Cultural Policy and Film Industry as Negotiation of Power: The Chinese State's Role and Strategies in its Engagement with Global Hollywood 1994–2012

Wendy Su

Abstract

This article explores the global-local interplay by analyzing the changing role of the Chinese state and its evolving cultural policy during its engagement with global Hollywood from 1994 to 2012. It further investigates the impact of the state policy on the formation of a domestic film industry. Drawing on both English- and Chinese-language sources and combining both primary and secondary empirical data, the article examines local strategies and resistance toward global Hollywood, and argues for the Chinese state's adaptive and negotiation capability that serves to reverse the power relationship in international communication. The state employs a strategy of taking advantage of Hollywood resources to build the domestic film industry in order to promote Chinese soft power. Therefore, by weaving both market forces and global capital into the state mechanism, the Chinese state effectively reinforces its authoritarian power.

Keywords: China, state role, global communication, cultural policy, global Hollywood, film industry, theatre chain, state-owned studios

DOI: http://dx.doi.org/10.5509/201487193

Introduction

Hollywood's global presence and its relationship with the Chinese cinematic landscape have drawn serious scholarly attention since 2000. Departing from the traditional approach of aesthetic criticism and textual analysis, research in the exploration of the Hollywood-China relationship has largely employed a political economy approach and the

---

Wendy Su is assistant professor of Media and Cultural Studies at the University of California Riverside. Email: wendysu@ucr.edu

perspective of media globalization.[1] Most studies, however, have primarily focused on Hollywood's global expansion and have tended to argue for Hollywood's domination, while fewer studies have tried to explore dialectic interactions between Hollywood and China.[2] This global-local interplay is the focus of this article, which examines the role of the Chinese state and its evolving cultural policy toward global Hollywood from 1994 to 2012, along with the impact of this policy on the formation of China's film industry.[3]

Since 1994, the People's Republic of China has adopted a common international practice of revenue-sharing to import about ten foreign "megaproductions" per year. The number rose to 20 after China joined the WTO in 2001, and to 34 during soon-to-be Chinese president Xi Jinping's visit to the United States in February 2012; most of these imported films were Hollywood blockbusters.[4] After 19 years of engagement with global Hollywood and endless efforts to reform the domestic film industry, China's film industry is now standing at a crucial crossroad and has elicited two contrasting assessments: one view argues that "China is the only giant film-production country that is not knocked down by American blockbusters,"[5] as signaled by the fact that China had become the world's third-largest film producer trailing only India and the United States by the end of 2010, and the world's second-largest film market by the end of 2012. Boasting a film output of 745 and gross box office revenue of 17 billion yuan (US$2.7 billion) in 2012,

---

[1] See Toby Miller, Nitin Govil, John McMurria, Richard Maxwell and Ting Wang, *Global Hollywood 2* (London: British Film Institute, 2005); Stanley Rosen, "'The Wolf at the Door': Hollywood and the Film Market in China from 1994–2000," in *Southern California in the World and the World in Southern California,* eds. Eric J. Heikkila and Rafael Pizarro (Westport, CT: Greenwood, 2002); Yin Hong and Xiao Zhiwei, "Haolaiwu di quanqiuhua celue yu Zhongguo dianying di fazhan" [Hollywood's Globalization Tactics and the Development of the Chinese Film Industry], *Dangdai Dianying,* [Contemporary Cinema] no. 4 (2001): 36–49; Wan Jihong and Richard Kraus, "Hollywood and China as Adversaries and Allies," *Pacific Affairs* 75, no. 3 (2002): 419–434; Christina Klein, "Hollywood Film? Foreign Film? Globalization and the Erosion of National Boundaries in Contemporary Cinema," individual presentation at the 2008 Annual Meeting of the American Studies Association (ASA), Albuquerque, New Mexico, 16–19 October 2008.

[2] See part I in Zhu Ying and Stanley Rosen, eds., *Art, Politics and Commerce in Chinese Cinema,* (Hong Kong: Hong Kong University Press, 2010); see also Wang Yiman, *Remaking Chinese Cinema: Through the Prism of Shanghai, Hong Kong, and Hollywood* (Honolulu: University of Hawaii Press, 2012). This book explores how transregional and transnational interactions produced a vision of Chinese cinema, although it does not strictly fall within the political economy and global communication approach.

[3] Inspired by the definition made by Wan Jihong and Richard Kraus in their article "Hollywood and China as Adversaries and Allies," *Pacific Affairs* 75, no. 3 (2002): 419–434, footnote 4, I refer to global Hollywood as 1, the global reach of the US film industry with its production, distribution and exhibition models and rights; and 2, transnational capital represented by Hollywood studios and transnational media conglomerates.

[4] Kate Linthicum and Richard Verrier, "China to Give Studios more Access," *Los Angeles Times,* 18 February 2012, AA1, AA5.

[5] Feng Xiaoning, "Zhongguo shi weiyi weibei mei dapian yakua de dianying da guo," [China is the only giant film producer that is not knocked down by American blockbusters], *Chinese Economy Network,* 5 March 2010, http://msn.ent.ynet.com/view.jsp?oid=63808971, last accessed 5 March 2010.

China accounted for 8 percent of gross global ticket sales.[6] China is also the only national film market in the world with an annual box office growth of more than 30 percent between 2000 and 2010.[7] The opposing view believes that China is merely a low-end film production factory for global Hollywood. This view is supported by the resurgence of Hollywood blockbusters in the Chinese film market between 2010 and 2011 after a few years of parity with domestic movies: between January 4 and the end of March 2010, *Avatar* garnered gross box office receipts of 1.32 billion yuan (US$194 million) in China, making China the film's top overseas box office earner and enabling 20th Century Fox to net $34 million in China.[8] In 2011, with 17 Hollywood imports each earning more than 100 million yuan (US$15.6 million) in the Chinese domestic market, China replaced Japan as Hollywood's Number One overseas box office revenue contributor.[9] Furthermore, as a direct consequence of the 2012 lifting of the quota on imports, only 231, or 31 percent of the 745 domestically produced films actually made it into cinemas, enabling Hollywood imports to dominate China's domestic film market once again.[10] As such, a few questions naturally arise: Who wins in this global-local battle? What is the role of the Chinese state and its cultural policy in confronting an omnipresent global Hollywood while maintaining the growth of its domestic film industry? And how has this global-local interplay impacted and continued to shape the Chinese film industry?

The article highlights local strategies and resistance toward global Hollywood and argues for local agency and the capability for negotiation, which is crucial for the understanding of the reversal of the power relationship in international communication. In comparison to other studies dealing with the Hollywood-China relationship, this article is distinguished by an insider's view that draws on both English- and Chinese-language sources, including government documents, media reports, industrial data and personal interviews. It thus combines the most recent primary and secondary

---

6 Sina Entertainment, "2012 piaofang chao 170 yi; Tai Jiong jin 12 yi po jilu" [The 2012 Box Office Revenue Exceeds 17 billion Yuan], 10 January 2013, accessed 10 January 2013, http://ent.sina.com.cn/m/c/2013–01-10/06283831414.shtml; Ha Mai, "2012 quanqiu geguo piaofang gongbu, zhongguo cheng dierda piaocang" [China becomes the second largest box office revenue earner in 2012], Mytime, 22 March 2013, accessed on 22 March 2013 from http://news.entgroup.cn/movie/2216172.shtml.

7 Zhou Tiedong, "Speech at the US-China Film Summit," 2 November 2010, Los Angeles, CA. Personal Note.

8 Zhang Wei, "Avatar zhongguo piaofang jin liangyi meiyuan, weiju haiwai shichang bangshou," [*Avatar* makes China top overseas box office maker of US$ 200 million], 1 April 2010, http://www.chinanews.com.cn/yl/yl dyzx/news/2010/04–02/2204684.shtml, last accessed 11 November 2010.

9 Yu Deshu, "Zhongguo jiang qudai riben chengwei haolaiwu diyida haiwai shichang," [China to Replace Japan to Become Hollywood's No.1 Overseas Market], *Fazhi wanbao* 13 January 2012, http://news.entgroup.cn/movie/1312625.shtml, last accessed 17 January 2012.

10 Yu Deshu, "Zhongduo yingshi fanrong beihou cang weiji jin sancheng guochanpian shangying,"[The Crisis Behind the Prosperous Chinese Film Market with Only 30 Percent Domestic Movies on Theaters], *Fazhi wanbao* 18 March 2013, http://news.entgroup.cn/movie/1816115.shtml, last accessed 22 March 2013.

empirical information. Furthermore, it brings back the crucial role of the Chinese state, recounting state policies and strategies rather than speculative stories. Finally it investigates the influence of Hollywood on China's domestic film industrial structure, emphasizing distribution and exhibition, but also touching on production. I argue not only that the Chinese state is a key player in global communication, but also that it reinforces its authoritarian power by weaving both market forces and global capital into the state mechanism. The state employs a strategy that takes advantage of Hollywood resources to build the domestic film industry in order to promote Chinese soft power. However, this strategy faces the continuous challenge posed by Hollywood, which requires a constant adjustment of the state's role and the continuous revision of its cultural policies.

Theoretically, China's evolving relationship with global Hollywood foregrounds the issue of how to conceptualize the role of the state in the era of globalization, and the relationship among global capital, the state and local agency. I start with a theoretical exploration of the state role and state-capital relationship. I then examine the changing cultural policies of the Chinese state toward Hollywood from 1994 to 2012, followed by an analysis of the birth and materialization of mainland China's film industry as a direct product of these policies. Finally, I discuss the implications of the changing state role and the emergence of the Chinese film industry for global-local interplay.

The Changing Chinese State in the Era of Globalization

The issue of the changing nature of the nation-state is central to globalization theories. As media scholar Silvio Waisbord and Nancy Morris have succinctly summarized, essentially two positions emerge regarding the relationship between nation-states and media globalization: one that views media globalization as a beneficial force for democracy, with the potential to "bypass government control," and one that equates media globalization with the untrammeled power of capitalism and media conglomerates that hinder state projects for self-determination and self-protection. However, media globalization theory, especially in English, has not sufficiently addressed the possibility of a third position, in which the state and media globalization are not two opposite ends of the spectrum, but rather two forces that are both mutually beneficial and competing, like in the case of China. Furthermore, states continue to be "largely absent" from current media and communication studies.[11] A few researchers have defined the state as protectionist or as a "regulator of communication processes that shape hybridity"[12] and see "self-

---

[11] Silvio Waisbord and Nancy Morris, "Introduction—Rethinking Media Globalization and State Power," in *Media and Globalization: Why the State Matters,* eds. Nancy Morris and Silvio Waisbord (Rowman & Littlefield Publishers, Inc., 2001), vii-xvi.

[12] Marwan Kraidy, *Hybridity or the Cultural Logic of Globalization* (Philadelphia: Temple University Press, 2005), 156.

conscious state interventions" and policy as essential for commercial operations and market forces.[13] However, how the state intervenes, and the conditions under which the state intervenes, remain unexplored.

In accordance with the Western liberal perspective mentioned above, one popular view maintains that China's WTO entry and the expansion of foreign media corporations in China will inevitably undermine the Communist Party's authoritarian control and facilitate press freedom. For example, News Corporation chief Rupert Murdoch predicts that international media penetration of China, like his company's spread of satellite television, will undermine authoritarian governments everywhere, although he later admitted the limitation of transnational corporations' capability in checking the Chinese government's power. On the other hand, media scholar Zhao Yuezhi refutes this "liberal democratization framework," and argues that this framework "underestimates the ability of the Chinese state to negotiate with transnational capital over the terms of entry while maintaining its regime of power in the media."[14] Meanwhile, media scholar Anthony Fung asks the question, "state and global: enemies or partners?" He argues that the government's strategy is "to subsume the market into state control so as to ensure the continued existence of hegemony." He concludes that the PRC's strategy toward global capital has changed "from resistance to collaboration." As a result, "the state and the market transform each other, and ultimately push China to a higher geopolitical stage" and "become[s] one of the globalizing powers."[15] Fung's argument resonates with Eric Ma's 2000 observation that the Chinese state and the market are "transforming each other to become new sociopolitical powers."[16] Chinese media experts Michael Keane, Stephanie Hemelryk Donald and others further conceptualize this state-market relationship and the hybrid model of governmentality as "authoritarian liberalism," a term that differs significantly from "neoliberalism with Chinese characteristics," which Yuezhi Zhao, David Harvey and others prefer.[17]

In summary, available scholarship has stressed the Chinese state's alliances with capital and the market while maintaining its power. It is not the intention of this article to provide a definitive conceptualization of the current reconfiguration of the Chinese state, market and global capital, as all types of conceptualizations are debatable and contextual. Rather, the purpose of

---

[13] Michael Curtin, *Playing to the World's Biggest Audience: The Globalization of Chinese Film and TV* (Berkeley, Los Angeles and London: University of California Press, 2007), 22.

[14] Zhao Yuezhi, *Communication in China—Political Economy, Power and Conflict (*Rowman & Littlefield Publishers, Inc, 2008), 5, 145, 146.

[15] Anthony Fung, *Global Capital, Local Culture: Transnational Media Corporations in China* (New York: Peter Lang Publishing Inc, 2008), 29, 30, 35, 79.

[16] Eric Kit-wai Ma, "Rethinking Media Studies—The Case of China," in *De-Westernizing Media Studies,* eds. James Curran and Myung-Jin Park (London and New York: Routledge, 2000): 21–34.

[17] See Stephanie Hemelryk Donald, Michael Keane and Yin Hong, eds., *Media in China—Consumption, Content and Crisis* (London and New York: RoutledgeCurzon, 2002), 5. David Harvey, *A Brief History of Neoliberalism* (Oxford University Press, 2005). Zhao Yuezhi, *Communication in China—Political Economy, Power and Conflict.*

this article is to focus on the complicated interplay process of the state, market and global capital, and the direct consequences of such interplay. What differentiates this article from the positions mentioned above are as follows: first, while acknowledging the two alliances of state-capital and state-market, the article seeks to further investigate specific ways and conditions under which the two alliances are possible, and under which the two alliances are broken and Chinese state power governs above everything. Put another way, the conflict, competition and a tug-of-war between the state and global Hollywood always exist, as well as the tension between the state and the market. The two alliances are always conditional and sometimes temporary. The Chinese state secures its own policy space as to when, where and how to open up to global capital and market forces, and when, where and how to maintain the domination of the state power through state-owned media groups.[18] Second, this article traces the changing role of the Chinese state and its refining statecraft during the global-local interplay. The global and market forces have pushed the state to transform its role from an ossified omnipresent communist state ruler to one of manager, negotiator and regulator. Third, this article aims to explore the material impact of the changing state policy on the formation of one of China's cultural industries: the film industry. Through the case study of charting the materialization process of the Chinese film industry, the article brings up the material and empirical consequence of state policies, thereby adding another dimension of policy study and avoiding unsubstantiated speculations about the effect of state policies and the outcome of the China-Hollywood encounter.

Since the 1990s, when global capital began to flow into China at an unprecedented speed, the Chinese state has treated global capital as a source of its enrichment and power. The state has also changed its strategy of cultural governance: it has transformed the nature of its cultural sector from an emphasis on public service and ideological control to one of profit-seeking cultural industries that cater to market demands. I argue, therefore, that the Chinese state weaves both global capital and market forces into the state mechanism and subjects these two forces to its maneuvering. Both global capital and the market empower the Chinese state. Through complex interactions with Hollywood, the state alters the course and power relationship of international communication.

China's Changing Policy toward Hollywood, 1994–2012

China's changing Hollywood policy parallels its own pursuit and acceleration of the so-called "socialist market economy," its WTO bid, and its film sector's

[18] For a detailed discussion of the China model and its difference from the Western liberal model, please see Zhao Suisheng, "The China Model: Can It Replace the Western Model of Modernization?" *Journal of Contemporary China* 19, no. 45 (2010): 419–436.

marketization and industrialization process. The policy is a result of introducing market mechanisms into the cultural arena, symbolizing a shift of the state's role and a change in the function of the cultural arena.

Nationalized in 1953 following the Soviet-style planned economy and state ownership model, the film sector of mainland China was established as a not-for-profit public institution from film production to distribution and exhibition. A total of 16 state-owned film studios produced approximately 120 to 150 feature films per year in accordance with the state's annual plan.[19] After studios completed their production quotas, the China Film Export & Import Corporation (CFEIC), the only film distribution agent franchised by the state, would purchase the films at 110 percent of the production cost and then issue film prints to local distribution companies. With the planned economy, China had a multilayered and redundant film distribution system from 1950 to 1980. Once purchased by CFEIC, a film was distributed through three tiers of distribution companies at the provincial, city and county levels before finally reaching exhibition theatres. Film distribution units nationwide were affiliated with and supervised by local administrations at various levels. Distribution units at various levels were not allowed to distribute films beyond their affiliated administrative districts. Thus, for thirty years China's film distribution network was a vertical management system extending from the central government to local administrations, with many administrative and regional barriers.[20]

With the intensification of economic reforms in the 1980s, the film industry also underwent a series of institutional restructurings. The film sector was redefined by the state in 1984 to remain a public institution, but one that would employ entrepreneurial management. Film studios now became responsible for their own economic efficiency and received only very limited governmental subsidies. By the end of the 1980s, the shortfall in capital between the rapidly rising production cost and state subsidies for studios had reached 10 million yuan on average.[21] In addition, profits earned from film distribution largely went to multilayered distribution units, with a small share for the studios. Despite many attempts to redistribute print profits and revitalize studios, before 1993 the reform in the film sector was merely a modification within the framework of the planned economy. Not only did the production sector remain untouched under the state control and ideological censorship, the vertical distribution system was also not fundamentally altered, and film markets nationwide remained split and separate.[22] By the end of the 1980s, more than one-third of studios, about

---

[19] Ni Zhen, ed., *Gaige yu zhongguo dianying* [Reform and Chinese Cinema] (Beijing: zhongguo dianying chubanshe, 1994), 77.

[20] *Gaige yu zhongguo dianying.*

[21] Rao Shuguang, *Zhongguo dianying shichang fazhanshi* [The Development History of Chinese Film Market] (Beijing: zhongguo dianying chubanshe, 2009).

[22] Mao Yu, interview by author, Beijing, 15 August, 2011.

39 percent out of 2300 distribution companies at county level, and about 32.3 percent out of 3100 urban theatres were debt-ridden.[23] In the first half of 1992 alone, the financial loss of state-owned film studios reached 70 million yuan, and 6000 film-business-related enterprises either closed or transitioned to other businesses.[24] The situation imposed a heavy burden on national finances and posed a severe challenge to the domestic film industry. To follow the goal of establishing the socialist market economy set by the1992 CCP's National Congress, the Ministry of Radio, Film and Television promulgated Document Three in 1993 in order to allow film studios to bypass CFEIC and directly issue film prints to and share profits with local distribution units. However, studios still faced strong regional protection and the shortage of production capital, and they were gradually brought to the brink of bankruptcy.[25]

Under these circumstances, one feasible solution to the financial bottleneck seemed to lie in devising a new way to make profits from foreign imports.[26] In early 1994, the Film Administrative Bureau under the Ministry of Radio, Film and Television finally approved a plan of adopting a revenue-sharing practice to import ten foreign blockbusters annually, a move considered to end "the 40-year-old tradition of buying outdated and low-grade but cheap foreign movies."[27] Hollywood thus returned to China at the linkage of distribution/exhibition, and it was used as a supplementary means to fulfill the state's financial need and reform agenda. The plan developed more out of an attempt to rescue the market than a well-defined ideological and cultural policy.

The imported films did, in fact, stimulate the ailing Chinese film market and played the role of "savior."[28] By the turn of the century, ten imported revenue-sharing American megaproductions had conquered about 70 percent of China's film market, whereas approximately 100 domestically made films only earned 30 percent of market share.[29] Some critics concluded "it was clear that imported films had become essential to the survival of the Chinese film industry.[30]

---

[23] Rao Shuguang, *Zhongguo dianying shichang fazhanshi*, 456.

[24] Fang Cheng, "Dianying de yongtan," [Film Speaks], *China Film Market*, the 8th Issue, 1997.

[25] For a more detailed account of the crisis and reform in the Chinese film sector, please see Zhu Ying, "Chinese Cinema's Economic Reform from the mid-1980s to the mid-1990s,"*Journal of Communication* no. 52: 905–921; and *Chinese Cinema During the Era of Reform—The Ingenuity of the System* (Connecticut and London: Westport, 2003).

[26] Wan Ping, "jinkou Fenzhang yingpian shinian piaofang fenxi," [An Analysis of Ten Years of Box Office of Revenue-Sharing Imports], *Journal of Beijing Film Academy,* no. 6 (2005): 49–60.

[27] Stanley Rosen, "The Wolf at the Door: Hollywood and the Film Market in China," in *Southern California and the World,* eds. Eric J. Heikkila and Rafael Pizarro (Westport, CT: Praeger, 2002), 49–77.

[28] Wan Ping, "jinkou Fenzhang yingpian shinian piaofang fenxi."

[29] Zheng Dongtian, "To Be, Or Not To Be?"—Jinru WTO yihou de zhongguo Dianying shengcun fenxi," [An Analysis on the Survival of Chinese Film Industry after Entering into WTO], *Film Art,* no. 2 (2000): 4–8.

[30] Stanley Rosen, "The Wolf at the Door."

The unprecedented popularity of Hollywood movies in China triggered a longstanding debate on the validity of the government's policy and the possible ramifications of such a policy for the domestic film industry. The Chinese government took a pragmatic stance to justify Hollywood imports based on huge market profits, although the government still stressed the ideological function of domestically made movies to help justify the legitimacy of its rule.

The central principle of the Chinese government's dealing with Hollywood imports is "*Yi wo wei zhu, wei wo suo yong*."[31] The principle basically asserts that all film imports must serve China's needs and national interests and should be made use of for China's gains and goals. The government originally believed that, with its enormous administrative power and the strictest censorship, it could harness the rampant success of Hollywood movies and use the shared revenue to compensate the domestic film industry. To achieve this goal, the government adopted a strategy of using so-called "Main Melody" (zhuxuanlü) films to compete with Hollywood movies and to minimize the Hollywood influence.

"Main Melody" movies are a cultural product unique to post-socialist China. Initially defined by then-Chinese president Jiang Zemin, the message of "Main Melody" movies is to greatly promote patriotism, socialism and collectivism; to resolutely resist money-worship, hedonism and excessive individualism; and to unshakably oppose capitalism and all corrupt, exploitative trends.[32] The message of "Main Melody" was later extended to all movies that are conducive to "social progress" and "Chinese people's well-being." These movies collectively serve as one of the most important parts of the state ideological apparatus, help convince people of the inevitability and validity of a socialist China, maintain the legitimacy of the ruling party, and eventually contribute to the establishment of an enduring national identity that is in the best interests of the ruling party: socialist and communist, anti-imperialist and anti-capitalist, a party-state that is of the people and for the people.

In order to promote "Main Melody" films and minimize the impact of Hollywood, the government took several specific measures. First, in the area of film production, the government employed a strategy of using earnings from Hollywood imports to subsidize the production of domestic films. At the 1996 Changsha Film Work Conference, it launched the "9550 Project," which required major state-owned film studios to produce 50 finely made "Main Melody" movies during the Ninth Five-Year plan from 1996 to 2000,

---

[31] State Administration of Radio Film and Television & Ministry of Culture, "The Detailed Regulations to Implement the Structural Reformation of the Mechanism of Film Distribution and Presentation," *China Film Yearbook 2002* (Beijing, China: zhongguo dianying chubanshe, 2002), 15–16.

[32] Jiang Zemin, "A Speech on the Sixth National Conference of China Federation of Literary and Art Circles and the Fifth National Conference of Chinese Writers Association," in *China Film Yearbook 1997* (Beijing, China: zhongguo dianying chubanshe, 1997), 1–3.

with 10 produced each year. These 50 "significant films" would obtain much more state financial input. The Film Bureau stipulated that for each "significant film," the domestic studio that produced it would be allowed to select one film from among 10 foreign blockbusters to distribute and to retain the resulting profits.[33] Studios that failed to complete the production quota would be criticized and have their eligibility for the distribution of foreign films and for receiving state compensations repealed. Second, the government mandated that all theatres must turn in 5 percent of their annual box office receipts to a film fund specially established for domestic film production. Third, the government exempted the value-added tax for film prints sold by studios.[34] Fourth, the government stipulated that two-thirds of showing times in theatres be reserved for domestic films. On every major holiday, the showing of foreign films must yield to the showing of domestic movies.[35] It is estimated that in the five years from 1996 to 2000, the total supporting funds offered by the state to studios reached more than 600 million yuan, in addition to 500 million yuan out of a total of 1.2 billion yuan of TV advertising revenues.[36]

By exercising its enormous administrative power, the Chinese government hoped to make use of revenue from Hollywood movies to produce domestic films that toed the Party line. At this point, the state merely opened up the space of exhibition for imports while safeguarding the space of film production for domestic studios. However, the government's strategy during this period did not prove very effective. Except for a few domestic films and well-known director Feng Xiaogang's New-Year Celebration Movies ("He Sui Pian"), most domestically made movies, including the majority of "Main Melody" movies, were unable to attract audiences and compete with Hollywood hits. Furthermore, the overall box-office receipts for domestic films continued to decline: in 1995, the year that foreign megaproductions were introduced en masse, 70 percent of domestic films were not even listed on the screening schedules of most theatres. Domestic film output continued to decrease between 1996 and 2002. In 1997, immediately after the government adopted the new strategy, domestic film production dropped by 33 percent.[37] In 2000, with China's entry to the WTO approaching and the quota to increase to 20 for foreign imported films, some believed that China's indigenous film industry was in "the most critical situation."[38]

---

33 Wang Zhiqiang, "A Summary on 1995 Imports," *China Film Yearbook 1996*, 203–205.

34 Ding Guangen, "Produce More Outstanding Works; Prosper Chinese Film Industry," *China Film Yearbook 1997,* 7–10.

35 Tong Gang, "Grab the Opportunity; Make Good Plans Together; Promote a Prosperous Film Industry in China,[*sic*]" *China Film Yearbook 1997,* 38–42.

36 Wang Gengnian, "Frequent Raining Brings Spring, Warm Breeze Brings Dense Forests—My Impression of China's Film in the 1990s, [*sic*]" *China Film Yearbook 2001*, 21–27.

37 Liu Jianzhong, "Promote Our Film Industry to a Higher New Stage," *China Film Yearbook 1998/1999*, 29–34.

38 Li Jingfu, "Daole zui weixian de shihou lema?" [Are Domestic Films in Most Critical Situation?] *Popular Cinema*, 2004, the 15th issue, 63.

China's accession to the WTO was formally approved on December 11, 2001. Under the agreement, the Chinese government assented to double the annual quotas for revenue-sharing imports to 20, allow a share of up to 49 percent by foreign investors in operating theatres, and permit foreign investment in video distribution joint ventures.[39] Facing the pressures of the domestic film industry's prolonged financial crisis and the formidable challenge after China formally rejoined the WTO, the government reworked its strategy and promulgated a series of film reform regulations against the larger backdrop of a newly launched reform of cultural industries. This time, Hollywood was not merely allowed into the distribution linkage, but was allowed into the film production linkage.

The reform in film production began on June 6, 2000 with the issue of Document 320 by the State Administration of Radio Film and Television (SARFT) and the Ministry of Culture (MoC). The document clearly stated that the reform must "ensure the socialist nature of the film industry to be untouched" while properly dealing with the relationship between the state control and market demand.[40] Starting in 2003, the SARFT promulgated Document 18, 19, 20, 21 and other regulations, followed by another set of supplementary regulations in 2004 and 2005. The essence of these documents was that foreign and private capital was now permitted to participate in both film production and theatre construction. However, while domestic private investors were encouraged to establish solely-owned studios and theatres and to enter into joint ventures, foreign investors were not permitted to establish solely-owned studios and theatres and to enter into joint ventures with non-state-owned companies. Foreign investors could only establish joint ventures with state-owned companies or hold shares of no more than 49 percent. Yet, in major cities like Beijing, Shanghai, Guangzhou, Xi'an, Chengdu, Wuhan and Nanjing, foreign shares in theatres were allowed to reach as high as 75 percent and to have a cooperative term of up to 30 years on a trial basis. The same regulations also applied to Hong Kong and Macau investors, with their shares allowed to reach 75 percent. [41] Although the state changed the foreign ratio of 75 percent back to 49 percent in August 2005, Hong Kong and Macau investors retain the 75 percent ratio.

The supplements issued in 2004 and 2005 granted greater rights and market access to Hong Kong and Macau investors, to follow the guideline of the "Mainland and Hong Kong Closer Economic Partnership Arrangement" and the "Mainland and Macau Closer Economic Partnership

---

[39] Liu Jianzhong, "Dianying de rushi tanpan yu wo'men de chengnuo," [WTO negotiation with regard to film and our commitment], in *WTO yu zhongguo dianying* [WTO and Chinese Cinema], eds. Zhang Zhenxin and Yang Yuanying (Beijing: Zhongguo dianying chubanshe, 2002), 3–8.

[40] SARFT and MoC, "Some Opinions about Carrying Out Further the Reformation in the Film Industry," *China Film Yearbook 2001*, 1.

[41] This document was jointly issued by the SARFT, the Ministry of Culture and the Ministry of Commerce, "Provisional Regulations of the Foreign Investment in Film Theaters," *China Film Yearbook 2004,* 18–19.

Arrangement" (CEPAs). These two CEPAs are considered the first free trade agreements aimed at the elimination of customs tariff barriers between mainland China and its Special Administration Regions/Customs Regions (SARs),[42] which allow Hong Kong-produced films, upon passing the censors, to be distributed in the mainland without the quota limitation. Mainland–Hong Kong co-productions are treated as domestic films for distribution. Through the CEPAs and related film regulations, the Chinese government granted more rights to "Greater China" investors, while relatively limiting the rights of foreign investors.

The new government policies functioned as a major stimulus to the domestic film industry and drew the attention and interest of both domestic and overseas investors, bringing about an astonishing boom of film production and film market. Production climbed from 2003 to 2012 with a record high output of 745 films in 2012, boasting gross box office revenue of more than 17 billion yuan (approximately US$2.74 billion).[43]

The most dramatic change that the state policy brought to China's film industry was the inflow of transnational media capital. By 2005, Hollywood's seven major film studios had all established offices in Beijing or Shanghai, awaiting further changes of state policy. Before the 2008 global financial crisis, international funds rushed into China in pursuit of business opportunities. In May 2007, China Film Group and America's IDG jointly established the "IDG China Media Fund," with plans to expand the fund tenfold and invest in the production of 60 to 80 films in the following ten years. In addition, the "A3 International Film Fund" was jointly launched by mainland China's non-state sector and film producers from Hong Kong, Japan, South Korea and the United States; the fund was expected to raise US$100 million, to be invested in 30 Chinese, Japanese and Korean co-productions over the next five years, with 60 percent of the fund invested in China. Furthermore, in October 2007, the Weinstein Company announced it would establish an "Asian Film Fund" of US$285 million, with plans to invest more than 50 percent of the fund in 20 Chinese films over a five-year period.[44]

While transnational corporations attempted to secure more film market share and maintain a sound footing in China, the Chinese government heavy-handedly controlled the scale and pace of the inflow of transnational capital and the expansion of foreign conglomerates into the domestic film industry. By only allowing state-owned companies, like China Film Group

---

[42] Closer Economic Partnership Arrangement (CEPA) (Ministry of Commerce of the People's Republic of China, 2003), available online at http://tga.mofcom.gov.cn/subject/cepanew/index.shtml, last accessed 15 December 2009.

[43] *Sina Entertainment,* "2012 piaofang chao 170 yi; Tai Jiong jin 12 yi po jilu" [The 2012 Box Office Revenue Exceeds 17 billion Yuan], 10 January 2013, available online at http://ent.sina.com.cn/m/c/2013–01-10/06283831414.shtml, last accessed 10 January 2013.

[44] Yin Hong and Q. Zhan, "2007 nian zhongguo dianying chanye beiwang" [A memo of 2007 film industry], *Dangdai dianying* [Contemporary Cinema], 2 (2008), 13–21.

Corporation and Xinhua Media Entertainment, to enter into joint ventures, the government sought to guarantee state control of the shareholdings in joint adventures. In August 2005, the Ministry of Culture, along with four other state ministries, issued "Several Opinions in Foreign Investment in Culture Industry," a new edict that nullified the regulations specified in Document 21 that had allowed for a foreign share in theatre investment in major cities of as high as 75 percent. The new edict stressed that "Chinese mainland investors must own at least 51 percent or play a leading role in their joint ventures with foreign investors." The new rule frustrated Time Warner's strategy in China. Consequently, Warner Bros. International Cinemas (WBIC) withdrew from China in November 2006. It was stated that the exit of Warner Bros. from China "shows the vulnerability of foreign media and entertainment companies to the country's policy changes."[45]

The above account indicates that Hollywood imports have mainly functioned as a remedy to the ailing national film economy. The Chinese state largely serves as a mediator and negotiator with global capital. Yet, through securing its own policy space and mandating the time frame, pace and manner that global Hollywood is allowed to operate in China, the state functions more as a heavy-handed upholder of the Party.

Competitive Cooperation and the WTO Lawsuit between China and Hollywood

The control and battle for the Chinese market has been a central concern for the Chinese government, a major source of frustration for Hollywood studios, and a source of frequent quarrels between the two sides. To maintain its grip on the domestic market, the Chinese state has employed quotas, policy protection and control over shareholding, while Hollywood studios have cited WTO rules as justification for the filing of lawsuits against China's monopoly. In April 2007, the trade representative of the United States allied with the Motion Picture Association of America (MPAA) and two other professional associations to file a WTO lawsuit against China's strict government limits on imports of foreign movies and other media. The American side argued that, by imposing more restrictive conditions on foreign companies, China was engaging in discriminatory practices and that China's state-owned enterprises and large joint ventures constituted a monopoly in film import and distribution. After nearly three years of hearings and appeals, on January 21, 2010, the WTO ruled that China had violated international trade rules and needed to end the government's monopoly on the distribution of imported books, movies and films by March 19. China responded that it disagreed with the ruling but was willing to comply. The

[45] Bloomberg, "Time Warner to quit China cine business," 8 November 2006, available online at http://www.financialexpress.com/news/time-warner-to-quit-china-cine-business/183270/, last accessed 5 February 2009.

lawsuit was considered a major victory by the US side. New MPAA chief executive Christopher J. Dodd had made the opening of doors in China one of his top priorities and had been championing a lobby for increasing the annual quota of 20 foreign imports.[46] Meanwhile, the Chinese side was highly concerned about Hollywood's aggressive stance. The deputy director of the Film Administrative Bureau, Mao Yu, said at the 2010 Beijing Film Work Conference that once the quota of 20 imports was increased and more Hollywood movies flowed into China, Hollywood would net 60 to 70 percent of the revenue earned from the Chinese market, instead of the 13 to 15 percent under the current revenue-sharing agreement. The consequences would be considerably reduced returns for China's film sector and a negative impact on the further development of the domestic film industry. [47]

Transnational capital saw new opportunities in China and started coming back. Since 2011, the Canadian-based big-screen theatre chain IMAX Corp., Los Angeles-based Legendary Pictures, and DreamWorks Animation all have established joint ventures with their Chinese partners.[48] Warner Bros., despite pulling out of China in 2006, also sought to come back. In June 2011, Warner Bros. Entertainment announced plans to offer its movies via pay-per-view on Chinese cable TV. It expects about 3 million Chinese households to have access to its recently released films and old titles. Ultimately, the company aims to reach 200 million homes. Jim Wuthrich, president of international home video for Warner Bros.' Home Entertainment, has said that "the opportunity of China is just too irresistible to most companies and particularly Warner Bros."[49] It seems global companies have never ceased testing China's waters. However, they have all been subject to the Chinese government's up-to-now strict restrictions.

A careful investigation of the foreign investment in China's film production, based on statistics from the *China Film Yearbook* from 2004 to 2011, indicates that films co-funded by foreign capital merely constituted a very small portion of the total film output, and the portion was relatively stable throughout an eight-year period from 2003 to 2010 before the WTO lawsuit. The table and the figure below indicate that China maintained tight control over foreign ownership in the domestic film industry.

In the meantime, China is also pursuing a more active stance in seeking

---

46 Richard Verrier, "A Boost for U.S. Films in China?" *Los Angeles Times*, 12 May 2011, B-B4.

47 Xiao Yang, "Haolaiwu quanqiu gongchengluedi, zhongguodianying jinru beizhan zhuangtai [China Film Industry Prepares for Hollywood's Global Expansion], *Beijing Youth Daily,* 15 April 2010, available online at http://ent.ifeng.com/movie/news/mainland/detail_2010_04/15/526755_0.shtml, last accessed 11 August 2011.

48 For information, please refer to Richard Verrier, "Imax Plans Expansion in China," *Los Angeles Times*, 25 May 2011, B3; Lu Yiwen, "Xinxieyi cufazhan, dianying kaiyan zhongmei 'jingjidapian'" [New Agreement Promotes Sino-American Film Cooperation], 25 February 2012, available online at http://news.entgroup.cn/c/2512973_3.shtml, last accessed 7 March 2012.

49 Richard Verrier, Dawn C. Chmielewski and David Pierson, "Hollywood Finds New Venue," *Los Angeles Times*, 16 June 2011, A-A6-A7.

Table 1
Ratio of Total Film Output and Films with Overseas Capital from 2003 to 2010

	Film Output	Films co-funded by Hong Kong and Taiwan companies	Films co-funded by foreign companies
2003	140 (100%)	36 (25.7%)	16 (11.4%)
2004	212 (100%)	44 (20.8%)	5 (2.4%)
2005	260 (100%)	34 (13.1%)	9 (3.5%)
2006	330 (100%)	35 (10.6%)	11 (3.3%)
2007	402 (100%)	26 (6.5%)	15 (3.7%)
2008	406 (100%)	26 (6.4%)	11 (2.7%)
2009	456 (100%)	25 (5.5%)	7 (1.5%)
2010	526 (100%)	39 (7.4%)	9 (1.7%)

Source: China Film Yearbook 2004 to 2011

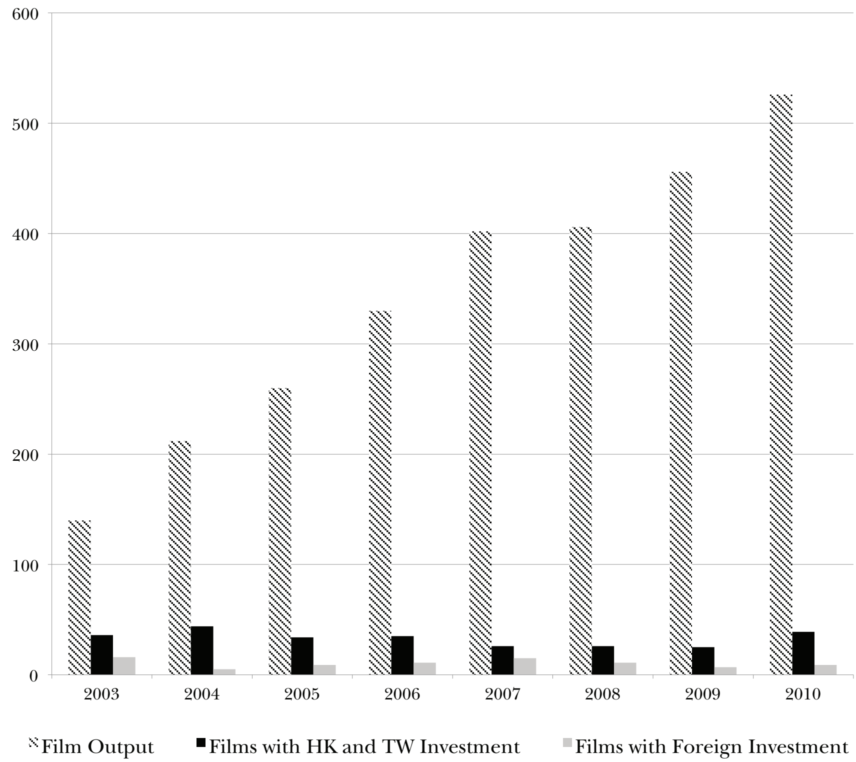
cooperation between Hollywood studios and state-owned media groups. During the visit of soon-to-be Chinese president Xi Jinping to the United States in February 2012, Los Angeles was his last stop, where he unveiled a joint venture between DreamWorks Animation and two state-owned Chinese media groups, Shanghai Media Group and China Media Capital. This move signals China's official endorsement of the growing ties between China and Hollywood, although under the rubric of state control.[50] Meanwhile, the state has launched a large-scale transformation of state-owned film studios and the film distribution system by drawing on the Hollywood experience, but for the purpose of countering Hollywood hegemony.

The Introduction of the Theatre Chain System and the Creation of a National Film Market

The formation of China's Theatre Chain System has been a government-sponsored, top-down process combining both market forces and heavy governmental interventions. On multiple occasions China's film administration officials have used the phrase "going to sea by borrowing a boat" *(jie chuan chu hai)* to refer to their strategies of making use of global production and distribution networks to achieve China's goals. The state functions as a market creator and industry regulator, and it has negotiated much operating space for its domestic film production.

[50] *China Times,* "China's Vice President Xi to Unveil Landmark Hollywood Deal," 15 February 2012, available at http://www.thechinatimes.com/online/2012/02/2275.html, last accessed 25 May 2013.

Figure 1
Film Output and Films Co-Funded by Overseas Capital from 2003 to 2010



Source: China Film Yearbook 2004 to 2011.

As mentioned earlier, after 1949 China's film sector copied the Soviet Union's model of state-owned film studios and a vertical, multi-layered distribution/exhibition system characterized by a multitude of administrative and regional barriers. This model increasingly conflicted with the nation's intensified marketization reform. While the government took a pragmatic stance to import Hollywood blockbusters, the structural overhaul of the film sector also began around the mid-1990s. The state aimed to establish a unified national film market that served as a radical breakthrough in abolishing regional and administrative barriers.

This radical breakthrough was the introduction of the theatre chain system in mainland China. This system, of course, was an important part of Hollywood's studio system, originally created by Adolph Zukor, the head of Paramount between 1915 and the 1930s. Under this system, a film producer aligns with a number of theatres to arrange film exhibitions and to share costs, profits and risks. It is a primary mode of film distribution and exhibition that constitutes the Hollywood studio system's "vertically integrated power."[51] In China after 1993, when Document Three required deepening the institutional reform of the film sector, distribution companies in various provinces made numerous attempts to break through the monopoly of local governments and to form aligned chains to profit from film distribution. The earliest example was the successful experiment with theatre chains in Shanghai and Beijing. By 1996, Yong Le and Dong Fang had become established as the two major theatre chains in Shanghai, and Beijing Zijingcheng Company and The New Film Alliance Distribution Company had become the two earliest theatre chains in Beijing. Film bureau officials later identified the Shanghai and Beijing experiments as the first stage of the pilot reform in the distribution system. The goal was to break through local monopolies.[52]

The second stage of the experiment was the restructuring of film distribution companies and the creation of competitive theatre chains in Sichuan, Jiangsu, Zhejiang and Fujian. By 1998, major theatre chains had been established in each of these provinces, thus providing valuable experience for launching similar reforms nationwide.

The third stage was to launch cross-provincial theatre chains. For example, in April 2001 a Northeast China Theater Chain was established, comprising 70 distribution companies in three provinces. In inland China, the Hebei Zhonglian Theater Chain Company Limited was formed, combining seven distribution companies, one film studio, and 17 exhibition units in Hebei, Shanxi and Inner Mongolia provinces.[53]

In order to better learn from Hollywood's business model, between September and October of 1997, the Film Bureau under the SARFT organized a trip to the United States and Singapore for a delegation of theatre managers. The delegation visited film companies like Warner Bros., Sony-Columbia, Disney and Universal Studios, as well as five multipurpose theatres.[54] In addition, the Film Bureau sponsored a number of lectures and seminars aimed at educating film professionals about the theatre chain system.[55]

With the formidable challenge that China faced after joining the WTO, the prolonged crisis in the film sector, and the speedy reform of cultural

---

[51] Douglas Gomery, *The Hollywood Studio System* (London: British Film Institute, 2005).

[52] Zhao Shi, "Accelerate the Promotion of the Reformation and Development of the Film Industry, [*sic*]" *China Film Yearbook 2003* (Beijing: China Film Yearbook Press, 2003), 25–32.

[53] Zhao Shi, "Accelerate the Promotion of the Reformation and Development of the Film Industry. [*sic*]"

[54] *China Film Yearbook 1998/1999,* "Heshi caiyou zhongguodianying de "hangkongmujian?" [Impressions of managers of China's urban theaters on visiting the U.S.] (Beijing, China Film Yearbook Press, 1999), 435–436.

[55] Yang Ji, "zhongguo dianying faxing fangying xiehui\zhongguo chengshi yingyuan fazhan xiehui lianhe juban dianying yuanxian zuotanhui" [A Seminar on the Theater Chain System], *China Film Yearbook* (2003), 254.

industries in the twenty-first century, the theatre chain system was formally and forcefully implemented by the state at the end of 2001. In June 2000 and December 2001, the SARFT and the Ministry of Culture jointly issued two documents, 320 and 1519, to accelerate the establishment of film groups and the implementation of the theatre chain system, respectively.[56] In addition to requiring the establishment of a second shareholding distribution company at the national level, Huaxia Film Distribution Company, Document 1519 sought to break the monopoly of the CFEIC by mandating the establishment of two or more theatre chains within provinces as well as theatre chains that operate between provinces. Regions that had not established theatre chains by June 1, 2002 would be unable to obtain any revenue-sharing film imports. In addition, before October 1, 2002, the regions of Beijing, Shanghai, Jiangsu, Zhejiang, Hubei, Hunan, Guangdong and Sichuan had to take the lead in setting up two theatre chains; otherwise, these regions would likewise be denied any revenue-sharing film imports. The film Bureau declared that "no time can be wasted in implementing theatre chain system as a breakthrough of market reform. We must fight bloodily for a path."[57]

In its very nature, the establishment of the theatre chain system in China is a government-sponsored, mandated and forcefully implemented measure, which leads to an odd marriage between governmental power and market forces. The Film Bureau has claimed that the theatre chain system is an inevitable choice for China's film market reform. The theatre chain system is a complete rejection of the multilayered distribution model under the planned economic system. However, because of the heavy and direct government intervention, the formation of various Chinese-style theatre chains did not emerge naturally out of real market competition, as the Hollywood studios and Hong Kong's Shaw Brothers did, but rather by governmental action. The Chinese-style theatre chain system, therefore, has weak market contribution but strong government intervention. This has resulted in new monopolies and the unfair distribution of resources between private companies and state-owned distribution companies-turned theatre chains. Nonetheless, the theatre chain system maximally explored the market potential and quickly gained the momentum. In 2003, the first year that the theatre chain system was mandatorily established, only two theatre chains had annual box office receipts of more than 100 million yuan. By 2010, 20 or 57 percent of registered theatre chains boasted annual box office receipts of more than 100 million yuan, including large-scale film exhibition groups

---

[56] SARFT and MoC, "Some Opinions about Carrying Out Further the Reformation in the Film Industry," *China Film Yearbook (2001)*,1–3; SARFT and MoC, "The Detailed Regulations to Implement the Structural Reformation of the Mechanism of Film Distribution and Exhibition," *China Film Yearbook (2002),* 15–16.

[57] Zhao Shi, "Creatively Fulfill the Target and Task of the New Era—A Talk on the National Film Work Forum, [*sic*]" *China Film Yearbook (2002),* 27.

like Wanda, Xingmei and Xin Ganxian. Additionally, the number of cinemas joining theatre chains had increased from 827 cinemas with 1581 screens in 2002 to 2107 cinemas with 6256 screens, a growth rate of 105.8 percent and 239.5 percent respectively.[58]

The flourishing theatre chain system also created a huge demand for additional films. The limited Hollywood imports became the major supply source and a site of competition among theatres. Accordingly, the next area for the state to take action was in the production sector. The task facing the state was to revitalize state-owned studios and bring in private capital, in order to further exploit its vertically integrated power.

Revitalization of State-Owned Studios as Negotiation of Space

With Document 320, which was promulgated in June 2000, the state for the first time proposed to use the shareholding system to transform state-owned studios into large-scale film groups.[59] The main thrust of the document was the expedition of the establishment of major conglomerates with former state-owned studios as their cores. The film conglomerates would use vertical integration to link production, distribution and exhibition. The document also clearly retained the CCP's control over conglomerates and stipulated that Party secretaries of state-owned and state-controlled shareholding conglomerates should sit on the board of directors or act as legal representatives, which reflects the dual status of state-owned studios as both representatives of state interests and as market profit-makers.

Document 320 marks the wholesale conglomeration reform of the film sector. During conferences held in January and March of 2001, the SARFT first required the establishment of three major film groups to influence the north, east and northeast of China with the former Beijing Film Studio, Shanghai Film Studio and Changchun Film Studio serving as their cores. Then another three film groups were to follow, based in Guangdong, Sichuan and Shan'xi Provinces, reaching central, southwest and northwest China. Following the establishment of China Film Group Corporation in February 1999, another three film groups had been established by June 2003: namely Shanghai Film Group, Chang Chun Film Group and Xiaoxiang Film Group. By June 2008, the Western Film Group, the Ermei Film Group, and Zhujiang Film Group had been established, bringing the total number of large state-controlled conglomerates to seven.[60]

---

58 Fan Lizhen, "yuanxianzhi gaige jiunian huimou" [A Review of Nine Years of Theater Chain System Reform], http://column.entgroup.cn/10316.shtm, last accessed 16 June 2011.

59 SARFT and MoC, "Some Opinions about Carrying Out Further the Reformation in the Film Industry," *China Film Yearbook (2001),* 1–3.

60 Li Daoxin, "zhanlue lianmeng, chanye jiqun yu jiazhichuangxin" [The current status and development of large-scale state-owned film enterprises' structural reform], *dianying chanye yanjiu zhi guoyou yingshi qiye juan* [2007 report on film industry-special issue on state-owned film and television studios] (Beijing, China Film Press, 2008), 36–56.

The SARFT issued a series of documents to guide the transformation and adopted a mixed approach of mandatory orders, lay-offs and state compensation. The transformation included enterprise license registration, personnel and payroll changes, and structural changes to the studios. Among these, personnel and payroll changes exacted the highest human toll on state-owned studios' path to marketization. Thousands of former employees of state-owned studios were removed from their positions and lived with meager compensation.[61]

Following these personnel changes, an institutional restructuring was underway. Almost all state-controlled conglomerates were restructured, employing a vertical integration model combining production, distribution and exhibition while diversifying their production lines by adding digital productions, co-productions and post-production and processing. Take China Film Group Corporation as an example: in 2004 it launched a wholesale shareholding system transformation and built an industrial linkage that ranged from production, distribution and exhibition to post-production printing and processing. Currently China Film Group holds 15 solely funded companies, holds shares in 30 additional companies, and owns one premium movie channel, a total of 2.8 billion yuan in assets. To enhance its vertical integration power, China Film Group has established seven theatre chains through either share control or share holding. Among them, the Xingmei Theater Chain has 107 member theatres covering 23 provinces and consistently ranks among the top three nationwide in terms of box office revenue. In 2007, China Film Group increased its share in Xingmei from 40 percent to 60 percent and seized absolute control of Xingmei. All together, China Film Group Corporation's theatre chain holds over 40 percent of the national market share with 438 participating cinemas, and its box office revenue accounts for half of the box office receipts nationwide.[62]As such, the state hopes to maintain the leadership of state-controlled conglomerates by exploiting the full potential of vertical integration power. Consequently, both the market and global capital empower the state.

Conclusion: Who Wins and What is the Role of the State?

The Chinese state's changing cultural policy and multiple roles suggest its accommodating and adaptive capacity for ruling. In its governance of the cultural industries, the Chinese state demonstrates its flexibility in incorporating both market forces and global capital into the film infrastructure and state mechanism. It also displays its ability to integrate Party ideology and the leadership of state-owned groups with private and

---

61 "Wujia guoyou dianying qiye fazhan baogao" [A report on five state-owned film groups], *Research Report on Chinese Film Industry, 2008* (Beijing, China Film Press, 2008), 197–225.

62 "Wujia guoyou dianying qiye fazhan baogao" [A report on five state-owned film groups], *Research Report on Chinese Film Industry, 2008.*

global capital, and its selective and conditional opening-up of space for global Hollywood. David Shambaugh thus commented that "the CCP will accomplish something that no other communist party-state has been able to do: adapting and transforming itself from a classic Leninist party into a new kind of hybrid party." The Party-state therefore becomes an "eclectic state."[63]

I would argue, however, that as adaptive or eclectic as the Party-state appears to be, it is not necessarily hybrid, and hybridity is merely a camouflage. Its adaptability and flexibility are for the consolidation of its power. Due to the Chinese state's selective and conditional opening-up of space, global Hollywood can only operate within the parameters set by the Party-state. The state's status as both a policy maker and a market player results in a state monopoly in the film industry. Consequently, the essential role of the state as a heavy-handed upholder of the interests of the Party-state supersedes its role as a market facilitator and industry regulator. During the state's long and complicated engagement with Hollywood, its central concern has been the solidification of national identity and the maintenance of the legitimacy of the ruling party. "Cultural security" and the promotion of China's "cultural soft power" are also main concerns.[64] It is safe to say that the state never loses its control on both domestic industry and market. Moreover, the Chinese state was the biggest beneficiary of its own policy and a bigger winner than Hollywood in its engagement with Hollywood-led global capital up to 2011. Between 1994 and 2011, gross box office revenue from imported films totaled 22.468 billion yuan (approximately US$3.21 billion), including both American movies and movies imported from other countries. Even if *all* imported movies were considered Hollywood hits and revenue were shared at the ratio of 13 percent, in total Hollywood only took away approximately 2.9 billion yuan, or less than US$500 million, from China, a number significantly lower than it had obtained in other parts of the world, [65] which demonstrates the Chinese government's negotiation capability. Therefore, through its strategic and skillful operation, the Chinese state was able to prevent the domestic film market from being dominated by global media capital while in the meantime making use of transnational partnerships to serve its own agenda. Through both the alliance and tug-of-war with global capital, and through the Greater China alliance, the Chinese state has effectively consolidated its authoritarian and bargaining power.

While the Chinese state and government are admittedly the biggest beneficiaries of its own policy, the impact for the domestic film industry is

---

[63] David Shambaugh, *China's Communist Party—Atrophy and Adaptation* (Berkeley, Los Angeles and London: University of California Press, 2008), 6.

[64] For a discussion of China's "cultural security" and China's cultural trade deficit, please see Michael Keane, "Keeping Up with the Neighbors: China's Soft Power Ambitions," *Cinema Journal* 49, no. 3 (Spring 2010), 130–135.

[65] Yu Deshu, "jiedu dianying xinzheng: yingzhan haolaihu, guochanpian dei zhangdexin" [Domestic Movies Should Sharpen Their Competitive Edge to Compete with Hollywood], 21 February 2012, available online athttp://news.entgroup.cn/c/2112925.shtml, last accessed 7 March 2012.

more ambiguous. The domestic film industry may benefit from the conditional inflow of capital, technology and skill that the state permits, but it also suffers from the state's heavy-handed control and censorship. While the state facilitates the establishment of the theatre chain system and the consolidation of the domestic film market, to a large degree it continues to subject film production to its ideological control and does not grant sufficient freedom of expression to the industry. As a result, film producers remain caught between market demands and state censorship that aims to maintain the Party-state's supremacy. On the other hand, the very film market that the government helped to build often betrays the Party-state's mission. Between 2010 and 2011, less than one-fifth of the 400 to 500 films produced annually were put into the schedules of theatre chains, leading to a vast waste of film funds and an imbalanced development of the domestic film industry. This poses a new challenge to the state, which has been trying very hard to balance its dual roles as a Party upholder and as a market facilitator. If we claim that the Chinese state is a bigger winner than Hollywood in its negotiations with global capital, it is doubtful that the state can be a successful mediator between "socialist political structure" and "market economy." The recent agreement about the lifting of quotas indicates that under the unswerving pressure imposed by Hollywood capital, the Chinese state had to compromise and make concessions. If we can claim that the Chinese state was a bigger winner up until 2011, it is still too early to declare a win-win competition or an ultimate winner. What is certain is that the state has shaped both domestic societal structure and the global cultural landscape. The state has also managed to reverse the power relationship in global communication through its cultural policy.

University of California at Riverside, Riverside, USA, September 2013