology startups. Coupled with our plethora of IP, I strongly believe that we will be well positioned to scale once we launch our own platform and to quickly acquire a sizable audience base given the popularity of our films at the domestic box office. Furthermore, we will be exploring more uncharted territory in regards to implementing technological innovation such as data analytics and AI, to deliver better content and improve our strategic operations, so stay tuned!

Before concluding, there are some key lessons that can be learned from the global impact of TikTok, Hua Wei, and China High-speed Rail and applied to other industries, such as the Chinese film industry as we look towards becoming a global film powerhouse. If we look at all three of these global success stories together, what we can see is a relentless drive for innovation and a focus on establishing standardization to ensure sustainably strong growth.

First let us take a look at TikTok, a Chinese global success story in the modern day of social media. What has allowed TikTok to become the behemoth that it is today is primarily due to its dual-pronged innovative strategy of creating dual versions of its app, one catered to the Chinese domestic market and the other for the rest of the world to consume, globalizing its product and content pool. Through a series of strategic acquisitions, it has been able to acquire a wealth of knowledge regarding the tastes and preferences of consumers around the world, facilitating the success of its app globally. Moreover, its focus on standardizing its user design and constantly creating new functionalities for its app has helped catapult TikTok to universal popularity allowing anyone anywhere the access to share and view content, especially providing rural civilians around the world access to make and view creative content.

Likewise, for Hua Wei, product innovation and participating in the setting of industry standards are the key strategy for its path to global dominance in telecom technologies. Serving important roles in over 20 international standards organizations, Hua Wei has been able to help determine the path of global informational technology, allowing it to stay ahead of the competition. Additionally, Hua Wei has stayed ahead of competition through rigorous product and technological innovation, including being the first mover in the 5G technology space.

In a similar vein, the success of China High-speed Rail can be largely attributed to standardization in design and process. Standardization has allowed China High-speed Rail the opportunity to significantly lower costs and help streamline processes to eliminate inefficiencies, helping reach critical scale in a historically short time frame. Nevertheless, another element of success that often runs in the background is the importance of talent, which is critical for any success story.

In summary, for the Chinese film industry to achieve global powerhouse status, the key takeaways from these three examples somewhat mirror the five critical conditions that I have laid forth in my thesis, as it relates to globalization of content/product, industry-level standardization, firm-level standardization, talent development, and technological innovation.

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